Master of Business Administration

(MBA)

Modern Business Organization and Management

Semester-I

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Modern Business Organization and Management

Learning out comes

Students will be able to understand:

Unit-1

- Analyze the impact of industry trends on businesses.
- Define and differentiate between business and industry.
- Discuss the importance of each characteristic in the context of business operations.

Unit-2

- Assess the impact of globalization, technology, and cultural diversity on management practices.
- Explain the importance of effective management in ensuring organizational success.

Unit-3

- Understand the historical context and evolution of management theory from classical to modern approaches.
- Anticipate future trends and developments in leadership and management practices.

Unit-4

- Define planning and its significance in organizational management.
- Analyze the interrelationship between different levels of planning within an organization.

Unit-5

- Evaluate the importance of clarity, specificity, and feedback in successful delegation
- Understand the role of entrepreneurship in driving economic growth, innovation, and job creation.

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MODERN BUSINESS ORGANIZATION AND MANAGEMENT

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UNIT I

INTRODUCTION TO BUSINESS ORGANIZATION

STRUCTURE:

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1.1 LEARNING OBJECTIVE

After completing this unit, you will be able to:

- Explain the concept of business industry and commerce and Interrelationship
- Explain the significance of business
- Explain the characteristic features of business
- Explain the nature and scope of Modem business organisation and Management
- Explain the process of setting up a business enterprise

1.2 INTRODUCTION

Business is a concept of exchanging goods and services for money in an organization or economic system. Every business requires some form of investment on a consistent basis and must have enough customers to whom its output is sold to make a profit.

Businesses are divided into two categories: industry and commerce. Industry and commerce are interrelated functions, and the sector cannot exist without trade and otherwise. Every producer has to identify a market for their sell products. Moreover, the products have a direct connection with the buyers or consumers.

Commerce concerns with the sale, transfer or exchange of goods and services. It comprises of all those activities engaged in buying, selling, transporting, banking, warehousing of goods, and insurance tor safeguarding the goods. The commerce establishes the link between the producers and ultimate consumers, and it needs a platform of the industry for the production of goods and services.

Trade includes sale, transfer or exchange of goods. Though, it does not add other functions of commerce, like transportation, insurance, banking, warehousing, etc. Moreover, without trade, the producers will have to locate the customers for their products individually. Therefore, without business, there would be little or no need for commerce.

In conclusion, we can say that industry, trade, and commerce are inter-related with each other. The industry is concerned with the production of goods and services, and commerce disposes of its sales, but the actual operation of sales is in the hands of trade. Moreover, therefore they cannot work independently.

Business

Business (also known as an enterprise, a company, or a firm) is an organizational entity that comprises of an association of people, who share a common purpose and unite to focus on their various talents, and organize their collective skills or resources to achieve the desired goal. The people that constitute this entity are from production, operation, legal or a mixture of them, further, they are engaged in the provision of goods and services to consumers. A business can also be described as the component that provides goods and services for human needs. It is a broad expression that consists of trade, industry, and commerce, the three essential constituents of any economic activity.

Three essential characteristics must be met to have a business. First, business success must be an outcome of individuals' efforts by working together in an organized fashion. Second, the businesses must exist to satisfy a societal need. Third, the businesses must seek to make a profit. Businesses must also satisfy a need for the society. For example, a grocery store satisfies the need to be able to purchase food for ourselves and our families.

Features of Business

Customers, however, want a benefit and do not care much about the features which are touted by every supplier as unique or superior. Some of the features of business are:

1. **Exchange of goods and services**
   All business activities are directly or indirectly concerned with the exchange of goods or services for money or money's worth.

2. **Deals in numerous transactions**
   The exchange of goods and services is a regular business feature. It deals with multiple numbers of transactions conducted by the businessperson.

3. **Profit is the main Objective**
   The profit as defined is a reward for the services of a businessperson. Any and every business is carried on with the intention of earning a profit.

4. **Business skills for economic success**
   A businessperson needs an experience and skill to run a business. Without a sound knowledge of business qualities and skills, one cannot run a business.

5. **Risks and Uncertainties**
   Business is subject to risks and uncertainties. Risks include insurance -covers loss due to fire and theft. Though uncertainties, like the change in the demand or fall/rise in prices at the marketplace are borne by the businessperson directly.

6. **Buyer and Seller**
   Every business transaction has a buyer and a seller. The business is termed as a contract or an agreement between buyer and seller.

7. **Connected with production**
   The business endeavour also termed as industry activity involves the production of goods and services. It could be primary or secondary, depending on the nature of the business.

8. **Marketing and Distribution of goods**
   Marketing and distribution of goods is also described as the commercial nature of the business activity.

9. **Deals in goods and services**
   Dealing with goods and services are an integral component of any business today. The goods can be further described in two categories:

- **Consumer goods:** They are the goods used by the final consumer for consumption, e.g., 'TV., Soaps, etc.
- **Producer goods:** These are the goods that could be used by the producer for further production. E.g., Machinery, Equipment, Thrashers, etc.

The services are intangible, and are exchanged for the value of providing transport, warehousing and insurance services, etc.

10. To Satisfy human wants

It is the ultimate aim of the businessperson. By producing and supplying various commodities, they desire to satisfy human wants and achieve consumer satisfaction by conducting business,

11. Social obligations

The social responsibility is a critical element of any business today. Moreover, therefore most of the businesses emphasize on service-oriented approach as opposed to profit-oriented. The focus is on helping to serve the customer.

Industry

It is the production of goods or related services within a growing economy. The industry refers to the group of companies based on their primary business focus. In modern economies, there is a significant classification that is typically grouped into broad categories called sectors. The individual companies are classified into an industry based on their source of revenue. A company is classified as an automaker depending upon the attribution purposes.

There are different types of industries such as extractive industry, genetic industry, manufacturing industry, construction industry and service industry.

The industries are grouped into four broad sectors:

- Primary sector deals mainly with farming and raw material extraction industry equipment.
- Secondary sector involves refining, construction, and manufacturing.
- Tertiary sector deals with the provision of services.
- Quaternary sector is a relatively new type of knowledge focused industry that emphasizes on technological research, design, and development.

Commerce

It is commonly referred to as the activity of buying and selling, goods and services, especially on a large scale. Commerce includes legal, economic, political, social, cultural and technological systems that are in operation at a local level or internationally.

It is an exchange of goods or services for money or in kind, usually on a scale large enough to require transportation from place to place or across the city, state, or national boundaries. It includes trade and aids to trade.

- **Trade:** It involves the transfer of goods or services from one person or entity to another, often in exchange for money. A network that allows trade be called a market. It may be a barter transfer, i.e., exchange of goods for goods or monetary trade, where the money is used as a medium of exchange.
- **Aids-to-trade:** It helps remove the auxiliaries for trade or exchange or goods that involved several difficulties. A combination of all those activities, which directly or indirectly facilitates the smooth exchange of goods and services. Aids to trade include Transport, Communication, Warehousing, Banking, Insurance, Advertising, Salesmanship, Mercantile agents, Trade promotion organizations in a county and Global organizations for international trade. The auxiliaries ensure smooth flow of goods from producers to the consumers.

1.3 SIGNIFICANCE OF BUSINESS

Business is an integral part of modern society. It is an organized and systematized activity for profit. It is concerned with activities of people working towards a common goal. The need and importance of business in society can be described under the following broad heads:

1. Role of Business for Itself

It is said to be the first rule of every business, and to conduct business and stay active. The businesses must utilize its resources most productively. Otherwise, it is just a social waste. The following points explain the role of business towards itself:

- **Accomplishment of Business Objectives:**
  Every business activity is directed towards the achievement of predefined individual objectives. The fundamental objectives of any business are survival, growth, and recognition. It is the primary duty of every business to achieve the fundamental objective and make the business a going concerns.

- **Growth, Expansion and Diversification:**
  Growth: The process of improving the measurement of an enterprise's success. Business growth is a function of the business lifecycle, industry growth trends, and the owner's desire for equity value creation. Business growth is achieved either by boosting the top line or revenue of the business with higher product sales or service income or by increasing the bottom line or profitability of the operation by minimizing the costs. It is a phase where the business reaches the point of expansion and seeks additional options to generate more profit.

  Expansion:
  It the strategy attained by increasing the presence of the business to enable customers to buy company's products and services. It entails opening up new stores in some different physical locations while still maintaining the current business locations. Business Expansion is a stage where the business reaches a mounting point for growth and seeks out for additional options to generate more profit. It

includes opening a new store m another location, adding new sales force, increased marketing, and adding franchisees, forming an alliance, offering new products or services, entering new markets, merging with or acquiring another business, expanding globally and expanding through the internet.

Diversification:
The businesses employ diversification as a growth strategy. It occurs when a business develops a new product or expands into a new market. The businesses diversify to manage risk by minimizing the potential harm to the business during economic downturns. The expansion of business activity must be to help the company avoid any negative situation to overcome economic downturn. This strategy helps the organization balance and offset losses between the entities.

- **Innovation and Invention:**
  Invention is about making new items, or finding new ways of making items. Innovation helps bring about this new idea to the market that is, turning an invention into a product. A business can even use the law to protect its business idea.

- **Corporate Image and Goodwill:**
  It is a common phrase that refers to a company's reputation. The 'image' is how the public sees the corporation in general. This concept is associated with how the entities are perceived in the more extensive marketplace. It is usually an essential element for large corporations. Without active efforts of marketing, the corporate image is just created based on the perception of the company. The Goodwill is an assumed value and outcome from the generated sales revenue for the business, and for their assets. It is an intangible but saleable benefit, almost indestructible except by indiscretion.

- **Optimum Utilization of Resources:**
  In organizational studies, the resource management deals with the efficient and practical application of organization's resources when required. They may include financial resources, inventory, human skills, production resources, or information technology (IT). The large organizations usually have a defined corporate resource management process which mainly guarantees that resources arc never over-allocated across multiple projects.

- **Builds Competitive Strength:**
  A competitive advantage is a power for any business entity over the competition with their unique products and services. It is defined as the value offered to their end customers. Competitive strength justifies the higher prices for their products and services and sets apart the company's business in the marketplace. It is about the benefit a customer receives while conducting business with the organization, be it with their products, services, reputation, or even the location.

2. **Role of Business for other constituents**

- **Role of Business for Consumers:**

  Customers are a crucial element for the survival of any business. Moreover, therefore the businesses must provide them with following facilities:

  1. Products and services must take care of the needs of the customers.
  2. Products and services must be qualitative.
  3. There must be regularity in the supply of goods and services.
  4. Price of the goods and services should be reasonable and affordable.
  5. The end customer must be aware of the benefits and challenges of the product, with a detailed description of how to use the said products.
  6. There must be proper after-sales service.
  7. Customer grievances must be settled quickly.
  8. Unfair practices like under weighing the product, adulteration, etc. must be avoided.

- **Role of business for workers:**

  The workforce is an essential function of any business. The performance of workforce decides the productivity of any organization. Moreover, therefore the organization must take care of its employees. Their responsibilities towards their employee include;

  1. Meaningful Work and Job Satisfaction
  2. Fair Returns
  3. Best Physical and Mental Atmosphere
  4. Participation in the Management
  5. Training, Promotion and Welfare Schemes
  6. Recognition of Unions
  7. Proper Personnel Policies
  8. Health and Safety Measures
  9. Grievance Procedure

- **Role of business for shareholders:**

  The shareholders are practically the owners of the company. Their numbers vary depending on the size of the company with individual and institutional shareholders, such as mutual fund companies, pension funds, and hedge funds. They play an essential role in the financing, operations, governance and control functions of an active business. Their responsibilities for business as shareholders (investors) and creditors are as follows:

  1. To ensure the safety of the investment.
  2. Offer a fair and regular dividend or interest.
  3. Planned Growth of the business.

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4. Have effective communication skills.
5. Effective utilization of resources.
6. To offer a reasonable opportunity for participation of shareholders in policy decisions.

- **Role of business for the society:**
  The society comprises of individuals, groups, organizations, families, and more. They interact with each other and are also dependent on almost all activities based on direct or indirect relationship.

  Business is a subset of the society, and it is an essential element of the lives of society members. It has specific responsibilities for the society as follows:

  1. To help the weaker and backward sections of the society.
  2. To preserve and promote social and cultural values.
  3. To generate employment.
  4. To protect the environment.
  5. To conserve natural resources and wildlife
  6. To promote sports and culture
  7. To assist in the field of developmental research on education, medical science, technology, etc.

- **Role of business for nation:**
  Rules and regulations govern the business initiatives that are framed by the government of a nation. The business has specific responsibilities of business towards nation as follows:

  1. Setting up units as per guidelines of government
  2. Payment of fees, duties, and taxes regularly as well as honestly.
  3. Not to indulge in monopolistic and restrictive trade practices.
  4. Conforming to pollution control norms set up by the government.
  5. Not to indulge in corruption through bribing and other unlawful activities.

1.4 CHARACTERISTIC FEATURES OF BUSINESS

The broad characteristics of business are as follows:

1. **Transfer of Ownership:**
   Business facilitates the transfer of ownership of goods from producers to consumers with the decent money or money's worth. Business houses provide satisfaction to consumers through the provision of the form utility, with the place, time and possession under the incentive of private profit.

2. **Scope of Activities:**
   It includes trade and aids to trade. The trade is that branch of commerce which concerns with the exchange of goods and services while aids to trade are service-

oriented industries. It directly or indirectly helps with smooth conduct of business operations. For example, transportation, warehousing, insurance, advertising, banking and sales promotion.

3. **Profit Motive:**
   Profits acts as the driving force behind all the business activities. It is the deciding factor for survival, growth, and expansion of the business. Businesses have many goals, but profit-making is the primary goal of every business. It is an excellent indicator of the success and failure of businesses. It is required to create economic growth. The primary goal of a business is usually to estimate the highest possible level of profit based on the production and sale of goods and services.

4. **Continuous and Recurring:**
   Business is a continuous process of production and distribution of goods and services. A single transaction of trade cannot be termed as a business. To grow and gain regular returns a business must be conducted on a regular basis. To gain competitive advantage the businesses should continuously involve in research and developmental activities. A constant improvement strategy helps to increase the profitability of the business firm.

5. **Economic Institution:**
   The business is defined as the economic activity of production and distribution of goods and services. It offers employment opportunities in sectors, like banking, insurance, transport, industries, etc. It is an economic activity for the satisfaction of human wants. Business, in general, is a source of generating income for the society. It offers employment opportunities thereby leading to the growth of the economy. It is responsible for generating the industrial and economic development of the country.

6. **Social Institution:**
   Businesses have a moral responsibility towards the society, and they need support from various social groups, including investors, employees, customers, creditors, etc. Their primary objective is to make good available to various sections of the society. The businesses further meet social needs. They require support from different sections of the society for its proper functioning.

7. **Ethical and Lawful:**
   The business organizations are subject to follow the rules and regulations laid out by the government for that region. The regulatory body ensures that the business is conducted keeping in mind the social good of the society. It helps manage adequate supervision and control by enacting and amending laws and rules from time-to-time.

   Below are some of the essential facts framed by the government:

   - The Competition Act, 2002

- Foreign Exchange Management Act, 1999
- The Environment Act, 1986
- Indian Companies Act, 1956
- Consumer Protection Act

8. **Risk and Uncertainty:**
   The risk is defined as the effect of uncertainty arising on the objectives of the business. The calculation and management of the risk ensure the success of a business firm. Insurance and Risk management helps in minimizing the risk associated with the business. The businesses of today are exposed to two types of risk, namely - insurable and non-insurable. The insurable risks are predictable. Moreover, the predictable factors are controllable to some extent as mentioned below:

   - Taxes
   - Volume of the expected sales
   - Supplies and equipment cost
   - Overhead costs
   - Salaries
   - Cost of goods and services offered

   In the same line, the unpredictable factors include:

   - Changes in trends and tastes of customers.
   - Impact of the local economy on the customer base.
   - The competitors are taking any unexpected action.

9. **Creative and Dynamic:**
   Modern businesses of today are creative and dynamic. The business organizations of today must have creative ideas, approaches, and concepts for production and distribution of goods and services to be successful. It means translating the fresh, new and inventive approaches to life solutions.

   In a constantly changing economic, social and technological environment the businesses must operate with an innovative approach.

10. **Global Business:**
    It refers to the international trade where a global business is like a company which is conducting an actual business around the world. The exchange of goods over great distance goes back a very long time.

CHECK YOUR PROGRESS

1. **Write short note on business.**
2. **Write short note on industry.**

3. **List the characteristics of business.**
4. **Discuss the significance of business.**
5. **Write short note on commerce.**

1.5 NATURE AND SCOPE

Business is a comprehensive term, which includes production, marketing, and other economic activities. Business activities are broadly classified into Industry and Commerce.

1. **Industry**

   It refers to all the business activities that are concerned with production/raising or processing of goods and services. The industry processes raw materials or semi-finished goods into finished goods. Its essential application includes extraction of raw materials from earth's surface, manufacturing goods and commodities, producing crops, and much more. They are the example of industrial activities, and the units engaged in this exercise are called industrial enterprises.

   Classification of Industries

   Primary Industries:

   They refer to the activities of extraction of natural resources like coal, oil, minerals, etc. The primary industries can be categorized as extractive and genetic industries. It includes;

   - Wasting (non-replenish able like iron ore mines), and;
   - Non-wasting. When minerals are taken from the ground they are gone forever, and cannot be replaced. Though it is not the same case with vegetable and animal resources, and solar power, which if properly exploited can produce indefinitely.

   Secondary Industries

   The outcome of primary industries is typically used as the raw materials to produce a variety of finished goods. It is the secondary industry that uses the products of the primary industry as their raw materials. These industries include manufacturing or construction. The manufacturing industries are engaged in producing finished goods out of raw materials or semi-finished goods. For example, cotton is used to produce textile, timber to produce furniture, bauxite to produce alumina. The industries engaged in the erection of buildings, dams, bridges, roadways, railways, canals, tunnels, etc. are known as construction industries. They make use of the products of other industries and construct different types of structures as per the requirements of the customers.

   Tertiary Industries

   These industries are concerned with generating or processing of various services and facilitate the functioning of primary industries and secondary industries as well as activities of trade. These include service industries like banking, insurance, transport, etc. Film industry which provides entertainment to the individuals pro-

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duces films; tourism industry which provides services to the individual by facilitating their travel, booking of tickets and hotel rooms, etc. are also included in this category.

2. **Commerce**
   It is an integral part of the commerce, and it refers to the sale, transfer or exchange of goods and services. Business helps in creating the products and services available to the ultimate consumers. The manufacturer of goods produced in bulk or large quantity finds it difficult to sell those assets directly to the consumers. They utilize the services of some firms or individuals who buy goods from the manufacturers and sell it to the end customers.

   For example, a local grocery shop owner sells grocery items to the consumers after buying it from the manufactures. They might purchase it from the wholesalers, who would eventually buy the goods in bulk from the manufactures and sell it to the end customer. It may be noted that the wholesalers, as well as the grocery shop owners, are said to be engaged in trading. Thus, the features of trade can be summed up as follows:

   - It involves actual buying and selling of goods;
   - It is the process of procuring goods from one place/person to sell it to another person or at another place;
   - Traders, also known as middlemen facilitate the distribution of goods;
   - Trading helps in equalizing the demand and supply. For example, the state of Punjab
   - may be producing plenty of rice without much need for it in its state. The traders can buy rice from Punjab and make it available to states like Orissa and West Bengal where there is a high demand for rice. It is a classic example of how the demand and supply ratio is maintained.

   By area of operation, trade can be classified as under-
   Internal Trade
   When business takes place within the boundaries of a country, it is called internal trade. It means both the buying and selling take place within the state. For example, a trader can buy woollen garments from the manufacturers at Ludhiana and sell it to the retailers in Delhi. Similarly, a trader of a village can purchase goods from the wholesale market of a city for sale in the town. From these two examples, we find that internal trade can be:

   - buying from manufacturers and selling it to retailers in bulk (known as wholesale trade); or
   - it can be buying from manufacturers or wholesalers and selling it to consumers (known as retail trade).

External Trade

The trade at a broader scale between different countries and across national boundaries is listed as external trade. It takes following forms:

- **Import Trade:** The trade between organizations of country A purchasing goods from country B to be sold in their own country.
- **Export Trade:** The goods produced by organizations of country A selling it to country B created in their own republic.
- **Entrepot Trade:** The good purchased by an organization of country A from country B to be sold to country C.

Aids/Auxiliaries to Trade

A variety of other activities are required to facilitate buying and selling of goods (trade). It includes transportation of goods, storage of goods, financial transactions, insurance, etc. For example, when an organization buys products locally or imports it from outside they must undertake most of the following activities, in addition to buying and selling of goods.

These activities are-

- Carrying of goods physically from the location to destination (termed as Transportation)
- Systematic storage of products once the goods are received at the destination (termed as Warehousing).
- Arranging money and making payments to the seller through banks and other sources (termed as Banking).
- Covering risk of damage/loss of goods in transit from the location or while it is in the physical store (termed as Insurance)
- Exchange of information with each other through the conventional and modern mode of Services (termed as Communication).

They help in facilitating the trading activities or providing support to the trading activities. Hence, they are called auxiliaries to trade as they promote trade. They offer the necessary support to the entire business for its successful functioning. They are even called support services of the company.

1.6 SETTING UP A BUSINESS ENTERPRISE

The process of setting up a business enterprise is known as promotion and the person who Carry out this process are called promotion. Promotion of a business enterprise involves several decisions. Promotion of a new business enterprise is like the birth of a child. The person who has a business idea and takes steps to launch a business enterprise is known as an entrepreneur.it requires to take significant decisions regarding the formation of an enterprise and completing procedure and formalities. It also requires an appropriate evaluation of factors in connection with the business environment and available resources.

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Factors to be considered while setting up a Business Enterprise:

1. **Promotion of Business:** It is the way in which the business makes its products known to their customers, both current and potential. There are four essential steps in the task of promotion:
2. **Discovery:** It is a crucial phase of the entrepreneurial process. The entrepreneur during this period identifies and evaluates a possible new product or service that could be introduced to the market to achieve a guaranteed profit. An exciting idea is developed into a business form, which helps serve customers differently and better.
3. **Investigation:** This phase marks the estimation of the total demand for the product. The entrepreneur will assess their share of the market and concerns the type of the business to venture about. Based on the prospective demand for goods the next phase will be to arrange finances for this venture. As part of this, the availability of power, labor, raw materials and machinery are also considered. The cost structure for this product helps analyze the profitability of this venture. For a new product, the estimations are different.
4. **Assembly:** As part of this phase, the entrepreneur must proceed to assemble the said requirement. They even explore the possibility of having few people on board as the directors who represent as founder members. For an invented product the organization must get it registered. They must acquire the patent rights. Further, the entrepreneur even selects the factory site and plans the plant and machinery. They must also establish contact with suppliers or raw materials. The contracts are finalized by paying the option money, and the ultimate purchase is made once the company is incorporated.
5. **Finance:** It helps any organization with three benefits: business support service, lowest costs and effective control of the environment. As we know, money is the livelihood of businesses, and finance is the nerve center. Investment helps promote or create a company, to gain assets, develop products, and execute market surveys and more. The conventional mode of finance function focuses on being reactive, efficient, quantitative and risk-averse.
6. **Choice of Business Organization:** A crucial entrepreneurial decision it influences the success and growth of the business. It determines the decisions associated with profits, risks and overall market. The form of private organization varied from each other in respect of the division of benefit, control, risk, legal formalities, and flexibility. Choosing a suitable form of ownership mode of organization is governed by the following factors:
7. **Size and Scale of Operations:** The scale of operations is an essential factor that affects the form of ownership of the organization. The sole proprietorship is the mode of business activity with smaller scalar of business operations. The partnership is usually preferred when the scale of operations is enormous. The size of the market area is defined by the nature of its business operations. It is dependent upon the proportion of demand for goods and services.
8. **Formalities and Complexities:** The formation and operation of a sole

proprietorship form of business organization do not involve any legal formalities.

9. **Capacity to Raise Funds:** Different forms of organizations have a different capacity to raise finance. The organization has a vast scope of raising finance by sole trading concern and partnership firms.
10. **Continuity and Stability:** The continuity of the business is linked to the life of the proprietor. Illness, death or insolvency of the proprietor can lead to the closure of the company. Thus, the continuity of business is uncertain.
11. **Effective Management:** It is critical to any organization and can help it in many ways. In fact, communication plays a vital role in product development, customer relations, and employee management - virtually in every facet of a business' operations.
12. **Government Regulations:** The governmental interference and control offer a great form of business opportunity for entrepreneurs.
13. **Tax Liability:** Tax on earnings is an essential cost to an enterprise. An entrepreneur chooses a kind of organization which involves lowest tax liability.
14. **Ability of Entrepreneur:** An entrepreneur must consider their ability and mental and physical capacities. If an entrepreneur is experienced, then they can float a company organization; otherwise, it is advisable to establish a sole trading concern or a partnership firm.
15. **Plant Location and Layout:** The choice of location for an enterprise is a crucial entrepreneurial decision that affects the operational as well as financial performance. The entrepreneur is required to identify the position which would offer easier access to physical, economic and social endowments.
16. **Selection of Site:** As a long-term commitment the choice of a location for an industrial plant is an important decision. An unfavorable position could make suffer a new enterprise. Once a facility is constructed the expense and disruption of activities necessary to move it to a more favorable location is wholly impracticable. The search for a plant site justifies the careful consideration. For evaluation of economic location following factors should be considered:
    - Raw material procurement.
    - The proximity of market.
    - Availability of labor, their training, and compensation.
    - Availability of power.
    - Availability of finance.
17. **Proximity to Market:** The cost of transportation for finished goods depends upon consumer likeliness of the product. With an easier access to target market it must help the end customers with below;
    - The Consumer must be offered with a prompt service.
    - Effective after-sales service
    - The replacement orders must be serviced without any delay.

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18. **Access to Raw Materials:** The raw material must be easily accessible within the close proximity. The more accessible availability of supplies required for maintenance and operation of the plant should also be considered.
19. **Availability of Labour:** The potential supply of the requisite type of labour governs the plant location to the significant extent. While some industries need highly skilled labour, the others may need unskilled and intelligent labour. But the former type is severe in rural areas in comparison with industrially developed location.
20. **Infrastructural facilities:** The degree of the dependency upon infrastructural facilities may vary from industry to industry. Though there is no denying to the fact that the availability of infrastructural institutions that play a crucial role in the location selection of an enterprise. The infrastructural facilities include power, transport and communication, water, banking, etc.
21. **Local Taxes and Restrictions:** Laws prohibit the setting up of polluting industries m prone areas particularly which are environmentally sensitive. Air (Prevention and Control of Pollution) Act, 1981 is a classic example of such laws prohibiting putting up polluting industries in prone areas. Therefore, in order to control industrial growth, laws are enforced to decongest some areas while simultaneously encourage certain other areas.
22. **Government Policies:** The influence of Government policies and programs on plant locations is apparent in every country, particularly in planned economies like ours. In India, there are several backward regions, which are selected for the position of the plant, which would generate the economy of the area and on a larger scale canvas, the national economy.
23. **Other Miscellaneous Factors:**
    - Disposal of wastes and effluents.
    - Availability of medical and educational facilities.
    - Quality of life.
    - Community attitudes.
    - Ecological and environmental considerations.
    - Regional aspirations of the people.

Size of Business Unit:

Various factors that affect the size of a business unit are:

1. **Availability of Finance:** It is finance which fuels the business machine. With ample funds, it helps the entrepreneur to make their business grow to a significant size. This requires a proper development, of the banking system so that savings of the community can be mobilized efficiently and utilized in the development of trade and industry.
2. **Nature of Demand:** If the business obeys the law of increasing Returns, it will grow to a significant size, otherwise, in the case of diminishing returns it will remain stunted, and in the case of constant returns it will stay stagnant.

3. **Degree of Risk:** The demand governs the production of a commodity in the marketplace. As the demand in the market may fluctuate over time, there is a constant risk and uncertainty at hand. And, therefore the conditions of order influence the size of the unit because the risk is affected by such conditions. The changes in the market are due to the development of a substitute or a change in the taste and habits of the consumers may be taken as a permanent change.
4. **Size of Market:** It depends on the extent of the market. If the commodity in which the firm deals or which it-manufactures has a broad market, naturally the business will assume a large scale. But if the demand for the product is fitful or limited, the size of the firm will continue to be small. These are some of the factors on which the size of an average business in a country depends.
5. **Nature of Competition:** Along with the size of the market, an entrepreneur must assess the kind of competition in the market. If the competitors already saturate the market under consideration, then the volume of the business should be small and vice versa.
6. **Government Regulation:** In some countries, the government restricts the size of business enterprise to prevent concentration of wealth in few hands. Such an action of the state limits the volume of business enterprises.
7. **Availability of Entrepreneur:** Last but not the least, an entrepreneur must consider his ability.

Steps in Setting up of a Business Enterprise

The significant steps involved in the process of setting up a new business enterprise include the following:

1. **Determination of Objective:**

   Business objectives help the organization to achieve or accomplish over a specified period. It is believed that any and every business has a single intention, that is, to make the profit and safeguard the interests of its owners. However, no company can ignore the interests of its employees, customers as well as the importance of society as a whole. The business objectives must be aligned with contributing to national goals and aspirations.

   Thus, the objectives of business may be classified as -

   - Economic objectives
   - Social objectives
   - Human objectives
   - National objectives

2. **Global objectives Selection of Business Activity:**

   It is the deciding step in the type of business activity concerning manufacturing marketing, servicing, etc. For this purpose, the promoter must undertake a market research, explore various business opportunities, and related threats regarding nature of demand, competition, the market share, sales revenue, the rate of return”

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3. **Size of Business Unit:**
   The term 'size' refers to the scale of business operations. Some of the standard criteria put m practice to measure size include, the volume of output, capital investment, plant capacity, the value of the product, number of employees, etc.

4. **Form of Business Enterprise:**
   - **Manpower Planning:**

     Human resource is an essential function of any business organization. It requires a clear policy and mandate for workforce acquisition and development. Usually, the large corporations have a separate department to manage human resources.

   - **Tax Planning:**

     It is about the detailed assessment and planning of the financial situation from a tax standpoint. The tax planning helps ensure tax efficiency, with the elements of the economic plan working together to make the enterprise tax complaint. It will help reduce tax liability and maximizing eligibility to contribute to retirement plans.

5. **Launching Business Enterprise:**
   It is the final step for the enterprise to take their business to the customers by assembling the required resources. For this, the entrepreneur collects funds, acquires lands and buildings, get the machinery needed for the setup, furniture, and fixtures, along with raw materials, etc.

Feasibility Study:
It allows the companies to determine and organize all of the necessary details to make a business work. It is the analysis of how to successfully manage a project by accounting the factors, including economic, technological, legal and scheduling, feasibility study helps the project managers to determine the potential outcomes project. It is before investing a considerable amount of time and money into it. the validity of the idea, plan or even a new business. Further, it emphasizes problems that may arise if the project is pursued by considering all the factors. The feasibility study also allows the company to address where potential business will operate, along with possible obstacles and required funding for the setting up the shop and managing it. studies lead to the development of marketing strategies that generate the among the investors or a bank about the investment they made.

