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PRINCIPLES AND PRACTICES OF MANAGEMENT

M.B.A (HRM) First Year

Semester – I, Paper-I



Director, I/c

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M.B.A (HRM) – PRINCIPLES AND PRACTICES OF MANAGEMENT

First Edition 2025

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A⁺⁺' grade from the NAAC in the year 2024, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 221 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the doorstep of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.Sc., B.A., B.B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004 onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson-writers of the Centre who have helped in these endeavors.

Prof.K.GangadharaRao

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AcharyaNagarjunaUniversity

101HR26: PRINCIPLES AND PRACTICES OF MANAGEMENT

UNIT-I MANAGEMENT

Concept –Nature- Functions –Management & Administration- Management as an Art, Science and Profession – F.W.Taylor's Scientific Management Theory - Fayol's Theory of Management, Human Relations Approach, Behavior Approach, System Approach, Contingency Approach, Managerial Roles.

UNIT- II PLANNING

Concept-Nature-Purpose-Process of Planning-Types of Plans – Premising; Decision Making: Concept- Decision Making Processes; Objectives: Management by Objectives: Concept - Process.

UNIT- III ORGANISING

Nature- Purpose- Process- Formal and Informal Organisation- Departmentation- Span of control- Delegation, Decentralization – Line and staff Functions

UNIT- IV DIRECTING

Concept – Significance - Theories of Motivation; Leadership – Leadership Styles, Communication – Meaning, Process, Barriers of Communication.

UNIT –V CONTROLLING

Concept- Pre-Requisites and characteristics of effective control systems- Basic control process - Controlling Techniques.

Case Analysis: There shall be a compulsory question on case analysis in the subject

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1. Dalton McFarland, Management: Foundations and Practices, Macmillan, New York, 1979.
2. F.W. Taylor, Principles of Scientific Management, New York, Harper and Row, 1947.
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- 4.J. Stoner, Management, Prentice-Hall of India, New Delhi, 1990.
5. Parag Diwan, Management Principles and Practices, Excel Books Peter Drucker, The Practice of Management, New York,
- 6.Harper, 1954 W.J. Duncan, Essentials of Management, Illinois, The Dryden Press, 1975.
- 7.Principles and Practices of Management, LM Prasad, Sulthan Chand & Sons, New Delhi- 2019.
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UNIT - I

LESSION – 1

INTRODUCTION TO MANAGEMENT

Learning objectives

After studying this lesson, the students are able to understand.

- Overview of Management.
- Features of Management,
- Functions of Management
- Importance of management.

Structure

- 1.1 Introduction and Definition of Management
- 1.2 Features of Management
- 1.3 Functions of Management
- 1.4 Importance of Management
- 1.5 Summary
- 1.6 Keywords
- 1.7 Self Assessment Questions
- 1.8 Further Readings

1.1 Introduction and definition of management

Management is a universal phenomenon. It is a very popular and widely used term. All organizations - business, political, cultural or social are involved in management because it is the management which helps and directs the various efforts towards a definite purpose. According to Harold Koontz, Management is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals can co-operate towards attainment of group goals. According to F.W. Taylor, management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way.

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

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

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

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

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

1.2 Features of management

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

Management is goal-oriented: The success of any management activity is accessed by its achievement of the predetermined goals or objective. Management is a purposeful activity. It is a tool which helps use of human & physical resources to full fill the pre-determined goals. For example, the goal of an enterprise is maximum consumer satisfaction by producing quality goods and at reasonable prices. This can be achieved by employing efficient persons and making better use of scarce resources.

Management integrates human, physical and financial resources: In an organization, human beings work with non-human resources like machines. Materials, financial assets, buildings etc. Management integrates human efforts to those resources. It brings harmony among the human, physical and financial resources.

Management is continuous: Management is an ongoing process. It involves continuous handling of problems and issues. It is concerned with identifying the problem and taking appropriate steps to solve it, e.g. the target of a company is maximum production. For achieving this target various policies have to be framed but this is not the end. Marketing and Advertising is also to be done. For this policies have to be again framed. Hence this is an ongoing process.

Management is all pervasive: Management is required in all types of organizations whether it is political, social, cultural or business because it helps and directs various efforts towards a definite purpose. Thus clubs, hospitals, political parties, colleges, hospitals, business firms all require management. Whenever more than one person is engaged in working for a common goal, management is necessary. Whether it is a small business firm which may be engaged in trading or a large firm like Tata Iron & Steel, management is required everywhere irrespective of size or type of activity.

Management is a group activity: Management is very much less concerned with individual's efforts. It is more concerned with groups. It involves the use of group effort to achieve predetermined goal of management of an organization.

1.3 Functions of management

The functions of Management are common to all alike; whether a business firm or a non-business firm. Management's primary function is the satisfaction of the stakeholders.

This typically involves making a profit (for the shareholders), creating valued products at a reasonable cost (for customers), and providing rewarding employment opportunities (for employees). This can be achieved only when management accomplishes its functions. A diagrammatic representation of the functions of management is as under

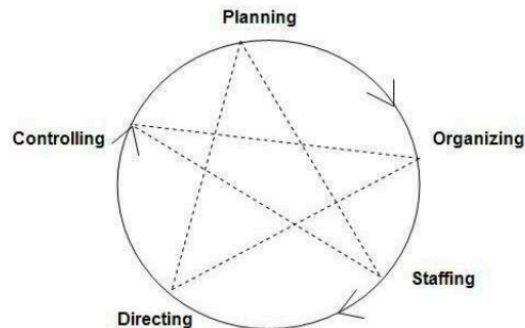


Figure 1

Following are the common functions of management:

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

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

Planning requires administration to assess appropriate course of action to attain the company's goals and objectives. For management to do this efficiently, it has to be very practical and simple. Planning is important at all levels of management. However, its characteristics vary by level of management.

Steps in planning function:

i) Establishment of objectives:

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

ii) Establishment of planning premises:

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

iii) Choice of alternative course of action:

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

iv) Securing co-operation:

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

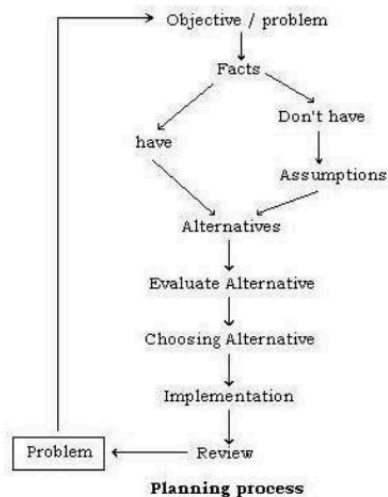


Figure 2

v) Follow up/Appraisal of plans:

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

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

Organizing

Organizing is the function of management which follows planning. It is a function in which the synchronization and combination of human, physical and financial resources takes place. All the three resources are important to get results.

Therefore, organizational function helps in achievement of results which in fact is important for the functioning of a concern. Hence, a manager always has to organize in order to get results.

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

1. Identification of activities - All the activities which have to be performed in a concern have to be identified, grouped and classified in to units.
2. Departmentally organizing the activities - dividing the whole concern into independent units and departments is called departmentation.

3. Classifying the authority - Authorities bringing smoothness in a concern's working.
4. Co-ordination between authority and responsibility: Each individual is made aware of his authority and knows whom they have to take orders from and to whom they are accountable and to whom they have to report.

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

Staffing:

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

Nature of staffing function:

1. Staffing is an important managerial function
2. Staffing is a continuous activity
3. The basis of staffing function is efficient management of personals.
4. Staffing helps in placing right men at the right job
5. Staffing is performed by all managers depending upon the nature of business, size of the company, qualifications and skills of managers, etc.

Since, the success of the organization depends upon the performance of the individual, staffing function of manager deserves sufficient care & attention of the management.

Directing

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

Characteristics of direction

1. **Pervasive function** - Directing is required at all levels of organization.
2. **Continuous activity** - Direction is a continuous activity as it continuous throughout the life of organization.
3. **Human factor** - Since human factor is complex and behavior is unpredictable, direction function becomes important.
4. **Creative activity** - Direction function helps in converting plans into performance
5. **Executive function** - Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise;

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

Co-ordination

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

and at each and every stage and therefore it cannot be separated.

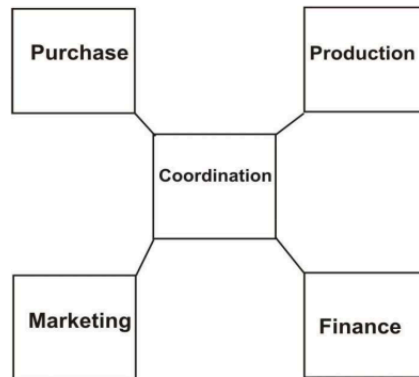


Figure 3

Controlling:

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

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

1.4 Importance of management

1. **It helps in achieving group goals** – Management converts disorganized resources of men, machines, money etc. into useful enterprise. It arranges, assembles, organizes and integrates the factors of production. These resources are coordinated, directed and controlled in such a manner that enterprise work towards attainment of goals.
2. **Optimum utilization of resources** – Management utilizes all the physical and human resources productively. Management provides maximum utilization of scarce resources by selecting its best possible alternate use in industry from out of various uses. This leads to optimum utilization of resources and avoid wastage.
3. **Reduces costs** – It gets maximum results through minimum input by proper planning and by using minimum input and getting maximum output. Management uses physical, human and financial resources in such a manner which results in best combination. This helps in cost reduction.
4. **Establishes sound organization** –To establish sound organizational structure is one of the objective of management which is in tune with objective of organization and for

fulfilment of this, it establishes effective authority and responsibility relationship i.e. who is accountable to whom, who can give instructions to whom, who are superiors and who are subordinates.

5. **Establishes equilibrium** – It enables the organization to survive in changing environment. It adapts organization to changing demand of market / changing needs of societies. It is responsible for growth and survival of organization.
6. **Essentials for prosperity of society** – Efficient management leads to better economical production which helps in turn to increase the welfare of people.. It improves standard of living, increases the profit which is beneficial to business and society will get maximum output at minimum cost by creating employment opportunities which generate income.

1.5 Summary

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

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

1.6 Keywords

Management	:The responsibility for and control of a company or organization.
Organization	: An organized group of people with a particular purpose, such as a business or government department.
Directing	:Control the operations or manage
Controlling	:Determine the behaviour or supervise the running of.
Planning	: The process of making plans for something.

1.7 Self assessment questions

1. Define and explain the concept of management?
2. Explain the features of management?
3. Discuss in detail the functions of management?
4. Explain the importance of management for an organization?

1.8 Further readings

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Dr. B. Nagaraju

LESSION – 2

ADMINISTRATION AND MANAGEMENT

Learning objectives

After Studying this lesson, the students are able to understand.

- Overview Administration and management.
- The difference between administration and management
- Finally the chapter will end with discussing the concept of manager, manager 's functions and the role played in running the organization.

Structure

2.1 Definition Administration and Management

2.2 Manager

2.3 Functions of a Manager

2.4 Roles performed by managers

2.5 Summary

2.6 Keyword

2.7 Self Assessment Questions

2.8 Further Readings

2.1 Definition administration and management

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

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

Difference between administration and management

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

1. Functions
2. Usage /Applicability

Basis	Point of difference	Management	Administration
On the basis of functions	Meaning	Management is an determined goals.	It is concerned with formulation of Broad objectives, plans & policies
	Nature	Management is executing function.	Administration is a decision-making function
	Process	Management decides who should do it & how should he do it.	Administration decides what is to be done & when it is to be done.
	Functions	Management is under their supervision.	Administration decides what is to be done & when it is to be done.
	Skills	Technical and Human skills	Conceptual and Human skills
	Level	Middle & lower level function	Top level function
On the basis of usage	Applicability	It is applicable to business concerns i.e. profit-making organization.	It is applicable to non-business concerns i.e. clubs, schools, hospitals etc.
	Influence	The management decisions Decisions of the managers.	The administration is influenced by public opinion, govt. policies, religious organizations, customs etc.
	Status	Management constitutes the employees of the organization who are paid remuneration (in the form of salaries & wages).	Administration represents owners of the enterprise who earn return on their capital invested & profits in the form of dividend.

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

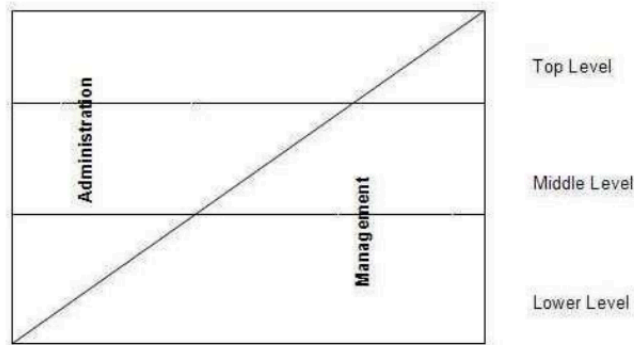


Figure 4

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

2.2 Manager

Definition

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

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

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

Skills required by a manager

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

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

because of the highly interpersonal nature of managerial work.

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

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

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

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

2.3 Functions of a manager

Following are the main functions of manager:

- **Planning:** This step involves mapping out exactly how to achieve a particular goal. Say, for example, that the organization's goal is to improve company sales. The manager first needs to decide which steps are necessary to accomplish that goal. These steps may include increasing advertising, inventory, and sales staff. These necessary
- steps are developed into a plan. When the plan is in place, the manager can follow it to accomplish the goal of improving company sales.
- **Organizing:** After a plan is in place, a manager needs to organize his team and materials according to the plan. Assigning work and granting authority are two important elements of organizing.
- **Staffing:** After a manager discerns his area's needs, he may decide to beef up his staffing by recruiting, selecting, training, and developing employees. A manager in a large organization often works with the company's human resources department to accomplish this goal.
- **Leading:** A manager needs to do more than just plan, organize, and staff her team to achieve a goal. She must also lead. Leading involves motivating, communicating, guiding, and encouraging. It requires the manager to coach, assist, and problem solve with employees.
- **Controlling:** After the other elements are in place, a manager's job is not finished. He needs to continuously check results against goals and take any corrective actions necessary to make sure that his area's plans remain on track.

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

2.4 Roles performed by managers

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

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

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

Mintzberg's Set of Ten Roles

Category	Role	Activity
Informational	Monitor	Seek and receive information; with stakeholders.
	Disseminator	Forward information to organization members via memos, reports, and phone calls.
	Spokesperson	Transmit information to Outsiders via reports, memos, and speeches.
Interpersonal	Figurehead	Perform ceremonial and symbolic duties such as greeting visitors and signing legal documents.
	Leader	Direct and motivate subordinates; counsel and communicate with subordinates.
	Liaison	Maintain information links both inside and outside organization via mail, phone calls, and meetings.
Decisional	Entrepreneur	Initiate improvement projects; identify new ideas and delegate idea responsibility to others.
	Disturbance handler	Take corrective action during disputes or crises; resolve conflicts among subordinates; adapt to environments.
	Resource allocator	Decide who gets resources; prepare Schedules and determine priorities.

	Negotiator	Represent department during negotiations Of union contracts, sales, purchases, and budgets.
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Table 1

Administration means setting of major objectives, and broad programmes and projects. Whereas, management involves conceiving, initiating and bringing together the various elements; together towards meeting organization pre-determined goals.

A Manager is the person responsible for planning and directing the work of a group of individuals, monitoring their work, and taking corrective action when necessary. Managers need to acquire technical, human and conceptual skills. Manager has to perform all the functions of management. This is the first step into a management career.

2.5 Summary

Administration means overall determination of policies, setting of major objectives, the identification of general purposes and laying down of broad programmes and projects. It refers to the activities of higher level. It lays down basic principles of the enterprise. Managers may direct workers directly or they may direct several supervisors who direct the workers. The manager must be familiar with the work of all the groups he/she supervises, but does not need to be the best in any or all of the areas. It is more important for the manager to know how to manage the workers than to know how to do their work well.

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

2.6 Keywords

Administration :The process or activity of running a business, organization, etc.

Manager :A person responsible for controlling or administering an organization or group of staff.

Interpersonal :Relating to relationships or communication between people.

Informational : Relating to or characterized by facts about something; providing information.

Decisional :Having the power or authority to make decisions.

Management :The responsibility for and control of a company or organization.

Organization : An organized group of people with a particular purpose, such as a business or government department.

Planning : The process of making plans for something.

2.7 Self assessment questions

1. Practically, there is no difference between management & administration Justify ?
2. Who is called a manager? What skills does he need to be successful?
3. What functions do managers perform?
4. Explain the role of a manager according to Mintzberg?

2.8 Further readings

- Durai, P. (2015). Principles of Management, Text and Cases. New Delhi: Pearson Education
- Robbins, S.P. & Decenzo, D. A. (2014). Fundamentals of Management: Essential Concepts and Applications. New Delhi: Pearson Education
- Robbins & Coulter (2013). Management. New Delhi: Prentice Hall.
- Koontz, H. (2010). Essentials of Management. New Delhi: Tata McGraw-Hill Education.

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Lesson -3

DEVELOPMENT OF MANAGEMENT THOUGHTS

Learning objectives

After studying the unit the students will be able to:

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

Structure

3.1 Introductions

3.2 The Evolution of Management Thought

3.3 Contingency Approach to Management

3.4 Contribution of Frederick Winslow Taylor, Henri Fayol, Elton Mayo

3.5 Summary

3.6 Keywords

3.6 Self Assessment Questions

3.7 Further Readings

3.1 Introductions

Through the practice of management and the continued development of commerce and wealth we are transforming our lives. While appreciating the past success of management 'we would also recognise that today's accelerating pace of change is putting pressure on our organisations to be at the forefront of management thinking.

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

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

3.2 Evolution of management thought

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

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

Theories of management and the problems they address

Theories of management skills	
The human relations school	The motivational problem
The organization behavior school	Improving the integration of people into organizations
The information and decision school	The management decision-skills problem
Theories of management functions	
Scientific management	The human productivity problem
The quantitative school	The application of objective functions to management
The strategic management school	The organization long-range planning problem
Theories of organization systems	
Administrative management	The organization problem
The organization theory school	The organization design problem

Table 1

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

The scientific management school

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

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

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

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

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

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

Classical organization school

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

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

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

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

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

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

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

Behavioral management school

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

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

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

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

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

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

Management science school

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

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

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

following ways:

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

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

3.3 Contingency approach to management

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

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

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

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

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

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

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

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

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

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

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

3.4 Contribution of Frederick Winslow Taylor, Henry Fayol, Elton Mayo

3.4.1 Frederick Winslow Taylor

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

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

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

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

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

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

Taylor thought that by analyzing work, the "One Best Way" to do it would be found. He is most remembered for developing the time and motion study. Taylor's system was widely adopted in the United States and the world until its demise in the 1930's as organized labor pushed for a minimum wage based on hourly pay, as opposed to Taylor's contention that pay ought to be based on performance.

In practice "Taylorism" too often fell short of collaboration between labor and management and, frequently, was a mask for business exploitation of workers. The enduring and unquestionable contribution of Frederick Taylor is that management is firmly established as something done by trained, professional practitioners and is elevated as the subject of legitimate scholarship.

3.4.2 George Elton John Mayo (26 December 1880 - 7 September 1949)

Mayo was an Australian psychologist, sociologist and organization theorist. He lectured at the University of Queensland from 1911 to 1923 before moving to the University of Pennsylvania, but spent most of his career at Harvard Business School (1926 - 1947), where he was professor of industrial research. Mayo is known as the founder of the Human Relations Movement, and is known for his research including the Hawthorne Studies, and his book *The Human Problems of an Industrialized Civilization* (1933). The research conducted under the Hawthorne Studies of the 1930s showed the importance of groups in affecting the behavior of individuals at work. However it was not Mayo who conducted the practical experiments but his employees Roethlisberger and Dickinson. This enabled him to make certain deductions about how managers should behave. He carried out a number of investigations to look at ways of improving productivity, for example changing lighting conditions in the workplace. What he found however was that work satisfaction depended to a large extent on the informal social pattern of the work group. Where norms of cooperation and higher output were established because of a feeling of importance, physical conditions or financial incentives had little motivational value. People will form work groups and this can be used by management to benefit the organization. He concluded that people's work performance is dependent on both social issues and job content. He suggested a tension between workers' 'logic of sentiment' and managers' 'logic of cost and efficiency' which could lead to conflict within organizations.

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

- Work is a group activity.
- The social world of the adult is primarily patterned about work activity.
- The need for recognition, security and sense of belonging is more important in determining workers' morale and productivity than the physical conditions under which he works.
- A complaint is not necessarily an objective recital of facts; it is commonly a symptom manifesting disturbance of an individual's status position.
- The worker is a person whose attitudes and effectiveness are conditioned by social demands from both inside and outside the work plant.
- Informal groups within the work plant exercise strong social controls over the work habits

and attitudes of the individual worker.

- The change from an established society in the home to an adaptive society in the work plant resulting from the use of new techniques tends continually to disrupt the social organization of a work plant and industry generally.
- Group collaboration does not occur by accident; it must be planned and developed.

3.4.3 Henri Fayol, (1841-1925)

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

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

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

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

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

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

1. Division of work: Division of work and specialization produces more and better work with the same effort.
2. Authority and responsibility: Authority is the right to give orders and the power to exact obedience. Authority creates responsibility.
3. Discipline: Good discipline requires managers to apply sanctions whenever violations become apparent.
4. Unity of command: An employee should receive orders from only one superior.
5. Unity of direction: Organizational activities must have one central authority and one plan of action.
6. Subordination of individual interest to general interest: The interests of one employee or group of employees are subordinate to the interests and goals of the organization.
7. Remuneration of personnel: Salaries to employees should be fair and provide satisfaction both to the employee and employer.
8. Centralization: The objective of centralization is the best utilization of personnel.
9. Scalar chain: A chain of authority exists from the highest organizational authority to the lowest ranks.
10. Order: The right materials and the right employees are necessary for each

organizational function and activity.

11. Equity: equity is a combination of kindness and justice. Both should be considered when dealing with employees.
12. Stability of tenure of personnel: To attain the maximum productivity of personnel, a stable work force is needed.
13. Initiative: Zeal, energy, and initiative are desired at all levels of the organizational ladder.
14. Esprit de corps: Teamwork is fundamentally important to an organization.

3.4.4 Peter Ferdinand Drucker (November 19, 1909 – November 11, 2005)

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

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

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

3.5 Summary

Over the years various theories of management have addressed various problems. Theories of management skills, management functions and organisation systems have been developed.

Further various management schools have evolved such as scientific management school, classical organization school, behavioral management school and management science school. Frederick Winslow Taylor, George Elton John Mayo, Henri Fayol, Peter Ferdinand drucker and others have contributed in furthering the development of management thoughts and theories. Taylor's scientific management of four principles, mayo human relations movement, fayol 14 principles for organisational design and effective administration and drucker's management have all enriched the process of management development.

3.6 Keywords

Behavioral

Trade Unions :An organized association of workers in a trade, group of trades, or profession, formed to protect and further their rights and interests.

Industry :Economic activity concerned with the processing of raw materials and manufacture of goods in factories.

Remuneration :Money paid for work or a service.

Administration :The process or activity of running a business, organization, etc.

Manager :A person responsible for controlling or administering an organization or group of staff.

Management :The responsibility for and control of a company or organization.

Organization : An organized group of people with a particular purpose, such as a business or government department.

3.7 Self assessment questions

1. Briefly explain the evolution of management thoughts along with the theories of management and the problems they address
2. Explain Taylor's Principles of management
3. Explain the findings of George Elton John Mayo regarding the connection between cooperation and higher output
4. What are the five functions of Fayol & Fayol's 14 principles of management

3.7 Further Readings

- Durai, P. (2015). Principles of Management, Text and Cases. New Delhi: Pearson Education
 - Robbins, S.P. & Decenzo, D. A. (2014). Fundamentals of Management: Essential Concepts and Applications. New Delhi: Pearson Education
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LESSON 4

LEVELS OF MANAGEMENT

Learning objectives

After studying the unit the students will be able to:

- Elaborate the management roles.
- Discuss the Levels of Management
- Elaborate the Types of Business Organization

Structure

4.1 Management Roles

4.2 Levels of Management

4.3 Types of Business Organization

4.4 Summary

4.5 Keywords

4.6 Self Assessment Questions

4.7 Further Readings

4.1 Management roles

Henry Mintzberg proposed an alternative approach to defining what management is about. Instead of describing in theory what managers should do, he studied what managers actually spend their time doing. This led him to describe management in terms of the different roles that managers undertake. The ten major roles that he identified are discussed below. **The roles of managers** 'Mintzberg shows a substantial difference between what managers do and what they are said to do. On the basis of work activity studies, he demonstrates that a manager's job is characterised by pace, interruptions, brevity, variety, and fragmentation of activities, and a preference for verbal contacts. Managers spend a considerable amount of time in scheduled meetings and in networks of contacts outside meetings.

The fragmentary nature of what managers do leads to the suggestion that they have to perform a wide variety of roles. Mintzberg suggests that there are ten managerial roles which can be grouped into three areas: interpersonal, informational and decisional. Interpersonal roles cover the relationships that a manager has to have with others. The three roles within this category are figurehead, leader and liaison. Managers have to act as figureheads because of their formal authority and symbolic position, representing their organisations. As leader, managers have to bring together the needs of an organisation and those of the individuals under their command. The third interpersonal role, that of liaison, deals with the horizontal relationships which work-activity studies have shown to be important for a manager. A manager has to maintain a network of relationships outside the organisation.

Managers have to collect, disseminate and transmit information and have three corresponding informational roles, namely monitor, disseminator and spokesperson. A manager is an important figure in monitoring what goes on in the organisation, receiving

information about both internal and external events and transmitting it to others. This process of transmission is the dissemination role, passing on information of both a factual and value kind. A manager often has to give information concerning the organisation to outsiders, taking on the role of spokesperson to both the general public and those in positions of influence.

As with so many writers about management, Mintzberg regards the most crucial part of managerial activity as that concerned with making decisions. The four roles that he places in this category are based on different classes of decision, namely, entrepreneurs, disturbance handler, resource allocator, and negotiator. As entrepreneurs, managers make decisions about changing what is happening in an organisation. They may have to both initiate change and take an active part in deciding exactly what is to be done. In principle, they are acting voluntarily. This is very different from their role as a disturbance handler, where managers have to make decisions which arise from events beyond their control and unpredicted. The ability to react to events as well as to plan activities is an important managerial skill in Mintzberg's eyes.

The resource allocation role of a manager is central to much organisational analysis. Clearly a manager has to make decisions about the allocation of money, people, equipment, time and so on. Mintzberg points out that in doing so a manager is actually scheduling time, programming work and authorising actions. The negotiation role is put in the decisional category by Mintzberg because it is 'resource trading in real time'. A manager has to negotiate with others and in the process be able to make decisions about the commitment of organisational resources.

For Mintzberg these ten roles provide a more adequate description of what managers do than any of the various schools of management thought. In these roles it is information that is crucial: the manager is determining the priority of information. Through the interpersonal roles a manager acquires information, and through the decisional roles it is put into use. The scope for each manager to choose a different blend of roles means that management is not reducible to a set of scientific statements and programmes. Management is essentially an art and it is necessary for managers to try and learn continuously about their own situations. Self-study is vital. At the moment there is no solid basis for teaching a theory of managing. According to Mintzberg, "the management school has been more effective at training technocrats to deal with structured problems than managers to deal with unstructured ones."

4.2 Levels of management

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

- Top level / Administrative level
- Middle level / Executory
- Low level / Supervisory / Operative / First-line managers

Managers at all these levels perform different functions. The role of managers at all the three levels is discussed below:



Levels of management

1. Top Level of Management

It consists of board of directors, chief executive or managing director. The top management is the ultimate source of authority and it manages goals and policies for an enterprise. It devotes more time on planning and coordinating functions.

The role of the top management can be summarized as follows -

- Top management lays down the objectives and broad policies of the enterprise.
- It issues necessary instructions for preparation of department budgets, procedures, schedules etc.
- It prepares strategic plans & policies for the enterprise.
- It appoints the executive for middle level i.e. departmental managers.
- It controls & coordinates the activities of all the departments.
- It is also responsible for maintaining a contact with the outside world.
- It provides guidance and direction.
- The top management is also responsible towards the shareholders for the performance of the enterprise.

2. Middle level of management

The branch managers and departmental managers constitute middle level. They are responsible to the top management for the functioning of their department. They devote more time to organizational and directional functions. In small organization, there is only one layer of middle level of management but in big enterprises, there may be senior and junior middle level management. Their role can be emphasized as -

- They execute the plans of the organization in accordance with the policies and directives of the top management.
- They make plans for the sub-units of the organization.
- They participate in employment & training of lower level management.
- They interpret and explain policies from top level management to lower level.
- They are responsible for coordinating the activities within the division or department.

- f) It also sends important reports and other important data to top level management.
- g) They evaluate performance of junior managers.
- h) They are also responsible for inspiring lower level managers towards better performance.

3. Lower level of management

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

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

4.3 Types of business organization

It is important that the business owner seriously considers the different forms of business organization—types such as sole proprietorship, partnership, and corporation. Which organizational form is most appropriate can be influenced by tax issues, legal issues, financial concerns, and personal concerns. For the purpose of this overview, basic information is presented to establish a general impression of the business organization.

Sole Proprietorship

A Sole Proprietorship consists of one individual doing business. Sole Proprietorships are the most numerous form of business organization in the United States, however, they account for little in the way of aggregate business receipts.

Partnership

A Partnership consists of two or more individuals in business together. Partnerships may be as small as mom and pop type operations, or as large as some of the big legal or accounting firms that may have dozens of partners. There are different types of partnerships—general partnership, limited partnership, and limited liability partnership—the basic differences stemming around the degree of personal liability and management control.

Corporation

Corporations are probably the dominant form of business organization in the United States. Although fewer in number, corporations account for the lion's share of aggregate business

receipts in the U.S. economy. A corporation is a legal entity doing business, and is distinct from the individuals within the entity. Public corporations are owned by shareholders who elect a board of directors to oversee primary responsibilities. Along with standard, for-profit corporations, there are charitable, not-for-profit corporations.

4.4 Summary

Henry Mintzberg proposed an alternative approach to defining what management is about. Instead of describing in theory what managers should do, he studied what managers actually spend their time doing.

The term “Levels of Management” refers to a line of demarcation between various managerial positions in an organization. The number of levels in management increases when the size of the business and work force increases and vice versa.

4.5 Keywords

- Management :The responsibility for and control of a company or organization.
Organization : An organized group of people with a particular purpose, such as a business or government department.
Leadership : The action of leading a group of people or an organization.
Team Building :The action or process of causing a group of people to work together effectively as a team, especially by means of activities and events designed to increase motivation and promote cooperation.

4.6 Self Assessment Questions

1. Explain the management roles?
2. Elaborate the levels of management ?
3. Briefly explain Types of Business organization?

4.7 Further Readings

- Durai, P. (2015). Principles of Management, Text and Cases. New Delhi: Pearson Education
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Dr. B. Nagaraju

UNIT - II

LESSON -5 IMPORTANCE OF PLANNING

LEARNING OBJECTIVES:

After studying this lesson, the students are able to understand.

- ✓ Understand what is planning.
- ✓ Know the components of planning.
- ✓ Discuss the importance of planning.
- ✓ Detailed explanation on advantages and disadvantages of planning.
- ✓ Know the purpose of planning.
- ✓ Understand basic topics of planning.
- ✓ Attain knowledge regarding objectives of planning

STRUCTURE

- 5.1 Meaning and definition**
- 5.2 Components of planning**
- 5.3 Planning topics**
 - 5.3.1 Psychological aspects**
 - 5.3.2 Neuropsychological tests**
- 5.4 Nature of planning**
- 5.5 Advantages and limitations of planning**
 - 5.5.1 Advantages of planning**
 - 5.5.2 Limitations of planning**
- 5.6 Objectives of planning**
- 5.7 Importance of planning**
- 5.8 Summary**
- 5.9 Key Words**
- 5.10 Self-Assessment questions**
- 5.10 Further Readings**

5.1 INTRODUCTION:

Planning is the process of thinking about the activities required to achieve a desired goal. It is the first and foremost activity to achieve desired results. It involves the creation and maintenance of a plan, such as psychological aspects that require conceptual skills. There are even a couple of tests to measure someone's capability of planning well. As such, planning is a fundamental property of intelligent behaviour. An important further meaning, often just called "planning" is the legal context of permitted building developments.

Also, planning has a specific process and is necessary for multiple occupations (particularly in fields such as management, business, etc.). In each field there are different types of plans that help companies achieve efficiency and effectiveness. An important, albeit often ignored aspect of planning, is the relationship it holds to forecasting. Forecasting can be described as predicting what the future will look like, whereas planning predicts what the future should look like for multiple scenarios. Planning combines forecasting with preparation of scenarios and how to react to them.

Planning is one of the most important project management and time management techniques. Planning is preparing a sequence of action steps to achieve some specific goal. If a person does it effectively, they can reduce much the necessary time and effort of achieving the goal. A plan is like a map. When following a plan, a person can see how much they have progressed towards their project goal and how far they are from their destination.

Planning is very important for successfulness and the effective performance of an organisation not only for organisations but also for individuals. It is the most basic of all the managerial functions. It involves selecting missions and objectives and the actions to achieve them. Therefore every organisation gives a greater emphasis on planning.

Planning as a process involves the determination of future course of action, that is why an action, what action, how to take action, and when to take action. These are related with different aspects of planning process.

Thus, Terry has defined planning in terms of future course of action i.e., “planning is the selection and relating of facts and making and using of assumptions regarding the future in the visualisation and formalisation of proposed activities believed necessary to achieve desired result.”

Organizations have to typically plan for long-range and short-range future direction. By forecasting and predicting the market and socio-political-economic trends, managers can plan to determine where they desire the company to be in future. Planning involves determining various types and volumes of physical and other resources to be acquired from outside, allocating these resources in an efficient manner among competing claims and to make arrangement for systematic conversion of these resources into useful outputs.

Since plans are made to attain goals or objectives, every plan should lead to the achievement of the organization's purpose and objectives. An organized enterprise exists to accomplish group objectives through willing and purposeful co-operation. Planning bridges the gap between where the organization stands currently and wishes to be in future. In the absence of planning, events are left to chance. Planning is the most basic of all managerial functions. It is the process by which managers establish goals and define the methods by which these goals are to be attained.

Planning involves selecting missions and objectives and the actions to achieve them; it requires decision making, which is choosing from among alternative future courses of action –Weinrich and Koontz.

Planning is thus taken as the foundation for future activities. Newman has thus defined it as, “Planning is deciding in advance what is to be done; that is a plan is a projected course of action.” So, planning can be thought of as deciding on a future course of action. It may also

be treated as a process of thinking before doing. Management has to plan for long-range and short-range future direction by looking ahead into the future, by estimating and evaluating the future behaviour of the relevant environment and by determining the enterprise's own desired role.

Planning involves determining various types and volumes of physical and other resources to be acquired from outside, to allocate these resources in an efficient manner among competing claims and to make arrangement for systematic conversion of these resources into useful outputs.

DEFINITIONS OF PLANNING:

McFarland has defined Planning as “a concept of executive action that embodies the skills of anticipating, influencing and controlling the nature and direction of change.”

Peter Drucker defined as “planning is the continuous process of making present entrepreneurial decisions systematically and with best possible knowledge their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of these decisions against the expectation through organised systematic feedback.”

In the words of Koontz and O'Donnell, “planning is deciding in advance what to do, how to do it, when to do it, and who is to do it. Planning bridges the gap from where we are to here, we want to go.”

According to **Theo Heiman**, “planning is the function that determines in advance what should be done. It consists of selecting the enterprise objectives policies, programmes, procedures and other means of achieving these objectives.”

5.2 COMPONENTS OF PLANNING/PLANNING TECHNIQUES:

Planning consists of several individual plans or components of planning, which are usually bound together.

- (i) Forecasting.
- (ii) Objectives.
- (iii) Policies.
- (iv) Programmes.
- (v) Strategies.
- (vi) Schedules.
- (vii) Procedures.
- (viii) Rules, and
- (ix) Budgets.

5.2.1 Forecasting:

Forecasting becomes an integral part of the planning process. It is a prediction of future events and conditions. It, therefore, includes both the assessment of the future and the provision for it. It helps to reduce the uncertainties that surround management, decision making.

5.2.2 Objectives:

Objectives are the ends toward which activity is aimed— they are the results to be achieved. They represent not only the end point of planning but also the end toward which organising, staffing, leading and controlling are aimed. Organisation can grow without any

difficulty if it has well-defined objectives. These objectives should be clearly defined and communicated throughout the organisation. Such objectives must be realistic.

5.2.3 Policies:

Koontz and O'Donnell define “policies are general statements or undertakings which guide or channel thinking in decision-making of subordinates.” So, policies act as guides to thinking and action of subordinates in the organisations. It should be clearly prescribed and understandable by all.

5.2.4 Programmes:

It refers to the course of action of work to be carried out in proper sequence for the purpose of achieving specific objectives.

5.2.5 Strategies:

Koontz and Heinz Weinrich defined strategies as “a general programme of action and deployment of resources to attain comprehensive objectives” or the determination of the basic long-term objectives of an enterprise “and the adoption of courses of action and allocation of resources necessary to achieve these goals. It is specific type of plan for achieving organisational goals.

5.2.6 Schedules:

Fixing a time sequence for every operation is known as schedules. Normally it forms part of programming a part of action plan.

5.2.7 Procedures:

Procedures are plans that establish a required method of handling future activities. They are guides to action, rather than to thinking and they detail the exact manner in which certain activities must be accomplished. They are chronological sequences of required actions.

5.2.8 Rules:

Rules spell out specific required actions or non-actions, following no direction. They are usually the simplest type of plan.

5.2.9 Budgets:

A budget is a statement of expected results expressed in numerical term. It may be referred to as a numberised programme. A budget may be expressed either in financial terms or in terms of labour-hours, units of product, machine hours, or any other numerically measurable term. It helps the organisation to control the action by comparing budgetary and actual results.

5.2 PLANNING TOPICS

5.3.1 Psychological aspects

Planning is one of the executive functions of the brain, encompassing the neurological processes involved in the formulation, evaluation and selection of a sequence of thoughts and actions to achieve a desired goal. Various studies utilizing a combination of neuropsychological, neuro pharmacological and functional neuro imaging approaches have suggested there is a positive relationship between impaired planning ability and damage to the frontal lobe. A specific area within the mid-dorsolateral

frontal cortex located in the frontal lobe has been implicated as playing an intrinsic role in both cognitive planning and associated executive traits such as working memory.

