



**SURESH**  
**GYAN VIHAR**  
**UNIVERSITY**  
Accredited by NAAC with 'A+' Grade

**Bachelor of Computer Application**  
**(B.C.A.)**

**PRINCIPLES OF MANAGEMENT**

**Semester-I**

**Author- Dr. Khushpat S. Jain**

**SURESH GYAN VIHAR UNIVERSITY**  
**Centre for Distance and Online Education**  
**Mahal, Jagatpura, Jaipur-302025**

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## **Semester 1**

### **PRINCIPLES OF MANAGEMENT**

#### **Learning Objectives**

- To have brief about the concept of Management and its application and related components.
- Students will learn about features, levels and process of management.
- Develop the linkages with various approaches towards management.
- Will become verse with the significance of various components of management like planning, organizing, etc.
- Student will be able to participate actively in the management decision making process.

#### **UNIT - I**

Nature of Management, Definition, Management as Science, Management as an Art, Management as both Science and Art, Features of management, Process of management, Levels of management, Management Thought, Early Management Thought, The Classical Approach, Modern Management Approaches, The Quantitative Approach of Management Thought, Systems Approach of Management Thought, Modern approaches to management, Other Responsibility of Management.

#### **UNIT - II**

Nature and Objectives, Significance Process of Planning, Types of Plans, steps in Planning Process, Merits and Demerits of Planning, Management by Objective, Decision Making & Its Techniques, Concept of Decision Making, Objectives, Importance of Decision Making, Process of Decision Making, Techniques of Decision Making, Types of Managerial Decisions, Essentials of Sound Decision Making.

#### **UNIT – III**

Concept Of Organization, Nature and Characteristics of Organization, Organization Structure, Formal Organization, Informal Organization, Concept of Line & Staff, Conflict between Line & Staff Managers, Concepts of Departmentation, Bases of Departmentation, Concept of Matrix Organization, Advantages & Disadvantages of Matrix Organization Structure, Concept of Span Of Control, Factors Affecting Span Of Control, Graicunas Theory of Span Of Control, Concept of Centralization & Decentralization, Advantages & Disadvantages of Centralization & Decentralization, Concept of Delegation of Authority, Principles of Effective Delegation, Authority & Responsibility Relationship.

#### **UNIT – IV**

Importance of Directing as Managerial function, Supervisor and Role of Supervisor, Functions of Supervisors, Leadership and its Characteristics, Importance of Leadership. Roles performed by the Leader, Leadership & Management, Leadership Styles. Trait theory of Leadership, Behavioral Theories. Role theory. Managerial grid, Staffing Nature, Importance of Staffing, Elements of Staffing, Factors Influencing the Staffing Patterns.

#### **UNIT – V**

Concept of Co-ordination, Importance of Co-ordination, Concept & Nature of Controlling, Process of Controlling, Controlling Techniques, Modern Management Practices Objectives, managing diversity, Japanese Management Practices, Unique Features of Japanese Management,

Comparison of Japanese and American Management Concept of Green Management, Features of Green Management, Corporate Social Responsibility, Features, Significance, Arguments against Corporate Social Responsibility.

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# 1. Introduction to Management

## Scope of Syllabus:

Management: Concept, Significance, Role and Skills, Levels of Management, Concepts of PODSCORB and Managerial Grid.

## Structure:

- 1.1 \*Concept of Management
- 1.2 \*Nature or Characteristics of Management
- 1.3 \*Importance or Significance of Management
- 1.4 Functional Areas of Management
- 1.5 \*Managerial Roles
- 1.6 \*Managerial Skills
- 1.7 \*Levels of Management
- 1.8 \*Concept of PODSCORB
- 1.9 \*Managerial Grid

\* Marked topics are related to syllabus.

Chapter Summary

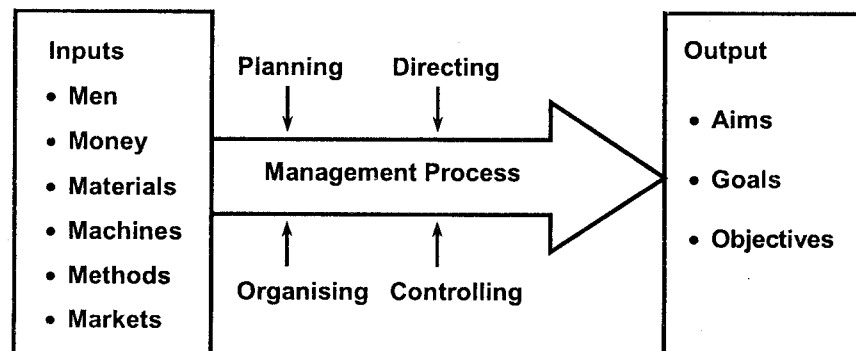
Questions Bank

## 1.1 Concept of Management

The concept of management is as old as human civilisation. The concept of management is universal and is applicable to all types of organisations. It is useful and essential to all types of business organisations, irrespective of their size, area and scale of operations and nature of ownership. It is necessary for educational and health institutions, military organisations, gymkhanas, clubs, trade associations, chambers of commerce, etc. In other words, management is a universal process.

According to the modern management thinkers, management is a process of integrating six 'Ms', viz., Men, Material, Machines, Methods, Money and Markets. The term management may be referred to a distinct process of allocating inputs (physical and human resources) by typical managerial functions (planning, organising, directing and controlling) for the purpose or achieving pre-determined organisational objectives.

"Management consists of getting things done through others. A manager is one, who accomplishes objectives by directing the efforts of others."



**Fig. 1.1: Meaning of Management**

Different experts have defined management from different perspectives at different times. For example, the classical management thinkers have emphasised mainly production and engineering aspects of management whereas the neo-classical theorists have emphasised the human relations approach and behavioural aspects of management. The modern management philosophers have emphasised on varied areas such as decision-making, leadership, motivation, co-ordination and workers' participation in management. Thus, definitions and interpretations of management vary widely.

**Fredrick Winslow Taylor** emphasised the engineering aspects of management. His definition mainly deals with plant management.

*"Management is knowing exactly what you want men to do and then seeing that they do it in the best and cheapest way."*

**Henry Fayol** describes management in terms of what a manager does.

*"To manage is to forecast, to plan, to organise, to command, to co-ordinate and to control."*  
– **Henry Fayol**

*"Management is a distinct process consisting of planning, organising, actuating and controlling, performed to determine and accomplish stated goals by the use of human beings and other resources."*  
– **George Terry**

*"Management is defined as the creation and maintenance of an internal environment in an enterprise, where individuals, working together in groups, can perform efficiently and effectively towards the attainment of group goals."*  
– **Koontz and O'Donnell**

According to the above definitions, management is the art of creating the most favourable performance environment and thereby, helping a group of workers to achieve pre-determined goals of an enterprise.

*"Management is the process by which the managers create, direct, maintain and operate purposive organisation through systematic, co-ordinated and co-operative human efforts."*  
– **Dalton McFarland**

As per the above definition, management is a continuous ongoing process. It helps in the creation, maintenance, direction and operation of an enterprise and it attains the goals through systematic and scientific co-ordinated and co-operative human efforts in an organisation.

*"Management is principally a task of planning, co-ordinating, motivating and controlling the efforts of others towards specific objectives."*  
– **James Lundy**

According to this definition, management covers three main functions, viz., planning, implementing and controlling.

*"Management is the art of getting things done through people."*  
– **Mary Parker Follett**

The above definition emphasises the human relations approach to management.

*"Management is a multi-purpose organ that manages a business and manages manager and manages workers and work."*  
– **Peter Drucker**

In the above definition, Drucker stresses three important tasks of management:

- (a) Managing a business,
- (b) Managing a manager, and
- (c) Managing workers and work.

Thus, according to Drucker, a manager is a dynamic and life-giving element in every business. An efficient manager ensures optimum utilisation of human, material and financial resources of the organisation.



*"Management is decision-making."*

*– Ralph C. Davis*

*"Management is the art and science of decision-making and leadership."*

*– Donald J. Chough*

The above definitions explain the importance of decision-making in modern business. Decisions are necessary in all functional areas of business such as production, marketing, finance, personnel and office administration. Managers by profession are decision-makers. At present, we are living in a dynamic world, where the situation is changing very fast. Moreover, the forces of external environment are also very powerful and affect business enterprise to a great extent. Therefore, modern management thinkers and contributors to literature on management lay great emphasis on decision-making, leadership and motivational aspects of business management.

## 1.2 Nature or Characteristics of Management

The following points explain the nature of management:

- (a) **Management is an integrating process:** Every business organisation requires human, physical and financial resources to carry on its activities. The six 'Ms', viz., Men, Materials, Machines, Methods, Money and Markets are its basic resources. These six 'Ms' are routed by managers through managerial process of planning, organising, actuating and controlling to achieve pre-determined organisational goals. Management, in this sense, integrates human elements with non-human elements.
- (b) **Management is a universal process:** The principles and techniques of management are all-pervasive. The basic concepts, principles and techniques of management are equally applicable to all sorts of group endeavours. However, they are not standard. They require modification and adaptation, depending upon the nature of activity, scale of operations, types of technology and human resource and other inputs used in such endeavours.
- (c) **Management is a group activity:** Management as a group or class can be considered at two levels:
  - At the micro level, management as a group refers to all managers, from the highest authority to the lowest one, who manage the enterprise.
  - At the macro level, it refers to the human activities where people work in groups, viz., economic, social, political, religious or cultural activities.
- (d) **Management is goal-oriented:** Management is concerned with the attainment of group objectives or common objectives of the enterprise. In the process of attaining group objectives, management also endeavours to attain personal objectives of the

individuals. The success of management is judged by the extent to which these goals are achieved.

- (e) **Management is a dynamic process:** Management seeks to maintain a continuous equilibrium of an enterprise with its external environment – economic, social, political, cultural and technological – in order to ensure not only survival and growth of the enterprise but also to make it fulfil the aspirations of society, in the best possible manner.
- (f) **Management is a social process:** Management is practised by the people (managers), through the people (workers) and for the people (consumers and the society at large). The role of human factor in management cannot be ignored. It is the only active factor in the process of production. Thus, management is not an individual but a social process.
- (g) **Management is intangible:** Management is intangible or an invisible force. It is abstract in character. Managerial activities are only descriptive and not quantifiable. Management cannot be seen but its presence can be felt from its results, viz., higher productivity, increased efficiency, healthy employee-management relationship, high employee morale, etc.
- (h) **Management is art, science and profession:** Management is an art as it involves application of knowledge and skills for the solution of managerial problems. It is a science as it is a systematised body of knowledge, consisting of generally accepted principles and procedures. It is now unfolding as a distinct profession due to the separation of management from ownership in large business organisations.
- (i) **Management is irreplaceable:** A number of new techniques of problem solving in management have been evolved recently, viz., computer applications, information technology, information systems, PERT, CPM, etc. These techniques improve managers' decision-making skills and make them more efficient in their jobs, but they cannot substitute the management.
- (j) **Management is based on certain principles:** French industrialist, Henry Fayol has developed fourteen principles of management which are now universally accepted. Some of these principles are division of work and specialisation, discipline, authority and responsibility, balance, scalar chain, unity of purpose, unity of command, equity and *esprit de corps*.
- (k) **Management is multi-disciplinary:** Management deals with human behaviour and thus, it is multi-disciplinary. Many of the ideas, principles, theories and techniques made use of in management have their origin in a number of other disciplines, especially, in social sciences such as psychology, philosophy, economics, sociology and anthropology.

### 1.3 Importance or Significance of Management

The emergence of management as an essential factor of production is an important event in the history of business. Classical theorists stressed land, labour and capital as basic factors of production needed for the production of goods and services. However, due to growing complexities of business and consequent increase in competition, both internally and externally, management has become an important factor of production.

Not only the success or failure but also the very survival of an enterprise depends on its management.

*"Ineffective management cuts at the very root of the economy."* – George Terry

In other words, ineffective management results in wastage of scarce resources like capital and labour.

The following points highlight the importance of management:

- (a) **Optimum Utilisation of Resources:** A good manager secures maximum results, in terms of production, sales, profits and employees' satisfaction with the minimum inputs in terms of physical resources and manpower efforts. Thus, management results in optimum utilisation of scarce resources.
- (b) **Leadership and Motivation:** Organisational goals cannot be achieved forcefully. Management creates willingness and motivates workers to work towards the general organisational objectives, which in turn helps workers to achieve their individual objectives. Thus, management leads and motivates employees in the right direction.
- (c) **Initiative and Innovation:** Management is a group activity. A good manager works with a common consensus and creates an environment in which everyone gets an opportunity to express his/her views. This gives an opportunity to subordinates to come forward with innovative ideas and suggestions.
- (d) **Minimises Wastage:** Along with ensuring the judicious use of resources, a good management also aims at cutting down wastage, both human as well as non-human. Management plans, organises, directs and controls the activities of the organisation and thereby, helps in controlling wastage.
- (e) **Industrial Peace:** Management helps to develop a healthy environment within the organisation by promoting a two-way free flow of communication between the superiors and the subordinates. This develops cordial relations between them and promotes industrial peace and harmony.
- (f) **Builds Competitive Strength:** In today's competitive environment, the quality of performance determines the profitability of an organisation. Sound management enables the enterprise to achieve higher levels of productivity and profitability, which in turn build competitive strength.

- (g) **Improves Standard of Living:** A sound management helps to improve the standard of living of both – the workers and consumers by improving its productivity and profitability. Due to increased profitability, workers get higher wages and consumers get better quality products at lower prices.
- (h) **Growth, Expansion and Diversification:** In modern commercial fields, growth and expansion are necessary for making an enterprise stable, profit making and economically viable. A sound management helps organisation to grow, expand and diversify and make it a going concern.
- (i) **Social Consciousness:** Business is a part of society. Thus, a sound management shoulders social responsibilities of business and contributes towards the welfare of different segments of the society, viz., consumers, workers, investors, shareholders, government and the society at large.

## 1.4 Functional Areas of Management

The functional areas of management are the various areas in business organisation where management functions are performed. These functional areas are:

- (a) **Production Management:** Production may be defined as the conversion of raw materials into finished goods or services through the applications of the mechanical or human process. Production management is multi-disciplinary in nature and involves materials management, scheduling techniques, quality management, stock keeping, inventory management, cost control and budgeting.
  - **Plant Layout and Location:** It deals with designing of plant layout, deciding the location of the plant and providing various plant utilities.
  - **Production Planning:** It deals with routing and scheduling aspects of production process.
  - **Material Management:** It is concerned with purchase, storage, issue and control of materials required for production department.
  - **Research and Development:** This area deals with research and development, innovations and inventions of new products and processes.
  - **Quality Control:** It deals with quality sustenance and quality assurance initiatives of a firm to ensure customer satisfaction.
- (b) **Marketing Management:** Marketing management usually represents all managerial efforts and functions undertaken to operate the marketing concept. Marketing management includes the management of four marketing variables (4 Ps), viz., product management, price management, place management and promotion management. Various components of marketing management are:

- **Product Management:** It includes various decisions related to product such as product mix, product line, product standardisation and product adaptation.
- **Price Management:** It is concerned with the determination of appropriate price for a product using various pricing strategies.
- **Place Management:** It deals with the selection of a right distribution channel and marketing intermediaries for the marketing of a product.
- **Promotion Management:** It encompasses efforts made by marketing manager to sell product through advertising and sales promotion.

In addition to these, marketing management also includes market segmentation, marketing research, marketing information system and so on.

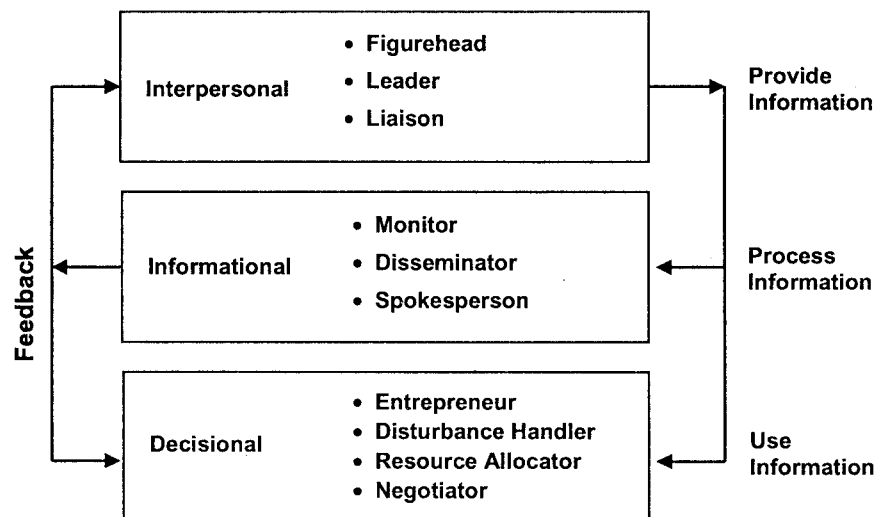
- (c) **Human Resource Management:** Human resource (personnel) management is that aspect of management which deals with the effective use and control of manpower. It includes a variety of managerial functions such as staffing, recruitment, selection, placement, induction, training, career planning, succession planning, managerial development, performance evaluation, etc.
- **Personnel Planning:** It is a process that identifies current and future human resources needs for an organisation to achieve its goals.
  - **Recruitment and Selection:** Recruitment and selection deal with hiring and employing people for various positions in the organisation.
  - **Training and Development:** Training and development deals with the process of improving the performance of employees and officers in the organisation.
  - **Wage Administration:** It deals in job evaluation, merit rating of jobs and determining wage and incentive policy for employees.
  - **Industrial Relation:** It deals with maintenance of overall employee relation, providing good working conditions and welfare facilities for employees.
- (d) **Financial Management:** Financial management deals with planning, organising, directing and controlling financial activities of an enterprise. It is a managerial activity which is concerned with acquisition and conservation of capital funds in meeting the financial needs and overall objectives of an organisation. It includes capital budgeting, working capital management, profit planning, tax planning, etc.
- **Financial Accounting:** It relates to record keeping of various financial transactions, their classification and preparation of financial statements.
  - **Management Accounting:** It deals with the analysis and interpretation of financial record so as to assist management in decision-making.

- **Cost Accounting:** It deals with the determination of the cost structure, recording of actual costs and their analysis and cost control.
- **Tax Planning:** It deals with various direct and indirect taxes which an organisation has to pay.
- **Profit Planning:** It estimates the profit generations from sales or undertaking and project and disbursement of such profits.

Apart from these functional areas, management also deals with office management, maintenance management, inventory management, transportation management, etc.

## 1.5 Managerial Roles

The concept of 'managerial role' was first introduced in the analysis of managerial work by Henry Mintzberg in 1973. According to him, role is a set of certain behavioural rules associated with a concrete organisation or a post. While performing the various managerial functions, managers assume multiple roles.



**Fig. 1.2: Managerial Roles**

Henry Mintzberg has identified ten roles common to the work of all managers. These ten roles have been grouped into three broad heads as under by Henry Mintzberg:

- (a) **Interpersonal Roles:** Interpersonal roles are primarily concerned with interpersonal relationships in the organisation.
- **Figurehead:** In the figurehead role, a manager legally and socially represents the organisation to those outside it. He is a symbolic leader, who carries out

social, inspirational, legal and ceremonial duties on behalf of the organisation as a whole.

- **Leader:** Leader role is the heart of the manager-subordinate relationship. As a leader, the manager defines the structures and environment within which subordinates work and perform. He selects, encourages and promotes employees and maintains discipline so as to balance individual and organisational goals.
- **Liaison:** In the liaison role, the manager interacts with his peers, superiors and people outside the organisation to develop and maintain contacts. These contacts give access to information, database, facts, probabilities and opportunities. For this, a manager must possess excellent networking skills.

(b) **Informational Roles:** The direct relationship with people, in the interpersonal roles, places the manager in a unique position to get information. Thus, the three informational roles are primarily concerned with the information aspects of managerial work.

- **Monitor:** As a monitor, the manager keeps a close watch over internal operations, external events, new developments, trends and pressures causing changes, new opportunities and threats. This helps him in taking timely and effective decisions.
- **Disseminator:** As a disseminator, the manager gathers information, from internal as well as external sources, and disseminates them to subordinates and the other interested parties. He formulates and communicates policies, rules, regulations, programmes and values to the subordinates.
- **Spokesperson:** As a spokesman, the manager is the official communicator of the organisation with the outside world. The statements made by him assume a great significance. He informs the key influencers and stakeholders about the performance, plans and policies of the organisation.

(c) **Decisional Roles:** The unique access to information places the manager at the centre of the organisational decision-making process. There are four decisional roles.

- **Entrepreneur Role:** As an entrepreneur, the manager innovates and initiates changes. He identifies gaps, seeks opportunities and develops processes to improve the organisation's condition and employees' well-being. He initiates improvement in projects in the organisation.
- **Disturbance Handler:** As a disturbance handler, the manager deals with threats to the organisation, internal as well as external. He takes the charge of a situation when the organisation hits an iceberg unexpectedly. This role involves analysis, evaluation, reallocation and support for solving the problem.

- **Resource Allocator:** As a resource allocator, the manager decides areas where the organisation will expend its efforts and time. He oversees the allocation of various resources, viz., physical, financial and human resource, among various departments and ensures their optimum utilisation.
- **Negotiator:** As a negotiator, the manager negotiates on behalf of the organisation. The various managerial roles, such as spokesman, figurehead and resource allocator also demand negotiation skill. As a negotiator, he should ensure that his decisions and actions benefit the organisation in the best way.

These roles are performed by the managers at different levels in the management hierarchy, with different degree and at different time. Although, these roles are described individually, they form an integrated whole.

## 1.6 Managerial Skills

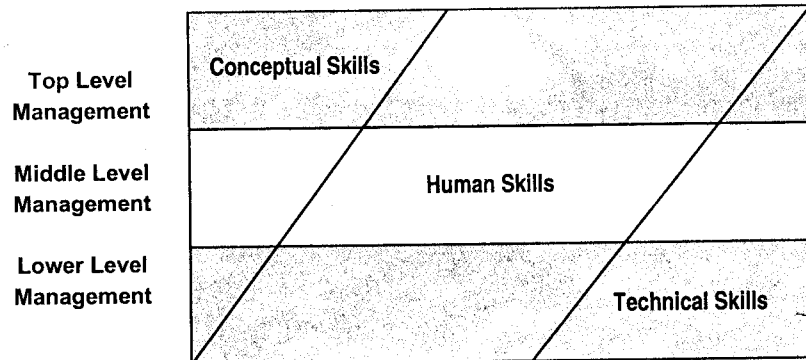
Managerial skills means the skills or qualities desired in a manager, the possession of which enable him to act better as a practising manager. According to Professor Daniel Katz, to manage an organisation, one needs to have the following three skills. The degree of these skills may change from organisation to organisation and also at the different levels of managerial hierarchy.

- (a) **Technical Skill:** Technical skill means the skill or knowledge, which is required for performing an operational activity in the best possible manner. Technical skill can also be termed as a technical expertise. Technical skill is an imperative skill for the lower level managers. Unless, lower level managers are well versed with technical aspects, they would not be in a position to direct the operations of their subordinates and lead them towards optimum performance, quantitatively and qualitatively. The upper and middle level managers should have a general acquaintance of technical matters. This helps them to formulate operational planning in a more realistic manner.
- (b) **Human Skill:** Human skill means an ability to tactfully deal with human beings and mould their behaviour at work in the desired manner to help them to attain the common objectives of the enterprise in the most effective and efficient manner. Human skill requires an understanding of human behaviour, which in turn, necessitates an insight into human needs and the ways and means of motivating people. Since managers at all levels in an enterprise are supposed to deal with human beings, human skill is equally needed by all managers – from the highest to the lowest authority in the management hierarchy.
- (c) **Conceptual Skill:** Conceptual skill as the name suggests, is concerned with concepts or ideas. It means an ability:



- To view an enterprise as a whole in its totality, appreciating the inter-relationship among its diverse components.
- To analyse the implications of external environmental factors, viz., social, economic, political, technological, etc., on the functioning of business.
- To consider the strengths and weaknesses of the enterprise in the light of environmental opportunities and threats.
- To take a balanced and rational decision based on the understanding of the above mentioned factors.

Conceptual skill is imperative for the top level managers, necessary for the middle level managers and desirable for the lower level managers.



**Fig. 1.3: Managerial Skills**

The Figure 1.3 shows managerial skills which are required by managers working at the different levels of management. The top level managers require more conceptual skills and less technical skills. The lower level managers require more technical skills and fewer conceptual skills. Human relations skills are required equally by all three levels of management.

The role of manager in the 21<sup>st</sup> century has become more complex and diverse than ever before. This requires him to possess certain other skills and competencies in addition to the three basic skills suggested by Professor Daniel Katz. Some of these skills are:

- Communication Skill:** Communication skills are important at all three levels of management. A manager needs to communicate with his workers, other managers, superiors, competitors, customers, suppliers, government authorities, etc., in day-to-day functioning of business. Thus, a good manager should not only communicate well but also promote two-way communication in the organisation.
- Administrative Skill:** Administrative skills are required mostly at the top level management. The top level managers must be aware of how to formulate plans, policies and programmes and should have the skills of getting work done. They

should be able to achieve co-ordination at the various levels of the organisation. Thus, a good manager should also be a good administrator.

- (c) **Leadership Skill:** Leadership skill is the ability to motivate human behaviour as desired. A good leadership skill helps the management to get the work done through the management. A good manager should be able to instil trust, provide direction and delegate responsibility amongst team members. Leadership skills are equally important for managers at all levels but in different magnitudes.
- (d) **Problem-solving Skill:** Problem-solving skill is also known as design skill. To manage business is to confront and solve a number of problems. Management must know how to identify problems and come up with the best possible solutions. This requires experience, up-to-date knowledge of latest developments and intelligence. A good manager should be proactive in solving management issues and problems.
- (e) **Decision-making Skill:** One of the most important functions of managers is to make sound and timely decisions. If decisions are delayed, the organisation will not be able to reap the benefits of opportunities offered by the environment or the threats posing business may become unmanageable. Thus, managers at all levels, especially top level management should possess decision-making skills.
- (f) **Team Building Skill:** Management is an integrating force. It integrates non-human factors with human factors. The action of individuals working in organisation at different levels and in different departments needs to be integrated and directed towards the common organisational goals. Thus, a good manager must possess an ability to harmonise the efforts of individuals and departments into a team action.
- (g) **Change Management Skill:** Organisational changes are a part and parcel of modern business. However, people do not generally take to changes happily. Therefore, it is the manager's responsibility to help his team members cope with changes, listen to their problems and give them solutions. The manager has to see when and what changes are required and make efforts to implement them tactfully.
- (h) **Conflict Resolving Skill:** When different types of people work together, it is natural for them to occasionally get into conflicts. Such conflicts affect the individual performance as well as organisational performance in the long run. A manager must be able to understand these conflicts between the team members and resolve them on time before they start affecting organisational performance.

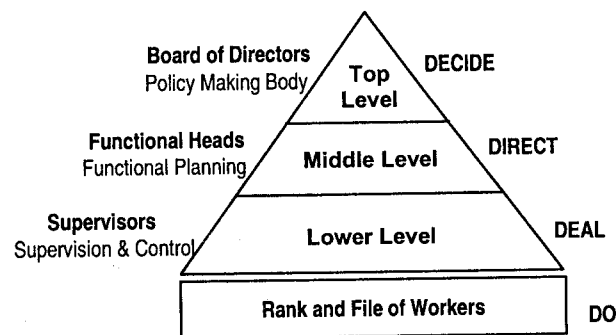
Along with above skills, a good manager should also possess the following competencies:

- (a) Appraising People and Performance.
- (b) Disciplining and Counselling Employees.
- (c) Listening and Organising.

- (d) Setting Goals and Standards.
- (e) Thinking Clearly and Analytically.
- (f) Giving Clear Information to Employees.
- (g) Getting Unbiased Information.
- (h) Identifying and Solving Problems.
- (i) Making Decisions and Weighing Risks.
- (j) Planning and Scheduling Work.
- (k) Training, Coaching, and Delegating.
- (l) Time Management and Prioritising.

## 1.7 Levels of Management

In an industrial enterprise, managers at all levels of management have to perform more or less similar functions. However, the scope, nature and importance of these functions may vary according to the level at which they operate. Generally, managers are divided into three broad categories depending upon the level at which they operate in the management hierarchy.



**Fig. 1.4 Management Levels**

- (a) **Top Level Management:** Top level management is the ultimate authority, which is responsible to the shareholders, government and general public. Top level management of an organisation consists of one of the following:
- Board of Directors;
  - General Manager;
  - Chief Executive Officer;
  - Managing Director;
  - President.

**Functions of Top Level Managers:**

- To define mission and fundamental goals.

- To design appropriate organisational set-up.
- To develop master plans for different functional areas.
- To formulate master strategy and policies.
- To achieve overall efficiency and organisational goals.
- To provide outstanding leadership.
- To achieve co-ordination and exercise overall control.
- To evaluate or compare the organisational performance.
- To act as an agent, trustee and a guardian of the enterprise.

(b) **Middle Level Management:** Middle level managers are the connecting links between the top and the first line managers. The middle level management consists of departmental heads, viz.,

- Production Manager.
- Sales Manager.
- Marketing Manager.
- Finance Manager.
- Public Relation Officer.

**Functions of Middle Level Managers:**

- To explain to the lower management; the objectives, strategies and policies laid down by the top management.
- To communicate to the top management; the problems, suggestions and viewpoints of the lower management.
- To prepare departmental plans on the basis of broad objectives and guidelines set by the top management.
- To design organisational set-up of various functional departments, *i.e.*, division of work and span of control.
- To control and co-ordinate the functioning of various functional departments in the organisation.
- To submit a report to the top management on the performance of various departments and individuals.
- To offer suggestions and recommendations to the top management for the improvement of overall functioning.
- To perform routine functions such as:
  - To select efficient executives and staff.
  - To introduce procedures and operating routines.
  - To raise necessary funds.

- To control costs.
- To pay wages, salaries, bonus, etc.
- To provide better working conditions, etc.

(c) **Lower Level Management:** Lower level management is also known as the first line management, because the management levels begin with it. It is a vital link between the higher level management and the rank and file of workers. They are important because they link managers with non-managers. They exercise a direct supervision over the entire workforce in factory, office and sales field, where results are obtained.

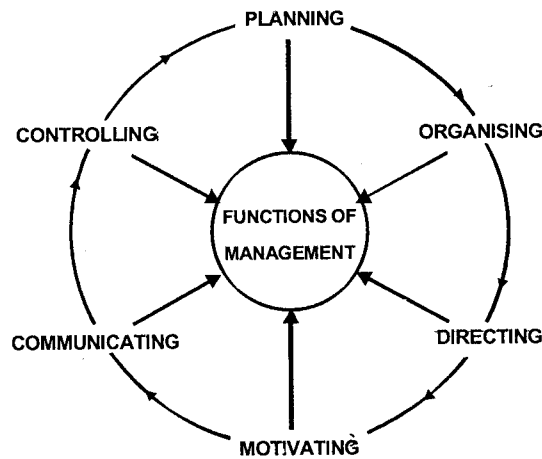
**Functions of Lower Level Managers:**

- To do day-to-day operational planning, as per the directives of the middle level managers.
- To maintain high level of morale among workers and create conducive environment for them to perform.
- To supervise work of employees and ensure that their performance conform to the pre-determined standards.
- To submit reports on the performance of workers and to recommend reward or punishment for them.
- To communicate to workers about the decisions of the top level management and its policies.
- To report to higher authority, the problems, feelings and expectations of the rank and file of workers.

## 1.8 Concept of PODSCORB

Management pioneers such as George Terry, Harold Koontz, Cyril O'Donnell, and Ralph Davis – all published management texts in the 1950s that defined management as a process consisting of a set of interdependent functions. Collectively, these and several other management experts popularly came to be known as the Process School of Management. According to them, management is a distinct intellectual process consisting of several interrelated functions. The Process theorists believe that all managers, regardless of their industry, organisation or level of management, engage in managerial process which consists of a number of managerial functions.

**Henry Fayol** was the first person to identify elements or functions of management in his book titled '*Administration Industrielle et Generale*' published in the year 1916. He identified five main functions or elements of management, viz., planning, organising, commanding, co-ordinating, and controlling.



**Fig. 1.5: Process of Management**

In 1930, Luther **Gullick** coined the word "PODSCORB" from the initial letters of management functions, where:

- (a) P – stands for planning;
- (b) O – stands for organising;
- (c) D – stands for directing;
- (d) S – stands for staffing;
- (e) CO – stands for co-ordinating;
- (f) R – stands for reporting and
- (g) B – stands for budgeting.

Of these, reporting is covered by the controlling function.

The sequence of manager's function begins with planning. However, a manager performs all these functions simultaneously and continuously. The top management generally spends more time in planning and organising and less time in staffing, directing and controlling while managers at the middle level and lower levels of management are more concerned with the operational aspects of managerial functions.

Let us analyse the various components of management process in detail:

- (a) **Planning:** Planning is the fundamental function of management. It is primarily an intellectual exercise. It is the process through which a manager looks at the future and discovers alternative courses of action for effective corporate achievements at all levels. It is the base of all managerial activities, i.e., controlling, co-ordinating, managing, staffing, etc.

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

- (b) **Organising:** A sound organisation is a pre-requisite for the success of any business enterprise. It is a foundation upon which the entire structure of management is constructed. Organisation is the process of establishing relationships among the members of the enterprise. These relationships are created in terms of authority and responsibility.

*“Organising involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate departments and the provisions for authority delegation and co-ordination.”*  
– Koontz and O’Donnell

- (c) **Directing:** Once subordinates are organised, superiors have a continuous responsibility of guiding and leading them for higher work performance and motivating them to work with zeal, confidence and enthusiasm. George Terry has used the word ‘Actuating’ for ‘Directing’.

*“Direction embraces those activities, which are related to guiding and supervising subordinates.”*  
– Koontz and O’Donnell

The direction function of the management consists of four sub-functions:

- **Communication:** Promoting free and fair exchange of communication, both upward and downward.
  - **Leading:** Influencing subordinates at work towards the attainment of desired objectives.
  - **Motivating:** Psychologically encouraging subordinates for executing plans and policies through the efforts of others.
  - **Supervising:** Overseeing the functioning of subordinates to ensure higher performance and prevent wastage.
- (d) **Staffing:** Staffing means selecting and recruiting competent and qualified people needed for jobs. It is one of the most important functions of human resource (personnel) management. It consists of manpower planning and manpower management. Staffing function of management encompasses selection, placement, induction, training, promotion and transfer of employees.

*“The managerial function of staffing involves manning the organisational structure through proper and effective selection, appraisal and development of personnel to fill the roles designed into the structure”*  
– Koontz and O’Donnell

- (e) **Co-ordination:** Co-ordination is the essence of management. It is the process of integrating various departmental activities of an organisation. It involves unity of purpose and the harmonious implementation of plans for the achievement of desired

ends. It aims at canalisation of group efforts in the direction of pre-determined goals of business.

*“Co-ordination may be defined as an ongoing process whereby a manager develops an integrated orderly and synchronised pattern of group efforts among his subordinates and tries to attain unity of action in the pursuit of a common purpose.”*  
– **McFarland**

- (f) **Reporting:** Reporting is essential for locating deviations from the pre-determined objectives and taking corrective actions in order to minimise wastage and achieve desired organisational objectives on time. Every subordinate in the organisation is expected to report to his immediate superior at a periodic interval of time. Reporting is also important for determining the staffing policies regarding promotion, transfer and demotions of the employees.
- (g) **Budgeting:** A budget puts minimum and maximum limits on expenditure for a specific period. Budgeting is also a tool of controlling as it controls financial wastage in the organisation.

*“Budgetary control is a process of finding out what is being done and comparing these results with the corresponding budget data in order to approve accomplishments or to remedy differences by either adjusting budget estimates or correcting the cause of the difference.”*  
– **George Terry**

The process school of management became a dominant paradigm for studying management and the functions of management became the most common way of describing the nature of managerial work.

## 1.9 Managerial Grid

Management (Leadership) styles are explained in different ways by different authorities. Ohio State Leadership Studies (1950) is one of them. A famous series of studies on leadership were done in Ohio State University, starting in the 1950s. These studies found two critical characteristics, either of which could be high or low and were independent of one another. The research was based on questionnaires to leaders and subordinates. These are known as the Leader Behaviour Description Questionnaire (LDBQ) and the Supervisor Behaviour Description Questionnaire (SDBQ).