Areas of feasibility Study:

1. **Technical Feasibility Study:**
   It involves a critical study of the factors such as location, size of the plant, raw materials, and labour, machinery and equipment, infrastructure, etc. As part of this study, the entrepreneur must ensure that the location of the plant and the selected site permits cost-effective operation of the business. While determining the size of the factory, it should be remembered if the plant size is smaller than the maximum extent the cost of production increases. An entrepreneur must examine if the re-

quired raw material, machinery, equipment, and infrastructure is available to carry out the operations.

2. **Economic Feasibility Study:**
   It demonstrates the net benefit for a proposed project by accepting or disbursing electronic funds/benefits. It also takes into consideration the benefits and costs to the company, other state agencies, along with general public as a whole.

   The EFS is composed of two required forms:

   - Business Case
   - Cost-Benefit Analysis

3. **Commercial Feasibility Study:**
   The commercial feasibility ensures the eligibility of the project to conduct a study of the present and potential demand for organization's product for the national and international markets. It comprises of analysis for margin of profits, the degree of competition, market stability, etc.

4. **Managerial Feasibility Study:**
   It involves assessing the infrastructure capability required to achieve and sustain process improvement. It includes management support, employee involvement and commitment to gauge administrative feasibility.

5. **Socio-economic Feasibility Study:**
   It helps judge the viability of the project at a national level. Every project must entail some amount of costs to the nation and produce certain specific benefits. It comprises evaluation and achieving of social objectives such as employment generation, infrastructure development, backward tribe enlistment, earning foreign exchange, etc.

Project Report:
It is a document that provides details on the overall performance of the project for the proposed business. It offers an account of the project proposal to ascertain the prospects of the proposed plan/activity. It also covers investment details for the project. It comprises of data by which the project has been appraised and is found feasible. It includes various aspects of economic, technical, financial, managerial and production. Further, it enables the entrepreneur to know the inputs and helps them acquire required loans from banks and financial institutions.

The project report contains detailed information about infrastructure- land and buildings, the manufacturing capacity per annum, the applied manufacturing process, and includes installation information of machinery & equipment, along with their pieces and specifications. Further, it also entails the requirements of raw materials, power & water, marketing cost for the project, financial analysis with the economic viability of the project.

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Steps in Project Planning:

Significant steps involved in the project planning area are mentioned below:

1. **Discovery of Business Opportunity:**
   It is a process to identify business and community development opportunities to help sustain the local economy described as a collaborative approach to economic and business development. It focuses on tangible outcomes and contributes to motivating projects to help improve teamwork. It has below listed components:
   - generating ideas,
   - recognizing opportunities, and
   - driving opportunities.
2. **Preliminary Investigation of the Project:**
   To analyse and investigate a business process defined necessary information and details about the proposed business opportunity are collected.
3. **Technical Requirements Study:**
   During this phase, the necessary physical and functional requirements are taken into consideration.
4. **Initial Feasibility Studies:**
   It helps answer the practical viability of the project that often involves significant investigation across many different areas.
5. **Final Preparatory Steps:**
   Based on the success of the preliminary investigation, the entrepreneur considers steps:
   - **Framing of Policies:** A written business policy communicates the company's expectations about the proper employee work performance.
   - **Creating Programmes:** It includes the sequential flow of steps to execute the project.
   - **Determining Capital Requirement:** It is the sum of funds that the organization requires to achieve their goals.
   - **Determining Work Flow:** It helps ensure the proper flow of all the activities that are involved in the project planning.
   - **Preparing Designs of Structures and Processes:** Enables creation of the required designs and layouts for the project.

Contents of Project Report:

Project report includes detailed information about following basic aspects of the proposed project:

- General Information
- Executive Summary

- Organization Summary
- Project Description
- Marketing Plan
- Capital Structure and operating cost
- Management Plan
- Financial Aspects
- Technical Aspects
- Project Implementation
- Social responsibility

Advantages of Project Report:

- The report lays down the specific objectives for various focus areas of business.
- It evaluates the targets in the right perspective.
- It identifies constraints on resources, including workforce, finances, production cost well in advance to take remedial measures in due course of time.
- The project report suggests a successful implementation of project based on the recommendations in the project report. It will drive the projected profitability, cash flows, production schedule, and targets as laid down in the project report.

1.7 CHAPTER SUMMARY

Business enterprise is regarded as such if it is established to serve certain needs through production, distribution and rendering of service for profit owners. In this unit we have been able to define business and highlight its characteristics. The process of improving the measurement of an enterprise's success. Business growth is a function of the business lifecycle, industry growth trends, and the owner's desire for equity value creation.

The society comprises of individuals, groups, organizations, families, and more. They interact with each other and are also dependent on almost all activities based on direct or indirect relationship.

Business is a comprehensive term, which includes production, marketing, and other economic activities. Business activities are broadly classified into Industry and Commerce.

The process of setting up a business enterprise is known as promotion and the person who Carry out this process are called promotion. Promotion of a business enterprise involves several decisions. Promotion of a new business enterprise is like the birth of a child. The person who has a business idea and takes steps to launch a business enterprise is known as an entrepreneur

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1.8 REVIEW QUESTIONS:

SHORT ANSWER TYPE QUESTIONS

1. **What do you mean by business enterprise?**
2. **List the objectives of business enterprise.**
3. **In your own words, define business.**
4. **Explain nature and scope of Modem business organization and management.**
5. **Write short note on the process of setting up a business enterprise.**

LONG ANSWER TYPE QUESTIONS

1. **What do you mean Feasibility study? Explain various types of feasibility studies.**
2. **Discuss Economic and commercial Feasibility.**
3. **Discuss the advantages of project report.**
4. **Explain the characteristics of business.**
5. **Explain the steps involved in setting up a business.**

1.9 MULTIPLE CHOICE QUESTIONS

1. **_________ of a new business enterprise is like the birth of a child.**
   a. Promotion
   b. Creation
   c. Decision
   d. Selection
2. **________ is a document that provides details on the overall performance of the project for the proposed business.**
   a. Project report
   b. feasibility report
   c. detailed report
   d. marketing report
3. **Human resource is an ______ function of any business organization.**
   a. Optional
   b. Essential
   c. Durable
   d. Perishable
4. **The _____ Feasibility comprises of analysis for margin of profits, the degree of competition, market stability, etc.**
   a. Operational
   b. Technical
   c. Commercial

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d. Behavioural

5. **The term ______ refers to the scale of business operations.**
   a. Operation
   b. size
   c. Mode
   d. Type

6. **It helps judge the viability of the project at a national level.**
   a. Plan report
   b. project report
   c. Managerial Feasibility Study
   d. Socio-economic Feasibility Study

7. **Every project must entail some amount of costs to the nation and produce certain specific _____.**
   a. Benefits
   b. Costs
   c. Money
   d. Delegation

8. **Business activities are broadly classified into _____and_______.**
   a. Industry, Commerce
   b. East, west
   c. Global, Local
   d. Static, Dynamic

9. **______ prohibit the setting up of polluting industries m prone areas particularly which are environmentally sensitive.**
   a. Industries
   b. Government
   c. Laws
   d. Services

10. **The ______of the dependency upon infrastructural facilities may vary from industry to industry.**
    a. Cost
    b. Degree
    c. Importance
    d. Nature

♦♦♦♦♦

UNIT II

ORGANIZATIONS

STRUCTURE:

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2.1 LEARNING OBJECTIVE

After completing this unit, you will be able to understand:

- Understand the concept of organization.
- Understand nature and characteristics of organization.
- Explain the types of organization.
- Explain organization charts.
- Three basic forms of organization Sole proprietorship, partnership, limited Liability Company.
- Enumerate strengths and weakness of the three basic forms of organizations.

2.2 INTRODUCTION

An organization is an entity that comprises of multiple people as an institution or an association with a collective goal and is linked to an external environment. This word is derived from the Greek word organ on, which means "organ."

It is a social unit of people that is structured to meet a need or to pursue a collective goal. Most of the organizations have a management structure that determines the connection between the different activities and the members and subdivides. They assign roles, responsibilities, and authority to carry out various tasks. The organizations are open systems - they affect and are affected by their environment. The term organization is used in two senses:

Organization as a process:
It involves determining the required work to accomplish the goal, assigning the tasks to individuals, and aligning them in decision-making framework. It comprises unifying parts to act in harmony for executing functions to achieve goals, both effectively and efficiently. An accurately implemented organizing process results in a work environment where all team members are aware of their responsibilities. With a careful consideration of organization process, it might result m confusion, frustration, loss of efficiency, and limited effectiveness.

Organization as a structure:
It defines how the activities such as task allocation, coordination, and supervision are dictated to achieve the organizational objectives. The organization must be efficient, flexible, innovation, and caring to gain a sustainable competitive advantage.

It offers a perspective through which individuals witness their organization and its environment. The agencies could be defined as a variant of clustered entities. Further, a team can be structured in many different ways, depending on their objectives. The structure of an organization determines the mode in which it operates and performs. Eventually, the organizational structure allows the allocation of responsibilities for different functions and processes to various entities. It includes the branch, department, workgroup, and individual.

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Organizational structure affects their actions in two ways:

- It offers a foundation on which standard operating procedures and routines rest.
- It determines the type of individuals who get to participate in which decision making processes, and to views the extent of how decisions are shaping for the organization.

Different authors have defined organization in different ways.

According to Keith Davis, "Organization may be defined as the group of individuals, large or small, that is operated under the direction of executive leadership in the accomplishment of certain common objects."

According to Chester I. Barnard, "Organization is a system of co-operative activities of two or more persons."

According to Louis A. Allen, "Organization is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing a relationship to enable people to work most effectively together in accomplishing objectives."

According to Mooney and Railey. "Organization is the form of every human association for the attainment of a common purpose."

1.3 NATURE AND CHARACTERISTICS OF ORGANIZATION

The main features of an organization include;

1. **Organizing is the primary function of management:**
   It involves developing an organizational structure and allocating human resources to ensure their successful accomplishment of objectives. The structure could be termed as a framework within which all the efforts are coordinated.

   Organizing allows planning and is a function that assembles the synchronization and combination of human, physical and financial resources. Moreover, therefore the organizational function helps in achievement of results which are the crucial components for functioning of a concern. According to Chester Barnard, "Organizing is a function by which the concern can define the role positions, the jobs related and the centre between authority and responsibility. Hence, a manager always has to organize in order to get results.

2. **Organization is always related to objectives:**
   An organization or enterprise has broad objectives of profitable manufacturing. and selling their products. To support his core objective, there are official other administrative level checks and alignments.

3. **Organization as an entity:**
   It is a unit that comprises of multiple people that constitute institution or an association with a collective goal linked to their external environment.

4. **Organization as a group of people:**
   An organization is often viewed as the group of people contributing their efforts to achieve a certain goal.

5. **Organization as a process:**
   The organization is a dynamic process which is essential for planning the utilization of company's resources. It includes setting up equipment materials, m on c y and people to accomplish the various objectives.

6. **Organization as a structure:**
   The organization is a structure of relationships and among position jobs which are created to achieve certain objectives. The definitions of Henry, Urwick, bail and, North court, Lansburgh and Spiegel Breach, Davis, Mooney, and Reily, etc., come under this group. For example; According to Mooney and Rcily, "Organisation is the form of every human association tor the attainment of a common purpose.

1.4 PRINCIPLES OF ORGANIZATION

There is no unanimity as to some principles of organization amongst the leading authors on the subject. U.K. Urwick, in his paper Scientific Principles of Organization' (1938) and "Notes on the theory of Organization (1952) prescribed ten principles of organization. After that, many other writers on the subject have added a few more laws of society. The main principles of organization are as follows:

1. **The principle of Delegation of Authority:**
   Authority is the governing element of any organization structure. It is the tool which enables a manager to create an environment for their teams to perform individually. When the work is delegated to lower levels in an efficient and designated way, there are lesser confusions, and further, the congeniality of the environment is maintained. In such cases, full span of control is suitable, and the supervisors can manage and control a larger number of subordinates at a given time frame.

   The authority flows downward in the line. If a superior delegates their authority to a subordinate, the superior is not absolved of their responsibility, and they become liable to complete it and report it to their superiors. The responsibility cannot be delegated under any circumstances.

2. **Principle of Coordination:**
   The coordination of different activities is an essential function of any organization. It helps the organization to achieve the ultimate goal by leveraging the much- required skills within the group. It is a group effort that emphasizes the unity of action.

3. **Principle of Continuity:**
   It can be achieved by adapting to new changes that take place inside or outside an organization. It helps the organization to survive and excel in the more extended

run. The organization must be flexible to changing market situations and must have a dynamic approach to change. It includes changes in the methods of production and marketing systems.

4. **Principle of Definition:**
   There must be an appropriate definition of every position in connection with others in an organization. The overlapping of functions must be avoided. It can be achieved by assigning duties and responsibilities to every position and its relationship with other position in the organization. This helps defining the scope of authority and responsibility. Every person must be aware of their work definition. Without a precise definition of responsibilities, there will be a chaos with managing responsibilities. It will help make the work efficient and smooth.

5. **Principle of Explanation:**
   Beyond definition, the duties, roles, and responsibilities with associated roles must be explained clearly to each. It will help the person accepting the authority be aware of the liabilities associated with the job.

6. **Principle of Equilibrium Balance:**
   Balance is the core of any organization. The useful grouping and assigning activities helps streamline the initiatives. It is across various functions, including human, technical, and even financial. It also means the division of the work depending on individual's capacity to complete it within the specified timeline with the objective of giving their optimum best.

7. **Principle of Flexibility:**
   It helps to adapt to changes in the business corresponding to technological innovations.

8. **Principle of Unity of Objectives:**
   It deals with collective efforts that can be concentrated on the set goals. The objectives of the organization must be well understood by every member so that they are all familiar with it. The enterprise must set up specific goals of achievement under which various departments must operate. In the absence of a common goal, each department will set up their own goals resulting in conflicting objectives.

9. **Principle of Responsibility:**
   Every employee must be empowered with sufficient authority to perform the assigned responsibility. At an individual level, it will help them become self-reliant without concerning with the higher departments or authorities always.

10. **Principle of Specialization:**
    The organizational set-up should be such that every individual must be assigned a task/duty based on their skill set and qualification. With this, they must continue to operate in the same way for a significant duration so that they achieve a level of specialization in this task, further, for an organization, it will help in increasing their production capacity.

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11. Principle of Span of Control:
The span of control refers to the number of subordinates that could be supervised by the supervisor. The supervisor must be able to control their work efficiently. And, the work to be supervised must be of the same nature. If the span of control is disproportionate it will affect the efficiency of the workers with s1ow communication with the supervisors.

12. Principle of Scalar Chain:
The scalar principle talks about the line of authority from top level to bottom level of organization. It refers to the right to decide, direct and coordinate. The stepwise or level-wise delegation is wholly achieved from the top position to the operating level of the organization. This concept is also referred to as the chain of command.

13. Principle of Simplicity and Homogeneity:
The organizational structure must be simple which should be easily interpreted by each and every person. It includes laying out the specifics of authority, responsibility and position. On the contrary, a complex organizational structure will only create doubt and conflict among the team members. It could result in overlapping and duplication of efforts which could be avoided otherwise.

14. Principle of Unity of Command:
The unity of command refers to single line of command for subordinates. A person must be answerable to only one boss to avoid confusion and conflict. It creates a sense of responsibility for the employee. With multiple reporting, there arises a contradictory order from different superiors. The command flow chain follows a top to bottom reporting structure. It leads to consistency in directing, coordinating and controlling.

15. Principle of Unity of Direction:
The unity of decision refers to the group of activities with a common goal that is managed by one person. It encourages one head and single plan of action to serve a common objective that comprises of different activities.

16. Principle of Uniformity:
The principles of uniformity help the employees to be in-charge of their focus vertical. It is essential to avoid dual subordination and conflicts. Here are few of principles:

17. Principle of Efficiency:
For any business, achieving objectives at a minimal cost is critical. The standards of costs and revenue are defined in a precise manner, and the performance of an organization should be as per the goals. The organization should enable the attainment of job satisfaction to its employees.

18. Principle of Leadership:
An efficient organizational set-up helps achieve effective leadership. It is the example of honesty, devotion and goodwill.

19. Principle of Exception:

It states that if the organizational processes are operating as per plans there is no need for any interference of top management. The management must focus on the broader goals and leave the routine activities to the general staff. The principle of exception allows the top management to focus on planning and policy formulation for future and hence the critical time of management members is not wasted on avoidable supervision.

20. Principle of Joint Decision:

The benefit taken jointly by superiors and subordinates helps drive the organization in the right direction. Even then the views and feedback of workers should not be avoided as they offer an on- ground experience.

1.5 TYPES OF ORGANIZATION

Within the framework of an organization, there exist two types of internal organizations:

1. **Formal Organization:**

   It is a well-defined structure of authority and responsibility that defined delegation of authority and relationships among the organizational members. It works with a pre - defined set of policies, plans, procedures, schedules, and programmes. It is a system of well-defined jobs with the absolute measure of authority, responsibility, a n d accountability. The people of the enterprise will efficiently work together in accomplishing their objectives. This structure lays out a structure with formal authority, responsibility, rules, regulations, and channels of communication. The degree of formalization is necessary for any organization to function smoothly. It avoids taking time-consuming decisions, handles conflicting situations and exercises control over subordinate's exercise.

   Features of Formal Organization:

   - Formally defined work relationship between people working at different job levels in the organization.
   - The focus is primarily on the job at hand.
   - Work is divided into smaller units. It is assigned to individuals based on their skills and abilities.
   - Work is officially delegated from top to lower levels. The entire workload is divided into units, and a part of it assigned to subordinates with authority to carry out the assigned task.
   - Coordination.

Types of Formal Organization:

- **Permanent Formal Groups:**
  They are represented on the organization's chart. They are also referred as command groups and comprises of managers and their subordinates. Afunctional or a product department is the forms of command groups.
- **Temporary Formal Groups:**
  They are temporary groups that deal with specific problems, and are dissolved once the problem is resolved. The task groups, project groups or ad hoc committees are a few forms of temporary formal groups. These groups help the organizations to respond to the changing environment and include people from varied command groups.

Advantages of Formal Organization:

- It defines the objectives of the organization and the relationship between authority-responsibilities amongst people to attain those objectives.
- It results in optimum utilization of organizational resources.
- Division of work and relationships amongst people develops an efficient system of communication in the organization.
- The organizational hierarchy avoids overlapping of the activities of two individuals or two departments.
- Two individuals should not be given the same task. Career advancement and promotional avenues are defined in the formal structure of the organization.

Disadvantages of Formal Organization:

Though the formal structure of relationships helps achieve the organizational goals, it suffers from the following limitations:

1. **Loss of initiative:** With too much emphasis on adhering to rules and regulations, the workers do not utilize their creative and innovative skills to perform the organizational tasks. It results in loss of initiative and innovative abilities with strict adherence to rules.
2. **Unsatisfied social needs:** The human being is a social being. They need to interact with people and share their feelings at-work and off-work with their family and friends. In a formally designed organization structure, the social needs of the individuals remain unsatisfied as they are related to each other based on the formal chain of commands and work processes. The scope for social interactions is minimal.
3. **Informal Organization:** The individual's part of such an organization is assigned to multiple job positions. While working together, they interact and develop their social and supportive groups within the organization. This network forms another layer in the organization which is often referred to as the informal organizational structure. The key objective of this structure is to get psychological satisfaction. The reason for their formation is the formal structure which gives the employees

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the opportunity to interact and connect at a social level while fulfilling their responsibilities.

Features of Informal Organization:

- The key objective of this group is to attain psychological satisfaction.
- It does not follow any fixed path with the flow of authority or communication.
- The Source of information is unknown as it could be any person that can communicate with anyone in the organization.
- It depends on the formal organization structure.
- It gets created based on simple human interaction without any deliberate efforts of managers.

Advantages of Informal Organization:

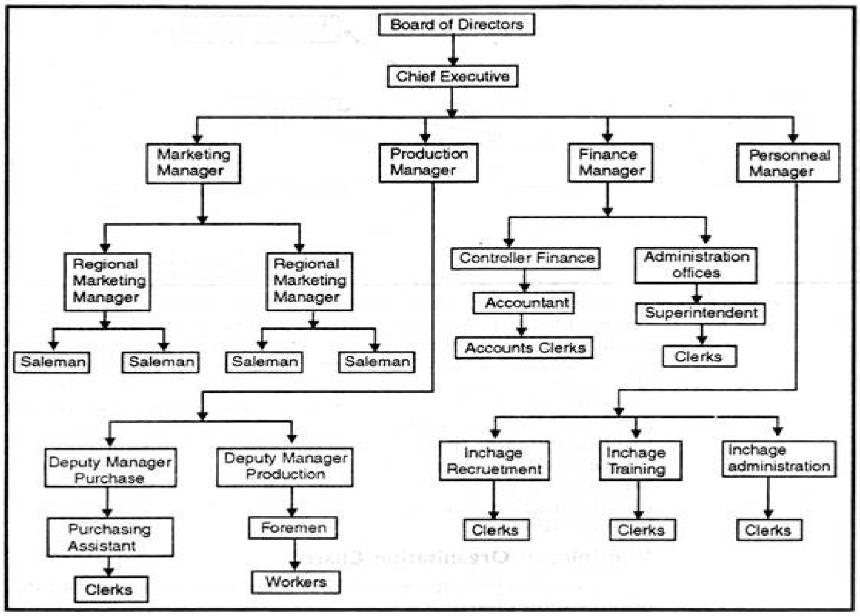
- The pace of communication is faster
- It offers due importance to the psychological and social need of employees which further motivates the employees.
- Provides accurate feedback.

Disadvantages of Informal Organization:

- According to a survey, 70% of information spread through this structure are rumours which might mislead the employees.
- It does not help the form a structure for a smooth functioning of the organization.
- The opposition by this group for the policies and changes of management makes it difficult to implement them in the organization.
- There is a significant individual interest than organizational interest.

2.6 ORGANIZATION CHARTS

It represents the internal structure of an organization or company. It is a visual depiction of the hierarchy and ranks of different people, jobs, and departments that make up the organization. The employees and their positions are represented by boxes and other shapes. It sometimes includes photos, Contact information, email a n d page links, icons and illustrations. The levels are linked based on straight or elbowed lines link the levels together.



There are four different methods of creating an organization chart:

1. **Vertical Chart:**
   It represents the different levels of organization in a pyramid structure, with executives listed at the top of the chart with successive levels of management depicted vertically.

2. **Horizontal Chart:**
   These charts are read from left to right. The pyramid in presentation is horizontal instead of vertical position. The line of command is reflected with the top level on the left and each successive level to the right.

3. **Circular Chart:**
   The top position in this type of chart is located in the centre of the concentric circle. Their successive positions are represented in the echelons in all directions outward from the centre. The position of equal status lies at the same distance from the centre and on the same concentric circle.

   In this format of chart representation, the top-level management is placed at the root level of the tree while the stem of the tree represents the middle-level managers, branches represent the lower level managers, and leaves represent the low ranked workers.

Apart from the above, there is a master organization chart which depicts the authority-responsibility relations at all the managerial levels in the organization. The departmental organization chart depicts the authority-responsibility relations within a department.

Advantages of Organization Chart:

- It helps build and design the organizational structure to meet the required business ‘objectives.

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- They can guide the employees to know their rights and responsibilities.
- It helps divide the functions of a company, enterprise or department.
- The organizational chart highlights the relationship between the organization's staff members.
- With the organizational chart, it is easy to assess whether the officer's workload is too heavy.

CHECK YOUR PROGRESS

1. **Write short note on organization.**
2. **Explain nature and characteristics of organization.**
3. **List the principles of organization?**
4. **Explain any one type of organization.**
5. **Explain organization chart.**

2.7 FORMS OF BUSINESS ORGANISATION

The various forms of organizations are:

1. SOLE TRADING CONCERN

A sole trading concern is one of the oldest and simplest of all the forms of business enterprises. It has been in operation since the birth of our civilization. A business unit which is owned and controlled by a single individual is known as a sole trading concern. The person who manages it is called a sole trader. He is the owner and the sole controller of the business. It is also known as sole proprietorship business or single entrepreneurship or individual proprietorship.

A sole trader may use his savings for carrying on the business, or he may borrow money from his friends for investing in his business. He may also borrow from his friends, relatives, and others. He manages the business with the assistance of his relatives or employees. The sole trader makes all purchases and sells on his own and maintains his accounts. He alone enjoys all profits and bears all losses in the business. A sole trading concern is run on the principle "All is he, and he is all in all". Even in today's competitive world, the sole trading concern enjoys a social Position in the business world.

Definitions of Sole Trading Concern

A sole proprietorship is that form of business organisation which is owned and controlled by single individual. He receives all the profits and risks all of his property in the success of failure of an enterprise."

Characteristics of Sole Trading Concern:

Various characteristics of a single trading form of business organization are:

1. **One Man Ownership and Control:** A sole trading concern is owned by an individual, known as proprietor. They are owners and masters of their business.

He independently manages and controls the business without any interference from others. He is solely responsible for the decisions taken by him.

2. **Unlimited Liability:** The liability of the proprietor for the debts of his business is unlimited. The creditors have a right to recover their dues even from the personal property of the proprietor in case business assets are not sufficient to pay their debts. It hinders the expansion of sole trading business beyond an absolute limit.

3. **Capital Contribution:** In the sole trading concern, the proprietor is the only owner of the company. Therefore, he contributes the entire capital either from his resources or may borrow it form his friends, relatives, and financial institutions. Thus, the profits resulting from the business are solely enjoyed by the proprietor.

4. **Profit Sharing:** The proprietor is the sole promoter, risk taker, manager, financer and decision-maker in the case of a sole trading concern. Therefore, he is entitled to enjoy all the profits of the business. At the same time, he bears the entire loss, if any resulting from the business operations.

5. **No Separate Legal Entity:** The sole trader has no separate legal entity from his business. For all the legal and business purposes, a sole trader and their company are regarded as the same. The sole trader personally owns the assets and owes the liabilities ot his concern. That is why a sole trader has unlimited business liability.

6. **Diffusion of Ownership:** In sole trading concern, the ownership is diffused and scattered. It helps in reducing the concentration of income and wealth.

7. **Development of Values:** Small business assists in developing values such as self-reliance, self-confidence, and personality of individuals.

Disadvantages of a Sole Trading Concern

The following are the demerits of the sole trading form of organization:

1. **Limited Capital:** The sole trader has limited physical and financial resources. He raises capital from his savings or borrowings from friends and relatives. He may find it difficult to raise loans from banks and financial institutions. It is evident that the financial resources of a single person will be insufficient for business growth and expansion. Thus, limitation of finance is a significant handicap fora sole trading business.
2. **Unlimited Liability:** The liability of the proprietor for the debts of his business is unlimited. The creditors have a right to recover their dues even from the personal property of the proprietor in case business assets are not sufficient to pay their debts. He cannot even take calculated risks due to the fear of unlimited liability. It hinders the expansion of sole trading business beyond an absolute limit.
3. **Limited Managerial Ability:** The business operation of a single trading organization is mostly managed, supervised and controlled by the sole trader himself. It is impossible for one person to be an experience in all streams of business such as

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purchasing selling, accounting, etc. The sole proprietor may not be able to use the service of experts for want of resources. It may hinder the growth of his business.

4. **Limited Life:** The life of a sole trading business is linked to its owners, i.e., the Sole trader or the proprietor. Thus, a sole trading business is constrained by the limited existence. If the sole trader dies or is incapable of doing business and has no legal heir to continue with the business operations, then his business comes to an end. At the same time, the affairs of the business come to a standstill due to the prolonged illness of the sole-trader.
5. **Hasty Decisions:** In the case of a sole trading concern, a sole trader is the only decision maker. He centralizes all, primary as well as routine, decisions to himself and does not consult his subordinates before arriving at the decisions. Sole traders even don't hire the services of consultants' due to the limitation of resources. Due to this, there is a higher possibility of hasty and wrong decisions.
6. **Lack of Specialization:** The sole trader has to undertake all the works relating to business himself right from planning to its execution and control. He is a jack of all trades but master of none. He cannot afford to avail the services of experts and consultants' due to the limitation of resources'. Due to all these constraints, a sole trader cannot avail the benefits of division of labour and specialization.
7. **Limited Span of Supervision:** A sole trading concern, being a 'one-man show.' a sole trader, generally has to tackle varieties of business-related problems on his own. Therefore, it becomes difficult for him to supervise the work of his employees. For sole trading concerns, their complexities are even more complicated. Thus, a sole trader can supervise only a limited number of employees.
8. **Uneconomic size:** A sole trader has to operate on a small-scale due to the limitation of physical and financial resources, limited managerial ability and limited scope of supervision.
9. **Uncertainty:** The life of the sole trading business is uncertain and unstable and depends on the life of the sole trader.
10. **Weak Bargaining Position:** A sole trader has a weak bargaining position both as a buyer and a seller. A sole trader has limited financial resources and only the small part of the total market demand. Therefore, he finds it difficult to dictate his terms in the market. At the same time, he can become an easy victim of a sudden change in the market or a rise in the number of competitors.
11. **Employees' Turnover:** A sole trader, being the owner of the organization may not consult or may not have confidence in his employees. He "may not like to delegate essential decision-making powers psychology of opportunities for small businesses.

Reasons for the Survival of Sole Trading Concerns

Despite the development of some significant trading organizations like partnership firms, joint stock companies, etc., the sole trading concerns are still a popular form of business organizations in India and even throughout the world. The following points highlight the reasons for the survival of sole trading concerns:

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1. **Human Inertia:** Sometimes in spite of possibility of further expansion a sole trader may continue to run businesses on a small-scale. That may be due to human inertia. The trader may have limited interest in the expansion of business or he may be satisfied with the existing business. In some cases, the trader may not like to share his business with others.
2. **Individual hastes:** In certain cases, customers' wants are so individual and valued that the seller needs to customize his products as per the demand of individual consumers. In such cases, the size of the organization should be small enough to adapt these demands. For example, the tailoring business m India is carried on a small-scale.
3. **Changes in fashion:** There are some businesses, in which the demand pattern changes rapidly. In such cases, businessmen need to operate on small-scale and change then-production processes as per changes in market demand. For example, a readymade garment industry is subject to frequent changes due to changes in fashion trends.
4. **Direct Motivation:** In small organizations, owners himself assess the possibility of losses and wastages which may occur and take steps to avoid them. Thus, they can\ effectively reduce overhead expenses and enjoy higher profits. In large organizations, such work is carried out by the paid employees, who may not be motivated to do so.
5. **Nature of Market:** If the nature of the market is limited and local, a sole trading concern is the most suitable form of business organization. According to Stun Dall, "small firms are protected by their goodwill, i.e., attachment of customers". It is the reason why small grocers have survived in India, despite the onslaught of mall culture.
6. **Technology:** Certain industries demand employment of a simple and indigenous technology. Such industries can be set up and looked after by the small entrepreneurs on their own with limited resources. for example, handloom and power loom industries. Thus, sole trading is the best form of business organization for such businesses.
7. **Outsourcing Components:** Many large-scale organizations prefer to outsource various components from the small business houses rather than wasting their resources on producing them. This is more
8. viable and commercially advantageous to them, for example, car manufacturing companies outsource car components from the small units.
9. **Assistance and Incentives:** The governments in many countries, including India, provide incentives to small entrepreneurs to developing a new generation of entrepreneurs. The governments provide them with financial, technical and marketing assistance to enable them to survive and compete.