Disruption of the neural pathways, via various mechanisms such as traumatic brain injury, or the effects of neurodegenerative diseases between this area of the frontal cortex and the basal ganglia specifically the striatum (cortico-striatal pathway), may disrupt the processes required for normal planning function. Individuals who were born Very Low Birth Weight (<1500 grams) and Extremely Low Birthweight (ELBW) are at greater risk for various cognitive deficits including planning ability.

5.3.2 Neuropsychological tests

There are a variety of neuropsychological tests which can be used to measure variance of planning ability between the subject and controls.

- Tower of Hanoi (TOH-R), a puzzle invented in 1883 by the French mathematician Édouard Lucas. There are different variations of the puzzle, the classic version consists of three rods and usually seven to nine discs of subsequently smaller size. Planning is a key component of the problem-solving skills necessary to achieve the objective, which is to move the entire stack to another rod, obeying the following rules:
 - Only one disk may be moved at a time.
 - Each move consists of taking the upper disk from one of the rods and sliding it onto another rod, on top of the other disks that may already be present on that rod.
 - No disk may be placed on top of a smaller disk
- Tower of London (TOL) is another test that was developed in 1992 (Shallice 1992) specifically to detect deficits in planning as may occur with damage to the frontal lobe. Test participants with damage to the left anterior frontal lobe demonstrated planning deficits (i.e., greater number of moves required for solution).

In test participants with damage to the right anterior, and left or right posterior areas of the frontal lobes showed no impairment. The results implicating the left anterior frontal lobes involvement in solving the TOL were supported in concomitant neuro imaging studies which also showed a reduction in regional cerebral blood flow to the left pre-frontal lobe. For the number of moves, a significant negative correlation was observed for the left prefrontal area: i.e. subjects that took more time planning their moves showed greater activation in the left prefrontal area.

Planning in public policy

Public policy planning includes environmental, land use, regional, urban and spatial planning. In many countries, the operation of a town and country planning system is often referred to as "planning" and the professionals which operate the system are known as "planners".

It is a conscious as well as sub-conscious activity. It is "an anticipatory decision-making process" that helps in coping with complexities. It is deciding future course of action from amongst alternatives. It is a process that involves making and evaluating each set of interrelated decisions. It is selection of missions, objectives and "translation of knowledge into action." A planned performance brings better results compared to an unplanned one. A manager's job is planning, monitoring and controlling. Planning and goal setting are important traits of an organization. It is done at all levels of the organization. Planning

includes the plan, the thought process, action, and implementation. Planning gives more power over the future. Planning is deciding in advance what to do, how to do it, when to do it, and who should do it. This bridges the gap from where the organization is to where it wants to be. The planning function involves establishing goals and arranging them in logical order. A well-planned organization achieves faster goals than the ones that don't plan before implementation.

5.4 NATURE OF PLANNING:

The following are the essential characteristics of planning which describe the nature of planning:

5.4.1 Planning is primary function of management:

The functions of management are broadly classified as planning, organisation, direction and control. It is thus the first function of management at all levels. Since planning is involved at all managerial functions, it is rightly called as an essence of management.

5.4.2 Planning focuses on objectives:

Planning is a process to determine the objectives or goals of an enterprise. It lays down the means to achieve these objectives. The purpose of every plan is to contribute in the achievement of objectives of an enterprise.

5.4.3 Planning is a function of all managers:

Every manager must plan. A manager at a higher level has to devote more time to planning as compared to persons at the lower level. So the President or Managing director in a company devotes more time to planning than the supervisor.

5.4.4 Planning as an intellectual process:

Planning is a mental work basically concerned with thinking before doing. It is an intellectual process and involves creative thinking and imagination. Wherever planning is done, all activities are orderly undertaken as per plans rather than on the basis of guess work. Planning lays down a course of action to be followed on the basis of facts and considered estimates, keeping in view the objectives, goals and purpose of an enterprise.

5.4.5 Planning as a continuous process:

Planning is a continuous and permanent process and has no end. A manager makes new plans and also modifies the old plans in the light of information received from the persons who are concerned with the execution of plans. It is a never-ending process.

5.4.6 Planning is dynamic (flexible):

Planning is a dynamic function in the sense that the changes and modifications are continuously done in the planned course of action on account of changes in business environment. As factors affecting the business are not within the control of management, necessary changes are made as and when they take place. If modifications cannot be included in plans it is said to be bad planning.

5.4.7 Planning secures efficiency, economy and accuracy:

A pre-requisite of planning is that it should lead to the attainment of objectives at the least cost. It should also help in the optimum utilisation of available human and physical resources by securing efficiency, economy and accuracy in the business enterprises. Planning is also economical because it brings down the cost to the minimum.

5.4.8 Planning involves forecasting:

Planning largely depends upon accurate business forecasting. The scientific techniques of forecasting help in projecting the present trends into future. 'It is a kind of future picture wherein proximate events are outlined with some distinctness while remote events appear progressively less distinct.'

5.4.9 Planning and linking factors:

A plan should be formulated in the light of limiting factors which may be any one of five M's viz., men, money, machines, materials and management.

5.4.10 Planning is realistic:

A plan always outlines the results to be attained and as such it is realistic in nature.

5.5 ADVANTAGES AND DISADVANTAGES OF PLANNING:**5.5.1 Advantages of Planning:****A. Primacy of Planning:**

Even though there are other managerial functions such as organising, staffing, directing and controlling which helps to achieve the organisational goals, planning precedes all other managerial functions. It establishes objectives necessary for all group effort.

B. Helping to Management:

Since the planning is a future course of action, managers are able to define their objectives and get direction. Also it creates a unity of purpose.

C. Effective Utilisation of Resources:

Proper planning helps to proper and effective utilisation of resources. Resources are identified for optimum utility through planning. So waste or minimum waste of resources will not result and thereby idle time for workers and downtime for machines will be reduced. This will lead to result in minimum cost of operations.

D. Minimum Cost:

Planning helps to minimise cost by providing greater utilisation of the available resources. All kinds of wastage of men, materials, money and machines are prevented with the help of planning.

E. To help in Motivation:

All employees of the organisation can feel that we have taken this plan, if the plans are communicated to them. In this case the sense of belonging of employees increases and therefore they will be highly motivated.

F. To Offset Uncertainty and Change:

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

G. Help in Coordination:

Proper planning is made by unifying all areas on departments of the organisation. It will lead to coordinate and harmony among the departments is achieved.

H. Facilities Control:

Planning provides performance standards and standards for measuring the progress of the organisations. Therefore, management can compare the actual performance with the standards. Manager can control action by looking at different if any deviation.

I. Facilitates Decision-making:

Planning provides a framework for decision-making. Since the planning provides for feedback, periodic evaluation, and indication for any deviation, corrective action can be taken which leads to better decision-making.

J. Encourage Innovation and Creativity:

It brings about rationality in managerial approach and improvement in executive thinking. D. F. Hussey said that, "A good planning process will provide avenues for individual participation will throw up more ideas about the company and its environment, will encourage an atmosphere of frankness and corporate self-criticism and will stimulate managers to achieve more."

K. Improves Competitive Strength:

Since the operations are planned in advance, company can take its action concretely. It improves the competitive strength of the organisation.

5.5.2 Disadvantages of Planning:**A. Corporate Planning is not Integrated into the Total Management System:**

The top management fails to identify and associate properly the formal planning with the central concept of the organisation's mission.

B. There is a Lack of Understanding of the Different Steps of the Planning Process:

The management may not be knowledgeable or skilled in understanding all steps of the planning requirements.

C. Non-Availability of Correct Information and Data:

Planning is made by having information and data available. Generally correct information and data not available.

D. Management at Different Levels in the Organisation has not Properly Contributed to Planning Activities:

Generally, all strategic planning are made and conducted at top management. So sometimes middle level and lower level of management, which are closer to the operation, may not understand all aspects of planning. This will affect their fullest contribution.

E. Costly or Uneconomical:

Planning is expensive. The cost of planning should not be in excess of its contribution and managerial judgement is necessary to balance the expenses of preparing the plans against the benefits derived from them.

5.6 IMPORTANCE OF PLANNING:**5.6.1 Planning Provides Direction:**

Planning is concerned with predetermined course of action. It provides the directions to the efforts of employees. Planning makes clear what employees have to do, how to do, etc. By stating in advance how work has to be done, planning provides direction for action. Employees know in advance in which direction they have to work. This leads to Unity of Direction also. If there were no planning, employees would be working in different directions and organisation would not be able to achieve its desired goal.

5.6.2 Planning Reduces the risk of uncertainties:

Organisations have to face many uncertainties and unexpected situations every day. Planning helps the manager to face the uncertainty because planners try to foresee the future

by making some assumptions regarding future keeping in mind their past experiences and scanning of business environments. The plans are made to overcome such uncertainties. The plans also include unexpected risks such as fire or some other calamities in the organisation. The resources are kept aside in the plan to meet such uncertainties.

5.6.3 Planning reduces over lapping and wasteful activities:

The organisational plans are made keeping in mind the requirements of all the departments. The departmental plans are derived from main organisational plan. As a result there will be co-ordination in different departments. On the other hand, if the managers, non-managers and all the employees are following course of action according to plan then there will be integration in the activities. Plans ensure clarity of thoughts and action and work can be carried out smoothly.

5.6.4 Planning Promotes innovative ideas:

Planning requires high thinking and it is an intellectual process. So, there is a great scope of finding better ideas, better methods and procedures to perform a particular job. Planning process forces managers to think differently and assume the future conditions. So, it makes the managers innovative and creative.

5.6.5 Planning Facilitates Decision Making:

Planning helps the managers to take various decisions. As in planning goals are set in advance and predictions are made for future. These predictions and goals help the manager to take fast decisions.

5.6.6 Planning establishes standard for controlling:

Controlling means comparison between planned and actual output and if there is variation between both then find out the reasons for such deviations and taking measures to match the actual output with the planned. But in case there is no planned output then controlling manager will have no base to compare whether the actual output is adequate or not.

For example, if the planned output for a week is 100 units and actual output produced by employee is 80 units then the controlling manager must take measures to bring the 80 unit production upto 100 units but if the planned output, i.e., 100 units is not given by the planners then finding out whether 80 unit production is sufficient or not will be difficult to know. So, the base for comparison in controlling is given by planning function only.

5.6.7 Focuses attention on objectives of the company:

Planning function begins with the setting up of the objectives, policies, procedures, methods and rules, etc. which are made in planning to achieve these objectives only. When employees follow the plan they are leading towards the achievement of objectives. Through planning, efforts of all the employees are directed towards the achievement of organisational goals and objectives.

5.7 OBJECTIVES OF PLANNING

Economic planning is often regarded as technique of managing an economy. When the structure of an economy becomes complex and subject to rapid change and transformation (due to population growth, discovery of resources, industrialisation, etc.) some sort of advance thinking becomes necessary to resolve that complexity and to prepare the economy for those changes. Such preparation is called planning.

Most often than not an economic plan is regarded as a programme of action. It may also be taken to mean an instrument for regulating a free private enterprise economy. The regulatory measures may vary from country to country. They may leave either too much or too little a degree of freedom to private enterprise. This may hamper the working out of the plan. Many plans leave their programmes incomplete because they hesitate to exercise their regulatory functions. They are little more than a list of public development projects.

Many other plans perform their regulatory functions with such seriousness and severity that their programmes of action are completely jeopardised. In such planned economies any sort of enterprise ceases to exist. The correct plan is one in which a comprehensive and consistent programme of action is sought to be implemented by carefully harnessing enterprise for the success of the plan. It should be noted that a plan is just a programme of action, it is not a guarantee for action. In short, a good plan is one which makes adequate provisions for and ensures that its targets are properly fulfilled. The objectives of planning are many and varied. These aims are not the same for all countries, nor are the same for the same country at all times.

Some major objectives of economic planning are:

- (a) An improvement in the standard of living of the people through a sizable increase in national income within a short period of time;
- (b) A large expansion of employment opportunities for the removal of unemployment and for creating jobs and incomes;
- (c) A reduction in all types of social, economic and regional inequalities;
- (d) An efficient utilisation of the country's resources for faster growth;
- (e) Removal of mass poverty within a definite time limit through land reform, employment creation, and provision of educational and medical facilities;
- (f) Attainment of self-reliance by reducing dependence on foreign capital and foreign aid.

In the language of Gunnar Myrdal, "A main element of every national development plan is a decision to increase the total amount of investment, aimed at raising the productive powers of the country, and to procure the capital formation necessary for this purpose."

The usefulness can be gauged only by examining the extent to which it succeeds in removing the ills of unregulated free enterprise, while simultaneously realising the above goals. In underdeveloped countries like India an economic plan is to be looked at not as a substitute for private enterprise. Rather it is to be taken as the only instrument through which enterprise can spread to non-traditional forms of economic activity. In countries like India the most important objective of an economic plan is to bring into being new forms of production by accelerating capital formation. This will surely raise the overall productivity of the economy and thus raise people's income by providing them adequate employment opportunities, and thus remove the problems of mass poverty.

5.8 SUMMARY:

Planning is the most basic of all managerial functions which involves establishing goals, setting out objectives and defining the methods by which these goals and objectives are to be attained. ... Planning involves selecting missions and objectives and the actions to achieve them.

5.9 Key Words

Planning is the process of thinking regarding the activities required to achieve a desired goal. Planning is based on foresight, the fundamental capacity for mental time travel. The evolution of forethought, the capacity to think ahead, is considered to have been a prime mover in human evolution

Goal is an idea of the future or desired result that a person or a group of people envision, plan and commit to achieve.

5.10 SELF ASSESSMENT QUESTIONS

1. Explain the meaning and definition of planning.
2. What are the components of planning?
3. What are the different aspects regarding planning?
4. Explain the nature of the planning
5. What are the advantages and disadvantages of planning?
6. Describe objectives of planning
7. Explain importance of planning.

5.11 FURTHER READINGS

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Dr. V. Tulasi Das

LESSON –6

PLANNING PROCESS AND FORECASTIN

LEARNING OBJECTIVES: After studying this lesson, the students are able to understand.

- ✓ Understand planning process.
- ✓ Know the Steps in planning process.
- ✓ Understand the forecasting.
- ✓ Know the steps in forecasting process.
- ✓ Attain the knowledge regarding planning process and forecasting process.

STRUCTURE

- 6.1 **Purpose of planning**
- 6.2 **Types of planning**
- 6.3 **Planning process**
- 6.4 **Forecasting**
- 6.5 **Steps in forecasting**
- 6.6 **Methods of forecasting:**
- 6.7 **Difference between Planning and Forecasting**
- 6.8 **Summary**
- 6.9 **Key Words**
- 6.10 **Self-assessment questions**
- 6.11 **Further readings.**

6.1 PURPOSE OF PLANNING IN AN ORGANIZATION

The following are some of the important purposes of planning in an organization.

6.1.1 Facilitates Accomplishment of Objectives:

The aim of planning is to facilitate the attainment of objectives. It focuses its attention on the objectives of the organization. It states the objectives of each department in the organization and of the enterprise as a whole. This helps personnel to see the enterprise in its entirety and see how their actions contribute to its ultimate goals. Planning forces the managers to consider the future and revise its plans if necessary for achieving the objectives.

6.1.2. Ensures Economy in Operations:

Since planning emphasizes efficient operation and consistency, it minimizes costs and gains economical operation. Coordinated group effort, even flow of work and deliberate decisions are due to planning.

6.1.3 Precedes Control:

Control involves those activities which are carried out to force events to conform to plans. Plans serves as standards of performance. Control seeks to compare actual performance with set standards. So control cannot be exercised without plans.

6.1.4. Provides for Future Contingency:

Planning is required because future is uncertain. Planning enables the management to look into the future and discover suitable alternative course of action. Planning helps the management to have a clear-cut idea about the future and to frame a suitable programme for action. Even when the future is highly certain, planning is essential to decide the best course of action.

6.1.5. Facilitates Optimum Utilization of Resources: Various resources that are relevant to an organization namely, funds, physical resources, manpower, technological know-how, etc., are by and large inadequate due to demand from competing organizations and have alternative uses. This necessitates the organization to make the best possible use of resources. Planning facilitates optimum use of available resources.

6.1.6. Pr-requisites for other Managerial Functions:

The purposes of planning are to provide a conceptual and concrete basis for initiating and undertaking other managerial functions like staffing, organizing, directing and control. Planning is a primary function and it goes a long way to improve efficiency of other functions of management and makes the management tasks more effective.

6.1.7. All Pervasive Function:

Planning is a function of managers at all levels though the scope, nature and extent of planning differs from one enterprise to another and from one level to another. Irrespective of the level and area of his operation, each and every manager has to perform this function. Planning at the top level will be fundamental, broad and far-reaching. Managers at other levels may plan about their departmental activities for a short period.

In this connection, **Theo Haimann** says that “the scope, extent and importance of the nature of planning tend to decrease as we descend toward the lower levels of management and approach the point of execution of the plan”.

6.1.8 Coordinates the Activities: Coordination is an important factor for the smooth functioning of an organization. As pointed out by H.G. Hicks, “planning coordinates the activities of the organization toward defined and agreed upon objectives. The alternative is random behaviour”.

If planning is absent, various divisions of the organization may pursue different objectives.

6.1.9 Provides for the Delegation of Authority: Planning provides for the delegation of authority to subordinates. Well-formulated plans serve as guides to subordinates and reduce risk involved in delegation of authority.

6.2 TYPES OF PLANNING:

The process of planning may be classified into different categories on the following basis:

6.2.1 Nature of Planning:

- a. Formal planning.
- b. Informal planning.

6.2.2 Duration of planning:

- a. Short term planning.
- b. Long term planning.

6.2.3 Levels of Planning:

- a. Strategic planning.
- b. Intermediate planning.
- c. Operational planning.

6.2.4 Use:

- a. Standing plans
- b. Single-use plans.

6.2.1 NATURE OF PLANNING:**a. Formal Planning:**

Planning is formal when it is reduced to writing. When the numbers of actions are large it is good to have a formal plan since it will help adequate control. The term formal means official and recognised. Any planning can be done officially to be followed or implemented. Formal planning aims to determine the objectives of planning. It is the action that determines in advance what should be done.

Advantages:

1. Proper Cooperation among employees,
2. Unity of Action,
3. Economy,
4. Proper coordination and control,
5. Choosing the right objectives, and
6. Future plan.

b. Informal Planning:

An informal plan is one, which is not in writing, but it is conceived in the mind of the manager. Informal planning will be effective when the number of actions is less and actions have to be taken in short period.

6.2.2 DURATION OF PLANNING:**a. Short term Planning:**

Short term planning is the planning which covers less than two years. It must be formulated in a manner consistent with long-term plans. It is considered as tactical planning. Short-term plans are concerned with immediate future; it takes into account the available resources only and is concerned with the current operations of the business.

These may include plans concerning inventory planning and control, employee training, work methods etc.

Advantages:

1. It can be easily adjustable.
2. Changes can be made and incorporated.
3. Easy to Gauge.
4. Only little resources required.

Disadvantages:

1. Very short period-left over things will be more.
2. Difficult to mobilise the resources.
3. Communication cycle will not be completed.

b. Long-Term Planning:

Long-term planning usually covers a period of more than five years, mostly between five and fifteen years. It deals with broader technological and competitive aspects of the organisation as well as allocation of resources over a relatively long time period. Long-term planning is considered as strategic planning.

Short-term planning covers the period of one year while long term planning covers 5-15 years. In between there may be medium-term plans. Usually, medium term plans are focusing on between two and five years. These may include plan for purchase of materials, production, labour, overhead expenses and so on.

Advantages:

1. Sufficient time to plan and implement.
2. Effective control.
3. Adjustment and changes may be made gradually.
4. Periodic evaluation is possible.
5. Thrust areas can be identified easily.
6. Weakness can be spotted and rectified then and there.

Disadvantages:

1. Prediction is difficult.
2. Full of uncertainties.
3. Objectives and Targets may not be achieved in full.
4. More resources required.

6.2.3 LEVELS OF PLANNING:

a. Strategic Planning:

The strategic planning is the process of determining overall objectives of the organisation and the policies and strategies adopted to achieve those objectives. It is conducted by the top management, which include chief executive officer, president, vice-presidents, General Manager etc. It is a long range planning and may cover a time period of up to 10 years. It basically deals with the total assessment of the organisation's capabilities, its strengths and its weaknesses and an objective evaluation of the dynamic environment. The planning also determines the direction the company will be taking in achieving these goals.

b. Intermediate Planning:

Intermediate planning cover time frames of about 6 months to 2 years and is contemplated by middle management, which includes functional managers, department heads and product line managers. They also have the task of polishing the top management's strategic plans. The middle management will have a critical look at the resources available and they will determine the most effective and efficient mix of human, financial and material factors. They refine the broad strategic plans into more workable and realistic plans.

c. Operational Planning:

Operational planning deals with only current activities. It keeps the business running. These plans are the responsibility of the lower management and are conducted by unit supervisors, foremen etc. These are short-range plans covering a time span from one week to one year. These are more specific and they determine how a specific job is to be completed in the best possible way. Most operational plans are divided into functional areas such as production, finance, marketing, personnel etc. Thus even though planning at all levels is important, since all levels are integrated into one, the strategic planning requires closer observation since it establishes the direction of the organisation.

6.2.4 Use:

a. Standing Plan:

Standing plan is one, which is designed to be used over and over again. Objectives, policies, procedures, methods, rules and strategies are included in standing plans. Its nature is

mechanical. It helps executives to reduce their workload. Standing plan is also called routine plan. Standing or routine plan is generally long range.

b. Single Use Plan:

Single use plan is one, which sets a course of action for a particular set of circumstances and is used up once the particular goal is achieved. They may include programme, budgets, projects and schedules. It is also called specific planning. Single use plan is short range. Effective planning is the foundation of any successful business. Planning revolves around organizing priorities and resources and it relates to productivity. Since productivity levels directly affect the success of any organization it's vital that businesses are creating plans that work. When there are issues with leadership there are often flaws in the company's plan. When a company improves how they plan they can expect all other aspects of the business to improve as well.

We already know what planning is, it is the deciding of what is to be done in advance. It is the groundwork for all future plans of the organization. Planning bridges the gap between where the organization currently finds itself and where it wishes to be. So in essence business planning comprises of setting objectives for the organization and developing a plan of action to achieve these objectives. Once the objectives are set, the managers and workers can have a clear vision of what to work towards. Managers are a very important part of the function of business planning. Planning requires innovation, creativity and multi-tasking from the managers. And planning is a function that managers of all levels must perform, i.e upper, middle and lower management.

The first step to improving a business plan is to make sure that specific issues are being dealt with directly within the plan. This means that there is a clear vision of what a successful execution will look like. Set goals and establish markers so that progress can be measured and necessary changes can be made accordingly to stay on track. Everyone involved should have a clear understanding of what the goals are before the plan is ever put in motion.

Example:

On the basis of historical data of revenue:

So, here forecast of Rs. 1, 60,000 is based on the past performance of the company which is just an estimate. But, planning of

Rs. 2, 00,000 is based on forecast and desire.

6.3 PLANNING PROCESS:

Planning is the process of thinking about the future course of action which is required to achieve a specific goal. It explains about what course of action is required to be taken, when is the right time, by whom and where. Also, it explains the best scenario, the worst scenario, and the most expected case etc.

The planning function of management is one of the most crucial ones. It involves setting the goals of the company and then managing the resources to achieve such goals. As you can imagine it is a systematic process involving eight well thought out steps. Let us take a look at the planning process. The planning process is concerned with defining a company's goals and determining the resources necessary to achieve those goals. Achieving a vision requires coordinated efforts that adhere to a broader organizational plan. This is enabled through consistent strategies that are supported by staff at all levels. To meet business goals, managers develop business plans not only to reach targets but also to strengthen and change public perception of the company's brand.

Since they have achieved defined goals through the planning process, managers and employees can focus and control their efforts and their resources, follow determined plans of action, coordinate activities between divisions, and use time management to meet specific goals. Planning helps to achieve these goals or targets by efficiently and effectively using available time and resources. In short, planning, if executed properly, should lead to the following benefits:

6.3.1 Focus

There are a wide variety of activities an organization (or the individuals within the organization) might viably pursue. While there is value in the pursuit of many activities, understanding which ones the organization should focus on to leverage organizational competencies and align with market research requires careful planning and delegation. This is how planning achieves focus.

6.3.2 Coordinated Action

If department A is reliant on inputs from department B, department A cannot utilize department B's work without coordination. If department B has too much work and department A too little, there is poor interdepartmental coordination. This is alleviated through detail-oriented planning processes.

6.3.3 Control

The control process is based on benchmarks, which is to say that controlling requires a standard of comparison when viewing the actual operational results. Control relies on the planning process to set viable objectives, which can then be worked towards through controlling operations.

6.3.4 Time Management

Time management underlines the importance of maximizing the use of time to minimize the cost of production. If a full-time employee can accomplish their work within 32 hours, the planning process can find meaningful use for their remaining time. Costs can be lowered and productivity increased by ensuring that each element in the operational process functions according to ideal time constraints.

6.3.5 The Process Itself

Perhaps the most important benefit of developing business and marketing plans is the nature of the planning process itself. This typically offers a unique opportunity, a forum, for information-rich and productively focused discussions between the various managers involved. The plan and the discussions that arise from it provide an agreed context for subsequent management activities, even those not described in the plan itself.

STEPS IN PLANNING:**A. PERCEPTION OF OPPORTUNITIES**

An important part of the planning process is to be aware of the business opportunities in the firm's external environment as well as within the firm. Once such opportunities get recognized the managers can recognize the actions that need to be taken to realize them. A realistic look must be taken at the prospect of these new opportunities and SWOT analysis should be done. Say for example the government plans on promoting cottage industries in semi-urban areas. A firm can look to explore this opportunity.

B. ESTABLISHING OBJECTIVES

This is the second and perhaps the most important step of the planning process. Here we establish the objectives for the whole organization and also individual departments. Organizational objectives provide a general direction, objectives of departments will be more planned and detailed.

Objectives can be long term and short term as well. They indicate the end result the company wishes to achieve. So objectives will percolate down from the managers and will also guide and push the employees in the correct direction.

C. PLANNING PREMISES

Planning is always done keeping the future in mind, however, the future is always uncertain. So in the function of management certain assumptions will have to be made. These assumptions are the premises. Such assumptions are made in the form of forecasts, existing plans, past policies, etc. These planning premises are also of two types – internal and external. External assumptions deal with factors such as political environment, social environment, the advancement of technology, competition, government policies, etc. Internal assumptions deal with policies, availability of resources, quality of management, etc. These assumptions being made should be uniform across the organization. All managers should be aware of these premises and should agree with them.

D. IDENTIFICATION OF ALTERNATIVES

The fourth step of the planning process is to identify the alternatives available to the managers. There is no one way to achieve the objectives of the firm, there is a multitude of choices. All of these alternative courses should be identified. There must be options available to the manager. Maybe he chooses an innovative alternative hoping for more efficient results. If he does not want to experiment he will stick to the more routine course of action. The problem with this step is not finding the alternatives but narrowing them down to a reasonable amount of choices so all of them can be thoroughly evaluated.

E. EVALUATION OF ALTERNATIVES

The next step of the planning process is to evaluate and closely examine each of the alternative plans. Every option will go through an examination where all the pros and cons will be weighed. The alternative plans need to be evaluated in light of the organizational objectives. For example, if it is a financial plan. Then in that case its risk-return evaluation will be done. Detailed calculation and analysis are done to ensure that the plan is capable of achieving the objectives in the best and most efficient manner possible.

F. CHOICE OF ALTERNATIVE PLANS

Finally, we reach the decision making stage of the planning process. Now the best and most feasible plan will be chosen to be implemented. The ideal plan is the most profitable one with the least amount of negative consequences and is also adaptable to dynamic situations. The choice is obviously based on scientific analysis and mathematical equations. But a manager's intuition and experience should also play a big part in this decision. Sometimes a few different aspects of different plans are combined to come up with the one ideal plan.

G. FORMULATION OF SUPPORTING

Once you have chosen the plan to be implemented, managers will have to come up with one or more supporting plans. These secondary plans help with the implementation of the main plan. For example plans to hire more people, train personnel, expand the office etc are supporting plans for the main plan of launching a new product. So all these secondary plans are in fact part of the main plan.

H. ESTABLISHING THE SEQUENCE OF ACTIVITIES

And finally, we come to the last step of the planning process, implementation of the plan. This is when all the other functions of management come into play and the plan is put into action to achieve the objectives of the organization. The tools required for such implementation involve the types of plans- procedures, policies, budgets, rules, standards etc.

6.4 FORECASTING

Forecasting is a process of using past and present data and analysis of trends for predictions of the future. It helps the organization to cope with the future uncertainties. It is more advanced term of prediction. Forecasting is done with certain assumption based on the experience of management, their knowledge, and judgment. An error in assumptions may result in forecasting error.

6.5 STEPS IN FORECASTING:

- Analyzing and understanding the problem
- Developing strong foundation

- Collecting and analyzing relevant data
- Estimating future events.
- Finding reason for poor performance.
- Continuous follow up

6.6 METHODS OF FORECASTING:

- **Qualitative and quantitative forecasting method:** Personal opinion based forecasting is qualitative method whereas; forecasting based on past numerical data is quantitative forecasting.
- **Naive forecasting method:** In this method, last year's actual are used as present period's forecast, without trying to adjust them.
- **Judgmental forecasting method:** This method of forecasting is based on subjective estimates and intuition. The Statistical survey, the Delphi method, composite forecast all are judgmental forecasting.
- **Time series forecasting method:** In this method, a group of data is recorded over a specific time period. Most of the time past patterns repeats in the future. So, this method is used to make a long term forecast like 5 years, 10 years, and 15 years. Moving average, exponential smoothing, trend analysis all are time series forecasting.

6.7 DIFFERENCE BETWEEN PLANNING AND FORECASTING

Both Planning and forecasting are basic and most important managerial activity. They are closely related to each other. Planning gives answer to how, when and what to be done. It is a **goal oriented activity which designs future course of action and** provides future environment of organization.

As future is uncertain, planners are forced to make some assumptions. This assumption related to future is called forecasting which is based on facts, past trend, economic condition and information.

Both Planning and forecasting are basic and most important managerial activity. They are closely related to each other. Planning gives answer to how, when and what to be done. It is a goal oriented activity which designs future course of action and provides future environment of organization. As future is uncertain, planners are forced to make some assumptions. This assumption related to future is called forecasting which is based on facts, past trend, economic condition and information.

1. Planning is the process of thinking about the future course of action in advance, whereas forecasting is predicting future performance of the organization on the basis of past and present performance and data.
2. Forecasting is done by different levels of experts or managers, economists or analysts employed by the organization. But, Planning is done by top level managers to formulate plans for the organization.
3. Planning is based on information, objective and forecast. Whereas, forecast is based on an assumption, postulation and certain degree of guess.

Planning vs. forecasting: Comparison table

	PLANNING	VERSUS	FORECASTING
Basis for comparison	Planning		Forecasting
Meaning	Planning is the process of identifying future goal and looking ahead for the future course of action.		Forecasting is prediction of future performance of a firm, taking into account past and present data.
Related with	Future course of action.		Prediction of future performance.
Based on	Objective, performance, and relevant information.		Certain degree of guess and assumption.
Responsibility of	Top level managers, CEO or president		Experts, Analysts or different level of managers employed by the firm.
Stresses on	Facts and Expectation		Facts

Summary of Planning vs. Forecasting

- Planning and forecasting both are related to the future events. However, Forecasting provides a base for planning and plays a vital role in process of planning.
- Planning is based on objective, performance and relevant information which require making a plan. Whereas, forecasting is based on a certain degree of guess and assumption of a particular event.
- Planning stresses on facts and expectation. Forecasting, on the other hand, based on Facts and some assumptions on the basis of past and current performance.
- Planning is the responsibility of top level managers. While forecasting is done by different level of managers, analysts, and experts employed by the organization.

6.8 SUMMARY:

There are two main aspects to the practice of town planning: forward planning and development control. Forward planning is the process of goal-setting: identifying the best possible use for each part of the country and developing guidelines toward the future vision.

6.9 Key Words:

Strategic planning: is the process of determining overall objectives of the organisation and the policies and strategies adopted to achieve those objectives.

Planning premise: is a set of assumptions that are derived from forecasting the future. It is a logical and systematic estimate of the future factors that can affect planning. Planning premises provide a background against which the estimated events take place.

6.10 Self - ASSESSMENT QUESTIONS:

1. What are the various types of planning?
2. What are the steps in planning process?
3. Explain the difference between planning and forecasting?

6.10 FURTHER READINGS:

1. Management Concepts and Cases - **Andrew DuBrin**, Cengage Learning India Private Limited, 2009.
2. Principles and Practice of Management, **L. M. Prasad**, Sultan Chand & Sons, 2020.
3. Principles of Management, **S. Govindarajan, M. Natarajan**, PHI Publications, 2005.
4. Principles of Management, **Prakash Chandra Tripathi**, McGraw-Hill Education (India) Pvt. Limited, 2008.
5. Essentials of Management, **Harold Koontz, Heinz Weihrich**, McGraw Hill Education, 2012.
6. Principles and Practice of Management, **P. Subba Rao**, Himalaya Publishing House, 2010.
7. Principles & Practice of Management, **VSP Rao, PS Narayana**, Konark Publishers Pvt Ltd, 2008.

- **Dr. V. Tulasi Das**

LESSON- 7

STRATEGIES OF PLANNING

OBJECTIVES: After studying this lesson, the students are able to understand.

- ✓ Understand major types of planning
- ✓ Know the strategies of planning.
- ✓ Discuss the policies of planning.
- ✓ Detailed principles of planning.
- ✓

STRUCTURE:

- 4.1 Types of plans
- 4.2 Principles of planning
- 4.3 Planning vs. Plan
- 4.4 Concept of strategy, policy and strategic planning
- 4.5 Strategies of planningprocess
- 4.6 Policies
- 4.7 Summary
- 4.8 Key Words
- 7.8Self-assessment questions
- 7.9 Further readings.

7.1 TYPES OF PLANS:

There are four types of planning. Each type of plan commits employees within different departments and their resources to specific actions. While there are many different types, the four major types of plans include strategic, tactical, operational, and contingency. Here is a breakdown of what each type of planning entails.

7.1.1Operational Plans

Operational planning can be ongoing or single-use. The latter is usually created for a specific event that will only occur once, such as a unique marketing campaign. Ongoing plans can include rules and regulations, procedures, and the day to day running of the company.

7.1.2 Strategic Plans

Strategic planning is the foundation of an organization. Essentially, strategic plans dictate the important decisions made within a business. Strategic plans can have scopes that range from three years to ten years. These plans include the organization's mission, values, and vision. A good strategic plan always considers things in the long-term and remembers the big picture.

7.1.3 Tactical Plans

Tactical planning is supportive of the strategic plan. It involves the tactics that will be used to execute the strategic plan. Within a tactical plan, there are specific questions that need to be

answered about what it will take to accomplish the goals set in the strategic plan; the most important question being how the company will accomplish the mission. This type of planning is very focused and short-term. Tactical plans are sometimes flexible and often break the strategy down into several parts and assign actionable tasks to each part.

7.1.4 Contingency Plans

Contingency planning is important for any business because there is always the possibility of unforeseen changes. A contingency plan is created for when the unexpected occurs or a major change needs to be made in order to continue towards the goal. Not every change can be anticipated which is why it's imperative to have a contingency plan in place. Every business leader should understand the importance of having a contingency plan. A company whose leaders have a clear understanding of the different types of planning can expect to create a successful business that is sustainable.

7.2 PRINCIPLES OF PLANNING:

Planning requires scientific thinking and it should spell out in clear terms the definition of the purpose, analyse the problem and make a careful and diligent search for all the facts bearing upon it. The task of planning will be well-accomplished if some fundamental principles are followed in the process.

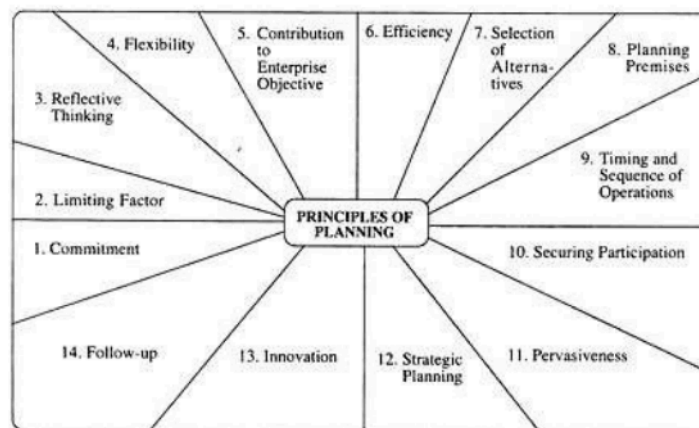


Fig. 3.5: Principles of Planning.

The important principles may be stated as follows:

7.2.1 Principle of Commitment:

This means that certain resources must be committed or pledged for the purpose of planning. Planning is not an easy task. So, necessary help is to be taken from experts. The enterprise must be ready to exhaust the available resources for the achievement of a plan.

7.2.2 Principle of the Limiting Factor:

A plan involves varied factors of different importance. This principle implies that more emphasis has to be put on that factor which is scarce or limited in supply or extremely costly. This will help in selecting the most favourable alternative.

7.2.3 Principle of Reflective Thinking:

Planning, being an intellectual activity is based on rational considerations. These involve reflective thinking which signifies problem-solving thought process—a process by which past experiences are superimposed on the facts of the present situation and possible future trends.

None can be a planner whose mind is not active, who does not possess any deliberate power and whose sense of judgement is not strong.

7.2.4 Principle of Flexibility:

Though a plan is prepared after reflective thinking, this does not mean that no departure can be made in the course of its operation. The plan should be so prepared that there is sufficient scope for changing it from time to time. Changes must necessarily be affected in the plan for taking into account new developments that may take place in the course of the operation of the plan.

7.2.5 Principle of Contribution to Enterprise Objectives:

A major plan is prepared and it is supported by many derivative plans. But all plans must contribute in a positive way towards the achievement of the enterprise objectives.