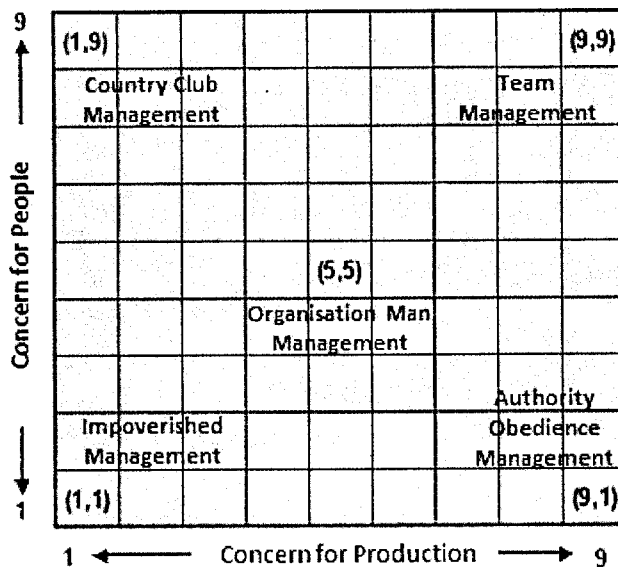
In line with Ohio State Studies, Robert Blake and Jane Mouton (1964) developed a distinct approach to the study of leadership style called the Managerial Grid. Managerial Grid was developed by Blake and Mouton on the basis of a study of 5,000 managers working in different organisations. It is a two-dimensional measurement of manager's leadership style.



In other words, this study is based on two aspects of leader's behaviour represented on the two axes of a grid:

- (a) Concern for production (production/task oriented), and
- (b) Concern for people (employee oriented).

In the Managerial Grid, 'Concern for Production' was represented on the X-axis and 'Concern for Employees' on the Y-axis. Each axis was divided into 9 points where 9 represented the maximum concern. In this 9 x 9 grid, 81 points could be plotted. Each of these points represented a combination of '**concern for production**' and '**concern for people**' in a particular leadership style. However, of these 81 points, only 5 points were considered to be important.



**Fig. 1.6 Managerial Grid**

The figure shows a grid with the concern for production on the horizontal axis and concern for employees on the vertical axis. The Managerial Grid represented the following five styles of management (leadership):

Grid (9, 1) → Autocratic leadership style.

Grid (1, 9) → Democratic leadership style.

Grid (1, 1) → *Laissez-faire* leadership style.

Grid (5, 5) → Practical approach leadership style.

Grid (9, 9) → Participative leadership style.

**Types of Management (Leadership) Styles based on Managerial Grid:**

- (a) **Authority Obedience Management (9, 1):** The manager in Grid (9, 1) style is described as a stern taskmaster, an autocratic manager. His emphasis is on getting the task done or target achieved at any cost. Here, the manager plans and the subordinates must execute that plan for achieving the production target. This is similar to the Theory X as explained by Douglas McGregor.
- (b) **Country Club Management (1, 9):** The manager in Grid (1, 9) style is described as a democratic leader. He emphasises a high concern for employees but very less concern for production. This type of leadership style tends to avoid the use of force or pressure in getting the work done. The style assumes that happy/satisfied employees take initiative and work hard to achieve organisational objectives.
- (c) **Impoverished Management (1, 1):** The manager in Grid (1, 1) style is described as *laissez-faire* leader. He has hardly any concern for people or for production. It represents a dissatisfied manager with little or no interest in the position given. He communicates when absolutely essential. The manager fails to motivate his subordinates. This type of manager is described as an abdicator.
- (d) **Organisation Man Management (5, 5):** The manager in Grid (5, 5) style places equal emphasis on concern for people and concern for production. Such manager refrains from making any strong commitment to either of the factors. This leadership style tries to balance the individual and organisational objectives. Here, the manager may adopt bargaining approach to get the work done.
- (e) **Team Management (9, 9):** The manager in Grid (9, 9) style emphasises a high concern for both production and people. He adopts participative, team approach in order to get the work done. This leadership style is democratic as efforts are made to achieve results through collective efforts of all. The views and opinions of workers are given due consideration while planning organisational objectives.

Blake and Mouton emphasise that a high concern for both employees and production is the most effective leadership style. Their ultimate conclusion is that Grid (9, 9) leadership style (team management) is the best as it is concerned with both people and production.

**Chapter Summary****Concept of Management**

The concept of management is as old as human civilisation. The concept of management is universal and is applicable to all types of organisations. According to the modern management thinkers, management is a process of integrating six 'Ms', viz., Men, Material, Machines, Methods, Money and Markets. The term management may be referred to a distinct process of

allocating inputs (physical and human resources) by typical managerial functions (planning, organising, directing and controlling) for the purpose of achieving pre-determined organisational objectives.

*"Management consists of getting things done through others. A manager is one, who accomplishes objectives by directing the efforts of others."*

#### **Nature or Characteristics of Management**

- (a) Management is an integrating process
- (b) Management is a universal process
- (c) Management is a group activity
- (d) Management is goal-oriented
- (e) Management is a dynamic process
- (f) Management is a social process
- (g) Management is intangible
- (h) Management is art, science and profession
- (i) Management is irreplaceable
- (j) Management is based on certain principles
- (k) Management is multi-disciplinary

#### **Importance or Significance of Management**

*"Ineffective management cuts at the very root of the economy." – George Terry*

- (a) Optimum Utilisation of Resources
- (b) Leadership and Motivation
- (c) Initiative and Innovation
- (d) Minimises Wastage
- (e) Industrial Peace
- (f) Builds Competitive Strength
- (g) Improves Standard of Living
- (h) Growth, Expansion and Diversification
- (i) Social Consciousness

#### **Functional Areas of Management**

- (a) **Production Management**
  - Plant Layout and Location
  - Production Planning
  - Material Management
  - Research and Development
  - Quality Control

- (b) **Marketing Management**
  - Product Management
  - Price Management
  - Place Management
  - Promotion Management
- (c) **Human Resource Management**
  - Personnel Planning
  - Recruitment and Selection
  - Training and Development
  - Wage Administration
  - Industrial Relation
- (d) **Financial Management**
  - Financial Accounting
  - Management Accounting
  - Cost Accounting
  - Tax Planning
  - Profit Planning

Apart from these functional areas, management also deals with office management, maintenance management, inventory management, transportation management, etc.

### **Managerial Roles**

The concept of 'managerial role' was first introduced in the analysis of managerial work by Henry Mintzberg in 1973.

- (a) **Interpersonal Roles**
  - Figurehead
  - Leader
  - Liaison
- (b) **Informational Roles**
  - Monitor
  - Disseminator
  - Spokesperson
- (c) **Decisional Roles**
  - Entrepreneur Role
  - Disturbance Handler
  - Resource Allocator
  - Negotiator

**Managerial Skills**

Managerial skills means the skills or qualities desired in a manager, the possession of which enable him to act better as a practising manager. According to Professor Daniel Katz, to manage an organisation, one needs to have the following three skills.

- (a) Technical Skill
- (b) Human Skill
- (c) Conceptual Skill

The role of manager in the 21<sup>st</sup> century has become more complex and diverse than ever before. This requires him to possess certain other skills and competencies in addition to the three basic skills suggested by Professor Daniel Katz. Some of these skills are

- (a) Communication Skill
- (b) Administrative Skill
- (c) Leadership Skill
- (d) Problem-solving Skill
- (e) Decision-making Skill
- (f) Team Building Skill
- (g) Change Management Skill
- (h) Conflict Resolving Skill

**Levels of Management**

In an industrial enterprise, managers at all levels of management have to perform more or less similar functions. However, the scope, nature and importance of these functions may vary according to the level at which they operate.

- (a) Top Level Management
- (b) Middle Level Management
- (c) Lower Level Management

**Concept of PODSCORB**

Henry Fayol was the first person to identify elements or functions of management in his book titled '*Administration Industrielle et Generale*' published in the year 1916. He identified five main functions or elements of management, viz., planning, organising, commanding, co-ordinating, and controlling.

In 1930, Luther **Gullick** coined the word "PODSCORB" from the initial letters of management functions, where

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- (f) R – stands for reporting and
- (g) B – stands for budgeting.

Of these, reporting is covered by the controlling function.

### Managerial Grid

Management (Leadership) styles are explained in different ways by different authorities. Ohio State Leadership Studies (1950) is one of them. In line with Ohio State Studies, Robert Blake and Jane Mouton (1964) developed a distinct approach to the study of leadership style called the Managerial Grid. It is a two-dimensional measurement of manager's leadership style.

- (a) Concern for production (production/task oriented), and
- (b) Concern for people (employee oriented).

The Managerial Grid represented the following five styles of management (leadership)

- (a) Grid (9, 1) → Autocratic leadership style.
- (b) Grid (1, 9) → Democratic leadership style.
- (c) Grid (1, 1) → *Laissez-faire* leadership style.
- (d) Grid (5, 5) → Practical approach leadership style.
- (e) Grid (9, 9) → Participative leadership style.

Types of Management (Leadership) Styles based on Managerial Grid

- (a) Authority Obedience Management (9, 1)
- (b) Country Club Management (1, 9)
- (c) Impoverished Management (1, 1)
- (d) Organisation Man Management (5, 5)
- (e) Team Management (9, 9)

Blake and Mouton emphasise that a high concern for both employees and production is the most effective leadership style. Their ultimate conclusion is that Grid (9, 9) leadership style (team management) is the best as it is concerned with both people and production.

## Questions Bank

**Q.1 Choose the correct alternative of the following: (1 mark each)**

- (1) \_\_\_\_\_ is not one of the Ms of management.  
(a) money                      (b) methods                      (c) morale                      (d) machine
- (2) Management is an art of getting things done from \_\_\_\_\_:  
(a) others                      (b) workers                      (c) managers                      (d) machines
- (3) Management is a/an \_\_\_\_\_.

- (a) art (b) science (c) profession (d) all options  
 (4) F. W. Taylor emphasised \_\_\_\_\_ aspect of management.  
 (a) administrative (b) human (c) engineering (d) modern  
 (5) Fayol gave \_\_\_\_\_ principles of management.  
 (a) 10 (b) 12 (c) 14 (d) 18  
 (6) \_\_\_\_\_ coined term PODSCORB for functions of management.  
 (a) Luther Gullick (b) Henry Fayol (c) George Terry (d) F.W. Taylor  
 (7) \_\_\_\_\_ is the primary function of management.  
 (a) planning (b) organising (c) co-ordinating (d) motivation  
 (8) Leading is a part of \_\_\_\_\_ function of management.  
 (a) planning (b) organising (c) supervising (d) directing  
 (9) Robert Katz has identified \_\_\_\_\_ managerial skills.  
 (a) 3 (b) 4 (c) 5 (d) 6  
 (10) \_\_\_\_\_ skills are important for managers at all levels.  
 (a) Technical (b) Human (c) Conceptual (d) None

**Ans.:**

|                    |              |                 |                 |            |
|--------------------|--------------|-----------------|-----------------|------------|
| (1) morale         | (2) others   | (3) all options | (4) engineering | (5) 14     |
| (6) Luther Gullick | (7) planning | (8) directing   | (9) 3           | (10) Human |

**Q.2 Practical Application/Case Study: (15 Marks)**

**Read the following case carefully and answer the questions given:**

AMAN Industries recently hired Mr. Robert, an experienced general manager to direct operations of the industrial products division. Prior to his appointment, Mr. Robert had a long conversation with the President of the company. The President indicated that the AMAN Industries had never developed any plans because the company had more sales than they could handle. But recently, the competition had increased and sales were slackening. The Board of Directors had demanded a 3-year integrated business plan.

Mr. Robert met all the departmental heads and had a detailed discussion with them. He had asked them to identify major issues and concerns. The marketing manager then indicated that to boost up sales he needed more sales managers. He also needed a generous budget for demonstration systems which could be sent on a trial basis to customers to win business. But his main concern was a lack of engineering support to sales and marketing. Sales people had no central organisation which had responsibilities to provide sales support. As a result, some jobs were getting done and others suffered in quality.

The production manager indicated the company had quality problems as compared to the competitors. As the sales volume grew, the competitors automated their production lines, while

AMAN Industries stuck to its conventional methods of production. So to reduce costs and improve quality, it was essential to automate production lines by installing new equipment.

He had no complaints from the director of R & D. However, one day he met with one of the principal scientists in the cafeteria. Over a short lunch the principal scientist indicated that although the director of R & D was a nice person, he could not understand why the director was not approving short-term research projects that guaranteed improvement in production efficiency by 20% in six months. Such projects did not involve major capital expenditures.

#### Questions

- (1) Discuss the nature of managerial problems faced by the company.
- (2) Are these problems insurmountable? Justify. What should be the priorities of Mr. Robert?
- (3) What management principles can achieve co-ordination among various departments?
- (4) What recommendations would you make in case you were in place of Mr. Robert?

#### Q.3 Described Questions/Short Essay Type Questions: (7-8 marks each)

- (1) Discuss the changing nature of management as reflected by its definition.
- (2) Discuss the process of management.
- (3) State the importance of management for society.
- (4) What are the functional areas of management? Explain them.
- (5) What are the management skills identified by Katz? Discuss them.

#### Q.4 Long Essay Type Questions: (15 marks each)

- (1) Define management. What are its characteristics?
- (2) Discuss the process of management with the help of a diagram.
- (3) State and explain the significance of management.
- (4) What are the various managerial roles? How are these roles interrelated?
- (5) What are the various managerial skills? Explain them in detail.

#### Q.5 Short Notes: (5 marks each)

- (1) Management as a universal process.
- (2) Management as a social process.
- (3) PODSCORB.
- (4) Aspects of production management.
- (5) Aspects of human resource management.
- (6) Human skills.
- (7) Interpersonal roles of manager.





## 2. Evolution of Management Thoughts

### Scope of Syllabus:

Evolution of Management Thoughts: Contribution of F.W. Taylor, Henry Fayol and Contingency Approach.

### Structure:

- 2.1 \*Evolution of Management Thoughts
- 2.2 \*Contribution of F.W. Taylor
- 2.3 \*Contribution of Henry Fayol
- 2.4 \*Fayol's Fourteen Principles of Management
- 2.5 \*Taylorism vs Fayolism
- 2.6 \*Contingency Approach to Management

\* Marked topics are related to syllabus.

Chapter Summary

Questions Bank

## 2.1 Evolution of Management Thoughts

The earliest contribution to the management theories can be traced back to the periods of the Greeks, the Romans and the Egyptians. The use of the principle of specialisation and division of labour was evident in China as early as 1650 B.C. The Roman Catholic Church with its hierarchy of management has greatly contributed to the management thoughts.

The development of management thought has been evolutionary in nature. The present status and position of management can, therefore, be best appreciated and understood in the light of its evolution over the years. Much of the development in this field has taken place during the last 100 years. The evolution of management thought may be classified into three broad categories:

(a) **The Classical Theory of Management:** The Classical Theory of Management includes three streams:

- The Scientific Management theory, developed by F.W. Taylor, who is referred to as the father of Scientific Management. The basic principle of scientific management is an adoption of a scientific approach to managerial process and decision-making.
- The Process Management theory, propounded by Henry Fayol, who is known as the father of Modern Management. According to him, management is a distinct process of five inter-related functions, viz., planning, organising, commanding, co-ordinating and controlling.
- Max Weber received credit for initiating the Theory of Bureaucratic Organisation and Management. He considered bureaucracy as the most efficient form for large organisation. Bureaucracy is the combined organisation structure, procedures, protocols and set of regulations to manage activity.

(b) **The Neo-classical Theory of Management:** Neo-classical theory gave more weightage and importance to man behind the machines and stressed the importance of individuals as well as group relationships in the plant or workplace. The Neo-classical Theory of management consists of two streams:

- The Human Relations Approach to management was developed by Elton Mayo. Human Relations Movements actually started with a series of experiments conducted by George Elton Mayo and his colleagues at the Hawthorne plant of Western Electric Company to bring about improvement in productivity.
- The Human Behaviour Approach is the outcome of the thoughts developed by behavioural scientists such as A.H. Maslow, Frederic Herzberg, Douglas, McGregor, and many others who viewed organisation collectively as a group of people for achieving certain pre-determined objectives.

- (c) **The Modern Theory of Management:** Modern Management theories indicate a further refinement, extension and synthesis of all the Classical and Neo-classical approaches to management. These movements started after 1950. There are three streams under the Modern Management theory:
- The Quantitative Approach to management makes use of several mathematical and statistical models to offer solutions to the complex organisational problems. Some of these models are linear programming, game theory, simulation and probability. Moreover, computers are also used to solve business problems.
  - Chester Barnard made a significant contribution to the development of the Systems Approach to management. The Systems approach to management views management as a complex system consisting of many interrelated and interdependent subsystems.
  - The Contingency Approach to management was developed during the 1970s. This Approach believes that there is no standard way of managing and the managerial actions are contingent upon situations or circumstances. Thus, this approach tries to evolve practical solutions to the managerial problems.

Harold Koontz was the first scholar who classified the various approaches in the schools of management theory as under:

- (a) The Classical School.
- (b) The Human Relations School.
- (c) The Decision Theory School.
- (d) The Management Science School.
- (e) The Systems Theory School.
- (f) The Contingency Theory School.

## 2.2 Contribution of F.W. Taylor

The concept of scientific management was introduced by Frederick Winslow Taylor in the USA in the beginning of 20<sup>th</sup> century. This concept was further carried on by Frank and Lillian Gilbreth, Henry Gantt, George Berth Edward Felen and others. Scientific management is concerned essentially with improving the operational efficiency at the shop floor level. Taylor joined Midvale Steel Company in the USA as a worker and later became a supervisor. During this period, he continued his studies and eventually completed his Master of Engineering (M.E.). Subsequently, he joined Bethlehem



**Frederick Winslow Taylor**  
(1856-1915)

Steel Company. At both these places, he undertook several experiments in order to improve the efficiency of people at work. On the basis of his experiments, he published a book entitled as 'Scientific Management'.

*"Scientific management is the art of knowing exactly what you want your men to do and then seeing that they do it in the best and cheapest way."* — **F.W. Taylor**

#### **Principles of Scientific Management:**

- (a) **Science, not the Rule of Thumb:** The basic principle of scientific management is an adoption of a scientific approach to managerial process and decision-making. It completely discards all unscientific approaches and practices, hitherto practised by the management.
- (b) **Harmony, not Discord:** Harmony refers to the unity of actions while discord refers to differences in approach. As a principle of scientific management, it refers to absolute harmony in the actions of people in order to facilitate the best attainment of organisational goals.
- (c) **Co-operation, not Individualism:** Co-operation refers to the development of mutual understanding between employees and management in order to direct their efforts towards the attainment of group objectives while regarding their individual objectives as subordinate to the general interest.
- (d) **Maximum Output, instead of Restricted Output:** In Taylor's view, the most dangerous evil of the industrial system was a deliberate restriction of output in order to maximise returns. He emphasised maximisation of output as a means of promoting the prosperity of workers, management and society.
- (e) **Development of Workers:** Management must develop its workforce to the fullest extent of their capabilities to ensure maximum prosperity for both – employees and employers. There is no doubt that developed human resource promotes maximum human efficiency, productivity and profits.
- (f) **Equal Division of Responsibility:** This principle recommends separation of planning from execution. Taylor strongly opposed the practice of planning of work by the subordinates themselves. According to him, management should be concerned with planning of work and workers with its execution.
- (g) **Mental Revolution:** According to Taylor, no scheme of scientific management could be successful unless the workers and managers learn to co-operate with each other. This requires a mental revolution on their part by giving up the attitude of hostility and enmity towards each other.

**Structure of Taylor's Scientific Management:**

Though Taylor's work is quite comprehensive and detailed, the major aspects of work done by him can be summarised as under:

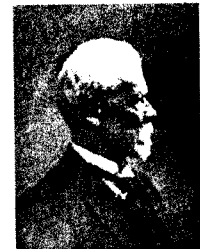
- (a) **Determination of a Fair Day's Task:** Taylor recommended the use of scientific methods, based on three types of work studies, for determining a fair day's task for each worker:
- **Time Study:** Time study is the process of observing and recording the time required to perform each element of an operation so as to determine the standard time in which a work has to be completed.
  - **Motion Study:** Motion study is a careful study and analysis of various body movements while doing a work. It aims at removing unwanted and unnecessary body movements while doing a work.
  - **Fatigue Study:** Fatigue study is conducted to find out as to after how much time of work, a rest pause is required for an average worker so that he can relax and proceed to his job in a refreshed manner.
- (b) **Scientific Selection and Training:** Taylor has emphasised that the workers should be selected on scientific basis taking into account their education, work experience, aptitude and physical strength. Further, adequate training must be imparted to the selected workers as a measure to increase their efficiency on job performance.
- (c) **Standardisation:** Taylor stressed two types of standardisation:
- Standardisation of raw materials, tools, machines and work conditions, like lighting, space, ventilation, etc. so as to allow workers to proceed to work in a healthy physical environment.
  - Standardisation of work conditions for the workers performing similar types of work. Different work conditions for the same job would adversely affect efficiency and ultimate production.
- (d) **Functional Foremanship:** Taylor evolved the concept of functional foremanship based on the specialisation of functions. He identified eight types of foreman to direct the activities of workers. Of these, the following four foremen are concerned with planning:
- Route clerk.
  - Instruction card clerk.
  - Time and cost clerk.
  - Disciplinarian.
- The remaining four foremen are concerned with the execution of work:
- Speed boss.

- Inspector.
  - Maintenance foreman.
  - Gang boss.
- (e) **Differential Piece-rate System of Wage Payment:** Taylor devised a 'differential piece-rate system of wage payment' in order to motivate workers, positively as also negatively, to produce the standard output. The inherent features of this scheme are:
- A standard output for each worker is determined in advance through scientific work studies.
  - Two rates of wage payment based on piece-rate system are established:
    - Higher rate per unit of output; and
    - Lower rate per unit of output.
  - Workers, who produce the standard output or exceed the standard output, are paid as per the higher rate while those who fail to achieve standard, are paid as per the lower rate.

### 2.3 Contribution of Henry Fayol

Henry Fayol was a French mining engineer who later turned a leading industrialist and a successful manager. His lifelong experience, in the field of managing, was produced in the form of a monograph titled '*Administration Industrielle et Generale*' in 1916 in the French language. This monograph was reprinted in French several times but was never translated in English until 1929.

Fayol's contribution to the science of management may be summarised as:



**Henry Fayol  
(1841-1925)**

- (a) **Classification of Industrial Activities:** Fayol classified the activities of industrial organisations into six groups. These six groups are:
- Technical (relating to production);
  - Commercial (relating to distribution);
  - Financial (relating to financial planning);
  - Security (relating to protection of persons and property);
  - Accounting (relating to recording transactions); and
  - Managerial (planning, organising, co-ordinating and controlling).
- Fayol mainly emphasised the managerial aspect of the organisation.

- (b) **Classification of Managerial Functions:** According to Fayol, the following are the important functions of a manager. He termed these functions as the 'Elements of Management'.
- Planning;
  - Organising;
  - Commanding;
  - Co-ordinating; and
  - Controlling.
- (c) **Universal Principles of Management:** Henry Fayol has identified fourteen fundamental principles of management, which are now universally accepted. They are applicable to all types of business organisations, whether small of large, commercial or non-commercial and private or government. They are also applicable to managers at all the levels of management hierarchy, from top to the lower level. Some of these principles are unity of command, division of labour, unity of direction, scalar chain, authority and responsibility, etc.
- (d) **Significance of Management Function:** Earlier, management was considered as a technique of 'trial and error'. Henry Fayol considered management as one of the most significant and indispensable functions and justified it to be an essential factor of production. According to him, management is not only a systematised body of knowledge but a profession. He identified certain qualities and qualifications, essential for managers at all the levels in the management hierarchy.
- (e) **Managerial Qualities and Training:** Fayol was the first person to identify the distinctive managerial qualities. These qualities are:
- Physical qualities (appearance, health, etc.)
  - Mental qualities (judgement, adaptability, etc.)
  - Moral qualities (firmness, initiative, loyalty, dignity, etc).
  - Educational qualities (general acquaintance with the background of management).
  - Technical qualities (related to functions to be performed).
  - Experience (arising from the work itself).
- According to him, no one is born with all these qualities and training and development is necessary for maintaining and developing managerial skills.
- (f) **Macro Approach to Management:** Management science, as described by Fayol, is not merely a solution to a specific problem but it is general in nature. According to him, management has universal applicability and can be applied to solve all types of business as well as non-business problems. In this sense, management is all pervasive. Thus, Fayol's macro or universal approach to management makes him universalist.

- (g) **Human Aspect of Management:** Fayol realised that the human factor in business, is the most important factor as it is the only active and sensitive factor. Considering the significance of human factor in the success of a business organisation, Fayol advocated the principles of stability of tenure, initiative, remuneration and equity for betterment of employees. All these principles have positive impact on the work efficiency of employees.

## 2.4 Fayol's Fourteen Principles of Management

Henry Fayol has been rightly called the 'Father of Administrative Management' for his practical approach to the management theory. He has identified fourteen fundamental principles of management. These fourteen principles are:

- (a) **Division of Labour and Specialisation:** Division of labour is a famous principle of Economics, put forth by the classical economists like Adam Smith. Fayol applied this principle to the management theory. Division of labour leads to specialisation, which in turn improves the efficiency of employees.
- (b) **Authority and Responsibility:** According to Fayol, authority and responsibility must flow in the same direction. Responsibility is the natural outcome of authority. A proper balance between authority and responsibility helps to prevent the misuse of authority and promotes a fair fixation of responsibility.
- (c) **Discipline:** Discipline means observation of certain rules and regulations. People in the organisation should be bound to accept certain code of conduct. The three basic requisites of discipline are disciplined supervisors at all levels, clear and fair agreement on goals and judicious application of penalties.
- (d) **Unity of Command:** According to this principle, an employee should receive orders from only one superior. If more than one superiors exercise their authority over the same employee, then the latter will always be in a state of confusion and a confused employee will never be able to perform to the best of his ability.
- (e) **Unity of Direction:** Unity of direction is essential for achieving unity in action in the pursuit of common goals by a group of persons. For this, Fayol advocates 'one head and one plan'. Unity of direction (one head, one plan) is not same as unity of command (one employee receives orders from one superior).
- (f) **Subordination of Individual Interest to General Interest:** According to this principle, the fulfilment of individual objectives in the long-run is contingent upon the attainment of common objectives in the short-run. Thus, in case the need arises, an individual must sacrifice in favour of larger group objectives.



- (g) **Remuneration:** Remuneration is the price paid to managers and workers for the services rendered by them. According to Fayol, the system of remunerating personnel should be fair and satisfactory to both the employees and the employer. It should be attractive in order to employ and retain the best talent.
- (h) **Centralisation:** Everything that goes to increase the importance of subordinates' role is decentralisation and everything which goes to reduce their role and significance is centralisation. There should be a fair balance between the degree of centralisation and decentralisation in order to achieve the best results.
- (i) **Scalar Chain:** Scalar chain refers to the line of authority from the highest to the lowest executive in the organisation for the purpose of communication. However, in the routine course of business, employees at the same level can communicate with each other following the principle of 'Gang Plank'.
- (j) **Order:** Fayol has classified order into two categories:
- **Material Order:** Material order is described as '*a place for everything and everything in its place*'.
  - **Social Order:** Social order demands the employment of the right person in the right place.
- (k) **Equity:** The principle of equity implies a sense of fairness and justice for all. Observance of the principle of equity makes personnel, loyal and devoted to the organisation and its philosophy. Loyalty and devotion must be elicited from the personnel through a combination of kindness and justice while dealing with them.
- (l) **Stability of Tenure:** An employee needs time to adjust with the new work and its environment and demonstrate efficiency and higher performance. Therefore, stability of tenure is a desirable principle for ensuring efficiency. Unnecessary employees' turnover is the cause and effect of a bad management.
- (m) **Initiative:** Initiative is the freedom to propose and execute a plan. To have freedom in this respect is the greatest satisfaction for an intelligent person. A manager, who induces his subordinates to think and act on their own, is always better and more successful than the one who does not.
- (n) **Espirit de Corps:** *Espirit de Corps* is a French phrase which means "*union is strength*". It means the spirit of loyalty and devotion to the group, to which one belongs. It is the foundation of a sound organisation. It can be achieved by avoiding the dirty policy of 'divide and rule' and promoting free communication.

These principles are flexible and require suitable adjustment and modification in the view of situational factors operating in different enterprises.

## 2.5 Taylorism vs. Fayolism

Both Taylor and Fayol have analysed the problem of managing from practitioner's point of view. Therefore, there must be similarity between their approaches:

- (a) Both have attempted to overcome managerial problems in a systematic manner.
- (b) Both have developed some principles which can be applied for solving managerial problems.
- (c) Both have emphasised that managerial actions can be effective if they are based on sound management principles.
- (d) Both of them are of the opinion that managerial qualities can be acquired through training and development.
- (e) Both have emphasised harmonious relations between management and workers for the achievement of organisational objectives.
- (f) Both have advocated division of labour and specialisation.

There are more dissimilarities between the approaches of Taylor and Fayol as compared to similarities.

| Taylorism   | Fayolism  |
|---|---|
| <b>(a) Employees' Performance vs. Management Performance:</b>   |   |
| Taylor's scientific management focuses more on the performance of workers.                                  | Fayol's principles of management emphasise more on the performance of management.                               |
| <b>(b) Approach:</b>  |   |
| Taylor followed bottom-up approach as he mainly focussed on shop and factory management.                    | Fayol followed top-down approach as his main focus is on functions and qualities of managers.                   |
| <b>(c) Applicability:</b>   |   |
| Taylor's principles and techniques have narrow applicability. They can be applied only to production units. | Fayol put forth general principles of management, which can be applied to any type of organisation or activity. |
| <b>(d) Nature:</b>  |   |
| Taylor's techniques are more specific and rigid.  | Fayol's techniques are general and flexible in nature.  |
| <b>(e) Popularity:</b>  |   |
| Taylor is popularly known as the 'Father of Scientific Management'.   | Fayol is popularly known as the 'Father of Functional Management'.  |

|  |   |
|--|---|
| <b>(f) Mechanistic vs. Human Approach:</b>   |   |
| Taylor's approach is mechanistic as it mainly emphasises increase in productivity and efficiency.                    | Fayol's approach is humanistic as he considers human elements, viz., equity, stability of tenure, unity, etc.             |
| <b>(g) Individual vs. Group Performance:</b>   |   |
| Taylor's scientific management gives more importance to the individual performance.                                  | Fayol's functional management stresses more on performance of managers as a group.  |
| <b>(h) Functional Foremanship vs. Principle of Unity of Command:</b>   |   |
| Taylor introduced a concept of 'functional foremanship', whereby workers have to report to several functional heads. | Fayol strongly advocates the principle of 'Unity of Command', whereby one subordinate should report to only one superior. |

It is appropriate to quote Theo Haimann, "As long as we refer to Taylor as the Father of Scientific Management, we would do justice to Fayol and his work to call him the Father of Principles of Management."

*"The work of Taylor and Fayol was essentially complementary."*

**- Urwick**

## 2.6 Contingency Approach to Management

The contingency approach, also called situational approach, was developed by managers, consultants and researchers who tried to apply the concepts of the major schools of thought to the real-life situations. When methods, highly effective in one situation, failed to work in other situations, they sought an explanation. Why did an organisational development programme work brilliantly in one situation and fail miserably in another? The advocates of the contingency approach had a logical answer – results differ because situations differ; a technique that works in one case will not necessarily work in all the cases.

### Meaning of Contingency Approach:

The contingency approach to management finds its foundation in the contingency theory of leadership effectiveness developed by management psychologist, Fred Fielder.

*"When a sub-system in an organisation behaves in response to another system or sub-system, we say that response is contingent on the environment. Hence, a contingency approach is an approach where the behaviour of one sub-unit is dependent on its environmental relationship to other units or sub-units that have control over the consequences desired by that sub-unit."*

**- Tosi and Hammer**

The contingency approach to management, also called the situational approach, assumes that there is no best approach to managing because organisations, people, and situations vary and change over time. In other words, management effectiveness is contingent or dependent upon the interplay between the application of management behaviours and specific situations.

#### **Features of Contingency Approach:**

As per the above statement, contingency approach has the following features:

- (a) Management action is contingent on certain action outside the system or sub-system of an organisation, as the case may be.
- (b) Organisational action should be based on the behaviour of action outside the system so as to integrate the organisation with its external environment.
- (c) Since, the organisation-environment relationship is not static, no action can be universal. It varies from situation to situation.

In conclusion, it can be said that the managerial action largely depends upon the total strengths and weaknesses of the organisation and opportunities and threats that lie out in the environment of each organisation.

#### **Ideal Contingency Approach:**

According to the contingency approach, a manager's task is to identify which technique will, in a particular situation, under particular circumstances and at a particular time, best contribute to the attainment of management goals. Managers have to find a "best fit" between the demands of:

- (a) The tasks.
- (b) The people.
- (c) The environment.

*For example*, where workers need to be encouraged to increase productivity, a classical theorist may prescribe a work simplification scheme while a behavioural scientist may seek to create a psychologically motivating climate and recommend some approach like job enrichment. But the manager trained in the contingency approach will ask, "*Which method will work best here?*"

- (a) If the workers are unskilled and training facilities and resources are limited, then work simplification will be the best option.
- (b) On the other hand, with skilled workers driven by pride in their abilities, a job enrichment programme might be more effective.

On the whole, it can be concluded that contingency approach represents an important turn in modern management theory, because it portrays each set of organisational relationships in its unique circumstances.

## Chapter Summary

### Evolution of Management Thoughts

The earliest contribution to the management theories can be traced back to the periods of the Greeks, the Romans and the Egyptians. The present status and position of management can, therefore, be best appreciated and understood in the light of its evolution over the years. Much of the development in this field has taken place during the last 100 years.

- (a) The Classical Theory of Management
- (b) The Neo-classical Theory of Management
- (c) The Modern Theory of Management

Harold Koontz was the first scholar who classified the various approaches in the schools of management theory as under

- (a) The Classical School.
- (b) The Human Relations School.
- (c) The Decision Theory School.
- (d) The Management Science School.
- (e) The Systems Theory School.
- (f) The Contingency Theory School.

### Contribution of F.W. Taylor

The concept of scientific management was introduced by Frederick Winslow Taylor in the USA in the beginning of 20<sup>th</sup> century. This concept was further carried on by Frank and Lillian Gilbreth, Henry Gantt, George Berth Edward Felen and others.

*"Scientific management is the art of knowing exactly what you want your men to do and then seeing that they do it in the best and cheapest way."*

### Principles of Scientific Management

- (a) Science, not the Rule of Thumb
- (b) Harmony, not Discord
- (c) Co-operation, not Individualism
- (d) Maximum Output, instead of Restricted Output
- (e) Development of Workers
- (f) Equal Division of Responsibility
- (g) Mental Revolution

### Structure of Taylor's Scientific Management

- (a) Determination of a Fair Day's Task
  - Time Study

- Motion Study
- Fatigue Study
- (b) Scientific Selection and Training
- (c) Standardisation
- (d) Functional Foremanship
- (e) Differential Piece-rate System of Wage Payment

### **Contribution of Henry Fayol**

Henry Fayol was a French mining engineer who later turned a leading industrialist and a successful manager. His lifelong experience, in the field of managing, was produced in the form of a monograph titled '*Administration Industrielle et Generale*' in 1916 in the French language.