Suitability of Sole Trading Concerns

The sole trading concern is suitable for the following types of business activities.

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1. **Limited Capital Requirements:** A sole trading concern is suitable when the capital requirement for business operations is less. Such requirements can be easily met from the personal savings or borrow from friends and relatives. For example, bookstalls, juice centres, stationeries, etc., are run by the sole traders.
2. **Personal Attention:** A sole trading concern is suitable where the customers require the personal attention of the owner. For example, business activities like a hairdresser, jewellery shops, tailors, painters, etc., require the personal attention of the owner. Thus, a sole trading concern is the most suitable form of business organization for such activities.
3. **Speculative Transaction:** In the case of some business activities, it is necessary to take quick decisions and prompt actions. For example, stock broking activity, dealers in commodity markets, etc. A sole trader is a sole decision-maker; a sole trading concern is the most suitable form of organization for such activities.
4. **Low Risk:** The sole trading concern involves a risk involved that is less. Along with this even the associated returns arc low. Since returns are low, it is advisable to run such business through a small set up. For example, laundries, bakeries, grocery shops, etc., are run on small-scale by sole traders with their limited resources.
5. **Local Market:** A sole trading concern is suitable where the nature of the market is local, and scale of operation is restricted to the local limits of an area. An individual can well manage such business through his limited skills and abilities. For example, a business of groceries, restaurants, etc., can be well managed by a sole trader.
6. **Size of Business:** A sole trading concern is a suitable form of business organization^ where the size of a business is small with simple operations. Thus, one individual can very well organize, manage and control such business activities with his skills and talents. For example, retail shops, small repair shops, etc.
7. **Tastes and Fashion:** There are some business activities, which are subject to frequent changes in tastes and fashion. For example, tailors, artists, boutiques, etc. In such cases, the sole trading concern is the most suitable form of organization. It is because the product needs to be customized as per the changes in the market demand.
8. **Personal Services:** A sole trading concern is the most suitable form of organization for professionals and service providers, who offer their personalized services in return for fees or commission. For example, doctors, accountants, lawyers, solicitors, chartered accountants, teachers, etc., generally operate through a sole trading concern.
9. **Seasonal Demand:** A sole trading concern is also suitable for the products which are demanded seasonally. For example, umbrellas, raincoats, woollen garments, etc., demanded seasonally. Due to the limited size and restricted operations, a sole trader can quickly change his line as per the fluctuation in demand.
10. **Nature of Goods:** Perishable goods have a short lifespan and need a quick distribution. For example, fruit, vegetable, meat, etc. Similarly, goods of high value which are technical and have limited demand such as massive machines

and equipment. Both these forms of goods require a small business to handle operations quickly.

2. PARTNERSHIP FIRM

The sole trading concern with its limitations of finance, management, risks, etc., finds it difficult, in the long-run, to cope with the expansion of the business. It, thus, became necessary to find some alternative form of business, which could cope with the expansion of the business. The partnership form of business organization, therefore, subsequently evolved out of the requirement for more capital, a division of labour and specialization, better managerial ability and thereby, higher efficiency.

The partnership is defined as an association of individuals competent to enter into contracts, who agree to carry on a lawful business in common to earning and sharing profits. The persons who are the owners of a partnership are individually called 'Partners' and collectively called a 'Firm.' The name under which the partnership is formed is called a 'Finn name'. Thus, in a partnership, two or more than two persons come together and conduct some business activity jointly and collectively. They bring capital, manage the business activity and share the profit and loss of business.

"Partnership is the relationship which exists between the persons who have agreed to combine their property, labour and skill in some business and share the profits thereof among them.

Characteristics of Partnership Firm

Various features of a partnership firm are:

1. **Agreement or Contractual Relationship:** A partnership business is set up as a result of an agreement between the persons, who are willing to carry on a business jointly to share the profits of the business. The agreement may be either in an oral or in a written form, although in general practice, the agreement is always put in a written form. Thus, a partnership is always a result of a written contract between the partners. It is also advisable to get the partnership registered with the Registrar of Firm of the concerned state.
2. **Agreement to Carry on Business:** The agreement between the partners of the firm must be to carry on business in the present. An agreement to carry on business at a future date does not result in a partnership in the present. A partnership is formed to carry out a particular business. The term 'business' includes every legitimate trade, occupation or profession which, if successful, will result in profit or gain. Thus, a partnership firm cannot carry a business that has been forbidden by the law.
3. **Profit-sharing:** The agreement to form a partnership business includes the condition that profits of the business will be shared among the partners. It naturally includes the understanding that is resulting in losses if any, will also be shared among the partners. The profit and loss sharing ratio is decided at the time of agreeing. According to the Indian Partnership Act, profits and losses are to be shared equally, it there is no provision made in the partnership agreement.

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4. **No Legal Status:** A partnership firm has no separate legal status of its own apart from its partners. It is purely a personal organization. Although a firm can be registered, the law does not give it a separate legal status. The firm and partners are legally not separable from one another. Each partner is the 'principal partner' and an agent for himself and others. He acts in both the capacities. Therefore, he binds the firm by his acts as a principal, and is usually bound by the acts of others.
5. **Memberships:** The provisions regarding the membership of a partnership firm are:
   - The minimum number of members required is two.
   - The maximum number of members in the case of a firm carrying on a banking business is ten.
   - The maximum number of members in the case of an ordinary trading business twenty.
6. **Management:** As per the provisions of the Indian Partnership Act, 1932, every partner of a firm has an equal right to participate in the management of the affairs of the firm. However, for the sake of convenience, the right of management may be given to one or a few of them. A single partner can manage the firm on behalf of all the partners. Such a partner is known as the working partner, and he is eligible for extra salary or commission tor managing the affairs of the firm.
7. **Unlimited Liability:** All the partners of a partnership firm must have unlimited liability. In case of insolvency or bankruptcy of a firm, it the business assets are not sufficient to pay-off the business liabilities and the creditors, even the partners personal property can be utilized to pay-off such debts. If one of the partners is declared insolvent, the remaining solvent partners have to share the difference. In case, all the partners together fail to pay the deficit; the entire firm is declared insolvent.
8. **Joint and Several Liabilities:** All the partners in a partnership firm have joint and several liabilities. Joint liability of a partner means every individual partner of the firm is liable along with the other partners for the debt of the firm, whether incurred by himself or by the other partners or agents of the firm. Several liabilities mean each partner is individually and severally liable for the debt of a firm, whether contracted by himself or by the other partners or agents of the firm.
9. **Mutual Trust and Confidence:** The liability of partners in a partnership firm is unlimited. Hence, maintenance of utmost good faith by every partner is the most important requirement for a partnership firm to last long. It means that only those persons who have implicit trust and confidence in one another should enter into a partnership. Hence, the partners must disclose all the information and render true accounts to each other in the course of the business of the firm.
10. **Non-transferability of Interest:** The interest of partner, whether monetary otherwise, in a partnership firm, cannot be transferred to some other person without the consent of the other partners. At the same time, no new partner can be admitted to partnership firm at his own sweet will. It is obligatory to obtain the consent of all or the partners of the firm for bringing a new partner m the firm or

for transferring the interest- in the firm. Thus, a partnership share is not a freely transferable asset.

11. **The existence of Business:** An association can become a partnership firm only when it is meant to do some business tor profit. For example, a social activity group formed with an idea of carrying out a charitable work is not a partnership firm. The business must also be legal, i.e., it must be within the limits of the law. For example, a group of people who have come together to earn profit by gambling, do not make-up a partnership firm. A partnership firm exists only if its business is lawful.
12. **Principal-agent Relationship:** Every partner has the right to act as the principal of the firm. Also, when he deals with a third party, he acts as the representative or the agent of the firm. This is also known as the "principle of mutual agency'. In other words, every partner is a principal to and an agent of every other partner. This principle of mutual agency is the fundamental in a partnership. In the absence of such a mutual agency, mere sharing of profits will not make them partners.
13. **Dissolution:** A partnership firm can be dissolved at any time if all the partners of the firm agree to do so. Unforeseen events such as death, insolvency or insanity of one of the partners also lead to dissolution of the film. A partnership is also dissolved when all or all, except one partner, are declared insolvent or they resign from the partnership firm. Even the court can dissolve a partnership firm on any ground, which it may think is just and equitable.

Advantages of Partnership Firm

The advantages of a partnership firm are:

1. **Easy Formation:** The formation of a partnership firm involves a simple procedure. Two or more persons can start a legal business on a partnership basis. A written or an oral agreement is sufficient to start such a business and partners do not necessarily have to spend time or money on any legal formalities. Even, the registration of a partnership firm is not compulsory except that it is notified by the state government as in the case of the State of Maharashtra. Thus, a partnership firm can be formed easily.
2. **Availability of More Finance:** The partnership firm can raise a larger amount of finance than a sole trader. As such, the combined capital of partners is bound to be more than an individual. Similarly, their capacity to raise loans and advances is more, as compared to a sole trading concern. At any stage of business, if they want to expand their business operations, they can admit a new partner subject to the maximum limit put on the number of partners by the Act.
3. **The flexibility of Operation:** The partnership firm can change its line of business with the consent of all the partners, if the need arises. There are no strict rules and regulations regarding the conduct of business. The firm's object, mode of operations and policies of the firm, can be altered from time-to-time without any legal formalities by a simple consent of all the partners. Thus, adjustments regarding business can be easily made to adapt to the changing business conditions.

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4. **Business Secrecy:** Complete business secrecy can be maintained in the case of a partnership firm. The firm's business operations are not subject to the government control. There are no specific guidelines for the maintenance of annual accounts. Similarly, auditing of accounts is also not required by the Act. Therefore, its affairs can be kept secret from the third parties. Thus, business secrecy can be maintained and business of the firm can be carried out without any external interference.
5. **Better Managerial Ability:** The management of a partnership firm is bound to be better than that of a sole trading concern as some partners pool their talents and skills together to run a business of a partnership firm. At the same time, all the major decisions in the firm are taken collectively by the consent of all the partners. This promotes better exchange of ideas and deliberations among the partners to arrive at the optimum decisions for the benefit of the firm.
6. **Division of Labour:** The division of responsibilities and work among the partners leads to specialization among the partners in the firm. For example, one of the partners may be in-charge of finance, the other of marketing, another of sales, etc. This will increase their efficiency and also the profits of the firm. Thus, the knowledge of every partner can be utilized for the collective benefits of the firm. It leads to specialization and a fail distribution of work among the partners.
7. **Personalized Supervision:** The partners personally look after the business, since the ownership and management are in their hands. They ensure the excellent use of resources and prevent all types of wastage. They take an active interest in the business and exercise direct and strict control over the staff to get the work done. It enables the partners to know the strengths and weaknesses of their organization and hence, can take corrective action. Their management is economical as compared to that of a company.
8. **Scope for Better and Quick Decisions:** As a partnership firm consists of more than two persons, there is an opportunity for the discussion of business problems and an exchange of views thereon. Partners, having varieties of talents and skills, work together over various business problems and try to find out optimum solutions to them. Again partners in the firm are consulted before arriving at any significant decision.
9. **Possibility of Expansion:** Partnership Finn operates on a larger-scale in comparison to a sole trading concern due to the availability of adequate resources. A partnership firm can also expand its scale of operation, m case the need arises, by admitting new partners. Thus, there is an adequate scope for the expansion of the business of a partnership firm, which is not possible in the case of a sole trading concern. Also, the firm has a better managerial ability, better supervision, and specialization.
10. **Fair Balance between Responsibilities and Rewards:** The efforts and rewards of the partners are relatively balanced. If they work collectively and take the initiative in their work, then the profits of the firm will increase. Since the partnership is purely a personal organization, its profits are distributed among the partners. Thus, each partner will get more share in the profits of the firm. It will make each one of them think regarding increasing the profits of the firm. Thus, efforts and rewards are reasonably balanced in a partnership Finn.

11. **Greater Creditworthiness:** The unlimited, joint and several liabilities of the partners increases the creditworthiness of the firm. The creditworthiness of a firm is not decided only by the past performance of the firm but also taking into consideration the personal properties of the partners. Creditors can realize their dues even from the private property of the partners in case the firm is not in a position to pay its debts. Thus, a firm can obtain more considerable capital and credit from the external sources.
12. **Cautious and Sound Approach:** As specified earlier, the liability of partnership firms unlimited. It prevents the firm from indulging in any risky and speculative venture. Since the private property of each partner is at stake, partners adopt a rational and cautious approach in taking major decisions in the firm. However, it must be remembered that it is by unlimited liability that a firm enjoys better creditworthiness m the market and can obtain loans and advances on easy terms.
13. **Simple Dissolution:** The partnership is purely a voluntary association and t e procedure for the dissolution of a partnership is simple. A simple fourteen days' notice, served by anyone of the partners, to the remaining partners, is sufficient to dissolve the Finn. Even the settlement of accounts after the dissolution of a firm, is not difficult. The partnership agreement provides guidelines for the dissolution. Thus, the formation, as well as the dissolution of the firm, is natural as compared to that of a joint stock company.

Disadvantages of Partnership Firm

The disadvantages of a partnership form of organization:

1. **Limited Financial Resources:** Huge capital investment is required for starting a large-scale organization. A partnership form of organization is not suitable for such business. This is because; there is a statutory limit on the maximum number of partners in a partnership firm. During this, the urn tries to restrict the number of partners to avoid conflicts. All these factors reduce the capital raising capacity of a firm. Thus, a partnership nm cannot venture into businesses which require a considerable capital investment.
2. **Unlimited Liability:** According to the Partnership Act, all the partners of a firm are jointly and severally liable up to an unlimited extent. Creditors can make partners pay their dues even from their personal property if the assets of the firm are not sufficient to repay its liabilities. It affects the decision making and risk-taking ability of the partners. Thus, partners may take deliberate decisions and take only a calculated risk, which will ultimately affect the profitability of the firm.
3. **No Independent Legal Status:** A partnership firm does not enjoy a separate legal status. It does not enjoy a corporate life as in the case of a joint stock company. A partnership firm, being a private organization indicates that the partners and the firm are not separable from one another. The relation of a partnership arises from a contract and not from the status. In the absence of legal existence, it is terminable by death or insolvency of a partner. It has no stability or continuity of life.
4. **Possibility of Conflicts and Disputes:** Unity among the partners is essential for the success of a partnership. After the firm runs for some time, conflicts begin

among the partners. It is due to a clash of interests and different views of partners regarding the running of the business. A dishonest or inefficient partner may create problems for those who are innocent and committed. Such mutual conflicts among the partners may create problems in the smooth functioning of the business and even its closure.

5. **Non-transferability of Capital or Interest:** A partner cannot transfer his interest or capital in the firm to a person without the consent of the remaining partners. Unlike a shareholder of a joint stock company, partners cannot sell their interest in case of the need of hard cash. Lack of liquidity is a severe handicap from the view point of an investment in a partnership firm. The need for prior consent of other partners to the transfer of interest to outside parties creates difficulty in the transfer.
6. **Risk of Implied Authority:** The partners are the agents of a firm. He can bind the co-partners by his activities. A dishonest, incompetent or insincere partner may land other partners and the firm in financial difficulties because of his foolish and reckless actions. According to the Partnership Act, the act of one partner will bind all the remaining partners in the course of business. Hence the other partners will have to pay for the shortcomings or reckless action of one partner.
7. **Rewards and Motivation:** In a partnership firm, the profits arc shared by all the partners, irrespective of their participation in the management of the business affairs. Thus, a partner, who does not take any interest in the affairs of the firm, also gets his due share in the profits. It affects the morale and initiative of the working partners. Thus, there is no relationship between efforts and rewards and the efforts of committed partners are not rewarded suitably in the partnership firm.
8. **Limited Expansion:** It is not possible to expand the operation of a partnership firm beyond a certain limit due to the following factors:
   - Limit on the number of members.
   - Unlimited liability.
   - Limited risk-bearing.
   - Limited resources.
9. **Less Public Confidence:** The Indian Partnership Act mainly deals with the formation and dissolution of the partnership firm. It does not lay down any statutory regulation for its functioning and disclosure. The nature and scope of the activities of a firm is decided by the partnership deed which is a personal document. Again, it can be amended by the consent of all the partners. Thus, partnership organizations do not enjoy much public support and confidence. ‘
10. **Instability of Partnership Firm:** The continuation of a partnership firm is uncertain, as the death, insolvency, insanity or partner’s retirement might lead to the dissolution of the firm, particularly when the number of partners is restricted to only two. A partner can also dissolve the firm by giving a fourteen days’ notice to the remaining partners. Thus, a partnership firm cannot plan its operations for a very long period as its own existence is always under threat.

Kinds of Partnership

Partnership firms are classified into the following categories:

1. **General Partnership:** A general partnership is constituted between individuals if they agree to enter into any business. It helps them share profits and losses together without putting any limitations or conditions. In a general partnership, the liability of all the partners is unlimited. If the assets of a firm are not sufficient to pay-off the obligations, the private property of the partners is used to repay the firm's liabilities. The Indian Partnership Act does not permit the formation of a limited partnership. The general oi unlimited partnership can be of following three types:
2. **Particular Partnership:** When a partnership is formed for the completion of a specific project, it is called a 'particular partnership'. Such a partnership comes to an end as soon as the work, for which it is formed, is completed. For example, two auditors who are engaged in a particular audit may be considered as partners in that audit only, although they are not partners and belong to two different firms of auditors.
3. **Partnership for a Fixed Period:** When a partnership is formed for a specific period, it is called a 'partnership for a fixed period'. In such a type of partnership, the duration of the partnership is decided at the time of making an agreement. Such a partnership automatically comes to an end after the expiry of the fixed period. Thus, there is no need to serve a notice of dissolution to the partners.
4. **Partnership-at-Will:** This type of partnership is neither for a fixed period nor for a specific purpose. It continues its business for any length of period depending upon the will of the partners. A partnership-at-will can be dissolved at any time by any partner giving notice of their willingness to dissolve the firm. A firm continues its business as long as all the partners cooperate and take an active interest in the firm.
5. **Limited Partnership:** A limited partnership is constituted when the liability of partners, except one, is limited, i.e., at least one of the partners must have unlimited liability. Such a partner is known as a 'special partner'. The special partner puts in a limited amount of capital and receives a corresponding share of the profits, lie is held responsible for the contracts of the firm, but only to the extent of the capital contributed by him.

However, a special partner cannot interfere in or transact the business of the firm. The partnership deed must clearly state the information about the names of regular and special/ distinguished partners, and the amount in which special partner contributes.

Other Kinds of Partnership:

1. **Joint Venture:** It is a temporary partnership firm established to carry out a particular job and once the job is completed, it gets dissolved automatically. For instance, contractors who work independently can come together and form a partnership for carrying out a specific construction job. As soon as the construction work is over, the firm automatically ceases to exist.
2. **Co-ownership:** When two or more persons commonly or jointly hold ownership of a property without any intention to run any business, the association which is

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formed is called 'co-ownership'. Such an association remains a co-partnership, it does not carry on any business with the help of the jointly owned property. On the other hand, if it starts some kind of business, it becomes a partnership.

Limited Partnership

In the case of a limited partnership firm, the liability of some of the partners is restricted to their capital contribution. The rest of the partners have unlimited liability. The partners with limited liabilities are known as 'special partners,' and those with unlimited liability are known as 'general partners.' In case the liability of a partner is limited, the firm must be registered as a 'limited partnership, otherwise, it is treated as a 'general partnership.'

The formation of such a partnership firm is permitted in Europe but not in India. According to the Indian Partnership Act, all the partners of the partnership firm must have unlimited liability.

Features of a Limited Partnership:

1. **Types of Partners:** A limited partnership contains two categories of partners, viz., select partners and general partners.
2. **Unlimited Liability:** At least one of the partners must have unlimited liability. He is known as a 'general partner.'
3. **Limited Liability:** The liability of a special partner is limited to the extent of his capital contribution.
4. **Right of Management:** Only the general partners have a right to participate in the management of the firm.
5. **Dissolution of Firm:** The death, insolvency or insanity of a special partner does not affect the existence of the firm.
6. **Principle of Mutual Agency:** Only a general partner can act as principal too and an agent of the firm. A special partner cannot act in such capacities.
7. **Registration:** The registration of a limited partnership is compulsory under the law. Otherwise, it is treated as a 'general partnership.'
8. **Transfer of Interest:** A particular partner has no right to transfer his interest in the firm, or to someone else without the consent of the general partner.
9. **Right to Inspect Books of Accounts:** A particular partner can inspect the books of accounts and can advise the general partner about the business.
10. **Drawing Powers:** An individual partner has no drawing rights. However, if he withdraws a part of his capital, then his liability on the part so withdrawn, becomes unlimited.

Advantages of Limited Partnership:

1. **Limited Liability:** A person interested in investing money in business without assuming unlimited liability can become a particular partner.
2. **More Stability:** A limited partnership firm requires a more stable existence. It does not dissolve due to death, insolvency or insanity of an exclusive partner.

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3. **No Managerial Responsibility:** The general partners manage a limited partnership firm. Hence, exclusive partners have no managerial responsibilities.
4. **More Finance:** A limited partnership firm can raise more finance than a general partnership, since it can have many partners with limited liability.

Disadvantages of Limited Partnership:

1. **Compulsory Registration:** The registration of a limited partnership is compulsory; otherwise it is treated as a 'general partnership.'
2. **No Right of Management:** A special partner has no right to participate in the day-to-day management of the firm.
3. **No Drawing Powers:** Special partners are not allowed to withdraw their capital during the lifetime of the partnership firm.
4. **No Transfer of Interest:** The interest of the firm by a special partner can never be transferred to anyone without the consent of the general partner.
5. **Lack of Mutual Agency:** A special partner cannot represent himself as the agent of the firm or of the general partner though he is a partner of the firm.
6. **Exploitation of Special Partner:** General partners may exploit the special partners by drawing higher salary and commission.
7. **Less Creditworthiness:** The creditworthiness of a limited partnership is reduced due to the limited liability of a special partner.
8. **Loss to Creditors:** A limited partnership firm can cheat creditors by transferring the general partner's private property in the name of the special partner.

3. JOINT HINDU BUSINESS

Joint Hindu family business is a unique kind of business organization, possible only in India, among Hindu families only. The joint Hindu family business comes into existence due to the operation of the Hindu law. It is a collective form of organization. The origin of the joint Hindu family business lies in the principles of heritance under the Mitakshara School of Hindu law. According to this law, the property inherited by a Hindu from his father, grandfather, and great-grandfather is ancestral property. Any other property acquired from others is treated as a separate property, i.e., considered to be his personal property.

In the eyes of Hindu law, business is an inheritable asset. Therefore, after the death of a Hindu, his business comes to be jointly owned by three successive generations, viz., son, grandson, and a great-grandson. This interest in inheritance is called co-parcenary interest, and members of the joint Hindu family are called coparceners.

This business becomes a joint family business, and the firm is known as a joint Hindu family firm. In a joint Hindu family business, the sons, grandsons, and great-grandsons become joint owners of the property due to their birth in the family. Thus, a joint Hindu family business is created by the Hindu law and not by a contract. Only the eldest member of the family or the father is allowed to conduct, manage, control and organize the business. He assumes full responsibility for the business risks. He

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is called 'Karta' or 'Manager.' His liability is unlimited, whereas the liability of other coparceners is limited to their share of interest in the coparcenary interest.

Features of a Joint Hindu Family Firm

The following are the features of the joint Hindu family firm:

1. **Creation:** The joint Hindu family business is created by the operation of the Hindu law. Unlike a partnership organization, the joint Hindu family business is created by status and not by agreement.
2. **Registration:** Registration is not required, in case of a joint Hindu family business, it comes into existence due to the operation of the Hindu law and operates under its rules and regulations.
3. **Types of Members:** There are two types of members in a joint Hindu family business, viz., he 'Karta' who is the male head of the family and coparceners who are the male members of the family.
4. **Liability:** The liabilities of Karta' are numerous and multifarious, which means that the liability of the 'Karta' is unlimited. The liability of coparceners is limited to their interest in the joint Hindu family business.
5. **Right of Management:** The right of management is vested with the 'Karta,' who is the male head of the family. Other coparceners have no right to participate in the management and even to inspect books of account.
6. **Profit-sharing:** The profit and loss-sharing ratios are not fixed in the joint Hindu family business. The sharing of profits and losses among coparceners varies according to births and deaths of male members in the family.
7. **Legal Status:** A joint Hindu family business does not enjoy a separate legal status. It is not separable from the members who constitute it. It is a unit, and in all affairs, it is represented by its 'Karta.'
8. **Number of Members:** There is no restriction on the number of members in case of a joint Hindu family. The number of members changes according to the births and deaths of male members in the family.
9. **Implied Authority:** Karta has an implied authority to bind all coparceners in the course of business. However, an act of a coparcener will not bind the Karta. Coparcener has no right to act as an agent of the firm.
10. **Responsibility of Karta:** Karta has full responsibility as far as the management of the business is concerned. He is solely responsible for the smooth functioning of the business of Hindu undivided family.

Advantages of a Joint Hindu Family Firm:

Various advantages of the joint Hindu family firm are as under:

1. **Continuity:** Joint Hindu family business enjoys a long or stable existence since this form of business organization does not come to an end due to the death or insanity of any coparcener or even due to the death of the Karta. In the event of the death of the Karta, the next male head of the family becomes the 'Karta.'

2. **Centralized Management:** The management of the joint Hindu family business is centralized in the hands of the Karta. The coparceners may help him, but everyone has to obey the Karta. It ensures internal discipline, the unity of command, quick decisions and prompt actions and fewer disputes.
3. **No Upper Limit to Membership:** There is no upper limit on the membership of a joint Hindu family business. All the male members of a family are the members of the firm. The number of members in the joint Hindu family business varies. It is based on the number of births and deaths in the family.
4. **Quick Decision and Prompt Action:** Since all the managerial powers are centralized with the Karta,' decisions are taken quickly, and prompt action can be initiated. The decisions taken by the Karta is final and binding on all other members. This helps him to take advantage of business opportunities.
5. **Flexibility of Operation:** As stated earlier, the joint Hindu family business has a centralized management. It facilitates quick decision and prompt action. At the same time, the firm can adapt quickly to the changes in the environment. Thus, the flexibility of a. sole trading concern is also enjoyed by a joint Hindu family firm.
6. **Business Secrecy:** As far as business secrecy is concerned, the joint Hindu family firm enjoys the highest degree of secrecy. This is because this form of business does not require to publish its account. The books of accounts are not even open to coparceners the inspection. Thus, business secrets are confined to the 'Karta 'alone.
7. **Division of Labour:** All the male members of a Hindu joint family are the coparceners in the firm. It makes it possible to apply the principle of division of labour to the firm. Each coparcener may be given different work according to his/ her qualifications and abilities. It may lead to the highest level of specialization.
8. **Better Creditworthiness:** Joint Hindu family business enjoys a higher credit standing due to the unlimited liability of the Karta. At the same time, Karta commands respect among other family members and therefore, relates the goodwill of the firm to his goodwill. Thus, a joint Hindu family firm enjoys higher creditworthiness.

Disadvantages of a Joint Hindu Family Firm

Joint Hindu family business is the oldest form of business organization. It was very popular in India when the joint family system prevailed universally in the country. At present, the joint family system itself has declined considerably, and people are gradually moving towards the western concept of nucleus family. The joint family as a social institution is a dying institution in India. With the breakdown of the joint family system, the joint Hindu family business has lost its old importance. In short, it is now out of date, and it has outlived its utility.

The following are specific disadvantages of joint Hindu family firm:

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1. **No Relation between Efforts and Rewards:** In joint Hindu family firm, the 'Karta 'shoulders more responsibility. However, the profits of the business are enjoyed by all coparceners. Thus, the 'Karta has no incentives to work hard.
2. **Limited Capital:** The joint Hindu family firm completely depends upon the personal capital of the Karta and small borrowings from friends and relatives. It restricts the scope of activities of the joint Hindu family firm.
3. **Limited Managerial Ability:** The Karta individual plans, organizes, directs and controls the firm. However efficient the Karta may be, he is bound to suffer from limitation about knowledge of management and decision-making skills.
4. **No Managerial Powers:** the coparceners have any right to participate in the management of the business. They have no right even to inspect the books of account. Thus, the coparceners lack managerial powers.
5. **Less Creditworthiness:** The joint Hindu family business has a lower credit standing as compared to a partnership firm, due to limited liability of coparceners. The only liability of the 'Karta'is unlimited.
6. **No Rights to Females:** A female cannot become 'Karta' of the joint Hindu family firm. The right to become 'Karta' is only given to male members of the Hindu family. Thus, it is a male-dominated form of business organization.

4. JOINT STOCK COMPANY

With the growth of industry and commerce, the traditional forms of organizations encountered many problems such as the dearth of capital, the problem of management and burden of risk and liability. It constrains the further growth of industry and commerce. However, the evolution of company form of organization solved all these problems.

A joint stock company as a distinct form of business organization developed soon after the Industrial Revolution in the 18th century in England. In India, the joint stock company form of the organization did not evolve as a natural growth from the traditional form of organizations like individual trading and partnership firms. In fact, the concept of joint stock companies was imported in India from England, and hence, all our company laws are based on the company laws of England.

The first Act governing company form of organization was passed in India in the year 1850.Many changes have been introduced in it since then. The Government of India appointed a committee under the chairmanship of Shri C. H. Bhabha in 1950 to review the said Act. By the recommendations of this Committee, the Indian Parliament enacted a comprehensive act called the Companies Act, 1956 for governing the company form of organization in India.

A joint stock company is a voluntary association of personnel who contribute towards the worth of money. It is beyond some trade or business to share the profits and losses arising from that place. It is established by law and can be dissolved only by law. It is an incorporated association which is an artificial person created by law, having a separate name, a common seal, a separate legal entity and perpetual succession. The liability of its members is limited.' The company has a considerable capital which is divided into smaller parts called 'shares.' The people who subscribe the shares are called 'shareholders,' and they are the owners of the company. I hey receive a share called 'dividend' in the profits of the company.

Characteristics of Joint Stock Company

Various characteristics of a joint stock company are:

1. **Legal Formation:** A joint stock company comes into existence only when it is registered after the completion of necessary formalities as lay down by the Indian Companies Act, 1956. A company comes into being by the operation of law and therefore, it is compulsory to register a company with the Registrar of Companies. Thus, a company is created and controlled by law and" can be dissolved by law alone.
2. **Artificial Person:** A joint stock company is recognized as an artificial person in the eyes of the law. It does not exist physically but it does exist legally. It enjoys many rights of a natural person such as it can acquire and dispose "of property, it may enter into contracts through the agency of natural persons, and it can also be fined for violation of provisions of the prevailing Companies Act.
3. **Separate Legal Entity:** A joint stock company has its separate existence independent of its members. This company can own infrastructure, get into contracts, conduct any form of lawful business in their name. They can or even get sued by anyone in the court of law. The shareholders are owned by the company and are not the owners of the property. They cannot be held responsible for the acts of the company.
4. **Common Seal:** As a company is an artificial person, it is incapable of signing documents for itself. It acts through natural persons, known as 'directors'. Therefore, the law provides for a common seal, which can be used as a signature while dealing with others or entering into contracts. The company's seal on any document ensures that it becomes official, and holds a certain level of binding for a company.
5. **Perpetual Existence:** It continues to exist as long as it fulfils the requirements of law. It does not affect the death, lunacy, insolvency or retirement of any of its shareholders or directors. The shares of the company can be transferred to the legal heirs of the deceased members. The company enjoys a perpetual succession so long as the law is pleased with its existence.
6. **Voluntary Association:** A joint stock company is a voluntary association of a group of persons. Any person can become a member of the company provided he is competent to enter into a contract with the company. He can also leave the organization by selling his shares at the stock exchange. Thus, anyone can join leave the organization at his own choice, without any restrictions binding on him.
7. **Limited Liability.** In a joint stock company, the liability of a member is limited to the extent of the value of shares or up to the unpaid amount of shares. It should be

noted that the shareholders are free of their liability, the moment their shares are fully paid up. Hence, their private capital cannot be seized in the event of winding up of the company for the payment of its debts.