7.2.6 Principle of Efficiency:

A plan should be made efficient to attain the objectives of the enterprise at the minimum cost and least effort. It must also achieve better results with the minimum of unexpected happenings. Therefore, it is to be seen that what is expected is likely to be achieved.

7.2.7 Principle of Selection of Alternatives:

Planning is basically a problem of choosing. The essence of planning is the choice among alternative courses of action. There is no need for planning if there is only one way for doing something. In choosing from alternatives, the best alternative will be that which contributes most efficiently and effectively to the accomplishment of a desired goal.

7.2.8 Principle of Planning Premises:

A plan is prepared against some foundations or backgrounds known as 'Planning Premises'. There must be complete agreement among the managers in respect of planning premises over which the structure of plan is to be framed.

7.2.9 Principle of Timing and Sequence of Operations:

Timing and sequence of operations determine the starting and finishing time for each piece of work according to some definite schedule and give practical and concrete shape and form to work performance.

7.2.10 Principle of Securing Participation:

To secure participation of the employees with whole-hearted co-operation in execution of the plan, it is necessary that the plan must be communicated and explained to them for their full understanding. This understanding provides the basis for additional knowledge about new facts and matters to the employees. This is needed for improvement in the quality of planning. It also ensures an obligation of the personnel of the enterprise to execute the plan by individual and joint participation.

7.2.11 Principle of Pervasiveness:

Though major planning function is entrusted to the top management, it is not restricted to the top level only. It is a function of every manager at every level in the organisation.

7.2.12 Principle of Strategic Planning:

Strategic planning is essential where there is competition. It is prepared in the light of what the competitors are intending to do. Planners must take into account the strategies of the rival organisations, otherwise the planning projection may land them in trouble.

7.2.13 Principle of Innovation:

A good system of planning should be responsive to the opportunities for innovation. Innovation consists in creating something new for increasing satisfaction of the consumers. This may also be stated as an important strategy of business. Innovation is a necessity for its sustaining growth in this dynamic world. Innovation is achieved through research and development and planning is required to provide such scope.

7.2.14 Principle of Follow-up:

In the course of execution of a plan, certain obstacles may crop up in midway and planning may require revision, alteration or correction. This is why there must be a follow-up system in the planning process itself. This allows timely changes in the planning and makes it more effective.

However, to plan any kind of work, the following facts demand utmost attention:

- (i) The nature, quality and quantity of work to be done, the best way of doing it, the time available for its accomplishment, how to do it, when it is to be done and who are to do it.
- (ii) Adequate knowledge about the capacity of the force available through observations and experiments and from established standards.
- (iii) The priority to be given in succession for the accomplishment of different tasks through careful analysis.

7.3 Planning Vs. Plan.

The concept of planning defined as looking ahead into the future and try to anticipate as what it would be or likely to look like and how it will affect the organization and what direction the organization should take so as to be ready to cope up with the eventualities it may face. Planning is the concept of setting future objective in right perceptive and decision on the ways and means of achieving these objectives. Planning is systematic way of deciding about and doing things in a purposeful manner.

Planning vs Plan

- Planning proves the way for plans.
- Plans are the part of planning.
- Planning is objective, plan is subjective.
- Planning is continuous and ongoing, plans are specific and time sensitive.
- Planning is flexible and are subject to change, plans are more or less rigid and usually are not subject to change.
- Plans maybe short-term or long term, planning is continuous and forever.
- Planning is a guide map towards objective of an organization, plans are guide map for a particular action.
- Planning is management functions, plans area supervisory function.
- Plans help achieve the objectives, planning sets the objectives.
- Plans complement and supplement planning. Planning initiates plans.

7.4 STRATEGIES, POLICIES AND STRATEGIC PLANNING

Strategies and policies are closely related. They provide direction for the organization and form the basis of operational plans. Strategy refers to the determination of the long-term objectives of an enterprise and the adoption of courses of action to achieve these aims, while policies are concepts that guide the thought processes and behavior of managers when they make decisions.

These include (i) defining the mission of the organization, (ii) determining organizational objectives, (iii) assessing organizational resources and evaluating environmental risks and opportunities, (iv) formulating strategy, (v) implementing strategy through operating plans, and (vi) monitoring and adapting strategic planning.

There are three different levels of strategy - the corporate-level, business-level and functional-level strategies. Corporate-level strategies address what businesses the organization operates in, how the strategies of those businesses can be coordinated to

strengthen the organization's competitive position, and how resources are to be allocated among the businesses. The two major approaches that can be adopted by managers in developing corporate-level strategy are the corporate portfolio approach and the values-based approach.

A widely used portfolio management method is the BCG matrix, devised by the Boston Consulting Group. This matrix plots businesses against relative market share and industry growth and helps organizations evaluate their business portfolios in order to determine their profitability. Strategic planning is the formal process of developing long-term plans which help in defining and achieving organizational goals. Strategic planning provides consistent guidelines for organizational activities. It helps managers to make appropriate decisions and anticipate problems before they arise. The strategic planning process involves six steps. Before devising an effective strategy to gain a competitive edge, managers need to analyze the organization's competitive situation carefully.

For this purpose, a SWOT analysis, which involves analyzing the organization's internal strengths and weaknesses and environmental opportunities and threats, is carried out. Different kinds of strategies and policies cover the areas of growth, finance, organization, personnel, public relations, products or services and marketing.

Michael Porter has outlined the business-level strategies of overall cost leadership, differentiation, and focus, that may be adopted by firms. Cost leadership strategies aim at reduction in cost. Firms which adopt a differentiation strategy attempt to offer products and services that are considered unique in the industry. A focus strategy facilitates specialization by establishing a position of overall cost leadership, differentiation, or both. A firm adopting a focus strategy attempts to serve a specific segment of the market, instead of catering to the entire market. Thus, all the major aspects of strategies, policies and planning premises have been discussed in the chapter. These concepts are of great significance in contemporary management theory.

Note: Strategic Management is now full subject and specialization in management. But it is essential to note from this chapter that strategy making is a part of management process and is a part of planning function of management. Every student of management has to learn strategy development. It is a core management step or activity as we stated earlier that planning is a primary function of management.

7.5 STRATEGIC PLANNING

Some writers include both the end points (purpose, mission, goals, and objectives) and the major means of achieving them (programs, policies, and plans) in strategy of the firm. Others emphasize the means. Conceptually, strategic planning is very simple: Analyze the current and future environmental situation, assess the firm's capabilities, determine the direction of the firm (mission), and develop means of achieving the mission. In practice, it is a complex process. Determination of the mission is done periodically and mission remains the same for many years. Strategies are more dynamic and every year as part of annual plan strategy is explicitly stated.

7.5.1 THE STRATEGIC PLANNING PROCESS

7.5.1.1 Inputs

The goal inputs of various claimants on the organization have to be ascertained.

7.5.1.2 Enterprise Profile

Enterprise profile gives where the company is presently. It also gives present competitive situation in the industry and the position of the company in it.

7.5.1.3 Orientation of Top Managers

The enterprise profile is shaped by people, especially top managers. They set the organizational climate and they determine the direction of the firm.

7.5.2 Purpose (Mission) and Major Objectives

7.5.2.1 Strategic Intent

Strategic intent is the commitment to win in the competitive environment. Some companies make intent statements. Authors gave the examples of Komatsu "encircle Caterpillar," Canon "beat Xerox," and Honda's intent to become an automotive pioneer, "a second Ford." The intent statement is stable over time and focuses on the essence of winning. It requires effort and commitment of all the persons in the organization.

7.5.2.2 External Environment

Economic, social, political, legal, demographic, geographic, technological and industry (competition) developments are to be monitored and pertinent information is to be used in strategic planning.

7.5.2.3 Internal Environment

A firm's resources and capabilities are to be understood before the start of each strategic planning effort. The strengths and weaknesses in research & development, production and other operations, supply chain, marketing, HRD, Financing are to be identified. Intangible assets and their relative strength in competitive situation are to be determined.

7.5.2.4 Alternative Strategies

Generic competitive strategies of cost leadership in a standard product (commodity product) or differentiated product offering is possible in all product categories that a company is doing business. An organization may focus on niche (one or two customer segments) and or produce and offer complete product line to cater to various customer segments in the market. A firm can specialize in one product or it can diversify into multiple products. Growing internationally is another strategic choice. Retrenchment or sales of certain parts of the organization and liquidation are also strategic choices.

7.5.2.5 Evaluation and Choice of Strategies

Various strategic alternatives have to be carefully evaluated before the choice is made. Risk assessment also needs to be done as certain failures can bankrupt the organization.

7.5.2.6 SWOT Analysis or TOWS Matrix

External opportunities and threats and internal strengths and weaknesses are to be evaluated by organizations as a part of strategic planning process. If an opportunity and strength match, the organization can exploit the opportunity with confidence. If there is a threat and company seems to be weak in the area, retrenchment can be an alternative.

7.5.2.7 The Product Portfolio Matrix

It classifies the products based on two dimensions: Business growth rate and relative market position. Stars, Cash cows, Question marks and Dogs are the four quadrants. Michael Porter outlined that as generic strategies organizations can follow cost leadership or differentiation to achieve competitive advantage or higher profit margins. Similarly focus on special groups of customers can also be a generic strategic choice.

STEPS FOR SUCCESSFUL IMPLEMENTATION OF STRATEGIES

1. Communicating strategies to all key decision-making managers.
2. Developing and communicating planning premises
3. Ensuring that action plans contribute to and reflect major objectives and strategies.
4. Reviewing strategies regularly.
5. Developing contingency strategies and programs.
6. Making organization structure fit strategic needs
7. Continuing to emphasize planning and implementing strategy.
8. Creating a company climate that forces planning.

7.6 POLICIES

Policies are generic statements, which are basically a guide to channelize energies towards a particular strategy. It is an organization's general way of understanding, interpreting and implementing strategies. Like for example, most companies have a return policy or recruitment policy or pricing policy etc. Policies are made across all levels of management, from major policies at the top-most level to minor policies. The managers need to form policies to help the employees navigate a situation with predetermined decisions. They also help employees to make decisions in unexpected situations.

7.6.1 Procedure

Procedures are the next types of plan. They are a stepwise guide for the routine to carry out the activities. These stepwise sequences are to be followed by all the employees so the activities can be fulfilled in an organized manner. The procedures are described in a chronological order. So when the employees follow the instructions in the order and completely, the success of the activity is pretty much guaranteed. Take for example the procedure of admission of a student in a college. The procedure starts with filling out an application form. It will be followed by a collection of documents and sorting the applications accordingly.

7.6.2 Rules

Rules are very specific statements that define an action or non-action. Also, rules allow for no flexibility at all, they are final. All employees of the organization must compulsorily follow and implement the rules. Not following rules can have severe consequences. Rules create an environment of discipline in the organization. They guide the actions and the behaviour of all the employees of the organization. The rule of "no smoking" is one such example.

7.6.3 Program

Programmes are an in-depth statement that outlines a company's policies, rules, objectives, procedures etc. These programmes are important in the implementation of all types of plan. They create a link between the company's objectives, procedures and rules. Primary programmes are made at the top level of management. To support the primary program all managers will make other programs at the middle and lower levels of management.

7.6.4 Methods

Methods prescribe the ways in which specific tasks of a procedure must be performed. Also, methods are very specific and detailed instructions on how the employees must perform every task of the planned procedure. So managers form methods to formalize routine jobs. Methods are very important types of plan for an organization. They help in the following ways

- give clear instructions to the employees, removes any confusion

- Ensures uniformity in the actions of the employees
- Standardizes the routine jobs
- Acts as an overall guide for the employees and the managers

7.6.5 Budget

A budget is a statement of expected results the managers expect from the company. Budgets are also a quantitative statement, so they are expressed in numerical terms. A budget quantifies the forecast or future of the organization.

- There are many types of budgets that managers make. There is the obvious financial budget, that forecasts the profit of the company. Then there are operational budgets generally prepared by lower-level managers. Cash budgets monitor the cash inflows and outflows of the company.
- Policies are guides to thinking in decision making. They reflect and interpret objectives and guide decisions to to achieve the objectives. They establish the framework for planning programs. They establish limits or boundaries to plans whereas planning premises provide the operational background. Policies themselves are plans. They are also the result of planning and decision making. Policies also have levels. A policy can be a major as that of financing growth through retained profits.
- Policies can be categorized as originated policy, appealed policy, implied policy, and externally imposed policy. The most logical way of policy setting is that originated by managers at a certain level for the express purpose of guiding their decisions and the decisions of their subordinates in the operation of business. The decisions made by superiors in the on problems referred to them can develop into policies and such policies are termed as appealed policy.
-

Many times policies develop from the actions that people see about them. If a company talks of high quality in speeches and slogans, but is frequently producing and selling shoddy goods, people working in the company assume that poor quality is the policy of the company. Implied policy emerges from instances where stated policy is not enforced. Government, trade associations and trade unions impose certain policies on the organizations.

GUIDELINES FOR EFFECTIVE POLICIES

- Policies should reflect objectives and plans.
- Policies should be consistent.
- Policies should be flexible
- Policies should be distinguished from rules and procedures.
- Policies should be in writing.
- Policies should be taught.
- Policies should be controlled
- Policies in Various Functional Areas of Business

4.9 SUMMARY:

Organizations process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. It is here that priorities are set. It may also extend to control mechanisms for guiding the implementation of the strategy.

4.10 Key Words

Strategy: a plan of action designed to achieve a long-term or overall aim.

Policy: a course or principle of action adopted or proposed by an organization or individual.

Budget is a statement of expected results the managers expect from the company.

4.11 SELF ASSESSMENT QUESTIONS:

4.12

1. Describe the strategic planning?
2. What are the principles of planning?
3. Define the concept of planning and distinguish it from plan.
4. Explain the strategic planning process?
5. What are the steps for successful implementation strategies?
6. Explain in brief about the guidelines for effective planning policies?

4.13 FURTHER READINGS:

1. Management Concepts and Cases - **Andrew DuBrin**, Cengage Learning India Private Limited, 2009.
2. Principles and Practice of Management, **L. M. Prasad**, Sultan Chand & Sons, 2020.
3. Principles of Management, **S. Govindarajan, M. Natarajan**, PHI Publications, 2005.
4. Principles of Management, **Prakash Chandra Tripathi**, McGraw-Hill Education (India) Pvt. Limited, 2008.
5. Essentials of Management, **Harold Koontz, Heinz Weihrich**, McGraw Hill Education, 2012.
6. Principles and Practice of Management, **P. Subba Rao**, Himalaya Publishing House, 2010.
7. Principles & Practice of Management, **VSP Rao, PS Narayana**, Konark Publishers Pvt Ltd, 2008.

- **Dr. V. Tulasi Das**

LESSON- 8

PLANNING PREMISES

LEARNING OBJECTIVES: After studying this lesson, the students are able to understand.

- ✓ Understand the concept of planning premises.
- ✓ Know the role of planning.
- ✓ Discuss the importance of manager role in planning.
- ✓ Understand what is decision making
- ✓ Know the rationality in decision making
- ✓ Know the Objectives and Mbo.

STRUCTURE:

- 8.1 Introduction**
- 8.2 Role of Managers in planning**
- 8.3 Planning premising**
- 8.4 Management by Objectives**
- 8.5 Decision Making**
- 8.6 Group Decision making**
- 8.7 Rationality in Decision making**
- 8.8 Systems approach to Decision Making**
- 8.9 Decision Making Techniques**
- 8.10 Summary**
- 8.11 Key Words**
- 8.12 Self-assessment questions**
- 8.13 Further Readings.**

8.1 Introduction:

Planning is the primary and most important function of management and occupies a very vital position in the management process. It is the starting point of the whole management process and involves the determination of future course of action. Why an action is required, how to take an action, and when to take action are main subjects of planning for the management. Planning is a determined course of action for achieving a specific objective. It is deciding in advance what to do and how to do. It is needed at every level of management. In the absence of planning all the business activities of the organization become meaningless. The importance of planning has increased all the more in view of the increasing size of organizations and their complexities and because of uncertain and constantly changing business environment. In the absence of planning, it may not be impossible but certainly difficult to guess the uncertain events of future. Planning is one of the basic management functions. In fact it occupies the top position in the management process. It is the starting point of the management process as other management function can take place only through this function. Before doing a thing, it is necessary that the

management formulates an idea of how to work on a particular task. Thus, planning is closely connected with creativity and innovation. It involves setting objectives and developing appropriate courses of action to achieve these objectives. Objectives are achieved by fixing time based goals.

For achieving its goals management of an organization usually works with several management plans such as business plan, production plan, maintenance plan, or marketing plan etc. Further management plans can be either short term or long term or both. Planning helps an organization chart a course for the achievement of its goals. The process begins with reviewing the current operations of the organization and identifying what needs to be improved operationally in the upcoming year. From there, planning involves envisioning the results the organization wants to achieve, and determining the steps necessary to arrive at the intended destination – success, whether that is measured in financial terms, or goals that include being the highest-rated organization in customer satisfaction.

8.1.1 Efficient Use of Resources

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

8.1.2 Establishing Organizational Goals

Setting goals that challenge everyone in the organization to strive for better performance is one of the key aspects of the planning process. Goals must be aggressive, but realistic. Organizations cannot allow themselves to become too satisfied with how they are currently doing – or they are likely to lose ground to competitors. The goal setting process can be a wake-up call for managers that have become complacent. The other benefit of goal setting comes when forecast results are compared to actual results. Organizations analyze significant variances from forecast and take action to remedy situations where revenues were lower than plan or expenses higher.

8.1.3. Managing Risk and Uncertainty

Managing risk is essential to an organization's success. Even the largest corporations cannot control the economic and competitive environment around them. Unforeseen events occur that must be dealt with quickly, before negative financial consequences from these events become severe.

Planning encourages the development of “what-if” scenarios, where managers attempt to envision possible risk factors and develop contingency plans to deal with them. The pace of change in business is rapid, and organizations must be able to rapidly adjust their strategies to these changing conditions.

8.1.4 Team Building and Cooperation

Planning promotes team building and a spirit of cooperation. When the plan is completed and communicated to members of the organization, everyone knows what their responsibilities are, and how other areas of the organization need their assistance and expertise in order to complete assigned tasks. They see how their work contributes to the success of the organization as a whole and can take pride in their contributions. Potential conflict can be reduced when top management solicits department or division managers'

input during the goal setting process. Individuals are less likely to resent budgetary targets when they had a say in their creation.

8.1.5 Creating Competitive Advantages

Planning helps organizations get a realistic view of their current strengths and weaknesses relative to major competitors. The management team sees areas where competitors may be vulnerable and then crafts marketing strategies to take advantage of these weaknesses. Observing competitors' actions can also help organizations identify opportunities they may have overlooked, such as emerging international markets or opportunities to market products to completely different customer groups.

8.2 ROLE OF MANAGER IN PLANNING:

- Assist to monitor all department budgets and manage all inventories on quarterly basis and assist all team members to manage all production schedules.
- Prepare efficient training programs for all planning processes and manage inventory level for all components and finished products and ensure compliance to all business requirements.
- Manage all work flow for projects and maintain control on same and manage an efficient inventory level of all safety stock and review all volume requirements for all production materials.
- Assist all new product development and improvement in all existing products and ensure optimal inventory level at all times.
- Facilitate and provide data to prepare all sales forecast and implement all new products and processes for all manufacturing plants.
- Assist to obtain and manage all orders and deliveries for all external processes and prepare reports to be presented to management and manage demand and supply of all materials.
- Collaborate with all stakeholders to perform various strategies and coordinate with program manager to monitor all supply chain activities and resolve all availability issues.
- Prepare reports for all planning activity metrics and analyze all results to recommend required improvements in performance and collaborate with material manager to forecast all required strategies.
- Evaluate and prepare forecast all policy changes and recommend appropriate business requirements.
- Participate in all evaluation meetings on weekly and monthly basis.
- Plan inventory levels and locations and execute all forecasting and planning programs.
- Maintain optimal level of performance within required budget and ensure compliance to all standard projects.
- Train all subordinates of all planning team in various systems.
- Process requirement and analyze all working of supply chain team.

8.3 PLANNING PREMISES:

Planning is made for the future. Future is uncertain the management makes certain assumptions about the future. The assumptions are not to be based on hunch or guess work. It should be developed through scientific forecasting of future events. The assumptions derived from forecasting and used in planning are called as planning premises. According to Koontz O'Donnell, "Planning premises are the anticipated environment in which plans are expected to

operate. They include assumptions or forecasts of the future and known conditions that will affect the course of plans such as prevailing policies and existing company plans that controls the basic nature of supporting plans.”

So planning premises provide a framework for planning and action in the midst of uncertainties in the business environment. They imply not only the assumptions about the future but also predictions. Planning premises constitute the framework with which planning is done. They provide the bedrock upon which future course of action is based. To have effective planning, plans must be based on sound premises. Therefore, premises are to be established on the basis of systematic forecasting. Effective planning is largely dependent on the correct knowledge and choice of planning premises. For planning the planning premises are to be correctly formulated without which planning will be without proper foundation. Further change in planning premises may result in modification of plans. There are innumerable forces and factors which react on business economy. A manager must consider these forces and factors while formulating premises. Such forces may be internal or external. The manager is to recognise the strategic, crucial and limiting factors. Based on this the manager is to select the proper and adequate premises upon which the super structure of planning are to be raised.

8.3.1 Types of Planning Premises:

Planning premises may be classified as:

- (a) Internal and external
- (b) Tangible and Intangible
- (c) Controllable, semi-controllable and uncontrollable
- (d) Constant and variable
- (e) Foreseeable and unforeseeable

(a) Internal and External Premises:

Internal premises are those which exist within the business enterprise. This may include men, material, money and methods. Competence of managerial personnel and skill of labour force are some of the important internal premises. External premises centre round the markets and derived from the external environment surrounding the business. Examples: Product market, money market, population growth, government policies, business cycles technological changes.

(b) Tangible and Intangible Premises:

Tangible premises are those which can be measured quantitatively. They may be quantified in terms of money, time and units of production. Intangible premises are those which cannot be measured quantitatively. Examples are: Reputation of the business, Public relations, employee morale, motivation etc. Planning is to consider both tangible and intangible premises.

(c) Controllable, Semi-Controllable and Uncontrollable Premises:

There are certain factors which are well within the control of the management to a great extent. Factors like materials, money and machines are areas where management has maximum control over their future commitments. The management can decide what policies, procedures, rules and strategies are to be followed in the organisation for achieving the objectives.

Semi-controllable premises are those assumptions about future which are under the partial control of a business. Examples of such premises are demand for the product, Trade union relations.

Non-controllable premises are entirely beyond the scope of business-like government policy, international trade agreements, wars, natural calamities new discoveries and inventions etc. Such events cannot be predicted or controlled. These factors disturb all well-thought-out calculations. All intangible premises also fall in this category as human behaviour also cannot be predicted accurately.

(d) Constant and Variable Premises:

Constant premises are those which behave in similar fashion irrespective of action taken. They are definite, well known and well-understood. The behaviour of constant premises is not subject to changes these are ignored in planning. Such factors are men, machine and money.

Variable premises are those which vary in relation to the course of action.

The management is to consider these factors in formulating plans as their variations are dependent on the action taken by the management. These cannot be controlled and predicted. For example, sales volume of the enterprise can be partly controlled by the management. There are certain other factors which affect the sales volume of the enterprise but are quite uncontrollable.

8.4 MANAGEMENT BY OBJECTIVES (MBO):

Management by objectives (MBO) is a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees. According to the theory, having a say in goal setting and action plans encourages participation and commitment among employees, as well as aligning objectives across the organization. The term was first outlined by management guru Peter. F. Drucker in 1954 in his book, The Practice of Management.

Management by objectives (MBO) is the establishment of a management information system to compare actual performance and achievements to the defined objectives. Practitioners claim that the major benefits of MBO are that it improves employee motivation and commitment and allows for better communication between management and employees. However, a cited weakness of MBO is that it unduly emphasizes the setting of goals to attain objectives, rather than working on a systematic plan to do so. Management by objectives (MBO) is a strategic business model designed to improve the performance of an organization. It is a strategy with clearly defined objectives which is agreed by both the management and the employees.

MBO helps managers to systemically update and delegate tasks to employees with mutual understanding and keeping the goals aligned with the organizational mission. A definite set of task is set for each employee and also their work is monitored. The strategy is quite simple. It to plan, designs, and execute objectives with transparency and complete it at a definite time frame. A critical part of MBO is also to check employee performance through monitoring the performance. It is also widely practiced as an employee appraisal method for promotion and also giving other monetary and non-monetary bonuses.

MBO follows the mnemonic **S.M.A.R.T** while setting objectives. 'SMART' objectives are-

- **Specific** - Target a specific area for improvement.

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

8.4.1 Steps in MBO (Also called MBO Process Cycle):



Figure 4.4.1

1. In the first step, MBO emphasizes on goals that are measurable, tangible and achievable keeping the organizational mission in mind.
2. The second step is to set and align these objectives with the employees.
3. In the third step, the employees are allowed plan their own objectives.
4. In the fourth step, the progress of the employees is monitored.
5. The fifth step is to evaluate and reward employees. Honest feedback is given and also new strategies for goals not achieved are established.

8.4.2 NATURE OF MBO:

It is a functional approach, giving importance to the goal-setting process. It is a systematic approach to set goals and helps every individual department to set their own goals. But MBO doesn't interfere in the process of implementation of those goals. It gives every member the freedom to complete their tasks on their own. This promotes creativity and innovation in the organization and helps them generate ideas, solve problems and contribute to organizational

goals with diversified inputs. This helps employees to keep themselves motivated and committed to the process. MBO is a result-oriented strategy. Therefore, the outcomes are easily monitored and help the organization to understand if their goals are achieved.

8.4.3 ADVANTAGES OF MANAGEMENT BY OBJECTIVES:

a. Efficient Management:

The management is efficient when the team's output is higher than the input and resources they put into it. It is directly related to the employee productivity or how much time they take to meet their goals and objectives. Often productivity gets dwindled when there is no proper structure aligned to fulfil organizational goals. Organizations that follow MBO are more productive at their jobs and their efficiency increases. Employees are clearer about their goals which help them plan and have a very clear structure to follow. One of the clear reasons for this is the systematic plan which is adopted by every member of the organization to complete the assigned tasks.

b. Effective Planning:

The purpose of planning is to develop a blueprint for growing a business. The better the planning is, the easier it is for management to take action. Effective planning requires an attitude of never being satisfied with the organization's current performance. Planning becomes quite easier with MBO. Since employees are clear about the organizational objectives, therefore, they can develop a systematic approach and plan to achieve those. With this business strategy, the planning process becomes relatively easier.

c. Transparency of Organizational Roles:

With MBO members of the organization become aware of the roles others are playing. It helps subordinates to report to their managers and also understand it better since the work assigned is mutually decided. Also since all the members work towards the main organizational goal, MBO gives an edge to understand it and follow transparency in the process.

d. Reinforces Commitment:

In an organization, we often see employees gradually lose their job satisfaction and their sense of commitment. The reason behind this though has diverse reasons but one of the major factors is lack of direction, lack of transparency and miscommunication between the superior and subordinates. This strategic model bridges that gap and creates a positive and open work environment. Since everyone is assigned goals to reach the target, therefore, it gives employees a sense of commitment. The fact that their work is designed and monitored for the greater purpose reinforces the commitment in them. It also helps in employee motivation as employees are included in the goal-setting process and give them the extra push to complete the tasks.

e. Goal Setting:

We are aware of the fact that how important goal-setting is for any organization. It directs management and gives a road-map to follow. And it is better when everyone in the organization is aware of the process or included to give their perspectives and idea on the same. This also helps the employees to understand their roles and tasks better. With MBO Strategic Model, goal-setting is done with mutual participation of the management and the organization. Objectives are more likely to be fulfilled by the employees as they actively participate in the goal-setting process and also choose the actions to achieve those.

8.4.4 Management by Objectives in Practice

Management by objectives outlines five steps that organizations should use to put the management technique into practice.

1. The first step is to either determine or revise organizational objectives for the entire company. This broad overview should be derived from the firm's mission and vision.
2. The second step is to translate the organizational objectives to employees. Drucker used the acronym SMART (specific, measurable, acceptable, realistic, time-bound) to express the concept.
3. Step three is stimulating the participation of employees in setting individual objectives. After the organization's objectives are shared with employees, from the top to the bottom, employees should be encouraged to help set their own objectives to achieve these larger organizational objectives. This gives employees greater motivation since they have greater empowerment.
4. Step four involves monitoring the progress of employees. In step two, a key component of the objectives was that they are measurable in order for employees and managers to determine how well they are met.
5. The fifth step is to evaluate and reward employee progress. This step includes honest feedback on what was achieved and not achieved for each employee.

8.5 DECISION MAKING

Decision-making is an integral part of modern management. Essentially, Rational or sound decision making is taken as primary function of management. Every manager takes hundreds and hundreds of decisions subconsciously or consciously making it as the key component in the role of a manager. Decisions play important roles as they determine both organizational and managerial activities. A decision can be defined as a course of action purposely chosen from a set of alternatives to achieve organizational or managerial objectives or goals. Decision making process is continuous and indispensable component of managing any organization or business activities. Decisions are made to sustain the activities of all business activities and organizational functioning.

Decisions are made at every level of management to ensure organizational or business goals are achieved. Further, the decisions make up one of core functional values that every organization adopts and implements to ensure optimum growth and drivability in terms of services and or products offered. As such, decision making process can be further exemplified in the backdrop of the following definitions.

Definition of Decision Making

According to the Oxford Advanced Learner's Dictionary the term decision making means - the process of deciding about something important, especially in a group of people or in an organization. Trewatha & Newport defines decision making process as follows; "Decision-making involves the selection of a course of action from among two or more possible alternatives in order to arrive at a solution for a given problem".

As evidenced by the foregoing definitions, decision making process is a consultative affair done by a comity of professionals to drive better functioning of any organization. Thereby, it is a continuous and dynamic activity that pervades all other activities pertaining to the organization. Since it is an ongoing activity, decision making process plays vital importance in the functioning of an organization. Since intellectual minds are involved in the process of decision making, it requires solid scientific knowledge coupled with skills and experience in addition to mental maturity.

Further, decision making process can be regarded as check and balance system that keeps the organisation growing both in vertical and linear directions. It means that decision making

process seeks a goal. The goals are pre-set business objectives, company missions and its vision. To achieve these goals, company may face lot of obstacles in administrative, operational, marketing wings and operational domains. Such problems are sorted out through comprehensive decision making process. No decision comes as end in itself, since in may evolve new problems to solve. When one problem is solved another arises and so on, such that decision making process, as said earlier, is a continuous and dynamic.

A lot of time is consumed while decisions are taken. In a management setting, decision cannot be taken abruptly. It should follow the steps such as

- **Defining the problem**
- **Gathering information and collecting data**
- **Developing and weighing the options**
- **Choosing best possible option**
- **Plan and execute**
- **Take follow up action**

Since decision making process follows the above sequential steps, a lot of time is spent in this process. This is the case with every decision taken to solve management and administrative problems in a business setting. Though the whole process is time consuming, the result of such process in a professional organization is magnanimous.

8.5.1 STEPS OF THE DECISION-MAKING PROCESS

Robert Frost wrote, “Two roads diverged in a wood, and I—I took the one less travelled by, and that has made all the difference.” But unfortunately, not every decision is as simple as “Let’s just take this path and see where it goes,” especially when you’re making a decision related to your business. Whether you manage a small team or are at the head of a large corporation, your success and the success of your company depend on you making the right decisions—and learning from the wrong decisions. Use these decision-making process steps to help you make more profitable decisions. You’ll be able to better prevent hasty decision-making and make more educated decisions when you put a formal decision-making process in place.

Defining the business decision-making process

The business decision-making process is a step-by-step process allowing professionals to solve problems by weighing evidence, examining alternatives, and choosing a path from there. This defined process also provides an opportunity, at the end, to review whether the decision was the right one.

STEPS IN DECISION-MAKING PROCESS

Though there are many slight variations of the decision-making framework floating around on the Internet, in business textbooks, and in leadership presentations, professionals most commonly use these seven steps.

A. Identify the decision

To make a decision, you must first identify the problem you need to solve or the question you need to answer. Clearly define your decision. If you misidentify the problem to solve, or if the problem you’ve chosen is too broad, you’ll knock the decision train off the track before it even leaves the station.

If you need to achieve a specific goal from your decision, make it measurable and timely so you know for certain that you met the goal at the end of the process.

B. Gather relevant information

Once you have identified your decision, it's time to gather the information relevant to that choice. Do an internal assessment, seeing where your organization has succeeded and failed in areas related to your decision. Also, seek information from external sources, including studies, market research, and, in some cases, evaluation from paid consultants.

Beware: you can easily become bogged down by too much information—facts and statistics that seem applicable to your situation might only complicate the process.

C. Identify the alternatives

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

D. Weigh the evidence

Once you have identified multiple alternatives, weigh the evidence for or against said alternatives. See what companies have done in the past to succeed in these areas, and take a good hard look at your own organization's wins and losses. Identify potential pitfalls for each of your alternatives, and weigh those against the possible rewards.

E. Choose among alternatives

Here is the part of the decision-making process where you, you know, make the decision. Hopefully, you've identified and clarified what decision needs to be made, gathered all relevant information, and developed and considered the potential paths to take. You are perfectly prepared to choose.

F. Take action

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

G. Review your decision

After a predetermined amount of time—which you defined in step one of the decision-making process—take an honest look back at your decision. Did you solve the problem? Did you answer the question? Did you meet your goals?

If so, take note of what worked for future reference. If not, learn from your mistakes as you begin the decision-making process again.

8.6 GROUP DECISION MAKING:

Decision-making by groups is not a rare thing to observe in business operations. Board meetings, committees, staff meetings, conferences, provide examples of decision - making by groups. Thus, directors at the top of an organisation make decisions in their Board meetings. Similarly, departmental managers or executives solve number-of problems jointly. It what type of problems, at what level, and how, decision - making by group may be used-in the organisation is a policy matter and rests with higher ups. But whenever it is resorted to, the appointing authority down in explicit terms the scope and exact functions expected of the group.

8.6.1. GROUP DECISION MAKING ADVANTAGES:

If properly handled, decision - making by groups or committees offers the following advantages.

- (i), It improves quality of the decision since different viewpoints and opinions are reflected in it.
- (ii) Coordination 'of departmental activities through meetings of their respective heads become easier.

(iii) Group decision - making provides opportunity for participation by individuals representing different interests and thus improve their morale and motivate them for whole - hearted cooperation in carrying out the decisions. (iv) It provides opportunity for training of employees and their development.

Some Disadvantages which includes are: However, group decision making is not free from limitations. The important weaknesses may be enumerated as follows, (i) it is costly as well as a time - consuming affair and as such, cannot be recommended particularly in situations where decisions must be made promptly. (ii) More often differences in opinion and compromises lead to indecision. (iii) It is also observed that group decisions help members evading their individual responsibilities. (iv) If an influential member of the group is able to dominate discussion in the meetings, decision so made does not represent synthesis of view point~ of different interests.'

8.7. RATIONALITY IN DECISION MAKING:

Effective decision making requires a rational selection of a course of action. But what is rationality? Certain conditions must be met before we can say that people are acting or deciding rationally.

- i) They must be attempting to reach some goal that could not be attained without positive action.,
- ii) They must have a clear understanding of alternative courses by which a goal could be reached under existing circumstances and limitations.
- iii) They must have the information and the ability to analyze and evaluate alternatives in the light of the goal sought.
- iv) Finally, they must have a desire to come to the best solution by selecting the alternative that best satisfies goal achievement.

Complete rationality can seldom be achieved, particularly in the area of managing; what a manager must settle for is limited rationality. or what has been called "bounded" rationality, It view of the very great limits to being completely rational in practice. it is not surprising that manages sometimes allow their dislike of risk the desire to "play it safe" - to interfere with the desire to reach the best solution. This was referred by Herbert I Simon' as "satisfying", picking a course of action that is satisfactory or "good enough" under t1 l6circumstances.

8.8. SYSTEM APPROACH AND DECISION MAKING:

Decisions cannot usually be made in a closed - system environment. As emphasized earlier in the unit on planning premises, many elements of the environment of planning lie outside the enterprise. In addition, every department or section of an enterprise is a subsystem of the entire enterprise; managers of these organisational units must be responsive to the policies and programmes of other organisation units and of the total enterprise. Moreover, people within the enterprise are a part of the social system, and their thinking and attitudes must be taken into account whenever a manager makes a decision.

8.10 DECISION MAKING TECHNIQUES:

8.10.1. Marginal Analysis:

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

8.10.2. Financial Analysis:

This decision-making tool is used to estimate the profitability of an investment, to calculate the payback period (the period taken for the cash benefits to account for the original cost of an investment), and to analyze cash inflows and cash outflows. Investment alternatives can be evaluated by discounting the cash inflows and cash outflows (discounting is the process of determining the present value of a future amount, assuming that the decision-maker has an opportunity to earn a certain return on his money).

8.10.3. Break-Even Analysis:

This tool enables a decision-maker to evaluate the available alternatives based on price, fixed cost and variable cost per unit. Break-even analysis is a measure by which the level of sales necessary to cover all fixed costs can be determined. Using this technique, the decision-maker can determine the break-even point for the company as a whole, or for any of its products. At the break-even point, total revenue equals total cost and the p

8.10.4. Ratio Analysis:

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

8.10.5. Operations Research Techniques:

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

8.10.6. Linear Programming:

Linear programming is a quantitative technique used in decision-making. It involves making an optimum allocation of scarce or limited resources of an organization to achieve a particular objective. The word 'linear' implies that the relationship among different variables is proportionate. The term 'programming' implies developing a specific mathematical model to optimize outputs when the resources are scarce. In order to apply this technique, the situation must involve two or more activities competing for limited resources and all relationships in the situation must be linear.

8.10.7. Waiting-line Method:

This is an operations research method that uses a mathematical technique for balancing services provided and waiting lines. Waiting lines (or queuing) occur whenever the demand for the service exceeds the service facilities. Since a perfect balance between demand and supply cannot be achieved, either customers will have to wait for the service (excess demand) or there may be no customers for the organization to serve (excess supply). When the queue is long and the customers have to wait for a long duration, they may get frustrated. This may cost the firm its customers. On the other hand, it may not be feasible for the firm to maintain facilities to provide quick service all the time since the cost of idle service facilities have to be borne by the company. The firm, therefore, has to strike a balance between the two. The queuing technique helps to optimize customer service on the basis of quantitative criteria. However, it only provides vital information for decision-making and does not by itself solve

the problem. Developing queuing models often requires advanced mathematical and statistical knowledge.