- (a) Classification of Industrial Activities
- (b) Classification of Managerial Functions
- (c) Universal Principles of Management
- (d) Significance of Management Function
- (e) Managerial Qualities and Training
- (f) Macro Approach to Management
- (g) Human Aspect of Management

### **Fayol's Fourteen Principles of Management**

Henry Fayol has been rightly called the 'Father of Administrative Management' for his practical approach to the management theory. He has identified fourteen fundamental principles of management. These fourteen principles are

- (a) Division of Labour and Specialisation
- (b) Authority and Responsibility
- (c) Discipline
- (d) Unity of Command
- (e) Unity of Direction
- (f) Subordination of Individual Interest to General Interest
- (g) Remuneration
- (h) Centralisation
- (i) Scalar Chain
- (j) Order
- (k) Equity
- (l) Stability of Tenure
- (m) Initiative
- (n) *Espirit de Corps*

**Taylorism vs. Fayolism**

- (a) Employees' Performance vs. Management Performance
- (b) Approach
- (c) Applicability
- (d) Nature
- (e) Popularity
- (f) Mechanistic vs. Human Approach
- (g) Individual vs. Group Performance
- (h) Functional Foremanship vs. Principle of Unity of Command

**Contingency Approach to Management**

The contingency approach to management finds its foundation in the contingency theory of leadership effectiveness developed by management psychologist, Fred Fielder.

The contingency approach to management, also called the situational approach, assumes that there is no best approach to managing because organisations, people, and situations vary and change over time. Management effectiveness is contingent or dependent upon the interplay between the application of management behaviours and specific situations.

Ideal Contingency Approach:

According to the contingency approach, a manager's task is to identify which technique will, in a particular situation, under particular circumstances and at a particular time, best contribute to the attainment of management goals. Managers have to find a "best fit" between the demands of

- (a) The tasks.
- (b) The people.
- (c) The environment.

**Questions Bank****Q.1 Choose the correct alternative of the following: (1 mark each)**

- (1) \_\_\_\_\_ was the first to classify various approaches to management.  
 (a) F.W. Taylor            (b) Henry Fayol            (c) Harold Koontz
- (2) \_\_\_\_\_ put forth bureaucratic approach to management.  
 (a) F.W. Taylor            (b) Henry Fayol            (c) Max Weber
- (3) \_\_\_\_\_ theory of management is called human relation movement.  
 (a) Classical                (b) Neo-classical            (c) Modern
- (4) \_\_\_\_\_ is known as the 'Father of Scientific Management'.  
 (a) F.W. Taylor            (b) Henry Fayol            (c) Harold Koontz

- (5) \_\_\_\_\_ pioneered administrative school of management thought.  
 (a) F.W. Taylor            (b) Henry Fayol            (c) Harold Koontz
- (6) \_\_\_\_\_ pioneered human relation movement.  
 (a) Elton Mayo            (b) A.H. Maslow            (c) Douglas McGregor
- (7) \_\_\_\_\_ introduced the concept of functional foremanship.  
 (a) F.W. Taylor            (b) Henry Fayol            (c) Harold Koontz
- (8) \_\_\_\_\_ was first to describe the essential qualities of a manager.  
 (a) F.W. Taylor            (b) Henry Fayol            (c) Harold Koontz
- (9) \_\_\_\_\_ approach to management is based upon circumstances.  
 (a) Contingency            (b) Systems            (c) Quantitative
- (10) \_\_\_\_\_ put forth the Jungle Theory of Management.  
 (a) F.W. Taylor            (b) Henry Fayol            (c) Harold Koontz

**Ans.:**

|                   |                    |                   |                 |
|-------------------|--------------------|-------------------|-----------------|
| (1) Harold Koontz | (2) Max Weber      | (3) Neo-classical | (4) F.W. Taylor |
| (5) Henry Fayol   | (6) Elton Mayo     | (7) F.W. Taylor   | (8) Henry Fayol |
| (9) Contingency   | (10) Harold Koontz |                   |                 |

**Q.2 Practical Application/Case Study:**

**(15 Marks)**

**Read the following case carefully and answer the questions given:**

Mayuresh had just completed his masters from the IIM, Bangalore and joined his father's small export business, which employed 40 semi-skilled workers. After one week, his father, who was a retired Government officer, called him and said, "Mayuresh, I have had a chance to observe you working with the employees of the firm for the past few days. Although I hate to, I must say something. You are just too nice to people. I know they taught you human relations approach at the IIM, but it just does not work here.

I remember when the Hawthorne studies were first reported, everyone in the academic field got all excited about them. But, believe me, there is more to managing people than just being nice to them.

**Questions:**

- (1) Do you think, Mayuresh's father understood and interpreted the Hawthorne studies rightly?
- (2) Do you support the point of view of Mayuresh's father? Justify.
- (3) What according to you would be the best approach to management? Substantiate.
- (4) If you were Mayuresh, what would your reaction be to your father's comments?

**Q.3 Described Questions/Short Essay Type Questions: (7-8 marks each)**

- (1) Discuss the classical theory of management thought.
- (2) Explain the concept of functional foremanship.



- (3) What are the principles of 'the Scientific Management'?
- (4) Discuss the significance of Hawthorne Experiments
- (5) Explain the Human Behaviour Perspective of management.

**Q.4 Long Essay Type Questions: (15 marks each)**

- (1) What are the major schools of management thought? State their contribution.
- (2) Explain F.W. Taylor's Scientific Management.
- (3) Explain Fayol's contribution to the management thoughts.
- (4) Discuss the principles of management conceived by Fayol.
- (5) Compare Taylorism and Fayolism.

**Q.5 Short Notes: (5 marks each)**

- (1) Time study and Motion study.
- (2) Mental revolution.
- (3) Functional foremanship.
- (4) Differential piece-rate system.
- (5) Scalar chain.
- (6) Ideal contingency approach.



## 3. Planning and MBO

### Scope of Syllabus:

Planning: Meaning, Importance, Elements, Process, Limitations and MBO.

### Structure:

- 3.1 \*Concept of Planning
- 3.2 Nature and Characteristics of Planning
- 3.3 Essentials of a Sound Plan
- 3.4 \*Need and Importance of Planning
- 3.5 \*Limitations of Planning
- 3.6 \*Elements of Planning
- 3.7 \*Steps in Planning Process
- 3.8 \*Concept of Management by Objectives (MBO)
- 3.9 \*Characteristics of MBO
- 3.10 \*Process of MBO
- 3.11 \*Advantages of MBO.
- 3.12 \*Limitations of MBO.

\* Marked topics are related to syllabus.

Chapter Summary

Questions Bank

### 3.1 Concept of Planning

*"A plan is a trap laid to capture the future."*

– Allen

Planning is the fundamental function of management. It is pervasive of all other management functions. Planning is the process through which a manager looks in to the future and discovers alternative courses of action for the effective corporate achievements at all levels. It is deciding in advance about the future course of action. The future is uncertain and its prediction is always difficult. Instead of leaving the future events to chance, they are made to happen in a specified well planned manner through planning. It includes the selection of objectives, policies, procedures and programmes from among alternatives.

*"Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. Planning bridges the gap from where we are to where we want to go."*

– Koontz and O'Donnell

*"Planning is a continuous process of making present entrepreneurial decisions systematically, with best possible knowledge of their futurity and organising systematically the efforts needed to carry out these decisions and measuring the results of these decisions against the expectations through organised, systematic feedback."*

– George Terry

### 3.2 Nature and Characteristics of Planning

The nature or characteristics of planning can be studied under the following three major heads:

#### Constitutional Features:

- (a) **Planning is goal-oriented:** Objectives are the beginning and the end-points of a business planning process. Planning process begins with the determination and formulation of organisational objectives and ends with their attainment.
- (b) **Planning is future-oriented:** Forecasting is the heart of planning process. While planning, the planner has to forecast economic, social, political and technological conditions, within the framework of which a plan will have to operate.
- (c) **Planning is the primary function:** Although various managerial functions cannot be arranged sequentially, planning precedes all of them. It is the base of all managerial activities, *i.e.*, organising, staffing, directing, co-ordinating and controlling.
- (d) **Planning is an intellectual process:** Planning is a creative process. It requires deep imagination, foresight and intelligence. Needless to say that more intelligent and experienced a manager is, better would be his planning abilities and *vice versa*.

**Operational Features:**

- (a) **Planning is all-pervasive:** Planning function is performed by all managers, from the highest to the lowest in the management hierarchy. However, the nature, scope and significance of planning function vary at each level of management.
- (b) **Planning is both – short-range and long-range:** Short-range plan is meant for a period of less than one year while long-range plan is spread over number of years or may be decades. In fact, short-range plans are derived from the long-range plan.
- (c) **Planning is continuous:** Planning process continues so long as an enterprise is in existence. Management cannot afford to be rigid in the era of fast changing business environment, technological developments and changing government policies.

**Desirable Features:**

- (a) **Planning is actionable:** An ideal plan should be actionable. In other words, given the existing socio-economic, technological and political environment, the plan should be executable. It should neither be over-targeted nor under-targeted.
- (b) **Planning is flexible:** Planning operates in a dynamic environment. Hence, it should be adaptable to the ever-changing business environment. If a plan fails to adapt to its environment, then it might be rendered obsolete and may go waste.
- (c) **Planning is an integrated system:** Planning function is performed at all levels of management hierarchy. All these plans must be harmonised into a single integrated system in order to achieve organisational goals.

**3.3 Essentials of a Sound Plan**

*"Plans cannot make an enterprise successful. Action is required, the enterprise must operate managerial planning seeks to achieve a consistent, co-ordinated structure of operations focused on desired trends. Without plans, action must become merely activity producing nothing but chaos."*

**– Billy E. Goetz**

The essential features of a sound plan are as follows:

- (a) **A plan should be easy to understand and execute:** Since plans are implemented at comparatively lower levels of management manned by personnel of average vision and intelligence, it is desirable that they must be simple and free from all types of complexities and ambiguities.
- (b) **It must be based on clear-cut objectives:** A business plan must be based on clear-cut objectives. It should not only satisfy the needs of an organisation and individuals working in it but should also fit into the requirements of the environment and resources available.

- (c) **It must be suitable to the needs of an organisation:** A plan must be formulated considering the needs of an organisation. A good planner must consider available resources, opportunities for business, challenges from competitors, co-operation of workers, etc., before formulating a business plan.
- (d) **It must be comprehensive and integrated:** An ideal plan should be comprehensive enough to include all important areas of action. The 'hit or miss' method should not be adopted by a planner. An ideal plan should harmonise the efforts of various departments and individuals into a single integrated system.
- (e) **It must be flexible:** Planning operates in a dynamic and ever-changing external environment. A plan cannot afford to be rigid in such ever-changing and ever-evolving environment. Just as a car has to cope with the traffic, a ship has to cope with the currents, a plan has to absorb and adjust to the changes in the market.
- (f) **It should be based on rational forecasts:** The basic function of a planner is to forecast future events, viz., behaviour of consumers, competitors, government and various social and economic phenomena. Therefore, a sound plan must be based on a rational and objective forecast of the future events.
- (g) **It should be consistent with the environment:** A sound plan must be consistent with the environment, both internal and external. Internal environment refers to the strengths and weaknesses of the organisation while external environment consists of economic, social, technological and political forces.
- (h) **It must be realistic and not idealistic:** A sound plan must adopt a realistic approach, i.e., it should be practicable. In fact, some highly idealistic plans may be a result of the psychology of egoistic leaders who may over-target plans for the reason of self-satisfaction or for creating false impression of the enterprise.
- (i) **It must be efficient and economical:** Business planning is basically an economic exercise. Therefore, every possible effort must be made to minimise and reduce cost and eliminate wastage of resources. However, a good planner must ensure that economy should not be achieved at the cost of quality.
- (j) **It should be time-bound:** A plan must be launched and accomplished within a specified time period. Time-bound plans provide yardstick for the evaluation of achievements of the planning objectives. Additional time increases the associated costs or it may even render the entire planning activity futile.
- (k) **It must win employees' favour and confidence:** In the ultimate analysis, all plans are executed by the rank and file. A sound plan, therefore, must win employees' favour and beget their confidence. In fact, there should be an equal involvement of everyone concerned in the organisation while formulating plans.

### 3.4 Need and Importance of Planning

*"With planning, we may or may not succeed but without planning we are bound to fail. Planning may not change the future but it certainly changes us, equips us with a clear vision and more determination. The problems before us are so complex and chronic that unless we plan, we perish."*

The importance of planning may be highlighted with the help of the following points:

- (a) **Planning is complementary to all management functions:** All management functions, viz., organising, directing, co-ordination, control, staffing, motivation, etc., are directly related to planning. In fact, planning is the starting point of all managerial activities.
- (b) **It helps management to face the future with confidence:** The most certain thing about future is that it is uncertain. Planning cannot change the future but it certainly equips managers with clear visions and great determination to face the future with greater strength and confidence.
- (c) **It focuses its attention on objectives:** Plans are objective-oriented. Hence, they help in synchronising the efforts of everyone in the organisation towards the fulfilment of pre-determined organisational objectives. This helps in minimising deviations and thereby, reducing wastage.
- (d) **It leads to optimum utilisation of resources:** Planning recognises the alternative courses of action and chooses the best alternative in terms of cost and resources. It also exercises a control over the acquisition and employment of resources and thereby, ensures their optimum use.
- (e) **It increases overall efficiency:** It is said that more sweat on the parade ground, lesser blood on the battlefield. Planning prepares the organisation to meet unforeseen contingencies in future and thus, reduces wastage of organisational resources and increases overall organisational efficiency.
- (f) **It provides premise for effective control:** Planning lays down the track on which the work should proceed within the given unit of time, labour and cost. Thus, it provides bases for comparing the actual performance with the targeted ones and thereby, locates deviations and helps managers to take corrective action in time.
- (g) **It guides decision-making:** Though planning in itself amounts to decision-making, it acts as a guide to further decision-making by the middle and lower level managers. Organisational or strategic plans set the boundaries within which decisions can be taken by middle level and lower level managers.

- (h) **It facilitates co-ordination:** A well-defined plan clearly lays down the objectives and defines the role of each individual and department in the organisation. These objectives lay down boundaries for individual performance and co-ordinate their efforts and convert them into a homogeneous activity.
- (i) **It helps in performance evaluation:** Planning defines the total volume of work, lays down alternative courses of action and identifies constraints. It is a time-bound exercise and hence, provides a yardstick for evaluation of the performance of managers and employees.
- (j) **It makes provisions for contingencies:** A plan anticipates the possible unforeseen contingencies in advance. Moreover, it makes provision for such contingencies in the form of reserves and equips the organisation to face these contingencies with confidence. Hence, a plan provides cushion for absorbing future shocks.

### 3.5 Limitations of Planning

Planning function of managers is constrained by a number of factors, which limit effectiveness of planning exercise of organisations. These limitations can be broadly studied from two perspectives:

#### Fundamental Limitation:

**Limitation of Forecasting:** The limitation of forecasting is a fundamental limitation of planning. The whole exercise of planning depends upon the accuracy of forecasting, howsoever rational or scientific it may be. In fact, some of the best laid plans collapse due to unprecedented changes taking place in the future conditions. This limitation of planning, among other factors, has induced management thinkers to recommend a situational or contingency approach to managing – ruling out any need for advance planning.

#### Other Limitations:

- (a) **Egoistic Planning:** Some top level managers have a tendency to undertake unrealistic planning just to add to their own prestige and status, without making any useful contribution to the organisational goals. Such planning raises false hopes, without producing any results.
- (b) **Expensive:** Planning requires a great deal of funds in order to finance the activities of collection of data, their tabulation and classification, analysis and interpretation and employment of field staff and statisticians. Hence, a small- or a medium-scale organisation cannot afford planning exercise.
- (c) **Time-consuming:** Planning is a complex and comprehensive activity. Thus, it becomes a time-consuming process. The plan formulated by the higher-level

management may become ineffective for an existing environment due to a great deal of time involved in formulating such plan.

- (d) **Delayed Action due to Deliberation:** Planning is the result of continuous efforts put in by the management experts. It is the result of a democratic process. The decisions are taken by the managers through consensus and deliberation. This leads to delayed decisions and actions.
- (e) **Unsuitable for Small Units:** Planning is a continuous process undertaken by experts from different functional areas of business. It involves considerable amount of time, money and labour. It also requires specialised machinery for research and study which necessitates huge investment. Therefore, it is unsuitable for small units.
- (f) **Dynamic Environment:** Nothing ever is permanent except change. Business environment is dynamic and flexible, while planning makes business units rigid. Thus, if business units are to function according to the pre-determined plan, then they will lag far behind the existing environment.
- (g) **Wastage of Resources:** Planning involves huge investment in terms of time, money, efforts and resources. It is, in fact, a time-consuming, fund-consuming and mind-consuming process. If a plan fails, valuable resources of the individuals and organisation go waste.
- (h) **Limits Individual Freedom:** Plans are formulated by the top level managers. Therefore, they try to exercise their power over the lower level managers. Usually, the lower level managers are ignored while framing organisational plans. This restricts their individual freedom and initiatives.
- (i) **Not an End:** Planning just lays down the path along which the organisation has to move. Thus, planning is a means to achieve organisational objectives and is not an end in itself. People and departments in the organisation have to work as a team in order to achieve the desired results.
- (j) **Non-availability of Authentic and Accurate Data:** The success of planning process depends upon the availability of data, from both primary as well as secondary sources. Sometimes such data may not be available and even if available, they may not be adequate or relevant for the existing business environment.
- (k) **Other Limitations:**
  - Inaccurate forecasting.
  - Internal and external inflexibility.
  - Rapidly changing business environment.
  - Unrealistic targets.



### 3.6 Elements of Planning

In a business enterprise, there are a number of plans, which might seem to be different in their content and application. However, a careful analysis of various plans would reveal that they are closely connected and form a sort of structure. This structure of plans can be classified into the following categories:

#### Standing Plans:

Standing plans are meant for repeated use or are used as and when the need arises. The various types of standing plans are:

- (a) **Mission:** The word 'mission' as a type of planning explains the most fundamental purpose of an enterprise. It explains the *raison d'être* (i.e., reason for the existence) of an enterprise. The significance of mission is that all business planning – functional as well as departmental – must constantly keep in view the mission of the enterprise. A company's mission statement is essentially its statement of purpose. It serves as a guide for decision-making for managers at all levels of management hierarchy.
- (b) **Objectives:** Objectives are more precise and are derived from the mission. An organisation can have a number of objectives but not mission. Objectives are more flexible and can change as per changes in the business environment. Objectives are results, which an organisation wants to achieve through the implementation of planning. Therefore, the objectives must be clearly defined, determined, stated, expressed, understood and accepted.
- (c) **Strategies:** The concept of strategy owes its origin to military organisations. In military, it means a grand plan of attack considering the likely actions and reactions of the enemy. In management, it refers to the proactive or reactive measures taken by a manager in order to counter the move of competitors or a stand taken by business to deal with peculiar problems or situations such as growth and expansion, falling demand, changing fashion, growing competition, etc.
- (d) **Policies:** Policies are framed to bring about uniformity in the planning activities at different levels in the organisation. A policy may be defined as a statement of guidance and instructions, which defines and confines the area of discretion of subordinates in the matters of decision-making. A good policy must be simple, clear, reasonable, well communicated and equally well understood and ethically sound. It can be verbal or written, expressed or implied and temporary or permanent.
- (e) **Procedures:** Procedures guide actions rather than thinking. They are the clear administrative specifications or norms prescribing the chronological manner in which respective activities are initiated. Most of the routine and repetitive nature of

work can be effectively disposed of through procedures. Procedures make use of documents, generally known as forms. They are filled, processed and filed as per the rules. Such forms serve as an authentic proof of procedural validity.

- (f) **Rules:** Rules spell out the specific actions and non-actions allowing no discretion. *For example*, there may be rules governing the calculation of overtime, rules for dealing unauthorised absence or for breach of discipline. A policy is a statement of guidance while a rule is a statement of action. A policy leaves a scope for discretion while a rule is more stringent. There may be different types of policies for different cadres of employees while rules are more or less same for all.

#### Single Use Plans:

Single use plans are meant for one-time use. The various types of single use plans are:

- (a) **Programmes:** A programme is a sequence of activities designed to implement policies and accomplish objectives. It is a complex and comprehensive term, which includes goals, policies, procedures, rules, assignments and resources to be employed. Programmes are divided into major and minor programmes. Major programmes are related to the organisation as a whole while minor ones deal with a specific problem or a particular department.
- (b) **Budget:** As a plan, budget is a statement of expected results in numerical terms. *For example*, units of output, man-hours, machine-hours, sales targets, expense estimates or revenue estimates. A budget plays a double role. It is a planning tool and also provides a means for controlling. Budgets are classified as master budgets and sectional or functional budgets. A master budget is prepared for the whole organisation while sectional budgets are prepared for different sections.
- (c) **Schedule:** Schedule shows the break-up of work for a particular period, say a day or a week or a month. A schedule shows the relationship between time and work. It is an effective instrument for daily supervision. It should be presented in numerical terms so that it can be easily understood by the workers.
- (d) **Forecast:** Forecasting is a science of calculating the nature and impact of probable future events on the organisation. Hence, information about all aspects of business are continuously gathered and processed in order to predict the future trends in the market. Only experts and experienced people can predict future rationally.
- (e) **Project:** A project is usually referred to as a special type of programme. It is constructed around one specific activity in the course of planning. *For example*, construction of a new office building, automation of a factory, setting up of a new plant, etc. A project has its own name, unit of management and a separate budget.

### 3.7 Steps in Planning Process

Plans are made in all types of enterprises, at all the levels and for all types of activities. Therefore, it is difficult to identify a standardised planning process. However, some of the basic steps involved in the most types of planning are:

- (a) **Awareness of Opportunities and Threats:** Technically, this could be referred to as a 'pre-step' in the planning process. A progressive management must always be alert enough to visualise opportunities offered and threats posed by the environment. The management should, accordingly, initiate the planning process at the most appropriate time in order to grab opportunities and avoid threats.
- (b) **Collecting and Analysing Information:** Little knowledge is always dangerous in business planning. Hence, accurate, up-to-date, adequate and unbiased data should be collected for planning from all possible sources, *i.e.*, both internally and externally. The information so collected should then be analysed through statistical tools such as classification, tabulation, correlation, time series analysis, trend analysis, etc.
- (c) **Determining Objectives:** Determination of objectives is the most crucial step in the planning process. The following factors should be considered while setting objectives:
  - Objectives must be in conformity with the mission of the organisation.
  - Objectives, as far as possible, must be expressed in numerical terms.
  - Objectives must be realistic and not idealistic or over-ambitious.
- (d) **Identifying Planning Premises:** Planning premises are the constraints operating in the environment. They are the assumptions regarding economic, social, political and technological conditions in future, subject to which the plan must be framed. While establishing the planning premises, following factors should be considered:
  - Assumptions are to be made only about those factors, which may hinder or aid the implementation of a plan.
  - A concept of common premising should be used when a number of departments are involved in the planning process.
- (e) **Identifying Alternative Courses of Action:** Means have alternative uses. Similarly, one end can be achieved by different means. This diversity on both sides leads to many permutations and combinations. A number of alternative solutions can be developed for the problem under consideration by changing the ratio of time, cost and labour. In fact, planning pre-supposes the existence of alternative courses of action to solve problems and achieve planning objectives.
- (f) **Evaluation of Alternative Courses of Action:** A critical evaluation of different alternatives is undertaken in order to choose the best one. It involves a thorough analysis of pros and cons of each alternative in order to find out their net

contribution to the planning objectives. Certain factors against which these alternatives can be evaluated are the degree of risks, timing, technological implications and resource requirements, associated with each alternative.

- (g) **Choice of the Best Alternative and Working Out its Details:** Alternative that makes the maximum contribution towards planning objectives with the minimum costs and the one which is acceptable to everyone should be chosen for execution. Once a plan is selected, then the next step is to work out its details such as derivation of secondary plans, sequence of activities, starting and completion time for each activity, resource allocation, control points, etc.
- (h) **Promulgation and Implementation:** Drafting a plan completes the theoretical aspect of planning while implementation is its practical aspect. Promulgation means to declare, proclaim or to make the plan known to the concerned people so that they co-operate and contribute towards its achievement. Active participation of workers should be secured by providing them monetary and non-monetary incentives in order to ensure success of the proposed plan.
- (i) **Progressive Review:** Progressive review is necessary in order to analyse the consequences, both good and bad, which arise from the implementation of the plan. It is also necessary in order to locate deviations due to changes in the internal and external environment. This calls for revision, modifications and adjustments in order to keep the plan up-to-date. The outputs received from the periodical review can also be used as inputs for future planning.

### 3.8 Concept of Management by Objectives (MBO)

The principle of Management by Objective (MBO) was first stated by Peter F. Drucker in 1954 in his book 'Practice of Management'. Later on, it was developed by various writers like John Humble, George Ordiorne and Douglas Mcgreoger. This concept is known by several other names such as 'Management by Results' or 'Joint Target Setting'.

Under MBO, the goals of organisation must be set by both management and subordinates jointly. In other words, it is a group effort. The role of subordinates should not be ignored because they are nearer to the action. According to him, the following are the main eight areas of the accomplishment:

- (a) Market standing.
- (b) Innovation.
- (c) Productivity.
- (d) Physical and financial resources.
- (e) Profitability.

- (f) Workers' performance.
- (g) Management performance and development.
- (h) Public or social responsibility.

*"A process whereby superior and subordinate managers of an organisation jointly define its common goals, define each individual's major areas of responsibility in terms of results expected of him and use these measures as guides for operating the unit and assessing the contribution of each of its members." – George Odiorne*

### 3.9 Characteristics of MBO

The main features of the philosophy of Management by Objectives are:

- (a) **MBO is a Management Philosophy:** MBO is an approach or a philosophy of management and not merely a technique. A management technique can have a limited applicability in the organisation while a management philosophy can be applied to the organisation as a whole, in general.
- (b) **Key Result Area Technique (KART):** MBO integrates individuals with organisation and organisation with the environment. This is done through Key Result Area Technique (KRAT). Typical key result areas are R&D, productivity, finance, personnel, marketing, customer satisfaction, social responsibility, etc.
- (c) **MBO is Result-oriented:** The whole philosophy of MBO revolves round the objectives. The main purpose of MBO is to achieve objectives of the organisation through group efforts. In other words, it focuses on achievements rather than methods of achievement.
- (d) **Superior-Subordinate Participation:** MBO makes an attempt to integrate the goals of an organisation and individuals. This is achieved by promoting joint setting of goals by superiors and subordinates, rather than goals being imposed from the top. This promotes better relations in the organisation.
- (e) **It is an Evaluation Technique:** Being result-oriented, MBO is also an evaluation technique, *i.e.*, managers are evaluated in terms of their ability to achieve objectives. In fact, the concept is often known as, 'Management by Results' or 'Appraisal by Results'.
- (f) **It is a Managerial Process:** MBO is a managerial process and excludes non-managers from its scope.

### 3.10 Process of MBO

The process of MBO involves the following stages:

- (a) **Setting Organisational Objectives:** The first step in MBO is the definition of corporate mission or objectives. Usually, the process of setting objectives begins at the top level and moves downward to the lowest managerial level in the order such as mission, long-range or strategic objectives, short-range objectives, departmental objectives and individual objectives.
- (b) **Key Result Areas (KRAs):** After that, those areas which are critical to the firm's long-term success are identified. These areas are commonly known as Key Result Areas (KRAs). Some typical KRAs are profitability, market standing, innovation, productivity, workers' performance, financial and physical resources, managers' performance and public responsibility.
- (c) **Setting Subordinates' Objectives:** The organisational objectives are achieved through individuals. Therefore, each individual is given an opportunity to make his recommendations about the objectives. Thereafter, there are many rounds of meetings, negotiations and adjustments in order to arrive at an agreement over the objectives to be achieved.
- (d) **Fixing Standards:** Once objectives are laid down, standards are determined against which actual performance can be evaluated. Generally, standards are set in numerical terms so that objective evaluation of the performance can be undertaken. It is also necessary that everyone in the organisation should be communicated these standards in advance.
- (e) **Matching Resources with Objectives:** Resources availability is an important aspect of objective setting because it is the proper application of resources that ensures achievement of objectives. Therefore, resources are allocated to different departments and individuals in consultation with subordinate managers in order to ensure their optimum use.
- (f) **Developing Action Plan:** Setting objectives on paper is not sufficient. They must be translated into action plans. This requires allocation of responsibilities to different departments. The superiors and subordinates jointly determine an action plan in terms of time, resources, etc. This includes preparing work schedule, time schedule, resources schedule, etc.
- (g) **Conducting Periodic Review:** Superiors and subordinates meet periodically to review progress in terms of quantity, quality, time and cost. Periodic review measures performance of each individual and department against the objectives and the pre-determined standards and deviations, if any, are reported and corrective action is taken.
- (h) **Performance Appraisal:** Finally, superiors and subordinates meet to review subordinates' overall level of performance. Such performance appraisal may be

undertaken semi-annually or annually. During appraisal, failure to achieve goals is discussed logically, problem areas are identified and a plan for corrective action is devised for future.

- (i) **Achievement of Objectives:** Past performance has an important implication on the future. If the overall performance in past is good and satisfactory, then people in the organisation feel confident of doing better in future. The essential factors which help to achieve objectives are planning, commitment, sincerity, hard work, good understanding and patience.

### 3.11 Advantages of MBO

The following are the benefits of MBO process:

- (a) **Aid in Planning:** MBO is closely linked with the corporate planning. It makes organisational planning effective by linking it with the internal and external environment, company and individuals through the process of joint goal setting.
- (b) **Result Orientation:** The main purpose of MBO is to achieve objectives of the organisation through group efforts. Therefore, MBO is a result-oriented philosophy. As such, the focus is on achievement rather than on the method of achievement.
- (c) **Evaluation Technique:** Being result-oriented process, MBO is also an evaluation technique, *i.e.*, managers are evaluated in terms of their ability to achieve objectives. Therefore, it is also known as, 'Management by Results' or 'Appraisal by Results'.
- (d) **Superior-Subordinate Interaction:** MBO increases the frequency of interaction between the superiors and the subordinates. This reduces frictions and conflicts between them and thereby maintains cordial industrial relations and industrial peace.
- (e) **Motivational Tool:** MBO is a motivational tool. It provides workers with an opportunity to participate in managerial decisions. It also challenges subordinates for better performance. At the same time, goal achievement also brings in reward for them.
- (f) **Development of Management Potential:** MBO largely leaves managers free to adopt a management style that will enable them to achieve objectives. Therefore, it provides for a built-in facility for managerial development through on-the-job training.
- (g) **Self-control and Self-reliance:** MBO promotes self-reliance and self-control as it matches the changing levels of job responsibilities and authorities with the changing levels of managerial competence.
- (h) **Facilitates Control:** MBO facilitates effective control. It lays down the standards against which actual performance can be evaluated. Therefore, it helps in locating deviations and taking corrective action in time.

### 3.12 Limitations of MBO

The limitations of MBO are as under:

- (a) **Time-consuming:** MBO is a time-consuming process. The process of goal setting, the frequent interaction between superiors and subordinates, negotiations, adjustments, evaluation, reviews, feedback, etc., take a considerable time and therefore, plans are delayed.
- (b) **Increases Paperwork:** The success of MBO largely depends upon information system which generates a large volume of paper. Innumerable number of forms, instruction manuals, reports, etc., move back and forth until the system is snowed with masses of paper.
- (c) **Reward-Punishment Approach:** MBO is a pressure-oriented philosophy as it is based on reward-punishment approach. It tries to indiscriminately force improvement on all employees. At times, it may penalise the people whose performance remains below average.
- (d) **Routine and Mechanised:** Newly introduced MBO may generate enthusiasm but later, if not checked, the process of goal setting and reviewing may become too rigid leading to loss of opportunities. This may have negative impact on the morale of managers.
- (e) **Creates Organisational Problems:** MBO is not a solution to all organisational problems. Perhaps, it creates more problems rather than solving them. It may develop misunderstanding between superiors and subordinates in respect of targets to be set and performance to be achieved.
- (f) **Inconsistent with Managerial Philosophy:** There are many internal barriers both on the part of managers as well subordinates which hinder the successful implementation of MBO philosophy. The general management philosophy is that managers set goals on behalf of subordinates.
- (g) **Qualitative Goals:** MBO is action-oriented philosophy and emphasises the achievement of goals in quantitative terms. It mainly focuses its attention on the achievement of objectives rather than qualitative goals related to job satisfaction and employees' attitudes.
- (h) **Inadequate Support from Top Management:** Top Management does not favour this technique as it may dilute their authority. On the other hand, even if MBO is implemented, it is executed half-heartedly just to add to the prestige and status of the top management.



## Chapter Summary

### Concept of Planning

*"Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. Planning bridges the gap from where we are to where we want to go."*

### Nature and Characteristics of Planning

#### Constitutional Features

- (a) Planning is goal-oriented
- (b) Planning is future-oriented
- (c) Planning is the primary function
- (d) Planning is an intellectual process

#### Operational Features

- (a) Planning is all-pervasive
- (b) Planning is both – short-range and long-range
- (c) Planning is continuous

#### Desirable Features

- (a) Planning is actionable
- (b) Planning is flexible
- (c) Planning is an integrated system

### Essentials of a Sound Plan

- (a) A plan should be easy to understand and execute
- (b) It must be based on clear-cut objectives
- (c) It must be suitable to the needs of an organisation
- (d) It must be comprehensive and integrated
- (e) It must be flexible
- (f) It should be based on rational forecasts
- (g) It should be consistent with the environment
- (h) It must be realistic and not idealistic
- (i) It must be efficient and economical
- (j) It should be time-bound
- (k) It must win employees' favour and confidence

### Need and Importance of Planning

*"With planning, we may or may not succeed but without planning we are bound to fail. Planning may not change the future but it certainly changes us, equips us with a clear vision and more determination. The problems before us are so complex and chronic that unless we plan, we perish."*

- (a) Planning is complementary to all management functions
- (b) It helps management to face the future with confidence
- (c) It focuses its attention on objectives
- (d) It leads to optimum utilisation of resources
- (e) It increases overall efficiency
- (f) It provides premise for effective control
- (g) It guides decision-making
- (h) It facilitates co-ordination
- (i) It helps in performance evaluation
- (j) It makes provisions for contingencies

### **Limitations of Planning**

Fundamental Limitation

Other Limitations

- (a) Egoistic Planning
- (b) Expensive
- (c) Time-consuming
- (d) Delayed Action due to Deliberation
- (e) Unsuitable for Small Units
- (f) Dynamic Environment
- (g) Wastage of Resources
- (h) Limits Individual Freedom
- (i) Not an End
- (j) Non-availability of Authentic and Accurate Data
- (k) Other Limitations

### **Elements of Planning**

Standing Plans: Standing plans are meant for repeated use or are used as and when the need arises. The various types of standing plans are:

- (a) Mission
- (b) Objectives
- (c) Strategies
- (d) Policies
- (e) Procedures
- (f) Rules

Single Use Plans: Single use plans are meant for one-time use. The various types of single use plans are:

- (a) Programmes
- (b) Budget
- (c) Schedule
- (d) Forecast
- (e) Project

**Steps in Planning Process**

- (a) Awareness of Opportunities and Threats
- (b) Collecting and Analysing Information
- (c) Determining Objectives
- (d) Identifying Planning Premises
- (e) Identifying Alternative Courses of Action
- (f) Evaluation of Alternative Courses of Action
- (g) Choice of the Best Alternative and Working Out its Details
- (h) Promulgation and Implementation
- (i) Progressive Review

**Concept of Management by Objectives (MBO)**

The principle of Management by Objective (MBO) was first stated by Peter F. Drucker in 1954 in his book 'Practice of Management'. Later on, it was developed by various writers like John Humble, George Ordiorne and Douglas Mcgreoger. This concept is known by several other names such as 'Management by Results' or 'Joint Target Setting'.