8. **Democratic Management:** Joint stock companies have a democratic management and control. Although shareholders are owners of the company, all of them cannot participate in the management of the company. Normally, the shareholders democratically elect their representatives from among themselves known as 'Directors to manage the affairs of the company.
9. **Transferability of Shares:** The shares of the joint stock company are freely transferable per the choice of a shareholder. Formal approval of the company may be necessary to regularise the transfer. The main advantage of this is that a shareholder can sell his shares on the open market and get back his money without disturbing the capital structure of the company. It provides liquidity to the investors and stability to the company.
10. **Conflict of Interest:** There is a conflict of interests in a company. The conflict may be between the directors and the employees or between the directors and the shareholders of the company. The interests of various parties clash with each other because of the differences in the viewpoints and opinions of the members of the organization. It may affect the smooth functioning of the business.

Advantages of Joint Stock Company:

Various advantages of a joint stock company are:

1. **Substantial Financial Resources:** A joint stock company can collect a significant amount of capital through smaller contributions from wealthy personnel. Public limited company shares can help the general public to raise capital. It can further help them accept deposits from the public and issue debentures to raise funds. The structure of the company is a joint stock company that accumulates a considerable capital that meets the financial requirements of the large industrial and commercial houses.
2. **Limited Liability:** In the case of a joint stock company, the liability of its members is all about the value shared by them. Private property of members cannot be attached to debts of the company. It should be noted that the shareholders arc free of their liability, the moment their shares are fully paid-up. This promotes the growth and expansion of the company.
3. **Democratic Management:** The management of a company is vested in the hands of directors, who are elected democratically by the members or shareholders of the company. These directors as a group are known as the board of directors. The board manages the affairs of the company and is accountable to the members. The members of the company elect capable persons, having to sound financial, legal and business knowledge to the board so that they can manage the company efficiently.
4. **Economies of Large-scale Operations:** A joint stock company enjoys economies of large-scale operations. Due to the availability of abundant financial resources and

technical expertise, it is possible for the companies to have large-scale production. It enables the company to produce more efficiently and at a lower cost. It also enables it to provide quality goods to the consumers at reasonable prices, which in turn helps in the smooth functioning of the business.

5. **Statutory Regulations:** Joint stock companies are formed and regulated under the Companies Act, 1956. It is established by law and can be dissolved only by law. It is obligatory for the company to maintain and publish the books of account as per the provisions' of the Companies Act. It imparts transparency to the functioning of the company. It also builds public confidence, gains public patronage, promotes healthy business management and at last facilitates the smooth functioning of the business.
6. **Public Confidence:** The general public feels confident about the company, as its affairs are regulated. It is as per the provisions of the Companies Act, 1956. It publishes an accurate and fair statement of its affairs to the public. Moreover, it also publishes its annual reports. Due to this, people invest their hard-earned money in shares and securities of reputed companies. It promotes capital formation, which in turn facilitates industrial development and generates employment opportunities.
7. **Availability of Expert Services:** The Company can hire the services of experts and specialists. Various business functions are performed by the competent and highly qualified persons like cost accountant, commercial artists, advertising experts, sales experts, professional managers, etc., who specialize in their field. Moreover, the board of directors, consisting of competent persons, provide for an efficient and capable management for the company.
8. **Research and Development:** Research and development requires a massive investment and has a very long gestation period. It is only a company form of organization that can afford to invest a considerable sum of money on research and development for the improved processes of production, new designs, better quality products, etc. It also undertakes research and development programmes for enhancing the skills, knowledge, and attitudes of its employees. This enhances the corporate image of the firm.
9. **Tax Concessions:** According to the provisions of the Income Tax Act, companies have to pay taxes which are levied on flat rates. They are usually lower than the rates offered to the individuals in the higher income brackets. Thus, the company form of organization involves a reduced tax liability. A company set up in backward or remote area can enjoy tax holidays, tax subsidies and tax incentives. Thus, a joint stock company is relieved from the burden of high taxation.
10. **Bolder Management:** The company form of organization has huge financial and physical resources. At the same time, its ownership is spread out to a large number of investors. All major decisions in the company are taken by the board of directors, who own a tiny part of the total share capital of the company. Companies are managed by managers, who are the paid employees of the company. Therefore, the board of directors and managers can take bold decisions for grabbing new opportunities.

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11. **Contribution to Society:** A joint stock company offers employment to a large number of people. It facilitates promotion of ancillary industries, trade and auxiliaries to trade-companies do donate money for a social cause such as education, health and community services. They mobilize the small savings of people and direct them to productive activities. Large-scale production reduces cost of production and makes available goods to consumers at reasonable rates. Thus, it promotes welfare of the society.
12. **Economic Development:** The government gets good revenue on account of income tax.sales tax, excise duty and so on from the industrial sector. The government invests this revenue in the projects of social development. Development of companies also results in the development of trade, commerce, and industry. It also helps in developing trade with other countries, which, in turn, helps in earning foreign exchange for the country. Thus, a joint stock company helps in boosting the economic development of a country.
13. **Social Desirability:** The company has brought about the democratization of the ownership of the large-scale business. Divided into two segments the capital of the company comprises of a large number of shares of small face value. They are within the reach of the common men. A person with limited means can also become a part owner of the company along with his occupation by investing a small amount. It can be said that a company can provide means of canalizing small savings of individuals into productive channels.

Disadvantages of Joint Stock Company

A joint stock company suffers from the following disadvantages:

1. **Difficulty in Formation:** The formation of a joint stock company involves too many legal formalities. Some legal documents and formalities have to be completed before a company can start its business. It requires the services of specialists such as chartered accountants, company secretaries, etc. A large number of authorities are required to be approached for capital formation. Therefore, the process of formation of the joint stock company is time consuming and expensive.
2. **Bureaucratic Administration:** A company form of organization does not enjoy the flexibility of operation. The actual administration of a company is in the hands of paid officers. They have no proprietary interest in the company since it is not a personal organization. The officers and their assistants do not enforce any decisions promptly. Sometimes, even the directors arc at the mercy of bureaucracy. Thus, it makes a company an inflexible form of organization.
3. **Lack of Personal Touch:** A company organization lacks a personal touch with either its customers or employees, which is a prominent feature of simpler forms of organization. An employee feels that he is working for a machine and that his well-being of secondary importance about profit. Large companies often tend to become even larger, making its functioning more complex and widening the gap between the labour and the management.
4. **Excessive Government Control:** The government exercises strict control over the companies. The government regulates joint stock companies through the

Companies Act and various other legislation and statutory bodies like the SEBI. In particular, public limited companies, arc required to adhere to various legal formalities as provided in the Companies Act and other legislation. Non-compliance with this may invite heavy penalty.

5. **Concentration of Economic Power and Wealth:** A joint stock company is a large business organization having huge resources. It gives a lot of economic and other powers to the persons who manage the company. Any misuse of such power creates unhealthy conditions in the society. It also results in some social evils such as the concentration of economic power, hostile takeovers, creation of monopolies, and exploitation of the workers, consumers, and investors.
6. **Undue or Reckless Speculation in Shares:** A company form of organization facilitates speculation and gambling in shares on the stock exchange. The market value of shares of the company depends on the financial standing and goodwill of the company. However, in many cases, the directors and other interested parties manipulate the prices of shares to promote their narrow interests. The violent fluctuations in shares may, sometimes weaken the confidence of investors and lead to a financial crisis.
7. **Lack of Motivation:** The ownership and management of the company are separate. It is not possible for the shareholders to run a company, because of large numbers and also because they are scattered. Therefore, the company organization does not give scope for personal initiative, which results in inefficiency and waste. The company is managed by the directors and paid officials. One cannot expect them to look after the interest of the company with as much enthusiasm as proprietors do.
8. **Delay in Policy Decisions:** Generally, policy decisions are taken by the board of directors at the board meetings of the company. Further, the company has to fulfil certain procedural formalities before making policy decisions and implementing them. These procedures are time-consuming and therefore, may delay the action on the decisions. Sometimes, such delay in decisions and following action may cause a company to suffer heavy losses.
9. **Incapable Management and Fraudulent Tactics:** There are fraudulent promoters who promote bogus companies, collect money from people and use such money for the then-personal benefit. Such fraudulent companies make poor investors suffer. Sometimes, the management of a company may prove to be incapable of performing its duties. It may misuse company's property, goods, and money for its benefit and may harm the interests of the shareholders and create panicky among the investors.
10. **No Business Secrecy:** A company form of business organization cannot enjoy business secrecy, since it has to publish its books of accounts annually. As per the (Companies Act, it is obligatory for the company to keep its investors informed about its various activities and performance. At the same time, the company also needs to file all information with the Registrar of Companies. Thus, the business secrecy which is enjoyed by other personal forms of organization is not enjoyed by a joint stock company.

11. **Conflicts of Interest:** A company consists of a large number of stakeholders, viz., creditors, consumers, workers, government and so on. They usually have vested interest in the company. Hence, there are frequent conflicts between the members and management, the management, and consumers, the management and employees and also among different categories of shareholders. These conflicts adversely affect the functioning and goodwill of the company.

12. **Limited Suitability:** A company form of organization is not suitable for small-scale business where quick decisions are to be taken, and changes in the market conditions, fashion, taste, and preference of the consumers and government policies need to be responded quickly. Under such circumstances, a sole trading concern or a partnership firm is more suitable forms of organization. The business that requires quick adaptation to the changing market trends cannot be carried through this form of organization. The joint stock company structure of the business organization is suitable in the following cases:

    - A joint stock company is suitable for large-scale business operations requiring a considerable investment. Since the liability of the members of a joint stock company is limited, it becomes difficult for them to raise a significant capital from a large number of investors.
    - This form of organization suits the organization with a massive risk. The joint stock company offers a preferred legal status that is developed based on public support and confidence.
    - The organized business in the form of a joint stock company includes businesses, like pharmaceuticals, manufacturing, iron and steel, aluminium, information technology, etc.

Kinds of Companies

Companies can be classified into following categories:

1. **Companies by Incorporation or Registration:**
    - **Chartered Companies:** Historically, most of the early companies were set up through a Royal Charter issued by the head of the state or monarch. The Royal Charter defined the rights, duties, liabilities and exclusive privileges of such companies. The formation of such companies started during the 17th century, i.e. during the era of the Industrial Revolution. For example, the East India Company and the Bank of England are chartered companies. Such companies do not exist in India since there is no system of monarchy.
    - **Statutory Company:** A statutory company comes into existence by a particular act of the parliament or legislature of the nation or the state. Its rights, duties, liabilities, powers, objects, scope, etc. are defined in the Act, which brings the company into existence. The formation of such a company is directly linked with social, economic or national interests. For example, the Reserve Bank of India (RBI), State Bank of India (SBI) and Life Insurance Corporation of India (L1C) have been established by the particular Acts of the parliament and therefore, are the statutory companies.

- **Registered Companies:** Companies which are registered under the provisions of the Companies Act of the nation concerned are known as 'Registered Companies.' The Act lays down the procedure for their formation, working and winding up. It also defines the rights, duties, powers, liabilities and other obligations of its members and directors. India, the companies are registered under the Companies Act, 1956. For example, Tata on and Steel Industry and the Mafatlal Fine Spinning and Weaving are the registered companies.

2. **Companies by Liability:**
   - **Companies with unlimited liability:** According to Section 12 of the Companies Act, 1956, the promoters of a company can form a company with either limited or unlimited liability. The Articles of Association specifies the nature of liability of members of the company. In the case of unlimited liability, a shareholder has to meet debts of the company even from his private property in the event of winding up of a company. Though the formation of such a company is permitted under the Companies Act, it is not widely used.
   - **Company with liability limited by guarantee:** The liability of members in such company is limited to a specific amount guaranteed by the members. The purpose of such a guarantee is to enable the company to have funds to meet its liability at the time of winding up of a company. Such companies are non-trading or non-profitmaking concerns. Such companies are formed to promote art, science, sports, culture, etc. Chambers of Commerce (CoC) is an example of this type of company.
   - **Companies with liability limited by shares:** The liability of members in such a company is limited only to the amount of the shares held by them. In the event of winding up of a company, if the assets of the company are insufficient to meet the liabilities and creditors, the private property of the shareholders is not affected. Most of the companies in India belong to this class. A company with liability limited by shares may have directors with unlimited liability. L&T and Reliance Industries are the examples of such companies.

3. **Companies with Public Interest:**
   - **Private Company:**

     A private company is one which, by its Articles:

     - Limits the number of its members to fifty, excluding past and present employees
     - Restricts the right of the members to transfer the shares;
     - and Prohibits the invitation to the public to subscribe to the company's shares and debentures

       A minimum of two members is required to form a private limited company A private company has to Include the words "Private Limited" or "Pvt. Ltd." in their names.

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- **Government Companies:**
  A Government Company is a company or an organization in which at least 51% of the paid up share capital is held by the central government or the state government or partly by both central and state government. These are many government companies, few of them are, Steel Authority of India Limited, Bharat Heavy Electricals Limited, Coal India Limited, State Trading Corporation of India, etc.
- **Public Company:**
  A public company—also called a publicly traded company—is a corporation whose shareholders have a claim to part of the company›s assets and profits. Through the free trade of shares of stock on stock exchanges or over-the-counter (OTC) markets, ownership of a public company is distributed among general public shareholders.

  Many Americans invest directly in public companies, and if you have any type of pension plan or own a mutual fund, it's likely that the plan or fund owns some stock in public companies.
- **Holding Company and Subsidiary Company:** When a company controls another company, the controlling company is known as a 'Holding Company' and a which is being controlled is known as a 'Subsidiary Company' A may control another company by securing control over its board of or acquiring more than half of its share capital or voting power.

4. **Companies on the basis of Nationality:**
   - **Indian Company:** A company registered in India having place of business in India is called as Indian company. It may be private company or public company. It may be noted that where, all the shareholders of a company are foreign citizens, a company shall be called as Indian company if it is registered in India.
   - **Foreign Company:** A company registered outside India and having its place of business located in foreign country may be called as foreign company. The term place of business does not mean agency business in India. It may be noted that where, all the shareholders of a company are Indian citizens, a company shall be called as forcing company if it is registered outside India.

Steps in formation of company

Formation of a company involves a number of steps which are required to be taken from the time a business idea originates till the time a company is legally ready to commence business.

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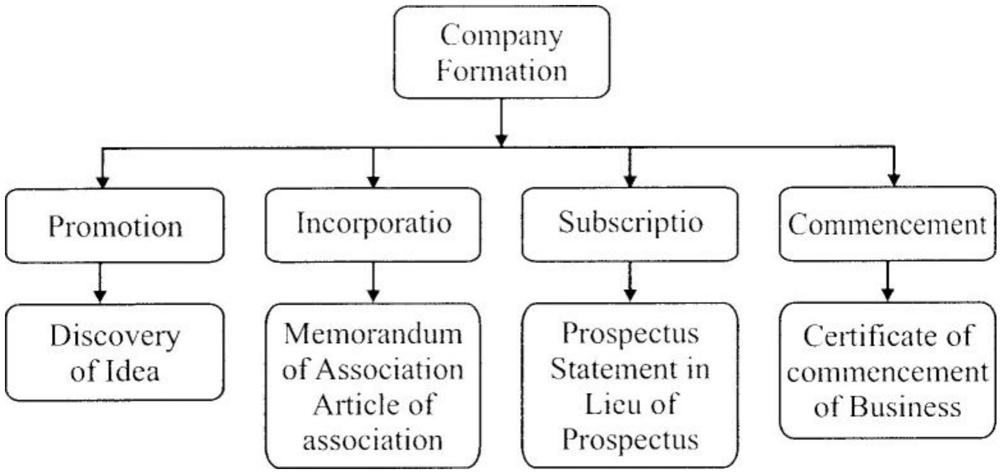

Stage I - Promotion Stage:

Promotion means undertaking such a step, which would persuade a large number of people to come together to achieving a common goal through the company form of organization.

Persons who carry out the task of promotion are known as 'promoters.' Promotional activities may be carried out for any of the following purposes:

- For starting a new business;
- For expanding an existing business;
- For converting either sole trading or partnership into a company; and
- For combining specific going concerns by forming a holding company or a merger.

Promotion of a company is a tedious task and involves some inter-related steps and formalities as under:

- **Discovery of Business Opportunities:** A person or more may get an idea of starting a new business, if possible, of untapped resources or new inventions. Then the discovery of business opportunities begins. The discovery phase of promotion consists of the following sub steps:

- **Conception of an Idea:** The promoter's work begins when an idea strikes him regarding some business which can be profitably undertaken by a company. The promoter may also see some possibility of gain in an existing line of business. Investigation: Before executing any idea, it is necessary to carry out a detailed investigation of the commercial viability of the idea. This task is undertaken by the experts, who undertake a detailed investigation and prepare a report thereof.

- **Verification:** The report submitted by experts need not be accepted at face value, without getting it verified by a separate group of independent experts. If the report of this group is also favourable, then the idea is taken up for commercial exploitation.

- **Assembling:** During this stage, the promoters give a proper shape to their idea, by assembling various resources such as managerial and technical ability and physical resources. Assembling includes such activities as the selection of a site, purchase or lease of land, construction of buildings, purchase of equipment, securing of patent rights, entering into a contract with persons for technical, managerial, office and factory jobs, etc.

- **Preparation of Financial Plan:** During this stage, promoters undertake financial planning for the proposed project to ensure its financial viability. Financial planning means determining an ideal capital structure, sources, and application of funds and maintaining adequate cash flow. Promoters may enter into a contract with underwriters, bankers, and financial institutions for raising prime loans for meeting working capital requirements.

Stage II - Incorporation Stage:
Incorporation stage means the process of giving birth to a new company, i.e., undertaking various steps to get the company registered with the Registrar of Companies. It is a legal stage through which a company gets a separate legal entity. The company can be registered cither as a private limited company or a public limited company, further, it requires preparation and filing of the following documents with the Registrar of Companies:

- **Memorandum of Association:** Memorandum of Association is the most significant document for the company form of organization as it embodies the fundamental rules regarding the constitution and scope of the activities of a company. For a public limited company, at least seven persons have to subscribe their names to the Memorandum, with each member promising to pin chase at least one share. In the case of a private limited company, two persons are required to subscribe their names to the memorandum. If two or more persons agree to purchase one share, they are treated as one person only for the Memorandum of Association.
- **Articles of Association:** Article of Association consists of a set of rules, regulations, and laws made by the company, for its internal management and for carrying out the objects of the company, embodied in its Memorandum. Even the Articles of Association is signed in the same manner. Only a subscriber to the Memorandum can subscribe to the Articles. A public limited company, however, may or may not prepare particular articles of its own. If it does not, it will be deemed to have adopted the model Articles given in Table A of Schedule of the Companies Act, 1956. Articles are compulsory for private companies with unlimited liability, and companies with liability limited by guarantee.
- **List of Directors and their written consent to act as Directors:** A list of directors has to be filed, with their names in full, their addresses, occupations, and ages. If a company does do not file a separate list of directors, then the subscribers to the Memorandum are deemed to be the first directors. According to the Companies Act, 1956, as amended in 1965, the person or persons named as directors of the company under its Articles must file with the Registrar, their written consent to act as such within 30 days of their appointment. However, no such consent is required in the case of private limited companies and companies not having a share capital.

- **Address of the Registered Office:** It is also necessary to file a notice of the address at which the registered office of the company will be situated. In case, it is not filed at the time of registration, it must be filed within 28 days of the registration.
- **Statutory Declaration:** A statutory declaration, either by the secretary or the solicitor or any other person who has taken part in the formation of the company, to the effect that all provisions of the Companies Act, about registration, have been complied with.
- **Qualification Shares:** The directors of the company are required to give a declaration in writing regarding qualification shares. It is an undertaking signed by the directors stating that they have agreed to purchase and pay for the prescribed qualification shares.

All these documents must be filed with the necessary filing fees, stamp duty (to be affixed to the Memorandum of Association and the Articles of Association) and registration fees according to the Companies Act. The Registrar of the joint stock company examines all the documents, and if satisfied with their correctness, he issues a 'Certificate of Incorporation. The certificate is dated and signed by the Registrar. It is the proof of the fact that the company has been incorporated.

Stage III - Subscription Stage:

The third stage in the formation of a company is the raising of capital. In the case of a private company, capital is contributed by its members through a mutual consent without public notice. A public company cannot start functioning unless it acquires a minimum subscription cither by the sale of shares to the general public or privately. For this purpose, either a prospectus or a statement instead of the prospectus has to be prepared and filed with the Registrar of Companies. Should a company take a permission of the Controller of Capital Issues in case the capital is more than 25,00,000?. A minimum subscription should be collected within 120 days from the date of issue of the prospectus.

Before commencing the business, every public limited company must have to show that adequate funds have been raised from the public. So, when the company gives the offer to the public to subscribe its shares, it must ensure that the investors must subscribe a minimum number of shares. This is called minimum subscription, which is 90% of the total number of shares offered to the public. If the application money received is less than the minimum subscription, then the company must return all the application money of the investors, and it cannot start its operation. To avoid this risk, the share-issuing company may appoint underwriters, who undertake to buy the shares if these are not subscribed by the public. The underwriters perform their job on a commission basis. This process of appointing underwriters to ensure the minimum subscription of capital is known as Underwriting.

Capital raising activity involves the following steps:

- Preparation of prospectus or statement instead of prospectus and filing it with the registrar;

- Issue of prospectus to the general public;
- Preparation of a receipt of application and procedure for allotment;
- Application to the stock exchange for listing of shares and debentures of the company;
- Entering into a contract with the underwriter's tor tire sale of securities;
- Appointment of bankers, auditors, brokers, secretary, etc.;
- Preparation and despatch of refund orders to those who have not been allotted shares;
- Issue of share certificates to the allottees against their allotment shares.

Stage IV- Commencement of Business Stage:
A private company can commence its operations immediately on acquiring the Certificate of incorporation. However, a public company can commence its operations only on acquiring the Certificate of Commencement of Business. Certificate of Commencement of Business, also known as Trading Certificate, is issued on submitting the following documents to the Registrar:

- A declaration that the prospectus or statement instead of the prospectus has been filed with the Registrar.
- A declaration was given by the company, that the minimum subscription has been acquired by the company as mentioned in the prospectus or a statement instead of the prospectus.
- A declaration that the directors have purchased qualification shares at the same issue price at which the general shareholders have acquired them.
- A certificate by directors or solicitors to that effect that all provisions of the Companies
- Act in respect of commencement of business has been complied with.
- The Registrar of Companies goes through the above documents, and if he is satisfied that all necessary conditions have been fulfilled, he issues a 'Certificate of Commencement of Business 'or 'Trading Certificate.'

Meaning of Promoter:
The terms entrepreneurs and promoters are used interchangeably, but conceptually they differ from one another. In a strict sense, entrepreneurs are the 'innovators' or the 'risk bearers' while promoters are those who take various steps in setting up of a business organization. An entrepreneur is a 'visualizer' while a promoter is the executor. However, nowadays, an entrepreneur plays a dual role in identifying and implementing a business proposal. Therefore, in a broader sense, both the terms are used interchangeably.

A promoter is mainly concerned with the promotion of a business venture. The process of setting up of a new enterprise starts as soon as an idea strikes the mind of the promoter. It is also known as 'discovery of an idea' or 'promotion stage.' The promotion stage includes discovery, investigation, assembling, and financing. The promoter performs all these tasks.

Types of Promoters:

Promoters are of different types depending upon the role they play in the promotion of business:

1. **Government as a Promoter:** India has adopted mixed economy, where there is a coexistence of the public and private sector. A large number of business undertakings were promoted by the Central and State Governments in the post-independence period. Some such enterprises are Oil and Natural Gas Corporation (ONGC), Air India, Maharashtra Industries Development Corporation (MIDC), Indian Railways and many more. Thus, all business enterprises in the public sector are promoted by the government.
2. **Institutional Promoters:** Large financial institutions, viz., Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI) and Small Industries Development Bank of India (S1DBI) and even nationalized banks have their merchant banking divisions. Such divisions provide all types of assistance for the promotion of new business enterprises. They also contribute towards the share capital of companies and may acquire a controlling share in them.
3. **Professional Promoters:** Professional promoters discover a business opportunity and take up all the responsibility of exploiting it on behalf of their clients. These promoters are professionals and specialize in setting up of new enterprises. However, they are neither businessmen nor industrialists. They take up the task of promotion of a new enterprise behalf of their clients. After promoting an enterprise, they hand it over to their clients for execution. They charge commission or fees for the services rendered by them.
4. **Financial Promoters:** Financial promoters are the financial institutions, investment trusts, commercial banks, etc. Financial promoters provide finance to the companies as a loan and subscribe to the part of the share capital of the company. Some of these promoters finance the entire project and acquire a controlling interest in the venture. They are more of financiers rather than promoters. When the company starts generating revenue, such promoters gradually withdraw their stake from it.
5. **Occasional Promoters:** Occasional promoters are the promoters who take up the work of floating a specific business enterprise and manage its affairs. They promote new business venture for their sake and do not sell it after its formation. They are not professionals. They, usually, establish a small business unit by contributing their capital. Such promoters personally look after the entire promotional work. These promoters establish a small business and restrict their operations to a local area.
6. **Technical Promoters:** Technical promoters are the experts in the field of technology such as engineers, architects, technicians, etc. They are concerned with the supply of technical assistance required for setting up of a particular kind of business unit. Such promoters are, generally, consultants who provide specialized services to the new entrepreneurs in return for fees and commission. They also undertake a feasibility study and prepare a project report for their clients.

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2.8 CHAPTER SUMMARY

The form a business enterprise takes depends on various factors, among which are the nature of the commodities to be produced, the way in which capital is to be raised, and most importantly, the probable size of the new enterprise. Although the sole proprietorship and partnership are the oldest forms of business ownership, Limited Liability Company is the most influential.

The three-primary legal form of business organizations include the Sole proprietorship (one-man business), Partnership, and Limited Liability Company; These forms of business Organizations have their distinguishing features, as well as their strengths and weaknesses;

While the one-man business and the partnership may die following the death the owner/ one of the partners, the life of the Company is not affected by the death of the founders; Proprietors/partners have unlimited liability - their assets/wealth can be used to satisfy debt; shareholders.

An organization is an entity that comprises of multiple people as an institution or an association with a collective goal and is linked to an external environment. This word is derived from the Greek word organ on, which means "organ." Authority is the governing element of any organization structure. It is the tool which enables a manager to create an environment for their teams to perform individually. When the work is delegated to lower levels in an efficient and designated way, there are lesser confusions, and further, the congeniality of the environment is maintained. In such cases, full span of control is suitable, and the supervisors can manage and control a larger number of subordinates at a given time frame.

A sole trading concern is one of the oldest and simplest of all the forms of business enterprises. It has been in operation since the birth of our civilization. A business unit which is owned and controlled by a single individual is known as a sole trading concern. The person who manages it is called a sole trader. He is the owner and the sole controller of the business.

"Partnership is the relationship which exists between the persons who have agreed to combine their property, labour and skill in some business and share the profits thereof among them. In the case of a limited partnership firm, the liability of some of the partners is restricted to their capital contribution. The rest of the partners have unlimited liability. The partners with limited liabilities are known as 'special partners,' and those with unlimited liability are known as 'general partners.' In case the liability of a partner is limited, the firm must be registered as a 'limited partnership, otherwise, it is treated as a 'general partnership.

'Joint Hindu family business is a unique kind of business organization, possible only in India, among Hindu families only. The joint Hindu family business comes into existence due to the operation of the Hindu law. It is a collective form of organization. The origin of the joint Hindu family business lies in the principles of heritance under the Mitakshara School of Hindu law.With the growth of industry and commerce, the traditional forms of

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organizations encountered many problems such as the dearth of capital, the problem of management and burden of risk and liability. It constrains the further growth of industry and commerce. However, the evolution of company form of organization solved all these problems.

1.9 REVIEW QUESTIONS

SHORT ANSWER TYPE QUESTIONS

1. **Write short note on organization chart.**
2. **What do you mean by organization?**
3. **Write a short note on joint Hindu business.**
4. **List the advantages of partnership firms.**
5. **Write a short note on joint stock company.**

LONG ANSWER TYPE QUESTIONS

1. **Distinguish between a sole proprietorship business and partnership. In which ways are they similar, if any?**
2. **Define a Company and explain how it is different from a Partnership.**
3. **Evaluate the strengths and weaknesses of the primary forms of business Organizations.**
4. **Discuss various principles of organization.**
5. **What is Partnership firm? Explain with suitable examples**

2.10 MULTIPLE CHOICE QUSTIONS

1. **The joint Hindu family business comes into existence due to the operation of the ___law.**
   a. Hindu
   b. Muslim
   c. Indian
   d. Criminal
2. **The partners with _______liabilities are known as 'special partners,'**
   a. Unlimited
   b. Limited
   c. Proper
   d. Desired
3. **A business unit which is owned and controlled by a ____individual is known as a sole trading concern.**
   a. Many
   b. Three

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c. Two

d. Single

4. **________promoters are the experts in the field of technology such as engineers, architects, technicians, etc.**

a. Technical

b. Government

c. Operational

d. Single

5. **A company registered______ India and having its place of business located in foreign country may be called as foreign company.**

a. Inside

b. Outside

c. Anywhere

d. particular

6. **The organizational hierarchy avoids overlapping of the activities of two individuals or two_______.**

a. Departments

b. Blocks

c. Companies

d. formats

7. **The _____of formalization is necessary for any organization to function smoothly.**

a. Powers

b. Departments

c. Degree

d. Relation

8. **The benefit taken jointly by superiors and subordinates helps drive the organization in the right_____.**

a. Movement

b. Path

c. Direction

d. Variation

9. **The _____must focus on the broader goals and leave the routine activities to the general staff.**

a. Management

b. Company

c. Trader

d. Firm

10. Every employee must be empowered with sufficient authority to perform the assigned____.

a. Powers

b. Delegation

c. Responsibility

d. Partnership

♦♦♦♦♦

UNIT III

INTRODUCTION TO MANAGEMENT

STRUCTURE:

3.1 LEARNING OBJECTIVE

After completing this unit, you will be able to.

- Understand the concept and definition of management.
- Explain the functional areas of Management.
- Explain the characteristics of Management.
- Explain the management roles.
- Define leadership and explain the qualities of a successful leader.
- Differentiate leader versus manager.
- Explain the evolution of Management thought.
- Understand the scientific management of F.W. Taylor.
- Understand the concept of administrative management by Henry Fayol.
- Understand Future of leadership and Management.