8.10.8. Game Theory:

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

The primary aim of game theory is to develop rational criteria for selecting a strategy. It is based on the assumption that every player (a competitor) in the game (decision situation) is perfectly rational and seeks to win the game. In other words, the theory assumes that the opponent will carefully consider what the decision-maker may do before he selects his own strategy. Minimizing the maximum loss (minimax) and maximizing the minimum gain (maximin) are the two concepts used in game theory.

8.10.9. Simulation:

This technique involves building a model that represents a real or an existing system. Simulation is useful for solving complex problems that cannot be readily solved by other techniques. In recent years, computers have been used extensively for simulation. The different variables and their interrelationships are put into the model. When the model is programmed through the computer, a set of outputs is obtained. Simulation techniques are useful in evaluating various alternatives and selecting the best one. Simulation can be used to develop price strategies, distribution strategies, determining resource allocation, logistics, etc.

8.10.10. Decision Tree:

This is an interesting technique used for analysis of a decision. A decision tree is a sophisticated mathematical tool that enables a decision-maker to consider various alternative courses of action and select the best alternative. A decision tree is a graphical representation of alternative courses of action and the possible outcomes and risks associated with each action. In this technique, the decision-maker traces the optimum path through the tree diagram. In the tree diagram the base, known as the 'decision point,' is represented by a square. Two or more chance events follow from the decision point. A chance event is represented by a circle and constitutes a branch of the decision tree. Every chance event produces two or more possible outcomes leading to subsequent decision points.

8.10. SUMMARY:

The role of premises in planning, the types of premises is discussed. The planning premises are classified as internal/external, quantitative / qualitative; controllable / non - controllable. Later, it was also explained the concept of decision making, its process, group decision making, systems approach to decision making and decision-making techniques.

8.11 Key Words

Planning premise: is a set of assumptions that are derived from forecasting the future. It is a logical and systematic estimate of the future factors that can affect planning. Planning premises provide a background against which the estimated events take place.

Management by objectives (MBO) is a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees.

Decision making: Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions.

8.11. SELF ASSESSMENT QUESTIONS

1. What is the importance of premises in planning?
2. Describe briefly external and internal premises in planning?
3. Describe the 'decision making process in organisation.
4. Examine the role of Group Decision Making in Organisation.
5. What is bounded rationality in decision making?
6. What are various techniques of decision making?
7. What is MBO? Explain the process of MBO.

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UNIT - III

LESSON-9 ORGANIZING

Learning Objectives

- To study the Purpose of the Organization
- To Learn the Nature of Organization
- To Understand the Formal and Informal Organisation

Structure

9.0 Introduction

9.1 Definition of organizing

9.2 Nature of Organizing

9.3 Purpose of organizing

9.4 Formal & Informal Organisation

9.5 Informal Organization

9.6 Summary

9.7 key words

9.8 Self-Assessment Questions

9.9 Further Readings

9.0 INTRODUCTION

Once the plans have been laid down and objectives specified therein, the next step is to organise resources in a manner which leads to the accomplishment of objectives. A critical issue in accomplishing the goals specified in the planning process is structuring the work of an organisation to adapt to the dynamic business environment. The activities of an enterprise must be organised in such a manner that plans can be successfully implemented. For planning to be fruitful a number of considerations like resources that will be needed, optimum utilisation of the same translation of work into attainable tasks, empowering the workforce to accomplish these tasks etc., need to be understood and dealt with properly. It is evident from the way Wipro has moved towards reaching for its goal of becoming a globally successful technology company, that organising plays a significant role in implementation of plans. What has Wipro done to become a contending force among other global giants? Are there lessons to be learnt from Wipro's approach? Wipro organised itself in a manner that allowed customer orientation to dominate over other goals and diversified on the basis of product lines. It also modified the relationships within the management hierarchy to suit the goals. The management function of organising ensures that efforts are directed towards the attainment of goals laid down in the planning function in such a manner that resources are used optimally and people are able to work collectively and effectively for a common

purpose. Thus, it is in the context of effective management that the organisation function earns due importance. It is a means for translating plans into action. The organising function leads to the creation of an organisational structure which includes the designing of roles to be filled by suitably skilled people and defining the inter relationship between these roles so that ambiguity in performance of duties can be eliminated. Not only is this important for productive cooperation between the personnel but also for clarification of extent of authority, as well as responsibility for results and logical grouping of activities.

9.1 Definition of Organizing

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

Louis Allen

Organising is the process of defining and grouping the activities of the enterprise and establishing authority relationships among them.

Theo Haimman D

9.2 Nature of Organizing

9.2.1 Identification and division of work

The first step in the process of organising involves identifying and dividing the work that has to be done in accordance with previously determined plans. The work is divided into manageable activities so that duplication can be avoided and the burden of work can be shared among the employees.

9.2.2 Departmentalisation

Once work has been divided into small and manageable activities then those activities which are similar in nature are grouped together. Such sets facilitate specialisation. This grouping process is called departmentalisation. Departments can be created using several criteria as a basis. Examples of some of the most popularly used basis are territory (north, south, west etc.) and products (appliances, clothes, cosmetics etc).

9.2.3 Assignment of duties:

It is necessary to define the work of different job positions and accordingly allocate work to various employees. Once departments have been formed, each of them is placed under the charge of an individual. Jobs are then allocated to the members of each department in accordance to their skills and competencies. It is essential for effective performance that a proper match is made between the nature of a job and the ability of an individual. The work must be assigned to those who are best fitted to perform it well. (iv) Establishing reporting relationships: Merely allocating work is not enough. Each individual should also know who he has to take orders from and to whom he is accountable. The establishment of such clear relationships helps to create a hierarchal structure and helps in coordination amongst various departments.

9.3 PURPOSE OF ORGANISING

Performance of the organising function can pave the way for a smooth transition of the enterprise in accordance with the dynamic business environment. The significance of the organising function mainly arises from the fact that it helps in the survival and growth of an enterprise and equips it to meet various challenges. In order for any business enterprise to perform tasks and successfully meet goals, the organising function must be properly performed. The following points highlight the crucial role that organising plays in any business enterprise:

9.3.1 Benefits of specialisation

Organising leads to a systematic allocation of jobs amongst the work force. This reduces the workload as well as enhances productivity because of the specific workers performing a specific job on a regular basis. Repetitive performance of a particular task allows a worker to gain experience in that area and leads to specialisation.

9.3.2 Clarity in working relationships

The establishment of working relationships clarifies lines of communication and specifies who is to report to whom. This removes ambiguity in transfer of information and instructions. It helps in creating a hierarchical order thereby enabling the fixation of responsibility and specification of the extent of authority to be exercised by an individual.

9.3.3 Optimum utilization of resources

Organising leads to the proper usage of all material, financial and human resources. The proper assignment of jobs avoids overlapping of work and also makes possible the best use of resources. Avoidance of duplication of work helps in preventing confusion and minimising the wastage of resources and efforts.

9.3.4 Adaptation to change

The process of organising allows a business enterprise to accommodate changes in the business environment. It allows the organisation structure to be suitably modified and the revision of inter-relationships amongst managerial levels to pave the way for a smooth transition. It also provides much needed stability to the enterprise as it can then continue to survive and grow inspite of changes.

9.3.5 Effective administration

Organising provides a clear description of jobs and related duties. This helps to avoid confusion and duplication. Clarity in working relationships enables proper execution of work. Management of an enterprise thereby becomes easy and this brings effectiveness in administration

9.3.6 Development of personnel

Organising stimulates creativity amongst the managers. Effective delegation allows the managers to reduce their workload by assigning routine jobs to their subordinates. The reduction in workload by delegation is not just necessary because of limited capacity of an individual but also allows the manager to develop new methods and ways of performing tasks. It gives them the time to explore areas for growth and the opportunity to innovate thereby strengthening the company's competitive position. Delegation also develops in the

subordinate the ability to deal effectively with challenges and helps them to realise their full potential.

9.3.7 Expansion and growth

Organising helps in the growth and diversification of an enterprise by enabling it to deviate from existing norms and taking up new challenges. It allows a business enterprise to add more job positions, departments and even diversify their product lines. New geographical territories can be added to current areas of operation and this will help to increase customer base, sales and profit. Thus, organising is a process by which the manager brings order out of chaos, removes conflict among people over work or responsibility sharing and creates an environment suitable for teamwork.

9.4 FORMAL AND INFORMAL ORGANISATION

The formal organisation is a system of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability.

Louis Allen

Formal organisation is a system of consciously coordinated activities of two or more persons toward a common objective.

Chester Barnard

Formal organisation refers to the organisation structure which is designed by the management to accomplish a particular task. It specifies clearly the boundaries of authority and responsibility and there is a systematic coordination among the various activities to achieve organisational goals. The structure in a formal organisation can be functional or divisional.

9.4.1 Features

- (a) It specifies the relationships among various job positions and the nature of their interrelationship. This clarifies who has to report to whom.
- (b) It is a means to achieve the objectives specified in the plans, as it lays down rules and procedures essential for their achievement.
- (c) Efforts of various departments are coordinated, interlinked and integrated through the formal organisation.
- (d) It is deliberately designed by the top management to facilitate the smooth functioning of the organisation.
- (e) It places more emphasis on work to be performed than interpersonal relationships among the employees.

9.4.2 Advantages

Some of the important ones are:

- (a) It is easier to fix responsibility since mutual relationships are clearly defined.

- (b) There is no ambiguity in the role that each member has to play as duties are specified. This also helps in avoiding duplication of effort.
- (c) Unity of command is maintained through an established chain of command.
- (d) It leads to effective accomplishment of goals by providing a framework for the operations to be performed and ensuring that each employee knows the role he has to play.
- (e) It provides stability to the organisation. This is because behaviour of employees can be fairly predicted since there are specific rules to guide them.

9.4.3 Limitations

The formal organisation suffers from the following limitations:

- (a) The formal communication may lead to procedural delays as the established chain of command has to be followed which increases the time taken for decision making.
- (b) Poor organisation practices may not provide adequate recognition to creative talent, since it does not allow any deviations from rigidly laid down policies.
- (c) It is difficult to understand all human relationships in an enterprise as it places more emphasis on structure and work. Hence, the formal organisation does not provide a complete picture of how an organisation works.

9.5 INFORMAL ORGANISATION

Interaction among people at work gives rise to a 'network of social relationships among employees' called the informal organisation. Informal organisation emerges from within the formal organisation when people interact beyond their officially defined roles. When people have frequent contacts they cannot be forced into a rigid formal structure. Rather, based on their interaction and friendship they tend to form groups which show conformity in terms of interest. Examples of such groups formed with common interest may be those who take part in cricket matches on Sundays, meet in the cafeteria for coffee, are interested in dramatics etc. Informal organisation has no written rules, is fluid in form and scope and does not have fixed lines of communication. The Table in the next page compares informal organisation with the formal organisation to provide better understanding of both types.

9.5.1 Features of Informal Organisation

- (a) An informal organisation originates from within the formal organisation as a result of personal interaction among employees.
- (b) The standards of behaviour evolve from group norms rather than officially laid down rules and regulations.
- (c) Independent channels of communication without specified direction of flow of information are developed by group members.
- (d) It emerges spontaneously and is not deliberately created by the management.
- (e) It has no definite structure or form because it is a complex network of social relationships among members.

9.5.2 Advantages

The informal organisation offers many benefits. Important among them are given below:

- (a) Prescribed lines of communication are not followed. Thus, the informal organisation leads to faster spread of information as well as quick feedback.
- (b) It helps to fulfill the social needs of the members and allows them to find like minded people. This enhances their job satisfaction since it gives them a sense of belongingness in the organisation.
- (c) It contributes towards fulfillment of organisational objectives by compensating for inadequacies in the formal organisation. For example, employees reactions towards plans and policies can be tested through the informal network

9.5.3 Disadvantages

The informal organisation has certain disadvantages. Some of them are as follows:

- (a) Informal organisation may become a disruptive force when it spreads rumours. This may work against the interest of the formal organisation.
- (b) The management may not be successful in implementing changes if the informal organisation opposes them. Such resistance to change may delay or restrict growth.
- (c) It pressurises members to conform to group expectations. This can be harmful to the organisation if the norms set by the group are against organisational interests. Informal organisation cannot be altogether eliminated. Thus, it would be in the best interest of the organisation if the existence of such groups is recognised and the roles that their members play are identified. The knowledge of such groups can be used to gather their support and consequently lead to improved organisational performance. Such groups can also provide useful communication channels. Instead of confronting them, the management should skillfully take advantage of both the formal and informal organisation so that work continues smoothly.

9.6 Summary

Organising helps in the growth and diversification of an enterprise by enabling it to deviate from existing norms and taking up new challenges. It allows a business enterprise to add more job positions, departments and even diversify their product lines. It gives them the time to explore areas for growth and the opportunity to innovate thereby strengthening the company's competitive position. Delegation also develops in the subordinate the ability to deal effectively with challenges and helps them to realise their full potential.

9.7 Key words

Organizing -Organising is the process of defining and grouping the activities of the enterprise and establishing authority relationships among them

Formal organisation- Formal organisation refers to the organisation structure which is designed by the management to accomplish a particular task

Informal Organization - Interaction among people at work gives rise to a 'network of social relationships among employees' called the informal organisation

Departmentalisation- Once work has been divided into small and manageable activities then those activities which are similar in nature are grouped together

9.8 Self-Assessment Questions

1. Define Organizing? Discuss the Nature and Purpose of Organizing?
2. Examine the difference between the Formal and Informal Organization?
3. Explain the advantages and Disadvantages of Informal Organisation?

9.9 Further Readings

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LESSON-10

ORGANIZATION STRUCTURE

Learning Objectives

- To study the types of Organization charts
- To Learn the principles of organization charts
- To Understand on the types of the organization structure

Structure

10.0 Introduction

10.1 Factors influencing the organisation structure

10.2 Types of Organisation Charts

10.3 Principles of Organization charts

10.4 Organisation structure

10.5 Types of Organization structure

10.6 Summary

10.7 Key words

10.8 Self Assessment Questions

10.9 Further Readings

10.0 INTRODUCTION

Organization chart is a diagrammatical presentation of relationships in an enterprise. The functions and their relationships, the channels of authority and relative authority of different managers etc. are depicted in an organizational chart.

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

Organization charts can be divided into:

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

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

10.1 Factors influencing organisation structure

The organisation function is the immediate logical function after planning. To achieve the objectives set in the plan, somebody should work and should do the right work. The organising function makes the people to work. The function "involves managers in decisions which result in a system of specialised coordinated jobs." In an organisation structure so many aspects are involved. Human and non-human elements will be working. Organisational structure is an integrated whole. Job of each worker is specified, control measures are adopted for performing those jobs effectively. An organisational chart depicts tangibly the reporting relationships and channels of communication.

10.1.1 Size of the Unit

Size indicates the scale of operation. Normally there are three scales of operation, viz., small, medium and large. Size is an important factor governing cost, efficiency and profitability of a business enterprise. Before any business or non-business enterprise is started, the organisers will have to decide the most profitable and viable size of the unit. Optimum or the best size is a dynamic concept and it changes with the development of science and technology. Therefore, technology is one factor which determines the size and the organisation structure. To introduce new technology, in business enterprise, the activity has to be expanded and hence the structure changes.

10.1.2 Job Design.

The bricks that develop an organisation structure are jobs. What are the jobs to be done in an organisation has to be decided by the top brass. Job design is the first managerial decision of the organisation structure. Jobs in a task have to be specified as one person cannot perform a task. It is a team work. Job in each task is to be specified and assigned. What an individual has to do to contribute to the overall tasks and objectives has to be decided. Therefore the fundamental factor, which determines the organisation structure is "Job designing" and "numbering" them. These numbers decide the size of the organisation.

10.1.3. Grouping of Activities

The designed jobs have to be formed into groups according to the nature of activity. Grouping of activities are essential to achieve coordination. Each group is termed as "DEPARTMENT." Departmentation is another factor which determines the organisation structure. Thus in each business organisation we observe departments like Marketing Department, Production Department, Finance Department etc which discharge their functions.

10.1.4 Span of Control

Another factor that determines the organisation structure is the number of persons to be managed by each manager. This is called "Span of management." Depending upon the nature of organisation some departments will be big in size and some will be small. Therefore, each manager should be assigned with manageable tasks and personnel. If the tasks are many in a department, there should be splitting the tasks into number of divisions and lower levels are to be created. All this takes place depending upon resources and personnel available. However, the span of management, i.e., the number of persons to be

managed by each manager, has to be decided and that becomes one of the major factors to decide the size of organisation structure. The number varies from manager to manager and the number determines the span. Manageable span found out by experience is six, i.e., one manager can manage six, persons effectively.

10.1.5 Delegation of Authority.

Authority relationship also decides the organisation structure. If the span is more, there will be more authority levels and top management has to delegate authority to each level. Authority, means "the right to make decisions without having to obtain approval from a higher up." In an organisation structure, if the span and levels of management are more, the delegation of authority will be more and there will be decentralisation of authority for smooth functioning of tasks. If the span is narrow, less levels and more centralisation of authority. Thus delegation of authority decides the organisation structure.

10.2 TYPES OF ORGANIZATION CHARTS

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

(i) Vertical

(ii) Horizontal

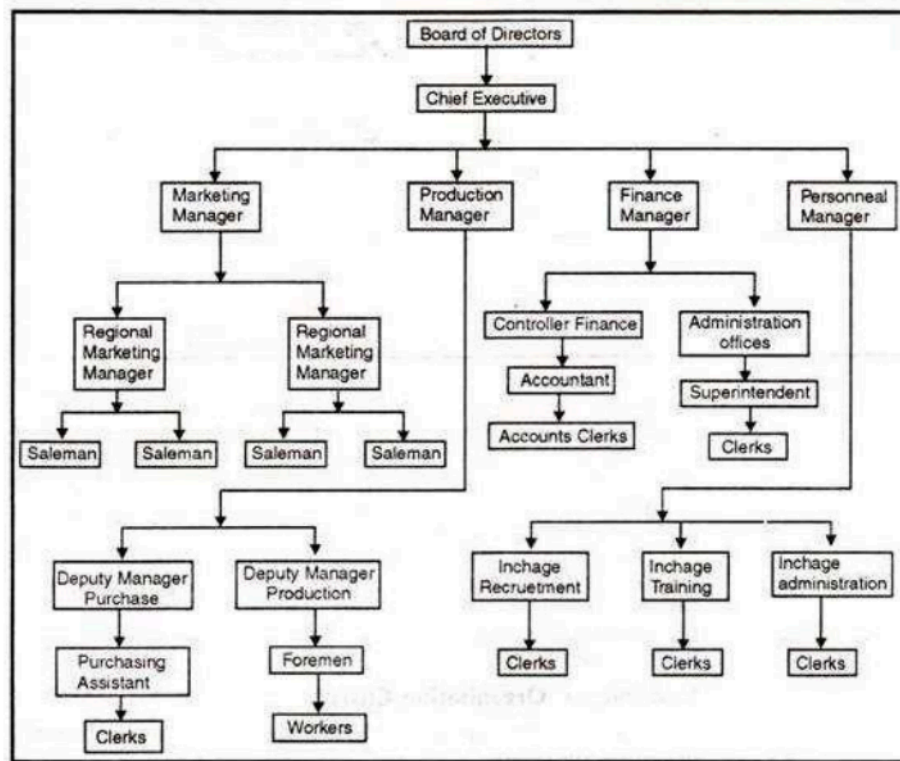
(iii) Circular

(i) Vertical or Top to Bottom:

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

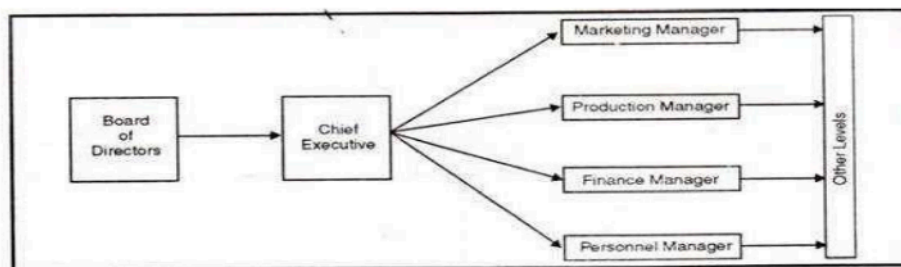
10.2.1 Vertical Type of Organisation Chart

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



10.2.2 Horizontal or Left to Right

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



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

Horizontal Type of Organisation Chart

10.2.3 Circular

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

10.3 Principles of Organization Charts

Following principles should be kept in mind while framing organization charts:

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

10.3.1 Advantages of Organization Charts

1. An organization chart is a managerial tool. It helps in specifying authority and responsibility of every position.

The relationships among different persons are also established for smooth working of the organization.

2. As organization chart specifically defines authority and responsibility of people in the enterprise there will be no duplication and overlapping of duties etc. Even if it happens in a particular instance it can be rectified immediately.

3. The organization chart will help in pointing out the faults, deficiencies, dual command etc. in the organization. The management will be able to take prompt remedial action in case of certain lacuna.

4. The organization chart acts as an information centre to the new entrants and they can easily understand different levels of authority and responsibility.

5. The charts are also helpful in decision-making process. They act as a guide to the decision makers.

10.3.2 Limitations of Organization Charts

The organization charts suffer from the following drawbacks:

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

10.4 ORGANISATION STRUCTURE

Organisation structure is the outcome of the organising process. An effective structure will result in increased profitability of the enterprise. The need for an adequate organisation structure is felt by an enterprise whenever it grows in size or complexity. It is only those enterprises which do not focus on growth that can maintain a particular structure for a long period of time. However, it is important to understand that such stagnancy may prove to be detrimental to an enterprise as those companies which do not change at all will close down or cease to grow. As an organisation grows, coordination becomes difficult due to the emergence of new functions and increase in structural hierarchies. Thus, for an organisation to function smoothly and face environmental changes, it becomes necessary to pay attention to its structure. Peter Drucker emphasises on the importance of having an appropriate organisation structure when he says, "organisation structure is an indispensable means; and the wrong structure will seriously impair business performance and even destroy it." The organisation structure can be defined as the framework within which managerial and operating tasks are performed. It specifies the relationships between people, work and resources. It allows correlation and coordination among human, physical and financial resources and this enables a business enterprise to accomplish desired goals. The organisation structure of a firm is shown in an organisation chart. The span of management, to a large extent gives shape to the organisational structure. Span of management refers to the number of subordinates that can be effectively managed by a superior. This determines the levels of management in the structure. A proper organisation structure is essential to ensure a smooth flow of communication and better control over the operations of a business enterprise. An organisation structure provides the framework which enables the enterprise to function as an integrated unit by regulating and coordinating the responsibilities of individuals and departments.

10.5 TYPES OF ORGANISATION STRUCTURES

10.5.1. Bureaucratic Structures

The bureaucratic structure has some level of standardization. This structure defined the clear roles and responsibilities of every individual employee. It is a hierarchical structure, with respect to merit. It has many levels, so decision-making authority has to pass through more layers than flatter organizations. A disadvantage of bureaucratic structures is that they can discourage innovation and creativity within the organization. This type of structures is usually used in larger organizations.

10.5.2. Hierarchical Organizational Structure

The hierarchy phenotype model of the organizational structure shows an organization having both community and hierarchy in the same structure. A hierarchical organizational structure is a pyramid-shaped chart where the board of directors is at the top position and workers are at the bottom level. This is the most common type of organizational structure. Each employee has a supervisor in this organizational structure.

Some advantages of this structure are- it gives every employee a speciality and creates a healthy working environment. It motivates employees with chances for promotion. Above all, it better defines levels of authority and responsibility.

Some of the major disadvantages are – it can slow down innovation due to increased bureaucracy. Employees show interest in their own departments rather than the whole company. It can make lower-level employees think that they have less authority to express their ideas for the company.

10.5.3.Functional Organizational Structure

A functional organizational structure consists of activities like task allocation, supervision and coordination. Functional Structure is also like a hierarchical structure. A person with the highest level of responsibility positioned at the top and employees are positioned according to their skills and speciality. Each department here is managed independently.

Some advantages of this structure are – It allows employees to focus on their role help teams and departments feel self-determined. It also encourages specialization, and it is scalable.

Some of the important disadvantages are – it can affect interdepartmental communication and create silos within an organization.

10.5.4. Divisional Organizational Structure

Divisional organizational structure is one of the smartest organizational structure ever. In this structure, an organization is separated into some divisions, and each division has control over its own resources and operations. This structure is specially designed for large companies.

10.5.5 Geographic Divisional Organizational Structure

Divisions are separated by districts, territories and regions offering more effective localization and logistics. Companies might set up satellite offices around the country in order to stay close and connected to their customers.

10.4.6 Market-Based Divisional Organizational Structure

The divisions are separated by industry, market and customer types. The market-based structure is ideal for an organization that has product or services that are incomparable to specific market segments, and it is especially effective if that organization has advanced knowledge of those segments. This structure also keeps the business constantly conscious of demand changes among its different audience segments

Advantages & Disadvantages of Divisional Structure

The major advantages of the divisional structure are- it helps large companies to stay flexible, and it promotes autonomy and a customized approach. It also allows for a faster response to customer need

some disadvantages of the divisional structure. First of all, duplicate resources can dominate easily and result in a company competing with itself.

10.5.7 Matrix Structure

The matrix organizational structure groups employees by both function and product at the same time. This organizational chart looks like a grid and it displays cross-functional teams that form for specific projects. It doesn't follow the traditional hierarchical model. In this structure, employees have dual reporting relationships. The main objective of this structure is to provide both flexibility and more balanced decision making.

For Example – An engineer may regularly belong to the technical department under the engineering director but work on a temporary project under the project manager.

Some advantages of the matrix structure are, it lets supervisors easily choose individuals through the needs of a project. It shows the more kinetic view of the organization and it inspires employees to use their ability or skills in various capacities aside from their original roles.

And the disadvantages are – it can create a conflict between project managers and departmental managers. It can also change more frequently than other organizational structures.

10.5.8. Flat or Horizontal Organizational Structure

A flat or horizontal structure can fit companies with few levels between upper-level management and lower-level employees. Basically, startup businesses use this type of structure to grow. This structure is completely free of hierarchy related pressure so that employees can be more productive.

Some of the advantages of this structure are – it gives employees more responsibility and provides a better opportunity to grow. It also promotes more open communication and improves coordination.

Some disadvantages are – it can be difficult to maintain when the company grows beyond the startup state. It produces employees with more generalized skills and knowledge. It can also create confusion between employees of different level.

10.5.9. Circular Organizational Structure

The appearance of circular organizational structure is different from the rest of organizational structures but it still relies on the hierarchy, in which higher-level employees occupying the inner rings of the circle while the lower-level employees occupying outer rings.

The advantages of circular organizational structure are – It meant to promote communication and free flow of information between different parts of the organization. Now here are some disadvantages of the circular organizational structure. The circular structure can be confusing for the new employees. Unlike a hierarchical structure, a circular structure makes it difficult to find out whom to report and how they're meant to fit into the organization.

10.5.10 Team-based Organizational Structure

The team is the newest organizational structure developed in the 20th century. In a small business, the team-based structure defines the entire organization. It can be both horizontal and vertical. A team organizational structure is meant to disrupt the traditional hierarchy, giving employees more control, cooperation and focusing more on problem-solving.

Advantages of this structure are – it increases performance, productivity and transparency within an organization. It values experience rather than seniority and promotes an aggressive business mindset. It requires minimal management and can fit anywhere. Some disadvantages of this type of organizational structure. The promotional path is less clear in this structure. It goes against the traditional hierarchical system.

10.5.11 Network-Based Organizational Structure

Network Structure is a modern concept. The network organization contract out any business function that can be done better and more cheaply. Managers in this structure spend most of their time coordinating and controlling external relations. It makes sense of the spread of resources. The advantages of this structure are – it focuses more on open communication rather than hierarchy and allows companies to be more flexible. It gives all employees the power to collaborate and make decisions. It also helps employees to understand workflow and processes deeply.

10.6 Conclusion

An organizational structure is a visual diagram of a company that describes what employees do, whom they report to, and how decisions are made across the business. Organizational structures can use functions, markets, products, geographies, or processes as their guide, and cater to businesses of specific sizes and industries. As the company gets bigger, an organizational structure can also be helpful for new employees as they learn who manages what processes at company. Then, if they need to pivot or shift your leadership, it can visualize how the work flows would work by adjusting your organizational structure diagrams. To put it simply, this chart like a map that simply explains how the company works and how its roles are organized.

10.7 key words

Matrix Organization structure- The matrix organizational structure groups employees by both function and product at the same time.

Circular Organization structure- The appearance of circular organizational structure is different from the rest of organizational structures but it still relies on the hierarchy, in which higher-level employees occupying the inner rings of the circle while the lower-level employees occupying outer rings

Flat or horizontal structure- A flat or horizontal structure can fit companies with few levels between upper-level management and lower-level employees

Span of control- It determines the organisation structure is the number of persons to be managed by each manager. This is called "Span of management"

Division organization structure- Divisional organizational structure is one of the smartest organizational structure

Functional organizational structure-Functional organizational structure consists of activities like task allocation, supervision and coordination

Bureaucratic Structures- The bureaucratic structure has some level of standardization. This structure defined the clear roles and responsibilities of every individual employee

10.8 Self-Assessment Questions

1. Discuss the Principles of Organization charts?
2. Briefly Explain the Types of Organization charts?
3. Describe the Types of Organization structure

10.9 Further readings

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LESSON-11

DEPARTMENTATION

Learning Objectives

- To study the importance of Departmentation
- To define the types of Departmentation
- To design the line and staff authority
- To focus on the merits and demerits of line staff organisation

Structure

- 11.0 Introduction**
- 11.1 Need and Importance of Departmentation**
- 11.2 Types of Departmentation**
- 11.3 Line and Staff Authority**
- 11.4 Line and Staff Position**
- 11.5 line and staff organization**
- 11.6 Merits of Line and Staff organization**
- 11.7 Demerits of Line and Staff Organisation**
- 11.8 Summary**
- 11.9 Key words**
- 11.10 Self Assessment questions**
- 11.11 Further Readings**

11.0 INTRODUCTION

Departmentation' or 'Departmentalisation' is the process of grouping the activities of an enterprise into several units for the purpose of administration at all levels. The administrative units so created may be designated as departments, divisions, units, branches, sections, etc. The process of organising consists of dividing and grouping of the works to be done in an enterprise and assigning different duties and responsibilities to different people.

Dividing the work naturally means the identification of individual activities which have to be undertaken for the attainment of the organisational objectives. But once the various activities have been identified, it is necessary to group them together on some logical basis so that a team can be organised. Departmentation can provide a necessary degree of specialisation of executive activity for efficient performance. It can simplify the tasks of management within a workable span. It also provides a basis on which the top managers can co-ordinate and control the activities of the departmental units.

11.1 NEED AND IMPORTANCE OF DEPARTMENTATION

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

Departmentation is necessary on account of the following reasons:

11.1.1 Advantages of Specialisation

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

11.1.2. Feeling of Autonomy

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

11.1.3. Expansion

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

11.1.4. Fixation of Responsibility

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

11.1.5. Upliftment of Managerial Skill

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

11.1.6. Facility in Appraisal

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

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

11.1.7. Administrative Control

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

11.2 TYPES OF DEPARTMENTATION

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

11.2.1 Departmentation by Functions

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

The organisation chart based on functional departmentation is shown in Fig.

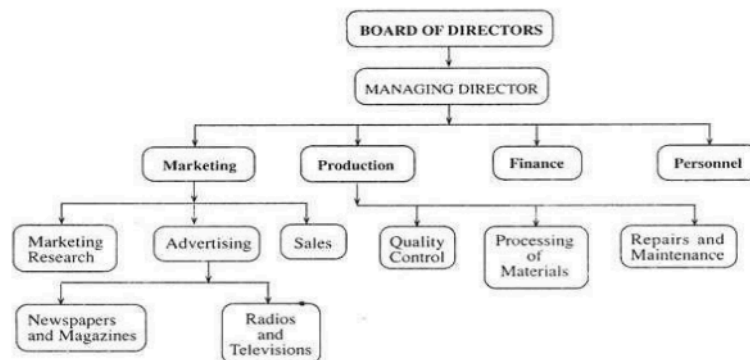


Fig. 4.10: Functional Departmentations.

Functional Departmentations

Advantages

The advantages of functional departmentation include the following:

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

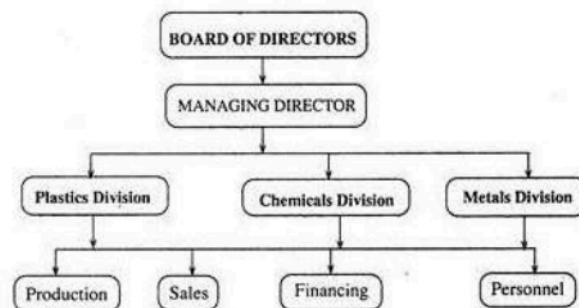
- (b) It ensures the performance of all activities necessary for achieving the organisational objectives.
- (c) It provides occupational specialisation which makes optimum utilization of man-power.
- (d) It facilitates delegation of authority.
- (e) It enables the top managers to exercise effective control over a limited number of functions.
- (f) It eliminates duplication of activities.
- (g) It simplifies training because the managers are to be experts only in a narrow range of skills.

Disadvantages

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

- (a) There may be conflicts between departments.
- (b) The scope for management development is limited. Functional managers do not get training for top management positions. The responsibility for results cannot be fixed on any one functional head.
- (c) There is too much emphasis on specialisation.
- (d) There may be difficulties in coordinating the activities of different departments.
- (e) There may be inflexibility and complexity of operations.

11.2.2 Departmentation by Products



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

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

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

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

- (a) Product departmentation focuses individual attention to each product line which facilitates the expansion and diversification of the products.
- (b) It ensures full use of specialised production facilities. Personal skill and specialised knowledge of the production managers can be fully utilised.
- (c) The production managers can be held accountable for the profitability of each product. Each product division is semi-autonomous and contains different functions. So, product departmentation provides an excellent training facility for the top managers.
- (d) The performance of each product division and its contribution to total results can be easily evaluated.
- (e) It is more flexible and adaptable to change.

Disadvantages

Product departmentation presents some problems as follows:

- (a) It creates the problem of effective control over the product divisions by the top managers.
- (b) Each production manager asserts his autonomy disregarding the interests of the organisation.
- (c) The advantages of centralisation of certain activities like financing, and accounting are not available.
- (d) There is duplication of physical facilities and functions. Each product division maintains its own specialised personnel due to which operating costs may be high.
- (e) There may be under-utilisation of plant capacity when the demand for a particular product is not adequate.

11.2.3 Departmentation By Territory

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

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

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



Advantages

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

- (a) Every regional manager can specialise himself in the peculiar problems of his region.
- (b) It facilitates the expansion of business to various regions.
- (c) It helps in achieving the benefits of local operations. The local managers are more familiar with the local customs, preferences, styles, fashion, etc. The enterprise can gain intimate knowledge of the conditions in the local markets.
- (d) It results in savings in freight, rents, and labour costs. It also saves time.
- (e) There is better co-ordination of activities in a locality through setting up regional divisions.
- (f) It provides adequate autonomy to each regional manager and opportunity to train him as he looks after the entire operation of a unit.

Disadvantages

Territorial departmentation have the following problems:

- (a) There is the problem of communication.
- (b) It requires more managers with general managerial abilities. Such managers may not be always available.
- (c) There may be conflict between the regional managers.

- (d) Co-ordination and control of different branches from the head office become less effective.
- (e) Owing to duplication of physical facilities, costs of operation are usually high.
- (f) There is multiplication of personnel, accounting and other services at the regional level.

11.2.4 Departmentation By Customers

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

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



Advantages

The important advantages of customer departmentation are the following:

- (a) Special attention can be given to the particular tastes and preferences of each type of customer.
- (b) Different types of customers can be satisfied, easily through specialised staff. Customers' satisfaction enhances the goodwill and sale of the enterprise.
- (c) The benefits of specialisation can be gained.
- (d) The enterprise may acquire intimate knowledge of the needs of each category of customers.

Disadvantages

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

- (a) Co-ordination between sales and other functions becomes difficult because this method can be followed only in marketing division.
- (b) There may be under-utilisation of facilities and manpower in some departments, particularly during the period of low demand.
- (c) It may lead to duplication of activities and heavy overheads,
- (d) The managers of customer departments may put pressures for special benefits and facilities.

11.2.5 Departmentation By Process Or Equipment

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

The organisation chart of departmentation by process or equipment in the manufacturing department of a textile industry has been shown in Fig.



11.2.6 Process Departmentation

Advantages

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

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

Disadvantages

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

11.3 LINE AND STAFF AUTHORITY

The line organization is the simplest organizational structure. It is the "doing" organization, in that the work of all organizational units is directly involved in producing and marketing the organization's goods and services. There are direct vertical links between the different levels of the scalar chain. Since there is a clear authority structure, this form of organization promotes greater decision-making and is simple in form to understand.

The aim of any business is to maximize profit. In order to do this there must be division and specialization of labour. This implies that different people come together in order to create a product that has value to consumers. Hence, the activities of different people involved in a business must be coordinated. So there is a need for an organizational structure that brings this coordination about. People in an organization must know first is what their activity is and where it fits into the product as a whole. Second is what their roles is, what responsibilities they have and to whom they are answerable.

Line and staff organisation is a combination of line organisation and functional organisation. It is a type of organisation in which there are two sets of officers for administration, viz., Line officers who have the authority and command over the subordinates and are responsible for the accomplishment of the results. Eg marketing executive and Staff officers or specialists who advice, guide and council to the line officers to help them to discharge their functions efficiently. Eg. Personal Secretary Health institutions in general and tertiary health institutions in particular provide practical examples of line and staff employees' relationship in formal organizations. How this relationship is managed impact directly on the organization's performance in terms of realization of its set goal and objectives. Industrial dynamics presented by tertiary health institutions make them one of the most appropriate organizations for the analysis of line and staff relationship (Bassey et al., 2011). Staffs refers to employees in an organization who function towards providing conducive environment and assistance to line employees to work most effectively in order to accomplish the primary objectives of an organization. Staff perform advising role to line employees in order of authority within the organization. Like technicians, artisans, social workers, psychologists, clerical and engineers are all staff personnel.