**Characteristics of MBO**

- (a) MBO is a Management Philosophy
- (b) Key Result Area Technique (KART)
- (c) MBO is Result-oriented
- (d) Superior-Subordinate Participation
- (e) It is an Evaluation Technique
- (f) It is a Managerial Process

**Process of MBO**

The process of MBO involves the following stages

- (a) Setting Organisational Objectives
- (b) Key Result Areas (KRAs)
- (c) Setting Subordinates' Objectives
- (d) Fixing Standards
- (e) Matching Resources with Objectives

- (f) Developing Action Plan
- (g) Conducting Periodic Review
- (h) Performance Appraisal
- (i) Achievement of Objectives

**Advantages of MBO**

- (a) Aid in Planning
- (b) Result Orientation
- (c) Evaluation Technique
- (d) Superior-Subordinate Interaction
- (e) Motivational Tool
- (f) Development of Management Potential
- (g) Self-control and Self-reliance
- (h) Facilitates Control

**Limitations of MBO**

- (a) Time-consuming
- (b) Increases Paperwork
- (c) Reward-Punishment Approach
- (d) Routine and Mechanised
- (e) Creates Organisational Problems
- (f) Inconsistent with Managerial Philosophy
- (g) Qualitative Goals
- (h) Inadequate Support from Top Management

**Questions Bank**

**Q.1 Choose the correct alternative of the following: (1 mark each)**

- (1) \_\_\_\_\_ is the fundamental function of management.  
 (a) Planning                      (b) Organising                      (c) Staffing
- (2) \_\_\_\_\_ planning is undertaken at the top level of management.  
 (a) Functional                      (b) Strategic                      (c) Tactile
- (3) \_\_\_\_\_ is the fundamental limitation of planning.  
 (a) Forecasting                      (b) Time                      (c) Cost
- (4) \_\_\_\_\_ are the assumptions on which planning is based.  
 (a) Factors                      (b) Constraints                      (c) Premises

- (5) A \_\_\_\_\_ is a special type of programme.  
 (a) programme (b) project (c) schedule
- (6) The concept of MBO was introduced by \_\_\_\_\_.  
 (a) Alex Osborn (b) Peter Drucker (c) John Humble
- (7) A \_\_\_\_\_ is a statement of expected results in numerical terms.  
 (a) Programme (b) Plan (c) Budget
- (8) According to Drucker, there are \_\_\_\_\_ areas of accomplishment.  
 (a) 2 (b) 8 (c) 14
- (9) The concept of KRAs was put forth by \_\_\_\_\_.  
 (a) George Terry (b) James Urwick (c) Peter Drucker
- (10) \_\_\_\_\_ planning is done to display prestige and status.  
 (a) Strategic (b) Egoistic (c) Divisional

**Ans.:**

|                   |                   |                 |              |
|-------------------|-------------------|-----------------|--------------|
| (1) Planning      | (2) Strategic     | (3) Forecasting | (4) Premises |
| (5) project       | (6) Peter Drucker | (7) Budget      | (8) 8        |
| (9) Peter Drucker | (10) Egoistic     |                 |              |

**Q.2 Practical Application/Case Study: (15 Marks)**

**Read the following case carefully and answer the questions given:**

The Executive Vice President of Mid-West was getting increasingly concerned about the future of the company. He is worried that the business-as-usual policies would not only contribute to reduced market share but increased losses in future. The severe cash-flow problems being faced by Mid-West would continue to get worse, and if the financial backing of the major investor, it would be a disaster. He was convinced that the integrated business plan was necessary but did not know how he could approach the President and get some guidance without antagonizing the President.

The Executive Vice President called the meeting of the directors of marketing, manufacturing, engineering, and R&D. He said that they as a group owed it to the company to develop a business plan and proposed the following two strategies.

The group reluctantly agreed to develop an abbreviated business plan for two strategies. One strategy was to aggressively seek business and attempt to increase market share. Gaining market share would require pricing Mid-West products slightly below the competition, increase marketing coverage and special promotion. Marketing would require 20% of revenues to accomplish this goal from current expenditure of 15%. The only way to increase profitability was to reduce production costs through intensive engineering improvements, and R&D. The director of finance was instructed to project sales levels and to develop costs of production

including potential cost reduction as a result of engineering and R&D efforts. The operating statement would then accurately depict Mid-West's profit/loss position.

The second strategy would abandon the efforts to maintain the market share. Instead, Mid-West would concentrate on developing special market niches. The director of marketing was instructed to develop special market niches plan. The director of marketing was tasked to identify specialty products and the directors of engineering and R&D would develop estimates to produce these products. These products would need investment in specialised equipment and R&D. The specialised market niches would offer high profit margins and contribute to improved corporate financial position. However, the revenues would be much smaller compared to the first strategy.

**Questions**

- (a) In the absence of a specific direction and initiative from the President, is this the best approach to begin the corporate planning process?
- (b) What do you think would be the response of the President to these two strategies?
- (c) What would you do, as an Executive Vice President, if the President did not give you a specific direction as to the future of the Company?
- (d) Can you identify another approach that would elicit a positive response from the President?

**Q.3 Described Questions/Short Essay Type Questions: (7-8 marks each)**

- (1) What are the essentials of a good plan?
- (2) Highlight the importance of planning.
- (3) What are the various elements of planning? Explain.
- (4) What are the KRAs?

**Q.4 Long Essay Type Questions: (15 marks each)**

- (1) Define planning. Discuss the nature of planning.
- (2) What are the merits and demerits of planning? Discuss.
- (3) Write in detail the planning process.
- (4) What is MBO? Discuss the process of MBO.
- (5) What are the merits and demerits of MBO process? Discuss.

**Q.5 Short Notes: (5 marks each)**

- (1) Pervasiveness of planning.
- (2) Limitation of forecasting.
- (3) MBO.
- (4) Mission.
- (5) Standing plan.

## 4. Decision-making

### Scope of Syllabus:

Decision-making: Meaning, Importance, Process and Techniques of Decision-making.

### Structure:

- 4.1 \*Concept of Decision-making
- 4.2 \*Importance of Decision-making
- 4.3 \*Process of Decision-making
- 4.4 \*Techniques of Decision-making
- 4.5 Types of Managerial Decisions
- 4.6 Essentials of Sound Decision-making

\* Marked topics are related to syllabus.

Chapter Summary

Questions Bank

## 4.1 Concept of Decision-making

Decision-making is the core of planning. A plan cannot be said to exist unless a decision has been made. A manager's ability is often judged by the decisions that he makes. Decision-making is the central job of all managers because they are always concerned with the problems like what is to be done, who is to do it, when and where and occasionally even how it is to be done.

Decision-making is a process to arrive at a decision. It is the process by which an individual or an organisation selects one position or action from several alternatives.

*"Decision-making is a conscious human process involving both individual and social phenomenon, based upon factual and value premise, which concludes with a choice of one behavioural activity from among two or more alternatives with the intention of moving towards some desired state of affairs."* — **Shull et al**

*"Decision-making is the selection based on some criteria from two or more possible alternatives."* — **George Terry**

## 4.2 Importance of Decision-making

Decision-making is a process of selecting the best among the different alternatives. It is the act of making a choice. According to Stephen P. Robbins, "decision-making is defined as the selection of a preferred course of action from two or more alternatives." Right decision at the right time assumes great significance in business organisation.

- (a) **Pervasiveness of Decision-making:** Like planning, decision-making function is all-pervasive. Managers, at all managerial levels in the management hierarchy, are concerned with decision-making while performing their functions. The nature of decisions differs according to the levels of management. Decisions at the higher level are strategic in nature while those at the lower level are routine in nature.
- (b) **Implementation of Managerial Function:** Without decision-making, different managerial functions such as planning, organising, directing, controlling and staffing cannot be performed. In other words, every management function in business organisations presupposes decision-making. It is only through decision-making that the various management functions can be effectively implemented.
- (c) **Evaluation of Managerial Performance:** The quality of decisions made by managers can serve as a yardstick to evaluate their performance. If decision is correct and successful, then it is understood that the manager is qualified, experienced and competent. On the other hand, when the decision is wrong, it is understood that the manager is not competent and experienced.



- (d) **Helpful in Planning and Policies:** Any policy or plan is formulated through the process of decision-making. Without decision-making, no plan or policy can be formulated. In fact, planning and policy-making are essentially decision-making functions, *i.e.*, processes of choosing the best option from a number of alternatives subject to constraints of organisational resources.
- (e) **Efficient Business Operations:** Means have alternative uses. Similarly, one end can be achieved by different means. In other words, every business problem has number of alternative solutions. It is the process of decision-making which helps in not only identifying these alternatives but also in selecting the most efficient alternative. Thus, decision-making helps in the efficient functioning of a business unit.
- (f) **Better Utilisation of Resources:** Business operations involve proper blending of '6 Ms', *viz.*, Men, Money, Materials, Machines, Methods and Markets for the achievement of organisational objectives. Decision-making helps to select the most efficient alternative course of action which guarantees the best use of available resources at the disposal of business organisation.
- (g) **Facilitates Business Growth and Expansion:** Quick and correct decision-making results in better utilisation of the resources. It helps the organisation to face and tackle new problems and challenges effectively. It also helps to achieve its objectives on time as per plan. All these result in business growth and expansion. However, wrong, slow or no decisions can result in losses and industrial sickness.
- (h) **Motivates Employees:** Timely and rational decisions promote high degree of motivation among the employees. Motivated employees show higher performance and efficiency which increases the productivity and profitability of the organisation. The benefits of higher returns can be shared by the organisation and other stakeholders on rational basis which further contributes to higher level of motivation.

### 4.3 Process of Decision-making

The following is the process followed in taking decisions under a normal situation:

- (a) **Identifying the Problem:** The first step in the decision-making process is to visualise the problem clearly. It is said that a well-defined problem is half-solved. The problem under consideration may be financial, technical or related to marketing. These problems generally arise due to shortage, depression, government regulations, competition, changing patterns of consumption, etc.
- (b) **Diagnosing the Problem:** Once the problem is defined, the next step is to diagnose the problem. Several managerial problems are entangled with one another. Therefore, it is necessary to isolate the specific problem in relation to

which the decision has to be made. This will certainly give a better understanding of the problem to a decision-maker.

- (c) **Analysing the Problem:** Analysis of the problem is as important as its diagnosis. The problem should be well analysed with reference to:
- Nature of the decision – whether strategic or routine.
  - Impact of the decision on the functioning of the organisation.
  - Periodicity and futurity of the decision.
- (d) **Collecting Information:** Thereafter, necessary data should be collected from all possible sources, *i.e.*, both internally and externally. The data so collected should be accurate, up-to-date, adequate and unbiased. These data should be processed statistically in order to draw inferences and arrive at the specific conclusions regarding the problem under consideration.
- (e) **Identifying Alternate Courses of Action:** Means have alternative uses. Similarly, one end can be achieved by different means. This diversity on both sides leads to number of permutations and combinations for deriving a variety of solutions to the problem under consideration by changing the ratio of time, cost and labour. In other words, developing multiple ways to solve same problem.
- (f) **Evaluating Alternatives:** Peter Drucker has recommended the following criteria for the evaluation of possible alternatives for decision-making:
- Degree of risk associated with each alternative.
  - Cost, time and efforts involved in each alternative.
  - Urgency of decision.
  - Limitations of physical, financial and human resources.
- (g) **Choice of the Best Alternative:** Now, the decision-maker can select the best alternative which can yield the maximum results with the minimum efforts. Alternative which is economical, less time-consuming and causes no inconvenience to anyone in the organisation should be chosen. At the same time, it should be consistent with the objectives of the organisation.
- (h) **Conversion of Decision into Action:** Selection of the best alternative completes the theoretical aspect of the decision-making while implementation is the practical aspect of it. For an effective implementation, the decision has to be communicated to each concerned in the organisation and necessary training has to be imparted for its successful implementation.
- (i) **Progressive Review:** Feedback is necessary due to changes in the internal and the external environment. Revisions, modifications adjustments, etc., are necessary in order to ensure that the decisions are implemented as per the requirements of

the ever-changing business environment. At the same time, review helps in locating deviations and taking timely corrective action.

#### 4.4 Techniques of Decision-making

Due to increasing professionalisation of management, the role of quantitative tools in the decision-making process has increased to a greater extent. The various techniques of making decisions can be studied under two broad heads:

##### **Modern Techniques for Making Programmed Decisions:**

Modern techniques of decision-making are collectively termed as 'operations research'. Operations research is defined as applied decision theory, whereby managers seek to achieve rationality while dealing with organisational problems through the use of scientific, logical or mathematical means. *For example*, inventory models are used to control the level of inventory and linear programming is used for allocation of work among individuals, etc. Some of the important theories of operations research are:

- (a) **Linear Programming:** The basic problem of any organisation is to achieve the best allocation of limited resources, *viz.*, money, materials, machines, space, time, etc. Scarcity of various organisational resources is a constraint under which decisions are to be made. Linear programming is based on the assumption that there exists a linear relationship between variables. It helps to ascertain the optimum combination of limited resources in order to achieve the given objectives.
- (b) **Queuing Theory:** Queuing theory is the mathematical study of queues or waiting lines. A group of items waiting to receive a service constitute a queue. *For example*, queues at service station and booking windows. At some point of time, there may be a long queue while at some other time there may be no one waiting to get service. This results in waiting time and idle time. Queuing theory helps to achieve a balance between the costs associated with waiting time and idle time.
- (c) **Game Theory:** Game theory was put forth by John Von Neumann and Morgenstern. It was developed basically for use in wars so that the actions of the army can be decided in the light of tentative actions of the enemy. Fundamentally, the game theory attempts to provide an answer to the question – what may be considered as a rational course of action for an individual confronted with a situation whose outcome depends upon the actions of the opponents, who in turn are faced with the similar problems.
- (d) **Decision Tree:** Some decisions involve a series of steps, in which each step is dependent on the outcome of its preceding step. Often, uncertainty surrounds each step. Decision trees are the models for solving such problems that involves a number of steps. Decision tree is a graphical method for identifying alternative actions,

estimating probabilities and the resulting payoff. It is a schematic representation of the problem that displays information in more easily understandable fashion.

- (e) **Probability Decision Theory:** The basic assumption of probability decision theory is that the behaviour of future events and conditions is probabilistic and not deterministic. Various probabilities are assigned to the 'state of nature' on the basis of available information or subjective judgement and likely outcome of alternative courses of action are evaluated. On the basis of such analysis, the best alternative, which assures highest results with minimum costs, is selected.
- (f) **Simulation:** Simulation technique is used when conditions of the environment are very complex and many alternatives are available for decision-making. Simulation technique tries to replicate a part of an organisation's operations in order to assess the implications of a particular decision on a large scale. It is one of the costliest methods of decision-making, as it requires creation of an artificial situation for experimenting various alternatives.
- (g) **Network Techniques:** There are two types of network techniques – Critical Path Method (CPM) and Programme Evaluation and Review Technique (PERT). These techniques are useful for project planning and control. Complex projects involve considerable amount of cost and time for completion. Network techniques aim at reducing both cost and time to minimum and segregate sequential activities from the simultaneous ones.

#### **Modern Techniques for Making Non-programmed Decisions:**

- (a) **Creative Techniques:** Creative thinking is needed for solving novel, non-routine problems. Creativity refers to an ability to generate new ideas and new ways of doing things. Some of the creative techniques are:
  - **Brainstorming:** Brainstorming technique was developed by Osborn in 1938. It is a technique to stimulate idea generation for decision-making. Osborn has simply defined brainstorming process as using the brain to storm the problem. It is a group-based technique. Members of the group in a session are encouraged to throw up all possible alternative solutions to a problem.
  - **Nominal Group Technique:** Nominal Group Technique is a structured group meeting which restricts verbal communication among its members. Each group member independently writes down his views about the problem and provides the best possible solution for it. Then each member gives his presentation and ideas so collected are discussed, evaluated and ranked to arrive at optimal decision.
  - **Delphi Technique:** Delphi indicates the shrine at which the ancient Greeks used to pray for information about the future. Under this method, a panel of experts is interrogated through a questionnaire. The members of the panel do not meet

face-to-face. Their opinions are recorded and resubmitted to the same panel with a new questionnaire. This process continues till they arrive at a consensus.

- **Consensus Mapping:** Consensus mapping consists of a large number of task forces headed by a facilitator. The facilitator encourages each task group to search for a cluster of ideas. The ideas so generated are consolidated into 'Strawman Map' and presented to the task forces, who revise and upgrade the map until all groups arrive at a common consolidated map for decision-making.
- (b) **Participative Techniques:** Participative technique seeks the involvement of employees in the decision-making process. This technique has several advantages such as the involvement of individuals and groups in decision-making improves the quality of decisions, fosters responsibility and commitment, enhances employee motivation and morale, result in more acceptable and timely decisions and so on.
- (c) **Heuristic Techniques:** Heuristic is a trial and error technique for finding solutions to the complex problems. It assumes that the problem-solving approach cannot be rational or systematic. It is bound to be sporadic and fragmented due to information gaps, perverse human behaviour and uncertain environment. It, therefore, favours the development of certain rules of thumb (heuristic) to arrive at rational decision.

#### 4.5 Types of Managerial Decisions

Decisions may be of different types such as:

- (a) **Programmed and Non-programmed Decisions:** Programmed decisions are normally of repetitive nature and are taken within the broad policy structure. *For example*, standing procedures and policies. Non-programmed decisions are non-repetitive in nature. Their need arises because of some specific circumstances, such as, opening of a new branch, introducing a new product in the market, etc.
- (b) **Major and Minor Decisions:** Major decisions are of strategic importance and are usually taken by the higher authority. These decisions are generally of non-repetitive nature. *For example*, decisions relating to purchase of a big machine or opening a new branch. Minor decisions are of repetitive nature and are taken by the middle or even lower level managers. *For example*, decisions relating to purchase of stationery.
- (c) **Routine and Strategic Decisions:** Routine decisions, also known as tactical decisions, are taken in the context of day-to-day functioning of the organisation. *For example*, sending samples of a product to the government investigation centre. Strategic or basic decisions relate to policy matters and usually involve large investment or expenditure of funds such as major capital expenditure decisions.

- (d) **Policy and Operative Decisions:** Policy decisions are taken by the top management and they are mostly related to the basic policies. Such decisions have long-term impact on the functioning of the organisation. Big concerns publish policy manuals, which form basis for the operative decisions. Operative decisions relate to the day-to-day operations and are generally taken by the middle and lower level managers.
- (e) **Organisational and Personal Decisions:** The executive makes organisational decisions, when he acts formally as a company officer. Such decisions reflect the basic policy of the company. They can be delegated to others. Personal decisions are related to the executive as an individual and not as a member of an organisation. Such decisions cannot be delegated.
- (f) **Individual and Group Decisions:** As is apparent, individual decisions are taken by a single individual in the context of routine work. On the other hand, group decisions are taken by the group or a standing committee constituted for the specific purpose. Such decisions are very important for the organisation because they involve the participation of a large number of persons.
- (g) **Long-term and Short-term Decisions:** Long-term decisions are taken for a comparatively longer period of time. Such decisions involve huge amount of investment and risk. While short-term decisions are of routine nature and involve a limited risk. Long-term decisions are generally taken by the higher authority while short-term decisions are taken by the lower level managers.

#### 4.6 Essentials of Sound Decision-making

An effective decision must be goal-oriented, action-oriented and efficient in implementation. The following are the guidelines for effective decision-making:

- (a) **Well-defined Problem:** The first step towards sound decision-making is to rationalise the problem, *i.e.*, to identify the nature of problem and to establish that it can be solved only through decision-making. This requires detailed study of the problem under consideration.
- (b) **Fact-based:** In order to be effective, decisions should be made on the basis of relevant and the latest information. Before arriving at any decision, information related to that decision should be collected from all possible sources. This will enhance the quality of decision so taken.
- (c) **Objective-oriented:** The objectives to be sought by decision-making should be clearly defined, as far as possible in quantitative terms. The more concisely and clearly objectives are stated, the greater the likelihood that the decision will be an effective one.

- (d) **Proper Timing:** Decisions in the organisation should be timed properly, not too early or not too late. A premature decision may be resisted and opposed. Similarly, a delayed decision may not achieve desired objectives and will lead to waste of resources and time.
- (e) **Flexibility:** Flexibility is the pre-condition for the success of any management endeavour. Decisions are made in highly volatile, dynamic and uncertain environment. Environment changes and therefore, decisions should be flexible enough to absorb these changes.
- (f) **Participation:** While taking decisions, participation of the maximum number of people associated with the decision should be sought. This improves the acceptability of the decision and ensures its smooth implementation without any resistance.
- (g) **Communication:** Generally, decisions in the organisation are taken at the higher level of the management while they are implemented at the lower level in the management hierarchy. Therefore, such decisions should be communicated and explained properly to all concerned in the organisation.
- (h) **Seek Feedback:** Monitoring of the progress of the implementation of decisions is equally important to locate deviations, if any, and take corrective action. This ensures timely and effective solution of the problem under consideration. Feedback also provides a yardstick for evaluating the effectiveness of decision-making mechanism.

### Questions Bank

#### Q.1 Choose the correct alternative of the following: (1 mark each)

- (1) \_\_\_\_\_ decisions are normally repetitive in nature.  
(a) Programmed            (b) Non-programmed            (c) Policy.
- (2) Brainstorming technique of making decisions was developed by \_\_\_\_\_.  
(a) Osborn            (b) John Humble            (c) Christopher.
- (3) \_\_\_\_\_ is the central job of all managers.  
(a) Planning            (b) Decision-making            (c) Organising
- (4) \_\_\_\_\_ decisions are taken by top level managers.  
(a) Minor            (b) Strategic            (c) Operational
- (5) \_\_\_\_\_ theory involves the mathematical study of queues or waiting lines.  
(a) PERT            (b) CPM            (c) Queuing
- (6) \_\_\_\_\_ was developed by John Von Neumann.  
(a) Queuing Theory            (b) Game Theory            (c) Decision Tree
- (7) Brainstorming is a \_\_\_\_\_ technique of decision-making.  
(a) Programmed            (b) non-programmed            (c) both

- (8) \_\_\_\_\_ is a trial and error technique for finding solutions to the complex problems.  
 (a) Heuristic (b) Queuing (c) Decision Tree
- (9) \_\_\_\_\_ technique tries to replicate a part of an organisation's operations.  
 (a) Simulation (b) Linear Programming (c) Networking
- (10) PERT and CPM are part of \_\_\_\_\_ technique.  
 (a) Simulation (b) Linear Programming (c) Networking

**Ans.:**

|                |                 |                     |               |
|----------------|-----------------|---------------------|---------------|
| (1) Programmed | (2) Osborn      | (3) Decision-making | (4) Strategic |
| (5) Queuing    | (6) Game Theory | (7) non-programmed  | (8) Heuristic |
| (9) Simulation | (10) networking |                     |               |

**Q.2 Practical Application/Case Study: (15 Marks)**

**Read the following case carefully and answer the questions given:**

"I expect every manager in my department to act completely rational in every decision he makes", declared Mr. John, Marketing Director in Overseas Plastics Ltd. "Everyone of us, irrespective of his position in the organisation has to be a professional rationalist and I expect him not only to know what he is doing and why he is doing it, but also to be right in his decisions. I know that someone has said that a good manager needs to be right only in more than half of his decisions. But that is not good enough for me. However, one may be excused for an occasional mistake especially on matters beyond one's control but no one can be pardoned for acting irrationally".

"I endorse your views, Sir", said Mr. Kale, his advertising manager, "and I always try to be rational and logical in my decisions but would you mind helping me to be sure of this by explaining what rational decisions are?"

**Questions:**

- (1) Do you agree with Mr. John? Substantiate your answer?
- (2) Can a decision-making process be 100% rational? How can you try to make it rational?
- (3) Describe an ideal decision-making process?
- (4) How would you justify the claim of Mr. Kale?

**Q.3 Described Questions/Short Essay Type Questions: (7-8 marks each)**

- (1) Explain the concept of decision-making.
- (2) What are the methods of making non-programmed decisions?
- (3) What are the types of managerial decisions?
- (4) Highlights the essentials of sound decision-making.

**Q.4 Long Essay Type Questions: (15 marks each)**

- (1) What are the various types of managerial decisions? Explain with example.
- (2) Define decision-making. Discuss its importance for an organisation.



- (3) Explain the concept of decision-making. Discuss the process of making decisions.
- (4) Discuss the modern methods of decision-making.

**Q.5 Short Notes: (5 marks each)**

- (1) Creative techniques of decision-making.
- (2) Heuristic technique of decision-making.
- (3) Programmed decisions vs. non-programmed decisions.



# 5. Organising- I

## Scope of Syllabus:

Organising: Concepts, Structure - Meaning, Merits and Demerits of Formal and Informal, Line and Staff and Matrix Organisation, Departmentation: Meaning, Basis and Significance

## Structure:

- 5.1 \*Concept of Organisation
- 5.2 \*Nature and Characteristics of Organisation
- 5.3 \*Organisation Structure
- 5.4 \*Formal Organisation
- 5.5 \*Informal Organisation
- 5.6 \*Formal Organisation vs. Informal Organisation
- 5.7 \*Concept of Line and Staff Organisation
- 5.8 \*Features of Line and Staff Organisation
- 5.9 \*Conflict between Line and Staff Managers
- 5.10 \*Remedies for Line and Staff Conflict
- 5.11 \*Concept of Matrix Organisation
- 5.12 \*Features of Matrix Organisation
- 5.13 \*Advantages of Matrix Organisation
- 5.14 \*Disadvantages of Matrix Organisation

5.15 \*Concept of Departmentation

5.16 \*Bases of Departmentation

5.17 \*Significance of Departmentation

\* Marked topics are related to syllabus.

Chapter Summary

Questions Bank



## 5.1 Concept of Organisation

Organisation is the foundation, upon which the whole structure of management is built. It refers to a mechanism, which determines a group and arranges various activities, which are necessary for the attainment of the objectives. The term organisation is used in two senses:

- (a) **Organisation as a process:** Organisation as a process means an ongoing activity of identifying, classifying, grouping and assigning various activities required to achieve the organisational objectives.
- (b) **Organisation as a structure:** Organisation as a structure means a network of relationships among individuals in an organisation. In this sense, organisation refers to a structure of relationships among superior and subordinates.

Different authors on management have defined the term organisation differently. Some of the popularly referred definitions of the term organisation are:

*“Organisation is any group of individuals, large or small, that is co-operating under the direction of executive leadership in the accomplishment of certain common objectives.”*  
– Keith Davis

*“Organising is the establishing of effective behavioural relationships among persons so that they may work together efficiently and gain personal satisfaction in doing selected tasks, under given environmental conditions for the purpose of achieving some goal or object.”*  
– George Terry

## 5.2 Nature and Characteristics of Organisation

The main features of organisation are:

- (a) **Organisation as a structure:** Some writers on management have defined organisation in a very narrow sense. According to them, it is merely a structure of relationship between various positions in the organisation. This is the classical or a static concept of an organisation. According to this concept, organisation means merely a chart of relationships.
- (b) **Organisation as a process:** Organising is not one-step function. Managers are continuously engaged in organising and reorganising. Organisation as a process means dividing and subdividing the various functions of the enterprise into different units and assigning every function to the right and the most suited person. This is a dynamic concept of the term organising.
- (c) **Organising is the basic function of management:** Like planning, organising is the basic function of management. Organising is done in relation to all managerial functions, namely, planning, staffing, directing and controlling and in all functional

areas of business activities, namely, purchasing, production, financing, selling, marketing, personnel, etc.

- (d) **Organisation is always related to objectives:** Whether it is organising of the entire enterprise or any part of it, the process is greatly influenced by the broad objectives of the organisation. The operations are divided in separate groups and authority and responsibility relationships are determined in order to achieve the broad objectives of an enterprise.
- (e) **Organisation as an entity:** Organisation as an entity refers to an enterprise as a whole, like company, corporation, sole trading concern, partnership firm or any other form of group activity including non-profit ventures. In this sense, organisation is defined as a collectivity of people that have been established for the pursuit of relatively specific objectives, more or less on a continuous basis.
- (f) **Organisation as a group of people:** An organisation consists of formal and informal groups in its set-up. Formal groups are set up by the top level authority having specific authority-responsibility relationships while informal groups develop within the structure of formal groups in order to satisfy personal and social needs of the people working in an organisation.

### 5.3 Organisation Structure

Organisation can be classified on the basis of relationship and structure as under:

#### Classification of Organisation on the basis of Relationships:

- (a) Formal Organisation
- (b) Informal Organisation

#### Classification of Organisation on the basis of Structure:

- (a) Line Organisation
- (b) Functional Organisation
- (c) Line and Staff Organisation
- (d) Committee Organisation
- (e) Matrix Organisation
- (f) Divisional or Department Organisation

### 5.4 Formal Organisation

Formal organisation refers to the structure of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability. The structure is consciously designed to enable the people of the organisation to work together in accomplishing the

common objectives. Committees, project teams, task force, departments, etc., are the examples of formal groups.

**Features of Formal Organisation:**

- (a) It is the result of deliberate managerial planning.
- (b) It is based on the principle of division of labour and specialisation.
- (c) It is based on the activities to be performed and not on the individuals who perform such activities.
- (d) It is formally proclaimed by the top management and hence, shown on the organisation charts.
- (e) It sets up the boundaries and specific part of actions, which must be strictly followed.

**Advantages of Formal Organisation:**

- (a) It facilitates the determination of objectives and policies.
- (b) Co-ordination becomes easy, as objectives are specific.
- (c) It develops managerial skills.
- (d) It avoids excessive concentration of power in a single hand.
- (e) It leads to consistency and uniformity in the organisation.
- (f) Failures can be located effectively.

**Disadvantages of Formal Organisation:**

- (a) Formal organisations restrict individual freedom. Therefore, there is no creativity or self-initiative on the part of the workers to work hard.
- (b) It is dominated by individuals at the higher level of the management hierarchy. This generates dissatisfaction and frustration among the lower level managers.
- (c) Such organisation emphasises rules and discipline and therefore, leads to delay in decision-making and execution of organisational plans.

## 5.5 Informal Organisation

Informal organisation refers to the relationships between people within an organisation based on personal attitudes, emotions, prejudices, likes and dislikes, etc. This organisation is governed by needs, emotions and attitudes and not by procedures, policies and regulations. It is also called 'Grapevine'. The grapevine works with a surprising speed and is often faster than official channel. Generally, large formal groups give rise to small informal groups.

**Features of Informal Organisation:**

- (a) Informal organisations do not appear on the formal chart of the enterprise.

- (b) Informal organisation exists at all levels of organisation from top to bottom.
- (c) These organisations are based on personal attitudes, likes and dislikes, understanding, customs, traditions, etc.
- (d) Although, there is no specific channel of communication, informal channel is much more powerful than formal channel.

**Advantages of Informal Organisation:**

- (a) Informal organisation provides support to the formal organisation.
- (b) Informal channel is faster than the formal one. Therefore, it can be used for making quick decisions.
- (c) If used effectively, informal channels can largely contribute to the organisational goals.
- (d) Such organisation satisfies the social needs of workers such as friendship, love, care, concern, etc.
- (e) Informal organisation operates in free environment. Thus, it promotes creativity and better exchange of ideas.

**Disadvantages of Informal Organisation:**

- (a) Informal organisation is used by workers as a protective device against management.
- (b) It is generally used to pressurise the management to fulfil their demands.
- (c) The grapevine channel often dispenses false information, half-truth and rumours.
- (d) In most cases, informal organisations do not operate in the interest of enterprise.

## 5.6 Formal Organisation vs. Informal Organisation

Formal and informal organisations co-exist within the internal framework of the organisation structure.

| Formal Organisation   | Informal Organisation  |
|---|--|
| <b>(a) Formation:</b>   |  |
| Formal organisation is the result of conscious and deliberate efforts of the top management. It is formed out of the deliberate managerial planning and organisational efforts. | Informal organisation develops unconsciously among the people working together. These people associate with each other on the basis of common views, likes and dislikes. |
| <b>(b) Formal Set-up:</b>   |  |
| A formal organisation is represented on the organisation chart. It follows certain pre-determined rules, channel of communication and lines of authority-responsibility.        | In an informal organisation, there are no such rules or channels of communication. Even a lower level subordinate can associate with an officer at the higher level.     |

|   |   |
|---|---|
| <b>(c) Delegation of Authority:</b>   |   |
| A formal organisation is based on delegation of authority, which is necessary for the effective functioning of the organisation system. | The concept of delegation of authority has no relevance in an informal organisation as all the members of informal groups are at par. |
| <b>(d) Rationality:</b>   |   |
| A formal organisation is set up on rational and scientific basis rather than emotions and sentiments.                                   | In an informal organisation, it is difficult to find any rationality as it is the result of association of like-minded people.        |
| <b>(e) Identity of Members:</b>   |   |
| Its members do not have any separate identity from what they have been accorded in the organisation structure.                          | Its members have an opportunity to develop their own identity according to their personal, mental or physical abilities.              |
| <b>(f) Nature of Organisation:</b>  |   |
| Formal organisations are in written form and they are contained in the manual or the handbook of the enterprise.                        | Informal organisations are not in written form. They develop naturally within the framework of formal organisation.                   |
| <b>(g) Existence:</b>   |   |
| A formal organisation exists independently of the informal organisation.  | An informal organisation develops within the framework of the formal organisation.  |
| <b>(h) Managerial Planning:</b>   |   |
| Managerial planning is necessary to bring a formal organisation structure into existence.   | No planning or efforts are necessary for an informal organisation as it evolves on its own.   |

### 5.7 Concept of Line and Staff Organisation

Line organisation is characterised by direct lines of authority, flowing from top to the bottom of the organisational hierarchy and the lines of responsibility flowing in the opposite direction. Due to the absolute lack of specialisation, this organisation is not suitable for modern business houses. On the other hand, functional organisation, with multiple command systems, creates so many complexities in superior-subordinate relations that the smooth functioning of the organisation becomes a remote reality. Hence, there was a need for a system, which could avoid defects of both these systems and combine their positive aspects. This need has been fulfilled by the line and staff organisation.

*"Line refers to those positions and elements of an organisation who have the responsibility and authority and who are accountable for the accomplishment of*



*the primary objectives. Staff elements are those who have the responsibility and authority for providing advice and services to the line officers in the attainment of objectives."*  
— Louis Allen

The staff personnel are provided with advisory staff positions. They do not possess any line authority. They have the power to recommend but not to enforce those recommendations. The implementation of their suggestions is the responsibility of line authorities.

## 5.8 Features of Line and Staff Organisation

The features of line and staff form of internal organisation structure are:

- (a) **Combination of Line and Functional Organisation:** Line and staff organisation structure combines the features of both the line and the staff (functional) organisation. The line organisation insists on unity of command and scalar chain and the functional organisation insists on decentralisation of control for specialisation purposes. Line managers devise their actions on the advice and counsel of staff managers.
- (b) **Role of Line Managers:** Line comprises of managers who are responsible for the day-to-day functioning of the organisation and work towards accomplishing the organisation's mission and goals. The actions of line generate revenue for the organisation. As a result, this group makes most decisions regarding the company's operational policies and procedures. They are solely responsible and accountable for their actions.
- (c) **Role of Staff Managers:** Staff is composed of non-revenue generating professionals. Although they do not directly contribute to the working of the organisation, they greatly influence the actions of the line managers. *For example*, the HR manager ensures that the line is staffed with top-tier talent, the finance group secures the capital resources for the organisation and the accounting department balances the books of accounts.
- (d) **Balance of Power:** Though the line, as the revenue generator, has the primary decision-making authority with regard to company operations, the actions of the line managers are not without checks and balances. *For example*, hiring decisions by line managers cannot be made without the approval of human resource manager, who ensures that only qualified and able candidates are selected for the organisation. Similarly, all financial decisions are subject to the approval of finance manager.
- (e) **Conflict between Line and Staff Managers:** The most serious limitation of line and staff organisation is, perhaps, the problem of conflict between line and staff

executives. This conflict can be studied from the viewpoint of line executives as well as staff executives.

**Complaints of the Line against the Staff:**

- Staff encroaches upon the authority of line personnel.
- Staff ideas and suggestions are theoretical and impractical.
- Staff personnel steal away the credit.
- Staff personnel suffer from superiority complex.

**Complaints of the Staff against the Line:**

- Staff lacks authority and have a feeling of utter frustration.
- Line resists innovative ideas.
- Line personnel consult staff only as a matter of last resort.
- Line personnel are jealous of the status of staff.

(f) **Measures to Resolve Conflict:** Some of the suggestions for improving the line and staff relations are:

- The best method of resolving the line-staff conflict is to form a committee consisting of line and staff personnel on controversial issues.
- There should be a clear definition of authority-responsibility areas and the manner of functioning of line and staff personnel.
- A system of regular consultation should be developed between the line and staff personnel.
- Higher authority should devise plans to overcome resistance on the part of line managers through participation, motivation and incentives.
- In case of mutual bickering between the line and the staff personnel over certain issues, both should have an equal right to make an appeal to the higher authority.