3.2 INTRODUCTION

Management as a term signifies different meaning for different people, for non-specialists, it means high profile personnel occupying lavish offices, and with commanding positions. While for others, it might mean mundane clerical work and putting fancy signatures. To define, Management is the process of planning, organizing, staffing, directing, coordinating and controlling the activities of a business enterprise. It is described as the technique of leadership, decision making and a means to coordinate the right business course for an organization. Management is all about the organization and coordination of business activities to achieve defined objectives. It comprises of the interlocking functions of creating corporate policy and organizing, planning, controlling and directing that guide organization's resources to achieve the core objectives.

According to marketing maestro - Peter Drucker (1909-2005), marketing and innovation arc the most basic tasks of management. The practice of modern management originated in the 16th century based on the study of low-efficiency and failures of specific enterprises conducted by the English statesman Sir Thomas More (1478-1535).

Definitions of Management

Management is defined by different scholars from varied disciplines view and interpret the term management in their ways. The economists define management as a resource, like land, labour, capital, and organization. The bureaucrats consider management as a system of authority to achieve business goals successfully.

Stephen Covey, a renowned management leadership author, describes the Seven Habits model of management for personal and business growth. It requires them to be proactive, being with the end in mind, put things in perspective, thinks about winwin, and seeks first to understand, synergize, and learn from previous experience.

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According to George R. Terry, "Management is a distinct process consisting of planning, organizing, actuating and controlling; utilizing in each both science and art, and followed to accomplish pre-determined objectives."

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

According to E.W. Taylor, "Management is the art of knowing what you want to do and then seeing that they do it in the best and the cheapest way."

According to Peterson and Plowman, "Management may be defined as the process using which the purpose and objectives of a particular human group are determined, clarified and effectuated."

One popular definition is by Mary Parker Follett. Management, she says, is the "art of getting things done through people."

Based on the above we can conclude that management is a focused process that comprises of planning, organizing, staffing, directing and controlling the efforts of the people who are engaged in activities in any business organization. It helps attain predetermined objectives for the agencies.

3.3 FUNCTIONAL AREAS OF MANAGEMENT

1. **Production Management:** It refers to the application of management principles to the production environment in the factory or industry setup. It comprises the form of planning, organizing, directing and controlling of the production process. Production management plays a vital role in the beginning and end points of an establishment. Though it operates along with the interrelated functional areas of business, with marketing, finance, related industrial policies, and more. In the words of Mr. E.L. Brech: "Production Management is the process of effective planning and regulating the operations of the section of an enterprise that is responsible for the actual transformation of materials into finished products." It does not restrict the scope of production management for those initiatives of an enterprise that govern the transformation process of inputs into outputs. Further, this definition does not include the human factors involved in any production process. It lays stress on materialistic features only.

   Production Management is concerned with decision-making related to the production process. It acts a deciding factor for the resulting goods and services that are produced by the quantitative specifications and demand schedule with minimal cost. Design and control are two essential functions of the production system.

   Production Management involves a set of principles that support production economies, facility and schedule design, job flow, inventory and quality control, work analysis along with cost and budgetary control. It comprises of core areas for an enterprise where the principles of production management could be applied.

This description points out that production management is probably not a set of techniques.

It is evident from the above definitions that the production planning and its control are the chief characteristics of production management. The poor planning and control of organization's production activities may result in the loss of customer's confidence and retardation in its progress of the establishment.

To summarize, primary activities of production management are listed as below:

- It comprises of specification and procurement of input resources with management, material, and land, labour, and more.
- The product design and development to determine the production process for transforming the input element into goods and services as a successive output.
- The supervision and control of transformation process result in the efficient production of goods and services.

2. **Marketing Management:** It involved the application, tracking, and review of company's marketing resources and initiatives, the size of business and industry of its operation define the scope of business's marketing management requirements. An organizational discipline it focuses on the practical application of marketing orientation, its techniques, and methodologies inside enterprises and organizations. It also administers the company's marketing resources and initiatives. Effective marketing management will utilize company's resources to increase the customer base, improve customer opinion about their product and services, and in-turn increase the company's perceived value. Further, marketing management owns the responsibility to achieve the marketing goals, and perform the related marketing functions, such as planning, organizing, directing, motivating, coordinating, and controlling.
3. **Human Resource Management (HRM):** It is the management of human resources function in an active organization. Commonly referred to as the HR department, it helps to maximize employee performance in service of an employer's strategic objectives It policies and systems. HR department is responsible for overseeing employee-benefits design employee recruitment, training and development, performance appraisal and rewards (for ex. managing pay and benefits systems). The HRM comprises of formal systems that ate devised to manage people within an organization. The responsibilities of an HR function fall into three major areas; staffing employee compensation and benefits, and defining/designing work. The HRM function will maximize the productivity of an organization by optimizing the effectiveness of employees. According to Edward L. Gubman from the Journal of Business Strategy "the primary mission of human resources will always help acquire, develop and retain talent align the workforce with the business; and be an excellent contributor to the industry.
4. **Financial Management:** It comprises of planning, organizing directing and controlling the economic activities such as procurement and utilization of funds for the enterprise. It implies the application of general management principles to the realm of financial resources of the business.

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Objectives of Financial Management:

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

- To ensure regular and adequate supply of funds for the concerned initiative.
- To ensure sufficient returns for the shareholders based on the earning capacity the market price of the share, and meeting the expectations of the shareholders.
- To ensure optimum funds utilization in the maximum way possible at least cost.
- To ensure the safety of the investment, i.e., funds should be invested in safe ventures so that fair rate of returns can be achieved.
- To plan a sound capital structure; there must be the sound and balanced capital so that a balance is maintained between debt and equity capital.

3.4 CHARACTERISTICS OF MANAGEMENT

1. **Management is an Integrating Process:**
   The unified and coordinated effort of the working professionals creates a sense of energy and accomplishment. The synergy is a combined effort of all the working people as a team that leads to an enhanced performance level that facilitated the completion of objectives in a shorter span of time.

2. **Management is a Universal Process:**
   If we look at management as a process, it is universal and applicable to all types of organizations. These may be economic, commercial, charitable, religious or political organizations.

   Example: If there is a charitable, works in the education sector. Charitable needs effective management to run in a systematic way.

3. **Management is a group activity:**
   The management refers to a group of people being involved in managerial activities. The functions of management can never be performed in isolation. Each performs their role based on his or her level and department which is followed by the execution of management function. Management is a group effort, and hence the results of management action affect every individual and every department of the organization.

4. **Management is a goal-oriented process:**
   Achieving the organizational objectives is the central aim of management practice. The functions, tasks followed by related initiatives of a manager in an organization lead to the achievement of organizational objectives, for example, if a company aspires to sell 1000 units of a product the manager must plan the course of action, motivate their employees, and further organize resources to achieve the set target.

5. **Management is a dynamic process:**
It is a dynamic and adaptive process where changes take place in the goal, objectives and other activities based on the external environment. It comprises of social, economic, technical and political scenarios. The changes in the said environment help the organization to survive in the competitive world.

6. **Management is a Social Process:**
The management is a social process as it involves people and their inter-personal relationship to manage things. It is said that an excellent manager can become an excellent leader, and hence they succeed in motivating, guiding and extracting work from the people reporting to them.

7. **Management is Intangible:**
An intangible feature of an organization it is observed based on the orderliness and coordination demonstrated in the working environment. The lack of proper management is experienced when there is a lot of chaos and confusion in organizational processes. For ex. if the inventory of finished products is beyond the market requires it indicate the mismanagement of marketing and sales department.

8. **Management is Art, Science, and Profession:**
It is the practical application of theory backed up by ethical consideration and influenced by social obligations.

9. **Management is irreplaceable:**
The practice of management involves ever-evolving techniques with computer applications, information systems, quantitative techniques like a decision tree, PERT s CPTM, etc. They help improve decision-making skills of managers and make them more efficient in their work routine.

10. **Management is based on original principles:**
They are the underlying factors that constitute the foundation for any successful management department. According to Henri Fayol in his book about General and Industrial Management (1916), he has listed about 14 principles. It includes Division of Work, Authority and Responsibility, Discipline, Unity of Command, Unity of Direction, Subordination of Individual Interest to Mutual Interest, and much more.

11. **Management is a multi-disciplinary concept:**
An engaging concept, the management takes inspiration from disciplines like engineering, sociology, psychology, economics, anthropology, etc.

4.5 MANAGEMENT ROLES

As listed by Mintzberg the ten management roles from his book - Mintzberg on Management: Inside our Strange World of Organizations (1990), include: Figurehead, Leader, Liaison, Monitor, Disseminator, Spokesperson Entrepreneur, Disturbance Handler, Resource Allocator, Negotiator.

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They are further divided into three categories, as follows:

1. **Interpersonal Roles:**
   The managerial roles in this category involve providing information and ideas.
   - **Figurehead:** The managers have social, ceremonial and legal responsibilities. They are the people with authority, and as a figurehead, they act as the source of inspiration for the rest of the team.
   - **Leader:** They provide leadership direction to their respective teams or even the entile organization. It is the juncture where they manage the performance and responsibilities of everyone in the group.
   - **Liaison:** The managers must be able to communicate effectively, and develop internal and external contacts on behalf of their organization.
2. **Informational Roles:**
   The managerial roles in this category comprise of processing information which could be of use to the organization for taking future decisions.
   - **Monitor:** There is a strict requirement to regularly seek out information regarding the industry and relevant changes to the environment. It is imperative to check on organization's stand in the marketplace, the respective teams - regarding their productivity and well-being.
   - **Disseminator:** After arriving and determining a specific piece of information it is pertinent for the manager to communicate it to their colleagues and the team.
   - **Spokesperson:** The managers represent and interact on behalf of their organization. As part of this role, they are responsible for communicating the right piece of information about their organization, its goals to the general public.
3. **Decisional Roles:**
   The managerial roles in this category involve using information.
   - **Entrepreneur:** The managers within an organization create and control change. It is through problem-solving, new idea generation, and further implementation.
   - **Disturbance Handler:** The manager is seen as the pacifier when the organization or teams hit unexpected roadblocks. They are ones who take charge to fix the situation by addressing the core issues.

- **Resource Allocator:** After identifying the exact problem it is crucial to determine where the organizational resources much are applied. It involved fund allocation, assigning staff members, and other required organizational resources.
- **Negotiator:** A critical component of any business, the managers must be part of this discussion either directly or indirectly to help navigate essential negotiations within their team(s), department, or organization.

4.6 DEFINITION OF LEADERSHIP AND QUALITIES OF A SUCCESSFUL LEADER

Leadership is often defined as an individual ability to influence, motivate and enable others in contributing to effectiveness and success of any organization or group. An individual demonstrating such qualities and the one who can bring out this change is therefore characterized to have the abilities of the leader.

The first step for a leader towards creating a successful business venture includes having a great idea, assembling a passionate team who can bring that concept to life. The ability to successfully execute the idea is what makes entrepreneurs successful as leaders.

Essential qualities of a good leader:

1. **Integrity**

   Integrity is a core quality that every leader must possess. You cannot run any business successfully if you lack integrity. Self-development author Brian Tracy says that whenever he holds a strategic **business meeting**, the first value every executive agrees on is integrity.

   Business leaders know- Integrity is the foundation of good leadership, and one must stand for their beliefs. No matter how hard a situation, a good leader inspires with his principles without compromising; they refrain from making false promises or take shortcuts, choosing thoughts and action over personal gain. Delivering the said promises as ethically and morally grounded is necessary to pay the dividend in the long run.

2. **Innovative**

   An innovative leader is not a creative genius with thought-provoking ideas but gives others the freedom to develop their ideas. You would always find people with great ideas who lack the will, determination, and fear of taking any actions. But innovative leaders are not one of them.

   Innovative people are always open to new ideas and discussions. They listen to everyone actively and also motivate others to think out of the box. This quality gives them an edge over others since they are always hunting for **creativity** and innovations. As the innovative leader, Steve Jobs himself said, ‹Innovations distinguish between a leader and a follower.›

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3. **Honesty**

One of the essential leadership qualities is the possession of honesty. Honesty is expected from leaders to garner trust and respect from people for reliability. Moreover, we look upto people who are loyal to their words and are accountable. Thus, honesty is the most valued trait for any business leader or any leader in general.

4. **Active Listening**

Active listening is an excellent quality to have when it comes to leadership. Good leaders listen to people with great attention and sincerity. It helps them understand people and their perspectives. Active listening builds trust and relationships in the long run. Good leaders communicate with care, focus on the person and the message; they don›t interrupt and acknowledge what is being said. And that is what the world needs; leaders who listen to its people. Acquiring this skill is not easy; it needs self-awareness and humility to respect others' thoughts.

5. **Self-Confidence**

Self-confidence is found abundantly amidst true leaders; hence they know about their competencies and leadership qualities. They are sure about their competencies and leadership skills. They have a sense of self-assurance and self-esteem and, most importantly, believe that they can make a difference. As Rosalynn Carter rightly said, 'You have to have confidence in your ability and be tough enough to follow through.'

Self-confidence is critical for leadership because it gives them wings to take risks, accomplish goals, and fly high. Organizational leaders take charge themselves and march with positivity and confidence. It allows them to make immediate decisions, solve organizational **problems and conflicts**. Good leaders take full responsibility and quick actions without passing on issues, ignoring, or procrastinating.

6. **Visionary**

A visionary leader is far-sighted and driven and inspired by what a company can become. Visionary leaders work hard for the greater good and keep themselves updated with time and change. Ensuring a vision for the future with perseverance and keeping everybody invested in the process is what a visionary leader does. A visionary leader does not hold back to take risks and unconventional decisions.

7. **Strong Communicator**

Excellent communication is the key to good leadership. An effective leader knows how to put across his message. They are good orators and communicate to get his/her work done. They are not harsh; they choose words and expressions which suit the situation and allow others to express their thoughts and ideas.

They understand how important it is to have **good communication skills**.. They are very conscious and learn from others' behaviours, which gives them a deep understanding of human complexities.

8. **Delegation**

The ability to delegate effectively is a good leadership quality. A good leader who knows how to delegate wisely and make the best out of it. Delegation is crucial for maximizing productivity and team performance. Also, a leader is the busiest person in any organization. Therefore, knowing when and how to delegate gives them more time for their most important work.

Also, an essential factor to note here is that the ability to delegate does not limit to delegating tasks to others. It also means having the awareness and understanding of who has the necessary skills and expertise to complete the task. Mindful delegation is vital to save time and future inconveniences.

9. **Decision-making Skill**

Good leaders are decisive and know how to help the organization, employees, stakeholders, and customers.

You would never envision a leader who is unclear and uncertain. Good leaders are aware of the fact of how their decisions can make or break businesses. They evaluate a given circumstance many a time before coming to any conclusion. They collect the necessary information required before making any announcements. Also, they do not believe rumours but examine a situation or a problem themselves before making a decision.

10. **Problem-Solving Skills**

Leadership roles are not only limited to management or delegating. Today for any business leaders, the spectrum of leadership responsibilities have evolved. For the proper functioning of an organization, leaders must have problem-solving skills and an eye for analysing the situation to make better decisions. When it comes to effective leadership, problem-solving skills are crucial.

Good leaders have this innate ability to respond to problems. They are equipped with the ability to identify and define problems. Make the analysis, use data, and communicate to solve the issues.

11. **Fair Attitude**

We all have personal biases. One who can think and act beyond this loop is what makes them different from the crowd. These biases are one of the factors why most leaders fail to achieve greater heights. Good leaders are fair to the employees and the organization's processes. They acknowledge the good and always make room for everyone to thrive together.

They understand that nothing significant has ever been achieved with an attitude that is unfair and biased. Even if it does, the sustainability of the outcome is always questionable.

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Good leaders keep biases and unfairness out of the window and create a culture that does not promote or acknowledge this attitude.

12. **Inquisitiveness**
Have you ever watched great leaders sharing stories and their experiences in Ted-talks? I presume you have. If you haven't, I recommend you do it. You would realize how knowledgeable and curious these leaders are. And how they are always open to learning new things. Their thoughts, ideas, and perceptions are unique and thought-provoking. The reason behind this is their inquisitiveness and curiosity from life. They pursue various interests and keep themselves invested in it. They are open to broadening their spectrum through art, technology, and science. And, in fact, all the world's know-how. This quality helps them build a rational and positive attitude towards any problems.

13. **Self-motivated**
The great leaders of business, industry, and finance, and the great artists, poets, musicians and writers all became great because they developed the power of self-motivation.

One of the essential leadership traits of good leaders is their ability to motivate others. Good leaders always motivate their employees and boost their morale when needed. They sail their boat smoothly, even in hazardous situations. They keep themselves self-motivated and set an example to follow.

14. **Humility**
Humble leaders make the best leaders. This statement is not something I am claiming to be true. In his seminal book 'Good to Great,' Jim Collins shows extensive research data on how humble and wilful leaders help their companies grow and sustain their market position.

Humility is not the first trait that comes to mind when we think about leadership. But it is one of the essential qualities of a good leader. It is because humility often gets overshadowed by the flamboyance of the celebrated leadership qualities.

15. **Care for Others**
Good leaders understand the value of the **balance between work and life**. They know that people's health and wellness associated with the organization play an important role in attaining success. They inspire their team members and make sure the staff, clients, beneficiaries, and customers feel trusted.

They understand the importance of appreciating and recognizing employees and creating mutual respect and understanding within the organization. They work towards giving them an environment where everyone can flourish

16. Self-Discipline

Good leadership is in developing discipline in others. Good leaders are self-disciplined and have good time management skills. They encourage a culture where people are disciplined. This is a quality in which people can adapt themselves with persistence. When you are self-disciplined and set an example, you motivate others to follow.

In an organization where everything is fast-paced, and employees get occupied with so much workload, being more disciplined can help achieve more and keep the **work environment** at ease.

17. Emotional Intelligence

Emotional Intelligence is the capability to identify, manage, evaluate, and understand our own emotions and the people around us.

According to the psychologist, Daniel Goleman, EI has five components-

- Self-awareness
- Self-regulation
- Empathy
- Motivation and
- Social skills

Good leaders are self-aware, act in control, take calculated decisions without getting carried away. They understand other's perspectives without being cynical. They are self-motivated and have strong social skills, which help them build connections and healthy relationships. These explain that good leaders have a high degree of Emotional Intelligence. This is why EI is one of the essential leadership attributes.

18. Passion

Passion is a common leadership trait found in most effective leaders across the world. They are highly passionate about their goals and objectives. They know what they want and work tirelessly to achieve those. Their passion is infectious and also very inspiring. They are highly committed to their goals and also help others in achieving theirs.

Passionate leaders elevate productivity and ensure that the employees commit to their vision. Passion helps leaders to install motivation in their employees and helps to achieve the desired vision.

19. Resilience

Leaders must be tough enough to fight, tender enough to cry, human enough to make mistakes, humble enough to admit them, strong enough to absorb the pain, and resilient enough to bounce back and keep on moving.

One must understand their self before taking responsibility for others. Resilient leaders are perceptive and also know how to handle themselves in any good or bad situation. Resilient leaders are capable of retaining their energy level under strain and responding to disruptive changes. They also overcome severe challenges without destructive behaviour or hurting others. Resilient leaders are high performing leaders who recover from any adversity positively.

20. Accountability

Being an accountable leader is not an easy task. It means you can own up to commitments and promises you made. It means being answerable to the actions and decisions made by you and by those you lead. Accountable leaders establish clear goals and targets. They focus on the future and also own up to their mistakes. They ask for help when needed and provide honest and constructive feedback. Accountability is the glue that ties commitment to the result.

21. Supportive

Leadership without support is like trying to make bricks without enough straw. True leaders reinforce their ideas and plans with strategic partnerships, alliances, and supportive audiences.

Supportive leaders give the guidance that you need. Supportive leaders mentor you, guides you till you need little to no supervision in the future. They do not believe in delegating tasks and expecting results right away. They are with you in the process and support you with their knowledge and experiences. Supportive leadership involves building trust among the team members and encouraging dialogue to keep the team spirit high. The fundamentals of supportive leadership are, therefore, promoting teamwork, building relationships, and commitment.

22. Tech-savvy

For digital transformation, the world needs Tech-Savvy leaders. Today's leader needs to understand the technology sufficiently to sustain their business. The organization's technology decisions must be guided with a strategy and transforming its analog experience into a digital. The majority of the companies worldwide are digital today, and it will only grow exponentially with time. Therefore, it becomes evident that business leaders enhance technological skills for sustainability and making better decisions.

23. Empathy

Empathy is a core leadership trait that helps you nurture your team. Empathy is in understanding others› needs and what goes into their mind. We live in a world with a constant communication loop, and people interact with each other at much ease. But at the same time, people are less empathetic towards each other. Many communicate to express but not to understand others perspectives. Empathetic leaders are perceptive, and they are aware of other's feelings and thinking. Being empathetic does not always mean to agree on other's views, but to appreciate and have a willingness to understand. Leadership is about empathy. It is about having the ability to relate to and connect with people for the purpose of inspiring and empowering their lives.

24. **Learning Agility**
Agile leaders make the best response to organizational change and uncertainty. Today we need leaders who are quicker in decision-making and who can take immediate action in crisis times. We live in a fast-paced world, and work trends are evolving in no time. Therefore, there is little time for all to take calculated decisions. Also, the strategies and policies that worked well in the past can be obsolete today. One of the visible examples is the Covid-19 crisis. The crisis had changed the landscape of work culture, and leaders had to find new strategies to fight the storm overnight. The future of work will always be uncertain and ambiguous. Future events will bring new challenges. Organizations now will only thrive in the future under the supervision of leaders who can make sense of uncertainty.

25. **Empowerment**
Great leaders can empower their team members to achieve maximum productivity and organizational success. Empowerment gives the team members equal decision-making opportunities and uses their power of judgment and expertise to develop solutions. This builds the sense of individual worth and also employees' commitment towards their organization. Every individual brings their skills and talents to the table that often finds a route to flow. Usually, you would have skilful team members, but lack of guidance and motivation fails to bring them the best. It is, therefore, on leaders how they foster these skills by empowering them. Good leaders know how to unleash positive traits in others. They understand that the only way to do that is by empowering them. Therefore, leaders take it as a daily practice to continuously empower people and strengthen the team.

3.7 LEADER VERSUS MANAGER

1. **Leadership is a facet of management:**
The manager has the innate ability to control, motivate and drive a particular group to accomplish a particular goal. While leadership, on the other hand, helps the individual to motivate, influence, and enable other employees to make a significant contribution to the success of the organization. Moreover, therefore inspiration and influence separate leaders from managers.

2. **Leader has followed manager rules:**
Leaders are influencers, and through their work, they create followers, who are raving fans and promoters who develop the leader into a brand. In turn, helps them increase their visibility and builds credibility. However, managers have staffs reporting to them who follow their instructions.

3. **Perspectives:**
Both leaders and managers work directly with people and the difference lies in their approach. For a leader, people are the reason, cause and for whom they take-on a particular endeavour. For managers, people are primarily a means to achieve a significant achievement to accomplish a task or completing a project.

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4. **Power:**
The power in this reference means the authority offered to the manager that is delegated by the organization. It is only related to the position. A leader possesses abilities which are based on their qualities. They attract people and in a way, compel them to follow their views.

5. **Focus:**
Managers are like any other employee in the company as even they get paid to complete work, within tight constraints of time and money. Moreover, they delegate the work among their subordinates and focus on monitoring the work.

6. **Approach:**
Leaders are usually problem-solvers and innovators. They excite, motivate people to further focus on solving problems and excel. Managers create strategies, policies, and methodologies to empower their team members to solicit their views, values, and principles. They believe this combination helps reduce the inherent risk and generate success.

7. **Applicability:**
The concept of managers exists only in formal groups. There is no room for them in informal groups. The concept of leaders applies to any group. Moreover, to become a good leader one needs to be an excellent manager to create initiative and motivate employees to achieve the organizational goals.

8. **Context:**
The managerial skills are more significantly applicable in the context of organized efforts that are directed towards economic gains for a business enterprise. The leadership skills and traits are referred to in the context of a political organization, administrative set-up for governments and military organizations.

9. **Subordinate as a leader:**
For smaller groups, if and when a subordinate member arises with specific talent who could lead the group is termed as a natural leader. When such members confront the managers, the authority of the manager is questioned, and hence a severe nature of conflict may arise.

10. **Degree of Loyalty:**
Groups within the organization tend to be more loyal to the leaders than managers. This loyalty is a resultant factor for taking on the full responsibility for failures, celebrating group achievements, and offering due credits to the concerned group member. On the contrary, the managers compel their subordinates to be loyal by enforcing their position and authority.

11. **Experience:**
    The management in any organization usually comprises of experienced people, who might have worked their way up in the hierarchy within the same organization or otherwise. In such a case, the manager is aware of how each layer of organizational system works. While a leader could be a new member to join the company, he might have radical, fresh and newer ideas but may not have the required experience or wisdom.

    A successful business owner must possess qualities of both a strong leader and manager. It will help them get their team on board to follow them to achieve the vision for success in the organization. Leadership, as discussed earlier must be about getting people to understand and believe in their vision to achieve their goals. While managing is more of an administrative skill to make sure the daily activities are happening as we schedule.

CHECK YOUR PROGRESS

1. **"Management is both science and art." Discuss this statement, giving suitable examples.**
2. **Define Management. Flow does it differ from Administration?**
3. **What do you understand by the term "Levels of Management"'? Explain concerning an organization with which you are familiar.**
4. **Briefly, discuss the nature and scope of Management.**
5. **What are the functions of a Manager? Is mere knowledge of Management enough to become successful manager?**

3.8 MANAGEMENT THOUGHTS

Evolution of Management Thought

Evolution of Management Thoughts (Managerial Function)

Management is considered as an integral part of business operations. Though the concept of management has been changing and evolving for centuries. The 20th century is regarded as the Era of Scientific Management" yet it fails to indicate how the management tactics were applied in the yester years. The management by various studies evolved with scientific and bureaucratic procedures and routines as a basis for their operations. The firms developed" hierarchies to apply standardized rules to the place of work and rules through human relations, the companies working personnel.

The evaluation of management can be categorized in to different parts:

- Pre-Scientific Management Era (before 1880)
- Classical management Era (1880-1930)
- Neo-classical Management Era (1930-1950)
- Modern Management era (1950-on word)

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The Classical Management includes, Scientific Management School, Administration Management School, and Bureaucracy Management. The Neo- Classical Management comprises of Human Relation School" and Behavioural Management School. Modern Management comprises of Social System School. Decision Theory School, Quantitative Management School, System Management School, and Contingency Management School.

Early Management Thought

The industrial evolution (from 1700-1800) highlights the importance of direction as a managerial purpose. And, therefore the development of management theory is defined as the way people struggle with relationship from the past. Adam Smith a n d James Watt are considered as two theorists who propelled industrialization management theories. Adam Smith brought about the revolution in financial thinking. While James Watt's steam engine principle helped revolutionized English commerce and industry offered cheaper power. They both offered the base for modern concepts of business management theory and practice. The concept of division of labour was explicated by Adam Smith. He further stated that market and competition must be the controllers of economic activity and tax policies that are destructive. The division of labour offered the managers with the maximum opportunity for improved output. Jacques Turgot described the importance of management in direction and control. Robert Owens studied the concern for workers during 1771-1858.The target for this action was an outcome of working condition and poor treatment of the workers across factories in Scotland. He " implemented reforms to reduce child labour and used ethical influence rather than physical unis development at factories."

Charles Babbage (1792-1871) is recognized as the supporter of operations research and management science. In quantitative approach of early management thought, Charles Babbage (1792—1871) is recognized as the supporter of operations research and management science. Babbage's scientific innovations are mechanical calculator, a versatile computer, and a punch-card machine. His projects never became a commercial reality. However, Babbage is considered the creator of the concepts behind the present day computer. The most popular book of Babbage, On the Economy of Machinery and Manufacturers, described the tools and machinery used in English factories. It discussed the economic principles of manufacturing and analysed the operations and the skills used and suggested improved practices. Babbage considered in the benefits of division of labour and was a supporter of profit sharing. He developed a method of observing manufacturing that is the same approach utilized today by operations analysts and consultants analysing manufacturing operations. Other theorists who contributed in quantitative approach of early management thought were Robert Owen, Andrew Ure and Charles Dupin, Henry Robinson Towne.

Another theorist Baptiste explained the significance of planning. But management is appeared as a different discipline in the second half of 19th century with the beginning of Joint Stock Company. This type of enterprises separated management of business from their ownership and gave emphasis to labour incompetence and improper systems of wage payments. To resolve such problem, people began to identify management as a separate field of study. During 20th century, Management has become more scientific discipline with standard principles and practices.

THE CLASSICAL APPROACH-SCIENTIFIC MANAGEMENT BY F.W. TAYLOR

The classical approach is the earliest thought of management. The classical approach was associated with the ways to manage work and organizations more efficiently. The classical approach is categorized into three groups namely, scientific management, administrative management, and bureaucratic management.

Scientific Management:

Scientific management which is also referred to Taylorism or the Taylor system is a theory of management that evaluates and synthesizes workflows, with the aim of improving labour productivity. In other words, conventional rules of thumb are substituted by accurate procedures developed after careful study of an individual at work. Universal approaches of Scientific management are developed for Efficiency of workers, Standardization of job roles/ activities and Discipline - the role of managers and the business hierarchy. The scientific management theory had a n enormous impact on the business industry at the beginning of the 20th century. Many big and victorious organizations, such as McDonalds hamburger chain or call centres, utilized a modem version of scientific management. Among famous theorist, Taylor's contribution in the area of scientific management is invaluable. The components of scientific management are determination of the task; planning, proper selection and training of worker's improvement in methods, modification of organization and mental revolution such as 'job specialization'. As a result, it became more concerned with physical things than towards the people even though increased the output. Scientific Management focuses on worker and machine relationships. Organizational productivity can be increased by enhancing the competence of production processes. The competence viewpoint is concerned with creating job that economizes on time, human energy, and other productive resources. Jobs are planned so that each worker has a specified, well controlled task that can be performed as instructed. Principle of scientific management arc replacement of old rule of thumb method, scientific selecting and training, labour management co-operation, maximizes output, equal division of responsibility. There are four scientific management systems such as develop a science for each element of the job to replace old rule of thumb method, scientifically select employees and then train them to do the job as described in step, supervise employees to make sure they follow the prescribed method for performing their job and continue to plan the work but use worker to actually get the work done.

Taylor's Scientific Management: Academic records indicated that F.W. Taylor and his colleagues developed the first systematic study in management. He initiated an innovative movement in 1910 which is identified as scientific management. Frederick Taylor is known as the father of Scientific Management and he published Principals of Scientific Management in which he proposed work methods designed to boost worker productivity. Taylor asserted that to succeed in these principles, it is necessary to transform completely the part of management and labour. His philosophy was based on some basic principles.