11.3.1 Need For Line And Staff Organisation

1. In line organisation, there is unity of command, but there is no specialization.
2. In functional organisation, there is extreme specialisation, but there is no unity of command.
3. To overcome the defects and to take advantage of the merits of both line organisation and functional organisation, line and staff organisation has been evolved.
4. Line and staff organisation is the usual form of organisation found in modern enterprise.

11.3.2 Meaning of Line and Staff Organisation

Line and staff organisation is a combination of line organisation and functional organisation. It is a type of organisation in which there are two sets of officers for administration, viz.,

(1) Line officers who have the authority and command over the subordinates and are responsible for the accomplishment of the results. Eg marketing executive.

(2) Staff officers or specialists who advice, guide and council to the line officers to help them to discharge their functions efficiently. Eg. Personal Secretary

11.3.3 Features Line and Staff Organisation

1. There are two types of staff first is Staff Assistants- Personal Assistant to Managing Director, Secretary to Marketing Manager second is Staff Supervisor- Operation Control Manager, Quality Controller and PRO.

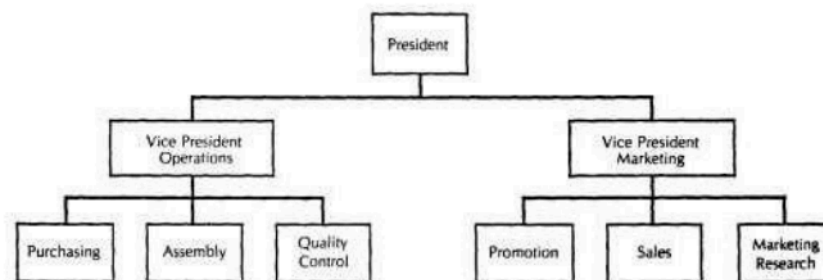
2. Line and Staff Organization is a compromise of line organization.

3. It is more complex than line concern and Division of work and specialization takes place in line and staff organization.

4. The whole organization is divided into different functional areas to which staff specialists are attached. Efficiency can be achieved through the features of specialization

5. Powers of command remains with and staff the line executive serves only as counsellors.

6. There are two lines of authority which flow at one time in a concern that is Line Authority and Staff Authority.



Source: (Montana, et al., 1993)

STAFF ORGANIZATION

When staff specialists are added to a line organization to "advise; "serve;" or "support" the line in some manner, we have a line and staff organization. These specialists contribute to the effectiveness and efficiency of the organization. Their authority is generally limited to making recommendation to the line organization. Sometimes this creates conflict. However, such conflict can be reduced by having staff specialists obtain some line experience, which will tend to make them better understand the problems facing the line managers they support. Such functions as human resources management and research and development are typical staff functions

LINE ORGANIZATION

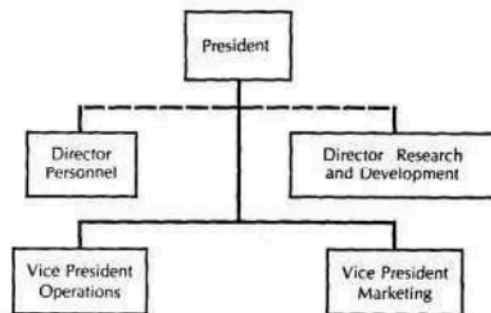
The line organization is the simplest organizational structure. It is the "doing" organization, in that the work of all organizational units is directly involved in producing and marketing the organization's goods and services. There are direct vertical links between the different levels of the scalar chain. Since there is a clear authority structure, this form of organization promotes greater decision-making and is simple in form to understand generating product or service demand. Therefore, line positions, whether they are personnel or managers, engage in activities that are functionally and directly related to the principal workflow of an organization. Staff positions serve the organization by indirectly supporting line functions. Staff positions consist of staff personnel and staff managers. Staff personnel use their technical expertise to assist line personnel and aid top management in various business activities. Staff managers provide support, advice, and knowledge to other individuals in the chain of command. Although staff managers are not part of the chain of command related to direct production of products or services, they do have authority over personnel. An example of a staff manager is a legal adviser. He or she does not actively engage in profit-making activities, but does provide legal support to those who do. Therefore, staff positions, whether personnel or managers, engage in activities that are supportive to line personnel.

11.4 LINE-AND-STAFF POSITIONS

A wide variety of positions exist within a line-and-staff organization. Some positions are primary to the company's mission, whereas others are secondary in the form of support and indirect contribution. Although positions within a line-and-staff organization can be differentiated in several ways, the simplest approach classifies them as being either line or staff. A line position is directly involved in the day-to-day operations of the organization, such as producing or selling a product or service. Line positions are occupied by line personnel and line managers. Line personnel carry out the primary activities of a business and are considered essential to the basic functioning of the organization. Line managers make the majority of the decisions and direct line personnel to achieve company goals. An example of a line manager is a marketing executive.

11.5 LINE-AND-STAFF ORGANIZATION

Although a marketing executive does not actually produce the product or service, he or she directly contributes to the firm's overall objectives through market forecasting and



Source; (Montana, et al., 1993)

LINE AUTHORITY

Line authority flows down the chain of command. For example, line authority gives a production supervisor the right to direct an employee to operate a particular machine, and it gives the vice president of finance the right to request a certain report from a department head. Therefore, line authority gives an individual a certain degree of power relating to the performance of an organizational task. Two important clarifications should be considered, however, when discussing line authority: (1) line authority does not ensure effective performance, and

(2) line authority is not restricted to line personnel. The head of a staff department has line authority over his or her employees by virtue of authority relationships between the department head and his or her directly-reporting employees.

STAFF AUTHORITY

Staff authority is the right to advise or counsel those with line authority. For example, human resource department employees help other departments by selecting and developing a qualified workforce. A quality control manager aids a production manager by determining the acceptable quality level of products or services at a manufacturing company, initiating quality programs, and carrying out statistical analysis to ensure compliance with quality standards. Therefore, staff authority gives staff personnel the right to offer advice in an effort to improve line operations.

FUNCTIONAL AUTHORITY

Functional authority is referred to as limited line authority. It gives a staff person power over a particular function, such as safety or accounting. Usually, functional authority is given to specific staff personnel with expertise in a certain area. For example, members of an accounting department might have authority to request documents they need to prepare financial reports, or a human resource manager might have authority to ensure that all departments are complying with equal employment opportunity laws. Functional authority is a special type of authority for staff personnel, which must be designated by top management.

LINE-AND-STAFF CONFLICT

Due to different positions and types of authority within a line-and-staff organization, conflict between line and staff personnel is almost inevitable. Although minimal conflict due to differences in viewpoints is natural, conflict on the part of line and staff personnel can disrupt an entire organization. There are many reasons for conflict. Poor human relations, overlapping authority and responsibility, and misuse of staff personnel by top management are all primary reasons for feelings of resentment between line and staff personnel. This resentment can result in various departments viewing the organization from a narrow stance instead of looking at the organization as a whole.

Fortunately, there are several ways to minimize conflict. One way is to integrate line and staff personnel into a work team. The success of the work team depends on how well each group can work together in efforts to increase productivity and performance. Another solution is to ensure that the areas of responsibility and authority of both line and staff personnel are clearly defined. With clearly defined lines of authority and responsibility, each group may better understand their role in the organization. A third way to minimize conflict is to hold both line and staff personnel accountable for the results of their own activities. In other words, line personnel should not be entirely responsible for poor performance resulting

from staff personnel advice. Line-and-staff organizations combine the direct flow of authority present within a line organization with staff departments that offer support and advice. A clear chain of command is a consistent characteristic among line-and-staff organizational structures. Problems of conflict may arise, but organizations that clearly delineate responsibility can help minimize such conflict.

11.6 MERITS OF LINE AND STAFF ORGANIZATION

11.6.1 Relief to line of executives

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

11.6.2 Expert advice

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

11.6.3 Benefit of Specialization

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

11.6.4 Better co-ordination

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

11.6.5 Benefits of Research and Development

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

11.6.5 Training

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

11.6.6 Balanced decisions

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

11.6.7Unity of action

Unity of action is a result of unified control. Control and its affectivity take place when co- ordination is present in the concern. In the line and staff authority all the officials

have got independence to make decisions. This serves as effective control in the whole enterprise.

11.7 DEMERITS OF LINE AND STAFF ORGANIZATION

11.7.1 Lack of understanding

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

11.7.2 Lack of sound advice

The line official get used to the expertise advice of the staff. At times the staff specialist also provides wrong decisions which the line executive has to consider. This can affect the efficient running of the enterprise.

11.7.3 Line and staff conflicts

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

11.7.4 Costly

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

11.7.5 Assumption of authority

The power of concern is with the line official but the staffs dislikes it as they are the one more in mental work. • Staffs steal the show- In a line and staff concern, the higher returns are considered to be a product of staff advice and counselling

11.8 Summary

This lesson which was focused on line and staff organization those were Line and staff organisation is a combination of line organisation and functional organisation. In line organisation, there is unity of command, but there is no specialization. In functional organisation, there is extreme specialisation, but there is no unity of command. To overcome the defects and to take advantage of the merits of both line organisation and functional organisation, line and staff organisation has been evolved. Line and staff organisation is the usual form of organisation found in modern enterprise. The whole organization is divided into different functional areas to which staff specialists are attached. Efficiency can be achieved through the features of specialization. There are two lines of authority which flow at one time in a concern first is Line Authority and second is Staff Authority. Both management has two separate hierarchies. There is some conflict between them and some merits and demerits between them.

11.9 Key words

Departmentalisation -Departmentalisation is the process of grouping the activities of an enterprise into several units for the purpose of administration at all levels

Functional Authority-Functional authority is referred to as limited line authority. It gives a staff person power over a particular function, such as safety or accounting

Line and staff organisation -The line organization is the simplest organizational structure. It is the "doing" organization, in that the work of all organizational units is directly involved in producing and marketing the organization's goods and services

Line and staff conflict-Poor human relations, overlapping authority and responsibility, and misuse of staff personnel by top management are all primary reasons for feelings of resentment between line and staff personnel.

11.10 Self-Assessment Questions

1. Define line and Staff organisation? Differentiate between the line and staff organisation?
2. Briefly explain the Need and Importance of Departmentation?
3. Discuss the Merits and Demerits of Line and Staff Organisation

11.11 Further Readings

1. C.B. Mamoria & S.V. Gankar, Personnel Management (Text & Cases); Himalayan Publishing House, New Delhi 2010
2. Andrew J. Dubrin, Essentials of Management, South Western college Publication, 2011.
3. Dipak Kumar Bhattacharya, Principles of Management -Text & Cases, Pearson Publication, 2012.
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LESSON-12

DECENTRALIZATION AND DELEGATION OF AUTHORITY

Learning Objectives

- To Learn the Importance of Delegation of Authority
- To study Elements of Delegation of Authority

Structure

12.0 Introduction

12.1 Concept of Delegation

12.2 Delegation of Authority

12.3 Elements of Delegation

12.4 Importance of Delegation

12.5 Summary

12.6 Key words

12.7 Self Assessment Questions

12.8 Further Readings

12.0 INTRODUCTION

Decentralisation refers to systematic effort to delegate to the lowest level all authority except that which can be exercised at central points. Louis Allen

Everything which goes to increase the importance of a subordinate's role is decentralisation; everything that goes to reduce it is centralisation. Henry Fayol

In many organisations the top management plays an active role in taking all decisions while there are others in which this power is given to even the lower levels of management. Those organisations in which decision making authority lies with the top management are termed as centralised organisations whereas those in which such authority is shared with lower levels are decentralised organisations. Decentralisation explains the manner in which decision making responsibilities are divided among hierarchical levels. Put simply, decentralisation refers to delegation of authority throughout all the levels of the organisation. Decision making authority is shared with lower levels and is consequently placed nearest to the points of action. In other words decision making authority is pushed down the chain of command. When decisions taken by the lower levels are numerous as well as important an organisation can be regarded as greatly decentralised.

12.1 Concept of Delegation

Decentralisation is much more than a mere transfer of authority to the lower levels of management hierarchy. It is a philosophy that implies selective dispersal of authority because it propagates the belief that people are competent, capable and resourceful. They can assume the responsibility for the effective implementation of their decisions. Thus this philosophy recognises the decision maker's need for autonomy. The management, however, needs to carefully select those decisions which will be pushed down to lower levels and those that will be retained for higher levels. Decentralisation is a fundamental step and its importance can be understood from the following points:

12.1.1 Develops initiative among subordinates

Decentralisation helps to promote self-reliance and confidence amongst the subordinates. This is because when lower managerial levels are given freedom to take their own decisions they learn to depend on their own judgment. It also keeps them in a state wherein they are constantly challenged and have to develop solutions for the various problems they encounter. A decentralisation policy helps to identify those executives who have the necessary potential to become dynamic leaders.

12.1.2 Develops managerial talent for the future

Formal training plays an important part in equipping subordinates with skills that help them rise in the organisation but equally important is the experience gained by handling assignments independently. Decentralisation gives them a chance to prove their abilities and creates a reservoir of qualified manpower who can be considered to fill up more challenging positions through promotions. It also helps to identify those who may not be successful in assuming greater responsibility. Thus, it is a means of management education as well as an opportunity for trained manpower to use its talent in real life situations.

12.1.3 Quick decision making

The management hierarchy can be looked upon as a chain of communication. In centralised organisation because every decision is taken by the top management the flow of information is slow as it has to traverse many levels. Response also takes time. This reduces the speed of decision making and makes it difficult for an enterprise to adapt to dynamic operating conditions. In a decentralised organisation, however since decisions are taken at levels which are nearest to the points of action and there is no requirement for approval from many levels, the process is much faster. There are also less chances of information getting distorted because it doesn't have to go through long channels.

12.1.4 Relief to top management

Decentralisation diminishes the amount of direct supervision exercised by a superior over the activities of a subordinate because they are given the freedom to act and decide albeit within limits set by the superior. Also, personal supervision is generally replaced by other forms of control such as return on investment etc. Decentralisation also leaves the top management with more time which they can devote to important policy decisions rather than occupying their time with both policy as well as operational decisions. In fact decentralisation is greatest when checking required on decisions taken by lower levels of management is least.

12.1.5 Facilitates growth

Decentralisation awards greater autonomy to the lower levels of management as well as divisional or departmental heads. This allows them to function in a manner best suited to their department and fosters a sense of competition amongst the departments. Consequently, with each department doing its best in a bid to outdo the other, the productivity levels increase and the organisation is able to generate more returns which can be used for expansion purposes.

12.1.6 Better control

Decentralisation makes it possible to evaluate performance at each level and the departments can be individually held accountable for their results. The extent of achievement of organisational objectives as well as the contribution of each department in meeting the overall objectives can be ascertained. Feedback from all levels helps to analyse variances and improve operations. In decentralisation, one of the challenges is the accountability of performance. In response to this challenge, better control systems are being evolved such as the balance score card and management information system. Decentralisation compels the management to innovative performance measurement systems. As a conclusion, it must be noted that in spite of its benefits decentralisation should be applied with caution as it can lead to organisational disintegration if the departments start to operate on their own guidelines which may be contrary to the interest of the organization.

12.2 DELEGATION OF AUTHORITY

Delegation is the process a manager follows in dividing the work assigned to him so that he performs that part which only he because of his unique organisational placement, can perform effectively and so that he can get others to help with what remains. Louis Allen Delegation of authority merely means the granting of authority to subordinates to operate within prescribed limits.

Theo Haimman

Delegation A manager, no matter how capable he is, cannot manage to do every task on his own. The volume of work makes it impractical for him to handle it all by himself. As a consequence, if he desires to meet the organisational goals, focus on objectives and ensure that all work is accomplished, he must delegate authority. Delegation refers to the downward transfer of authority from a superior to a subordinate. It is a pre-requisite to the efficient functioning of an organisation because it enables a manager to use his time on high priority activities. It also satisfies the subordinate's need for recognition and provides them with opportunities to develop and exercise initiative

Delegation helps a manager to extend his area of operations as without it, his activities would be restricted to only what he himself can do. However, delegation does not mean abdication. The manager shall still be accountable for the performance of the assigned tasks. Moreover, the authority granted to a subordinate can be taken back and redelegated to another person. Thus, irrespective of the extent of delegated authority, the manager shall still be accountable to the same extent as before delegation.

12.3 ELEMENTS OF DELEGATION

According to Louis Allen, delegation is the entrustment of responsibility and authority to another and the creation of accountability for performance. A detailed analysis of Louis

Allen's definition brings to light the following essential elements of delegation: (i) Authority: Authority refers to the right of an individual to command his subordinates and to take action within the scope of his position. The concept



of authority arises from the established scalar chain which links the various job positions and levels of an organisation. Authority also refers to the right to take decisions inherent in a managerial position to tell people what to do and expect them to do it. In the formal organisation authority originates by virtue of an individual's position and the extent of authority is highest at the top management levels and reduces successively as we go down the corporate ladder. Thus, authority flows from top to bottom, i.e., the superior has authority over the subordinate.

12.3.1 Authority relationships

It helps to maintain order in the organisation by giving the managers the right to exact obedience and give directions to the workforce under them. Authority determines the superior subordinate relationship wherein the superior communicates his decision to the subordinate, expecting compliance from him and the subordinate executes the decision as per the guidelines of the superior. The extent to which a superior can exact compliance also depends on the personality of the superior. It must be noted that authority is restricted by laws and the rules and regulation of the organisation, which limit its scope. However, as we go higher up in the management hierarchy, the scope of authority increases.

12.3.2 Responsibility

Responsibility is the obligation of a subordinate to properly perform the assigned duty. It arises from a superior-subordinate relationship because the subordinate is bound to perform the duty assigned to him by his superior. Thus, responsibility flows upwards i.e., a subordinate will always be responsible to his superior. An important consideration to be kept in view with respect to both authority and responsibility is that when an employee is given responsibility for a job he must also be given the degree of authority necessary to carry it out. Thus, for effective delegation the authority granted must be commensurate with the assigned responsibility. If authority granted is more than responsibility, it may lead to misuse of authority, and if responsibility assigned is more than authority it may make a person ineffective.

12.3.3 Accountability

Delegation of authority, undoubtedly empowers an employee to act for his superior but the superior would still be accountable for the outcome: Accountability implies being answerable for the final outcome. Once authority has been delegated and responsibility accepted, one cannot deny accountability. It cannot be delegated and flows upwards i.e., a subordinate will be accountable to a superior for satisfactory performance of work. It indicates that the manager has to ensure the proper discharge of duties by his subordinates. It is generally enforced through regular feedback on the extent of work accomplished. The subordinate will be

Overview of the elements of delegation

Basis	Authority	Responsibility	Accountability
Meaning	Right to command.	Obligation to perform an assigned task.	Answerability for outcome of the assigned task.
Delegation	Can be delegated.	Cannot be entirely delegated.	Cannot be delegated at all.
Origin	Arises from formal position .	Arises from delegated authority.	Arises from responsibility.
Flow	Flows downward from superior to subordinate.	Flows upward from subordinate to superior.	Flows upward from subordinate to superior

expected to explain the consequences of his actions or omissions. In conclusion, it can be stated that while authority is delegated, responsibility is assumed, accountability is imposed. Responsibility is derived from authority and accountability is derived from responsibility

12.4 IMPORTANCE OF DELEGATION

Delegation ensures that the subordinates perform tasks on behalf of the manager thereby reducing his workload and providing him with more time to concentrate on important matters. Effective delegation leads to the following benefits:

12.4.1 Effective management

By empowering the employees, the managers are able to function more efficiently as they get more time to concentrate on important matters. Freedom from doing routine work provides them with opportunities to excel in new areas.

12.4.2 Employee development

As a result of delegation, employees get more opportunities to utilise their talent and this may give rise to latent abilities in them. It allows them to develop those skills which will enable them to perform complex tasks and assume those responsibilities which will improve their career prospects. It makes them better leaders and decision makers. Thus, delegation helps by preparing better future managers. Delegation empowers the employees by providing them with the chance to use their skills, gain experience and develop themselves for higher positions.

12.4.3 Motivation of employees

Delegation helps in developing the talents of the employees. It also has psychological benefits. When a superior entrusts a subordinate with a task, it is not merely the sharing of work but involves trust on the superior's part and commitment on the part of the subordinate. Responsibility for work builds the self-esteem of an employee and improves his confidence. He feels encouraged and tries to improve his performance further.

12.4.4 Facilitation of growth

Delegation helps in the expansion of an organisation by providing a ready workforce to take up leading positions in new ventures. Trained and experienced employees are able to play significant roles in the launch of new projects by replicating the work ethos they have absorbed from existing units, in the newly set up branches.

12.4.5 Basis of Management Hierarchy

Delegation of authority establishes superior-subordinate relationships, which are the basis of hierarchy of management. It is the degree and flow of authority which determines who has to report to whom. The extent of delegated authority also decides the power that each job position enjoys in the organisation.

12.4.6 Better coordination

The elements of delegation, namely authority, responsibility and accountability help to define the powers, duties and answerability related to the various positions in an

organisation. This helps to avoid overlapping of duties and duplication of effort as it gives a clear picture of the work being done at various levels. Such clarity in reporting relationships help in developing and maintaining effective coordination amongst the departments, levels and functions of management. Thus, delegation is a key element in effective organising

Delegation and Decentralisation: A Comparative view

Basis	Delegation	Decentralisation
Nature	Delegation is a compulsory act because no individual can perform all tasks on his own.	Decentralisation is an optional policy decision. It is done at the discretion of the top management.
Freedom of action	More control by superiors hence less freedom to take own decisions.	Less control over executives hence greater freedom of action.
Status	It is a process followed to share tasks.	It is the result of the policy decision of the top management.
Scope	It has narrow scope as it is limited to superior and his immediate subordinate.	It has wide scope as it implies extension of delegation to the lowest level of management.
Purpose	To lessen the burden of the manager.	To increase the role of the subordinates in the organisation by giving them more autonomy.

12.5 Summary

Delegation of authority is the process of transferring responsibility for a task to another employee. As a manager, you can typically transfer responsibility to any of your direct team members. That employee may then decide to delegate some of those responsibilities among their team members if necessary. The purpose of delegating authority is to ensure a productive and well-functioning workplace.

12.6 Key words

Decentralization - Decentralisation refers to systematic effort to delegate to the lowest level all authority except that which can be exercised at central points

Delegation of authority-Delegation of authority merely means the granting of authority to subordinates to operate within prescribed limits.

Management Hierarchy - It is the degree and flow of authority which determines who has to report to whom.

Employee Development - Employees get more opportunities to utilise their talent and this may give rise to latent abilities in them

Responsibility-Responsibility is the obligation of a subordinate to properly perform the assigned duty

12.7 Self-Assessment Questions

1. Define the Delegation Discuss the Importance of Delegation?
2. What are the Elements of Delegation?

12.8 Further Readings

1. C.B. Mamoria & S.V. Gankar, Personnel Management (Text & Cases); Himalayan Publishing House, New Delhi 2010
2. Andrew J. Dubrin, Essentials of Management, South Western college Publication, 2011.
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UNIT - IV

LESSON – 13

DIRECTING, CREATIVITY AND INNOVATION

Learning Objectives

To perceive the directing in management
To understand the directing principles
To get the idea about the creativity and innovation
To watch the creativity and innovation in an entrepreneurial organization

Structure

- 13.0 Introduction**
- 13.1 Nature and Scope of directing in Management**
- 13.2 Characteristics of Directing**
- 13.3 Principles of Directing**
- 13.4 Techniques for Effective Direction**
- 13.5 Creativity**
- 13.6 Reasons why people are motivated to be creative:**
- 13.7 Principles and Characteristics of Creativity**
- 13.8 Innovation**
- 13.9 The Elements of Innovation**
- 13.10 Creativity and Innovation in an Entrepreneurial Organisation**
- 13.11 Harmonizing**
- 13.12 Summary**
- 13.13 Keywords**
- 13.14 Self – Assessment Questions**
- 13.15 Further Readings**

13.0 Introduction

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

Directing is the heart of management function. All other functions of management such as planning, organizing, and staffing have no importance without directing. Leadership

motivation, supervision, communication are various aspects of directing. Let us study the importance and principles of directing.

Directing refers to a process or technique of instructing, guiding, inspiring, counselling, overseeing and leading people towards the accomplishment of organizational goals. It is a continuous managerial process that goes on throughout the life of the organization.

According to Koontz and O'Donnel; "*directing is a complex function that includes all those activities which are designed to encourage subordinate to work effectively and efficiently in both the short and long-run.*"

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13.1 Nature and Scope of directing in Management

Nature and Scope of direction clearly pinpoints that it is heart and soul of management. Without direction managerial functions may crumble like pack of cards. It is the direction which provides impetus to all managerial functions.

The nature and scope of directing in management is concerned with employee orientation, issuing instructions, supervision, motivation, communication and leadership. Employee Orientation: An employee must be properly oriented to the enterprise in which they are working.

The nature and scope of directing in management is concerned with employee orientation, issuing instructions, supervision, motivation, communication, leadership and command.

(i) Supervision:

Supervision is concerned with overseeing the subordinates at work and is done at all levels of management. It refers to the direct and immediate guidance and control of subordinates in the performance of their task. It is concerned with seeing that the subordinates are working according to plan, policy, programme, instruction and keeping up the time schedule. Supervision is inevitable at every level of management for putting the managerial plans and policies into action. It can be compared to the key that keeps the managerial train into motion.

(ii) Communication:

It is the process of telling, listening, understanding or passing information from one person to another. A manager has always to tell the subordinates what they are required to do, how to do it and when to do it. He has to create an understanding in the minds of the people at work.

An organisation can't operate successfully without an effective system of communication. The process of communication can be carried through different Media's viz., telephone, intercom system, issuing letters and messengers etc.

(iii) Leadership:

It can be defined as the process by which a manager guides and influences the work of his subordinates. It is concerned with influencing people for the achievement of common goals. An executive, as an effective leader, should consult his subordinates before starting any line of action to ensure their voluntary cooperation. The manager as a leader acts as a dynamo which charges a battery.

(iv) Motivation:

Employees come forward to work in any enterprise in order to satisfy their needs. Past experience reveals that in most cases they do not contribute towards the organisational goals (as much as they can) because they are not adequately motivated.

Motivation relates to a conscious attempt made by the executive to influence the direction and role of individual and group behaviours. A manager should understand the process of human-behaviour while performing his managerial function of directing and leading.

He can get things done through other people willingly by motivation. Motivation inspires the subordinates to work with zeal, willingness and initiates to achieve enterprise goals. It promotes team work. It can tap the human potential in the best possible manner.

Managers must continuously be in search of the causes that motivate employees and develop a motivational system which may satisfy most of their needs. Otherwise, productivity will not increase. Leadership and motivation are thus the two wings of direction in the process of management.

(v) Command:

Commanding refers to setting the business going to get the desired optimum results from the subordinates. Fayol conceived the function of command as the 'operation of organisation.' He emphasised that the managers must possess the requisite personal qualities and knowledge of the principles of management.

13.2 Characteristics of Directing

Main characteristics of Directing are as follows:

13.2.1. Initiates Action

A directing function is performed by the managers along with planning, staffing, organizing and controlling in order to discharge their duties in the organization. While other functions prepare a platform for action, directing initiates action.

13.2.2. Pervasive Function

Directing takes place at every level of the organization. Wherever there is a superior-subordinate relationship, directing exists as every manager provides guidance and inspiration to his subordinates.

13.2.4. Continuous Activity

It is a continuous function as it continues throughout the life of organization irrespective of the changes in the managers or employees.

13.2.5. Descending Order of Hierarchy

Directing flows from a top level of management to the bottom level. Every manager exercises this function on his immediate subordinate.

13.2.6. Human Factor

Since all employees are different and behave differently in different situations, it becomes important for the managers to tackle the situations appropriately. Thus, directing is a significant function that gets the work done by the employees and increases the growth of the organization.

13.2.7. Initiates Action

Each and every action in an organization is initiated only through directing. The managers direct the subordinates about what to do, how to do when to do and also see to it that their instructions are properly followed.

13.2.8. Ingrates Efforts

Directing integrates the efforts of all the employees and departments through persuasive leadership and effective communication towards the accomplishment of organizational goals.

13.2.9. Motivates Employees

A manager identifies the potential and abilities of its subordinates and helps them to give their best. He also motivates them by offering them financial and non-financial incentives to improve their performance.

13.2.10. Provides Stability

Stability is significant in the growth of any organization. Effective directing develops co-operation and commitment among the employees and creates a balance among various departments and groups.

13.2.11. Coping up with the Changes

Employees have a tendency to resist any kind of change in the organization. But, adapting the environmental changes is necessary for the growth of the organization. A manager through motivation, proper communication and leadership can make the employees understand the nature and contents of change and also the positive aftermaths of the change. This will help in a smooth adaptation of the changes without any friction between the management and employees.

13.2.12. Effective Utilization of Resources

It involves defining the duties and responsibilities of every subordinate clearly thereby avoiding wastages, duplication of efforts, etc. and utilizing the resources of men, machine, materials, and money in the maximum possible way. It helps in reducing costs and increasing profits.

13.3 Principles of Directing**13.3.1. Maximum Individual Contribution**

One of the main principles of directing is the contribution of individuals. Management should adopt such directing policies that motivate the employees to contribute their maximum potential for the attainment of organizational goals.

13.3.2. Harmony of Objectives

Sometimes there is a conflict between the organizational objectives and individual objectives. For example, the organization wants profits to increase and to retain its major share, whereas, the employees may perceive that they should get a major share as a bonus as they have worked really hard for it. Here, directing has an important role to play in establishing harmony and coordination between the objectives of both the parties.

13.3.3. Unity of Command

This principle states that a subordinate should receive instructions from only one superior at a time. If he receives instructions from more than one superiors at the same time, it will create confusion, conflict, and disorder in the organization and also he will not be able to prioritize his work.

13.3.4. Appropriate Direction Technique

Among the principles of directing, this one states that appropriate direction techniques should be used to supervise, lead, communicate and motivate the employees based on their needs, capabilities, attitudes and other situational variables.

13.3.5. Managerial Communication

According to this principle, it should be seen that the instructions are clearly conveyed to the employees and it should be ensured that they have understood the same meaning as was intended to be communicated.

13.3.6. Use of Informal Organization

Within every formal organization, there exists an informal group or organization. The manager should identify those groups and use them to communicate information. There should be a free flow of information among the seniors and the subordinates as an effective exchange of information are really important for the growth of an organization.

13.3.7. Leadership

Managers should possess a good leadership quality to influence the subordinates and make them work according to their wish. It is one of the important principles of directing.

13.3.8. Follow Through

As per this principle, managers are required to monitor the extent to which the policies, procedures, and instructions are followed by the subordinates. If there is any problem in implementation, then the suitable modifications can be made.

13.4 Techniques for Effective Direction

Effective direction can be achieved by adopting one or more of the following techniques. The manager can utilise them according to the need of the situation.

There are basically three effective techniques of direction namely:

13.4.1. Consultative or Participative Technique:

The essential feature of this technique is that the executive should consult his subordinates regarding the feasibility, workability and the extent and content of a problem before taking a decision and issue a directive. Under this technique manager can get best suggestions, ideas, opinions, from the subordinates. As well as he gets the knowledge of reactions of the subordinates in order to extract new ideas and help from them.

But then the manager must have sincere desire of securing suggestions from his subordinates. Many times a manager with no desire may simply pretend to be consultative. But this attitude is dangerous and may cause conflicts leading to non-accomplishment of task. Under this technique there is actually no danger to managers' authority and powers, because ultimately decision is to be taken by him only. Right to take decisions ultimately lies in his own hands.

The quantum of subordinates' participation depends upon a number of factors such as the attitude, interest, liking, past experience of the subordinates, the nature and type of the problem, availability of time for solving the problem and so on. If the subordinates trust the managers, and believe that "the boss knows the best" regarding making decisions and giving directives, there is no need for consultative direction.

This ultimately would result in formation of better plans and better decisions because of pooling of experience, better communication, closer contacts and training, growth and experiences of the subordinates. All these merits can be enjoyed by the manager by extensive and careful application of consultative techniques.

The technique suffers from the following shortcomings also:

- i. If the subordinates form an opinion that the manager is incompetent and incapable of taking decisions, they may undermine his authority and prestige.
- ii. Sometimes the discussion may lead to confusion and the subordinates may not have any clear-cut directives from managers.
- iii. Sometimes the subordinates think consultation to be their right. Under this situation, if a manager takes some decision, even on important occasions, without consulting the subordinates, it may lead to disputes, frustration, confusion, misunderstanding etc. among the subordinates.
- iv. If this technique is not used properly, it may lead to unnecessary discussions, unhealthy and out-of-the-way criticism of the boss and even to insubordination.

13.4.2. Free Rein Direction Techniques:

Under the free rein technique, the superiors motivate the subordinates to contribute their ideas, thoughts etc. for solving a problem. This technique is widely accepted by many managements. It shows the best and quick results, if the subordinates are highly educated. The free rein technique encourages and enables the subordinates to contribute their own initiative, independent thought, drive and ingenuity to the solution of the problem. This does not mean that this technique gives full freedom to the subordinates.

The superior who adopts free rein technique must be sure that the subordinates know the overall objectives, their duties, responsibilities, and policies, plans of the organisation and their role as well as jurisdiction. Then only he should assign the work to his subordinate and

allow him to decide, the manner in which he has to proceed. But the superior must ensure that the subordinates are trust worthy, willing and capable of assuming responsibility.

This technique would be followed by the superior when the sub-ordinates possess high intelligence, strong drive, high sense of responsibility etc. This type of directing gives pride to the capable men in their work. It develops their self-confidence, motivates them to give independent thought. It develops their managerial ability and experience. In this type of direction technique there may be chances of difference in the point of view of the manager and the subordinate.

Then the manager has to take risk of such mistakes and continue to provide opportunity to the subordinates to learn by their mistakes. The superior should not criticise and should not discourage the subordinates. This technique requires a great amount of patience and forbearance on the part of managers.

13.4.3. Autocratic Direction Techniques:

This technique is just the opposite of the free rein direction technique. Under this technique, the superior gives direct, clear and precise orders to his subordinates with detailed instructions as to how and what is to be done. The role of subordinates with detailed instructions as to how and what is to be done. The role of sub-ordinates is simple to implement. This technique is used in military organisation.

Such superiors believe in minimum delegation of authority to sub-ordinates are expected to follow the instructions only. The manager has to perform both the functions namely planning and taking decisions. The manager strongly believes that, without detailed instructions from him, his subordinates would not properly carry out directives. Under his type of direction technique the subordinates depend totally upon their superiors. They do not think, and do not have any interest, and motivation in taking decisions.

They stop thinking and taking initiative. They become "Yes Men" and obedient employees. Such subordinates become frustrated. They lack in self-confidence. They are less motivated and less inspired. Naturally, they hardly acquire managerial ability. This technique obstructs subordinates from becoming future executives.

Merits of this techniques are that managers can take quick decisions, quick implementation of such decision, quick problem solving. This also helps in maintaining peace and discipline. Employees are more obedient and can be effectively utilized.

13.5 Creativity

Creativity as an outcome has been defined primarily in management as the generation of ideas, solutions, or processes that are novel and useful.

According to Robert E. Franken Creativity is defined as the tendency to generate or recognize ideas, alternatives, or possibilities that may be useful in solving problems, communicating with others, and entertaining ourselves and others.

According to Robert W. Weisberg. "Creative" refers to novel products of value, as in "The airplane was a creative invention." "Creative" also refers to the person who produces the work, as in "Picasso was creative." "Creativity," then refers both to the capacity to produce such works, as in "How can we foster our employees' creativity?" and to the activity of generating such products, as in "Creativity requires hard work."

13.6 Reasons why people are motivated to be creative:

There are three strong reasons to motivate the people to be creative are:

- need for novel, varied, and complex stimulation
- need to communicate ideas and values
- need to solve problems

In order to be creative, you need to be able to view things in new ways or from a different perspective. Among other things, you need to be able to generate new possibilities or new alternatives. Tests of creativity measure not only the number of alternatives that people can generate but the uniqueness of those alternatives. the ability to generate alternatives or to see things uniquely does not occur by chance; it is linked to other, more fundamental qualities of thinking, such as flexibility, tolerance of ambiguity or unpredictability, and the enjoyment of things heretofore unknown.

13.6.1 Ways that "creativity" is commonly used

1. Persons who express unusual thoughts, who are interesting and stimulating - in short, people who appear to be unusually bright.
2. People who experience the world in novel and original ways. These are (personally creative) individuals whose perceptions are fresh, whose judgments are insightful, who may make important discoveries that only they know about.
3. Individuals who have changed our culture in some important way. Because their achievements are by definition public, it is easier to write about them.

13.7 Principles and Characteristics of Creativity

People become more creative when they feel motivated primarily by the interest, satisfaction, and challenge of the situation and not by external pressures; the passion and interest – a person's internal desire to do something unique to show-case himself or herself; the person's sense of challenge, or a drive to crack a problem that no one else has been able to solve.

Within every individual, creativity is a function of three components:

1. Expertise
2. Creative thinking skills
3. Motivation.

Expertise encompasses everything that a person knows and can do in the broad domain of his or her work- knowledge and technical ability. Creative thinking refers to how you approach problems and solutions- the capacity to put existing ideas together in new combinations. The skill itself depends quite a bit on personality as well as on how a person thinks and works. Expertise and creative thinking are the entrepreneur's raw materials or natural resources. Motivation is the drive and desire to do something, an inner passion and interest. When people are intrinsically motivated, they engage in their work for the challenge and enjoyment of it. The work itself is motivating. People will be most creative when they feel motivated primarily by the interest, satisfaction and the challenge of the work itself- "the labour of love", love of the work- "the enjoyment of seeing and searching for an outstanding solution – a break through.

Creativity, according to Robert Gahim, consists of anticipation and commitment. Anticipation involves having a vision of something that will become important in the future before anybody else has it. Commitment is the belief that keeps one working to realize the vision despite doubt and discouragement.