## 5.9 Conflict between Line and Staff Managers

*Due to different positions and types of authority within a line and staff organisation, conflict between line and staff personnel is almost inevitable. There are many reasons for conflict. Poor human relations, overlapping authority and responsibility, and misuse of staff personnel by top management are all primary reasons for feelings of resentment between line and staff personnel. This resentment can result in various departments viewing the organisation from a narrow stance instead of looking at the organisation as a whole.*

The line and staff conflict can be studied from the viewpoint of line executives as well as staff executives.

**Complaints of the Line against the Staff:**

- (a) **Staff encroaches upon the authority of line personnel:** Staff personnel get the approval for their suggestions from the higher authority who in turn enforces such suggestions in the form of command over the line personnel.
- (b) **Staff ideas and suggestions are theoretical and impractical:** Line personnel deal with the practical situation who often find difficult to implement the idealistic suggestions of the staff.
- (c) **Staff personnel steal away the credit:** Staff personnel steal away the credit of successful implementation of their ideas while the blame for failure is levelled against the line managers for one or the other reason.
- (d) **Staff personnel suffer from superiority complex:** Due to their specialisation, staff personnel suffer from superiority complex and prefer to have an upper hand over the line personnel and dominate them.
- (e) **Staff personnel are careless and irresponsible:** Staff personnel are careless and irresponsible because they are not directly responsible for the attainment of organisational objectives. They simply have an advisory role.
- (f) **Staff personnel waste lots of time in planning:** Staff personnel are experts and specialists and hence, undertake in-depth analysis of a problem before arriving at some conclusion. This leads to delayed and costly decisions.

**Complaints of the Staff against the Line:**

- (a) **Staff lacks authority:** Staff personnel are provided with advisory staff positions. They do not possess any line authority. They have power to recommend but not to enforce. This generates frustration in them.
- (b) **Line resists innovative ideas:** Line personnel generally adopt a conservative approach and try to maintain *status quo*. They discourage innovative ideas of the staff, which may unnecessarily increase their burden.
- (c) **Staff has a feeling of utter frustration:** When innovative and outstanding ideas of the staff are rejected, it kills their initiative and they are demotivated. This is really unfortunate for the organisation.
- (d) **Line personnel consult staff only as a matter of last resort:** Staff personnel are approached only when some extraordinary situation arises. In such a situation, it becomes difficult for them to suggest quick remedies.
- (e) **Line people want short-term and temporary ideas:** Line personnel generally favour short-term and temporary ideas which are easy to implement and designed to yield quick results. They lack foresightedness.

- (f) **Line personnel are jealous of the status of staff:** Staff enjoys a higher status in the organisation due to its expertise. As a result, much of the behaviour of line personnel towards them is shaped by jealous mentality.

### 5.10 Remedies for Line and Staff Conflict

Some suggestions for improving line and staff relations are:

- (a) **Committee Organisation:** One of the best methods of resolving the line and staff conflict is to appoint a committee consisting of line and staff personnel on controversial issues. This will provide them with a platform for a fair exchange of ideas between the two.
- (b) **Clear Definition of Authority and Responsibility:** There should be a clear definition of authority-responsibility areas and the manner of functioning of line and staff personnel. This will reduce misunderstanding, conflicts and controversies between them to minimum.
- (c) **Regular Consultation:** A system of regular consultation should be developed between the line and staff personnel. The line should not consult the staff as a measure of last resort. Regular meetings will go a long way in developing understanding between them and will reduce undue conflicts.
- (d) **Mutual Respect:** Line must respect the suggestions of the staff in the overall interest of the organisation. At the same time, the staff must understand the practical difficulties of the line personnel while implementing the suggestions or ideas put forth by them.
- (e) **Overcome Resistance to Change:** The higher authority should devise plans to overcome resistance to change on the part of the line personnel through participation, motivation and incentives when some innovative and fruitful ideas are recommended by the staff personnel.
- (f) **Mutual Co-operation:** Line and staff personnel should not compete but co-operate with each other in the best interest of the organisation. There should be a feeling of mutual trust and co-operation between the two in order to work jointly towards the achievement of organisational objectives.
- (g) **Free Flow of Communication:** The higher authority should promote free exchange of ideas, views and suggestions between the staff and the line personnel. This will reduce friction between them and will result in better understanding and higher degree of co-operation between them.
- (h) **Right to Appeal:** In case of mutual bickering between the line and the staff personnel over certain issues, then both should have an equal right to make an

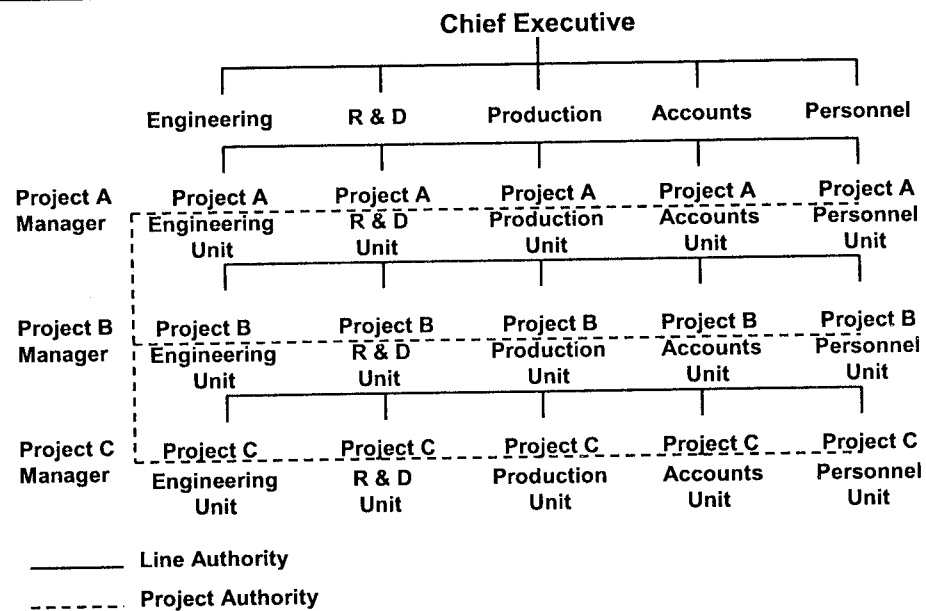
appeal to the higher authorities for guidance. The higher authority should hear both sides before arriving at any conclusion.

### 5.11 Concept of Matrix Organisation

Matrix organisations were first developed in the aerospace industry in the US during the 1950s and 1960s. In a matrix organisation, job holders are responsible to both the project manager as well as the head of the functional department.

*"The essence of matrix management, as one normally finds it, is combining of functional and project form of departmentation in the same organisation structure."*

**— Koontz and O'Donnell**



**Fig. 5.1: Structure of Matrix Form of Organisation**

### 5.12 Features of Matrix Organisation

The peculiarities or characteristics of a matrix organisation are:

- Hybrid Structure:** Matrix organisation is a hybrid structure. This is so, because it is a combination of two or more forms of organisation structures. It combines a functional organisation with a project organisation. Therefore, it has the merits and demerits of both these organisation structures.

- (b) **Role of Functional Managers:** Functional manager has authority over the technical (functional) aspects of the project. The responsibilities of functional manager are:
- A functional manager exercises line authority over his subordinates so as to ensure uniformity of function in all projects.
  - He is responsible for a particular functional area and ensures efficiency in operation of that particular function.
  - He deposes specific individuals or resources to various projects at the request of the project managers.
  - He evaluates and appraises the performance of the subordinates working on different projects.
- (c) **Role of Project Manager:** Project manager has authority over the administrative aspects of the project. He has full authority over the financial and physical resources which he can use for completing the project. He is expected to perform the following roles:
- A project manager is the overall in-charge of the project. He lays down the basic policies and strategies to achieve project objectives.
  - He determines the quantity and quality of efforts and resources required to execute the project.
  - He draws personnel from different functional departments according to his requirements.
  - As a head of the project, he determines the cost and time schedules for the project. He prepares and executes the project budget.
  - He co-ordinates the activities of the functional groups operating under him and provides them guidance.
- (d) **Dual Authority:** In a matrix organisation, subordinates receive instructions from both functional as well as project managers. Thus, it results in dual authority. This may result in confusion, disorder, indiscipline and inefficiency in the organisation. All this may adversely affect the productivity and profitability of the project.
- (e) **Specialisation:** Matrix organisation promotes a high degree of specialisation through division of administrative and functional aspects of a project. The project manager concentrates on the administrative aspects of the project while the functional manager concentrates on the technical aspects of the project.
- (f) **Violates the Principle of Unity of Command:** Matrix organisation violates the principle of unity of command, *i.e.*, an employee should receive orders only from one superior. Functional manager and project manager exercise dual authority over employees, resulting into confusion and conflicts.

- (g) **Violates the Scalar Chain Principle:** Matrix organisation also violates the scalar principle, *i.e.*, clear line of authority in the organisation. Though the project manager and functional managers are distinct, the matrix organisation does not define relationship between them.
- (h) **Suitability:** Matrix organisation is suitable for multi-project organisations. *For example*, large construction companies having many construction projects going on simultaneously at different locations. In such companies, a project manager is put in-charge of each project who is assisted by functional managers of the company.

### 5.13 Advantages of Matrix Organisation

Matrix organisation provides the following benefits:

- (a) **Matrix Structure:** Matrix structure helps to focus attention on individual project and thus, facilitates better planning and control. Specialists from various functional departments provide a pool of expertise, mainly technical skill. The project manager keeps track of the progress of individual project.
- (b) **Flexible and Responsive:** Matrix organisation is more flexible and better responsive to the changes in the environment in comparison to the traditional structures of organisation. It can easily adapt to the changing market conditions, government policies, technology, etc.
- (c) **Conducive for the Development of Professional Skills:** Matrix organisation provides a conducive environment to talented professionals to display their competence and skills. This attracts young and enthusiastic new blood in the organisation with innovative ideas.
- (d) **Motivation and Initiatives:** Matrix organisation motivates the project staff as well as the functional staff to work together with greater commitment and initiative as their basic focus is to complete the project as early and systematically as they can. This also facilitates a better understanding and co-ordination between them.
- (e) **Avoidance of Duplication:** Each project is assigned the physical, financial and human resources as per their requirements on requisition or demand. This avoids unnecessary duplication and brings about efficient allocation and application of organisational resources.

### 5.14 Disadvantages of Matrix Organisation

Matrix organisation suffers from the following limitations:

- (a) **Violation of the Principle of Unity of Command:** Matrix organisation violates the principle of unity of command, i.e., an employee should receive orders only from one superior. Functional manager and project manager exercise dual authority over employees, which create conflicts and confusion.
- (b) **Violation of Scalar Principle:** Matrix organisation also violates the scalar principle, i.e., clear line of authority in the organisation. Though the project manager and functional managers are distinct, the matrix organisation does not define relationship between them.
- (c) **Problem of Co-ordination:** In a matrix organisation, subordinates are drawn temporarily from different functional departments who owe their loyalty to their functional managers. As a result, a project manager may find it difficult to co-ordinate their actions.
- (d) **Time-consuming Process:** Switching over to matrix organisation is a time consuming process. It requires fundamental changes in the organisational set up which may be resisted by the individuals as it may result in loss of security and status for them.
- (e) **Power Struggle:** Matrix organisation may result in power struggle between the project manager and the functional managers as both of them may try to further their own personal and departmental interest rather than the overall interest of the organisation. Such struggle may lead to delay in project completion.

### 5.15 Concept of Departmentation

Departmentation means dividing a large and complex organisation into smaller, flexible, administrative units. It is the organisation-wise division of work into various manageable units or departments. It refers to horizontal differentiation within an organisation for achieving specialisation.

*“Departmentation designates a distinct area, division or a branch of an enterprise over which a manager has an authority for the performance of specified activities.”*

– Koontz and O'Donnell

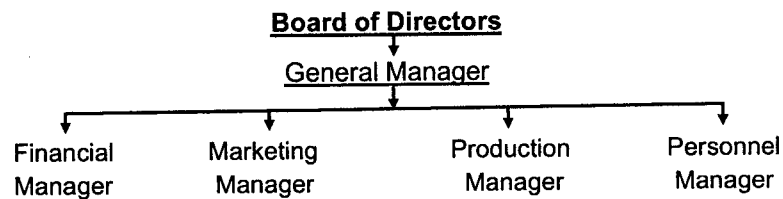
### 5.16 Bases of Departmentation

There are various forms of department which are based on number of organisational parameters as discussed below:

- (a) **Departmentation by Function:** It is the most common and traditional method of departmentation. Under this method, each major function of the enterprise is

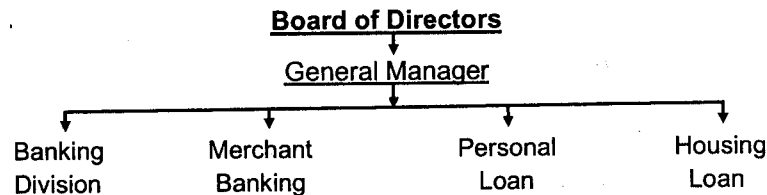


grouped into a separate department. For example, production department, finance department, marketing department, human resource department, and so on. Most of the large organisations are segmented on the basis of major function in the organisational setup.



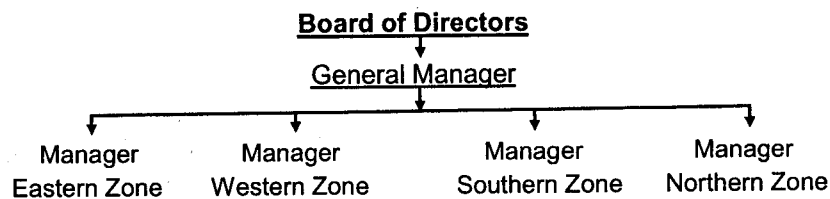
**Fig. 5.2 Departmentation by Function**

- (b) **Departmentation by Products or Services:** This method is suitable for an organisation that manufactures a wide variety of products or provides numerous services. The main purpose of such departmentation is to define responsibilities for various products and services clearly. For example, a bank providing a number of services, departments its organisation on the basis of services such as banking services, merchant banking services, housing loans, personal loans, etc.



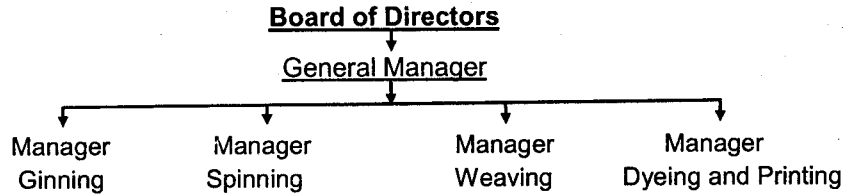
**Fig. 5.3 Departmentation by Services**

- (c) **Departmentation by Geographical Coverage:** This method is suitable for a company which distributes its products on a large scale and cannot co-ordinate all areas from its headquarters. Again, each area has its own taste, preferences and consumption pattern. This method is mainly used by service organisations like railways, insurance companies, commercial banks and so on, whose areas of operation are very large.



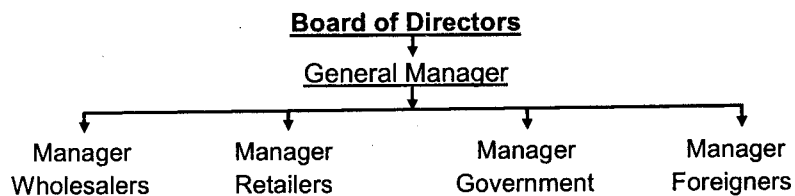
**Fig. 5.4 Departmentation by Geographical Coverage**

- (d) **Departmentation by Process:** This method is useful for organisations whose manufacturing activity consists of many processes in which the output of one process becomes input for the next one and so on. *For example*, textile mills. The following departmentation charts represents the organising pattern of a textile mill, which has spinning, weaving, dyeing, bleaching and printing departments for each separate process.



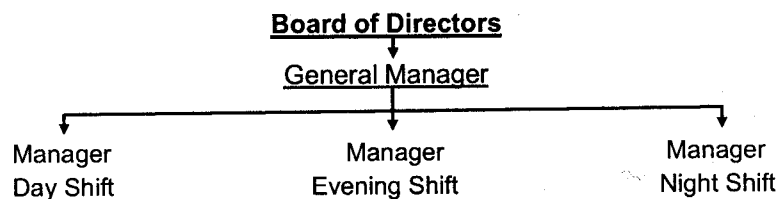
**Fig. 5.5 Departmentation by Process**

- (e) **Departmentation by Customers:** This method is used when an organisation has a large number of customers with a varying degree of purchasing power and consumption habits. *For example*, a company may sell its products to wholesalers, retailers, government organisations, foreign customers and so on. Such departmentation is more common in banking, book publishing house, food processing and manufacturing industry such as iron or steel.



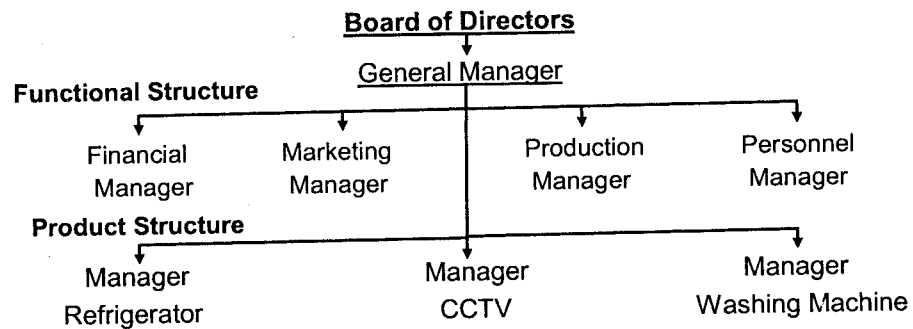
**Fig. 5.6 Departmentation by Customer**

- (f) **Departmentation by Time:** In some organisations that function round the clock, departments are based on time. In such organisations, people work in different shifts. *For example*, doctors in hospitals, workers in textile mills change their shifts on the basis of day, evening and night. This method is highly convenient and is used extensively in public utilities like electricity boards, transport and communication sector, post and telegraph, etc.



**Fig. 5.7 Departmentation by Time**

- (g) **Departmentation by Marketing Channel:** This method is used by companies that market their products to a large number of customers through different marketing channels. *For example*, there may be one department, which looks after direct selling and the other may look after indirect channels, *i.e.*, sale of goods through intermediaries like wholesalers and retailers. This method is generally employed by large manufacturing units that use multiple channels to market their products.
- (h) **Departmentation by Numbers:** It is one of the oldest methods of departmentation. Under this method, each department is given a distinctive number for identification and records. *For example*, department 1, department 2 and so on. This form of departmentation is not very popular in business organisations. It is mainly used in defence force. *For example*, 4<sup>th</sup> brigade, 7<sup>th</sup> unit, 9<sup>th</sup> section, 5<sup>th</sup> battalion, etc.
- (i) **Hybrid Approach to Departmentation:** Hybrid approach to departmentation calls for the simultaneous use of two or more departmentation strategies. It combines both functional and divisional structures. Functional structure gives the benefits of economies of scale, in-depth expertise, and resource utilisation efficiencies, while divisional structures give the benefits of specialization of products, services, and markets. It is mainly used by large organisations.



**Fig. 5.8 Hybrid Departmentation**

## 5.17 Significance of Departmentation

The main purpose of dividing an organisation into sections or departments is to secure maximum possible efficiency in its operations at a minimum cost through the division of labour and specialisation. The advantages of departmentation are:

- (g) **Specialisation:** Departmentation enables an organisation to avail the benefits of division of labour and specialisation. When every department looks after one major function, the employees develop expertise which in turn enhances their performance and efficiency.

- (h) **Expansion:** Individual managers can supervise only a few subordinates. Grouping of activities and personnel into departments and putting an expert manager in charge of each department makes supervision effective. Therefore, each manager can supervise more employees effectively which helps organisation to grow.
- (i) **Autonomy:** Departmentation results in the division of enterprise into semi-autonomous units. In these units, every manager has freedom to take decisions and operate. The feeling of autonomy provides job satisfaction and motivation which in turn lead to higher efficiency of operations.
- (j) **Fixation of Responsibilities:** Departmentation enables each person to know the specific part he is to play in the total organisation. It provides a basis for building up loyalty and commitment. The responsibility for results can be defined more precisely and an individual can be held accountable for performance.
- (k) **Performance Appraisal:** Appraisal of managerial performance becomes easier when specific tasks are assigned to specific personnel in a particular department. The performance of each department can be evaluated and compared with one other to make organisation function in a co-ordinated manner.
- (l) **Managerial Development:** Departmentation facilitates communication, co-ordination and control. It simplifies the training and development of executives by providing them opportunities to take independent decisions and exercise initiative. This facilitates managerial development for future manpower requirements.
- (m) **Administrative Control:** Departmentation is a means of dividing the large and complex organisation into small and flexible administrative units. Grouping of activities and personnel into manageable units and setting of performance standards for each unit facilitates administrative control.

Excessive departmentation may result in several organisational problems such as erosion of the line of command, multiple accountability, dysfunctional conflicts and difficulty of coordination and control.

## Chapter Summary

### Concept of Organisation

Organisation is the foundation, upon which the whole structure of management is built.

*“Organising is the establishing of effective behavioural relationships among persons so that they may work together efficiently and gain personal satisfaction in doing selected tasks, under given environmental conditions for the purpose of achieving some goal or object.”*

### Nature and Characteristics of Organisation

- (a) Organisation as a structure
- (b) Organisation as a process

- (c) Organising is the basic function of management
- (d) Organisation is always related to objectives
- (e) Organisation as an entity
- (f) Organisation as a group of people

**Formal Organisation**

Formal organisation refers to the structure of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability.

**Informal Organisation**

Informal organisation refers to the relationships between people within an organisation based on personal attitudes, emotions, prejudices, likes and dislikes, etc.

**Formal Organisation vs. Informal Organisation**

- (a) Formation
- (b) Formal Set-up
- (c) Delegation of Authority
- (d) Rationality
- (e) Identity of Members
- (f) Nature of Organisation
- (g) Existence
- (h) Managerial Planning

**Concept of Line and Staff Organisation**

Due to absolute lack of specialisation, line organisation is not suitable to the modern business houses. On the other hand, functional organisation with too many command systems is very complex in nature. Hence, there was a need for a system, which could avoid defects of both these systems. This need has been fulfilled by the line and staff organisation.

**Features of Line and Staff Organisation**

- (a) Combination of Line and Functional Organisation
- (b) Role of Line Managers
- (c) Role of Staff Managers
- (d) Balance of Power
- (e) Conflict between Line and Staff Managers
- (f) Measures to Resolve Conflict

**Conflict between Line and Staff Managers**

Complaints of the Line against the Staff

- (a) Staff encroaches upon the authority of line personnel
- (b) Staff ideas and suggestions are theoretical and impractical

- (c) Staff personnel steal away the credit
- (d) Staff personnel suffer from superiority complex
- (e) Staff personnel are careless and irresponsible
- (f) Staff personnel waste lots of time in planning

#### Complaints of the Staff against the Line

- (a) Staff lacks authority
- (b) Line resists innovative ideas
- (c) Staff has a feeling of utter frustration
- (d) Line personnel consult staff only as a matter of last resort
- (e) Line people want short-term and temporary ideas
- (f) Line personnel are jealous of the status of staff

#### Remedies for Line and Staff Conflict

- (a) Committee Organisation
- (b) Clear Definition of Authority and Responsibility
- (c) Regular Consultation
- (d) Mutual Respect
- (e) Overcome Resistance to Change
- (f) Mutual Co-operation
- (g) Free Flow of Communication
- (h) Right to Appeal

#### Concept of Matrix Organisation

Matrix organisations were first developed in the aerospace industry in the US during the 1950s and 1960s.

*"The essence of matrix management, as one normally finds it, is combining of functional and project form of departmentation in the same organisation structure."*

#### Features of Matrix Organisation

- (a) Hybrid Structure
- (b) Role of Functional Managers
- (c) Role of Project Manager
- (d) Dual Authority
- (e) Specialisation
- (f) Violates the Principle of Unity of Command
- (g) Violates the Scalar Chain Principle
- (h) Suitability

**Advantages of Matrix Organisation**

- (a) Matrix Structure
- (b) Flexible and Responsive
- (c) Conducive for the Development of Professional Skills
- (d) Motivation and Initiatives
- (e) Avoidance of Duplication

**Disadvantages of Matrix Organisation**

- (a) Violation of the Principle of Unity of Command
- (b) Violation of Scalar Principle
- (c) Problem of Co-ordination
- (d) Time Consuming Process
- (e) Power Struggle

**Concept of Departmentation**

Departmentation means dividing a large and complex organisation into smaller, flexible, administrative units.

*"Departmentation designates a distinct area, division or a branch of an enterprise over which a manager has an authority for the performance of specified activities."*

**Bases of Departmentation**

- (a) Departmentation by Function
- (b) Departmentation by Products or Services
- (c) Departmentation by Geographical Coverage
- (d) Departmentation by Process
- (e) Departmentation by Customers
- (f) Departmentation by Time
- (g) Departmentation by Marketing Channel
- (h) Departmentation by Numbers
- (i) Hybrid Approach to Departmentation

**Significance of Departmentation**

- (a) Specialisation
- (b) Expansion
- (c) Autonomy
- (d) Fixation of Responsibilities
- (e) Performance Appraisal
- (f) Managerial Development
- (g) Administrative Control

**Questions Bank**

**Q.1 Choose the correct alternative of the following: (1 mark each)**

- (1) \_\_\_\_\_ leads to division of labour and specialisation.  
 (a) Planning                      (b) Organising                      (c) Staffing
- (2) \_\_\_\_\_ indicates the line of communication in an organisation.  
 (a) Span of control              (b) Scalar chain                      (c) Grapevine
- (3) \_\_\_\_\_ flows from top to bottom in an organisation.  
 (a) Authority                      (b) Responsibility                      (c) Grievance
- (4) \_\_\_\_\_ is the oldest and simplest form of organisation.  
 (a) Line                      (b) Staff                      (c) Functional
- (5) Functional organisation was propounded by \_\_\_\_\_.  
 (a) F.W. Taylor                      (b) Henry Ford                      (c) John McCarthy
- (6) In line and staff organisation, \_\_\_\_\_ have authority to take decisions.  
 (a) line managers                      (b) staff managers                      (c) both
- (7) Matrix organisation was first evolved in \_\_\_\_\_ industry.  
 (a) shoe making                      (b) aerospace                      (c) Ford Motors
- (8) In \_\_\_\_\_ form of organisation, there exists dual authority.  
 (a) line and staff                      (b) matrix                      (c) committee
- (9) \_\_\_\_\_ is the most complicated form of departmentation.  
 (a) Product-based                      (b) customer-based                      (c) Hybrid-form
- (10) \_\_\_\_\_ form of departmentation is suitable for public utilities like electricity board.  
 (a) Product-based                      (b) customer-based                      (c) shift-based

**Ans.:**

|                 |                   |               |                    |
|-----------------|-------------------|---------------|--------------------|
| (1) Organising  | (2) Scalar chain  | (3) Authority | (4) Line           |
| (5) F.W. Taylor | (6) line managers | (7) aerospace | (8) line and staff |
| (9) hybrid-form | (10) shift-based  |               |                    |

**Q.2 Practical Application/Case Study: (15 Marks)**

**Read the following case carefully and answer the questions given:**

Around 1960s and till today, the environment of organisations has changed a great deal. A variety of driving forces provoke this change. Increasing telecommunications has shrunk the world substantially. Increasing diversity of workers has brought in a wide array of differing values, perspectives and expectations among the workers. Public consciousness has become



much more sensitive and demanding that organisations be more socially responsible. Much of the third-world countries have joined the global marketplace. Organizations have become responsible not only to the stockholders but to a wider community of the stakeholders.

As a result of the above driving forces, organisations were required to adopt a “new paradigm,” or view on the world, to be more sensitive, flexible and adaptable to the demands and expectations of stakeholders. Many organisations have abandoned or are abandoning the traditional top-down, rigid and hierarchical structures to more organic and fluid forms.

Today’s leaders and/or managers must deal with continual, rapid change. Managers faced with a major decision can no longer refer back to an earlier developed plan for direction. Management techniques must continually notice changes in the environment and organisation, assess these changes and manage them. Managing change does not mean controlling it, rather understanding it, adapting to it where necessary and guiding it when possible.

Consequently, new forms of organisations are becoming more common, *for example*, worker-centered teams, self-organising and self-designing teams, etc.

**Questions:**

- (1) What changes are taking place in the internal and external business environment?
- (2) How do these changes affect the organisational setup of an enterprise?
- (3) As an upcoming manager, what kind of organisational setup you perceive for the future business hoses?

**Q.3 Described Questions/Short Essay Type Questions: (7-8 marks each)**

- (1) Draw a chart to represent various forms of organisation structures.
- (2) Discuss the importance of informal organisation.
- (3) What are the features of line and staff organisation?
- (4) Explain the concept of Matrix organisation.
- (5) Explain the concept of hybrid departmentation with the help of a diagram.

**Q.4 Long Essay Type Questions: (15 marks each)**

- (1) Define organisation. Discuss its nature and characteristics.
- (2) Name the various forms of organisation? Compare formal and informal organisation.
- (3) Bring out the conflict between line and staff organisation. Suggest remedies for it.
- (4) Describe the matrix organisation and discuss its merits and demerits.
- (5) What do you mean by departmentation? Discuss the various bases of departmentation.

**Q.5 Short Notes: (5 marks each)**

- (1) Organisation as a structure.
- (2) Significance of departmentation.
- (3) Complaints of line managers towards staff.

## 6. Organising- II

### Scope of Syllabus:

Span of Control: Meaning, Factors Affecting Span of Control, Graicunas Theory, Centralisation vs. Decentralisation, Delegation, Authority and Responsibility Relationship

### Structure:

- 6.1 \*Concept of Span of Control
- 6.2 \*Factors Affecting Span of Control
- 6.3 \*Graicunas Theory of Span of Control
- 6.4 \*Concept of Centralisation
- 6.5 \*Concept of Decentralisation
- 6.6 \*Advantages of Decentralisation
- 6.7 \*Factors Determining Degree of Decentralisation
- 6.8 \*Centralisation vs Decentralisation
- 6.9 \*Concept of Delegations of Authority
- 6.10 \*Barriers to Effective Delegation
- 6.11 \*Principles of Delegation Effective
- 6.12 \*Authority and Responsibility Relationship

\* Marked topics are related to syllabus

Chapter Summary

Questions Bank

## 6.1 Concept of Span of Control

The concept of span of management was first developed by V.A. Graicunas, a French management consultant in 1953. Span of management refers to the number of subordinates, an executive can supervise effectively.

According to most management experts, at the top level of management, the span of control should not be more than 1:6 while at the lower level of management, the span of control should not be more than 1:20. This means, the superior at the top level should not have more than 6 subordinates under his control. Similarly, the superior at the lower level should not have more than 20 subordinates under his control. However, these are only theoretical figures. In practice, the span of control depends on many factors such as nature of work, ability of superior, ability of subordinates, etc.

Span of Control is also referred by many other names. It is often known as 'Span of Supervision' or 'Span of Management' or 'Span of Attention'. However, the term 'Span of Management' suits as the most appropriate name, since control and supervision are the elements of management.

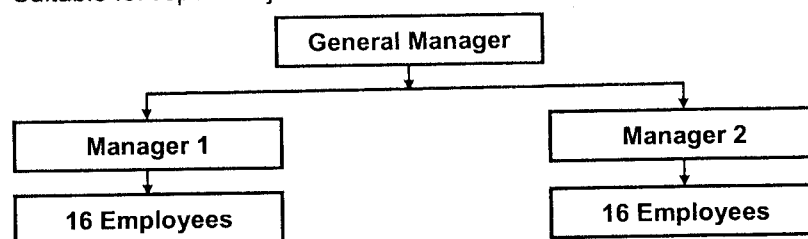
*"Span of control refers to the number of people that a manager can supervise."*

*– Louis Allen*

There are two types of span of control:

(a) **Wide Span of Control:** Wide span of control means a single manager or supervisor oversees a large number of subordinates. This gives rise to a flat organisational structure. Work which are routine in nature and those which do not require much supervision and control require wide span of control. The features of wide span of control are:

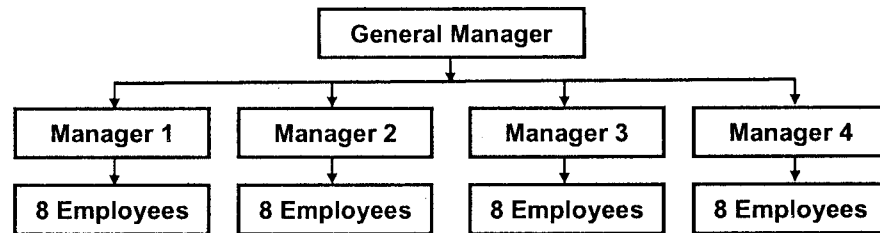
- Less overhead cost of supervision.
- Prompt response from the employees.
- Better communication.
- Better supervision.
- Better co-ordination.
- Suitable for repetitive jobs.



**Fig. 6.1 Wide Span of Control**

(b) **Narrow Span of Control:** Narrow span of control means a single manager or supervisor oversees few subordinates. This gives rise to a tall organisational structure. Work which requires tight control and supervision such as creative work, dangerous work, etc., require narrow span of control. The features of narrow span of control are:

- Co-ordination is difficult to be achieved.
- Communication gaps can occur.
- Messages can be distorted.
- Specialisation can be achieved.



**Fig. 6.2 Narrow Span of Control**

## 6.2 Factors Affecting Span of Control

Span of management varies from individual to individual and organisation to organisation depending upon the following factors:

### Factors Relating to Work:

- (a) **Nature of Work:** If the nature of work is simple, routine and standardised, then the manager can supervise more subordinates. However, if the nature of work is complex and requires a high degree of supervision, then the effective span needs to be narrow.
- (b) **Quality of Allocation of Work:** A well-defined and clear-minded allocation of work by the manager to his subordinates helps him to manage his work efficiently and therefore, enhances his ability to manage a large number of subordinates.
- (c) **Organisational Planning:** A well-designed system of organisational policies, procedures, plans, rules, standards and methods leads to a smooth functioning of the organisation. This enhances the ability of a manager to manage more subordinates.
- (d) **Communication System:** A well-defined and barrier-free communication system allows free and quick flow of communication. A two-way communication system promotes better understanding and allows a manager to manage more employees.
- (e) **Availability of Staff Assistance:** If subordinates are assisted by the staff executives on methods, schedules, work problems, quality standards, etc., then they need less contact with their managers. Hence, the manager can handle more subordinates.

**Factors Relating to a Manager:**

- (a) **Ability of the Manager:** Managers are expected to possess certain qualities such as knowledge, experience, energy, zeal, initiative, interest and other personality traits. A manager who possesses these qualities and skills can handle more subordinates.
- (f) **Time Available for Supervision:** If the managers at the higher level are preoccupied with planning, organising, directing, controlling and other managerial functions, then they may have little time for supervision, resulting into a narrow span of control.
- (g) **Degree of Decentralisation:** If most of the decision-making power in the organisation is centralised, then the manager will be overburdened with the administrative work and will have less time and limited ability to supervise.

**Factors Relating to Subordinates:**

- (a) **Ability of Subordinates:** If the subordinates in the organisation have enough talent to perform their work, then the manager can supervise more subordinates. However, if subordinates are new and need continuous guidance, then the span gets narrow.
- (h) **Degree of Motivation:** If the subordinates in the organisation are self-motivated, dedicated and have a sense of commitment, then they need less supervision and the manager can supervise more subordinates and *vice versa*.

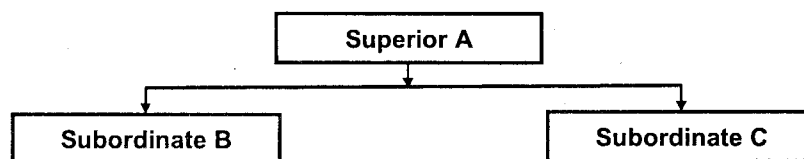
**6.3 Graicunas Theory of Span of Control**

V.A. Graicunas, a French Management Consultant in Paris in 1993, has made an important contribution to the span of management theory. Graicunas suggested that as the number of subordinates in an organisation increases arithmetically, the number of potential relationship between the superiors and subordinates increases geometrically. He has identified three types of potential relationships:

- (a) Direct Single relationships.
- (i) Direct Group relationships.
- (j) Cross Relationships.