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- **The first principle is separation of planning and doing.** In the pre-Taylor era, an employee himself used to choose or plan how he had to do his work and what machines and equipment would be necessary to perform the work. But Taylor divided the two functions of planning and doing, he stressed that planning should be delegated to specialists.
- **Second principle of Taylor's management approach is functional foremanship.** Taylor launched functional foremanship for administration and direction. Under eight- Boss-Scheme of functional foremanship, four persons like route clerk, instruction card clerk, time and cost clerk and disciplinarian are associated with planning function, and the remaining four speed boss, inspector, maintenance foreman, and gang boss are concerned with operating function.
- **Third principle is elements of scientific management.** The main constituents of scientific management arc work study involving work important and work measurement using method and time study, standardization of tools and equipment for workmen and improving working conditions, scientific Selection, placement and training of workers by a centralized personal department.
- **Fourth principle is bilateral mental revolution.** Scientific management involves a complete mental change of employees towards their work, toward their fellow-men and toward their employers. Mental revolution is also necessary on the part of management's side, the foreman, the superintendent, the owners and board of directions.
- **Fifth principle is financial incentives.** In order to encourage workers to give better performance, Taylor introduced differential piece-rate system. According to Taylor, the wage should be based on individual performance and on the position which a worker occupies.

  Economy is other principle of management devised by Taylor. According to him, maximum output is achieved through division of labour and specialization. Scientific Management concentrates on technical aspects as well as on profit and economy. For this purpose, techniques of cost estimates and control should be adopted. Taylor concluded that science, not rule of thumb, Harmony, not discord, Cooperation and not individualism, Maximum output, in place of restricted output.

ADMINISTRATIVE MANAGEMENT BY HENRY FAYOL

Administrative Management emphasizes the manager and the functions of management. The main objective of Administrative management is to describe the management process and philosophy of management. In contradiction of scientific management, which deals mainly with jobs and work at individual level of scrutiny, administrative management gives a more universal theory of management.

Henry Fayol's Administrative Management (1841-1925): Henri Fayol is known as the father of modern Management. He was popular industrialist and victorious manager. Fayol considered that good management practice falls into certain patterns that can be recognized and analysed. From this basic perspective, he devised a blueprint for a consistent policy of managers one that retains much of its force to this day. Fayol provided a broad analytical framework of the process of management. He used the word Administration for Management. Fayol categorized activities of business enterprise into six groups such as Technical, Financial, Accounting, Security, and Administrative or Managerial. He stressed constantly that these managerial functions are the same at every level of an organization and is common to all firms. He wrote General and Industrial Management. His five function of managers were plan, organize, command, coordinate, and control. Principal of administrative management:

1. **Division of work:**
   This is the principle of specialization which is detailed by economists as an important to efficiency in the utilization of labour. Fayol goes beyond shop labour to apply the principle to all kinds of work, managerial as well as technical.

2. **Authority and responsibility:**
   In this principle, Fayol discovers authority and responsibility to be linked with the letter, the consequence of the former and arising from the latter.

3. **Discipline:**
   This discipline denotes "respect for agreements which are directed at achieving obedience, application, energy and the outward marks of respect". Fayol declares that discipline requires good superiors at all levels, clear and fair agreement, and judicious application of penalties.

4. **Unity of command:**
   This is the principle that an employee should receive orders from one superior only.

5. **Unity of direction:**
   Fayol asserted that unity of direction is the principle that each group of activities having the same objective must have one head and one plan. As distinguished from the principle of unity of command, Fayol observes unity of direction as related to the functioning of personnel.

6. **Subordination of individual interest to general interest:**
   In any group the interest of the group should supersede that of the individual. When these are found to differ, it is the function of management to reconcile them.

7. **Remuneration of personnel:**
   Fayol recognizes that salary and methods of payment should be fair and give the utmost satisfaction to worker and boss.

8. **Centralization:**
   Fayol principle of centralization refers to the extent to which authority is concentrated or dispersed in an enterprise. Individual circumstances will determine the degree of centralization that will give the best overall yield.

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9. **Scalar chair:**
   Fayol believe of the scalar chair as a line of authority, a 'Chain of Superiors" from the highest to the lowest ranks and held that, while it is an error of subordinate to depart needlessly fiom lines of authority, the chain should be short-circuited when scrupulous following of it would be detrimental.

10. **Order:**
    Breaking this principle into 'Material order' and 'Social Order', Fayol thinks of it as the simple edge of "a place for everything (everyone), and everything (everyone) in its (his) place. This is basically a principle of organization in the arrangement of things and persons.

11. **Equity:**
    Fayol perceives this principle as one of eliciting loyalty and devotion from personnel by a combination of kindliness and justice in managers dealing with subordinates.

12. **Stability of tenure of personnel:**
    Finding that such instability is both the cause and effect of bad management, Fayol indicated the dangers and costs of unnecessary turnover.

13. **Initiative:**
    Initiative is envisaged as the thinking out and execution of a plan. Since it is one of the Keenest satisfactions for an intelligent man to experience", Fayol exhorts managers to Sacrifice Personal Vanity" in order to permit subordinates to exercise it.

14. **Esprit de corps:**
    This is the principle that 'union is strength' an extension of the principle of unity of command. Fayol here emphasizes the need for teamwork and the importance of communication in obtaining it.

Bureaucratic Management

Bureaucratic management denotes to the perfect type of organization. Principal of Bureaucracy include clearly defined and specialized functions, use of legal authority, hierarchical form, written rules and procedures, technically trained bureaucrats, appointment to positions based on technical expertise, promotions based on competence and clearly defined career paths.

The German sociologist, Max Weber recognized as father of modern Sociology who appraised bureaucracy as the most logical and structure for big organization. He believed bureaucracy was the most efficient way to set up an organisation, administration and organizations. Max Weber believed that Bureaucracy was a better than traditional structures. In a bureaucratic organisation, everyone is treated equal and the division of labour is clearly described for each employee.

According to the bureaucratic theory of Max Weber, three types of power can be found in organizations; traditional power, charismatic power and legal power. He refers in his bureaucratic theory to the latter as a bureaucracy. All aspects of a democracy are organised on the basis of rules and laws, making the principle of established jurisdiction prevail.

The following three elements support bureaucratic management:

- All regular activities within a bureaucracy can be regarded as official duties;
- Management has the authority to impose rules;
- Rules can easily be respected on the basis of established methods.

Max Weber (1864-1920) devised a theory of bureaucratic management that emphasized the need for a firmly defined hierarchy governed by clearly defined regulations and lines of authority. He considered the perfect organization to be a bureaucracy whose activities and objectives were reasonably thought out and whose divisions of labour were clearly defined. Weber also believed that technical capability should be emphasized and that performance evaluations should be made completely on the basis of merit. Presently, it is considered that bureaucracies are huge, impersonal organizations that put impersonal competence ahead of human needs. Like the scientific management theorists, Weber sought to advance the socially important organizations by making their operations and productive. Although we now value innovation and flexibility as efficiency and predictability, Weber's model of bureaucratic management advanced the development of vast corporations.

Although bureaucracy has been successful for many companies, in the competitive global market of the 1990s organizations such as General Electric and Xerox have adopted bureaucracy, throwing away the organization chart and replacing it with ever changing constellations of teams, projects, and alliances with the goal of unleashing employee creativeness.

Chester I. Barnard: Chester Barnard (1886-1961) also devised components to classical theory such as Follett that would be further developed m later schools. Barnard, who became president of New Jersey Bell in 1927. used his work experience and his wide reading in sociology and philosophy to devise theories about organization. Barnard stated that people join in formal organizations to accomplish such goals that cannot be fulfilled by working alone but as they follow the organization's goals, they must also gratify their individual needs. Barnard came to conclusion that an enterprise can operate efficiently and survive only when t h e organization's goals are kept in balance with the aims and needs of the individuals working for it.

Barnard denotes a principle by which people can work in stable and mutually constructive relationships over time. Barnard believed that individual and organizations purposes must be in balance if managers understood an employee's zone of indifference that is, what the employee would do without questioning the manager's authority. Apparently, the more activities that fell within an employee's zone of indifference the smoother and more cooperative an organization would be. Barnard also believed that managers had a duty to inspire a sense of moral purpose in their employees. To do this, they would have to learn to think beyond then narrow self-interest and make an ethical promise to society. Although

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Barnard emphasized the work of administrative managers, he also focused substantia attention on the role of the individual employee as the basic strategic factor in organization.

MODERN MANAGEMENT APPROACHES

1. **Behavioural Approach**

   Numerous theorists developed the behavioural approach of management thought as they observed weaknesses in the assumptions of the classical approach. The classical approach emphasized efficiency, process, and principles. Some management scholars considered that this thought ignored important aspects of organizational life, particularly as it related to human behaviour. Therefore, the behavioural approach concentrated on the understanding of the factors that affect h u m a n behaviour at work. This is an improved and more matured description of human relations approach. The various theorists who have great contribution m developing principles of management in this are Douglas Me Gregor, Abraham Maslow, Curt Levin, Mary Porker Follett, Rensis Likert. Behavioural Scientists hold the classical approach as highly mechanistic, which finds to degrade the human spirit. They choose more flexible organization structures and jobs built around the capabilities and talent of average employees. The behavioural approach has based the numerous principles.

   - Decision-making is done in a sub-optimal manner, because of practical and situational constraints on human rationality of decision-making.
   - The behaviourists attach great weight age on participative and group decision making.
   - Behavioural Scientists promote self-direction and control instead of imposed control.
   - Behavioural Scientists believe the organization as a group of individuals with certain goals.
   - Behavioural scientists perceive that the democratic-participative styles of leadership are enviable, the autocratic, task oriented styles may also be appropriate in certain situation.
   - Behavioural scientists propose that different people react differently to the same situation. No two people are exactly similar and manager should tailor his attempts to influence his people according to their needs.
   - Behavioural scientists identify that organizational variance and change are predictable.

2. **Approach of Mary Parker Follett**

   Mary Parker Follett (1868-1933) developed classic structure of the classical school. However, she initiated many new elements particularly in the area of human relations and organizational structure. In this, she introduced trends that w o u 1 d be further developed by the talented behavioural and management science schools. Follett was persuaded that no one could become a whole person except as a member of a group. Human beings grew through their relationships with others in organizations. In fact, she explained management as "the art of getting things done through people." She took for granted Taylor's statement that labour and management shared a common purpose as members of the same organization, but she considered that the artificial difference between managers and subordinates is vague in this natural partnership. She believed in the power of the group, where individuals could combine their diverse talents into something bigger. Moreover, Follett's "holistic" model of control took into account not just individuals and groups, but the effects of such environmental factors as politics, economics, and biology. Follett's model was significant precursor of the idea that management meant more than just what was happening inside a particular organization.

3. **Maslow's theory of self-actualization**
   His theory is recognized as Hierarchy of Needs. It is illustrated in a pyramid and elucidates the different levels and importance of human's psychological and physical needs. It can be used in business by managers to better understand employee motivation. The general needs in Maslow's hierarchy include physiological needs (food and clothing), safety needs (job security), social needs (friendship), self-esteem, and self-fulfilment or actualization. Maslow's Hierarchy of Needs relates to organizational theory and behaviour because it explores a worker's motivation. Some people are prepared to work just for money, because of friends, or the fact that they are respected by others and recognized for their good work. The final level of psychological development that can be achieved when all basic and mental needs are fulfilled and the "actualization" of the full personal potential takes place. In the organizational situation, if an employee's lower need on the hierarchy is not met, then the higher ones are ignored. For example, if employees are worried that they will be fired, and have no job security, they will be concerned about friendship and respect.

   Douglas McGregor theory of management suggested that there is need to motivate employees through authoritative direction and employee self-control and he introduced the concept of Theory X and Y. Theory X is a management theory focused more on classical management theory and assumes that workforce need a high amount of supervision because they are inherently lazy. It presupposes that managers need to motivate through coercion and punishment. Theory Y is a management theory that assumes employees are determined, self-motivated, exercise self-control, and generally enjoy mental and physical work duties. Theory Y is in line with behavioural management theories. Theory X and Theory Y relates to Maslow's hierarchy of needs in how human behaviour and motivation is the main priority in the workplace in order to maximize output.

   Theory X: The theory that employees are inherently lazy and irresponsible and will tend to avoid works unless closely supervised and given incentives, contrasted with Theory Y.

   Theory Y: The theory that employees are capable of being ambitious and self-motivated under suitable conditions, contrasted with Theory X.

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An influential theorist in behaviour approach of management thought was Likert. His principles based on four System such as supportive relationships between organizational members, multiple overlapping structures, with groups consisting o t superiors and their subordinates, group problem solving by consensus within groups and overlapping memberships between groups by members who serve as linking pins.

4. **Human Relations Approach**

The human rationalists which is also denotes to neo-classicists, focused as human aspect of business. These theorists emphasize that organization is a social system and the human factor is the most vital element within it.

There are numerous basic principles of the human relations approach that are mentioned below:

- **Decentralization:**
  The concept of hierarchy employed by classical management theorists is replaced with the idea that individual workers and functional areas (i.e., departments) should be given greater autonomy and decision-making power. This needs greater emphasis on lateral communication so that coordination of efforts and resources can occur. This communication occurs via informal communication channels rather than the formal, hierarchical ones.

- **Participatory Decision-Making:**
  Decision-making is participatory in the sense that those making decisions on a day- to-day basis include line workers not normally considered to be "management." The greater sovereignty afforded individual employees and the subsequent reduction in "height" and increase in span of control of the organizational structure requires that they have the knowledge and ability to make their own decisions and the communication skill to coordinate their efforts with others without a nearby supervisor.

- **Concern for Developing Self-Motivated Employees:**
  The importance on a system of decentralized and autonomous decision-making by members of the organization necessitates that those members be extremely "self-motivated". Goal of managers in such an organization is to design and implement organizational structures that reward such self-motivation and autonomy. Another is to negotiate working relationships with subordinates that foster effective communication in both directions.

  Therefore, the human relations approach implies modifications in the structure of the organization itself, in the nature of work, and in the association between manager and assistant. Each of these changes depends upon assumptions about the individual, the organization, and communication, just like any other theory of organizations. Elton Mayo and others conducted experiments that was known as Hawthorne experiments and explored informal groupings, informal relationships, patterns of communication, and patterns of internal leadership. Elton Mayo is usually popular as father of Human Relations School. The human relationists, advocates the several factors after conducting Hawthorne experiments which are mentioned below.

- **Social system:**
  The organization in general is a social system consists of numerous interacting parts. The social system established individual roles and establishes norms that may differ from those of formal organization.

- **Social environment:**
  The social climate of the job affects the workers and is also affected.

- **Informal organization:**
  The informal organization docs also exist within the frame work of formal organization and it affects and is affected by the formal organization.

- **Group dynamics:**
  At the place of work, the workers often do not act or react as individuals but as members of group. The group plays an important role in determining the attitudes and performance of individual workers.

- **Informal leader:**
  There is an appearance of informal leadership as against formal leadership and the informal leader sets and enforces group norms.

- **Non-economic reward:**
  Money is an encouraging element but not the only motivator of human behaviour. Man is diversely motivated and socio psychological factors act as important motivators.

5. **Contingency Approach**
   This approach of management thought focuses on management principles and concepts that have no general and universal application under all conditions. Joan Woodward in the 1950s has contributed to develop this approach in management. Contingency school states that management is situational and the study of management recognize the important variables in the situation. It distinguishes that all the subsystem of the environment is interconnected and interrelated.

   By studying their interrelationship, the management can find resolution to specific situation. Theorists stated that there is not effective way of doing things under all business conditions.

   Methods and techniques which are extremely effective in one situation may not give the same results in another situation. This approach proposes that the role of managers is to recognize best technique in particular situation to accomplish business goals. Managers have to develop situational understanding and practical selectivity. Contingency visions are applicable in developing organizational structure, in deciding degree of decentralization, in motivation and leadership approach, in establishing communication and control systems, in managing conflicts and in employee development and training. The contingency approach is associated with applying management principles and processes as dictated by the sole characteristics of each situation. It depends on various situational factors, such as the external environment, technology, organizational characteristics, characteristics of the manager, and characteristics of the subordinates. Contingency theorists often implicitly or explicitly disapprove the classical approach as it focuses on the universality of management principles.

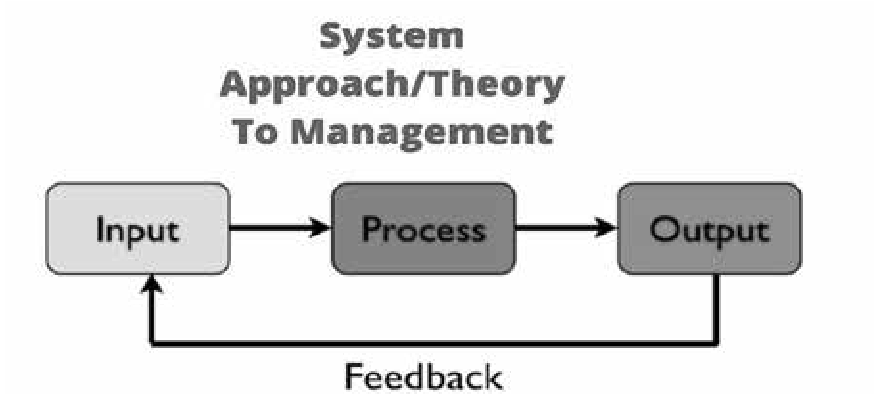
6. **The Quantitative Approach of Management Thought**
   The quantitative approach aimed at enhancing the process of decision making through the use of quantitative techniques. It is evolved from the principles of scientific management.

7. **Management Science (Operations Research):**
   Management science which is also known as operations research utilized mathematical and statistical approaches to resolve management issues. It was developed during World War II as strategists attempted to apply scientific knowledge and methods to the intricate troubles of war. Industry started to apply management science after the war. The introduction of the computer technology m a d c many management science tools and concepts more practical for industry.

8. **Production and Operations Management:**
   This approach emphasizes the operation and control of the production process that changes resources into manufactures goods and services. This approach is emerged from scientific management but became a specific area of management study after World War II. It uses many of the devices of management science. Operations management underlines productivity and quality of both manufacturing and service organizations. W. Edwards Deming exercised a great influence in developing contemporary ideas to improve productivity and quality. Major areas of study within operations management include capacity planning, facilities location, facilities layout materials requirement planning, scheduling, purchasing and inventory control, quality control, computer integrated manufacturing, just-in-time inventory systems, and flexible manufacturing systems.

9. **Systems Approach of Management Thought**
   The systems approach deals with the thoroughly understanding the organization as an open system that converts inputs into outputs. The systems approach has great impact on management thought in the 1960s. During this period, thinking about managing practices allowed managers to relate different specialties and parts of the company to one another, as well as to external environmental factors. The system approach focuses on the organization as a whole, its communication with the environment, and its need to achieve equilibrium. Taylor and Henry Fayol are generally regarded as the founders

of scientific management and administrative management and both provided the bases for science and art of management.



10. Taylor's Scientific Management

Frederick Winslow Taylor well-known as the founder of scientific management was first to recognize and emphasis the need for adopting a scientific approach to the task of managing an enterprise. He tried to diagnose the causes of low efficiency m industry and came to the conclusion that much of waste and inefficiency is due to the lack of order and system in the methods of management, le found that the management was usually ignorant of the amount of work that could be done by a worker in a day as also the best method of doing the job. As a result, it remained largely at the mercy of the workers who deliberately shirked work.' He therefore, suggested that those responsible for management should adopt a scientific approach m their work, and make use of "scientific method" for achieving higher efficiency.

He advocated a thorough planning of the job by the management and emphasized the necessity of perfect understanding and co-operation between the management and the workers both for the enlargement of profits and the use of scientific investigation and knowledge in industrial work.

Elements of Scientific Management: The techniques which Taylor regarded as its essential elements or features may be classified as under:

- **Scientific Task and Rate-Setting (work study):**

  Work study may be defined as the systematic, objective and critical examination of all the factors governing the operational efficiency of any specified activity in order to effect improvement. Work study includes.

- **Methods Study:**

  The management should try to ensure that the plant is laid out in the best manner and is equipped with the best tools and machinery. The possibilities of eliminating or combining certain operations may be studied.

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- **Motion Study:**
  It is a study of the movement, of an operator (or even of a machine) in performing an operation with the purpose of eliminating useless motions.

- **Time Study (work measurement):**
  The basic purpose of time study is to determine the proper time for performing the operation. Such study may be conducted after the motion study. Both time study and motion study help in determining the best method of doing a job and the standard time allowed for it.

- **Fatigue Study:**
  If a standard task is set without providing for measures to eliminate fatigue, it may either be beyond the workers or the workers may over strain themselves to attain it. It is necessary, therefore, to regulate the working hours and provide for rest pauses at scientifically determined intervals.

- **Rate-setting:**
  Taylor recommended the differential piece wage system, under which workers performing the standard task within prescribed time are paid a much higher rate per unit than inefficient workers who are not able to come up to the standard set.

- **Planning the Task:**
  Having set the task which an average worker must strive to perform to get wages at the higher piece-rate, necessary steps have to be taken to plan the production thoroughly so that there is no bottleneck and the woik goes on systematically.

- **Selection and Training:**
  Scientific Management requires a radical change in the methods and procedures of selecting workers. It is therefore necessary to entrust the task of selection to a central personnel department. The procedure of selection will also have to be systematized. Proper attention has also to be devoted to the training of the workers in the correct methods of work.

  - **Standardization:** Standardization may be introduced in respect of the following.
  - **Tools and equipment:** By standardization is meant the process of bringing about uniformity. The management must select and store standard tools and implements which will be nearly the best or the best of their kind.
  - **Speed:** There is usually an optimum speed for every machine. If it is exceeded, it is likely to result in damage to machinery.
  - **Conditions of Work:** To attain standard performance, the maintenance of standard conditions of ventilation, heating, cooling, humidity, floor space, safety etc., is very essential.
  - **Materials:** The efficiency of a worker depends on the quality of materials and the method of handling materials.

- **Specialization:** Scientific management will not be complete without the introduction of specialization. Under this plan, the two functions of 'planning' and 'doing' are separated in the organization of the plant. The 'functional foremen' are specialists who join their heads to give thought to the planning of the performance of operations in the workshop. Taylor suggested eight functional foremen under his scheme of functional foremanship.
- **The Route Clerk:** To lay down the sequence of operations and instruct the workers concerned about it.
- **The Instruction Card Clerk:** To prepare detailed instructions regarding different aspects of work.
- **The Time and Cost Clerk:** To send all information relating to their pay to the workers and to secure proper returns of work from them.
- **The Shop Disciplinarian:** To deal with cases of breach of discipline and absenteeism.
- **The Gang Boss:** To assemble and set up tools and machines and to teach the workers to make all their personal motions in the quickest and best way.
- **The Speed Boss:** To ensure that machines are run at their best speeds and proper tools are used by the workers.
- **The Repair Boss:** To ensure that each worker keeps his machine in good order and maintains cleanliness around him and his machines.
- **The Inspector:** To show to the worker how to do the work.
- **Mental Revolution:** At present, industry is divided into two groups - management and labour. The major problem between these two groups is the division of surplus. The management wants the maximum possible share of the surplus as profit; the workers want, as large share in the form of wages. Taylor has in mind the enormous gain that arises from higher productivity. Such gains can be shared both by the management and workers in the form of increased profits and increased wages.

FUTURE OF LEADERSHIP AND MANAGEMENT

In today's more volatile, uncertain and ambiguous business battlefield, decentralized controls and leadership through networks of people at all levels is imperative for success. One person - or a few people - simply don't have the time or resources to sift through mounds of data about their company performance, industry, economic environment or competitors. Nor do they have the time to disseminate the right data to the right people in real time. Organizations move too quickly for that model to be effective.

One easy correlation can be drawn from the leaner structures that arc available in Navy Seal team. When you think military, most would picture an extremely bureaucratic command and control environment, which of course does still exist in today's armed forces. In some cases, it's absolutely necessary. But in special operations, the pace at which we must move, learn and even change moves far too quickly fora traditional hierarchy.

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The Naval Special Warfare community, where regular military rank of course exists, is still a much flatter organization. Senior leaders do the leading, while most of the important managerial tasks arc delegated to the lower ranks. Junior team members are empowered with great deals of responsibility and the autonomy to make decisions. Is it always perfect? Of course not; but, with a culture founded on trust and extreme levels of accountability, this teamwork mechanism works very well.

The same applies to today's business organizations, especially; in highly competitive environments. My previous company was a digital marketing agency. As the company grew rapidly, the industry continued to change due to technological advancements and the competitive landscape broadened, we knew our structures would have to evolve as well.

In some of the most successful start-ups and even large organizations that have evolved, you can visibly see greater levels of delegation and decision making at all levels. Leaders focus on guiding and communicating the vision, leading large client projects and finding new ways to develop their staff. Managers are taking on more leadership responsibilities and pass increasing amounts of responsibility to junior employees.

So what does this mean for leadership and management development? Management is more easily taught and learned in my opinion — planning, budgeting, staffing, quality control, processes, systems, etc. Leadership is a different beast and very few companies are designed for powerful leadership development. Their structures aren't designed for it; they don't invest in it or don't see the need to prioritize it.

So that means that if companies really want to move more quickly, have a flatter structure and develop emerging leaders from within, a significant amount of time must be spent teaching team members how to lead.

3.9 CHAPTER SUMMARY

An organization requires a proper coordination between deficient groups and members. It is the process of bringing them together with people who can coordinate and help accomplish the organizational goal, the management could be defined as the subject, which is both, science and art. The principles of this discipline are distinguished from the practice that is of universal application. Management does not entirely fulfil the criteria of a profession. It comprises of three levels of management- top, middle, and lower. The managers at different levels of the organization require and using different types of skills. The lower level managers require and use a higher degree of technical skills. While the high-level managers, with these managers, use and require conceptual skills. The human skills are more critical at all managerial levels. The related and utilized resources help the organization to achieve the optimization of results. For business enterprises and service organizations, the costs and revenues could be ascertained accurately and objectively with scarce resources that include, men, machines, and money have to be integrated into a productive relationship. If utilized efficiently they could help achieve the organization their goals. Thus, management is not unique to business organizations, but it is common to all kinds of social organizations.

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In this chapter following topics related to introduction to Management covers with detail explanation.

- Concept and definition of Management
- Functional Areas of Management
- Characteristics of Management
- Management Roles
- Definition of Leadership and qualities of a successful leader
- Leader versus Manager

Management is the process of using functions that include planning, leading, organizing and controlling. There are three levels of management: Top, middle and first line. There are several theories pertaining to management. They include the scientific management theory, administrative management theory, behavioural management theory. Scientific management covers F.W. Taylor scientific management. Administrative management theory covers Max Weber's theory of bureaucracy and Fayols principles of Management. Personality, traits, values, emotions moods, culture all play a big part in management and organizational goals.

3.10 REVIEW QUESTIONS

SHORT ANSWER TYPE QUESTIONS

1. **Write short note on Management Roles.**
2. **List the qualities of a leader.**
3. **Write short note on scientific management.**
4. **Define leadership.**
5. **What do you understand by management thought?**

LONG ANSWER TYPE QUESTIONS

1. **Explain evolution of management thought.**
2. **Discuss in detail scientific management F.W.Taylor**
3. **Explain administrative management by Henry Fayol with suitable example.**
4. **Discuss basic principles of Management along with their significance.**
5. **Discuss and illustrate the definition, and characteristics of management in modern organizations.**

3.11 MULTIPLE CHOICE QUESTIONS

1. **An organization requires a proper _______between deficient groups and members.**
   a. Coordination

   b. Powers

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c. Relationships

d. Delegation

2. **Scientific management will not be complete without the introduction of________.**
   a. Controlling
   b. Specialization
   c. Directing
   d. Flow

3. **The _____ approach deals with the thoroughly understanding the organization as an open system that converts inputs into outputs**
   a. Domestic
   b. Convert
   c. Systems
   d. Operation

4. **Methods and ______which are extremely effective in one situation may not give the same results in another situation.**
   a. Decisions
   b. Solutions
   c. Techniques
   d. Delegations

5. **Behavioural ______identify that organizational variance and change are predictable.**
   a. Scientists
   b. Economists
   c. Officers
   d. Learners

6. **Barnard also believed that _____had a duty to inspire a sense of moral purpose in their employees.**
   a. Owners
   b. Managers
   c. Outsiders
   d. Developers

7. **Henri Fayol is known as the _____of modern Management**
   a. Father
   b. Creator

c. Owner

d. Manager

8. _____are planned so that each worker has a specified, well controlled task that can be performed as instructed.

a. Decisions

b. Jobs

c. Salary

d. Durability

9. The _______in any organization usually comprises of experienced people, who might have worked their way up in the hierarchy within the same organization or otherwise.

a. Democrats

b. Owners

c. Delegation

d. Management

10. The concept of _____exists only in formal groups.

a. Managers

b. Owners

c. Democrats

d. Employees

♦♦♦♦♦

UNIT IV

PLANNING AND DELEGATION

STRUCTURE:

4.1 LEARNING OBJECTIVE

After completing this unit, you will be able to:

- Define planning in an organizational setting.
- Describe steps in planning process.
- Explain the importance of strategic planning to an organisation.
- Identify the two components in the process of decision making.
- Describe the context factors associated with decision making.
- Explain the decision support process.
- Explain the necessity of delegation.
- Explain the definition of Delegation of Authority.
- Explain the need for delegation.
- Explain the process of delegation.
- Explain principles of delegation.
- Explain the barriers to effective delegation.
- Explain the measures to make delegation effective.
- Explain meaning and nature of decentralization.
- Explain advantages of decentralization.

4.2 MEANING AND CONCEPT OF PLANNING

Planning is about preparing, deciding in advance on what is to be done, when, where, how, by whom it could be done. It is considered as the primary function o t management. It bridges the gap between the current and future stage of the process. Planning includes the selection of objectives, policies, procedures, and programmes among alternatives. The plan is a predetermined course of action to achieve a specified goal. It is an intellectual process that is characterized by thinking before doing. An, intuitive process it enables the manager to anticipate the future business scenario to achieve better performance.

Definitions of Planning

Different authors have given different interpretations of planning from time to time. The primary descriptions of planning are as follows:

According to Alford and Beatt, "Planning is the thinking process, the organized foresight, the vision based on fact and experience that is required for intelligent action."

According to Theo Haimann, "Planning is deciding in advance what is to be done. When manager plans, he projects a course of action for further attempting to achieve a consistent co-ordinate structure of operations aimed at the desired results.

According to Billy E. Goetz, "Planning is fundamentally choosing, and a planning problem arises when an alternative course of action is discovered."

According to Koontz and O' Donnell, "Planning is an intellectual process, conscious determination of course of action, the basing of a decision on purpose, facts and considered estimates."

According to Allen, "A plan is a trap laid to capture the future."

4.3 NATURE AND CHARACTERISTICS OF PLANNING

The main characteristics or nature of planning is given below:

1. **Planning is an Intellectual Process:**
   The thinking in advance capability enables the planning process to decide the course of future events. It comprises of a stepwise process. The managers have to take into consideration a variety of action scenarios to achieve the desired goals, and further have to consider in depth the pros and cons for every scenario. It is based on this detailed analysis that they could eventually decide the right action plan that suits the organization.

2. **Planning Contributes to the Objectives:**
   Planning as a thinking function helps attain and achieve the set objective for any business enterprise. It offers the management total control for every situation, as the planning process commences after the idea conceptualization. The central objective of any plan is to set everything right. A purposeful, robust and efficient planning process helps address the problem at a root level leading to overall success. Moreover, helping achieve the objectives.