Creative outcomes seldom emerge in an instant: a recognized process is involved, even if it appears to be rather chaotic. It begins with recognition of a problem or anticipation of an opportunity, and then, through understanding the situation and reflecting on the issues, new linkages are contemplated and possible new combinations of components are aired: From this emerge visible solutions or possibilities that are subjected to valuation, which may be continuous with judgment being suspended while the search process is prolonged in pursuit of genuine newness.

13.7.1 Characteristics of the creative personality

1. Creative individuals have a great deal of energy, but they are also often quiet and at rest.
2. Creative individuals tend to be smart, yet also naive at the same time.
3. Creative individuals have a combination of playfulness and discipline, or responsibility and irresponsibility.
4. Creative individuals alternate between imagination and fantasy ant one end, and rooted sense of reality at the other.
5. Creative people seem to harbor opposite tendencies on the continuum between extroversion and introversion.
6. Creative individuals are also remarkable humble and proud at the same time.
7. Creative individuals to a certain extent escape rigid gender role stereotyping and have a tendency toward androgyny.
8. Generally, creative people are thought to be rebellious and independent.
9. Most creative persons are very passionate about their work, yet they can be extremely objective about it as well.
10. The openness and sensitivity of creative individuals often exposes them to suffering pain yet also a great deal of enjoyment.

13.8 INNOVATION

Innovation is the process of bringing the best ideas into reality, which triggers a creative idea, which generates a series of innovative events. Innovation is the creation of new value. Innovation is the process that transforms new ideas into new value- turning an idea into value. You cannot innovate without creativity. Innovation is the process that combines ideas and knowledge into new value. Without innovation an enterprise and what it provides quickly become obsolete.

The dictionary defines innovation as the introduction of something new or different. Innovation is the implementation of creative inspiration. The National Innovation Initiative (NII) defines innovation as “the inter-section of invention and insight, leading to the creative of social and economic value” Innovation is “value” – the creation of value adding value to customer’s satisfaction- “delighting the customers”.

13.9 THE ELEMENTS OF INNOVATION

Innovation is the successful development of competitive advantage and as such, it is the key to entrepreneurship. The entrepreneurs are the “dreamers”, who take hands on responsibility for creating innovation. It is the presence of innovation that distinguishes the entrepreneur from others. Innovation, must therefore, increase competitiveness through efforts aimed at the rejuvenation, renewal, and redefinition of organizations, their markets or industries, if business are to be deemed entrepreneurial.

Fiona Fitzpatrick identified the following elements of innovation:

1. **Challenge:** What we are trying to change or accomplish-the “pull”
2. **Customer focus:** Creating value for your customers – the “Push”
3. **Creativity:** Generating and sharing the idea(s)- the “brain”
4. **Communication:** The flow of information and ideas –the “life blood”
5. **Collaboration:** People coming together to work together on the idea(s) - the “heart.”
6. **Completion:** Implementing the new idea-the “muscle”.
7. **Contemplation;** Learning and sharing lessons lead to higher competency-the “ladder”
8. **Culture:** The playing field of innovation includes:
 - a. Leadership (sees the possibilities and positions the team for action-the rolemodel)
 - b. People (diverse groups of radically empowered people innovate –the source of innovation)
 - c. Basic values (trust and respect define and distinguish an innovativeorganization-the backbone). Innovation values (certain values stoke the fires that make the “impossible” possible-the Spark).
9. **Context:** Innovation is shaped by interactions with the world.

13.10 Creativity and Innovation in an Entrepreneurial Organisation

Growth and development cannot be sustained without additional innovations (usually in the product or services or in its marketing) with additional innovations, firms become “glamorous” Introducing new products is usually seen as part of the process of innovation, which is itself seen as the engine driving continued growth and development.

The “winning performance” of the entrepreneur and the organization focuses on.

- Competing on quality not prices
- Domination of a market niche
- Competing in an area of strength
- Having tight financial, and operating controls
- Frequent product or service innovation (particularly important in manufacturing).

Porter (1985) argues that, while successful businesses will each employ their own strategy, they achieve competitive advantage through acts of innovation. Learning and problem-solving are common activities in many working environments today, but some people believe that true entrepreneurship occurs when individuals ignore the established ways of thinking and acting and seek novel ideas and solutions that can meet customers’ needs Entrepreneurship is, therefore, the innovatory process involved in the creation of an economic enterprise based on a new product or service which differs significantly from products or services offered by other suppliers in content or in the way its production is organized nor in its marketing.

Creativity and Innovation are at the heart of the spirit of enterprise. It means striving to perform activities differently or to perform different activities to enable the entrepreneur deliver a unique mix of value. Thus the value of creativity and innovation is to provide a gateway for astute entrepreneurship actively searching for opportunities to do new things, to do existing things in extraordinary ways. Creativity and Innovation therefore, trigger and propel first-rate entrepreneurship in steering organization activities in whatever new directions are dictated by market conditions and customer preferences, thereby delighting the customers to the benefit of the stakeholders. Innovation also means anticipating the needs of the market, offering additional quality or services, organization efficiently, mastering details, and keeping cost under control.

13.11 Harmonizing

Harmonization means working on those areas which are complementary in order to have the plans working together for the achievement of an overall strategic objective. Harmonization helps different departments in local authorities share the same vision, work together and optimize the use of resources.

Harmonization means to match the allowance of the person with kind of work and value addition the individual is doing to the organization. If there is a disparity between the works and take away salary given to the person, then there is chance of worsening of attrition rate in the company.

Harmonization, in broad terms, means to get things in synchronization with one another. It means to have everything in coordination so as to attain better results. Term was coined to be used in musical instruments for chords but have taken a general meaning as time passes by.

Finding the match between the two is a huge task for the HR personals and they generally take help of line managers in this regard. Nowadays, company make the process of harmonization the part of the HR strategy. There are series of recommendations and feedbacks to finally achieve proper Harmonization. Plus they generally do the benchmarking with the competitors and also consider the industry average.

13.12 Summary

Directing is said to be the heart of management process. Planning, organizing, staffing have got no importance if direction function does not take place. The directing functions of HRM involve encouraging people to work willingly and efficiently to achieve the goals of the organization. In simpler words, the directing functions of HRM entail guiding and motivating people to accomplish the personnel programs.

13.13 Keywords

Directing - Directing refers to a **process or technique of instructing** – guiding- inspiring, counseling- overseeing and leading people towards the accomplishment of organizational goals.

Creativity - Creativity is defined as the tendency to generate or recognize ideas, alternatives, or possibilities that may be useful in solving problems, communicating with others, and entertaining ourselves and others.

Innovation - An innovation can be described as a result of the creative process of turning an idea into an outcome that creates value for people.

13.14 Self – Assessment Questions:

1. What the major elements involved in direction.
2. How can be communication prove to be an important element of directing function in an organization?
3. Direction takes place at all levels of management. True or False?
4. Explain the principles and importance of direction in management?
5. Define creativity, explain the principles of creativity?
6. Examine the reasons and Characteristics of the creative personality?
7. What is innovation, explain the elements of innovation?
8. Did you write what are the challenges of innovation?

13.15 Further Readings

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- Dr. K. Madhu Babu

Lesson -14

LEADERSHIP

Learning Objectives

To study the Leadership

To creating the Leadership types in the organisations

To understand the theories of leadership

Structure

14.0 Introduction

14.1 Objectives of Leadership

14.2 Types of Leadership

14.3 Leadership Theories

14.4 Trait Theory

14.5 Behavioural and Contingency Theories of Leadership

14.6 Managerial Grid

14.7 Contingency Theories

14.8 Fiedler's Contingency Theory

14.9 Life-Cycle Theory

14.10 Summary

14.11 Keywords

14.12 Self- Assessment Questions

14.13 Further Readings

14.0 Introduction

The skill, personality, attitude, and problem-solving methods used by a leader determine the success of an organization. With competition increasing in the world of business and organizations having to face all kinds of new challenges with each passing day, the role of a leader is becoming increasingly important. Leadership can be defined as the factor that assists the process of goal achievement. It can be described as the act of influencing and supporting members of a team or an organization as a whole to work with enthusiasm towards achieving common objectives or goals.

Keith Devis said that leadership is the process of encouraging and helping others to work enthusiastically toward objectives.

According to Koontz and Donnell, the act of leadership is the process of influencing people so that they will strive willingly and enthusiastically toward the achievement of the group goal.

14.1 Objectives of Leadership

Leadership is the process of leading individuals as a group to achieve a common objective. The objectives of leadership are geared toward bringing out the best in employees by communicating effectively about what needs to be done and why it matters. In addition, effective leaders strive to bring out the best in employees through careful instruction as well as management practices aimed at motivating workers to do their best. Successful leaders achieve these objectives through a mixture of natural ability and commitment to improving their leadership skills.

14.2 Types of Leadership

Leadership is the practice of uniting the efforts of a group towards a common purpose. Any group of people who are isolated together will form leaders and begin working towards common goals. The following are the basic types of leadership.

14.2.1. Autocratic Leadership

Autocratic leadership is defined by a top-down approach when it comes to all decision-making, procedures, and policies within an organization. An autocratic leader focuses less on collecting input from team members and tends to make executive decisions that others are expected to follow.

14.2.2. Transactional Leadership

Transactional leadership is defined by control, organization, and short-term planning. Leaders who adopt this style rely on a system of rewards and punishment to motivate their followers. As you can see, there are many similarities between transactional leadership and autocratic leadership. The main difference is that transactional leadership, as the name implies, involves a clear exchange between the leader and the team members. For instance, in exchange for compliance and high performance, an employee might be rewarded with a promotion.

14.2.3. Bureaucratic Leadership

Bureaucratic leadership relies on a clear chain of command, strict regulations, and conformation by its followers. As the name implies, this is a leadership style that's commonly found in government entities, as well as military and public organizations.

14.2.4. Charismatic Leadership

Charismatic leadership is defined by a leader who uses their communication skills, persuasiveness, and charm to influence others. Charismatic leaders, given their ability to connect with people on a deep level, are especially valuable within organizations that are facing a crisis or are struggling to move forward.

14.2.5. Transformational Leadership

Transformational leaders create a vision based on identified needs and guide their teams toward that unified goal through inspiration and motivation. The main difference between transformational leadership and the other styles we've covered so far is that this one is focused on changing the systems and processes that aren't working – unlike transactional leadership or bureaucratic leadership, which don't aim to change the status quo.

14.2.6. Coaching Leadership

Coaching leadership is a style defined by collaboration, support, and guidance. Coaching leaders are focused on bringing out the best in their teams by guiding them through goals and obstacles.

14.2.7. Democratic Leadership

Democratic leadership, which is also commonly known as participative leadership, is about letting multiple people participate in the decision-making process. This type of leadership can be seen in a wide range of contexts, from businesses to schools to governments.

14.2.8. Collaborative Leadership

Collaborative leadership is focused on encouraging people to work together across functional and organizational boundaries. The purpose of this leadership style is to encourage collaboration with other teams and departments to accomplish shared goals.

14.2.9. Servant Leadership

Servant leadership puts the needs and wellbeing of followers first. In other words, these types of leaders adopt a serve-first approach and growth mindset to prioritize their organization, employees, and community above themselves.

14.2.10. Laissez-Faire Leadership

Laissez-faire leadership takes a hands-off approach to leadership and gives others the freedom to make decisions. While leaders still provide their teams with the resources and tools they need to succeed, they remain largely uninvolved in the day-to-day work. This is a leadership style you'll commonly find in creative settings, such as advertising agencies or startups, due to its encouragement of independent thinking.

14.3 LEADERSHIP THEORIES

Leadership is all about inspiring and influencing others. To be able to inspire and influence, a leader needs to possess certain traits. Some of these are intelligence, self-assurance, ability to supervise and the ability to take initiative. In addition, a leader should have confidence, the ability to analyse and the charisma to make people believe in him. He should be a man of principles and at the same refrain from being too rigid.

Over the last eighty years, a number of different theories and approaches to studying leadership have been developed. Prior to 1945, the most common approach to the study of leadership concentrated on leadership traits. It was thought that leaders possessed and exhibited some unique set of qualities that distinguished them from their peers. Since this line of investigation did not produce consistent outcomes, research centered on other theories

such as behavioural and situational approaches to leadership identification. These theories are examined in more detail as follows:

14.4 Trait Theory

The Trait Theory rests on the traditional approach that describes leadership in terms of certain personal and special characteristics that are not acquired by knowledge and training but are considered inherited. This theory emphasizes that leaders are born and not made, and that leadership is a function of inborn traits. Some of these inborn traits are considered to be intelligence, understanding, perception, high motivation, socioeconomic status, initiative, maturity, need for self-actualization, self-assurance and understanding of interpersonal human relations. In the earlier studies, the existence of these traits became a measure of leadership. The theory holds that possession of these traits permits certain individuals to gain a position of leadership. Since all individuals do not have these qualities, only those who have them would be considered potential leaders. It was further believed that training individuals to assume leadership roles was not possible and such training would help only to those who possessed these inborn leadership traits to start with.

The trait theory of leadership has suffered from lack of conclusiveness and oversimplifications. As Eugene E. Jennings concluded, 'fifty years of study have failed to produce one personality trait or a set of qualities that can be used to discriminate leaders and non-leaders.' The old assumption that 'leaders are born' has never been substantiated in several decades of research. The critics have charged that the theory focuses attention only on the leader and disregards the dynamics of the leadership process. Also the theory ignores the situational characteristics which may result in the emergence of a leader.

Some of the other weaknesses and failures of the trait theory are:

1. All the traits are not identical with regard to the essential characteristics of a leader.
2. Some traits can be acquired by training and may not be inherited.
3. It does not identify the traits that are most important and those that are least important in identifying a successful leader.
4. The traits required to 'attain' leadership may not be the same as those required to 'sustain' leadership.
5. It fails to explain the many leadership failures in spite of the required traits.
6. It has been found that many traits exhibited by leaders are also found among followers without explaining as to why followers could not become leaders.
7. It ignores the environmental factors which may differ from situation to situation.
8. It is difficult to define traits in absolute terms. Each trait can be explained in a variety of terms. For example, intelligence cannot be accurately defined or described.
9. The extent and influence of traits would also depend upon the level of leadership in an organization. A supervisor of production, for example, does not need or use the same traits as the president of a company. The lower level management requires more technical skills while at the top level of management, human and conceptual skills are highly significant. Thus, it would be unreasonable to assume that these traits are uniformly distributed at all managerial levels.

The trait theory approach has been criticized as lacking predictability. There are probably no personality traits that consistently distinguish the leader from his followers. According to B. Solomon, History is replete with non-trained, non-academic Fords, Edisons and Carnegies who could not even claim a grammar school education, yet managed to become leaders whose influences was felt around the globe. As for appearance of robust health, need we

mention more than the delicate Gandhi or George Washington or Carver, the frail, shriveled, insignificant little negro who was one of America's greatest scientists and so many more like them. As for high ideals and fine character act, where would Hitler, Capone or Attila the Hun rate here? Similarly, if tall people were more inclined to be leaders then how could such short people as Napoleon or the most respected prime minister of India, Lal Bahadur Shastri have risen to a high level of leadership?

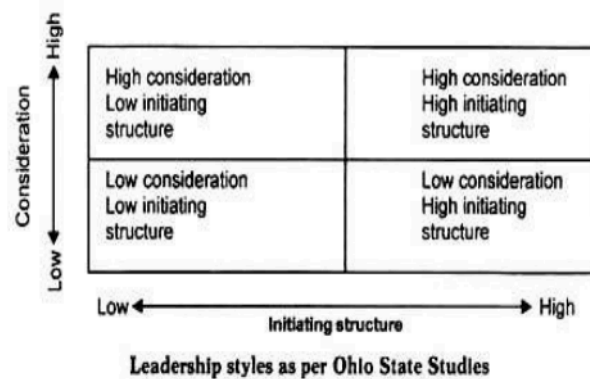
14.5 BEHAVIOURAL AND CONTINGENCY THEORIES OF LEADERSHIP

The behavioural theory studies leadership by looking at leaders in terms of what they 'do'. This is in contrast to the trait theory that seeks to explain leadership in terms of who the leaders 'are'. Thus, according to the behaviour theory, leadership is shown by a person's acts more than by his traits. The leadership effectiveness is determined in terms of leader-subordinate interaction and outcome. Research studies conducted by Katz, Maccoby and More suggested that leadership behaviour should be defined along an employee-centered dimension and a production-centered dimension complementing each other so that the employee's performance and productivity is enhanced.

Further in-depth investigations into this approach have been conducted at the Ohio State University. These studies isolate two particular factors affecting the leadership dimension. These are as follows:

1. **Consideration:** It refers to the extent to which there is a rapport between the leader and the group, a mutual warmth and trust, a concern for the needs of the members of the work group, an attitude that encourages participative management, two-way communication and respect for the feedback of the followers.
2. **Initiating structure:** It refers to the extent to which a leader is task oriented and his ability and concern in utilizing resources and personnel at an optimum level. It involves creating a work environment so that the work of the group is organized, coordinated, sequential and organizationally relevant. It ensures that people know exactly what is to be done and how it is to be done. The structure involves having the leader to organize and define the role each member is to assume, assign tasks to them and push for the realization of organizational goals. An important discovery made by the Ohio studies was that the leader does not necessarily have to rate high both on the consideration as well as the initiating structure element. He could be high on one and low on the other and still lead the group successfully. Since the initiating structure dimension includes planning, coordinating, directing, problem solving, criticizing poor work and pressurizing subordinates to perform better and consideration means friendliness and consultation with subordinates, these two elements may seem to be in conflict with each other.

However, according to Weissenberg and Kavanaugh, these two elements are considered to be relatively independent dimensions of a leader's behaviour. This means that a high score on one dimension does not necessarily mean a low score on the other. Thus, consideration and initiating structure can be shown in various combinations as follows:



Thus, a manager with high structure and high consideration rates high in directing and controlling his subordinates and has a high level of concern and warmth towards employees. Such managers have subordinates who are more satisfied, have fewer grievances and stay longer with the organization. There is also evidence that such managers who exhibit high levels of both consideration and initiating structure, generate higher levels of subordinate performances. One advantage of this theory is that these two dimensions of leadership behaviour are tangible and observable and do account for a major part of the leader behaviour. Even though a causal connection of these two dimensions with performance has not been clearly demonstrated, their relationship to leadership effectiveness has been quite obvious.

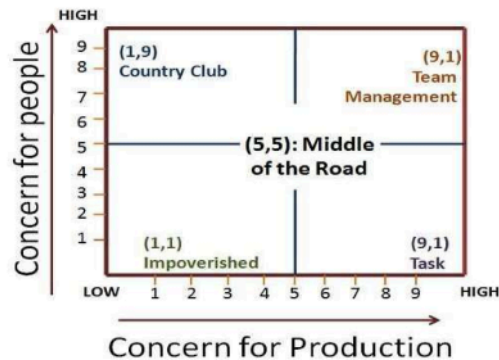
14.6 Managerial Grid

Another aspect of the behavioural theory of leadership is represented by the managerial grid. It was developed by Robert Blake and Jane Mouton and plays an important part in managerial behaviour in organizational development. In general, behavioural scientists have separated the two primary concerns in organizations, namely the concern for production and concern for people. They believed that a high concern for production necessarily meant low concern for people and high consideration for workers meant tolerance for low production. However, the managerial grid model emphasized that both concerns should be integrated to achieve the objectives of the organization. It assumes that people and production factors are complementary to each other rather than mutually exclusive.

According to Rao and Narayana, the concern for production is not limited to things only, and the concern for people cannot be confined to narrow considerations of interpersonal warmth and friendliness. Production can be measured in terms of creative ideas of people that turn into useful products, processes or procedures, efficiency of workers and quality of staff and auxiliary services. Similarly, concern for people includes concern for the degree of personal commitment of complementing the work requirement assigned to each person, accountability based upon trust rather than fear or force, sense of job security and friendship with co-workers leading to a healthy working climate.

The managerial grid is built on two axes, one representing the 'people' and the other the 'task'. Both the horizontal, as well as the vertical axes are treated as scales from 1 to 9 where 1 represents the least involvement and 9 represents the most involvement, so that the coordinates (1, 1) would indicate minimum standards for worker involvement and task design, and coordinates (9, 9) would indicate maximum dedication of the workers and highly

structured operations. Such an involvement would reflect upon the managerial orientation towards tasks and towards workers who are expected to perform such tasks. Blake and Mouton have identified five coordinates that reflect various styles of leader behaviour. The managerial grid figures and these styles are shown as follows:



The managerial grid diagram as shown earlier can be interpreted as follows:

- Coordinates (1,1). This represents an impoverished management and the manager makes minimum efforts to get the work done. Minimum standards of performance and minimum worker dedication.
- Coordinates (9,1). Excellent work design. Well-established procedures. Minimum worker interference. Orderly performance and efficient operations.
- Coordinates (1,9). Personal and meaningful relationship with people. Friendly atmosphere and high morale. Loosely structured work design.
- Coordinates (9,9). Ultimate in managerial efficiency. Thoroughly dedicated people. Trustworthy and respectable atmosphere. Highly organized task performances. Known as team management style, it relies upon interdependence of relationships based upon the commitment of employees.
- Coordinates (5,5). Known as the middle-of-the-road management style, it is concerned with balancing the necessity to get the work done as well as maintaining worker morale at a satisfactory level. The goal is to achieve adequate organizational performance.

This managerial grid provides a reasonable indication of the health of the organization as well as the ability of the managers. The model assumes that there is one best or most effective style of management, which is the style indicated by coordinates (9,9) also known as team management style. It is the objective of all management to move as close to this style as possible, for managers who emphasize both high concern for people as well as productivity are presumed to be more successful. Accordingly managers should be carefully selected on the basis of their ability to coordinate people and tasks for optimum benefit. The managerial grid model, however has become controversial on the basis of lack of empirical evidence supporting whether the team management style is the best management style. Even Blake and Mouton offer conceptual, rather than empirical arguments as to why the team management style should be the best style, when conditions are favourable.

14.7 Contingency Theories

All the leadership theories discussed so far attribute leadership performance on the basis of certain traits or in terms of a leader's behaviour. The contingency theories state that an analysis of leadership involves not only the individual traits and behaviour but also a focus on the situation. The leadership behaviour is used in combination with work groups contingencies to predict performance outcomes. The effectiveness of leader behaviour is contingent upon the demands imposed by the situation. The focus is on the situation in which leadership is exercised and not upon the leader. Different types of situations demand different types of leadership behaviour. Similarly, a successful leader under one set of circumstances may be a failure under a different set of circumstances. For example, Winston Churchill was considered a successful prime minister and an effective leader of England during World War II. However, he turned out to be much less successful after the War when the situation changed.

The contingency approach, known also as the situational approach defines leadership in terms of a leader's ability to handle a given situation and is based on the leader's skill in that given area. This approach can best be described by a hypothetical example developed by Robert A. Baron. Imagine the following scene:

The top executives of a large corporation are going in their limousine to meet the president of another large company at some distance. On the way, their limousine breaks down many miles from any town. Who takes charge of the situation? Who becomes the situational leader? Not the president or the vice-president of the company, but the driver of the car who knows enough about the motor to get the car started again. As he does or oversees the repair, he gives direct orders to these top echelons of the organization, who comply. However, once the car starts and they arrive at the meeting, the driver surrenders his authority and becomes a subordinate again.

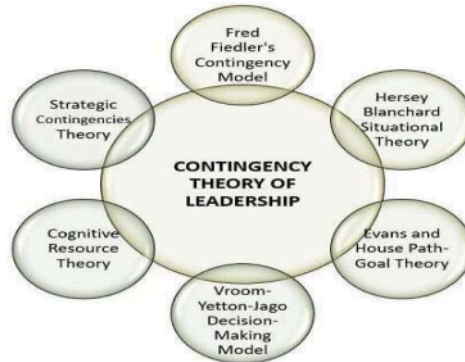
This example suggests that in a given situation, the person most likely to act as a leader is the one who is most competent for the situation or for a given group as the case may be. Thus, in defiance of the trait theory, some shy and introvert person may take command of leadership if he meets the group's requirements under given circumstances. However, it must be understood that it would require the leaders to change their behaviour in order to fit the changed situation, if necessary, rather than having to change the situation to suit the leadership behaviour style. This means that the leaders must remain flexible and sensitive to the changing needs of the given group.

While this approach emphasizes that external pressures and situational characteristics and not the personal traits and personality characteristics determine the emergence of successful leaders in performing a given role, it is probably a combination of both types of characteristics that sustains a leader over a long period of time. A leader is more successful when his personal traits complement the situational characteristics.

According to Szilagyi and Wallace, there are four contingency variables that influence a leader's behaviour. First, there are the characteristics of the leader himself. These characteristics include the personality of the leader relative to his ability to respond to situational pressures as well as his previous leadership style in similar situations. The second variable relates to the characteristics of the subordinates. The subordinates are important contributors to a given operational situation. The situation will very much depend upon whether the subordinates prefer a participative style of leadership and decision making and

what their motivations in this situation are. Are the subordinates motivated by the intrinsic satisfaction of performing the task well or do they expect other types of reinforcements?

The third factor involves the group characteristics. If the group is highly cohesive it will create a more cordial situation than if the group members do not get along with each other so that the leadership style will vary accordingly. The fourth situational factor relates to the organizational structure. The organizational structure is the formal system of authority, responsibility and communication within the company. Factors such as hierarchy of authority, centralized or decentralized decision-making and formal rules and regulations would affect the leader behaviour. All these factors are diagrammatically shown as follows:



14.8 Fiedler's Contingency Theory

Fred Fiedler was one of the earliest proponents of a leadership model that explicitly accounted for situational factors. He proposed, in 1967, a theoretical explanation for interaction of three situational variables which affect the group performances. These three variables are (1) leader-member relations, (2) task structure and (3) leader's positional power. These variables determine the extent of the situational control that the leader has.

Leader-member relations—This relationship reflects the extent to which the followers have confidence and trust in their leader and his leadership ability. A situation in which the leader-member relations are relatively good with mutual trust and open communications is much easier to manage than a situation where relations are strained.

Task structure—It measures the extent to which the tasks performed by subordinates are specified and structured. It involves clarity of goals, as well as clearly established and defined number of steps required to complete the task. When the tasks are well structured and the rules, policies and procedures clearly written and understood, then there is little ambiguity as to how the job is to be accomplished.

Position power—This refers to the legitimate power inherent in the leader's organizational position. It refers to the degree to which a leader can make decisions about allocation of resources, rewards and sanctions. Low position power indicates limited authority. A high position power gives the leader the right to take charge and control the situation as it develops.

The most favourable situation for the leader then would be when the leader group relations are positive, the task is highly structured and the leader has substantial power and authority to exert influences on the subordinates. The leadership model proposed by Fiedler measures the

leadership orientation and effectiveness with a differential type of attitude scale which measures the leader's esteem for the 'least preferred co-worker' or LPC as to whether or not the person the leader least likes to work with is viewed in a positive or negative way. For example, if a leader would describe his least preferred co-worker in a favourable way with regard to such factors as friendliness, warmth, helpfulness, enthusiasm, and so on, then he would be considered high on LPC scale. In general, a high LPC score leader is more relationship-oriented and a low LPC score leader is more task-oriented.

A high LPC leader is most effective when the situation is reasonably stable and requires only a moderate degree of control. The effectiveness stems from motivating group members to perform better and be dedicated towards goal achievement. A low LPC leader would exert pressure on the subordinates to work harder and produce more. These pressures would be directed through organizational rules, policies and expectations.

One of the basic conclusions that can be drawn from Fiedler's contingency model is that a particular leadership style may be more effective in one situation and the same style may be totally ineffective in another situation. Also, since a leadership style is more difficult to change, the situation should be changed to suit the leadership style. The situation can be made more favourable by enhancing relations with subordinates, by changing the task structure or by gaining more formal power that can be used to induce a more conducive work setting based upon personal leadership style. Fiedler and his associates also developed a leadership training programme known as LEADER MATCH, giving the manager some means and authority to change the situation so that it becomes more compatible with the leader's LPC orientation. Studies conducted by Strube Garcia have shown strong support for Fiedler's approach.

14.9 Life-Cycle Theory

The life-cycle theory of leadership has been developed by Paul Hersey and Kenneth Blanchard. The model focuses on the maturity of the followers as a contingency variable affecting the style of leadership. The maturity of the subordinates can be defined as their ability and willingness to take responsibility for directing their own behaviour in relation to a given task. The level of such maturity would determine the leader's emphasis on task behaviours (giving guidance and direction) and relationship behaviour (providing socio-emotional support). 'Task behaviour' can be defined as the extent to which the leader engages in spelling out the duties and telling people what to do, how to do it, when to do it, where to do it and who is to do it. Task behaviour is characterized by one-way communication from the leader to the follower and this communication is meant to direct the subordinate to achieve his goal.

Similarly, 'relationship behaviour' is defined as the extent to which the leader engages in two-way or multi-way communication. The types of behaviour include listening, facilitating and supportive behaviour.

'Maturity is the crux of the life-cycle theory. It has been defined previously as reflecting the two elements of ability and the willingness on the part of the followers. Ability is the knowledge, experience and skill that an individual or a group has in relation to a particular task being performed and the willingness refers to the motivation and commitment of the group to successfully accomplish such given tasks.'

The style of leadership would depend upon the level of maturity of the followers. The following diagram suggests four different styles of leadership for each stage of maturity and a

particular style in relationship to its relative level of maturity is considered to be the best 'match'.



These various combinations of leadership styles and levels of maturity are explained in more detail as follows:

(S1) Telling—The 'telling' style is best for low follower maturity. The followers feel very insecure about their task and are unable and unwilling to accept responsibility in directing their own behaviour. Thus, they require specific directions as to what, how and when to do various tasks so that a directive leadership behaviour is more effective.

(S2) Selling—The 'selling' style is most suitable where followers have low to moderate maturity. The leader offers both task direction and socio-emotional support for people who are unable to take responsibility. The followers are confident but lack skills. This style involves high task behaviour and high relationship behaviour.

(S3) Participating—This leadership approach involves high relationship behaviour and low task behaviour and is suitable for followers with moderate to high maturity where they have the ability but are unwilling to accept responsibility requiring a supportive leadership behaviour to increase their motivation. The leader has an open door policy with open channels of communication and encourages his followers to perform their tasks well.

(S4) Delegating—Here, the employees have both high job maturity and high psychological maturity. They are both able and willing to be accountable for their responsibility towards task performance and require little guidance and direction. It involves low relationship and low task leader behaviour. The life-cycle theory of leadership requires that leaders attend to the demands of the situation as well as the feelings of the followers, and adjust their styles with the changing levels of maturity of the followers so as to remain consistent with the actual levels of maturity.

14.10 Summary

Leadership is about mapping out where you need to go to "win" as a team or an organization; and it is dynamic, exciting, and inspiring. Yet, while leaders set the direction, they must also use management skills to guide their people to the right destination, in a smooth and efficient way. A good leader acts strategically, they craft out a vision and refer constantly to their vision, in their communications and when giving feedback. They are firstly a good manager and they are focused on their people, surrounding themselves with good people.

14.11 Keywords

Leadership - The ability to inspire confidence and support among the people who are needed to achieve organizational goals.

Leadership style the relatively consistent pattern of behavior that characterizes a leader.

Leadership effectiveness - Attaining desirable outcomes such as productivity, quality, and satisfaction in a given situation.

Leadership diversity the presence of a culturally heterogeneous cadre of leaders.

14.12 Self- Assessment Questions

1. Examine the types of leadership?
2. Are charismatic leaders born with their qualities or can they learn how to be charismatic leaders? Discuss.
3. Discuss the disadvantages of the inherited trait theory.
4. Describe the characteristics of a charismatic leader.
5. Explain the life-cycle theory.
6. The style of leadership would depend upon the level of maturity of the followers. Comment.

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- Dr. K. Madhu Babu

Lesson -15

MOTIVATION

Learning Objectives

To read the motivation

To understand the objectives of motivation

To learn about the theories of motivation

To inspect the good motivation system at workplace

Structure

15.0 Introduction

15.1 Objectives

15.2 Hierarchy of needs

15.3 Good Motivation System

15.5 Objectives of Motivation Theories

15.6 Maslow put the following important propositions about human behaviour

15.7 Motivation Hygiene Theory

15.8 Herzberg's Theory

15.9 Motivation—Hygiene Theory

15.10 Theory of Douglas McGregor

15.11 Summary

15.12 Keywords

15.13 Self–Assessment Questions

15.14 Keywords

15.15 Further Readings

15.0 Introduction

People differ by nature, not only in their ability to perform a specific task but also in their will to do so. People with less ability but stronger will are able to perform better than people with superior ability and lack of will. Hard work is crucial to success and achievement. This belief was underscored by Albert Einstein when he said that 'genius is 10 per cent inspiration and 90 per cent perspiration.' This 'will' to do is known as motivation. The force of motivation is a dynamic force setting a person into motion or action. The word motivation is derived from motive that is defined as an active form of desire, craving or need that must be satisfied. All motives are directed towards goals. New needs and desires affect or change your behaviour that then becomes goal oriented. Viteles defines motivation as follows:

‘Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to move in a goal directed pattern towards restoring a state of equilibrium, by satisfying the need.’

15.1 Objectives

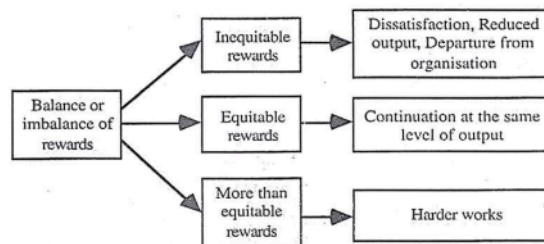
After going through this unit, you will be able to:

- Understand the meaning of motivation
- Analyse the nature of the motivational process
- Explain the various types of motivation
- Know the history of the study of motivation as a resource for behaviour modification
- Discuss content theories of motivation such as Maslow model of hierarchical needs, ERG theory of motivation, McClelland theory of needs and Herzberg’s two-factor theory of motivation
- Understand motivation of employees at all levels
- Discuss job satisfaction

15.1.1 Motivation

Motivated people are in a constant state of tension. This tension is relieved by drives towards an activity and outcome that is meant to reduce or relieve such tension. The greater the tension, the more activity will be needed to bring about relief and hence higher the motivation. Thus the basic motivation process can be depicted as follows:

Effort The amount of effort put into the activity identifies the strength of the person’s work related behaviour. Hard work usually reflects high motivation. A student who works very hard to get top grades can be referred to as highly motivated. A professor who is engaged in research and publishes many high quality articles is exerting extensive effort relating to his job.



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Persistence Motivation is a permanent and an integral part of a human being. Its second characteristic is persistence in the efforts. Motivation is continuously goal directed so that once a goal is achieved, a higher goal is selected and efforts are exercised towards this higher goal. Accordingly, high motivation requires persistent efforts.

Direction Persistent hard work determines the quantity of effort while direction determines the quality of the anticipated output. All efforts are to be directed towards the organizational goal. This would ensure that the persistent effort is actually resulting into accepted organizational outcomes.

15.1.2 Importance of Motivation

Motivation is a very important for an organization because of the following benefits it provides:

15.2.i.Puts human resources into action

Every concern requires physical, financial and human resources to accomplish the goals. It is through motivation that the human resources can be utilized by making full use of it. This can be done by building willingness in employees to work. This will help the enterprise in securing best possible utilization of resources.

15.2.ii. Improves level of efficiency of employee

The level of a subordinate or a employee does not only depend upon his qualifications and abilities. For getting best of his work performance, the gap between ability and willingness has to be filled which helps in improving the level of performance of subordinates. This will result into-

- a. Increase in productivity,
- b. Reducing cost of operations, and
- c. Improving overall efficiency.

15.2.iii. Leads to achievement of organizational goals

The goals of an enterprise can be achieved only when the following factors take place :-

- a. There is best possible utilization of resources,
- b. There is a co-operative work environment,
- c. The employees are goal-directed and they act in a purposive manner,
- d. Goals can be achieved if co-ordination and co-operation takes place simultaneously which can be effectively done through motivation.

15.2.iv.Builds friendly relationship

Motivation is an important factor which brings employees satisfaction. This can be done by keeping into mind and framing an incentive plan for the benefit of the employees. This could initiate the following things:

- a. Monetary and non-monetary incentives,
- b. Promotion opportunities for employees,
- c. Disincentives for inefficient employees.

In order to build a cordial, friendly atmosphere in a concern, the above steps should be taken by a manager. This would help in:

- 1) Effective co-operation which brings stability,
- 2) Industrial dispute and unrest in employees will reduce,
- 3) The employees will be adaptable to the changes and there will be no resistance to the change,
- 4) This will help in providing a smooth and sound concern in which individual interests will coincide with the organizational interests,
- 5) This will result in profit maximization through increased productivity.

15.2. Leads to stability of work force

Stability of workforce is very important from the point of view of reputation and goodwill of a concern. The employees can remain loyal to the enterprise only when they have a feeling of participation in the management. The skills and efficiency of employees will always be of advantage to employees as well as employees. This will lead to a good public image in the market which will attract competent and qualified people into a concern. As it is said, "Old is gold" which suffices with the role of motivation here, the older the people, more the experience and their adjustment into a concern which can be of benefit to the enterprise.

From the above discussion, we can say that motivation is an internal feeling which can be understood only by manager since he is in close contact with the employees. Needs, wants and desires are inter-related and they are the driving force to act. These needs can be understood by the manager and he can frame motivation plans accordingly. We can say that motivation therefore is a continuous process since motivation process is based on needs which are unlimited. The process has to be continued throughout.

We can summarize by saying that motivation is important both to an individual and a business. Motivation is important to an individual as:

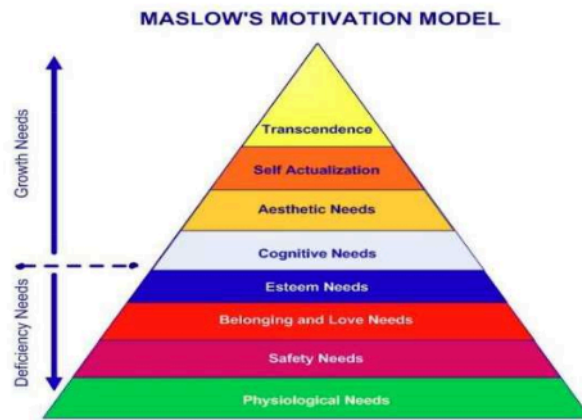
1. Motivation will help him achieve his personal goals.
2. If an individual is motivated, he will have job satisfaction.
3. Motivation will help in self-development of individual.
4. An individual would always gain by working with a dynamic team.