**Example – 1: One Superior and Two Subordinates**

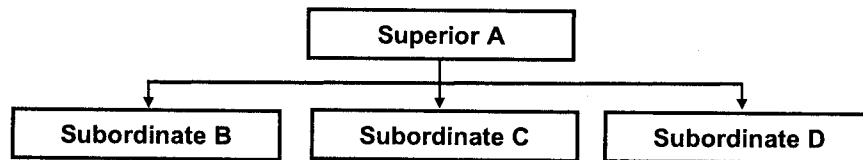
In a simple example, where a superior A manages two subordinates B and C as shown in the diagram below, the number of potential relationships is six:



- (a) **Direct Single Relationship:** Direct single relationships are created when a manager is directly and individually related to his immediate subordinates. In the above example, the total number of direct single relationships created is 2.
- A to B.
  - A to C.
- (k) **Direct Group Relationships:** Direct group relationships are the results of relationships between a superior and each possible combination of subordinates under him. In the above example, the total number of direct group relationships created is 2.
- A to B with C, *i.e.*, A to B when C is present.
  - A to C with B, *i.e.*, A to C when B is present.
- (l) **Cross Relationships:** Cross relationships are created when subordinates find it necessary to consult with one another. In the above example, the total number of cross relationships created is 2.
- B to C.
  - C to B.

**Example – 2: One Superior and Three Subordinates**

Similarly, when superior A manages three subordinates, *viz.*, B, C and D, the number of relationships between them increases to 18.



- (a) **Direct Single Relationship:** When a superior A manages three subordinates, *viz.*, subordinate B, C and D, the number of direct single relationships created is 3.
- A to B.
  - A to C.
  - A to D.
- (m) **Direct Group Relationships:** When a superior A manages three subordinates, *viz.*, subordinate B, C and D, the number of direct group relationships created is 9.
- A to B with C, *i.e.*, A to B when C is present.
  - A to B with D, *i.e.*, A to B when D is present.
  - A to C with B, *i.e.*, A to C when B is present.
  - A to C with D, *i.e.*, A to C when D is present.
  - A to D with B, *i.e.*, A to D when B is present.
  - A to D with C, *i.e.*, A to D when C is present.
  - A to B with C and D, *i.e.*, A to B when C and D are present.

- A to C with B and D, *i.e.*, A to C when B and D are present.
  - A to D with B and C, *i.e.*, A to D when B and C are present.
- (n) **Cross Relationships:** When a superior A manages three subordinates, *viz.*, subordinate B, C and D, the number of cross relationships created is 6.
- B to C.
  - B to D.
  - C to B.
  - C to D.
  - D to B.
  - D to C.

Thus, when the number of subordinates under superior A increase from 2 to 3, the number of potential relationships between them increases from 6 to 18.

V.A. Graicunas has illustrated that when the number of subordinates increases arithmetically, there is an exponential increase in the number of possible relationships created between them. He has given the following formula to determine the number of relationships:

$$R = n \left( \frac{2^n}{2} + n - 1 \right)$$

Where, R stands for the number of relationships; and  
n stands for the number of subordinates.

For example, if a superior has three subordinates working under him, then the number of potential relationships created between them can be determined with the above formula as:

$$\begin{aligned} R &= n \left( \frac{2^n}{2} + n - 1 \right) \\ &= 3 \left( \frac{2^3}{2} + 3 - 1 \right) \\ &= 3 (4 + 3 - 1) \\ &= 3 (6) \\ &= 18 \end{aligned}$$

| No. of Subordinates | No. of Relationships |
|---------------------|----------------------|
| 1                   | 1                    |
| 2                   | 6                    |
| 3                   | 18                   |
| 4                   | 44                   |
| 5                   | 100                  |
| 6                   | 222                  |
| 7                   | 490                  |
| 8                   | 1080                 |
| 9                   | 2396                 |
| 10                  | 5210                 |
| 11                  | 11374                |
| 12                  | 24708                |

The above table clearly indicates the exponential (multiple) increase the number of potential relationships as the number of subordinates increase mathematically.

Graicunas mathematical analysis of the potential relationship in a given span of management is significant for two reasons:

- (a) He emphasises the complex social processes that occur between a superior and his subordinates and the subordinates thereon.
- (b) His theory has stressed the alarming rate at which the complexity of these social processes increases with each additional subordinate.

However, the formula gives only potential relationships, some of which may not occur on a daily basis or may not occur at all. Also, he has not indicated what should be the optimum level of span of management. Thus, this theory cannot be considered as complete analysis of span of control.

## 6.4 Concept of Centralisation

Centralisation of authority refers to the concentration of decision-making authority with the top management. It means all important executive and operational decisions are made more at the higher levels of organisation. The decisions and actions at the lower levels are subject to the prior approval of the higher authority in a centralised organisation. Centralisation and decentralisation, thus, refers to the degree of delegation of authority, formally or informally, in the organisational setup. Centralisation points out to a higher degree of retention of authority and responsibility by the top management. This type of organisation is ideal for small organisations where there are few employees or subordinates and the top management can effectively supervise and control them. Many organisations at the initial stage prefer centralisation of authority.

*“Centralisation is the systematic and consistent reservation of authority at central points in the organisation.”*  
– Louis Allen

*“Centralisation is that organisation where the role of subordinates is reduced.”*  
– Henry Fayol

Centralisation of authority implies:

- (a) Reservation of administrative authority of planning, organising, co-ordination and control at the top level of management.
- (b) Reservation of operating authority at the middle level of management.
- (c) Operations at the lower level are subject to command, consent and control by the higher authorities in the line.
- (d) Sometimes, work may be delegated to subordinates, but authority may be retained to the largest possible extent.

**Advantages of Centralisation:**

- (o) It facilitates quick decision-making since all the decisions are made by the top management.



- (p) It requires less number of managers or superiors and there is no duplication of work.
- (q) It involves very few managers. This reduces the paperwork between the management and lower levels.
- (r) It ensures better co-ordination of activities since there is unity of command and the decisions are quickly communicated directly to the employees.
- (s) It is ideal for small organisations because of its low cost, greater co-ordination and quick decision-making.
- (t) It brings uniformity among various departments, divisions and branches. This improves the organisational efficiency and productivity.
- (u) Centralisation helps to eliminate overlapping and duplications of activities and this results in considerable cost savings.

#### **Disadvantages of Centralisation:**

- (a) Centralisation restricts the scope of delegation and decentralisation which is harmful to large organisations.
- (b) Due to centralisation, the decision-making power rests with few top executives which puts a heavy burden on the top executives.
- (c) Centralisation does not provide lower level managers a scope for self-development as they have to act as per the decisions taken at the top level.
- (d) In centralisation, decisions are imposed on lower levels as a result there is no motivation on the part of lower level workers to work hard.
- (e) Centralisation does not train subordinates for higher positions.

Centralisation is suitable for small organisations, organisations producing single or limited number of products and those operate in a limited geographical area. However, when organisations grow in size and diversify, the benefits of centralisation turn into limitations, making decentralisation mandatory.

### **6.5 Concept of Decentralisation**

Decentralisation means dispersal of decision-making power to the lower levels of the organisation. It implies the distribution of managerial authority of planning, directing, co-ordinating, controlling, etc. among executives at all the levels in the organisation. Under decentralisation, the major decision-making authority is given to the departmental heads.

*"Decentralisation refers to a systematic effort to delegate to the lowest levels, all authority except that which can only be exercised at the central points."*

**– Louis A. Allen**

*"Decentralisation of authority is a fundamental phase of delegation to the extent that the authority is not delegated; it is decentralised."*

**– Koontz and O'Donnell**

Decentralisation is not the same as delegation. Delegation means delegating authority and responsibility from one individual to another while decentralisation is a broader concept, which means scattering of authority throughout the organisation.

## 6.6 Advantages of Decentralisation

Managers are benefited by decentralising in many ways:

- (a) **Decentralisation reduces burden of the top executives:** Decentralisation relieves the top executives from routine and time-consuming operations. Therefore, they can concentrate on their primary job of policy formulation, long-range planning, co-ordination and control and other important matters such as planning for expansion and diversification.
- (b) **It promotes growth, expansion and diversification:** In the case of growth, expansion and diversification, the responsibilities of the top management increase. In such cases, decentralisation comes to the rescue of the top management. It is the means by which they can extend their leadership over a giant enterprise and yet keep themselves free for the major issues.
- (c) **It simplifies the problem of management succession:** Decentralisation provides a better means of developing future managers and executives. Experience trains them. Thus, decentralisation ensures the supply of managers from within the organisation, when a large number of managers are required at the time of expansion of the enterprise.
- (d) **It helps in taking prompt and right action:** Decentralisation places decision-making authority, responsibility and accountability as near as possible to places where the action takes place. It is possible for those close to workplace to make reasonably accurate decisions because they are well aware of the realities. This facilitates quick decision and prompt action in the organisation.
- (e) **It facilitates the diversification of product lines:** In a multi-product and multi-geographic organisation, decentralisation helps in creating a separate division for each product or market. This helps in effective handling of each product and its sales territory. The managers of different divisions have sufficient authority to act with regard to their departmental matters.
- (f) **It motivates subordinates for higher goals:** The most important human needs are power, prestige, status and independence. Decentralisation fulfils these human needs. The satisfaction of these needs leads to initiative, willingness to take responsibility and high morale among the employees, which in turn helps the organisation to set high targets for them.
- (g) **It leads to effective control:** Decentralisation of authority requires centralised control. By making both the measurement and accountability more clear-cut,

decentralisation promotes effective control. If the performance of a particular department is poor, then corrective action can be taken. At the same time, those who perform well can be suitably rewarded.

### 6.7 Factors Determining Degree of Decentralisation

Whether to delegate or not depends upon the personal choice of individual managers as well as the philosophy of higher level management. However, some of the other factors besides the choice of manager and philosophy of management that affect decentralisation are:

- (a) **Size of Organisation:** Decentralisation depends upon the size of the organisation. The larger the size of an organisation, the more urgent is the need of decentralisation. The complexities of the large organisation may require routine and repetitive decisions to be decentralised at the lower level of management hierarchy.
- (b) **History of the Organisation:** Decentralisation also depends upon the way the organisation has been built up over the period of time. Those organisations which grow from within under the direction of the owner-founder tend to be centralised while organisations that grow through mergers and amalgamations and widespread expansion tend to be decentralised.
- (c) **Geographical Expanse:** An organisation having branches at the dispersed geographical locations has no option than to decentralise. *For example*, the activities of banking, insurance and transport organisations have to be decentralised. The State Bank of India has local Boards of Directors for smooth operation of each branch.
- (d) **Management Philosophy:** Decentralisation is a kind of management philosophy to regulate organisational processes. In fact, decentralisation is a way of organisational life. Some progressive managers view it as a tool of harnessing capabilities of their workforce while some others may view it as a tool of satisfying their own ego and dominate their workforce.
- (e) **Availability of Managers:** Availability of managers directly affects the degree of decentralisation. If competent and experienced managers are readily available in the organisation, then there are more chances of decentralisation. Decentralisation in such organisations is also necessary to satisfy inner sense of such managers as they like to lead rather than being led.
- (f) **Pattern of Planning:** Planning is the primary function of management. All other managerial functions are subsidiary to it. If the organisation follows participative planning, then naturally authority in the organisation will be more decentralised. However, if the planning activities are centralised at the top level, then authority too will be centralised.

- (g) **Control Techniques:** Controlling is necessary for ensuring performance as per pre-determined plans. If the control systems in the organisation are well developed and effective, more functions can be decentralised at the lower level. This is because control system puts check on the activities of lower level managers and deviations, if any, can be located easily.
- (h) **Structure of Organisation:** In the organisations that practise division of labour and specialisation and have a number of departments and sub-units for major activities, decentralisation becomes a natural phenomenon. Authority and responsibility in such organisations automatically get dispersed to a number of departmental heads.
- (i) **Environmental Influences:** Besides the various factors discussed above, most of which are internal to the organisation, there are a number of external factors which either compel an organisation to centralise or decentralise. Some of the factors are government policy, organisation pattern in the industry, availability of experts and professionals, etc.

The above factors are interrelated and should be considered in totality rather than individually.

### 6.8 Centralisation vs. Decentralisation

| Centralisation   | Decentralisation   |
|--|--|
| <b>(a) Meaning:</b>  |  |
| Centralisation of authority refers to the concentration of authority in the hands of the top management. | Decentralisation refers to the formal delegation of authority to different levels of the organisation. |
| <b>(b) Nature of Decisions:</b>  |  |
| Generally, important and strategic decisions are centralised.  | Generally, routine and repetitive decisions are decentralised.   |
| <b>(c) Suitability:</b>  |  |
| Centralisation is suitable for a small and traditional form of organisation structure.                   | Decentralisation is suitable for a large-sized and modern form of organisation.                        |
| <b>(d) Number of Managers:</b>   |  |
| In the case of centralisation, very few managers are required.   | Decentralisation requires managers at each level where the decisions are decentralised.                |
| <b>(e) Cost Factor:</b>  |  |
| Centralisation is economical as it requires very few managers.   | Decentralisation is a costly affair as it requires a number of managers.                               |

|  |  |
|--|--|
| <b>(f) Control:</b>  |  |
| In centralisation, there is very strict supervision and control.   | In decentralisation, managers at the lower level have greater autonomy.  |
| <b>(g) Work Pressure:</b>  |  |
| In the case of centralisation, higher level managers have a greater work pressure as they look after a number of activities including the routine tasks. | Decentralisation relieves the higher authority from the burden of making routine and less significant decisions. |
| <b>(h) Principle of Division of Labour and Specialisation:</b>   |  |
| In the case of centralisation, the principle of division of labour and specialisation is violated.   | Decentralisation is based upon the principle of division of labour and specialisation.                           |
| <b>(i) Managerial Development:</b>   |  |
| In centralisation, there is no scope for the development of new managers.  | Decentralisation gives ample scope to the new managers to develop their managerial abilities.                    |

### 6.9 Concept of Delegation of Authority

Delegation of authority is the transfer of authority and responsibility to another person (normally from a manager to a subordinate) to carry out specific activities. The most important of all the skills a manager must possess is delegation. Once a manager's activities expand beyond his personal capacities, his success lies in his ability to multiply himself through other people, *i.e.*, by delegating his routine and unimportant tasks to his subordinates. How well one delegates, determines how well he can manage.

*"Delegation is the dynamics of management; it is the process a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique organisational placement, can perform effectively, and so that he can get others to help him with what remains."*

**— Louis A. Allen**

### 6.10 Barriers to Effective Delegation

The following are the reasons for lack of willingness on the part of managers to delegate and on the part of subordinates to accept it.

#### Why managers do not delegate?

- (a) **"None better than I":** Some managers think that if they delegate work to their subordinates, it will not be done as it ought to be done. It means that superiors have no faith in the competence of their subordinates.

- (b) **"I will be exposed"**: Some managers are hesitant to delegate as they are incompetent and the work methods and procedures designed by them are likely to be faulty. Such managers centralise all authority for fear of exposure.
- (c) **"The company can't do without me"**: A manager may feel that he is an expert in his field and he is, therefore, indispensable. He does not delegate, thinking that when he is not on duty, people will feel his absence.
- (d) **"I am the master"**: Some managers adopt autocratic methods of leading. They prefer to run their department single-handedly. They like to dominate the whole show and do not like to part with their authority.
- (e) **"Why take the risk?"**: Some managers are too conservative and prefer to play safe. They believe that to delegate means to run the risk of wrong decisions by subordinates. Very few managers are willing to run such risk.
- (f) **"What if he proves better than me?"**: Sometimes, a manager may not delegate because of the fear that his subordinates may prove better than him. This may reduce his importance and may affect his status.

#### **Why subordinates do not accept delegation?**

Sometimes, subordinates also refuse to accept delegation. This may be due to the following reasons:

- (a) **Love of spoon-feeding**: Some subordinates are accustomed to rely on decisions made by the superiors. Such subordinates do not accept authority even if superior is willing to delegate it.
- (b) **Fear of criticism**: If a subordinate fears that even a minor mistake in making a decision or poor performance on his part can invite unduly harsh reaction from his superior, then he may not be inclined to accept delegation.
- (c) **Inadequate information and resources**: If a subordinate feels that he may not have an access to the requisite information and resources necessary for discharging his new responsibilities, he may refuse to accept delegation.
- (d) **Lack of self-confidence**: Some subordinates underestimate themselves and lack confidence in their ability. Lack of self-confidence in self may also be a cause for unwillingness to accept delegation.
- (e) **Inadequate incentives**: Subordinates expect positive rewards for seeking additional responsibility. Subordinates may not come forward to accept any authority or responsibility if there is no personal gain associated with it.

### **6.11 Principles of Effective Delegation**

While most managers are reluctant to delegate duties and authority, and most subordinates are even more so to accept delegation, the fact remains that only delegation

can enable efficient accomplishment of the organisational objectives. The following are the guidelines to make delegation effective:

- (a) **Observance of Principles of Delegation:** There are some fundamental principles which must be observed by superiors for making delegation effective. Some of these principles are principle of functional definition, principles of unity of command, principles of scalar chain, principles of absolute responsibility, etc.
- (b) **Establishment of Definite Goals:** The purpose of delegation is the accomplishment of group objectives. But delegation will be meaningless if the objectives are not properly defined. Even subordinates may hesitate to accept delegation if they are not clear about their roles.
- (c) **Defining a Definite Responsibility:** Authority and responsibility of each subordinate should be specified in clear terms and must be communicated clearly. This will avoid duplication of delegation and the resulting confusion. It will also promote healthy human relations in the organisation.
- (d) **Establishing Conducive Environment:** Successful delegation requires conducive organisational environment free from fear and frustration. This will make delegators as well as delegates feel confident that delegation will be rewarded and appreciated and not penalised.
- (e) **Proper Motivation:** To make delegation effective, subordinates should be given positive incentives and rewards for accepting responsibilities. Incentives may be monetary (increased wages, bonus) or non-monetary (higher status, greater decision-making authority).
- (f) **Proper Training:** It is necessary to impart proper training to subordinates in handling delegated jobs. Training does not mean only technical training. Equal importance should also be given to developing their morale, initiative, self-confidence and qualities of leadership to handle new task.
- (g) **Effective Control System:** Even after delegating a work, the manager continues to be ultimately responsible to his own superior for the achievement of the work. It is, therefore, necessary to establish a suitable control system to monitor the progress of the delegated work.

## 6.12 Authority and Responsibility Relationships

*"Organisation 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 the people to work most effectively together in accomplishing objectives."*

*— Louis A. Allen*

The above definition of organising by Louis Allen clearly points out three significant elements of organising:

- (a) Defining responsibility;
- (b) Delegating authority; and
- (c) Establishing relationships between authority and responsibility.

Authority is seen as the legitimate right of a person to exercise influence or the legitimate right to make decisions, to carry out actions, and to direct others. As part of their structure, organisations have a formal authority system that depicts the authority relationships between people and their work. Different types of authority are found in this structure: line, staff, and functional authority.

- (a) **Line Authority:** Line authority is represented by the chain of command; an individual positioned above another in the hierarchy has the right to make decisions, issue directives and orders and expect compliance from lower level employees.
- (b) **Staff Authority:** Staff authority is advisory authority; it takes the form of counsel, advice, and recommendation. People with staff authority derive power from their expert skills and knowledge and the legitimacy established in their relationships with line managers.
- (c) **Functional Authority:** Functional authority allows managers to direct specific policies and programmes which affect other departments in the organisation. Such authority cuts across the hierarchical structure. *For example*, the human resources manager frames human resource policy for the entire organisation.

Authority can also be viewed as arising from interpersonal relationships rather than a formal hierarchy. Authority is sometimes equated with legitimate power. Legitimate authority occurs when people use power for good and have acquired power by proper and honest means. When people perceive an attempt at influence as legitimate, they recognise it and willingly comply. Power acquired through improper means, such as lying, withholding information, gossip, or manipulation, is seen as illegitimate. When people perceive the authority of others as illegitimate, they are less likely to willingly comply.

*"Authority may be defined as the power to make decisions which guide the actions of another. It is a relationship between two individuals; one superior, another subordinate. The superior frames and transmits decisions with the expectation that they will be accepted by the subordinate. The subordinate executes such decisions and his conduct is determined by them."*

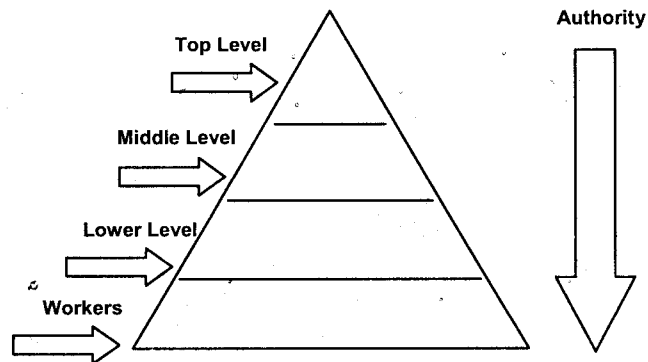
**– Simon, a noted thinker on Organisational Processes**

#### **Characteristics of Authority:**

- (a) Authority is a legitimate right to command and control subordinates.
- (b) Authority is granted to achieve the cherished goals of the enterprise.



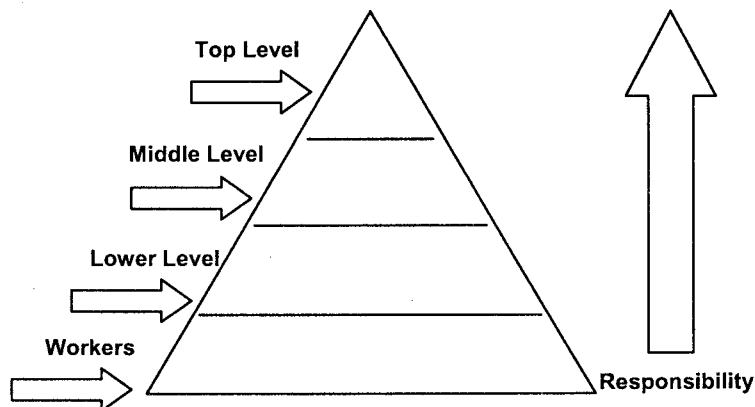
- (c) Authority is a right to direct others to get things done.
- (d) Authority is commanding force binding individuals together.
- (e) Authority is delegated downward.



**Fig. 6.3 Flow of Authority**

Responsibility is the obligation to accomplish the goals related to the position and the organisation. Managers, at no matter what level of the organisation, typically have the same basic responsibilities when it comes to managing the workforce – direct employees toward objectives, oversee the work effort of employees, deal with immediate problems and report on the progress of work to their superiors. How effectively goals and objectives are accomplished depends on how well the company goals are broken down into jobs and assignments and how well these are identified and communicated throughout the organisation.

*"Responsibility may be defined as the obligation of a subordinate to whom a duty has been assigned to perform."*  
**– Koontz O'Donnell**



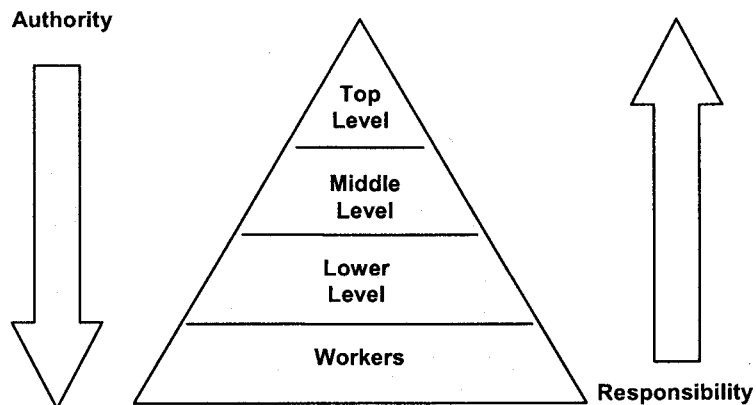
**Fig. 6.4 Flow of Responsibility**

**Characteristics of Responsibility:**

- (a) Responsibility is to assign duty to human beings only.
- (b) Responsibility is the result of duty assigned to a human being.
- (c) Responsibility is the obligation to complete the assigned task.
- (d) Responsibility can never be delegated.
- (e) Responsibility always flows upward from juniors to seniors.

**Relationship between Authority and Responsibility:**

- (a) **Parity in authority and responsibility:** Authority and responsibility must flow in the same direction. If authority is greater than responsibility, then it may result in autocratic behaviour. On the other hand, if responsibility is more than authority, then it results in frustration.
- (b) **Authority and responsibility flow in opposite direction:** Authority and responsibility always flow in the opposite direction. Authority flows from top (superiors) to bottom (subordinates) while responsibility flows from bottom (subordinates) to top (superiors).

**6.5 Flow of Authority and Responsibility**

- (c) **Responsibility cannot be delegated:** Delegation is an indispensable function of the managers in the modern large sized complex organisations. However, it must be remembered that the manager continues to owe responsibility even after successful delegation of his authority.

**Chapter Summary****Concept of Span of Control**

The concept of span of management was first developed by V.A. Graicunas, a French management consultant in 1953.

*"Span of control refers to the number of people that a manager can supervise."*

There are two types of span of control

- (a) Wide Span of Control
- (b) Narrow Span of Control

### **Factors Affecting Span of Control**

Factors Relating to Work

- (a) Nature of Work
- (b) Quality of Allocation of Work
- (c) Organisational Planning
- (d) Communication System
- (e) Availability of Staff Assistance

Factors Relating to a Manager

- (a) Ability of the Manager
- (b) Time Available for Supervision
- (c) Degree of Decentralisation

Factors Relating to Subordinates

- (a) Ability of Subordinates
- (b) Degree of Motivation

### **Graicunas Theory of Span of Control**

Graicunas suggested that as the number of subordinates in an organisation increases arithmetically, the number of potential relationship between the superiors and subordinates increases geometrically. He has identified three types of potential relationships

- (a) Direct Single relationships.
- (b) Direct Group relationships.
- (c) Cross Relationships.

He has given the following formula to determine the number of relationships

$$R = n \left( \frac{2^n}{2} + n - 1 \right)$$

Where, R stands for the number of relationships; and

n stands for the number of subordinates.

### **Concept of Centralisation**

Centralisation of authority refers to the concentration of decision-making authority with the top management.

*"Centralisation is the systematic and consistent reservation of authority at central points in the organisation."*

**Concept of Decentralisation**

Decentralisation means dispersal of decision-making power to the lower levels of the organisation.

*"Decentralisation refers to a systematic effort to delegate to the lowest levels, all authority except that which can only be exercised at the central points."*

**Advantages of Decentralisation**

- (a) Decentralisation reduces burden of the top executives
- (b) It promotes growth, expansion and diversification
- (c) It simplifies the problem of management succession
- (d) It helps in taking prompt and right action
- (e) It facilitates the diversification of product lines
- (f) It motivates subordinates for higher goals
- (g) It leads to effective control

**Factors Determining Degree of Decentralisation**

- (a) Size of Organisation
- (b) History of the Organisation
- (c) Geographical Expanse
- (d) Management Philosophy
- (e) Availability of Managers
- (f) Pattern of Planning
- (g) Control Techniques
- (h) Structure of Organisation
- (i) Environmental Influences

**Centralisation vs. Decentralisation**

- (a) Meaning
- (b) Nature of Decisions
- (c) Suitability
- (d) Number of Managers
- (e) Cost Factor
- (f) Control
- (g) Work Pressure
- (h) Principle of Division of Labour and Specialisation
- (i) Managerial Development

**Concept of Delegation of Authority**

Delegation of authority is the transfer of authority and responsibility to another person (normally from a manager to a subordinate) to carry out specific activities.

*"Delegation is the dynamics of management; it is the process a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique organisational placement, can perform effectively, and so that he can get others to help him with what remains."*

### **Barriers to Effective Delegation**

Why managers do not delegate?

- (a) "None better than I"
- (b) "I will be exposed"
- (c) "The company can't do without me"
- (d) "I am the master"
- (e) "Why take the risk?"
- (f) "What if he proves better than me?"

Why subordinates do not accept delegation?

- (a) Love of spoon-feeding
- (b) Fear of criticism
- (c) Inadequate information and resources
- (d) Lack of self-confidence
- (e) Inadequate incentives

### **Principles of Effective Delegation**

- (a) Observance of Principles of Delegation
- (b) Establishment of Definite Goals
- (c) Defining a Definite Responsibility
- (d) Establishing Conducive Environment
- (e) Proper Motivation
- (f) Proper Training
- (g) Effective Control System

### **Authority and Responsibility Relationships**

*"Organisation 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 the people to work most effectively together in accomplishing objectives."*

The above definition of organising by Louis Allen clearly points out three significant elements of organising

- (a) Defining responsibility;
- (b) Delegating authority; and
- (c) Establishing relationships between authority and responsibility.

Relationship between Authority and Responsibility

- (a) Parity in authority and responsibility
- (b) Authority and responsibility flow in opposite direction
- (c) Responsibility cannot be delegated

**Questions Bank**

**Q.1 Choose the correct alternative of the following: (1 mark each)**

- (1) \_\_\_\_\_ flows from top to bottom in an organisation.  
(a) Authority                      (b) Responsibility                      (c) Grievance.
- (2) \_\_\_\_\_ increases the importance of lower level managers.  
(a) Centralisation                      (b) Decentralisation                      (c) Delegation.
- (3) The concept of Span of Management was developed by \_\_\_\_\_.  
(a) Henry Fayol                      (b) V.A. Graicunas                      (c) Mary Parker Follet
- (4) \_\_\_\_\_ refers to the number of people that a manager can supervise.  
(a) Span of control                      (b) Delegation of authority                      (c) Departmentation
- (5) \_\_\_\_\_ means dividing a large organisation into smaller administrative units.  
(a) Span of control                      (b) Delegation of authority                      (c) Departmentation
- (6) Call centers work on rotational shifts. This is an example of Departmentation by \_\_\_\_\_.  
(a) function                      (b) time                      (c) customer
- (7) \_\_\_\_\_ leads to division of labour and specialisation.  
(a) Span of Control                      (b) Departmentation                      (c) Planning
- (8) As per experts, span of control at the top level should not be more than \_\_\_\_\_.  
(a) 1:6                      (b) 1:8                      (c) 1:10
- (9) \_\_\_\_\_ refers to officially assigning some work to subordinates.  
(a) Span of control                      (b) Delegation of authority                      (c) Departmentation
- (10) \_\_\_\_\_ departmentation refers to use of two or more departmentation forms.  
(a) Hybrid                      (b) Mixed                      (c) Combined

**Ans.:**

|                             |                      |                     |                     |
|-----------------------------|----------------------|---------------------|---------------------|
| (1) Authority               | (2) Decentralisation | (3) V. A. Graicunas | (4) Span of control |
| (5) Departmentation         | (6) time             | (7) Departmentation | (8) 1:6             |
| (9) Delegation of Authority |                      | (10) Hybrid         |                     |

**Q.2 Practical Application/Case Study: (15 Marks)**

Read the following case carefully and answer the questions given:

A firm having roaring business of cotton garments is planning to decentralize its operations at various places. In this regard six manufacturing plants of more or less similar nature have been installed in different places within the country. But the Board of Directors of the company is indecisive on the matters that how much authority should be delegated to the plant managers heading the plants. More specifically, the Board of Directors seeks your advice on the question whether the power to appoint supervisory and middle level managerial staff should be at the plant level or with the head office.

**Questions:**

- (1) Suggest a suitable organisational set up for the company.
- (2) List any five functional areas to be reserved with the head office.
- (3) What matters should be delegated to the plant managers?
- (4) Give your suggestions for maintaining co-ordination between the head office and the plants located at different places.

**Q.3 Described Questions/Short Essay Type Questions: (7-8 marks each)**

- (1) Explain the concept of span of control.
- (2) Explain the various types of relationships put forth by Graicunas.
- (3) Discuss the interrelationship between authority and responsibility.
- (4) Why do subordinates refrain from accepting delegation?

**Q.4 Long Essay Type Questions: (15 marks each)**

- (1) Define Span of Control. What factors determine a span of control in organisation?
- (2) Discuss the contribution of V.A. Graicunas to the theory of span of control.
- (3) Distinguish between Centralisation and Decentralisation in an organisation.
- (4) Define delegation of authority. What are the principles of effective delegation?
- (5) What are the barriers to effective delegation? How to break these barriers?

**Q.5 Short Notes: (5 marks each)**

- (1) Graicunas Formula
- (2) Authority-Responsibility Relationship



# 7. Directing and Leadership

## Scope of Syllabus:

Directing: Meaning and Process, Leadership: Meaning, Styles and Qualities of a Good Leader.

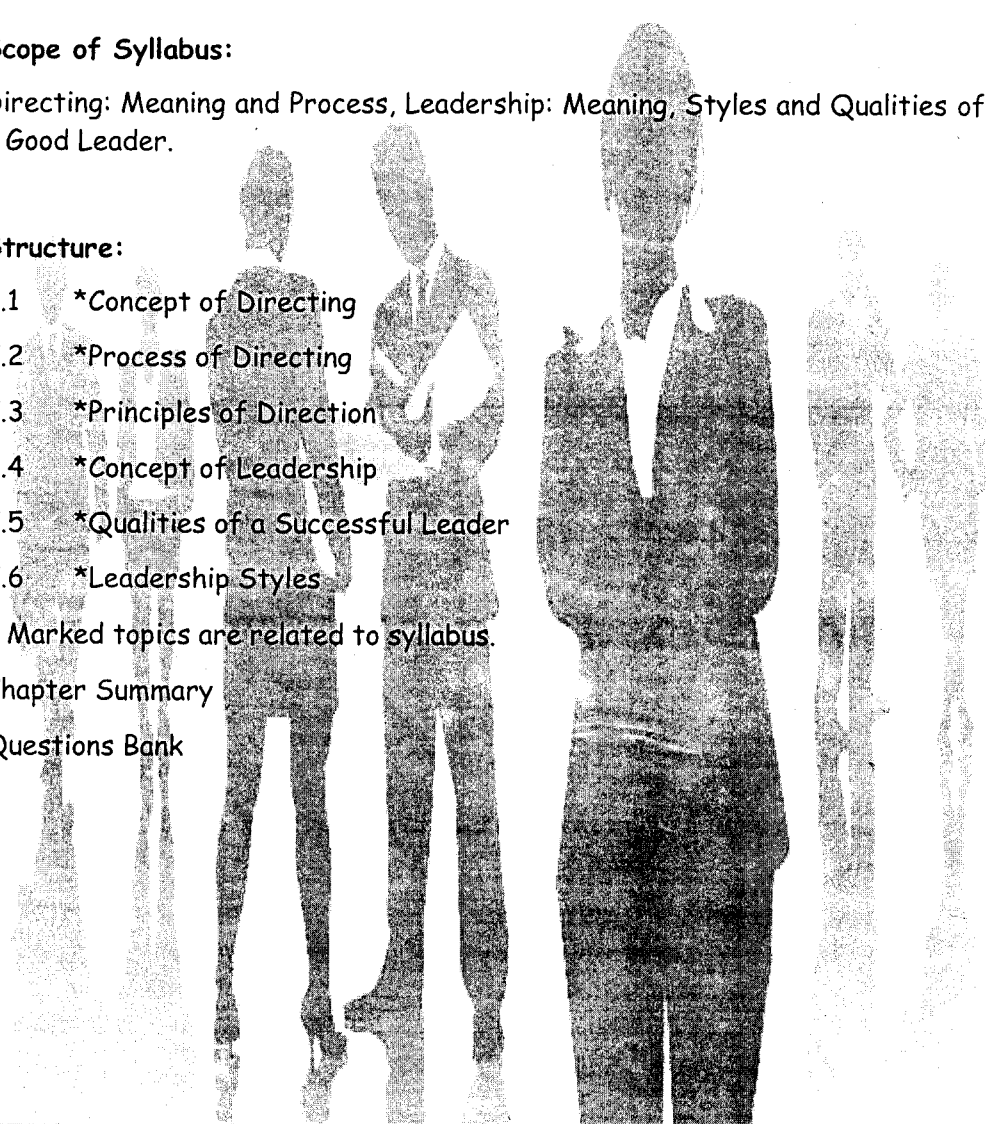
## Structure:

- 7.1 \*Concept of Directing
- 7.2 \*Process of Directing
- 7.3 \*Principles of Direction
- 7.4 \*Concept of Leadership
- 7.5 \*Qualities of a Successful Leader
- 7.6 \*Leadership Styles

\* Marked topics are related to syllabus.