3. **Planning is a Primary Function of Management:**
   It precedes the other function of the management process. The setting up of goals to achieve along the lines of action always precedes any other element of management, including organization, direction, supervision and control. It could be termed as the prerequisite before other managerial functions. Even though all the functions are said to be inter-connected yet planning is an integral component of all managerial functions, and hence gets presence.

4. **Planning is a Continuous Process:**
   It is considered as a never-ending activity for a manager in an enterprise set-up. Planning is initiated based on some assumptions which may or may not be true in future. A manager must reluctantly modify, revise and adjust their plans in the light of changing circumstances. According to George R. Terry, "Planning is a continuous process, and there is no end to it. It involves the continuous collection, evaluation and selection of data, and scientific investigation and analysis of the possible alternative courses of action and the selection of the best alternative.

5. **Planning Pervades Managerial Activities**
   From primary of planning follows pervasiveness of planning. It is the function of

every managerial personnel. The character, nature and scope of planning may change from personnel to personnel but the planning as an action remains intact. According to Billy E. Goetz, "Plans cannot make an enterprise successful. Action is required, the enterprise must operate managerial planning seeks to achieve a consistent, coordinated structure of operations focused on desired trends. Without plans, action must become merely activity producing nothing but chaos."

4.4 TYPES OF PLANNING

Any organization can have multiple plans. we can classify them in the following types:

1. **Nature-Based:**
   - **Operational Plan:** They are short-term plans for duration of up to one year formulated primarily by the lower level management. It concerns managing the day-to-day operations of an organization, though it is detailed and activity specific. It covers the functional aspects of the organization, including production, finance, human resources, etc.
   - **Tactical Plan:** It concerns with the integration of various organizational units, and ensures the strategic plan implementation for executing day-to-day activities. The primary focus of this plan is to ensure utilization of resources to achieve the strategic goals. This plan is also termed as coordinative or working plan.
   - **Strategic Plan:** It is devised by the top-level/senior management for five years or more. The management takes into consideration all the key goals and policies to achieve the end objective. Further, it considers all the external factors and risks involved, and also creates a long-term policy for the entire organization. It considers viability factors, like strengths and weaknesses, external risks, mission, and control mechanism before plan implementation.
2. **Managerial level based:**
   - **Top level Plans:** They arc the plans crafted by general manager and directors. Moreover, it lays down the broad objectives, budgets, policies, etc. for the whole organization.
   - **Middle-level Plans:** They are drafted by departmental managers who are part of the middle-level managerial hierarchy. It comprises of managers from purchase, sales, finance and other such departments.
   - **Lower level Plans:** They arc formulated by the foreman or the supervisors as they take into consideration the actual work and the problems associated with it. These plans are usually created for a shorter duration, and are also referred to as short term plans.
3. **Time-based:**
   - **Long-Term Plan:** It is a long-term process applied to achieve the business mission and vision by the business owners. This plan determines their path to reach their ultimate goals. Further, it reinforces and implements corrective action to the goals as the plan progresses.

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- **Intermediate Plan:** This plan outlines the strategic focus of the organization usually for duration of 6 months to 2 years. They are also applied in the business world for launching and managing a variety of campaigns.
- **Short-term Plan:** They are short duration plans lasting for a few weeks or about a year. As part of this plan, the resources are allocated to the day-to-day business development and management initiatives, within the limits of the strategic plan. Further, they include outline objectives which are required to meet intermediate plans and strategies planning process.

4. **Use basis:**
   - **Single Plan:** They are the case or issue specific plans. With an infinite duration, they conclude the moment the challenge is resolved. Their application is usually restricted to a particular type of challenge. This plan could be further recreated based on the requirement.
   - **Standing Plan:** They arc repetitive plans and are formulated to guide the managers. It acts a standing guide to solve the problems, and include mission, policies, objectives, rules and more.

4.5 LIMITATIONS OF PLANNING

1. **Planning is costly:**
   Planning is a costly initiative that requires deeper capital investment for the collection of information, appointing experts for forecasting, and developing alternatives. Moreover, therefore it becomes difficult for the small and medium concerns to make comprehensive plans. Though an essential component to understanding here is the justification of its existence with radical input, beyond the cost investment. The more expensive the plan, the more detailed it is, with plenty of other parameters to address the concerns.

2. **Planning is a time-consuming process:**
   Time is considered as the severe limitation when it comes to taking faster decisions. Planning as a process is an involved and engaged process which might delay the decision-making process. In cases, where an immediate decision is required to be taken, one cannot adhere to the detailed process of planning.

3. **Planning reduces initiative of employees:**
   Planning as a process paves the path of stiffness among the employee group as it operated under predetermined policies and predefined steps. According to Theo Haimann, Planning presents a terrible situation for the subordinate to contribute to work, and equally challenging for the managerial work. The employees in an established setup are used to a particular work culture. It defines a set of methodologies to operate, and therefore they resist change. This unacceptance is a result of failure in the acceptance of new plans. The reason for this disbelief stems from the fact that they are not sure about the outcomes of the new plan.

4. **Capital invested in fixed assets limits planning:**
   Planning as a process limits capital investment as it entails fixed assets. After investment, the manager cannot do anything about this asset in future. Moreover, therefore it is prudent that investments in fixed assets are made with extreme caution.

5. **Inaccuracy in planning:**
   Planning as a function is based on forecasts which can never be accurate. As the forecast relates to future and hence it becomes difficult to predict. A wrong assumption by the planner based on their incompetency or error in judgment could result in inaccurate planning leading to a loss in value. Planning as stated earlier can never offer assurance for future risks and uncertainties.

6. **Planning is affected by external limitations:**
   Planning as a factor get affected by specific factors which are not in control of the planners. It includes political, social, economic and technological factors. For example, political situation at national and international level limit the planning process. It includes policy formation of the government, including trade policy, tax policy, import policy, and state trading.

4.6 STEPS INVOLVED IN PLANNING

Planning is considered as an intellectual exercise, and it embraces steps to plan the course of the action. The planning process including the plan varies from organisation to organization. For example, the planning process for a large-scale organization will never be the same for a small organization.

The significant steps that are involved in the planning process for any organization or enterprise include:

1. **Establishing objectives:**
   It is the essential first step that categorically defines what is to be done, where to place the initial emphasis, and the things to be accomplished by the network of policies, procedures, budgets, and programmes, and so on. The lack of faulty or ineffective planning results in disaster for the organization. The objectives must be comprehensive and rational that makes the planning process efficient. The central objective of all the organization is about the accomplishment of the particular endeavour across all the departments.

2. **Establishment of Planning Premises**
   The planning premises are scenarios to face unexpected situations. They are categorized into internal or external premises. The private premises are variables that affect the planning process. It should be considered in formulating plans. It comprises of organizational policies, various resources, and the ability of the organization to withstand the environmental pressure. The external premises comprise of essential factors in task environment, including political, social, technological, competitor

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plans and actions, government policies, and market conditions. This premise is applicable for the important initiatives in an organization. The internal premise gains prominence as one move downward.

3. **Determining Alternative Courses**
   It is imperative for an organization to always consider an alternative course of action before finalizing the exact plan of action. It is the logical step to determine and evaluate options which are considered to be worthy and meaningful.

4. **Evaluation of Alternatives**
   The evaluation of alternative is a must to arrive at a decision. It offers the organization to select the best action plan keeping in mind the needs and resources towards the laid objective. Evaluation is a prudent step after identification of available alternatives to assess and evaluate the alternatives which are profitable, with lesser cash outlay and involve lower risk. The alternative course of action could contribute significantly to company's long-range objective but may not fulfil the immediate expectations.

5. **Selecting a Course of Action**
   It is the decision-making-deciding phase of the selected plan to accomplish the enterprise objective.

6. **Formulating Derivative Plans**
   The ultimate step in the planning process is the formulation of the derivative plans to give effect and support the basic plan. The broad plans usually do not accomplish themselves, and they are required to be broken into fragments as supporting plans. The derivative plans help the manager and department of the organization to accomplish the final master plan.

7. **Establishing Sequence of Activities**
   Timing is of the essence while deciding the sequence of activities finalized after derivation of plans before putting it into action. It practically offers shape and form to the programmes. The beginning and commencing of each task must be fixed to estimate the completion timeframe. The sequencing of operation is arranged by assigning priorities to some tasks over others. Further, even the schedule of conducting the task and by whom it will be completed is part of the sequence.

8. **Feedback or Follow-up Action**
   The follow-up action is a backup option to assess if the crafted plans are carried out by the plan, and are in the action phase. It is also pertinent to note the situation in which the plan is operational. If the conditions are not feasible for the current action, it must be replaced by another plan. A continuous feedback mechanism results in effective implementation and accomplishment of tasks. Additionally, the plan must be communicated to all the concerned personnel in the organization in the right team spirit to adhere objectives, policies, programs, strategies envisaged in the plan.

4.7 DECISION MAKING CONCEPTS

Decision making is a problem-solving approach to choose a specific course of action among the available alternative to solve the organizational problems or difficulties. In business undertakings, the decisions are made at every step of the venture. It is regarded as one of the most essential functions of management. The managerial functions of planning, organizing, staffing, directing, coordinating and controlling are carried through decision-making process. This phase arises when there are two or more alternatives to solve a challenge. Decision making is also considered as the backbone of the organization.

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

"A decision can be defined as a course of action consciously chosen from available alternatives for the desired result."

4.8 DECISION-MAKING PROCESS

Ricky W. Griffin suggested six-step process of decision making as mentioned below:

1. **Identification of problem:**
   As the first step of decision-making process it is essential to identify the exact problem. It could be a gap between thinking and due process. The reasons for problems may be due to internal or external factors. The decision makers must identify the correct problem to take a decision. To arrive at this, they must apply their knowledge, skills, experience. Further, they must collect information from the internal and external sources. Moreover, therefore the identification of the correct problem is just halt part of the decision-making process.

2. **Analysis of problem:**
   The decision maker must analyse the problem with a systematic and scientific approach. It includes considering the cost, time, legal aspect, organizational resources, along with the short term and long-term impact of the problem. While analysing the problem, they must apply financial, accounting and statistical tools or techniques.

3. **Developing an alternative course of action:**
   Any problem has multiple solutions. Moreover, therefore the decision maker must develop possible alternatives for a better decision. While developing an alternative course of action, they must apply their knowledge, skills, experiences, along with technical support from the professional planner and experts as well.

4. **Evaluating alternative course of action:**
   The decision maker must evaluate all the available alternatives to arrive at a better decision. As part of this step, they must search for answers to below questions:

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- Whether the alternative is feasible regarding cost, time, legality and other organizational resources or not?
- Whether the alternative is satisfactory to solve the organizational problems or not?
- Whether the features of alternatives are matched with the objectives of the business or not?

5. **Selecting the best alternative:**
   As part of this step, the decision maker must select the best alternative by considering the short-term and long-term impact. They must apply their knowledge, skills, and experiences, and may concern with other stakeholders to arrive at a better decision.

6. **Implementation of decision:**
   This is the action element of converting decisions into action. They must communicate with their subordinates, and manage the additional resources for the implementation of the organizational decision.

7. **Review of decision:**
   It is the response/feedback mechanism from other stakeholders of the organization. If the response is positive, then the decision-making process is completed. Moreover, if the response is negative then the must revisits the first step to decide a new course of organizational decision.

4.9 MODERN METHOD OF PLANNING AND DECISION MAKING

1. **Decision-Making Techniques: Traditional and Modern Techniques**
   Decision-making is a complex process. It comprises of some techniques that are available to make decisions. The nature and significance of the decision will determine the type of technique to be used. The selection of appropriate technique depends upon the judgment of the decision maker. The decision-making techniques can be classified into below categories.

   - **Traditional Techniques of Decision-Making:**

     This technique could be further segregated into programmed and non-programmed decisions. Both these classifications have different decision-making techniques.

   - **Decision-Making for Programmed Decisions:**

     Following are the techniques used for taking programmed decisions:

     Standard Procedures and Rules:

     To continue taking on routine and repetitive decisions every organization must have standard operating procedures and rules. It helps the manager to refer and consult before taking simple decisions. It helps manage the consistency in routine decisions. They do not require particular skill and knowledge to undertake decisions.

Organizational Structure:

The organizational structure defines the relationship between a superior and subordinate. The managers are the decision makers, and they require the authority to take decisions. It requires proper information back-up.

- **Decision-Making for Non-Programmed Decisions:**

The non-programmed decisions arc strategic, and they require separate analysis, interpretation. The quantitative and scientific techniques help in taking complex and unique problems. A manager does not entirely depend upon their knowledge, ability, and judgment but also on the skills that are associated with scientific methods for achieving excellent results. The application of quantitative techniques ensures a higher degree of precision and accuracy.

Some of these techniques are explained below:

Linear Programming:

It is the technique that determines the usage of limited resources to achieve the desired objective. It is based on the assumption that there exists a linear relationship between the variables and the limits of variations. As part of this technique, the input data is quantified, and objective is subject to definite measurement. This programming approach is applicable to production planning, transportation, warehouse location and utilization of production and warehouse facilities at an overall minimum cost.

Probability Theory:

It is based on the assumption that certain things are likely to happen in future in a manner that is predicted by assigning various probabilities. As part of this technique, to represent variable the pay-off metrics and decision tree techniques are applied. It helps the managers with assigning the financial results to the available recourse of action, modifying the result in probabilities and comparing them for selecting an appropriate course of action.

Game Theory:

It is a concept prevalent from the war days. This theory is primarily about the counter-action taken based on the actions of the opposite army. The term "game" refers to a conflict between two or more parties, and it has desired set rules. The rules specify what action each person, termed as a player will undertake under the possible set of circumstances. All players act intelligently and rationally and are usually well informed about the decision situation.

Queuing Theory:

It is applied for maintaining a balance between the cost of waiting line and cost of preventing the waiting like in respect of utilization of personnel, equipment, and services. The problems arise in waiting line situations because of too much demand in the facilities in which case there is an excess of waiting time or too little demand that is not enough to service facilities. It is an effort the balance the costs associated with waiting time, idle time and queuing theory that helps in achieving the balance. This theory helps in deciding the provision of excellent facilities. This theory does not help in solving the problem to minimize the total waiting and service costs.

Network Techniques:

Network technique uses the preparation and control of project activities. Project Evaluation and Review Technique (PERT) and Critical Path Method (CPM) are used for planning, monitoring and implementing time-bound projects. These techniques help managers in deciding the logical sequence with which the various activities are performed. The large and complex projects can be executed with the stipulated time and cost.

- **Modern Techniques of Decision-Making:**

  The modern businesses of today are facing drastic changes in the working environment. It is becoming more and more complicated these days. Today's changing and challenging business environment requires special attention during the decision-making process.

  Some techniques followed at present are discussed as follows:

  a. **Heuristic Techniques:**

     It is based on the assumption that in a complex and changing business situation the strategic problems cannot be solved by applying rational and scientific techniques. In an uncertain business environment and conflicting interests, the problems will have to be fragmented into smaller fragments for taking a realistic view. By breaking it down into smaller parts and analysing each part separately, a decision can arrive. The Heuristic techniques are developed by managers to deal with a variety of components at different stages. This technique is a more refined way of trial and error method because it is developed by applying analytical and creative approach.

  b. **Participative Decision-Making:**

     In traditional managerial techniques, decisions are taken at top levels of management, and these arc intimated to lower levels of implementation The participative decision-making, the employees across levels, are involved in making a variety of decisions. When subordinates are included in decision making process and it helps them in getting the advantage of their practical experience. With this approach, the subordinate staff feels motivated and encouraged and takes an active interest in the work environment.

Role, Significance, Importance & Advantages of Planning

An organization operating without planning is like an airplane without a ridder. An organisation without planning is like a sailboat minus its rudder. Without preparation, structures are subject to the winds of organizational change. Planning is one of the most important, and crucial functions of management. According to Koontz and O Donnell, "Without planning, business becomes random in nature and decisions become meaningless and ad-hoc choices." According to George R. Terry, "Planning is the foundation of most successful actions of any enterprise." Planning becomes necessary due to the following reasons:

1. **Reduction of Uncertainty**
   Future is always full of uncertainties. A business organization has to function m these uncertainties. It can operate if it is able to predict the uncertainties. Some of the uncertainties can be predicted by undertaking systematic. Some of the uncertainties can be predicted by undertaking systematic forecasting. Thus, planning helps in foreseeing difficulties which may be caused by changes m technology, fashion, and taste of people, government rules, and regulations, etc.

2. **Better Utilization of Resources**
   An important advantage of planning is that it makes effective and proper utilization of enterprise resources. It identifies all such available resources and makes optimum use of these resources.

3. **Increases Organizational Effectiveness**
   Planning ensures organizational effectiveness. Effectiveness ensures that the organization can achieve its objective due to increased efficiency of the organization.

4. **Reduces the Cost of Performance**
   Planning helps reduce the cost of performance. It includes the selection of only one course of action amongst the different courses of action that would yield the results at a minimal cost. It removes hesitancy, avoids crises and chaos, eliminates false steps and protects against improper deviations.

5. **Concentration on Objectives**
   It is a basic characteristic of planning related to the organizational objectives. All the operations are planned to achieve the organizational objectives. Planning facilitates the achievement of objectives by focusing attention on them. It requires the clear definition of objectives so that most appropriate alternative courses of action are chosen.

6. **Helps in Co-ordination**
   Good plans unify the interdepartmental activity and lay down the area of freedom in the development of various sub-plans. Various departments work by the overall plans of the organization. Thus, there is harmony in the organization, and duplication of efforts and conflict of jurisdiction are avoided.

7. **Makes Control Effective**
   Planning and control are inseparable in the sense that unplanned action cannot be controlled because control involves keeping activities on the predetermined course by rectifying deviations from plans. Planning helps control by furnishing standards of performance.

8. **Encouragement to Innovation**
   Planning helps innovative and creative thinking among the managers because many

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new ideas come to the mind of a manager when he is planning. It creates a forward-looking attitude among the managers.

9. **Increase in Competitive Strength**
   Effective planning gives a competitive edge to the enterprise over other enterprises that do not have planning or have ineffective planning. This is because planning may involve expansion of capacity, changes in work methods, changes in quality, the anticipation of tastes and fashions of people and technological changes, etc.

10. **Delegation is Facilitated**
    A good plan always facilitates delegation of authority in a better way to subordinates. Strong trade unions also tend to restrict planning. Similarly, technological developments are taking place very rapidly making the existing machines obsolete. All these factors are external, and management has the least control over them.

CHECK YOUR PROGRESS

1. **Explain the concept of Planning.**
2. **What is nature and characteristics of Planning? Explain.**
3. **What are the types of Planning?**
4. **What are the needs and limitations of planning?**
5. **What are steps in planning process?**

4.10 DEFINITION OF DELEGATION OF AUTHORITY

Delegation is the process that enables the individual to assign a work task to others and to give them the adequate authority to perform the task. It is the most crucial method to train the subordinates and maintaining their morals. It is an essential step in organizing a business.

The process of dividing the work with other members and giving them complete authority is referred to as Delegation. The delegation as a means comes into action among their subordinates when the executive feels that there is an increase in the volume of work. It is all about entrusting some part of the work of operations or management to others and hence sharing one's responsibilities with others. Delegation involves granting the authority to take decisions in precisely defined areas and offering onus to the subordinates for carrying out the assigned tasks. The giving of power by superior managers and their assistants helps accomplish the particular assignments.

According to N. R. Spriegel; "Delegation is the act of conferring authority by a higher source of authority."

The delegation creates a variety of jobs or positions in an enterprise for both managers and operators, likewise. All the managerial and operating employment are a mechanism to offer integrated and co-operative action consistently. The CEO alone cannot manage this function, and from them only they will derive they are departmental and local managers.

The chief executive of the organization delegates a part of their authority to a variety of subordinates to enable them to discharge the work responsibilities or duties in all areas of the business. A manager can never delegate the accountability to their assistants.

It is the means by which a manager can share their duties with their immediate subordinates, who, in turn, could delegate it further to their subordinates. This process is continued until managerial work reaches their supervisors at the lowest level of management, and the workers assume operating work.

Through delegation, the manager extends the area of operation. It enables the managers to distribute their load of work to others, and hence leaving them free to concentrate through delegation. It allows the managers to spread their amount of work to others. Moreover, therefore leaving them open to focus on the other essential functions of the management. It further influences the relationship between the subordinate and their superiors.

Delegation of Authority

It is the process where the authority and powers are divided and shared among the subordinates. It is the phase when the manager feels their work is beyond their capacity and they must share it with their subordinates through a system. Through delegation, a manager can proliferate their work with their team members and subordinates.

Its importance is shared below:

- Through delegation, a manager can easily divide the work and allocate it to their subordinates. It helps in reducing their workload and further enables them to focus on planning, business analysis.
- It is the premise that dictates the superior-subordinate relationship. It defines the workflow in an organization within levels, from top to bottom. It helps in constructively achieving the results.
- It flourishes their abilities and skills. Further, it gives the much-required sense of importance. It boosts their motivation to work which ultimately results in creating positive outcomes for the organization. The job satisfaction is an essential criterion for subordinates that defines their stability and soundness in their relationship. Lastly, the delegation helps boost the creative ability of subordinates and team members. It makes them even more efficient with their work tasks.
- It is the ability that even helps the manager to develop their talents and skills to work better with the rest of the group. The delegation of authority offers the managers with time to concentrate on important issues. It helps them improve their decision-making capacity. The delegation of authority further helps the manager to develop right communication skills, sufficient motivation, and leadership traits to supervise and guide their respective teams.
- The delegation of authority is a process that helps address the valid concern. It could be about creating more departments or designing the divisions flow, or work structure of departments, etc. It will require the creation of more managers that could be managed by moving the experienced and skilled managers to these

positions. It will help address the concern positively.

With this, it could be concluded that the delegation of authority brings stability, ability, and soundness to a concern and it not just a process where a manager can multiply their quantum of work.

4.11 PROCESS OF DELEGATION

It comprises of three essential elements, including:

1. **Assignment of Duties:**
   The allocation is a crucial task since one person cannot perform all the tasks. Moreover, therefore they must allocate a part of their work profile to their subordinates. While delegating duties, the manager must decide the type of the work they wish to keep for themselves and which ones they wish to transfer further. The assignment of duties covers defining the results that are expected from the subordinates. The manager must assign the various duties in the form of goals, function or results.

   The duties must be assigned regarding job description. The duties expressed as goals will result in effective delegation as it offers mental satisfaction to the subordinates to fulfil their duties for a mission. Further, the duties must be assigned based on the employee's qualification, experience, and aptitude for the said task.

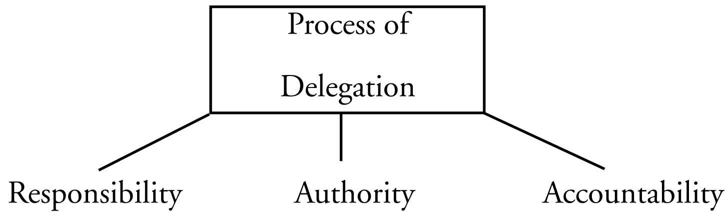
2. **Granting of Authority:**
   The granted requisite is prudent for the subordinates to perform well with such duties. The same rights and powers are much required to be conferred upon the subordinates like a manager, to be able to complete the task with case. For effective delegation, the limits of authority must be communicated to the subordinate. This access as delegating authority means that the subordinate could use individual rights, including the right to spend money, to direct the work of colleagues, to use raw materials, and even to represent the organization at different business interactions. A subordinate is also expected to understand their right to act, which includes requesting others to act and to maintain discipline. The superior authority will delegate only those tasks which empower the subordinate to finish their jobs.

   They will never have total authority, and hence the superiors remain in total control of their authority.

3. **Creation of Obligation or Accountability for Performance:**
   It is the creation of the moral obligation for subordinates to deliver satisfactory performance for their duties. Moreover, in this reference, the said subordinates must be made answerable to the authority to deliver the satisfactory performance of their assigned duties, and for the exercise of delegated authority. The creation of an obligation in a real sense is the assumption of responsibility by their subordinates. The subordinate in a real sense is made accountable to the delegator (authority) for the efficient discharge of their duties.

further, the control by a manager is exercised over their subordinates by demanding the total accountability for their delegated tasks. Even though the manager could delegate the duty and authority to their subordinates, the accountability flows from the subordinates to the superiors in an upward direction.

The entire process of delegation is shown in the following diagram:



(Three pillars of delegation)

4.12 PRINCIPLES OF DELEGATION

Delegation has to be effective, and it must be governed by certain working rules or principles.

These principles are:

1. **Functional Definition:**
   The manager must define the functions to be performed by their subordinates before delegating the authority. It includes the objectives for each job prof le, the n o r m a 1 activities, and their relationship with other jobs.

2. **Delegation by Result Expected:**
   The authority element must be offered to only those subordinates who have garnered the expected results from the said position. Further, the duties must be defined regarding goals and expected results, and therefore a notice is presented to the subordinate who understands the activities and expected results. Moreover, it also includes the criteria on which they will be assessed.

3. **Clarity of Lines of Authority:**
   The authority element in any organization connects every position, either directly, through line authority or indirectly. For the smooth functioning of the organization, a clear understanding of the lines of authority is much required.

4. **Level of Authority:**
   It defines the competence level of managers during the delegation of decision making authority. The superior authority in any organization is not expected to interfere in the day-to-day decision-making process as a lower level organization will take care of it eventually.

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5. **Absoluteness of Responsibility:**
The responsibility as quality can never be delegated. As a matter of fact, by delegating authority, the executive in an organization increases their responsibility. As by doing so they are directly accountable for the acts of their subordinates, along with their own to their superiors. Moreover, even the accomplishment of the task is theirs even when they are assigned to their subordinates.

6. **Parity of Authority and Responsibility:**
It requires a proper balance between authority and responsibility for a subordinate. A subordinate should be given necessary authority to perform his assigned duties. Authority must correspond to perform his responsibility.

7. **Motivation:**
The higher wages, bonus, promotion to better positions, greater recognition and prestige are some of the material and psychological incentives that lure the subordinates. It pushes them to accept the delegated responsibility and duty and exercise.

4.13 BARRIERS TO EFFECTIVE DELEGATION

The barriers to effective delegation could be summarized as follows:

RELUCTANCE ON THE PART OF THE EXECUTIVES:
A manager is likely to delegate fewer authority initiatives in the following situations:

1. **Superiority complex:**
Some executives have this feeling that they can do the job better themselves, and, for this reason, they do not delegate their authority. They consider themselves indispensable neither they respect the ideas of others nor do they give the subordinates a chance to prove their merit.

2. **Maintenance of tight control:**
A manager does not delegate authority because they want to maintain tight control over the operation assigned to him.

3. **Lack of confidence in the subordinates:**
A manager may not delegate authority because they feel that their subordinates are not capable and reliable. Moreover, hence they lack confidence in their subordinates. If delegation is not made, the future manager might have no opportunity to gain experience.

4. **Lack of ability to direct:**
Many managers find it difficult to offer proper directions to guide the efforts of their subordinates. Sometimes the boss may like to delegate authority but may not be able to do it effectively due to their inability to identify, interpret and communicate the

essential features of their plans. Therefore, an executive who cannot direct cannot delegate.

5. **Absence of control techniques that warn of upcoming troubles:**
   The executive has practically no means of assessing the serious difficulties in the working of an organization in advance, and therefore they may hesitate in delegating authority.

6. **Conservative and cautious temperament:**
   A timid and over-cautious manager will never take any risk. The delegation of the task to a subordinate involves elements of chance or risk; the executive may hesitate to delegate anything to anyone.

7. **Fear of exposure:**
   An incompetent manager may not like to delegate the activities simply because adequate delegation may reveal their weakness and shortcomings. Moreover, it could reveal their poor operating procedures, methods, and practices. They feel that the delegation of the task may undermine their influence and prestige in the organization. Therefore, they keep all the authority to themselves for fear of being exposed.

8. **Fear of the subordinates:**
   A manager will never delegate sufficient authority because of their fear of the subordinates. It could be about the growth of the subordinate within the organization. It could take up two scenario(s). First, the subordinate might show that they can perform the superior's work so well that they become entitled to the manager's position, status or prestige. Second, when the subordinate's increasing ability might earn them a quicker promotion to some other part of the organization, a n d therefore the superior may lose their best subordinate. I n such a scenario the manager might adopt a defensive behaviour. They simply fail to delegate the kind of authority that would have such a result.

9. **Love for authority:**
   A superior may not delegate their authority especially if they are an autocrat to the core. They have an intense desire to dominate others, and to make their importance felt in the organization, and to see that his subordinates frequently come for approval. They think that delegation will lead to reduction of their influence within the organisation.

RELUCTANCE ON THE PART OF THE SUBORDINATES:
The subordinates may not always accept delegation and shoulder responsibility.

A subordinate may shrink from accepting the authority based on following reasons:

1. **Dependence on the boss for decisions:**
   If a subordinate finds it more comfortable to depend upon their boss for taking decisions while tackling problems, they may avoid accepting authority even when the bosses are ready to delegate it.

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2. **Fear of criticism:**
The subordinates sometimes fear criticism on the part of their superiors. In fact, some superiors tend to criticize any action taken by a subordinate and in some cases even a small genuine mistake. Further, it discourages initiative spirit, causes resentment, and destroys a subordinate's self-confidence.

3. **Lack of information or resources:**
A subordinate may refuse to accept the authority without the adequate information, working conditions, and required resources for the proper performance of a task.

4. **Lack of self-confidence and fear of failure:**
A subordinate who does not possess self-confidence will try to evade responsibility even though the manager is prepared to delegate. Such subordinates often feel that they will fail adversely, and hence do not want additional responsibilities through delegation.

5. **Inadequacy of positive incentive:**
A subordinate hesitates in accepting more work delegated to them by their respective bosses if they are not getting sufficient positive incentives in the form of recognition, credit, and other rewards.

6. **Overwork:**
When the subordinates are over-burdened with duties, they might avoid further delegation of tasks. It is because they do not seem to be able to complete the additional task along with those who were assigned to them. It may be a legitimate reason.

4.14 MEASURES TO MAKE DELEGATION EFECTIVE

The following measures can be taken to make delegation effective

1. **Delegate early:**
Early delegation helps the subordinate to better plan the task and avoid unnecessary pressure.

2. **Select the right person:**
A careful assessment of the skills and capabilities of the staff, and further assigning them the task according to their calibre helps achieve the best output. Acute training and resources help the individuals to succeed.

3. **Communicate the rationale and benefit:**
The identification of the valid reason for the task, and how it will contribute to the primary goals of the company/department/team are quite essential. It is equally important to delegate the task could benefit the employee. For example, develop a specific skill in the subordinate that helps them get promotion.

4. **Delegate the entire task to one person:**
   It offers the personnel the responsibility, increases their motivation and avoids any form of ambiguity in accountability. Otherwise, different people will have different ideas about who does what and when.

5. **Set clear goals and expectations:**
   Be precise on what is expected. Always try to answer the 5W (What, Why, When, Who and Where) and F (Flow). Moreover, always try to be prepared to accept inputs from the subordinates. It is a related task to verify the task goals and expectations.