15.2 Hierarchy of needs

The original hierarchy of needs five-stage model includes:

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

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



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

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

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

15.2.3. Love and belongingness needs - after physiological and safety needs have been fulfilled, the third level of human needs is social and involves feelings of belongingness. Belongingness, refers to a human emotional need for interpersonal relationships, affiliating, connectedness, and being part of a group.

Examples of belongingness needs include friendship, intimacy, trust, and acceptance, receiving and giving affection, and love.

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

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

15.2.5. Self-actualization needs are the highest level in Maslow's hierarchy, and refer to the realization of a person's potential, self-fulfillment, seeking personal growth and peak experiences. Maslow (1943) describes this level as the desire to accomplish everything that one can, to become the most that one can be.

Individuals may perceive or focus on this need very specifically. For example, one individual may have a strong desire to become an ideal parent. In another, the desire may be expressed economically, academically or athletically. For others, it may be expressed creatively, in paintings, pictures, or inventions.

15.3 Good Motivation System

Motivation is a state of mind. High motivation leads to high morale and greater production. A motivated employee gives his best to the organization. He stays loyal and committed to the organization. A sound motivation system in an organization should have the following features:

- ❖ Superior performance should be reasonably rewarded and should be duly acknowledged.
- ❖ If the performance is not consistently up to the mark, then the system must make provisions for penalties.
- ❖ The employees must be dealt in a fair and just manner. The grievances and obstacles faced by them must be dealt instantly and fairly.
- ❖ Carrot and stick approach should be implemented to motivate both efficient and inefficient employees. The employees should treat negative consequences (such as fear of punishment) as stick, an outside push and move away from it. They should take positive consequences (such as reward) as carrot, an inner pull and move towards it.
- ❖ Performance appraisal system should be very effective.
- ❖ Ensure flexibility in working arrangements.
- ❖ A sound motivation system must be correlated to organizational goals. Thus, the individual/employee goals must be harmonized with the organizational goals.
- ❖ The motivational system must be modified to the situation and to the organization.
- ❖ A sound motivation system requires modifying the nature of individual's jobs. The jobs should be redesigned or restructured according to the requirement of situation. Any of the alternatives to job specialization - job rotation, job enlargement, job enrichment, etc. could be used.
- ❖ The management approach should be participative. All the subordinates and employees should be involved in decision-making process.
- ❖ The motivation system should involve monetary as well as non-monetary rewards. The monetary rewards should be correlated to performance. Performance should be based on the employees' action towards the goals, and not on the fame of employees.
- ❖ "Motivate yourself to motivate your employees" should be the managerial approach.
- ❖ The managers must understand and identify the motivators for each employee.
- ❖ Sound motivation system should encourage supportive supervision whereby the supervisors share their views and experiences with their subordinates, listen to the subordinates views, and assist the subordinates in performing the designated job.

15.4 Motivational Techniques

Any manager knows that a motivated team is a productive team. The success of any business is dependent on the motivation of its employees. Happy and engaged employees invariably lead to productivity and profit. Unfortunately, motivational techniques are anything but an exact science. What works for one individual doesn't for another.

It is critical for a manager or small business owner to find out what motivates their team. In many cases, it boils down to getting to know each employee on an individual basis. Some are motivated by money alone, some prefer recognition and others are motivated when they feel valued.

15.4.1. Communicate

It is said that good communication is the number one factor in any good relationship. A leader must always be approachable and accessible. In other words, keep the door open. Spending time with employees on a one to one basis will put them at ease and alleviate uncertainty. It will also give the manager keen insight into what motivates each of his employees.

15.4.2. Socialize

A manager should make time for his employees to spend time together socializing during work hours. Treat your team to refreshments after a meeting or go all out and provide a meal for them. Cater it or cook it up yourself. A brunch or sandwiches will let the team know they are appreciated. This is also a teambuilding exercise as they will have the opportunity to spend time together 'outside' of work.

15.4.3. Reward

Award programs have been around for years and are a great way to recognize employees for achieving a goal or objective. Choose an award that is appropriate to the achievement. It might be something casual, like an envelope with movie tickets. Or you may want to go all out and present something like a nice art-glass award for a bigger reward. Either way, the reward should be conveyed with a genuine sense of appreciation.

15.4.4. Challenge

Everyone wants to improve themselves. Take advantage of this human trait by providing employees with challenges and goals they can achieve. Instead of facing new challenges alone, use the opportunity to put them on members of the team. Are there projects sitting idly on the shelf? Hand them over to a staff member to head up and get moving again. Have too much on your own plate? Look for an opportunity to hand some of the workload off to one of your top performers.

15.4.5. Time Off

Few things are appreciated more than a little paid time off. If an individual or team had gone above and beyond on a project, let them take an afternoon off. Or go the extra mile in showing your appreciation by taking an employee to lunch and then giving them the rest of the day off.

15.4.6. Train and Mentor

Motivate employees by providing them with additional training, even if doing so makes them all the more attractive to other employers. Employees in companies where additional training or educational opportunities exist are more likely to stay motivated, even if they don't take immediate advantage of the opportunities. The same is true of organizations that take the time to set up mentoring programs.

Motivation theory is the study of understanding what drives a person to work towards a particular goal or outcome. It's relevant to all of society but is especially important to business and management. That's because a motivated employee is more productive, and a more productive employee is more profitable.

According to David McClelland's motivation theory of management suggests that each person has three basic needs: the need for power, achievement, or affiliation. In this employee motivation theory, McClelland says that a person's particular need will have a significant impact on their behavior.

15.5 Objectives of Motivation Theories

The objectives of motivation theories are to create conditions in which people are willing to work with zeal, initiative, interest, and enthusiasm.

It also creates conditions in which people work with a sense of responsibility, loyalty, discipline and with pride and confidence so that the goals of an organization are achieved effectively.

15.5.1 Importance of theories

The key function of managers is 'getting things done' through employees. The following assignment looks at the role of motivation and why it is essential for managers to be aware of the various motivational theories and how the motivational theories could be implemented in a professional context to achieve organisation's goals and objectives.

Motivation has been defined as: the psychological process that gives behaviour purpose and direction (Kreitner, 1995); a predisposition to behave in a purposive manner to achieve specific, unmet needs (Buford, Bedeian, & Lindner, 1995); an internal drive to satisfy an unsatisfied need (Higgins, 1994); and the will to achieve (Bedeian, 1993).

15.6 Maslow put the following important propositions about human behaviour:

1. Man is a wanting being – Maslow says that man is a wanting animal and his needs are never fully satisfied. "He always wants and wants more. But what he wants depends upon what he already has". His needs continue to emerge from birth to death. Although his particular need may be satisfied, needs in general cannot be.
2. A hierarchy of needs – Human needs differ in importance and can, therefore, be arranged in a series of levels—a hierarchy or pyramid. Some needs are more important than the others.
3. Emergence of needs – An individual's needs at a particular level on the hierarchy emerge only when the lower-level needs are reasonably well-satisfied.
4. Progression of needs – Maslow says that once a person has moved from a lower level of needs to a higher level, the lower-level needs assume a less important role. According to Maslow progression of needs means "as a man moves up the ladder (pyramid of needs), personal wants and goals increase in number and variety."

5. Deprivation and domination – Needs do not have to be 100 percent satisfied, before higher needs emerge. They only have to be satisfied enough, “satisfied”. People accept a sufficient, not necessarily a maximum or optimum, level of satisfaction. Hence, needs may become temporarily dominant again as a result of deprivation. According to Maslow, only needs that have not been satisfied exert any considerable force on what a man does.

6. Gratification and activation – Maslow says that only unsatisfied needs motivate behaviour. A satisfied need is not a motivator of behaviour. Also, as soon as the needs of one level are satisfied, the needs of higher level are emerged and become active demanding gratification. Once a certain need is satisfied, it ceases to be a motivating factor.

7. Physiological needs are the highest priority – At the lowest level of the hierarchy and at the starting point for motivation are physiological needs. These are the needs that must be satisfied on priority basis, because they are very essential to maintain life. These are more finite than the higher level needs (ego, esteem or social needs).

8. Self-fulfilment can never be achieved – At the apex of the hierarchy is the need for self-actualization, which is very difficult to satisfy. These are the individual’s needs for realizing one’s own potentialities, for self- fulfillment, for self-development.

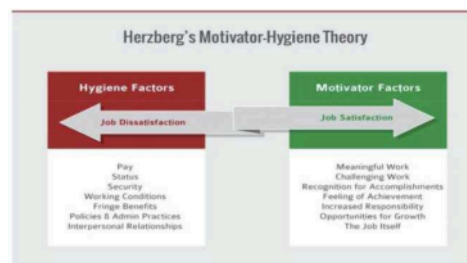
15.7 Motivation—Hygiene Theory:

During the 1950s, Frederick Herzberg proposed a theory of employee motivation based on satisfaction. He conducted a research study by having interviews with 200 engineers and accountants working in eleven different firms in U.S.A.

Herzberg concluded that two separate factors influenced motivation. These two classes of factors were associated with employee satisfaction and dissatisfaction. Hence, his concept has come to be called Herzberg’s two-factor theory. These factors are called hygiene factors and motivators.

15.7.1 Hygiene Factors:

These factors include working conditions, job security, salary, supervision, company policy etc. These are extrinsic to the job and environment centred. These factors are called “dissatisfiers” or hygiene factors as they are essential for the mental health of employees. These are also called maintenance factors, because they are necessary to maintain a reasonable level of satisfaction. If they exist in a work environment, they yield no dissatisfaction. But their existence does not motivate employees. These factors are not strongly motivating; however, their lack of existence would result in dissatisfaction. These are job context factors.



15.7.2 Motivators:

These factors are related to the content of the job. They are inherent in the job and operate primarily to build motivation. Their existence will yield feelings of satisfaction but their absence will not create strong dissatisfaction among employees. These include achievement, recognition, challenging work etc. These are called satisfiers. According to Herzberg, these job content factors are the real motivators.

15.8 Herzberg's Theory:**Herzberg's theory led to the following conclusions:**

1. Not all needs are motivational. Different sets of needs play different roles in the overall process of motivation and satisfaction in organisations.
2. A satisfied employee is motivated from within to work harder and that a dissatisfied employee is not self-motivated.
3. Job satisfaction is not a unidimensional concept. Thus, to eliminate factors that create job dissatisfaction can bring about peace, but cannot necessarily motivate.
4. The factors leading to job satisfaction are separate and distinct from those that lead to job dissatisfaction.
5. The opposite of "satisfaction" is "no satisfaction", and the opposite of "dissatisfaction" is "no dissatisfaction."
6. The work itself is the key to satisfaction and motivation. Herzberg concluded that "enriched jobs" were the key to self-motivation. Hence, managers must give considerable attention to upgrading job content.

Herzberg's theory has two stages in the process of motivating employees. First, managers must ensure that the hygiene factors are not deficient. By providing hygiene factors at an appropriate level, managers do not stimulate motivation but merely ensure that employees are "not dissatisfied".

Employees whom managers attempt to "satisfy" through hygiene factors alone will usually do just enough to get by. Hence, managers should proceed to stage two – giving employees the opportunity to experience motivation through job enrichment that is through motivators such as challenging work, responsibility etc. Herzberg argues that jobs should be redesigned to provide higher levels of the motivational factors.

15.8.1 Critical Appraisal of Herzberg's Theory:

Herzberg's framework of motivation has received a great deal of notice and acceptance among managers. It is helpful in understanding the effect of job characteristics on motivation and performance. It casts a new light on the content of work motivation.

15.8.2 Herzberg's theory is important in the following way:

- (a) It points out by concentrating only on the hygienic factors, managers cannot motivate its employees. To motivate people, this theory says, attention should be directed to the motivators that is changing jobs to remove the boredom, routineness, and lack of challenge.

Only a challenging job which has the opportunity for achievement, recognition and growth will motivate employees.

(b) Herzberg is the first to say that “hygienic factors are absolutely necessary to maintain the human resources of an organisation.”

(c) The theory suggests that the key to improving motivation lies in the concept of job enrichment.

(d) It emphasizes that satisfaction and dissatisfaction do not represent the two extremes of the same continuum.

(e) It extends the Maslow need hierarchy concept and makes it more applicable to work motivation.

(f) It has common-sense appeal to some managers.

15.8.3 In spite of the seemingly value and importance, Herzberg’s theory has also been criticized by behavioural scientists on a number of points:

(1) This theory is not universally applicable. It applies best to managerial, professional, and upper-level employees only.

(2) Researchers question Herzberg’s methods of investigation. These tended to prejudice his results. The theory is method-bound.

(3) The conclusions of this theory are based on a small sample which is not representative of human nature.

(4) It reduces the motivational importance of maintenance factors (i.e. pay, working conditions, interpersonal relations etc.). House and Wigdor argued that even if Herzberg is correct in noting that hygiene factors seldom produce satisfaction or motivation, this does not mean they never can do so.

(5) The distinction between maintenance and motivational factors is not rigid and definite. There may be an appearance of two factors but in reality there is only one.

(6) It over-simplifies the relationship between satisfaction and motivation as well as between the sources of job satisfaction and job dissatisfaction. House and Wigdor argue that one factor can cause job satisfaction for one person and job dissatisfaction for another. On the other hand, motivation is a process while satisfaction is an outcome that occurs after actual motivated behaviour has been exhibited.

(7) It is not really a theory of motivation, because it stresses the importance and provides an explanation of satisfaction rather than motivation.

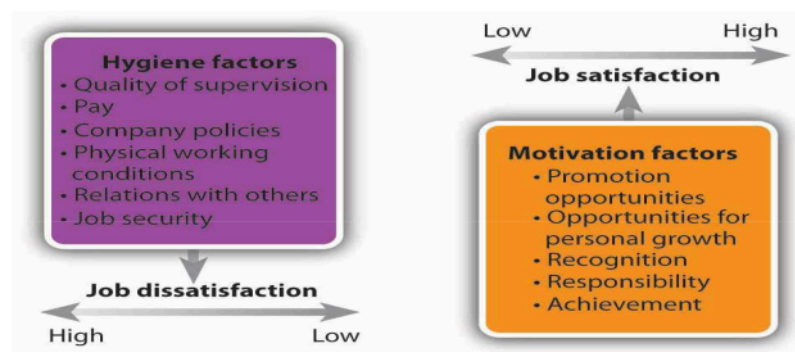
(8) It fail to account for differences in individuals. It basically assumes that all employees will react similarly to motivational factors. In fact, some people will indeed be motivated by a challenging job, but others are highly motivated by money.

(9) It ignores situational variables.

(10) It is not held in high esteem by researchers in the field.

Overall, Luthans concludes, “Herzberg added much to the better understanding of job content factors and satisfaction, but like his predecessors, fell short of the content of work motivation.”

15.9 Motivation—Hygiene Theory:



During the 1950s, Frederick Herzberg proposed a theory of employee motivation based on satisfaction. He conducted a research study by having interviews with 200 engineers and accountants working in eleven different firms in U.S.A.

Herzberg concluded that two separate factors influenced motivation. These two classes of factors were associated with employee satisfaction and dissatisfaction. Hence, his concept has come to be called Herzberg's two-factor theory. These factors are called hygiene factors and motivators,

15.9.1 Hygiene Factors:

These factors include working conditions, job security, salary, supervision, company policy etc. These are extrinsic to the job and environment centred. These factors are called “dissatisfiers” or hygiene factors as they are essential for the mental health of employees. These are also called maintenance factors, because they are necessary to maintain a reasonable level of satisfaction. If they exist in a work environment, they yield no dissatisfaction. But their existence does not motivate employees. These factors are not strongly motivating; however, their lack of existence would result in dissatisfaction. These are job context factors.

15.9.2 Motivators:

These factors are related to the content of the job. They are inherent in the job and operate primarily to build motivation. Their existence will yield feelings of satisfaction but their absence will not create strong dissatisfaction among employees. These include achievement, recognition, challenging work etc. These are called satisfiers. According to Herzberg, these job content factors are the real motivators.

15.10 Theory of Douglas McGregor:

In 1960, Douglas McGregor formulated Theory X and Theory Y suggesting two aspects of human behaviour at work. In other words, two different views of individuals (employees)- one of which is negative, called as Theory X and the other is positive, so called as Theory Y.

15.10.1 Theory X':

The important assumptions underlying this theory are as follows:

- a. Average human being has an inherent dislike of work and will avoid it if they can.
- b. Because of this human characteristic of disliking work, people must be controlled, directed and even threatened to put their efforts for achieving an organisational goals.
- c. He avoids accepting responsibility.
- d. An average person lacks ambition and prefers to be led by someone else.
- e. He is self-centered and indifferent to organisations goals.
- f. Man resists to change of any type and want security above all.

Conclusion of Theory X:

An Organization with theory X type of management will have close supervision. As per McGregor, all assumptions about human nature are negative in their approach. So, a manager has to persuade, punish or reward such workers in order to achieve goals of an organization. Employees will have little or no influence over business policy. Autocratic type of leadership is required to lead such kind of people.

15.10.2 Theory Y:

According to McGregor, Theory X was based on negative assumptions. So he suggested a different theory of managing people which was named as Theory Y.

The important assumptions of Theory Y, described by McGregor are:

- a. People do not dislike work; work is a natural part of their lives.
- b. People are internally motivated to reach objectives to which they are committed.
- c. An employee is capable of assuming responsibility and accepting challenge and change.
- d. People have the capacity to be innovative in solving organizational problems.
- e. This theory further suggests that employees may not require threat, external control and coercion to work, but they can use self-direction and self-control if they are dedicated and sincere to achieve the organizational objectives.

15.10.3 Conclusion of Theory Y:

Theory Y is dynamic and flexible as an average employee is a sociable and smart person. An average person likes work, capable of assuming responsibility and accepting challenge and change, ambitious, and achievement-oriented.

Managers practicing theory Y attempt to get maximum output from their employees with minimum amount of supervision and control. Here, individual goals are coordinated with organizational goals. He is competent to exercise self-direction and self-control.

Thus, we can say that Theory X presents a pessimistic view of employees' nature and behaviour at work, while Theory Y presents an optimistic view of the employees' nature and behaviour at work.

15.10.4 Theory X:

1. Theory 'X' is pessimistic, rigid and conservative
2. People are not self-motivated.
3. Manager has to control, supervise, threat or punish employees to achieve organisational goals. People prefer to be directed.
4. Centralization of authority, autocratic system of leadership is required.
5. People do not like work and try to avoid it.
6. People are not ambitious and dislike responsibility.

15.10.5 Theory Y:

1. Theory 'Y' is optimistic, flexible and progressive.
2. People are self-motivated.
3. People can be self-directed and creative at work and need no close supervision and control.
4. Decentralization of authority, democratic system of leadership is required.
5. People do not dislike work. Work is a natural part of their lives.
6. People are ambitious and accept responsibility.

15.11 Summary

Motivation theory is the study of understanding what drives a person to work towards a particular goal or outcome. It's relevant to all of society but is especially important to business and management. That's because a motivated employee is more productive, and a more productive employee is more profitable. Motivation is the process that initiates, guides, and maintains goal-oriented behaviors. It is what causes you to act, whether it is getting a glass of water to reduce thirst or reading a book to gain knowledge. Motivation involves the biological, emotional, social, and cognitive forces that activate behavior.

15.12 Keywords

Motivation - a reason or reasons for acting or behaving in a particular way- Being moved into action or engaging in behavior directed to some end

Motivation theory - Motivation theory is the study of understanding what drives a person to work towards a particular goal or outcome.

Need – A deficiency in some resource that our body needs.

15.13 Self-Assessment Questions

1. Define motivation? Explain the objective and historical development of motivation?
2. Discuss about the importance and incentives of motivation?

3. What is the difference between self motivation team motivation?

4. Examine the good motivation system?

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LESSON – 16

JOB ENRICHMENT

Learning Objectives

To study the job enrichment
To know the objectives of job enrichment
To be read the Characteristics of Job Enrichment
To grasp the principles of job enrichment

Structure

- 16.0 Introduction**
- 16.1 Objectives**
- 16.2 Purpose of Job Enrichment**
- 16.3 Characteristics of Job Enrichment**
- 16.4 Reason for Enriching Jobs**
- 16.5 Principles of Job Enrichment**
- 16.6 Steps in Job Enrichment**
- 16.7 Action Steps for Job Enrichment:**
- 16.8 Core Dimensions of Job Enrichment**
- 16.9 Job Enrichment interventions**
- 16.10 Job Enrichment Merits and Demerits**
- 16.11 Summary**
- 16.12 Keywords**
- 16.13 Self–Assessment Questions**
- 16.14 Further Readings**

16.0 Introduction

Job enrichment is a management concept that involves redesigning jobs so that they're more challenging to the employee and have less repetitive work. The concept is based on a 1968 *Harvard Business Review* article by psychologist Frederick Herzberg titled "One More Time: How Do You Motivate Employees?" In the article, Herzberg stated that the greatest employee motivators, based on several investigations, are (in descending order): achievement, recognition, work itself, responsibility, advancement, and growth. To improve employee motivation and productivity, jobs should be modified to increase the motivators present for the employee.

To make this concept more usable, let's imagine you're a company manager and want to increase the satisfaction of your staff. As you walk through the process of job enrichment, you'll need to keep in mind these goals:

- Reduce repetitive work.
- Increase the employee's feelings of recognition and achievement.

- Provide opportunities for employee advancement (as in promotions into jobs requiring more skills).
- Provide opportunities for employee growth (as in, an increase in skills and knowledge without a job promotion).

16.0.1 Meaning

Job enrichment refers to structuring of jobs to involve higher level conceptual thinking and responsibility so that employees can take decisions that were formerly the prerogative of superior managers. According to Keith Davis, "Job enrichment means additional motivators added to the job so that it (job) is more rewarding, although the term has come to be applied to any effort to humanize jobs."

Paul Robertson and Herzberg in 1969 have observed, "It seeks to improve both efficiency and human satisfaction by means of building into people's job quite specifically a greater scope of personal achievement and recognition, more challenging and responsible work and more opportunity for individual advancement and growth."

In Job enrichment programme, an employee decides how the job is performed, planned and controlled and makes more decision concerning the entire process.

Job enrichment involves providing an employee with more responsibility for a job and challenges the individual's skill at work. Enrichment involves increasing the decision-making authority and encouraging the employee with their tasks. Providing employees with meaningful tasks will increase their performance compared to just "piling" on a lot of work and increasing the same type of work-load.

Job enrichment directly relates to motivation factor and employee satisfaction. The concept of job enrichment was developed by Fredrick Herzberg in the 1950s. Previous studies have shown that job enrichment causes significant increases in employee job satisfaction, job involvement and increased internal motivation. Decreases in absenteeism were also found to be a result of increased job enrichment.

Job enrichment is a type of job redesign intended to reverse the effects of tasks that are boredom, lack of flexibility, and employee dissatisfaction. The underlying principle is to expand the scope of the job with the greater variety of tasks, vertical in nature, that require self-sufficiency.

16.0.2 Concept

Work is one of the primary means of achieving economic, political and cultural goals. People spend a considerable amount of time in working and earning livelihood. People are working year after year. Therefore work / job have become an issue for many workers because it is losing its intrinsic (internal) value and there is no motivation among the employees.

Some of the workers are dissatisfied with their work which adversely effect on efficiency, productivity and on motivation, efforts have been made to use job for motivating employees in organization, job enrichment and job rotation are the examples in that direction.

HERZBERG is the first in this direction. In his famous research on motivators and maintenance factors focus on job enrichment also, and now, job enrichment has become a popular concept.

Job enrichment means changing or improving a job so that a worker is likely to be more motivated. It simply adding a few more motivators to a job to make it more rewarding. It provides the employee with an opportunity for greater recognition, advancement, growth, and responsibility.

To be specific, a job is enriched when the nature of the job is exciting, challenging and creative or gives the job holder more decision making, planning and controlling powers. It

would make the job more interesting and challenging. It is designed to be less specialized and more enriched.

More autonomy will be given to the workers, allowing him to plan inspect and keep the control on his own job, It means upgrading of responsibility, scope and challenge. It does not mean to make the work more varied but to make every employee a manager.

An employee will perform the functions of management such as planning controlling etc. It provides an opportunity for the employee's psychological growth. In every enriched job, an employee knows the overall deadlines and quality standards to the work.

Within that framework of the plans and controls and holds himself responsible for meeting the deadlines and the quality standards. Job enrichment is more successful in improving quality of the work than its quantity and keeps the employee morale high. He gets satisfaction of doing the job well. Job enrichment removes job monotony, boredom and dissatisfaction on the part of the employee.

16.1 Objectives

Job enrichment involves vertical loading, addition giving more challenge, it applies to improvement of job in such a way that it has more motivators than before and at the same time maintaining the degree of maintenance factors. It is based on the assumption that in order to motivate personnel, the job itself must provide opportunities for achievement, recognition, advancement, responsibility and growth.

The basic objectives of a job enrichment programme are to motivate people to work to their highest level of capacity and ability improve employee relations, attract and retain quality employees, reduce absenteeism, improve quality and productivity, and increase return on investment.

16.2 Purpose of Job Enrichment

1. Increasing the responsibility of the job by adding different tasks.
2. Giving a natural unit of work to an employee.
3. Allowing employees to set their own standards.
4. Providing the freedom of work by minimizing control.
5. Introducing new, innovative, tough and creative tasks to the employees.
6. Encouraging employee participation in planning and decision making process.
7. Making or holding an employee directly responsible for his performance in the organization.

16.3 Characteristics of Job Enrichment

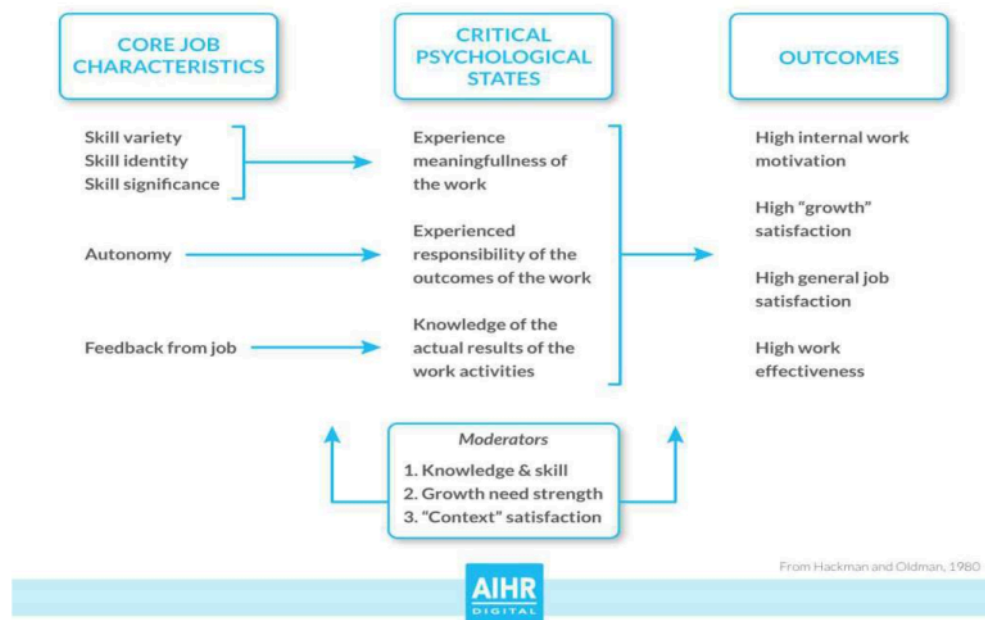
- (1) Direct Feedback- An employee can easily get the feedback of what he has achieved? What is the result of his work done?
- (2) Client Relationship- In an enriched job, an employee develops direct relationship with his client or customer. Such client may be either inside or outside the organization.
- (3) New Learning- An enriched job allows an employee to feel that he is growing mentally. Such employee always learns something new on the job.
- (4) Scheduling Own Work- Full freedom is given to the employee to schedule for his own work, contributes to enrichment of job. In case of employees who perform creative or some outstanding work, opportunity should be given to them to schedule their assignment then to the employees performing routine jobs.
- (5) Unique Experience- An enriched job has some unique qualities and features which ultimately results in unique in doing a job.

(6) Control over Resources- Every employee have to control his resources and expenses, contributes to job enrichment. He is having authority to order whatever supplies he required for performing a job.

(7) Direct Communication Authority- Job enrichment allows the worker to contact directly with the people or customers who are the user of his product. Therefore he is able to get the feedback of the users about his output / product.

(8) Personal Accountability- An enriched job holds the employee responsible for the work done or for the results. He will be praised for good work and would be blamed for bad /poor work.

JOB CHARACTERISTICS MODEL



16.4 Reason for Enriching Jobs

The purpose of job enrichment is to make the position more satisfying to the employee. Overall goals for the company often include increasing employee job satisfaction, reducing turnover, and improving productivity of employees.

To rephrase this as if it's coming from the mouth of the company manager or even the CEO: "We want to enrich our staff's positions so that they'll be happier, more productive, and less likely to seek a job elsewhere."

16.5 Principles of Job Enrichment

Job enrichment involves deliberate upgrading of responsibility and challenges at work. More and more works are being redesigned to make it more 'meaningful,' and in some cases it includes giving employees responsibility for the planning and control of work and operations. So much so that in some countries like Sweden and Norway, it is the law to have employee representatives in the governing boards of companies. Job enrichment is also known as 'job enlargement,' both in scope and depth. Some of the principles of job enrichment are advanced by Herzberg himself. These are:

1. Give the employees the freedom of operation and responsibility. An opportunity to schedule one's own work enhances a sense of achievement and motivation. Expand his authority while retaining some controls and accountability for actions and results.
2. To increase responsibility, give the person a whole unit to operate. This unit may be one group, section or division and grant additional authority to achieve the group goal. This will help the growth and advancement factors.
3. Introduce new and more difficult tasks at each step, giving workers an opportunity to learn and specialize.
4. The employee must be given frequent feedback on his performance and on his handling of his own duties and responsibilities. This feedback will reinforce the learning process and reduce or eliminate 'any existing deviations and will appraise the employee about his progress.'

The job enrichment program can only be initiated and implemented successfully, if the conditions for such a program are highly adequate and receptive. It cannot work in a vacuum. Its success is dependent upon the existing organizational structure, physical and conceptual environment, technology etc. For example, if the jobs are already diverse and challenging, and the workers have reasonable autonomy, further enrichment may not be necessary. Similarly if the employees are not happy with other extrinsic rewards such as pay and fringe benefits, they may not respond positively to the job enrichment program. Accordingly, the job enrichment programs must blend in with the total organizational environment.

Job redesigning, job enlargement, job enrichment etc. was a concept advanced by Peter Drucker in 1950. He has been quoted as, 'the worker is put to use as a poorly designed, one purpose machine tool, but repetition and uniformity are two qualities in which human beings are weakest. In everything, but the ability to judge and coordinate, machines can perform better than men.' This indicates that the- jobs should be designed in such a manner so that these abilities of workers are optimally utilized.

One of the more recent job redesign strategies involves the area of time scheduling known as Flextime. This schedule substitutes the rigid 9 to 5 working schedule and gives the worker the flexibility to arrange his own working hours within reason and in compliance with organization situation. Research has indicated that flextime results in greater job satisfaction. According to Douglas L. Fleuter, flextime programs can result in higher motivation for workers which results in improved productivity.

16.5.1 Vertical job loading is the terminology used by Herzberg to describe his principles for enriching positions and giving employees more challenging work. It's intended to contrast with job enlargement, a.k.a. horizontal job loading, which often involves giving employees more work without changing the challenge level.

To enrich a position, you first need to brainstorm a list of potential changes to the position. Once you have a list of options, Herzberg recommends using the following seven principles to review the options, and shortlist only those that invoke one or more of the following:

1. Removing some controls while retaining accountability
2. Increasing the accountability of individuals for own work
3. Giving a person a complete, natural unit of work
4. Granting additional authority to employees in their activity
5. Making periodic reports directly available to the workers themselves rather than to supervisors
6. Introducing new and more difficult tasks not previously handled
7. Assigning individuals specific or specialized tasks; enabling them to become experts

For example, you might have on your list "Allow staffer A to present the monthly report directly to senior management." When you review this option against our list above, you find that it will meet the following goals:

- Increasing the accountability of individuals for own work by having them present directly to senior staff.
- Granting additional authority to employees in their activities by trusting them to make a presentation to a second-level manager.

Since it does meet some of the goals on our enrichment list, it would be added to the shortlist. Once you have a final list, prioritize the options and document implementation steps and dates for each option you plan to implement.

16.6 Steps in Job Enrichment

The process of job enrichment has the following steps

- (i) Selection of a job which is convenient for job enrichment.
- (ii) Identification of change that will enrich the job.
- (iii) Making a change in the content of the job to make the job more attractive and also to make the employees more responsible.
- (iv) Providing training, guidance & encouragement to employees.
- (v) Identifying motivational factors like achievement, recognition, responsibility etc.
- (vi) Introducing the job enrichment programme in to the daily work routine of the organization.

16.7 Action Steps for Job Enrichment:

Job enrichment makes the job more challenging and enhances the worker's responsibility, motivation and enthusiasm. Dale S. Beach has suggested specific action steps for designing enriched jobs.

16.7.1 They are as follows:

1. Creation of natural or logical work units.
2. Combining several duties which require various skills into each job.
3. Allowing the employees to have direct contact (if possible), and knowledge about the people for whom his products are required.
4. Providing vertical job loading to incorporate some planning and controlling duties into the job.

5. Providing feedback information to the employees to correct and improve their performances.

16.8 Core Dimensions of Job Enrichment

Lawler and Hachman have identified three core dimensions that especially provide enrichment for job. It is desirable that all the five dimensions be provided.

16.8.1 Skill Variety:

The employees who are performing different operations using several procedures and may be using different equipment. The jobs which are having a lot of variety, employees feel that, such jobs are more challenging simply because they required a range of skills while performing it. These jobs also relieve monotony that develops from any repetitive function. Variety gives employees a greater sense of competence, because they can perform different kinds of work in different ways.

16.8.2 Task Identity:

Task identity is the second core job dimension, which allows employees to perform complete piece of the work. Many job enrichment efforts have been focused on this dimension. In the earlier days due to over specialization of routine jobs, individual employees worked on a small part of the whole work/job that they were unable to identify any product with their efforts.

The employees could not feel any sense of completion or feel any responsibility for the whole product. When tasks are broadened to produce a whole product or an identifiable part of it, then task identity has been established.

16.8.3 Task Significance:

“Task significance” is third core dimension of job enrichment. It refers to the amount of impact that the work has on other people, which is done by the worker. This impact may be on others in the organization or may be on others outside the organization. Because of task workers believe that they are also having something unique and important in their organization or in the society in which they live.

16.8.4 Autonomy:

The fourth core dimension of job is “autonomy”. It controls over the affairs of the employee. Autonomy builds a sense of responsibility in workers. It is a fundamental characteristic which must be developed among all the employees. The workers have to work within the broad constraints of an organization, they also insist on a degree of freedom.

16.8.5 Feedback:

A fifth core dimension is feedback. Feedback refers to information that tells workers how well they are performing. Since they are investing substantial part of their lives in their work, they want to know how well they are doing. If their performance is not satisfactory, they must try to improve the same, watch such workers and inform them how they are doing now. Weekly and daily reports are much better for feedback.

The model is self-explanatory that what is the relationship between the job dimension and emerging psychological states and results of personnel and work outcomes. Hackman and Oldman in 1976 have developed a questionnaire called the Job Diagnostic Survey which provides an objectives and quantitative measure of five core dimension the responses to it will reveal how much each core dimension is present in a job. If a job is high on all five dimensions, the job enrichment is not needed even if employees are unproductive or unhappy. It means that such job is already enriched but the cause for employee's unhappiness or poor performance are unrelated with the design of the work.

16.9 Job Enrichment interventions

In this section, we will go over a series of job enrichment interventions. All these interventions are aimed at increasing skill variety, task significance, broadening roles, and increasing autonomy.

16.9.1. Job Diagnostic Survey. The first intervention is the JDS we discussed previously. I mention this here as this is often the starting point of any enrichment intervention. These interventions should be aimed at jobs with low motivating potential scores.

16.9.2. Creating natural work units. The formation of natural work units is about grouping interrelated tasks together. This creates ownership of the tasks and allows the employee to see the result of their work, leading to an increase in ownership, task identity, and perceived task significance.

16.9.3. Combining tasks. Divided jobs can be put together to create broader, more rewarding jobs. Cummings & Worley mention Corning Glass Works, a laboratory hotplate assembling plant. Separate tasks were combined so that each operator would completely assemble, inspect, and ship a hotplate. This meant that each assembler could identify with a finished product and self-inspect it, leading to greater task significance, autonomy, and feedback. This resulted in an increase in productivity of 84%, a drop of controllable rejects from 23 to less than 1%, and absenteeism dropped from 8 to less than 1%.

16.9.4. Quality circles. Quality circles, or Kaizen groups, are groups of employees who regularly meet to consider ways of resolving problems and improving productivity in their organization. These small groups increase participatory management and lead to more task identity and autonomy.

16.9.5. Suggestion programs. In line with quality circles, Employee Suggestion Programs (ESP) encourage employees to offer suggestions that improve the performance and quality of their work. Usually, the ESP is overseen by HR. Sometimes cash awards are awarded for employees whose ideas are implemented or result in savings or revenue.

16.9.6. Task teams. A task team, task force, or task group is a unit established to work on a single defined task or activity. Originally introduced by the United States Navy, it is now used in business settings as well. Similar to the quality circle, a group of employees works together to come up with improvements related to a specific business activity, often overseen by a manager.

16.9.7. Feedback. The simple act of giving regular feedback may be the easiest job enrichment intervention of them all. Feedback, whether it comes from one's direct manager or peers through a 360-degree feedback assessment, helps the employee to grow and develop and is a key way to enrich one's job.

16.9.8. Autonomy. Autonomy is another key part of the motivating potential of a job. Any intervention that can increase autonomy will lead to an increase in motivating potential. Examples include being able to determine when one takes a break or being made responsible for a project or process.