Chapter Summary

Questions Bank





## 7.1 Concept of Directing

Directing is influencing people's behaviour through motivation, communication, group dynamics, leadership and discipline. The purpose of directing is to channel the behaviour of personnel to accomplish the organisation's mission and objectives while simultaneously helping them to accomplish their own career objectives and prospects.

The function of directing has been given different names by different management thinkers. *For example*, Higgins calls it leading and some others label it as influencing, coaching, motivating, interpersonal relations and human relations.

Directing function gives a manager an active rather than a passive role in the employees' performance, conduct and accomplishments. Helping employees in the organisation with career planning and professional development is an integral part of the directing function. Direction is the process of instructing, guiding, counselling, motivating and leading the human resources to achieve organisational objectives.

*"Directing is the interpersonal aspect of managing by which the subordinates are led to understand and contribute effectively and efficiently to the attainment of the organisational objectives."*

– **Koontz and O'Donnell**

*"Direction consists of the process and technique of issuing instructions and making certain that the operations are carried out as planned."*

– **Theo Haimann**

## 7.2 Principles of Direction

Direction is one of the most complex functions of the management as it deals with people whose nature itself is quite complex and unpredictable. However, there are certain fundamental principles of direction which help in making the process of direction effective. These principles can broadly be categorised under two broad heads:

### Principles Relating to the Purpose of Direction:

The basic purpose of direction is to get the organisational objectives fulfilled through the integrated efforts of subordinates in such a manner that their individual objectives are fulfilled automatically.

- (a) **Principle of Maximum Individual Contribution:** Organisational objectives are achieved at the maximum level within the minimum time if every individual in the organisation endeavours to make the maximum contribution towards them. Thus, a management should adopt such direction techniques which can ensure maximum contribution from all concerned in the organisation.
- (b) **Principle of Harmony of Objectives:** Individuals join organisation to satisfy their physiological and psychological needs while working in the organisation. At the same

time, an organisation has its own objectives, *i.e.*, to maximise sales and profit. An organisation should try, through appropriate direction technique, to reconcile organisational and individual objectives.

### **Principles Relating to Direction Process:**

Direction process is related to those factors which make a particular direction technique effective and efficient.

- (a) **Principle of Unity of Command:** According to this principle, a person in the organisation should receive orders and instructions only from one superior and he should be responsible to that superior only. If a subordinate gets orders from more than one superior, it creates conflict, confusion, disorder and instability in the organisation.
- (b) **Principle of Appropriateness of Direction Technique:** There are three techniques of direction, *viz.*, authoritarian, democratic and *laissez-faire*. Each technique has its own strengths and weaknesses. Thus, a technique of direction, suitable for one situation, may not be appropriate for the other. Therefore, a manager must select an appropriate technique of direction considering the situation under consideration.
- (c) **Principle of Managerial Communication:** The success of direction function presupposes a two-way communication system in the organisation. A superior, through downward communication, passes on instruction and orders to the subordinates and receives their problems, suggestions and feedback through upward communication.
- (d) **Principle of Comprehension:** The basic objective of direction function is to convey to the subordinates what they have to do, how to do it and when to do it. Thus, it is necessary for subordinates to understand what is conveyed to them in the right perspective so as to reduce queries, doubts and mistakes at the later stage of implementation.
- (e) **Principle of Use of Informal Organisation:** Formal organisation structure lays down the official authority-responsibility chain in the organisation. The flow of information through this channel is very slow and time-consuming. Thus, a manager must make use of informal organisation for a quick dissemination of the important information, especially among workers.
- (f) **Principle of Leadership:** Leadership is the process of influencing individuals for the achievement of organisational goals. The subordinates can be influenced through the exercise of authority and leadership. However, the former causes serious dissatisfaction among workers. Thus, a manager must use leadership traits to influence them.

- (g) **Principle of Follow-through:** Direction is a continuous managerial process. Mere giving an order is not sufficient. A manager must find out whether the subordinates are working as per the orders and instructions issued to them, what difficulties do they face while implementing the orders and in the light of these, if need be, the order can be modified or replaced.

### 7.3 Process of Directing

Directing function of management is concerned with the total manner in which a manager influences the action of his subordinates. The process of directing function involves the following four elements:

- (a) **Supervision:** Supervision is an important part of direction function of management. It refers to the guidance and control of subordinates in the performance of their tasks. It is the function that is performed by the supervisors. Effective supervision assures that the work is being done in accordance with the plans and instructions. It helps subordinates in solving their work-related problems.

*"Supervision denotes guiding and directing efforts of employees and other resources to accomplish stated work outputs."*  
— Terry and Franklin

- (b) **Motivation:** Motivation is an act of stimulating individuals to get a desired course of action. It energises them to work hard for the achievement of organisational goals. Higher motivation leads to job satisfaction among employees and makes them committed to the organisation. A successful manager can motivate employees properly to work harmoniously for the attainment of organisational goal.

*"Motivation is a general term applied to various classes of drives, desires, needs, wishes and similar forces that induce an individual or a group to work."*  
— Koontz and O'Donnell

- (c) **Leadership:** Leadership is the process of influencing the behaviour of subordinates to work willingly for the achievement of organisational goals. Managers, at all levels, act as leaders. The success of an organisation depends to a great extent on the quality of leadership. A successful leader can influence people to act willingly with confidence and zeal for mutual benefits.

*"Leadership is an ability of the manager to induce subordinates to work with confidence and zeal."*  
— Koontz and O'Donnell

- (d) **Communication:** Communication is an act of conveying information from one person to another. A manager tells his subordinates what to do, how to do and when to do. He issues orders and instructions to his subordinates regarding the work being

performed by them. Communication improves superior-subordinates relationship by providing opportunities to employees to express their opinions and views.

*"Communication is an exchange of facts, ideas, opinions or emotions by two or more persons."*  
— Newman and Summer

## 7.4 Concept of Leadership

Management is a process of directing the efforts of individuals in order to get specific results. In order that the manager can direct, co-ordinate and motivate employees, it is necessary for him to display organisational and administrative skills, administrative tactics, planning and executive talent, personal initiatives and dynamism. These qualities are referred to as functions of leadership.

*"Leadership is an ability of the manager to induce subordinates to work with confidence and zeal."*  
— Koontz and O'Donnell

*"Leadership is not making friends and influencing people. It is the lifting of man's vision to higher sights, the raising of man's performance to higher standards, the building of man's personality beyond his normal limitations."*  
— Peter Drucker

## 7.5 Qualities of a Successful Leader

In a way, every manager is a leader while performing the managerial function of directing. However, in order to be an influential and charismatic personality, the manager must possess certain desirable traits and qualities. Leadership qualities are likely to produce tremendous impact on followers' performance through the multiplier effect.

### General Qualities:

- (a) **Physical Fitness:** A leader must be physically fit so that he can proceed to his job with vigour and vitality. Physical fitness is an ordinary and natural requirement of any person, engaged in any activity whatsoever.
- (b) **Character:** A leader must be a man of character, possessing traits like honesty, loyalty and devotion to the organisation. The followers could be expected to be honest, loyal and devoted, only when the leader is enriched with these qualities.
- (c) **A Sense of Fair Play and Justice:** A leader must adopt an objective approach towards his followers, acting with a sense of impartiality and justice. He must not indulge in nepotism and favouritism; so as to tarnish his image among the followers.

- (d) **Self-confidence:** A leader must not be diffident, *i.e.*, lacking in self-confidence. He is expected to guide and lead his followers along the most enthusiastic lines of actions. Only a confident leader can develop confidence in his subordinates.
- (e) **Optimistic Outlook:** A leader must be an optimist with the quality of taking decisions amidst adverse environmental changes. With an optimistic outlook, he can mould the course of events to the maximum benefit of the organisation.

**Technical Qualities:**

- (a) **Expertise in Work Matters:** A leader must be an expert in the area of operations in which his followers are expected to perform. It is an expert leader, who can guide his subordinates towards the most efficient and economic lines of performance.
- (b) **Ability to Convince, Educate and Guide:** A leader should not only be a theoretical expert in his work field but he must also be a practical man. He must have an ability to convince his followers and impart suitable education and guidance to them.

**Managerial Qualities:**

- (a) **A Balanced State of Mind:** A leader is a decision-maker. Therefore, he must have a balanced state of mind to arrive at rational decisions, free from bias and emotions. He must be able to distinguish between good and bad and take sound decisions.
- (b) **Organising Ability:** A leader must have a good organising ability. He should not only arrange proper physical facilities and required technology but also allocate work among his followers as per their skills and abilities.
- (c) **Sense of Responsibility:** The leader should seek responsibility. He should shoulder responsibility for his wrong decisions. He must not only be formally responsible to the management but must also feel morally responsible for his own actions.
- (d) **Motivating Skills:** A leader must possess motivating skills to induce his followers towards the attainment of common goals. He must have a thorough knowledge of the needs of his followers and must also use appropriate motivators, as per need.
- (e) **Effective Communicator:** A leader must be an effective communicator. He must ensure two-way communication system in the organisation so that the leader and the led, both are free to exchange their views and ideas, freely without interruptions.
- (f) **Receptiveness:** A successful leader should be receptive to the ideas and suggestions of his followers. A leader should abandon the feeling of superiority complex in order to take full advantage of the hidden talents of his followers.
- (g) **Human Relations Expert:** A successful leader should be expert in human relations. He must develop good human relations. Good human relations not only invite co-operation from the followers but also become a permanent asset to the organisation.

- (h) **A Man of Foresight:** A leader must have a foresight. He must be able to contemplate the future conditions so as to design and plan strategies in advance for exploiting the available opportunities and avoiding or overcoming the challenges or threats.

#### Psychological Qualities:

- (a) **Empathy:** Empathy implies an ability to place oneself in the position of others. While taking important decisions, a leader must put himself in the position of workers and take decisions. Such decisions invite less resistance from them.
- (b) **Sociability:** A leader must have a sociable nature and outlook. He must mix with the group and should consider himself as a part of it. He must also have a sympathetic attitude towards the problems and grievances of his followers.
- (c) **Knowledge of the Self and Followers:** A leader must have knowledge of his own self so as to capitalise on his strong traits and overcome his weaknesses. He should also develop a deep understanding of the needs, attitude and behaviour of his followers.

## 7.6 Leadership Styles

Depending upon the attitude of the leader towards his followers and their work, the following major styles of leadership can be identified:

- (a) **Autocratic Leadership:** An autocratic leader dominates and dictates his employees through coercion and commands. He centralises decision-making power to himself and assumes full responsibility for his decisions. He also makes use of threats and punishments in order to get work done. Autocratic style of leadership is suitable for taking quick decisions without any delay. It is generally practised in small organisations where subordinates are unorganised, less creative and need continuous guidance.
- (b) **Democratic Leadership:** Democratic style of leadership is also known as participative and consultative style. A democratic leader decentralises the decision-making process. He emphasises on consultation and invites ideas and suggestions from his subordinates. He determines the organisational plans and policies in consultation with his employees. He makes use of positive motivation and persuasion in order to get work done from his subordinates.
- (c) **Laissez-faire Style:** *Laissez-faire* style of leadership is also known as free style leadership. In reality, it is a non-leadership style rather than a leadership style. A *laissez-faire* leader determines the policies and programmes while the entire process of execution is left to the subordinates. He gives full autonomy to his employees to take their own decisions. Such leadership style is suitable only for the organisations which employ highly qualified personnel and where workforce is restricted.

- (d) **Paternalistic Style:** Under paternalistic style of leadership, the leader acts as a 'father-like' figure for his followers and takes care of his subordinates, the way a father does for his family. This type of leadership style is the fundamental characteristics of the Japanese management system. It is mainly found in family concerns. The paternalistic leader guides his followers with love and care. He uses fringe benefits and perquisites to keep them working as a happy family.
- (e) **Bureaucratic Style:** Bureaucratic style of leadership is generally found in government organisations. This system is impersonal and highly rule-bound. The leaders operate in terms of policy manuals and established procedures. Such style of leadership leads to red-tapism, delay in decision-making and increased paperwork. This style of leadership can be advantageous in highly regulated lines of business that do not require much creativity or innovation.
- (f) **Situational Leadership:** Situational leadership style has been developed and studied by Kenneth Blanchard and Paul Hersey. In the case of situational approach to leadership, leader changes his leadership style as per the demand of the circumstances. Such leaders may be autocratic, consultative or participative, depending upon the circumstances. Situational leadership style is the most widely practised leadership style in the modern world.

## Chapter Summary

### Concept of Directing

Directing is influencing people's behaviour through motivation, communication, group dynamics, leadership and discipline.

*"Direction consists of the process and technique of issuing instructions and making certain that the operations are carried out as planned."*

### Principles of Direction

#### Principles Relating to the Purpose of Direction

- (a) Principle of Maximum Individual Contribution
- (b) Principle of Harmony of Objectives

#### Principles Relating to Direction Process

- (a) Principle of Unity of Command
- (b) Principle of Appropriateness of Direction Technique
- (c) Principle of Managerial Communication
- (d) Principle of Comprehension
- (e) Principle of Use of Informal Organisation

- (f) Principle of Leadership
- (g) Principle of Follow-through

**Process of Directing**

- (a) Supervision
- (b) Motivation
- (c) Leadership
- (d) Communication

**Concept of Leadership**

*"Leadership is an ability of the manager to induce subordinates to work with confidence and zeal."*

**Qualities of a Successful Leader****General Qualities**

- (a) Physical Fitness
- (b) Character
- (c) A Sense of Fair Play and Justice
- (d) Self-confidence
- (e) Optimistic Outlook

**Technical Qualities**

- (a) Expertise in Work Matters
- (b) Ability to Convince, Educate and Guide

**Managerial Qualities**

- (a) A Balanced State of Mind
- (b) Organising Ability
- (c) Sense of Responsibility
- (d) Motivating Skills
- (e) Effective Communicator
- (f) Receptiveness
- (g) Human Relations Expert
- (h) A Man of Foresight

**Psychological Qualities**

- (a) Empathy
- (b) Sociability
- (c) Knowledge of the Self and Followers



**Leadership Styles**

- (a) Autocratic Leadership
- (b) Democratic Leadership
- (c) *Laissez-faire* Style
- (d) Paternalistic Style
- (e) Bureaucratic Style
- (f) Situational Leadership

**Questions Bank**

**Q.1 Choose the correct alternative of the following: (1 mark each)**

- (1) \_\_\_\_\_ is the interpersonal aspect of management.  
 (a) Staffing                      (b) Organising                      (c) Directing
- (2) Directing function does not include \_\_\_\_\_.  
 (a) co-ordinating                      (b) motivating                      (c) leading
- (3) \_\_\_\_\_ is the process of influencing individuals to achieve organisational goals.  
 (a) Directing                      (b) Leading                      (c) Motivating
- (4) \_\_\_\_\_ wrote "the Human Side of Enterprise".  
 (a) Abraham Maslow                      (b) Douglas McGregor                      (c) Paul Alderfer
- (5) \_\_\_\_\_ propounded "Two Factor theory of Motivation".  
 (a) Fredrick Herzberg                      (b) Douglas McGregor                      (c) Paul Alderfer.
- (6) \_\_\_\_\_ style of leadership is common in government organisations.  
 (a) Autocratic                      (b) Bureaucratic                      (c) Paternalistic
- (7) The world communication has originated from the word \_\_\_\_\_.  
 (a) common                      (b) communis                      (c) communist
- (8) Interpretation of message means \_\_\_\_\_.  
 (a) coding                      (b) encoding                      (c) decoding
- (9) Communication by gestures is \_\_\_\_\_ communication.  
 (a) silent                      (b) verbal                      (c) sign
- (10) \_\_\_\_\_ communication uses grapevine.  
 (a) Formal                      (b) Verbal                      (c) Informal

**Ans.:**

|                       |                   |              |                      |
|-----------------------|-------------------|--------------|----------------------|
| (1) Directing         | (2) co-ordinating | (3) Leading  | (4) Douglas McGregor |
| (5) Fredrick Herzberg | (6) Bureaucratic  | (7) communis | (8) decoding         |
| (9) silent            | (10) Informal     |              |                      |

**Q.2 Practical Application/Case Study: (15 Marks)****(1) Read the following case carefully and answer the questions given:**

In the era of downsizing and massive corporate lay-offs, human resource management has become increasingly complex. Managers must make lay-off decisions carefully and fairly, communicate accurate information about upcoming lay-offs to the employees, and treat employees being laid off with dignity and respect. Manager must also maintain the trust and motivation of those remaining employees who may feel guilty, resentful, angry or fearful that they will be next to lose their jobs. Negative reactions among employees are much more likely.

When managers fail to communicate accurate and complete information about the lay-off, they fail to manage the lay-off in a fair manner. According to many managers, outplacement services appear to be an important tool for effectively managing the process. Outplacement services not only help former employees find new employment but also help them maintain loyalty and trust of remaining employees. Outplacement services can range from career counselling, help with resume writing, providing list of job opening in other companies, social support and clinical counselling to providing former employees with additional training to update or expand their knowledge and skills.

**Questions:**

- (1) Is downsizing justifiable ethically? If yes, why and if no, why?
- (2) How can the outplacement services help the laid off employees in making a fresh start?
- (3) How might failure to find new jobs affect employees' motivation?
- (4) As a manager, how would you deal with a problem of lay-off?

**(2) Read the following case carefully and answer the questions given:**

Super Engineering Company is a multi-locational light engineering company. It has manufacturing facilities at Hyderabad, Pondicherry and Indore. The company adopted budgetary system with main emphasis on production and expense budgets. While two units located at Hyderabad and Pondicherry were working properly and were able to meet their budget targets, Indore unit was not able to do so.

The company decided to transfer Mr. Devne to Indore plant. He joined the company eight years back as engineer trainee and became assistant plant manager at Hyderabad unit, the biggest of the three units. Devne was very ambitious and strongly believed in exercising authority and control to carry out his instructions.

Immediately after joining at Indore unit, he made preliminary study of the plant and issued immediate instructions to all departments to cut down their expenses by 5%. A fortnight later, he instructed all departments to increase production by 10%. He also instructed all supervisors to adhere to budgets. He introduced several control techniques to monitor the production

operations. He suspended two supervisors for not meeting the budget targets. Subsequently, two supervisors left the plant.

With all these efforts, he could manage to bring the plant on track within six months. On setting the plant right, he was called back to Hyderabad unit. However, shortly after he left for Hyderabad, the productivity at Indore unit fell much below the earlier level and budget was once again in trouble.

**Questions:**

- (1) Identify and discuss the leadership style adopted by Mr. Devne at the Indore plant.
- (2) Analyse the type of organisational climate created by Mr. Devne at the Indore unit.
- (3) Why was there a drop in productivity after Mr. Devne left the plant?
- (4) What measures would you suggest for improving the functioning of Indore plant?

**(3) Read the following case carefully and answer the questions given:**

Mr. Pedgaonkar had recently joined as the Managing Director of a toy manufacturing company which at present is incurring heavy losses. Mr. Pedgaonkar has been entrusted with the formidable task of rejuvenating the company. He faces many challenges to achieve this task, such as controlling costs and expenses, increasing the productivity and boosting the morale of the employees so that they unhesitatingly co-operate to achieve the set standards of output.

Mr. Pedgaonkar, in his previous company – also a toy manufacturing company, as the Deputy Managing Director had proved to be a proficient manager and a talented leader. He was commended for his maximum concern for both people and production and also for bringing about an integration and harmony between the needs of employees and of production.

In the new company also, Mr. Pedgaonkar continued his policies of participative management and his high concern for production and people. With a view to reviving the company back to health, he effected some major changes. First of all, he had decentralised the organisation so that the subordinates could exercise their discretion and initiative in decision-making and their imagination and creativity in performing their other managerial functions. Furthermore, he empowered the junior managers to sanction expenditure upto an approved limit without seeking prior approval of the higher management. Communication system was also improved to facilitate free flow of upward and downward communication.

Mr. Pedgaonkar also adopted several measures to cut costs and wasteful expenditure. He banned donations to charitable institutions but increased the amount being spent on the welfare activities of the employees.

**Questions:**

- (1) Identify the basic principles of management applied by Mr. Pedgaonkar in the company. Discuss them.
- (2) Which theory of McGregor, Mr. Pedgaonkar has followed? Discuss.

- (3) Will participative style of leadership and human relations approach to management sustain long?
- (4) What measures would you suggest to control the activities of employees?

**Q.3 Described Questions/Short Essay Type Questions: (7-8 marks each)**

- (1) Explain the democratic style of leadership.
- (2) Discuss the technical and psychological qualities of a leader.
- (3) Discuss the principles of direction related to its purpose.

**Q.4 Long Essay Type Questions: (15 marks each)**

- (1) Define directing. What are the principles of directing?
- (2) Define leadership. What are the qualities of an ideal leader?
- (3) Discuss the various leadership styles with their pros and cons. Suggest an ideal leadership style with appropriate justification.

**Q.5 Short Notes: (5 marks each)**

- (1) Process of directing.
- (2) Importance of motivation.



## 8. Co-ordination and Controlling

### Scope of Syllabus:

Co-ordination as an Essence of Management, Controlling: Meaning Process and Techniques.

### Structure:

- 8.1 \*Concept of Co-ordination
- 8.2 Importance of Co-ordination
- 8.3 \*Coordination as an Essence of Management
- 8.4 \*Concept of Controlling
- 8.5 Nature of Controlling
- 8.6 \*Process of Controlling
- 8.7 Requirements of a Good Control System
- 8.8 Purpose or Importance of Controlling
- 8.9 \*Control Techniques

\* Marked topics are related to syllabus.

Chapter Summary

Questions Bank

## 8.1 Concept of Co-ordination

At one time, co-ordination was just considered to be one of the functions of management. But on a close examination, it was found that co-ordination is the essence of the process of management. James Mooney has described co-ordination as the first principle of organisation, which manifests all other principles of organisation into it.

*"Co-ordination is a process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of action in the pursuit of a common purpose."*  
— **McFarland**

The definition suggests that:

- (a) Co-ordination does not occur automatically, a manager has to achieve it.
- (b) Co-ordination as a concept applies to a group and not to an individual.
- (c) Unity of efforts means individual efforts must be blended into a harmonious stream of actions.
- (d) Finally, the objective of co-ordination is a common purpose.

## 8.2 Importance of Co-ordination

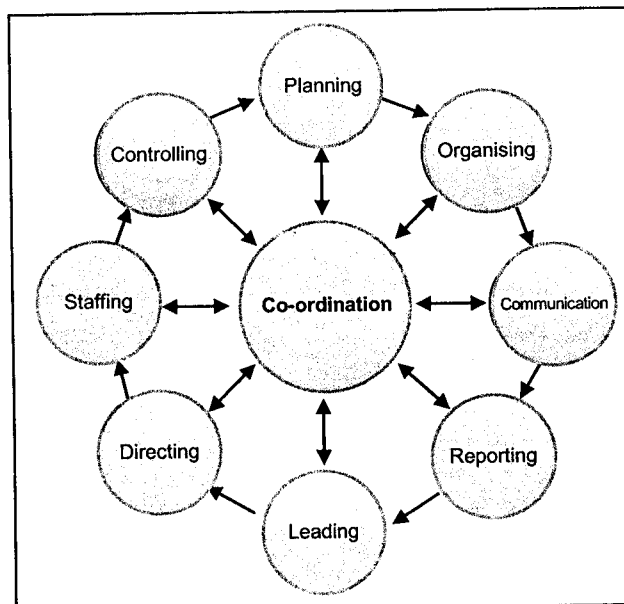
Co-ordination is the essence of management. The following points highlight the importance of co-ordination in the management process:

- (a) **Co-ordination encourages team spirit:** A group of people may be allowed to work with reasonable autonomy but their efforts need to be co-ordinated so that they can perform as a team. *For example*, in a football team, every player is allowed to show his/her skill but the captain co-ordinates the game.
- (b) **It brings about motivation:** Co-ordination does not mean controlling the activities of the subordinates. Every subordinate is given adequate autonomy to show his skill and take decisions within the limits set up by the higher authority. This motivates employees to work with initiative.
- (c) **It ensures proper utilisation of resources:** Co-ordination leads to optimum utilisation of available resources by allocating resources only for those purposes for which they are meant. Further, resources are put to the right use at the right time and in the right quantity.
- (d) **It helps quick realisation of goals:** Co-ordination enables the management to keep a watch on the performance of its employees and various departments. By introducing vigilance on all fronts of business, co-ordination helps to realise the organisational goals much earlier than the scheduled time.

- (e) **It is a creative force:** Through proper co-ordination, management combines individual efforts which create synergetic result which is greater than the sum total of the individual efforts. Thus, co-ordination is a creative process of blending individual efforts into group effort.
- (f) **It leads to unity of direction:** Co-ordination enables managers to view an organisation as a whole from different segments. In spite of existence of disruptive forces, co-ordination welds different individuals and departments into a single entity. This leads to unity of direction.
- (g) **It promotes high morale among employees:** Orderly nature of operations, established through a team spirit and executive leadership, lead to higher level of morale among the workers. The direct outcome of this is higher productivity, revenue and profitability.

### 8.3 Co-ordination - Essence of Management

The basic objective of all managerial functions is to get things done by co-ordinated efforts. Thus, every management function should lead to co-ordination.



**Fig. 8.1 Co-ordination – Essence of Management**

- (a) **Co-ordination and Planning:** It is possible to bring about co-ordination at the planning stage by integrating plans through mutual discussions and exchange of ideas. For example, while planning sales promotion campaign, the marketing manager should discuss his plan with the finance manager and production manager.

- (b) **Co-ordination and Organising:** Co-ordination is the first and foremost factor which a manager has to consider while grouping and assigning activities to subordinates and creating departments. Organising decisions like grouping of activities, span of control, degree of centralisation, etc. are concerned with co-ordination.
- (c) **Co-ordination and Communication:** An efficient communication network helps in achieving greater degree of co-ordination. Smooth flow of two-way communication helps in developing cordial relations between the labour and the management and thus, co-ordinates their activities towards the attainment of the organisation goals.
- (d) **Co-ordination and Leading:** The main function of a leader is to co-ordinate the activities of workers in the organisation towards the achievement of organisational goals. The capabilities of a leader can be best judged on the basis of his capability to co-ordinate the activities of his followers along the right course.
- (e) **Co-ordination and Directing:** While practising direction function, the manager is simultaneously co-ordinating the actions of his/her subordinates. The very action of giving orders and instructions to the subordinates and leading them, results in co-ordination of their activities.
- (f) **Co-ordination and Staffing:** When a number of employees are working on a task, the only method of integrating and synchronising their efforts is through co-ordination. Placement, transfer, training, promotion, etc. are some of the areas where co-ordination plays an important role.
- (g) **Co-ordination and Controlling:** Overall control techniques such as budgetary control, financial control or management audit are the evaluative controls that take an overall view of the organisation. If plans are well co-ordinated, then controls are bound to be well co-ordinated.

## 8.4 Concept of Controlling

Controlling means examining the past and present activities so as to locate weaknesses, which can be eliminated in the future and also to make the achievement of objectives certain. To control means to monitor, regulate and check to make people conform to the expected norms, to measure progress and to ensure that what has been planned is achieved.

*"The management function of controlling is the measurement and correlation of the performance of activities of the subordinates in order to make sure that the enterprise objectives and plans devised to attain them are being accomplished."*

**— Koontz and O'Donnell**

*"Controlling can be defined as the process of determining what is to be accomplished, i.e., the standard; what is being accomplished, i.e., the performance; evaluating the performance; and if necessary, applying corrective measures so that the performance takes place according to the plans, i.e., in conformity with the standards."*

**— George Terry**



## 8.5 Nature of Controlling

The features of control process are as follows:

- (h) **Controlling is a central tendency point:** The unique feature of controlling is that it is a central tendency point, where all other managerial functions come together. This is because the corrective action, based on an analysis of causes of deviations, may necessitate change in any managerial area.
- (i) **Planning is the base:** Planning is the base of controlling, as it provides the foundation for controlling activity. Planning lays down the standards to be achieved while controlling ensures their achievement. Therefore, planning and controlling have been referred to as the siamese twin.
- (j) **Action is the essence:** Controlling deals with not only locating the causes of deviations but also taking corrective action. Action is the essence of a good control system. Control process is not completed unless timely and appropriate corrective action is taken to rectify the deviation.
- (k) **Delegation is the key:** Delegation is the key of a sound controlling system. This is because corrective action can be taken only by managers who are responsible for the performance and have adequate authority to take an action. Therefore, delegation is the essence of controlling.
- (l) **Information is the guide:** The concept of management information and management control are closely related with one another. Every manager in the organisation should have adequate knowledge of standards, level of performance expected from him and the nature of control system.
- (m) **It is a pervasive function:** Controlling is a pervasive function. It is closely associated with the planning activity. Planning sets standards and controlling ensures their achievement. Planning activity is undertaken at all levels of management and so also is controlling.
- (n) **It is the post-mortem of past events:** Controlling leads to the evaluation of past performance. It undertakes the post-mortem of past events in order to locate deviations and suggest corrective measures. Thus, it is a feedback mechanism, which helps in analysing the cause of poor performance.
- (o) **It is forward looking:** Controlling is a forward looking activity. It is related to the future, as past cannot be controlled. Controlling activity undertaken in the present provides inputs for the planning activities in the future. Causes of deviations located in the present can be avoided in the future planning.
- (p) **It is a continuous activity:** Controlling is a continuous and never-ending process. It involves not only constant analysis of the validity of established standards,

policies, procedures, etc., but also taking corrective action. It provides a regular feedback on the performance level.

- (q) **It is a dynamic process:** Controlling is a dynamic process. There is no best way of controlling. There are various methods of controlling which are employed by the managers depending upon the nature of organisation and the activity to be evaluated. Thus, controlling is a dynamic process.

## 8.6 Process of Controlling

A standard control process involves the following steps:

- (a) **Establishing Standards:** The process of controlling commences with the determination of standards of performance. Standards are the criteria against which results of the organisation can be evaluated. Standards are broadly classified as tangible standards and intangible standards.
- **Tangible Standards:** Tangible standards are quantitative standards which can be expressed in numerical terms. *For example,*
    - Physical standards, *viz.*, units of production and sales.
    - Monetary standards, *viz.*, cost of production, sales revenue, and profit.
    - Time standards, *viz.*, man-hours or machine hours.
    - Capital standards, *viz.*, rate of return or current ratio.
  - **Intangible Standards:** Intangible standards are qualitative in nature and cannot be expressed in quantitative terms. *For example,*
    - Morale of the employees.
    - Competence of the managers.
    - Reputation of the enterprise.
    - Good public relations.

It is easy to define and measure quantitative standards. Therefore, standards must be set in quantitative terms only.

- (b) **Measuring Actual Performance:** The activity of measuring actual performance includes:
- Locating control points, *i.e.*, how frequently and at what stage performance should be measured.
  - Collecting data, *i.e.*, collecting data from all possible sources, internal as well as external to measure performance.
  - Processing and representing performance by a suitable method in the form of tables, charts, graphs, etc.

The unit of measuring actual performance should be consistent with the pre-determined standards.

(c) **Comparing Actual Performance with Standards and Identifying Deviation:**

While comparing actual performance with the standards for locating deviations, the management must determine the permissible range of deviation, *i.e.*, the standard deviation. The deviations falling within the permissible range should be ignored. Again, some deviations may be positive in nature and needs to be encouraged and rewarded. *For example*, a reduction in cost below the standard or an increase in sales over the targeted standard. Apart from the standard deviation and positive deviation, all other deviations should be carefully and systematically recorded.

(d) **Analysing the Cause of Deviation:** The causes of deviation of actual performance from the standards, may be one or more of the following:

- External environmental forces such as changes in the price level, governmental policies, competition, etc.
- Internal factors such as inadequacy of production facilities, finance, outdated technology, poor human relations, etc.
- Imperfection in planning such as vague objectives, poor forecasting, inappropriate action, etc.
- Organisational defects such as imbalance in authority and responsibility, lack of accountability, complex organisational set-up, etc.
- Staffing defects such as faulty recruitment and selection policies, inappropriate placement, inadequate training programme, etc.
- Faulty directing techniques, *viz.*, lack of free flow of communication, lack of proper motivation, ineffective leadership, inadequate supervision, etc.

The right cause of deviations should be located and an appropriate corrective action should be taken.

(e) **Undertaking Suitable Remedial Action:** Controlling process would not be complete unless an appropriate corrective action is taken to bring the performance back to the planned track. Management cannot change the external environment and therefore, it has to make its internal environment more adaptable to the changes in the external environment. The remedial measures taken by the management may involve one or more of the following actions:

- Making internal environment more adaptable to the external environment.
- Redefining objectives.
- Modification or improvement in the planning.
- Restructuring the organisational set-up.
- Overcoming staff defects.
- Adopting better directing techniques.

## 8.7 Requirements of a Good Control Process

A good control system should possess certain ideal characteristics. These characteristics have been divided into three categories:

### Requirements as to the Designing of Control System:

- (a) **Suitability:** A good control system should be so designed that it should fit into the goals and objectives of the organisation and must be designed to suit the specific activities of an organisation.
- (b) **Objectivity:** A control process must be designed objectively, *i.e.*, it should be based on the scientific methods and analysis and should be free from bias, opinions and values of the planners.
- (c) **Measurable:** As far as possible, the standards should be expressed in quantitative (numerical) terms. This imparts them objectivity and facilitates easy communication and implementation.
- (d) **Economical:** A control system should be based upon cost-benefit analysis, *i.e.*, the implementation of control system should facilitate more benefits than the cost incurred on its execution.
- (e) **Connectivity:** A good control system should be directly related to the fundamental objectives, policies and strategies of the enterprise so as to make a substantial contribution to the organisational goals.
- (f) **Simplicity:** A control system should be easy to design, communicate, implement and achieve. A complex control system will increase confusion and defeat the very purpose of controlling.
- (g) **Comprehensive:** A control system should be comprehensive enough to cover all important functional areas in the organisation. It should avoid over-concentration of some aspects while absolute exclusion of some others.

### Requirements as to the Implementation of Control System:

- (a) **Understandable:** A good control system should be capable of being understood and should be actually communicated to the personnel who are responsible for its implementation.
- (b) **Prompt:** A good control system should be prompt and quick, *i.e.*, it should report deviations quickly so that timely remedial measures can be taken to rectify such deviations.
- (c) **Responsibility Specific:** It should not only locate deviations but also pinpoint the person/department, who is responsible for it. This would make the people and departments in the organisation to act in a responsible way.

- (d) **Suggestive:** It should not only locate deviations but also suggest remedial measures. This would help in taking corrective action in the form of providing training, effective supervision, redefining standards, etc.
- (e) **Strategic Control Points:** It should focus its attention on the strategic control points where the chances of occurrence of deviation are more. Controlling each and every activity is impossible as well as uneconomical.

**Desirable Requirements:**

- (a) **Flexibility:** A good control system should be flexible enough to retain its validity despite changed circumstances.
- (b) **Forward-looking:** It should anticipate deviations and take corrective action in advance.
- (c) **Participative:** It should seek employees' participation and develop a supportive attitude among workers.

## 8.8 Purpose or Importance of Controlling

The following points will spotlight the importance of controlling:

- (a) **Controlling infuses confidence in the enterprise:** Controlling helps to locate deviations and suggests remedial measures in order to bring performance on the track. This infuses confidence among the people in the organisation by acting as an insurance device for the achievement of the organisational objectives.
- (b) **It helps to improve managerial decision-making:** Controlling helps managers to take better decisions by providing them with necessary information through controlling feedback mechanism. Controlling activity undertaken in the present provides inputs for planning activities in the future.
- (c) **It increases overall efficiency:** A good control system locates deviations as soon as they occur. This raises the overall organisational efficiency in terms of production, productivity and profitability. This helps the organisation in quick achievement of its goals.
- (d) **It keeps a moral check on employees:** Control system puts a moral check on the activities of the subordinates by defining the standards. Standards laid down by the controlling system make everyone in the organisation well aware of the expected level of performance.
- (e) **It facilitates evaluation of performance:** Control system provides yardstick for evaluating the performance of individuals in the organisation. This helps individuals to analyse their strengths and weaknesses and provides management with the bases for their promotion and transfer.