6. **Delegate responsibility and authority:**
   Offer freedom to subordinates to complete the task with relevant responsibility and authority to complete the task in a manner they choose as long as results are in-line with the specified ones

7. **Provide support, guidance, and instructions:**
   Always help and support the subordinates to complete their task or project. It could even mean connecting them with people with critical information, and the ones who can offer better guidance.

8. **Take a personal interest in the progress of delegated task:**
   Stay updated on the progress of the task, and offer guidance whenever required. Though while doing this maintain your distance by being careful not to be intrusive. Providing constructive feedback through open lines of communication, regular meetings on larger tasks help the individuals in the more extended run.

9. **If you are not satisfied with the progress, don't take the project back immediately:**
   It is essential to continue work with the said employee to ensure they understand the project well and associated responsibility. Always offer constructive feedback to ensure accountability and dependability.

10. **Evaluate and recognize performance:**
    It is pertinent to emphasize the results beyond the methodology. For a subordinate, it is crucial to analyse the cause of inadequate performance for future improvement, and their successes in this journey muse are analysed soon.

4.15 DECENTRALIZATION: MEANING AND NATURE

It is the systematic effort to delegate to the lowest levels of authority except for those which can be exercised at central points. It could be even termed as an extension of the concept of delegation. Decentralization occurs when the distribution of authority is made across the organization concerning a specific function, activity or responsibility.

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Decentralization does not mean the distribution of activity concerning all the activities. In a regular organization, while one function may get decentralized still could stay centralized. For example, in an automobile manufacturing the sales function may be distributed or decentralized to product relations remain centralized. The extent of decentralization in depends on the extent to which the decision-making authority is the top management level. Therefore, when delegation is delegated to lower levels of management then most of responsibilities, and therefore decentralization of authority takes place.

On the other hand, if the delegation is restricted at the top level of management, and the subordinates are to implement the decisions merely, the authority is said to be centralized to a greater extent. Decentralization is a question of degree, and it is really about how much is delegated. Henry Fayol pointed out "everything that increases the importance of the subordinate's role in an organization is decentralization, and everything that reduces it is termed as centralization. However, there does not exist absolute centralization or complete decentralization in an organization. Total unification is when there is the only person with supreme authority, and there is no subordinate manager under them. It implies there is no structured possible only other organization. Similarly, there is no absolute decentralization. Centralization and decentralization are inclinations, tendencies or bents towards the reservation of authority across varying degrees. In an organization, the authority may be centralized, but the amount of decentralization becomes vital.

4.16 ADVANTAGES OF DECENTRALIZATION

The advantages of decentralization may be listed as follows:

1. **Increasing Efficiency of Management:**
   It helps reduces the burden of the top executives, and relieves them of the anxiety of details. It further allows them to concentrate on other essential tasks of planning, coordination and control, and more by increasing overall efficiency of the management.

2. **Facilitate Diversification of Activities:**
   It simplifies the growth and diversification of product lines. It further helps assess the features like present position, prospects and relative efficiency for one single product or a group of related products in division creation.

3. **Minimization of Risk:**
   Decentralization offers the benefit of the expert advice of specialists to help the businesses grow by minimizing the loss possibility.

4. **Ensuring Quick Performance:**
   It provides a dynamic personality to the business, and it ensures quick decision and prompt action to cope successfully with constant business changes.

5. **Developing Future Executives:**
   The decentralization offers the subordinates with the opportunity to exercise their

judgment. It offers a better means to develop future managers and executives. They even learn how to decide and develop managerial skills. An essential skill for countries like India, the shortage of competent manager is the primary limiting factor for the rapid growth of our economy and principal industries.

6. **Motivating the Subordinates for Better Performance:**
   By consistent and adequate delegation of managerial work, the organization structure promotes individual initiative, and mutual understanding further motivates the subordinates towards a higher performance.

7. **Improvement of Morale:**
   The local managers are offered with a significant degree of authority, they doing well and close-knit groups. The higher degree of participation with a constant effort to communicate, and continuous interest in the welfare of the members of the group.

CRITICAL THREATS DUE TO DECENTRALIZATION

The decentralized nature of the system makes it susceptible to critical threats and attacks. Though these threats are not unique to the decentralized systems, it becomes critical because of the lack of a centralized authority that makes it difficult to counter the threats and attacks.

1. **Impersonation:**
   The malicious individuals attempt to conceal their identities by portraying themselves as other users. It affects the relationship between identities and their pre-existing trust as they are victims of the impersonation. The targets of the deception require the ability to detect these incidents.

2. **Fraudulent Actions:**
   It is the act of bad faith by malicious individuals without actively misrepresenting themselves or their relationships with others. A user may indicate that they have a particular service available. Moreover, the system must attempt to minimize the effects of bad faith.

3. **Misrepresentation:**
   To confuse their peers, the malicious users, misrepresent the trust relationships. The deception intentionally increases or decreases the level of the trust relationship. The peers do not trust an individual that they know might not be trustworthy. They could claim that the user cannot be trusted.

4. **Denial of Service:**
   The malicious peers may launch an attack on individuals or groups. The primary goal of these attacks aims to disable the system or even make it impossible for the average operation. The attacks will eventually result in flood peers with well- informed or ill-formed messages. The system requires an innate ability to contain the effects of denial

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of service attacks.

5. **Deciding Whom to Trust:**
   The specific domain-specific behaviour indicates the trustworthiness of a user. The trust relationship should improve when a particular peer perceives ethical behaviour. The trust relationships are downgraded when dishonest behaviour is perceived.

4.17 DELEGATION VS. DECENTRALIZATION

1. **Responsibility:**
   In delegation, a superior delegate transfers some of their rights and duties to a subordinate, but their responsibility in respect of that work does not end. While decentralization relieves them from the responsibility, and therefore the subordinate becomes liable for that work.

2. **Process**
   Delegation is a process while decentralization is the result of a deliberate policy that is spread across the lowest levels in the managerial hierarchy.

3. **Need**
   Delegation is essential for the management team to get things done in an organization, i.e., delegating necessary authority for the performance of work assigned. Decentralization may or may not be practiced in a systematic policy in the organization.

4. **Control**
   In delegation, the control over the activities of the organization lies with the top executive, while decentralization offers the power of control that is exercised by the unit head to which the authority is delegated.

5. **Authority:**
   The delegation represents the dispersion of authority whereas decentralization signifies the creation of autonomous and self-sufficient units or divisions.

6. **Scope**
   Delegation does not pose any problem of coordination to the delegator of the authority. Moreover, decentralization poses a significant problem in this regard since ultimate freedom of action is given to the people by creating self-sufficient or autonomous units.

7. **Good Results**
   Decentralization is effective only across large organizations whereas delegation is required and offers results across different organization irrespective of their size.

8. **Nature:**
   Delegation is the result of human limitation. Decentralization is the result of the significant size and multi-furious functions of the enterprise.

4.18 CHAPTER SUMMARY

This chapter discusses planning and decision making as very important concepts for a manager. These principles combine to perform perhaps the most important function of the principles of management. Most experts believe managers cannot be effective unless they plan. A Large part of planning is decision making. Some decisions are simple and some require much effort to effect the organisation in positive ways and achieve organizational objectives.

The decision-making power decides the extent of the difference between delegation and decentralization. The delegation concept is referred to the process when manager assigns the responsibilities with team members and subordinates. The decentralization is an extended form of delegation. It offers the power of decision-making across all levels of management. Decentralization is a collection of delegated activities. Both the processes offer to achieve valid results when clear guidelines are offered to employees, along with their level of responsibilities and authorities.

In the modem times, decentralization plays an essential role as it helps the organization to make quick decision making. An adequate balance of centralization and decentralization is much required in the leadership structure as it helps the organization to maintain adequate control. Both these concepts help in the maintenance of authority and direction. The distribution of authority among the other lower levels of the administrative system in democratic countries helps in the exercise of authority by various persons and institutions. The two concepts must use most judiciously in the organization of governmental activities in any country, both developed and developing societies.

4.19 REVIEW QUESTIONS

SHORT ANSWER TYPE QUESTIONS

1. **Write short note on delegation of authority.**
2. **How Delegation can be done?**
3. **List the advantages of Decentralization.**
4. **Write short note on types of planning.**
5. **List the limitations of planning.**

LONG ANSWER TYPE QUESTIONS

1. **Explain in detail the principles of Delegation?**
2. **Why is Delegation necessary?**
3. **Explain the decision making process.**

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4. **Explain the modern methods of planning and decision making**
5. **What is Decentralization? Explain the meaning and nature of Decentralization.**

4.20 MULTIPLE CHOICE QUESTIONS

1. **Delegation is the ______of human limitation.**
   a. Result
   b. Process
   c. Cycle
   d. System
2. **The malicious peers may launch an attack on individuals or______.**
   a. Company
   b. Groups
   c. Process
   d. System
3. **To ______their peers, the malicious users, misrepresent the trust relationships.**
   a. Confuse
   b. Relate
   c. Debate
   d. Authorize
4. **Decentralization does not mean the _______ of activity concerning all the activities.**
   a. Ownership
   b. Delegation
   c. Distribution
   d. Virtualization
5. **The local _____are offered with a significant degree of authority, they doing well and close-knit groups.**
   a. Subordinates
   b. Managers
   c. Owners
   d. Risk takers
6. **________is a problem-solving approach to choose a specific course of action among the available alternative to solve the organizational problems or difficulties.**
   a. Decision making
   b. Planning

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c. Delegation

d. Separation

7. ______is considered as the severe limitation when it comes to taking faster decisions.

a. Money

b. Time

c. Power

d. Delegation

8. The primary focus of_______ plan is to ensure utilization of resources to achieve the strategic goals.

a. Tactical

b. Operational

c. Planning

d. Management

9. Planning as a process limits capital investment as it entails _____assets.

a. Mixed

b. Fixed

c. Current

d. Operational

10. The responsibility as _____ quality can never be delegated.

a. Money

b. Power

c. Result

d. Quality

♦♦♦♦♦

UNIT V

ENTREPRENEUR AND ENTREPRENEURSHIP

STRUCTURE:

5.1 LEARNING OBJECTIVE

After completing this unit, you will be able to:

- Discuss the origin of Entrepreneurship.
- Discuss an overview of various definitions of Entrepreneur and Entrepreneurship.
- Differentiate between Entrepreneur and Entrepreneurship.
- State type of Entrepreneurs.
- List characteristics of successful Entrepreneurs.
- Role of Entrepreneurs.

5.2 INTRODUCTION

An entrepreneur is a person who starts with an enterprise. The capacity and willingness of an organization to develop organize and manage a business venture along with the associated risks to eventually make a profit. The economists consider this as the fourth factor of production, along with land labour and capital.

The sociologists feel that individual communities and cultures promote entrepreneurship. The entrepreneurs are innovators who craft new ideas for products, markets or techniques. They perceive opportunities and organize resources. Courier service, e-commerce, ready-to-eat foods, etc. arc examples of entrepreneurial ideas that got converted into products or services.

The entrepreneurship is all about starting off with a new business. In economics, the entrepreneurship is a combined effort with the land, labour, natural resources, and capital that produces a profit. Innovation and risk-taking characterize the enterprenual spirit. It offers the opportunity to the youth of the country to boost the nation's ability to succeed in an ever-changing and increasingly competitive global marketplace.

Nature of Entrepreneurship:

Entrepreneurship is creating something new with value by devoting the necessary time and effort. It assumes accompanying financial, psychic, and social risks and uncertainties; and receiving the resulting rewards of monetary a n d personal satisfaction.

An entrepreneur takes risks and starts something new. It involves.

- Creation Process
- Creating something new of value.
- Must have value for the entrepreneur.
- Must have value to the audience for which it is developed.
- The devotion of the necessary time and effort.

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Benefits of Entrepreneurship:

- In this era, most of the entrepreneurs are starting their business as the means to take an alternate route to live life and further make a difference m the society.
- Entrepreneurs see their business as a vehicle of self-expression of personal desire and eventual self-actualization of their personal goals - the pinnacle of their career success.
- It is their opportunity to reap extraordinary profits; It acts as a necessary motivation and indication factor for further increased performance.
- Societal Responsibility and Recognition. Small business owners have genuinely considered as the most admired, respected and listed individuals of the society.
- Customers have shown their trust and faithfulness over the years for their business.
- Help to contribute employment, business opportunity in a particular locality or area.

5.3 MEANING OF ENTREPRENEUR

An entrepreneur is a starter; they are challenges and drivers of change. They create new things, either in the form of an initiatives, business or a company. The entrepreneur might not be idea creators, but sure they have the potential to make that idea into a reality.

An entrepreneur is a driver; they are the ones who push forward and inspire the team to follow. The entrepreneur drives the change and can change, direct, and accelerate their venture.

An entrepreneur must be accountable and responsible; They must be responsible for the destiny of their venture, it could be a company, a project, or any other endeavour. The entrepreneur is the one who would have the highest stakes in the venture. Thus, the one that needs to be empowered to direct the endeavour entirely.

Though entrepreneurship is often related to having an equity stake in the company through what it gets translated into is the association of entrepreneurship with equity ownership, as a value for the organization.

Entrepreneurial Process:

The process is to pursue a new venture, whether it is for the creation of new products into existing markets, existing products into new markets, and the creation of a new organization.

1. **Opportunity Identification:** The process by which an entrepreneur comes up with the opportunity for the new initiative. Most entrepreneurs do not have a formal mechanism but use their network of resources to identify trends.
   - The window of Opportunity.
   - The period available for creating the new venture.
   - Opportunity versus personal skills and goals.

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- Creation and length of opportunity.
- Competitive environment.

2. **Develop a Business Plan:** The description of the future direction of the business.
   - Marketing & Financial Plan
   - Description of the business and industry
   - Organization Plan
   - Operational Plan
3. **Determining the Resources Required.**
   - Appraisal of the entrepreneur's present resources.
   - Resources that are critical need to be differentiated from those that are just helpful.
   - Care must be taken not to underestimate the amount a variety of resources needed.
   - Asses the downside risks associated with insufficient or inappropriate
   - Strive to maintain control while acquiring financial resources.
   - Identifying alternative suppliers enables you to acquire resources at the lowest possible
   - costs.
   - This is a constant function throughout the life of the organization.
4. **Manage the Enterprise.**
   - Examining the operational problems of the growing venture.
   - Determine the key available resources.
   - Implementing a management style and structure.
   - A control system must be implemented.
   - Some entrepreneurs have difficulty managing and growing the venture they have created.

5.4 QUALITIES OF AN ENTREPRENEUR

1. **Perseverance:**
   It is a trait of success for any entrepreneur who can pursue their idea when the situation appears to be bleak. They have to be prepared for challenges and must be in pursuit of exploring new challenges. For example, getting finances for new ventures, the initial marketing efforts may become unsuccessful, or start over in a bankruptcy situation.

2. **Self-Discipline:**
   The entrepreneurs must have a proper work discipline when it comes to attending to work tasks; it is beyond any distractions like a super ball game, beautiful weather, etc.

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3. **Passion:**
   It is a critical component of success for any entrepreneur. They must enjoy or feel secure about their pursuit otherwise it might feel like any other job. In the absence of real-time interest in their business, the success of any entrepreneur becomes extremely difficult.

4. **Self-Confidence:**
   Self-promotion is considered as one of the most underutilized marketing tools for entrepreneurs. They need to possess the required confidence in their business idea to put it across the world through relentless marketing. They must be able to promote themselves and their business on a continual basis.

5. **Competitiveness:**
   The entrepreneur must possess a competitive spirit to beat the competition. They must assess their competition to understand their stand in the marketplace. It will help the entrepreneurs the create a beneficial learning experience for their customers.

5.5 TYPES OF ENTREPRENEUR

Entrepreneurs are classified into different types as mentioned below:

BASED ON THE TYPE OF BUSINESS:

1. **Trading Entrepreneur:** They undertake all the trading activities. They have to procure the finished products from the manufacturers and sell them directly to consumers or through a retailer. This type of entrepreneurs usually serves as the middlemen, who are wholesalers, dealers, and retailers. They act as the liaison between manufacturers and customers.
2. **Manufacturing Entrepreneur:** They manufacture products. Their primary job is to identify the needs of the customers, and based on that explore the resources and technology required to manufacture the said products to satisfy the customers' needs. They convert raw materials into finished goods.
3. **Agricultural Entrepreneur:** As the name suggests, the entrepreneurs in this category undertake agricultural pursuits. They cover a wide spectrum of activities, including agricultural produce, irrigation, mechanization, and technology.

BASED ON THE TECHNOLOGY USAGE:

1. **Technical Entrepreneur:** They apply innovative methods of production in their enterprises to establish and manage science and technology-based industries.
2. **Non-Technical Entrepreneur:** They are concerned with the use of alternative and imitative methods of marketing and distribution strategies. It helps the business to survive thrive in the competitive market.

BASED ON THE OWNERSHIP:

1. **Private Entrepreneur:** They are the sole owners of the enterprise and bears the entire risk involved in it. The private entrepreneur set up a business enterprise.

2. **State Entrepreneur:** The trade or industrial venture is usually undertaken by the State, or the Government is termed as state entrepreneur.
3. **Joint Entrepreneurs:** A collaborative business enterprise between private entrepreneur and government is termed as joint entrepreneurs.

BASED ON THE SIZE OF ENTERPRISE:

1. **Small-Scale Entrepreneur:** An enterprise with an investment in the plant and machinery of up to INR 1 crore is termed as a small-scale entrepreneur.
2. **Medium-Scale Entrepreneur:** They arc enterprises classified under the investment in plant and machinery of above INR 1 crore but less than INR 5 crore are termed as a medium-scale entrepreneur.
3. **Large-Scale entrepreneur:** The enterprises with an investment in their plant and machinery of more than INR 5 crore are termed as a large-scale entrepreneur.

CHECK YOUR PROGRESS

1. **How can we define Entrepreneur?**
2. **Discuss the types of Enterprise based on Size.**
3. **What are the qualities an entrepreneur must possess?**
4. **Discuss the types of Enterprise based on Ownership.**
5. **Discuss the Entrepreneurial Process.**

5.6 FUNCTIONS OF AN ENTREPRENEUR

The entrepreneurial functions include risk bearing, organizing, and innovation traits are broadly classified for entrepreneurs as mentioned below:

1. **Managerial Functions:**

   The enterprises with excellent facilities and quality resources have perished due to poor management, and enterprises with proper management though with inadequate facilities and resources have performed exceedingly well. For small- scale enterprises, the entrepreneurs who as the owner of that enterprise must perform the required management functions. Further, the management functions performed by the entrepreneur are classified into the following five types:

   - Planning
   - Organizing
   - Staffing
   - Directing
   - Controlling

2. **PROMOTIONAL FUNCTIONS:**

   - **Identification and Selection of Business Idea:**

     The selection of the most suitable business proposition involves a thought-out process. The aspiring entrepreneur, based on their knowledge, experience, and

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inputs gathered from their peer group must generate some concrete business ideas. They could be further examined and pursued as a business enterprise. In management terms, this process is described as 'opportunity scanning and identification. 'The generated idea is analysed regarding associated costs and benefits. The most beneficial idea based on this analysis is finally chosen to be pursued to create the business enterprise.

- **Preparation of Business Plan or Project Report:**

  The business plan can be considered as the evolved course of action that is created by the entrepreneur to achieve the specified objectives and within a specified period. It is the action phase where the entrepreneur decides to take-on the necessary action. The business plan acts as an operating document. It is useful for t h e entrepreneur to establish their enterprise effectively and smoothly. Further, it helps the entrepreneurs who intend to apply for financial assistance from the financial institutions and banks for their enterprises. It comprises of information regarding the location of the enterprise, requirement for land and building, plant and machinery, raw material, utilities, transport and communication, manpower, the requirement for funds. It includes working capital with its sources of supply, breakeven point, implementation and schedule of the project.

- **The requirement for Finance:**

  It is a pre-requisite for funds with its detailed structure. The financial requirement is classified into short-term and long-term categories. It is followed by the sources of supply to acquire the required fund. Further, there needs to be a break-up of capital share, regarding equity and preference, along with borrowed capital from various financial institutions and banks must be identified.

3. **COMMERCIAL FUNCTIONS:**

- **Production /Manufacturing:**

  The production function comprises of decisions in connection with the selection of factory site, design, and layout, types of products to be produced, along with research and development. This phase comprises of the actual creation of goods or offering services. The effective functioning of this function depends on the proper production planning and control. Further, the additional activities include production planning and control, maintenance and repair, purchasing, storekeeping, and material handling.

- **Marketing:**

  It is all about the performance of business activities that directly engage the flow of goods and services from producer to consumer. It starts and ends with the customers. Though marketing comprises of a host of other activities, where selling is identified as one of the core activities. It comprises of market or consumer research, product planning and development, packaging, pricing, storage, pi emotional activities, distribution channel and so on. The marketing mix, traditionally referred to as 4 Ps, namely product, price, promotion, and physical distribution decide the success of marketing. In the modern era, packaging, people, and processes are included in the marketing mix for added success.

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- **Accounting:**

  It is a control mechanism that helps the organization to ascertain the success or failure of the business enterprise. According to the American Institute of Certified Public Accountants, Accounting is the art of recording, classifying and in a significant manner for money, transactions, and events. It financial character and helps interpret the results. It comprises of the following stages:

  - Recording the Transactions
  - Classifying the Transactions
  - Summarising the Transactions
  - Preparing the Final Accounts
  - Analysing and Interpreting the Results.

  The Profit & Loss (P&L) account is created to ascertain the direction of business activity, whether it earned a profit or incurred loss for a particular duration of time also referred to as the accounting year. As part of this process, the Balance Sheet helps understand the financial position of the business enterprise during the said period. It is also referred to as the 'position statement.'

5.7 ENTREPRENEURSHIP: STORIES OF SUCCESSFUL ENTREPRENEURS

Caselet 1: Sridhar Vembu

Sridhar Vembu is an Indian billionaire business magnate and the founder and CEO of Zoho Corporation., the company that manages the Zoho suite of online applications. Advent Net was co-founded by him in 1996. It started off as the network equipment vendor to eventually become an innovative online applications provider.

Zoho today competes globally with some of the core products from Microsoft, Google, and Salesforce.com. The company today is worth well over $1 billion. Sridhar Vembu is from a modest middle-class family in Chennai.

Caselet 2: Thyocare

Dr. Arokiaswamy Velumani is the head of the INR 1,320 crore organization- Thyocare. It is world's thyroid testing company that boasts of 1,122 outlets across India, Bangladesh, Nepal and Middle East. After working with BARC for 14 years, he decided to channelize his expertise in thyroid biochemistry by setting up testing labs to detect thyroid disorders.

Born to a poor family from Tamilnadu, Mr.Velumani completed his education through government subsidy. With an initial investment of INR 1,00,000, he launched his venture. Thyrocare today is worth INR 3,377 crore (May 2016). With a 64% stake in the company, Mr. Velumani has an individual worth of INR 2,158 crore.

Caselet 3: CroFarm

Co-founded by Mr. Varun Khurana, CroFarm is digitizing the agriculture supply chain for farmers that borders the Delhi-NCR region. The farmers can connect via WhatsApp, while retailers and distributors are connected through the CroFarm app. The platform helps the fanners to bypass the agriculture wholesale market to sell their produce directly to distributors for over 15-20% better pay out than the marketplace.

CroFarm advises the farmers what the consumers want- like the right weight of cauliflower that sells. CroFarm claims to do 10 tonnes of fruits and vegetable procurement per day.

Caselet 4: Medikabazaar

Founded by Vivek Tiwari, Medikabazaar is a B2B platform that helps procurement of hospital supplies to assist 6,500 hospitals, and helping eliminate inefficiencies in the supply chain. This app was an outcome of eliminating the inadequacies regarding time delays and high costs due to too many middlemen involved. This app will help hospitals with a single window platform to get supplies from multiple companies seamlessly. The suppliers on Medikabazaar include Johnson &Johnson, Hindustan Medical Devices, and Polaroid Dental Imaging. Mr. Tiwari is an MBA from HM-Calcutta who was earlier engaged in setting up dialysis centres at hospitals.

Caselet5: TravelSpends

Co-founded by Suraj Nair, TravelSpends through their Triponomics application helps travel management companies deliver efficient pricing for enterprise customers as per the travel management company's policy. The travel tool validates the fare as per customer's approved travel policy and contracts. The application's goal is to ensure strengthening automation to process high volume transactions. The tool has helped their customers save 8 to 15% of their travel expense and analysed one million trips.

Caselet 6: Nirma

Founded by Dr. Karsanbhai Patel in 1969, he created a new segment for the Indian domestic detergent market. It is a success story of how an Indian entrepreneur to take on big MNCs and rewrote the rules of business for India. It was the time when the domestic detergent market only has the premium segment with very few companies, mainly the MNCs who were in the business. The company has the turnover of more than $500 million today. Mr. Patel used to make detergent power in his backyard in Ahmedabad, and carry out door-to-door selling of his hand-made product. With his initial sale, he even gave the money back guarantee with every pack that was sold. Mr. Karsanbhai Patel managed to offer his detergent powder for 1NR 3/kg when the cheapest detergent in that era was sold for 1NR 13/kg. It was this strategy that helped him successfully target the middle and lower-middle-income segment. Nirma became a huge success in a shorter span of time. It was a result of Karsanbhai Patel's entrepreneurial skills. Nirma could be defined as the best case for giving your consumers what they want, when they want, where they want, and at the price point, they want. It will help seamless selling of the product.

Caselet 7: Kent RO Systems

Founded by a mechanical engineer - Mahesh Gupta in 1998, Kent RO Systems offers quality water purification system. He created this enterprise after jaundice gripped his son. It was the time when Mr. Gupta researched and analyzed the available water purifier in the market. He was dissatisfied with the available option in the market. Being an engineer, making his water purifier was probably not a difficult task, based on several trials. This initiative began with an investment of about I N R 1,00,000, with a small team. Kent Ro today has a 40% market share, and has a turnover of 580 Crore.'

Caselet 8: Reliance Industries

Dhiru Bhai Ambani - the business maestro created India's largest private sector company - Reliance. It is the first Indian company to feature on Forbes 500 list of companies. Mr. Ambani rewrote the Indian corporate history and has managed to build a truly global corporate group. He was born to a middle-class family, and his father was a school teacher. His entrepreneurial stint began with selling "bhajias" to pilgrims at Mount Girnar over the weekends. Further, he worked as a gas-station attendant in Yemen. After arranging for the initial capital of 1NR 50,000, he returned to India for setting up a textile trading company. During 1992, Reliance became India's first company to raise money in the global markets.

5.8 CHAPTER SUMMARY

In recent decades, the entrepreneur is considered as an individual of great significance in accelerating the pace of growth and economic development. It is across both the developed and developing countries. An entrepreneur is an individual who validates the opportunities, organizes the resources required to exploit the opportunity, and further sets up the enterprise. The process of setting up this said enterprise is termed as entrepreneurship. An enterprise as stated earlier is a business venture, h is an effort of undertaking that engages the uncertainty and risk as well as innovation. They have the right to choose any income generating activity or self-employment or entrepreneurship activity as their career option. The initial stages of entrepreneurship include, functionality income generating and self - employment activities.

The qualities of entrepreneurship and management are present in varying degrees in both managers as well as entrepreneurs. They are distinctly different from managers. They create varied opportunities for innovation, experimentation, and production. The role of manager beings once the enterprise operation commences. Their primary concern is to organize the routine day-to-day jobs. Entrepreneurship is a discipline based on knowledge theory. An individual can learn and acquire the competencies of becoming an entrepreneur by starting a venture and make it grow. The most critical functions of an entrepreneur are innovation, risk and uncertainty bearing and organization building. An entrepreneur usually has to perform all the functions of production, marketing, finance, human relations, etc. especially at the time of start-up and establishing an enterprise. Most entrepreneurs usually start a small venture and then make it grow.

5.9 REVIEW QUESTIONS

SHORT ANSWER TYPE QUESTIONS

1. **What do you mean by the term entrepreneur?**

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2. Write short note on Development of Nirma.
3. Write a short note on Development of Reliance Industries.
4. List various qualities of an entrepreneur.
5. List various types of entrepreneur.

LONG ANSWER TYPE QUESTIONS

1. Discuss in detail various qualities of an entrepreneur.
2. Explain in detail the various types of the entrepreneur
3. What are the functions of an entrepreneur?
4. Explain Entrepreneurial Process.
5. Do you think Entrepreneur is necessary for an organisation? Discuss at least two caselets in the support of your answer.

5.10 MULTIPLE CHOICE QUESTIONS

1. ______ is the first Indian company to feature on Forbes 500 list of companies.
   a. Reliance Industries
   b. TATA Group
   c. Nirma
   d. Airtel
2. Nirma was Founded by Dr. Karsanbhai Patel in _____.
   a. 1963
   b. 1969
   c. 1970
   d. 1982
3. Founded by a _______ engineer - Mahesh Gupta in 1998, Kent RO Systems offers quality water purification system.
   a. Electrical
   b. Software
   c. Mechanical
   d. Social
4. ________ a control mechanism that helps the organization to ascertain the success or failure of the business enterprise.
   a. Marketing
   b. Decision Making
   c. Management
   d. Accounting

5. **The ________ function comprises of decisions in connection with the selection of factory site, design, and layout, types of products to be produced, along with research and development.**
   a. Production
   b. Sales
   c. Marketing
   d. Accounting
6. **The ________ of the most suitable business proposition involves a thought-out process.**
   a. Delegation
   b. Selection
   c. Making
   d. Marketing
7. **A collaborative business enterprise between private entrepreneur and government is termed as _______.**
   a. Joint entrepreneurs
   b. Private entrepreneurs
   c. Collaborative entrepreneurs
   d. Gathered entrepreneurs
8. **The entrepreneur must possess a competitive spirit to beat the________.**
   a. Opponent
   b. Competition
   c. Market
   d. Cost
9. **_______is considered as one of the most underutilized marketing tools for entrepreneurs.**
   a. Offline Promotion
   b. Online Promotion
   c. Self-promotion
   d. Promotion by others
10. **The _________is all about starting off with a new business.**
   a. Entrepreneurship
   b. Marketing
   c. Staffing
   d. Accounting

♦♦♦♦♦

ANSWER KEYS

UNIT I

QUES. NO.	ANSWER	QUES. NO.	ANSWER
1.	a.	6.	d.
2.	a.	7.	a.
3.	b.	8.	a.
4.	b.	9.	c.
5.	b.	10.	b.

UNIT II

QUES. NO.	ANSWER	QUES. NO.	ANSWER
1.	a.	6.	a.
2.	b.	7.	c.
3.	d.	8.	c.
4.	a.	9.	a.
5.	b.	10.	c.

UNIT III

QUES. NO.	ANSWER	QUES. NO.	ANSWER
1.	a.	6.	b.
2.	b.	7.	a.
3.	c.	8.	b.
4.	c.	9.	d.
5.	a.	10.	a.

UNIT IV

QUES. NO.	ANSWER	QUES. NO.	ANSWER
1.	a.	6.	a.
2.	b.	7.	b.
3.	a.	8.	a.
4.	c.	9.	b.
5.	b.	10.	d.

UNIT V

Ques. No.	Answer	Ques. No.	Answer
1.	a.	6.	b.
2.	b.	7.	a.
3.	c.	8.	b.
4.	d.	9.	c.
5.	a.	10.	a.

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