- (f) **It improves the future performance:** Controlling is a forward-looking activity. It is related to future, as past cannot be controlled. Controlling activity undertaken in the present provides inputs for the planning activities in future. Similarly, mistakes committed in the present can be avoided in the future.
- (g) **It serves as a guide to effective supervision:** Controlling lays down the critical points where deviations may occur. These critical points may help supervisors to focus their attention on the critical points rather than wasting their time and efforts on insignificant activities.
- (h) **It facilitates co-ordination:** Various departments in the organisation are interrelated. A common control system for all departments in the organisation may bring about co-ordination in their activities. Thus, any deviation in the functioning or operation is collectively resolved by all the departments.

## 8.9 Control Techniques

There are a number of control techniques employed by the organisations in order to control deviations. These techniques can be broadly classified into two major categories:

### Operational Control Techniques:

Operational controls are used for the operating system. In operating system, there are three types of controls:

- (a) **Financial Control:** Financial controls are exercised over business operations whose outcome can be measured in quantitative terms. The major financial control techniques are:
- **Budgetary Control:** Budgetary control is the most common method of controlling. It involves setting of targets for production, sales and other activities of business, comparing actual performance with the budgeted targets or standards and taking corrective actions, in case of deviations.
  - **Control through Costing:** Control through costing involves the control over costs in relation to the pre-determined costs known as standard costs. Standard costs are set in respect of total costs, which include cost of material, labour and other production overheads.
  - **Break-even Analysis:** Break-even analysis is basically concerned with the cost-volume-profit relationships. It indicates the various levels of sales with varying degree of cost and output. Its main objective is to determine the break-even point, no-profit-no-loss point.
  - **Responsibility Accounting:** Under this technique, each unit or department is considered as a responsibility centre. The head of the unit is responsible for

the achievement of standards set for the centre and overall controlling of its activities and performance.

- **Internal Audit:** Internal audit is an effective tool of managerial control. It is either carried out by the managers themselves or by an expert known as auditor. The auditor appraises the policies, procedures, methods, programmes, quality of management, etc.
- (b) **Operating Control:** Operating controls are closely linked with the operating process in order to ensure quality production at the minimum cost. The major techniques of operating control are Total Quality Management (TQM), Statistical Quality Control (SQC), Quality Circles (QC), etc.
- (c) **Inventory Control:** Inventory control is the technique of controlling inventory, viz., raw materials, work-in-progress and finished goods. There are basically two methods of inventory control, viz., ABC analysis and Economic Order Quantity (EOQ) method.

#### **Overall Control Techniques:**

Operational controls apply only to a part of the organisation while overall control techniques measure the total organisational performance. There are a variety of control techniques for the evaluation of overall performance of the organisation:

- (a) **Financial Ratio Analysis:** Financial ratio analysis identifies relationship between two financial variables in order to obtain a better understanding of a firm's position and performance. There are four categories of ratios, viz., liquidity ratios, activity ratios, leverage ratios and profitability ratios.
- (b) **Management Audit:** Management audit is relatively a new concept. It is the evaluation of the performance of the management as a whole. It is an independent and critical examination of the entire management process, viz., planning, organising, staffing, directing, and controlling.
- (c) **Social Audit:** Social audit is the evaluation of social performance of an organisation as distinguished from its economic performance. The concept of social audit was developed by Bowen in the USA. Business, being a part of society, must make contribution to the welfare of human society.
- (d) **Human Resource Accounting:** In the present context, many organisations have taken measures not only for the development of human resource but also for its valuation. Some of the methods of valuation of human resource are historical cost, replacement cost and standard cost method.
- (e) **Management Information System (MIS):** Information is the lifeblood of an organisation. MIS is the system of continuously collecting and analysing information for effective decision-making. Though MIS is not a control technique, it is of great help in planning, controlling and other organisational processes.

## Chapter Summary

### Definition of Co-ordination

Co-ordination is the essence of the process of management. James Mooney has described co-ordination as the first principle of organisation, which manifests all other principles of organisation into it.

*"Co-ordination is a process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of action in the pursuit of a common purpose."*

### Importance of Co-ordination

- (a) Co-ordination encourages team spirit
- (b) It brings about motivation
- (c) It ensures proper utilisation of resources
- (d) It helps quick realisation of goals
- (e) It is a creative force
- (f) It leads to unity of direction
- (g) It promotes high morale among employees

### Co-ordination - Essence of Management

The basic objective of all managerial functions is to get things done by co-ordinated efforts. Thus, every management function should lead to co-ordination.

- (a) Co-ordination and Planning
- (b) Co-ordination and Organising
- (c) Co-ordination and Communication
- (d) Co-ordination and Leading
- (e) Co-ordination and Directing
- (f) Co-ordination and Staffing
- (g) Co-ordination and Controlling

### Definition of Controlling

*"Controlling can be defined as the process of determining what is to be accomplished, i.e., the standard; what is being accomplished, i.e., the performance; evaluating the performance; and if necessary, applying corrective measures so that the performance takes place according to the plans, i.e., in conformity with the standards."*

### Nature of Controlling

- (a) Controlling is a central tendency point
- (b) Planning is the base
- (c) Action is the essence



- (d) Delegation is the key
- (e) Information is the guide
- (f) It is a pervasive function
- (g) It is the post-mortem of past events
- (h) It is forward looking
- (i) It is a continuous activity
- (j) It is a dynamic process

**Control Process**

- (a) Establishing Standards
  - Tangible Standards
  - Intangible Standards
- (b) Measuring Actual Performance
- (c) Comparing Actual Performance with Standards and Identifying Deviation
- (d) Analysing the Cause of Deviation
- (e) Undertaking Suitable Remedial Action

**Requirements of a Good Control Process**

## Requirements as to the Designing of Control System

- (a) Suitability
- (b) Objectivity
- (c) Measurable
- (d) Economical
- (e) Connectivity
- (f) Simplicity
- (g) Comprehensive

## Requirements as to the Implementation of Control System

- (a) Understandable
- (b) Prompt
- (c) Responsibility Specific
- (d) Suggestive
- (e) Strategic Control Points

## Desirable Requirements

- (a) Flexibility
- (b) Forward-looking
- (c) Participative

**Purpose or Importance of Controlling**

- (a) Controlling infuses confidence in the enterprise

- (b) It helps to improve managerial decision-making
- (c) It increases overall efficiency
- (d) It keeps a moral check on employees
- (e) It facilitates evaluation of performance
- (f) It improves the future performance
- (g) It serves as a guide to effective supervision
- (h) It facilitates co-ordination

### Control Techniques

#### Operational Control Techniques

- (a) Financial Control
  - Budgetary Control
  - Control through Costing
  - Break-even Analysis
  - Responsibility Accounting
  - Internal Audit
- (b) Operating Control
- (c) Inventory Control

#### Overall Control Techniques

- (a) Financial Ratio Analysis
- (b) Management Audit
- (c) Social Audit
- (d) Human Resource Accounting
- (e) Management Information System (MIS)

## Questions Bank

### Q.1 Choose the correct alternative of the following: (1 mark each)

- (1) \_\_\_\_\_ means examining the past.
  - (a) Planning
  - (b) Controlling
  - (c) Co-ordination
- (2) \_\_\_\_\_ is an operating control.
  - (a) ABC Analysis
  - (b) EOQ
  - (c) TQM
- (3) Social Audit was propounded by \_\_\_\_\_.
  - (a) Allen
  - (b) McFarland
  - (c) Bowen
- (4) \_\_\_\_\_ is the essence of management.
  - (a) Planning
  - (b) Controlling
  - (c) Co-ordination
- (5) \_\_\_\_\_ ratio indicates solvency of the firm.

- (a) Liquid (b) Activity (c) Profitability
- (6) \_\_\_\_\_ is a no profit no loss point.  
 (a) Audit point (b) Control point (c) Break-even point
- (7) EOQ is a method of \_\_\_\_\_.  
 (a) pest control (b) quality control (c) inventory control
- (8) Under responsibility accounting, \_\_\_\_\_ acts as a responsibility centre.  
 (a) manager (b) subordinate (c) department
- (9) \_\_\_\_\_ is not a control technique.  
 (a) Budget (b) Ratios (c) MIS
- (10) \_\_\_\_\_ and controlling are Siamese twin.  
 (a) Planning (b) Organising (c) Budgeting

**Ans.:**

|                 |                      |                       |                   |
|-----------------|----------------------|-----------------------|-------------------|
| (1) Controlling | (2) TQM              | (3) Bowen             | (4) Co-ordination |
| (5) Liquid      | (6) Break-even point | (7) inventory control | (8) department    |
| (9) MIS         | (10) Planning        |                       |                   |

**Q.2 Practical Application/Case Study: (15 Marks)**

**Read the following case carefully and answer the questions given:**

Asian Limited, a multinational company, has branches in the 12 commercial cities of the world. Under these 12 branches, there are a number of sub-branches located in the major cities of these countries. The company is more than 100 years old and has diversified itself into a number of product lines. The major decisions relating to production and marketing are centralised with the head office located at China. The head office prepares a master plan and sends them to main branches. The officials at the main branches derive secondary plans on the basis of master plan and supply them to sub-branches. There is only a one-way flow of communication.

In the recent past, the company is facing a serious problem of falling sales in many of its product lines. A majority of its branches experienced the problem of labour-management conflicts. A management consultant was consulted to probe into the problem. At the end of the inquiry, the consultant remarked that the company lacks co-ordination and control both between head office and branches as well as between different branches of the company. He strongly recommended the synergetic collaboration between the different branches to reduce cost and improve efficiency. At the same time, the head office needs to decentralise and exercise effective control over the functioning of the branches.

**Questions:**

- (1) Identify the various management functions that have been ignored by the head office?

- (2) Suggest a system of co-ordination that the company needs to exercise over its employees.
- (3) How can the company reap the benefit through synergetic collaboration between branches?
- (4) Devise a system of control that the company needs to devise in order to achieve co-ordination.

**Q.3 Described Questions/Short Essay Type Questions: (7-8 marks each)**

- (1) "Planning and Controlling are siamese twin" Explain.
- (2) What are standards? What are their types?
- (3) How can controlling be made effective?
- (4) Define budgetary control technique.
- (5) Explain the concept of co-ordination.

**Q.4 Long Essay Type Questions: (15 marks each)**

- (1) Define controlling. What are the characteristics of controlling function?
- (2) Explain the strategic control process giving the requirements of an effective control system.
- (3) Discuss the importance of controlling and also highlight the various control techniques.
- (4) What is co-ordination? What is its significance?
- (5) "Co-ordination is the essence of management." Discuss.

**Q.5 Short Notes: (5 marks each)**

- (1) Tangible standards
- (2) Intangible standards



## 9. Recent Trends in Management

### Scope of Syllabus:

Green Management and Corporate Social Responsibilities (CSR).

### Structure:

- 9.1 \*Concept of Green Management
- 9.2 \*Features of Green Management
- 9.3 \*Concept of Corporate Social Responsibilities (CSR)
- 9.4 Features of Corporate Social Responsibility
- 9.5 \*Areas of Corporate Social Responsibility
- 9.6 Importance of Corporate Social Responsibility
- 9.7 \*Arguments for Corporate Social Responsibilities
- 9.8 \*Arguments against Corporate Social Responsibility

\* Marked topics are related to syllabus.

Chapter Summary

Questions Bank

## 9.1 Concept of Green Management

Green management adopts principles, policies, and practices that improve the quality of life for its customers, employees and other stakeholders. It develops and practices business strategies that go beyond regulation and demonstrate commitment to a healthy and sustainable future.

*A management that undertakes its activities without any negative impact on the local or global environment, the community, or the economy is termed as environment-friendly management. Such managements are popularly termed as green management.*

## 9.2 Features of Green Management

Various features of Green Management are:

- (a) **Sustainability:** In the changed global scenario, many companies have strengthened their commitments to sustainability. Championing sustainability allows businesses to align deeply with their missions and satisfy customers in a more meaningful manner. Most companies now consider green practices to be vital to remaining competitive and they also affirm that these practices contribute to higher profits.
- (b) **Dynamic:** Management is a dynamic concept. At the same time, threats to environment are also evolving very fast. *For example*, a decade back no one had ever thought of nuisance caused by e-waste, but today it has become one of the major problems for all economies of the world. This dynamism on both sides makes the concept of green management more relevant and evolving.
- (c) **Ongoing Process:** Being environment-friendly is not one-time process, but it is an ongoing management process. There are a number of ways in which the management can show its commitments to environment, such as Go-green Campaigns, using recycled products or introducing environment-friendly manufacturing processes. The management can also donate money for the causes that benefit the environment.
- (d) **Paperless Offices:** An important feature of green management is a move towards paperless offices, which can save our valuable forest resources. Due to the fast developing technology and its integration at the global level, paperless offices have become a reality. Most of the managerial functions which hitherto involved use of paper can be performed more efficiently through the use of technology.
- (e) **Eco-friendly Offices:** A management needs to design its office building and office layout in such a way that it permits maximum cross-ventilation and natural light. This will not only reduce energy consumption but also promote efficiency. Placing

green plants in the office premises will enhance beauty and also provide healthy environment to work.

- (f) **Cost Saving:** According to the Green Business Bureau, companies that promote a healthier workplace report a 20 per cent decrease in the number of sick days used by employees. This benefits companies through increased productivity and less money paid out in medical benefits. Companies that focus on reducing energy consumption also save money due to reduced energy consumption bills.
- (g) **Tax Credits:** A number of countries have started providing incentives for companies to go green in the form of tax credits, which can enhance their bottom lines. Tax credits are available to companies that utilise environmentally-friendly business practices, such as switching to renewable energy sources like solar power, and using electric or hybrid automobiles and trucks as fleet vehicles.

### 9.3 Concept of Corporate Social Responsibility (CSR)

Due to fast changing socio-economic environment, the concept of social responsibilities of business has gained immense importance. Business cannot ignore the social needs as it itself is an important constituent of the society. In developing country like India, the concept of social responsibilities of business plays a very important role in the economic upliftment and industrialisation of the nation.

*"The business enterprise is a trust and the businessman is a trustee and therefore there should be equitable distribution of income among employees, employers and the society. It is not only the Government that is entrusted with the task of being just and humane as well as efficient and dynamic but also business enterprises."*

**– M.K. Gandhi**

Social responsibility is an ethical or ideological theory that an entity, whether it is a government, corporation, organisation or individual, has a responsibility towards society. This responsibility can be positive as well as negative. Thus, it is a responsibility to refrain from acting (resistance stance) or it can be a responsibility to act (proactive stance). For instance, contributing towards preservation and protection of natural environment is a positive aspect of social responsibility and refraining from contributing to environmental pollution is a negative aspect of it.

*"Social responsibility is an obligation of business to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society."*

**– Robert Bowen**

*"Social responsibility refers to the businessman's decisions and actions taken for reasons at least partially beyond the firm's direct economic and technical interest."*

**– Keith Davis**

According to Keith Davis, social responsibility refers to two types of business obligations:

- (a) **Socio-economic Obligations:** Socio-economic obligations include obligation to create employment opportunities, to maintain competition, to curb inflation, to avoid black marketing and profiteering, etc.
- (b) **Socio-human Obligations:** Socio-human obligations include obligations to nurture and develop human values such as morale, motivation, co-operation and self-realisation.

In simple words, the term social responsibility means the obligations of management towards the society and others concerned. Social responsibility is defined as the obligation and commitment of managers to take steps for protecting and improving society's welfare, while pursuing organisational and their own interest. The scope of social responsibility of management includes four important groups that influence and are influenced by the activities of business organisation. These groups are:

- (a) The Shareholders.
- (b) The Employees.
- (c) The Customers.
- (d) The Society at large.

#### 9.4 Features of Corporate Social Responsibility

*"Public sentiment is everything. With public sentiment, nothing can fail, without it, nothing can succeed."*  
– Abraham Lincoln

The concept of social responsibilities of business has changed considerably along with the changes in social, political and economic environment of business. According to classical view, the only responsibility of business was to produce goods and services for society. However, at present, the scope of social responsibilities of business has become too comprehensive. Some of the common characteristics of social responsibilities of business are:

- (a) **Two-way Commitments:** The rationale of social responsibilities of business is that business is a social entity – it is a part of the society. Like citizens, business too has certain right and corresponding duties. Thus, it's a two-way commitment – when a business gains from society, it has to perform certain duties and seek responsibilities in return.
- (b) **Universal Concept:** The concept of social responsibilities of business is not restricted to only profit-making organisations or large corporate houses. It is applicable equally to all types of business – small, medium or large, profit-making enterprises or non-profit making enterprises, public enterprises or private enterprises. Thus, it is a universal concept.



- (c) **Continuous Process:** As stated earlier, business is a social entity and therefore, shouldering of social responsibilities is a continuous process. In fact, every activity of business should be weighed in social perspective, *i.e.*, how and in what way the actions of business organisation will benefit the various constituents of society.
- (d) **Ambiguous in Nature:** There is a general agreement as to what constitute economic objective. Economic objectives are clear and definite. However, there is no general agreement on the nature and scope of social obligations of business. A number of proponents of social role of business have defined the term in different ways.
- (e) **Voluntary Practice:** Performance of social responsibilities is not legally binding but certainly useful to all business organisations in the long run for stability, growth and social recognition. There is no formal mechanism for enforcing social obligations of business but business houses are expected to be society-oriented in their every action.
- (f) **Multi-faceted:** Social responsibilities of business are multi-faceted. They are not confined to society in general but are the specific commitments towards various stakeholders, *viz.*, shareholders, consumers, workers, suppliers, government and society at large. Thus, social responsibilities of business have a comprehensive scope.
- (g) **Society Specific:** The nature and scope of social responsibilities of business changes from society to society depending upon the social, economic, political and regulatory environment in which a business operates. *For example*, it may be unethical to deal in beef-based products in country like India where cow is considered to be holy.
- (h) **Legal Sanction:** Due to growing awareness and pressure from various constituents from society, many of the social responsibilities of business have been legally sanctioned by the governments. *For example*, there are a number of Acts protecting the interest of workers, consumers, shareholders and environment.

### 9.5 Areas of Corporate Social Responsibility

The scope of corporate social responsibilities includes four important groups that influence and are influenced by the activities of business. Business is expected to accept its responsibilities towards these groups. These four groups are:

- (a) The Shareholders.
- (b) The Employees.
- (c) The Customers.
- (d) The Society at large.

The interests of these stakeholders are not identical, rather they are often conflicting. Each group wants a lion's share of the pie. Consumers crave for value-added products but at economical price, employees demand better working conditions and higher remuneration,

society expects philanthropy and healthy environment and finally, owners expect higher returns and appreciation in their wealth. Business organisations have to balance these diverse demands of various stakeholders.

The following points elucidate the social responsibilities of business as well as management towards various stakeholders:

- (a) **Obligation of Business towards Itself:** It is rightly said that the first business of every business is to do business and stay in business. A good businessman must work towards growth, expansion and stability of business and make it a going concern. The obligations of business towards itself are:
- Achieving fundamental objectives of survival, growth and recognition.
  - Ensuring long-term success through expansion and diversification.
  - Making optimum use of production capacity and factors of production.
  - Achieving higher rate of return and capital appreciation.
  - Achieving economies of scale through mass production and distribution.
  - Building competitive strength so as to build entry barriers in the industry.
- (b) **Obligation of Business towards Shareholders:** Shareholders are the real owners of the business. They are the risk bearers in the business and profit is the reward for such risk bearing. The obligations of business towards its shareholders are:
- Providing fair rate of return to shareholders on their investment.
  - Enhancing the market value of shares, *i.e.*, capital appreciation.
  - Issuing bonus shares out of accumulated earnings.
  - Disclosing issues affecting financial interests of the investors.
  - Providing security to investors through growth and expansion.
  - Facilitating quick disposal of the shareholders' complaints.
- (c) **Obligation of Business towards Workers:** Human resource is the most important of all resources. Unlike other resources, human beings have feelings, aspirations and expectations. Thus, they need a very high degree of motivation. The obligations of business towards its workers are:
- Providing fair wages, incentives and allowances to employees.
  - Creating healthy work environment, proper lighting, ventilation, etc.
  - Ensuring workers' participation in management.
  - Developing human resource through proper education and training.
  - Providing job security and social security.
  - Providing opportunities for self-development and career development.

- (d) **Obligation of Business towards Consumers:** In the modern marketing system, the consumer is the king. All business activities centre around the needs and requirements of consumers. The obligations of business towards consumers are:
- Providing quality goods and services at reasonable price.
  - Rendering quick after-sales services, as and when demanded.
  - Undertaking R&D, product innovations and improvements, etc.
  - Ensuring the protection of consumer rights and welfare.
  - Avoid unfair trade practices, viz., black marketing, hoarding, etc.
  - Attending to the consumer complaints quickly.
- (e) **Obligation of Business towards the Society:** Peter F. Drucker says that the business enterprise should be so managed as to make public good which becomes automatically the private good to the enterprise. The gains of the increased productivity and growth should be shared equally by the management, shareholders, workers, consumers and society at large. The obligations of business towards society are:
- Decentralisation of industries in the backward areas.
  - Preventing environmental pollution and maintaining ecological balance.
  - Providing aid to community welfare projects like schools, hospitals, etc.
  - Avoiding unfair trade practices.
  - Promoting small-scale and cottage industries.
  - Paying duties and taxes on time and allowing fair competition.

## 9.6 Importance of Corporate Social Responsibility

Economic activities cannot be carried on in isolation of society as business is a part of society, in the sense that it is carried on by the people (entrepreneurs and businessmen), through the people (employees and executives) and for the people (consumers and society at large). Human society is the product of various cultural and ethical values. The actions of the people in the society are governed by specific set of rules and code of conduct and so is the business.

There is increasing awareness of the interdependence between business and its environment in the society. Business organisations are no longer viewed as private bodies free to pursue their own goals. They are also expected to contribute to the welfare of the society. Managers are no longer considered to have responsibility only to the owners. Managers, today, are increasingly held accountable for the social effects of their actions. The shareholders, the suppliers of resources, the consumers, the local community and the society at large are affected by the way an enterprise functions. Hence, a business

enterprise has to be socially responsive so that a social balance may be struck between the opposing interests of these groups.

*“By social responsibility, we mean the intelligent and objective concern for the welfare of society that restrains individual and corporate behaviour from ultimately destructive activities, no matter how immediately profitable, and leads in direction of positive contributions to human betterment.”* – **Kenneth and Andrews**

The need and importance of social role of business need no emphasis in Indian context where various constituents of economy such as consumers, shareholders, workers, etc. are exploited in one or the other way. The following points would make it clear:

- (a) **To avoid deceptive and unfair trade practices:** Deceptive and unfair trade practices include attractive packaging, misleading advertising, faulty claims about product, price tie-up arrangements, black marketing, artificial scarcity, adulteration, supply of inferior goods and short weights and measures. Social role of business need emphasis in order to avoid such practices.
- (b) **To control pollution and protect environment:** It is the duty of every citizen to conserve and protect our planet Earth from pollution. Business units, guided by the incentives of private profit, try to ignore environmental factors. This has resulted in overexploitation of natural resources. Social role of business, thus, needs emphasis for the protection of environment.
- (c) **To promote rights of consumers:** Consumers enjoy certain rights such as right to safety, right to seek information, right to choose, right to be heard, etc. Generally, these rights are ignored by the business community as consumers in developing countries are ignorant and unorganised. Thus, business needs to be made aware of its duties towards consumers.
- (d) **To avoid exploitation of workers:** The best way to increase profits is by cutting down the cost of production. The major component of cost of production is the labour cost. Industrialists try to cut down costs and increase profit. As a result, workers are exploited in one or the other way. This requires the enforcement of social role of business towards workers.
- (e) **To make business conscious of its responsibilities:** Business is not only a profit-making institution but it is an important organ of the society. Being a part of society, it enjoys certain rights as well as has to shoulder certain responsibilities. Such responsibilities can be conveyed to business houses through the enforcement of social responsibilities.
- (f) **To promote small-scale and cottage industries:** It is the moral duty of every business to protect small-scale and cottage industries, which play an important role in the developing economies. Big business houses should not compete but co-operate

with them. This feeling of co-operation can be well promoted through the promotion of the ideas of social role of business.

- (g) **To avoid government control and interference:** Besides developmental functions, the main role of government is to regulate industrial and business in the public interest. Therefore, it is advisable on the part of business houses to voluntarily discharge their social obligations rather than being legally enforced by the government.
- (h) **To balance responsibility with power:** Social responsibilities should be equated with the power that the institution possesses. Big business houses possess a vast amount of social powers to affect the social values and the society. Business owns large economic resources, thus they are expected to share more social obligations.

### 9.7 Arguments for Corporate Social Responsibility

*"It is a fallacy that business can prosper – or indeed, even exist without regard to broader social concerns."*  
**– S. Prakash Sethi**

Business, being an important component of the social system, next to the government, a number of arguments have been put forth in support of socially responsive actions of business organisations:

- (a) **Changed Public Expectations of Business:** One of the most potent arguments for social responsibility is that public expectations from business have changed. Society not only expects business to provide it with quality goods and services at reasonable prices but also expects it to contribute to the social upliftment and development.
- (b) **Better Environment for Business:** The fulfilment of social obligations gives business a better environment to operate in. The firm, which is most responsive to the community needs, will have a better society to operate in. This would provide business with more opportunities for growth, development, expansion and diversification.
- (c) **Enhanced Public Image:** The firm which contributes to the social overheads gets social recognition. This enhances its market image and goodwill, which may indirectly result in more customers, better labour-management relations, high productivity and profitability, more responsive money market and many such benefits.
- (d) **Business has the Resources:** Business has a vast pool of resources in terms of men, talents, functional expertise and financial pool. Probably, business is without peers in respect of the resources it possesses. With these resources at its command, business is in a better position to work for the social goals.
- (e) **Let Business Try:** One interesting argument for social responsibilities of business is that every business should undertake social responsibilities on a trial basis.

There are a large number of advantages associated with the fulfilment of social obligations. These advantages would help business to turn the trial into a habit.

- (f) **Prevention is Better than Cure:** If business delays dealings with social problems now, it may find itself engulfed by social fires. As a result, it will have little time to accomplish its organisational goals. Hence, it would be more economical to deal with them before they develop into serious social breakdowns.
- (g) **Moral Responsibility:** The modern industrial society faces many social problems such as pollution, urbanisation, unemployment, concentration of economic power, etc., most of which are the result of large-scale industrialisation. Thus, it is the moral duty of the corporate world to help solve or ameliorate these problems.
- (h) **Trusteeship Principle:** 'Trusteeship' is the foundation of the socialistic pattern of society as enshrined in the Indian Constitution. The trusteeship principle emphasises that businessmen are the caretakers of business property, holding it in trust for the society as a whole. In this sense, business is a trust and businessmen are the trustees.
- (i) **Professionalisation:** The separation of ownership from management in large enterprises has replaced the 'owner manager' with the 'paid manager'. The managers having no stake in ownership tend to take a long-term and more responsible view of their role. This has resulted in growing awareness of social role of business.
- (j) **Citizenship Argument:** Business organisations are the institutional members of society. If individual members of society have an obligation to contribute towards the welfare of society, then the same obligation is binding on businessmen too. After all, corporations are citizens, and citizens have civic duties and responsibilities.

Do social obligations conflict with profit objectives? Not necessarily. According to Peter Drucker:

*"A company can make social contribution only if it is highly profitable. A bankrupt company is least capable of attracting and retaining talented personnel and is unlikely to fetch assets to the community and therefore is bound to be destroyed by the society itself. Thus, a sick or a loss making unit is a burden on society."*

## 9.8 Arguments against Corporate Social Responsibilities

Arguments against socially responsive actions of business are equally strong. Some of these arguments are:

- (a) **Profit Maximisation:** The most powerful argument disfavouring social responsibility is that business is an economic institution and its main objective is to maximise profits and wealth of business. Again, in the modern system of joint stock

companies, directors and managers are the agents of the stockholders and their main duty is to maximise shareholders' wealth.

- (b) **Society has to Pay the Cost:** Another argument against social responsibilities of business is that the business is essentially an economic institution guided by desire to earn profit. Ultimately, the costs of undertaking social obligations are passed on to the society in terms of higher prices. Thus, it is the society who pays for the social role of the business.
- (c) **Lack of Social Skills:** Business managers are best at managing business matters. Their outlook is primarily economic and their skills are the same. The important questions to answer here are – Does society really want economic and technical people meddling in social affairs? and – Is it better equipped than government and other institutions?
- (d) **Business has Enough Power:** Business already has enough social power which it utilises to enhance its own economic interests. Business influence is felt in every walk of life, in education, in government, in the home and in marketplaces. The process of combining social activities with the economic activities of business would give business an excessive concentration of power.
- (e) **Social Overhead Cost:** Cost on social responsibility is considered to be social cost which will not benefit the business immediately. Again, the assumption of social responsibilities involves huge investment. This is one of the reasons that most of the business organisations are reluctant to assume social responsibilities despite willingness to do so.
- (f) **Lack of Accountability:** Another point of view is that the businessmen have no direct accountability to the people. Therefore, it is unwise to give businessmen a responsibility for which they are not directly responsible. Accountability should always go with responsibility. Business houses are responsible to its shareholders and not to the society.
- (g) **Lack of Broad Support:** The concept of social responsibility has not been supported by all the sections of the society. Although, many persons desire business to become more socially involved, there is lack of agreement among the general public, among intellectuals, in government and even among businessmen themselves on the social role of business.
- (h) **Friedman's Argument:** The most cogent criticism has been voiced by the economist Milton Friedman.
- He asserted that if managers spend corporate funds on projects not intended to maximise profits, then the efficiency of the market mechanism will be undermined and resources will be misallocated within the economy.

- He also asserted that managers are the legal agents of the stockholders and their sole duty is to maximise their returns. If the stockholders want to contribute socially, they can do so from their dividend income.
- (i) **Theodore Levitt Argument:** Theodore Levitt argued against corporate social responsibility fearing that if business values might come to dominate society, then business institutions would become the twentieth century equivalent of the medieval church, the all-embracing institution in the society. He suggested that this would not be healthy for society.

## Chapter Summary

### Concept of Green Management

Green management adopts principles, policies, and practices that improve the quality of life for its customers, employees and other stakeholders.

*A management that undertakes its activities without any negative impact on the local or global environment, the community, or the economy is termed as environment-friendly management. Such managements are popularly termed as green management.*

### Features of Green Management

- (a) Sustainability
- (b) Dynamic
- (c) Ongoing Process
- (d) Paperless Offices
- (e) Eco-friendly Offices
- (f) Cost Saving
- (g) Tax Credits

### Concept of Corporate Social Responsibility (CSR)

Due to fast changing socio-economic environment, the concept of social responsibilities of business has gained immense importance.

*"Social responsibility refers to the businessman's decisions and actions taken for reasons at least partially beyond the firm's direct economic and technical interest."*

### Features of Corporate Social Responsibility

- (a) Two-way Commitments
- (b) Universal Concept
- (c) Continuous Process
- (d) Ambiguous in Nature
- (e) Voluntary Practice



- (f) Multi-faceted
- (g) Society Specific
- (h) Legal Sanction

**Areas of Corporate Social Responsibility**

- (a) Obligation of Business towards Itself
- (b) Obligation of Business towards Shareholders
- (c) Obligation of Business towards Workers
- (d) Obligation of Business towards Consumers
- (e) Obligation of Business towards the Society

**Importance of Corporate Social Responsibility**

- (a) To avoid deceptive and unfair trade practices
- (b) To control pollution and protect environment
- (c) To promote rights of consumers
- (d) To avoid exploitation of workers
- (e) To make business conscious of its responsibilities
- (f) To promote small-scale and cottage industries
- (g) To avoid government control and interference
- (h) To balance responsibility with power

**Arguments for Corporate Social Responsibility**

*"It is a fallacy that business can prosper – or indeed, even exist without regard to broader social concerns."*

- (a) Changed Public Expectations of Business
- (b) Better Environment for Business
- (c) Enhanced Public Image
- (d) Business has the Resources
- (e) Let Business Try
- (f) Prevention is Better than Cure
- (g) Moral Responsibility
- (h) Trusteeship Principle
- (i) Professionalisation
- (j) Citizenship Argument

**Arguments against Corporate Social Responsibilities**

- (a) Profit Maximisation
- (b) Society has to Pay the Cost

- (c) Lack of Social Skills
- (d) Business has Enough Power
- (e) Social Overhead Cost
- (f) Lack of Accountability
- (g) Lack of Broad Support
- (h) Friedman's Argument
- (i) Theodore Levitt Argument

### Questions Bank

#### Q.1 Choose the correct alternative of the following: (1 mark each)

- (1) Social responsibilities of business are known as \_\_\_\_\_ in the US.  
(a) CSR                      (b) SR                      (c) SRB
- (2) Social Responsibilities of Business is a \_\_\_\_\_ concept.  
(a) rigid                      (b) dynamic                      (c) static
- (3) According to Gandhiji, businessmen are \_\_\_\_\_ of the society.  
(a) members                      (b) trustees                      (c) servants
- (4) \_\_\_\_\_ is not one of the modes of green management.  
(a) Paperless offices      (b) Use of solar energy      (c) Glass buildings
- (5) The first responsibility of every business is towards \_\_\_\_\_.  
(a) itself                      (b) consumers                      (c) workers
- (6) Business is a/an \_\_\_\_\_ institution.  
(a) social                      (b) economic                      (c) socio-economic
- (7) As per the Green Business Bureau, healthier workplace lead to \_\_\_\_\_ decrease in number of sick days.  
(a) 10%                      (b) 20%                      (c) 25%

Ans.:

|            |                    |              |                     |
|------------|--------------------|--------------|---------------------|
| (1) CSR    | (2) dynamic        | (3) trustees | (4) Glass buildings |
| (5) itself | (6) socio-economic | (7) 20%      |                     |

#### Q.2 Practical Application/Case Study: (15 Marks)

Read the following case carefully and answer the questions given:

Coca-Cola India being one of the largest beverage companies in India, realised that CSR had to be an integral part of its corporate agenda. According to the company, it was aware of the environmental, social, and economic impact caused by a business of its scale and therefore, it had decided to implement a wide range of initiatives to improve the quality of life of its customers, the workforce, and society at large.

However, the company came in for severe criticism from activists and environmental experts who charged it with depleting groundwater resources in the areas in which its bottling plants were located, thereby affecting the livelihood of poor farmers, dumping toxic and hazardous waste materials near its bottling facilities, and discharging waste water into the agricultural lands of farmers. Moreover, its allegedly unethical business practices in developing countries led to its becoming one of the most boycotted companies in the world.

Notwithstanding the criticisms, the company continued to champion various initiatives such as rainwater harvesting, restoring groundwater resources, going in for sustainable packaging and recycling, and serving the communities where it operated. Coca-Cola planned to become water neutral in India by 2009 as part of its global strategy of achieving water neutrality. However, criticism against the company refused to die down. Critics felt that Coca-Cola was spending millions of dollars to project a 'green' and 'environment-friendly' image of itself, while failing to make any change in its operations. They said this was an attempt at greenwashing as Coca-Cola's business practices in India had tarnished its brand image not only in India but also globally.

**Questions:**

- (1) Understand the issues and challenges faced by Coca-Cola with regard to its sustainability initiatives in India.
- (2) Analyse the underlying reasons for the growing criticism against Coca-Cola in India and explore ways in which the company can address this issue.
- (3) Understand the concept of greenwashing and discuss and debate whether Coca-Cola is serious about its water sustainability initiatives.

**Q.3 Described Questions/Short Essay Type Questions: (7-8 marks each)**

- (1) What are the criticisms against the social responsibility of management?
- (2) What are the features of green management?

**Q.4 Long Essay Type Questions: (15 marks each)**

- (1) Define the concept of social responsibility of management and discuss its scope.
- (2) Define CSR? What are the features of CSR?
- (3) What are the arguments in favour of CSR? On what grounds CSR has been criticised?

**Q.5 Short Notes: (5 marks each)**

- (1) Obligations of management towards itself.
- (2) Green management techniques.



## **Suggestive Reading**

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