16.9.9. Purpose. We haven't mentioned Deci and Ryan's self-determination theory yet. Deci and Ryan propose that motivation is created through three drivers, a need for autonomy, a need for competence, and a need for relatedness. This was later popularized in Daniel Pink's book *Drive*. A purpose for doing the work can help in creating relatedness to the work. A clearly stated and identifiable purpose will increase task significance.

16.9.10. Establish client relationships. Another job enrichment intervention is to establish client relationships. When jobs are split up, workers have little to no contact with, or knowledge of, the ultimate user. By establishing client relationships, the task identity and task significance are increased. Cummings & Worley recommend three steps. First, the client must be identified. Second, the contact between the worker and the client needs to be as direct as possible. Third, criteria by which the client judges the product or service should be clear and the client's judgment should be relayed back to the worker.

16.9.11. Vertical loading. Vertical loading may be the most crucial job enrichment and design principle. A job that is vertically loaded has responsibilities and a large degree of control that was formally reserved for management. This greatly increases autonomy. Vertical loading is often lost when a mistake is made. At this point, a supervisor steps in and removes the responsibility, leading to lower vertical loading and a decrease in autonomy.

16.9.12. Horizontal loading. Horizontal loading is also referred to as job enlargement. Job enlargement is a form of job enrichment and will be discussed in the next section.

16.10 Job Enrichment Merits and Demerits

16.10.1 The following are the merits or benefits of job enrichment:

- (1) It improves and enhances the basis relation between the person and his work.
- (2) It attempts to change one's behaviour positively while maintaining the change.
- (3) It helps to convert monotonous work into a source of motivation.
- (4) It offers a change to initiate and allow other organizational changes and alter the management style.
- (5) It helps organization in the long run in rehumanizing than dehumanizing their manpower.
- (6) Job enrichment enables the employees and the organisation to be more flexible.
- (7) It enables the employees to be more committed to their organisation.
- (8) It checks the organisation from over staffing.
- (9) It enables the organisation to get more competitive advantage from its employees.
- (10) It becomes a powerful tool to create a learning organisation.

16.10.2 The following are the demerits or drawbacks of job-enrichment:

1. Job enrichment may initially reduce productivity.
2. The management may not involve in supporting functions.
3. It may make attrition rates higher.
4. It requires large investment in terms of time and money,
5. Managing people becomes difficult due to high empowerments.

16.11 Summary

Job enrichment is the process of adding motivators to existing roles in order to increase satisfaction and productivity for the employee. This can be done through increasing autonomy, skill and task variety, providing feedback, and so on.

16.12 Keywords

Job Enrichment - Job enrichment is a process that is characterized by adding dimensions to existing jobs to make them more motivating. Examples of job enrichment include adding extra tasks (also called job enlargement), increasing skill variety, adding meaning to jobs, creating autonomy, and giving feedback.

The Job Diagnostic Survey - A tool to enrich jobs is the Job Diagnostic Survey (JDS). The JDS is a framework that helps to calculate a motivating potential score.

Job enrichment interventions - In this section, we will go over a series of job enrichment interventions. All these interventions are aimed at increasing skill variety, task significance, broadening roles, and increasing autonomy.

16.13 Self – Assessment Questions:

1. What is job enrichment? Explain the purpose of job enrichment?
2. Explain the characteristics of job enrichment?
3. Examine the principles and dimensions of job enrichment?
4. Discuss the merits and demerits of job enrichment?

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UNIT - V

LESSON-17

SYSTEM AND PROCESS OF CONTROLLING

Learning Objectives

- To Study the importance of Controlling
- To Learn about the Characteristics of control
- To understands the requirement of effective control

Structure

17.0 Introduction

17.1 Importance of controlling

17.2 Characteristics of Control

17.3 Controlling process

17.4 Requirement of Effective control

17.5 Limitation of controlling

17.6 Summary

17.7 Key words

17.8 Self Assessment Questions

17.9 Further Readings

17.0 INTRODUCTION

Controlling is one of the important functions of a manager. In order to seek planned results from the subordinates, a manager needs to exercise effective control over the activities of the subordinates. In other words, controlling means ensuring that activities in an organisation are performed as per the plans. Controlling also ensures that an organisation's resources are being used effectively and efficiently for the achievement of predetermined goals. Controlling is, thus, a goal-oriented function.

Controlling function of a manager is a pervasive function. It is a primary function of every manager. Managers at all levels of management- top, middle and lower-need to perform controlling functions to keep a control over activities in their areas. Moreover, controlling is as much required in an educational institution, military, hospital, and a club as in any business organisation.

Controlling should not be misunderstood as the last function of management.

It is a function that brings back the management cycle back to the planning function. The controlling function finds out how far actual performance deviates from standards, analyses the causes of such deviations and attempts to take corrective actions based on the same. This process helps in formulation of future plans in the light of the problems that were identified and, thus, helps in better planning in the future periods. Thus, controlling only completes one cycle of management process and improves planning in the next cycle.

17.1 IMPORTANCE OF CONTROLLING

Control is an indispensable function of management. Without control the best of plans can go awry. A good control system helps an organisation in the following ways:

Accomplishing organisational goals

The controlling function measures progress towards the organisational goals and brings to light the deviations, if any, and indicates corrective action. It, thus, guides the organisation and keeps it on the right track so that organisational goals might be achieved.

17.1.1 Judging accuracy of standards

A good control system enables management to verify whether the standards set are accurate and objective. An efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards in light of such changes.

17.1.2 Making efficient use of resources

By exercising control, a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms. This ensures that resources are used in the most effective and efficient manner

17.1.3 Improving employee motivation

A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised. It, thus, motivates them and helps them to give better performance.

17.1.4 Ensuring order and discipline

Controlling creates an atmosphere of order and discipline in the organisation. It helps to minimise dishonest behaviour on the part of the employees by keeping close check on their activities.

17.1.5 Facilitating coordination in action

Controlling provides direction to all activities and efforts for achieving organisational goals. Each department and employee is governed by predetermined standards which are well coordinated with one another. This ensures that overall organisational objectives are accomplished.

17.2 Characteristics of control

Control is a device or a procedure which keeps the manager informed as the activities for which he is responsible and which assures him that his plans and policies are being carried

out according to schedule. The nature of control function will be clearly understood from the following characteristics of control

17.2 Characteristics of control

1. Control is all pervasive function:

Control is essential at all levels of organisation. It is a follow-up action to the other management functions. Every manager performs the control function irrespective of his rank

and nature of job. Control is the essential counterpart of planning. It is the control function which completes the management process.

2. Control is a continuous process:

Control is an ongoing and dynamic function of management. It involves continuous review of performance and revision of standards of operations. As long as an organisation exists, control continues to exist. It is amenable to change with the external environment. Therefore it is a highly flexible process.

3. Planning is the basis of control:

Control can be exercised only with reference to and on the basis of plans. Effective control is not possible unless the management spells out clear objectives of the organisation. In fact, measurement of performance requires certain standards which are laid down under planning. Planning sets course and control ensures that actual action conforms to the planned action.

4. Action is the essence of control

Control is an action-oriented process. A manager initiates action which guides the operation within the sphere of plans. In order to prevent a recurrence of deviations a manager modifies or improves the existing plans,

5. Control is a forward looking process:

Control aims at future. Although past experience is the criteria for future standards, control is concerned with checking the current performance and providing guidelines for the future. Therefore, control is both backward-looking and forward-looking. It looks at future through the eyes of past.

6. Delegation is the key to control:

Effective control requires adequate delegation of authority. An executive can perform the control function properly if he enjoys the authority. to take remedial action and is to be held accountable for results.

7. Control allows the organisation to cope with uncertainty

Control helps in regulating the uncertain events of the organisation. It anticipates any shift in task and preferences of consumers and directs the organisation to modify its process in order to meet the contingencies of the future

17.3 Controlling process

Controlling is a systematic process involving the following steps.

1. Setting performance standards
2. Measurement of actual performance
3. Comparison of actual performance with standards
4. Analysing deviations
5. Taking corrective action

17.3.1 Setting Performance Standards:

The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as benchmarks towards which an organisation strives to work. Standards can be set in both quantitative as well as qualitative terms. For instance, standards set in terms of

cost to be incurred, revenue to be earned, product units to be produced and sold, time to be spent in performing a task, all represents quantitative standards. Sometimes standards may also be set in qualitative terms. Improving goodwill and motivation level of employees are examples of qualitative standards.

At the time of setting standards, a manager should try to set standards in precise quantitative terms as this would make their comparison with actual performance much easier. For instance, reduction of defects from 10 in every 1,000 pieces produced to 5 in every 1,000 pieces produced by the end of the quarter. However, whenever qualitative standards are set, an effort must be made to define them in a manner that would make their measurement easier. For instance, for improving customer satisfaction in a fast food chain having self-service, standards can be set in terms of time taken by a customer to wait for a table, time taken by him to place the order and time taken to collect the order. It is important that standards should be flexible enough to be modified whenever required. Due to changes taking place in the internal and external business environment

17.3.2 Measurement of Actual

Performance: Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc. As far as possible, performance should be measured in the same units in which standards are set as this would make their comparison easier.

It is generally believed that measurement should be done after the task is completed. However, wherever possible, measurement of work should be done during the performance. For instance, in case of assembling task, each part produced should be checked before assembling. Similarly, in a manufacturing plant, levels

Standards used in Functional Areas to Gauge Performance

Production	Marketing	Human Resource Management	Finance and Accounting
Quantity	Sales volume	Labour relations	Capital expenditures
Quality	Sales expense	Labour turnover	Inventories
Cost	Advertising expenditures	Labour absenteeism	Flow of capital
Individual job	Individual		Liquidity
Performance	Sales-person's performance		

of gas particles in the air could be continuously monitored for safety. Measurement of performance of an employee may require preparation of performance report by his superior. Measurement of a company's performance may involve calculation of certain ratios like gross profit ratio, net profit ratio, return on investment, etc., at periodic intervals. Progress of work in certain operating areas like marketing may be measured by considering the number of units sold, increase in market share etc., whereas, efficiency of production may be measured by counting the number of pieces produced and number of defective pieces in a

batch. In small organisations, each piece produced may be checked to ensure that it conforms to quality specifications laid down for the product. However, this might not be possible in a large organisation. Thus, in large organisations, certain pieces are checked at random for quality. This is known as sample checking.

17.3.3 Comparing Actual Performance with Standards

This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms. For instance, performance of a worker in terms of units produced in a week can be easily measured against the standard output for the week.

17.3.4 Analysing Deviations:

Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas. Critical point control and management by exception should be used by a manager in this regard.

1. Critical Point Control:

It is neither economical nor easy to keep a check on each and every activity in an organisation. Control should, therefore, focus on key result areas (KRAs) which are critical to the success of an organisation. These KRAs are set as the critical points. If anything goes wrong at the critical points, the entire organisation suffers. For instance, in a manufacturing organisation, an increase of 5 per cent in the labour cost may be more troublesome than a 15 per cent increase in postal charges.

2. Management by Exception:

Management by exception, which is often referred to as control by exception, is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing. Thus, only significant deviations which go beyond the permissible limit should be brought to the notice of management. Thus, if the plans lay down 2 per cent increase in labour cost as an acceptable range of deviation in a manufacturing organisation, only increase in labour cost beyond 2 per cent should be brought to the notice of the management. However, in case of major deviation from the standard (say, 5 per cent), the matter has to receive immediate action of management on a priority basis.

After identifying the deviations that demand managerial attention, these deviations need to be analysed for their causes. Deviations may have multiple causes for their origin. These include unrealistic standards, defective process, inadequacy of resources, structural drawbacks, organisational constraints and environmental factors beyond the control of the organisation.

Remedial Plan of Action: Analysing deviations



case the deviation cannot be corrected through managerial action, the standards may have to be revised. The table below cites some of the causes of deviations and the respective corrective action that might be taken by a manager. The information in the box in next page gives an account of how Saco Defense was able to control a crisis situation.

Some examples of Corrective Action

Causes of deviation	Corrective action to be taken
1. Defective material	Change the quality specification for the material used
2. Defective machinery	Repair the existing machine or replace the machine if it cannot be repaired
3. Obsolete machinery	Undertake technological upgradation of machinery
4. Defective process	Modify the existing process
5. Defective physical conditions of work	Improve the physical conditions of work

The budget as control technique

There are many controlling techniques which were also commonly known as controlling aids.

Generally these controlling techniques can be categorized into two types i.e., Traditional Techniques and Modern Techniques. Now in this article we can concentrate on both the techniques in detail. So that one can understand them well and can practice well in their organizations to achieve their predetermined objectives.

17.4 Requirements of Effective control

To be effective and to serve its purpose, the system of control must satisfy certain requirements. These may be regarded as the prerequisites of effective control. The requirements of an effective control system may be enumerated in brief as under:

1 Definition of objectives: Before planning a control system, it is essential to clearly define the objectives of the organisation. The control system must be directed towards the potential or actual deviations from plans early enough to permit corrective action.

2 Efficiency of control techniques: Control techniques are said to be efficient when they detect deviations from plans and make possible corrective action at an early stage with the minimum of unsought consequences.

3 Responsibility of control: The primary responsibility for the exercise of control should rest with the manager charged with the implementation of plans.

4 Direct control: Any control system should be designed to maintain direct control between the controller and the controlled.

5 Organisation suitability: Controls should be tailored to fit the organisation. The flow of information concerning current performance should correspond with the organisational structure. If superior is to control overall operations, he must find a pattern that will provide control for individual parts

17.5 LIMITATIONS OF CONTROLLING

Although controlling is an important function of management, it suffers from the following limitations.

17.5.1 Difficulty in setting quantitative standards

Control system loses some of its effectiveness when standards cannot be defined in quantitative terms. This makes measurement of performance and their comparison with standards a difficult task. Employee morale, job satisfaction and human behaviour are such areas where this problem might arise.

17.5.2 Little control on external factors

Generally an enterprise cannot control external factors such as government policies, technological changes, competition etc.

17.5.3 Resistance from employees

Control is often resisted by employees. They see it as a restriction on their freedom. For instance, employees might object when they are kept under a strict watch with the help of Closed Circuit Televisions (CCTVs).

17.5.4 Costly affair

Control is a costly affair as it involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system. It cannot justify the expenses involved. Managers must ensure that the costs of installing and operating a control system should not exceed the benefits derived from it.

17.6 Summary

Management control can be defined as a systematic torture by business management to compare performance to predetermined standards, plans, or objectives in order to determine whether performance is in line with these standards and presumably in order to take any remedial action required to see that human and other corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives

17.7 Key words

Controlling - Controlling also ensures that an organisation's resources are being used effectively and efficiently for the achievement of predetermined goals

Performance standards-Standards are the criteria against which actual performance would be measured

Management by exception- Management by exception, which is often referred to as control by exception, is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing

Critical Point Control- It is neither economical nor easy to keep a check on each and every activity in an organisation

17.8 Self-Assessment Questions

1. Briefly Explain the Importance and Limitations of Controlling
2. Discuss the Traditional Control techniques
3. Explain the Importance of Budgeting, and Types of Budget

17.9 Further Readings

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LESSON-18

DIRECTIVE AND PREVENTIVE MEASURES OF CONTROL CONTROLLING TECHNIQUES

Learning Objectives

To study the Traditional and Modern Techniques of control
To learn the Ratio Analysis
To understand the Management Audit

Structure

- 18.0 Introduction**
- 18.1 Traditional Techniques**
- 18.2 Modern Techniques**
- 18.3 Ratio Analysis**
- 18.4 Reporting**
- 18.5 Management Audit**
- 18.6 PERT & CPM**
- 18.7 Summary**
- 18.8 Key words**
- 18.9 Self-Assessment Questions**
- 18.10 Further Readings**

18.0 Introduction

Traditional techniques are those which have been used by the companies for a long time now. However, these techniques have not become obsolete and are still being used by companies. These include:

- (a) Personal observation
- (b) Statistical reports
- (c) Breakeven analysis
- (d) Budgetary control

18.1 Traditional Methods

1. Personal Observation

This is the most traditional method of control. Personal observation is one of those techniques which enables the manager to collect the information as first-hand information.

It also creates a phenomenon of psychological pressure on the employees to perform in such a manner so as to achieve well their objectives as they are aware that they are being observed personally on their job. However, it is a very time-consuming exercise & cannot effectively be used for all kinds of jobs

2. Statistical Reports

Statistical reports can be defined as an overall analysis of reports and data which is used in the form of averages, percentage, ratios, correlation, etc., present useful information to the managers regarding the performance of the organization in various areas.

This type of useful information when presented in the various forms like charts, graphs, tables, etc., enables the managers to read them more easily & allow a comparison to be made with performance in previous periods & also with the benchmarks.

3. Break-even Analysis

Breakeven analysis is a technique used by managers to study the relationship between costs, volume & profits. It determines the overall picture of probable profit & losses at different levels of activity while analyzing the overall position.

The sales volume at which there is no profit, no loss is known as the breakeven point. There is no profit or no loss. Breakeven point can be calculated with the help of the following formula:

Breakeven point = Fixed Costs/Selling price per unit – variable costs per unit

4. Budgetary Control

Budgetary control can be defined as such technique of managerial control in which all operations which are necessary to be performed are executed in such a manner so as to perform and plan in advance in the form of budgets & actual results are compared with budgetary standards.

Therefore, the budget can be defined as a quantitative statement prepared for a definite future period of time for the purpose of obtaining a given objective. It is also a statement which reflects the policy of that particular period. The common types of budgets used by an organization.

Some of the types of budgets prepared by an organisation are as follows,

1. Sales budget: A statement of what an organization expects to sell in terms of quantity as well as value
2. Production budget: A statement of what an organization plans to produce in the budgeted period
3. Material budget: A statement of estimated quantity & cost of materials required for production
4. Cash budget: Anticipated cash inflows & outflows for the budgeted period
5. Capital budget: Estimated spending on major long-term assets like a new factory or major equipment
6. Research & development budget: Estimated spending for the development or refinement of products & processes

18.2 Modern Techniques

Modern techniques of controlling are those which are of recent origin and are comparatively new in management literature. These techniques provide a refreshingly new thinking on the ways in which various aspects of an organisation can be controlled. These include:

- (a) Return on investment
- (b) Ratio analysis
- (c) Responsibility accounting
- (d) Management audit
- (e) PERT and CPM
- (f) Management information system

18.2.1 Return on Investment

Return on Investment (RoI) is a useful technique which provides the basic yardstick for measuring whether or not invested capital has been used effectively for generating reasonable amount of return. RoI can be used to measure overall performance of an organisation or of its individual departments or divisions. It can be calculated as under.

$$\text{RoI} = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Investment}}$$

Net Income before or after tax maybe used for making comparisons. Total investment includes both working as well as fixed capital invested in business.

According to this technique, RoI can be increased either by increasing sales volume proportionately more than total investment or by reducing total investment without having any reductions in sales volume. RoI provides top management an effective means of control for measuring and comparing performance of different departments. It also permits departmental managers to find out the problem which affects RoI in an adverse manner.

18.3 RATIO ANALYSIS

Ratio Analysis refers to analysis of financial statements through computation of ratios. The most commonly used ratios used by organisations can be classified into the following categories:

18.3.1. Liquidity Ratios: Liquidity ratios are calculated to determine short-term solvency of business. Analysis of current position of liquid funds determines the ability of the business to pay the amount due to its stakeholders.

18.3.2. Solvency Ratios: Ratios which are calculated to determine the long-term solvency of business are known as solvency ratios. Thus, these ratios determine the ability of a business to service its indebtedness.

18.3.3. Profitability Ratios: These ratios are calculated to analyse the profitability position of a business. Such ratios involve analysis of profits in relation to sales or funds or capital employed.

18.3.4. Turnover Ratios: Turnover ratios are calculated to determine the efficiency of operations based on effective utilisation of resources. Higher turnover means better utilisation of resources. The table given below gives examples of some ratios commonly used by managers.

18.4 REPORTING

Responsibility accounting is a system of accounting in which different sections, divisions and departments of an organisation are set up as 'Responsibility Centres'. The head of the centre is responsible for achieving the target set for his centre. Responsibility centres may be of the following types:

18.4.1. Cost Centre

A cost or expense centre is a segment of an organisation in which managers are held responsible for the cost incurred in the centre but not for the revenues. For example, in manufacturing organisation, production department is classified cost centre.

18.4.2. Revenue Centre

A revenue centre is a segment of an organisation which is primarily responsible for generating revenue. For example, marketing department of an organisation may be classified as a revenue center.

18.4.3. Profit Centre

A profit centre is a segment of an organisation whose manager is responsible for both revenues and costs. For example, repair and maintenance department of an organisation may be treated as a profit centre. It is allowed to bill other production departments for the services provided to them.

18.4.4. Investment Centre

An investment centre is responsible not only for profits but also for investments made in the centre in the form of assets. The investment made in each centre is separately ascertained and return on investment is used as basis for judging the performance of the centre.

18.5 MANAGEMENT AUDIT

Management audit refers to systematic appraisal of the overall performance of the management of an organisation. The purpose is to review the efficiency and effectiveness of management and to improve its performance in future periods. It is helpful in identifying the deficiencies in the performance of management functions. Thus, management audit may be defined as evaluation of the functioning, performance and effectiveness of management of an organisation.

The main advantages of management audit are as follows.

1. It helps to locate present and potential deficiencies in the performance of management functions.
2. It helps to improve the control system of an organisation by continuously monitoring the performance of management.
3. It improves coordination in the functioning of various departments so that they work together effectively towards the achievement of organisational objectives.
4. It ensures updating of existing managerial policies and strategies in the light of environmental changes.

Conducting management audit may sometimes pose a problem as there are no standard techniques of management audit. Also, management audit is not compulsory under any law. Enlightened managers, however, understand its usefulness in improving overall performance of the organisation.

18.6 PERT and CPM

PERT (Programme Evaluation and Review Technique) and CPM (Critical Path Method) are important network techniques useful in planning and controlling. These techniques are especially useful for planning, scheduling and implementing time bound projects involving performance of a variety of complex, diverse and interrelated activities. These techniques deal with time scheduling and resource allocation for these activities and aim at effective execution of projects within given time schedule and structure of costs. The steps involved in using PERT/CPM are as follows:

1. The project is divided into a number of clearly identifiable activities which are then arranged in a logical sequence.
2. A network diagram is prepared to show the sequence of activities, the starting point and the termination point of the project.
3. Time estimates are prepared for each activity. PERT requires the preparation of three time estimates – optimistic (or shortest time), pessimistic (or longest time) and most likely time. In CPM only one time estimate is prepared. In addition, CPM also requires making cost estimates for completion of project.
4. The longest path in the network is identified as the critical path. It represents the sequence of those activities which are important for timely completion of the project and where no delays can be allowed without delaying the entire project.
5. If required, the plan is modified so that execution and timely completion of project is under control. PERT and CPM are used extensively in areas like ship-building, construction projects, aircraft manufacture, etc.

18.7 Summary

Controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured. Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business.

18.8 Key words

Budgetary Control- Budgetary control can be defined as such technique of managerial control in which all operations which are necessary to be performed are executed in such a manner

Management audit- Management audit refers to systematic appraisal of the overall performance of the management of an organisation

Ratio Analysis Ratio Analysis refers to analysis of financial statements through computation of ratios

Responsibility accounting- Responsibility accounting is a system of accounting in which different sections, divisions and departments of an organisation are set up as 'Responsibility Centres'

PERT stands for programme evaluation and review technique. It provides a visual representation of a project's timeline and breaks down individual tasks

CPM- critical path method (CPM) is a technique where you identify tasks that are necessary for project completion and determine scheduling flexibilities

18.8 Self-Assessment Questions.

1. Outline the Traditional and Modern Techniques of Controlling
2. Explain the Ratio Analysis in controlling
3. Discuss the Reporting
4. Exhibits the issues in PERT and CPM.

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LESSON-19

INFORMATION TECHNOLOGY IN CONTROLLING

Learning Objectives

- To study the Information technology in controlling
- To Understand the Computer in Handling Information
- To learn the components and Resources of Information system

Structure

19.0 Introduction

19.1 Meaning

19.2 Production Marketing

19.3 Use of computer in Handling Information

19.4 Business Expert system

19.5 Components/resources of Information system

19.6 Summary

19.7 Key words

19.8 Self Assessment Questions

19.9 Further Readings

19.0 INTRODUCTION

Management information system is a system consisting of people, machines, procedures, databases and data models, as its elements. The system gathers data from the internal and external sources of an organisation.

19.1 MEANING

Management information system is an acronym of three words, viz., Management, information, system .in order to fully understand the term MIS, let us try to understand these three words.

Management

Management is the art of getting things done through and with the people in formally organised groups.

Managerial function

1. Planning
2. Organising
3. Staffing

4. Directing and Controlling

Management hierarchy:



Information

Information is data that is processed and is presented in a form which assists decisionmaking. It may contain an element of surprise, reduce uncertainty or provoke a manager to initiate an action. Data usually take the form of historical records. In contrast to information, raw data may not be able to surprise us, may not be organised and may not add anything to our knowledge.

DATA----->PROCESSING----->INFORMATION

System

The term system is the most loosely held term in management literature because of its use in different contexts. However, a system may be defined as a set of elements which are joined together to achieve a common objective. The elements are interrelated and interdependent. The set of elements for a system may be understood as input, process and output.

A system has one or multiple inputs; these inputs are processed through a transformation process to convert these inputs into outputs.

The three elements of a system are INPUT----->PROCESS----->OUTPUT

2. What are the various functions of information systems?

One of the mostly widely used bases for organising activities in almost every organisation is the business function. Business activities are grouped around functions such as production, marketing, finance and personnel etc... Resulting in the respective department or an area of the business organisation. These departments or functional areas are commonly known as the functional areas of business. There is no standard classification of such sub-

system in an organisation, but a typical set of functions in a manufacturing organisation includes:

19.2 PRODUCTION MARKETING

1. Finance and accounting
2. Materials and Personnel systems

Production:

1. Production planning and control
2. Engineering standards
3. Quality control R & D etc

Marketing:

1. Sales order
2. Forecasting Sales analysis
3. Billing Distribution
4. Stock availability
5. Sales quota control
6. Pricing Product promotion
7. Finance and accounting:
8. Financial planning
9. Budgeting Cost accounting
10. Asset accounting
11. Accounts receivable
12. Payroll Accounts payable, etc...

Materials:

1. Material planning
2. Bill of material
3. Cost estimate
4. Warehousing planning etc...

Personnel:

1. Employee recruitment
2. Employee selection
3. Employee development
4. Employee transfers
5. Employee retirements etc...

In information system includes four major resources, hardware, software, people and data. Let's briefly discuss some basic concepts and examples of how these resources contributes to the information processing activities of information system. Hardware---- it includes all physical devices Software-----it includes all set of information processing instructions. People -----people are required for the operation of all information systems. These people resources include specialists and end users

Data-----data is more than the raw material of information systems. The concepts of data resources have been broadened by managers and information system professionals.

Different types of information. Information could be classified on the basis of the purpose for which it is utilised, into three main categories:

Strategic information-----it is required by the managers at the strategic level of management for the formulation of organisational strategies.

Tactical information -----information in this category is used in short term planning and is of use at management control level.

Operational information-----it applies to short periods which may vary from an hour to a few days.

19.3 USE OF COMPUTER IN HANDLING INFORMATION

The discipline of MIS is in its evolutionary stage. MIS is a concept, which is a matter of degree rather than an absolute one. The classifications of information system are

1. Transaction processing system
2. Management information system
3. Decision support system
4. Executive support system
5. Office automation system
6. Business expert system

19.3.1 Transaction processing system

It represents the automation of the fundamental, routine process used to support business operations. It does not provide any information to the user for his/her decision making. Previously Transaction processing system was known as MIS. Prior to computers, data processing was performed manually or with simple machines.

(INPUT) DATA-----→PROCESSING-----→DATA (OUTPUT)

19.3.2 Management Information System

MIS is an information system which process data and converts it into information. A MIS uses TPS for its data inputs. The information generated by the information system may be used for control of operations, strategic and long range planning, short range planning, management control and other managerial problem solving. It has some functional business areas.

They are Marketing Production Human resources Finance Accounting etc...

TPS-----→DATA-----→INPUT-----→PROCESSING-----→OUTPUT-----
→INFORMATION Decision support system:

19.3.3 The Decision support system

(DSS) is an information system application that assist decision making. Decision support systems tend to be designed primarily to serve management control level and strategic planning level managers. The data in the database typically is a combination of master files (internal corporate data) and from external sources.

Database←-----→model base ↘user interface ↙

19.3.4 User Executive support system

Executive support system (ESS) is an extension of the management information system which is a special kind of DSS. An ESS is specially tailored for the use of chief executive of an organisation to support his decision making. An ESS is designed to cater to the information needs of a chief executive keeping in view not only his requirements but also taking into account his personality and style of functioning etc.,

19.3.5 Office automation system

Office automation refers to the application of computer and communication technology to office functions. Office automation systems are meant to improve the productivity of managers at various level of management by providing secretarial assistance and better communication facilities. Office automation systems are the combination of hardware, software and people in information systems, that process office transactions and support office activities at all levels of the organisation. These systems include a wide range of support facilities, which include word processing, electronic filing, electronic mail, message switching, data storage, data and voice communication etc...

In the first category, the following is a list of activities.

- Typing Mailing
- Scheduling of meetings and conferences
- Calendar keeping and Retrieving documents

In the secondary category,

- Conferencing Production of information
- Controlling performance

19.4 BUSINESS EXPERT SYSTEM

Business expert system (BES) is a knowledge based information system that uses its knowledge about a specific, complex application area to act as an expert. This system is one of the knowledge based information system. Expert system provides decision support to managers in the form of advice from an expert in a specific problem area.

Expert systems find application in diverse areas, ranging from medical, engineering and business.

Knowledge base \longleftrightarrow inference engine \searrow user interface

Every legitimate solution will have some advantages is benefits and some disadvantages or costs. These advantages and disadvantages are identified when each alternative solution is evaluated. This process is typically called cost/benefit analysis.

Examples:

- ↑ in sales or profits.
- ↓ in operating costs.

↓ in required investment

19.4.1 Selecting the best solution

Once all alternative solutions have been evaluated the process of selections the best solution can begin. Alternative solutions can be compared to each other because they have been evaluated using the same criteria. It is possible that to decide to select the best solution to the problem.

19.4.2 Implementing a solution

Once a solution has been selected it must be implemented. An implementation plan may be developed. An implementation plan specifies the activities, resources and timing needed for proper implementation.

19.4.3 Post implementation review

The final step of the system approach recognized that an implemented solution can fail to solve the problem for which it was developed. The results of implementing a solution should be monitored and evaluated. This is called a post implementation review process.

19.4.4 Global business strategies

MNC is a firm that operates across products, markets, nations and cultures. It consists of the parent company and a group of subsidiaries.

19.4.5 Multinational strategies

It was a type of “hands off” strategy in which the parent allowed the subsidiaries to develop their own products and practise. The information flows are primarily from the subsidiaries to the parent in the form of financial reports. Global strategy and international strategy is also comes under cost/benefit analysis.

19.5 COMPONENTS /RESOURCES OF INFORMATION SYSTEM

An information system depends on the resources of people, hardware, software, data and networks to perform input, processing, output, storage and control activities that convert data resources into information.

IS consists of 5 major resources:

People resources: People are the essential ingredient for the successful operation of all information systems.

This people resource includes: End users are also called users or clients are people who use an information system or the information it produces. They can be customers, salespersons, engineers etc... Most of us are IS end users.

IS SPECIALISTS are people who develop and operate information system. They include system analysis, software developers, system operators and other managerial, technical and clerical IS personnel.

19.6 Summary

Improve an organization's operational efficiency, add value to existing products, engender innovation and new product development, and help managers make better decisions. Companies are able to identify their strengths and weaknesses due to the presence of revenue reports, employee performance records etc. Identifying these aspects can help a company improve its business processes and operations. Giving an overall picture of the company. Acting as a communication and planning tool. The availability of customer data and feedback can help the company to align its [business processes](#) according to the needs of its customers. The effective management of customer data can help the company to perform direct marketing and promotion activities.

19.7 Key words

Data-----data is more than the raw material of information systems

Information - Information is data that is processed and is presented in a form which assists decisionmaking

Executive support system (ESS) is an extension of the management information system which is a special kind of DSS

MIS- MIS is an information system which process data and converts it into information

System- A system may be defined as a set of elements which are joined together to achieve a common objective

19.8 Self Assessment Questions

1. Outline how to use of Computer in Handling the information?
2. Briefly explain the Components and resources of Information system
3. Discuss the Production Marketing process in information system?

19.9 Further Readings

- 1 C.B. Mamoria& S.V. Gankar, Personnel Management (Text & Cases); HimalayanPublishing House, New Delhi 2010
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CHAPTER-20

PRODUCTIVITY IMPROVEMENT

Learning Objectives

- To study the Importance of Productivity
- To Understand the techniques used in Measurement of Productivity
- To Study the Productivity Improvement indices

Structure

20.0 Introduction

20.1 Importance of Higher Productivity

20.2 Techniques for Measurement of Productivity

20.3 Productivity Improvement Indices

20.4 Summary

20.5 Key words

20.6 Self-Assessment questions

20.7 Further readings

20.0 INTRODUCTION

Productivity is the ratio between output and input. It is quantitative relationship between what we produce and what we have spent to produce. Productivity is nothing but reduction in wastage of resources like men, material, machine, time, space, capital etc. It can be expressed as human efforts to produce more and more with less and less inputs of resources so that there will be maximum distribution of benefits among maximum number of people. Productivity denotes relationship between output and one or all associated inputs. European Productivity Council states that „Productivity is an attitude of mind. It is a mentality of progress of the constant improvement of that which exists. It is certainty of being able to do better than yesterday and continuously. It is constant adoption of economic and social life to changing conditions. It is continual effort to apply new techniques and methods. It is faith in human progress“.

In the words of Peter Drucker productivity means a balance between all factors of production that will give the maximum output with the smallest effort. On the other hand, according to International Labour Organisation productivity is the ratio between the volume of output as measured by production indicates and the corresponding volume of labour input' as measured by production indices and the corresponding volume of labour input as measured by employment indices. This definition applies to an enterprise, industry or an economy as a whole. The productivity of a certain set of resources (input) is therefore the amount of goods or services (output) which is produced by them. Land and building materials, machines, manpower (labour), technology etc. are the resources at the disposal of manufacturing

company. Therefore higher (improved) productivity means that more is produced with the same expenditure of resource i.e. at the same cost in terms of land, materials, machine, time or labour, alternatively, it means same amount is produced at less cost in terms of land, materials, machine time or labour that is utilized.

In countries where capital and skill are short, while unskilled labour is plentiful and poorly paid, it is especially important that higher productivity(improved) should be looked for by increasing the output per machine or piece of plant or per skilled worker. Improving productivity means increasing or raising productivity with the help of using same amount of materials, machine time, land, labour or technology. The following examples of each type of productivity may make improved or higher productivity meaning clearer.

1. Improved productivity of land

If by using better seed, better methods of cultivation and more fertilizer, the yield of corn from a particular hectare of land can be increased from 4 quintals to 6quintals, the productivity of that land, in the agricultural sense is increased (improved)by 50 percent. The productivity of land used for industrial purposes is said to have been increased if the output of goods or services within that area of land is increased by whatever means.

2. Improved productivity of materials

A skilled tailor is able to cut 12 suits from a bale of cloth where an unskilled labour is able to cut only 10 suits from a bale of cloth, then the productivity of the bale used by skilled worker is 16.6 percent greater than unskilled labour.

3. Improved productivity of machines:

A machine tool is producing 90 pieces per working day (i.e. 8 hours).Considering that through the use of improved cutting tools, the output is increased to120 pieces, then the productivity of that machine will be increased by 33.33 percent.

4. Improved productivity of Men (Labour):

The worker is producing 32 plates per hour. Considering that with the improved methods of work, he will be able to produce 42 plates per hour, then productivity of worker will be improved by 31.25 percent. Thus it can be said that more output results into higher productivity or improvement from same amount of resources which means lower money costs and higher net money returns per unit of output.

Another productivity concept known as Japanese Holistic View of Productivity explains productivity as a comprehensive holistic phenomenon encompassing all elements required to improve products/ services (output). Productivity in the future must be concern itself with seeking affluence of a kind which will provide people with material wealth as well as spiritual satisfaction. Also the outputs particularly in the form of physical pollution must be controlled in the context of increasing concern of society for clean environment and sustainable development. To improve productivity products must be designed to satisfy customer need with optimum consumption of resources without generation of waste in the manufacturing process.

20.1 IMPORTANCE OF HIGHER PRODUCTIVITY

Conceptual framework of productivity and productivity improvement. This discussion shows that Productivity improvement can be achieved in a number of ways. If the level of output is increased faster than that of input, productivity will increase. Conversely, productivity will be increased if the level of input is decreased faster than that of output. Also, an organization may realize productivity increase from producing more output with the same level of input.

Finally, producing more output with a reduced level of input will result in increased productivity.

Any of these scenarios may be realized through improved methods, investment in machinery and technology, improved quality, and improvement techniques and philosophies such as just-in-time, total quality management, lean production, supply chain management principles, and theory of constraints.

A firm or department may undertake a number of key steps toward improving productivity. William J. Stevenson lists these steps to productivity improvement:

1. Develop productivity measures for all operations; measurement is the first step in managing and controlling an organization.
2. Look at the system as a whole in deciding which operations are most critical; it is over-all productivity that is important.
3. Develop methods for achieving productivity improvement, such as soliciting ideas from workers (perhaps organizing teams of workers, engineers, and managers), studying how other firms have increased productivity, and re-examining the way work is done.
4. Establish reasonable goals for improvement.
5. Make it clear that management supports and encourages productivity improvement. Consider incentives to reward workers for contributions.
6. Measure improvements and publicize them. Don't confuse productivity with efficiency. Efficiency is a narrower concept that pertains to getting the most out of a given set of resources; productivity is a broader concept that pertains to use of overall resources. For example, an efficiency perspective on mowing the lawn given a hand mower would focus
7. on the best way to use the hand mower; a productivity perspective would include the possibility of using a power mower.

Therefore it is essential to know the importance of higher / improved productivity in manufacturing company/ organization. Thus importance of productivity can be summarized as follows:

20.1.1 Productivity is a key to prosperity

Rise in productivity results in higher production which has direct impact on standard of living. It reduces cost per unit and enables reduction in sale price. It increases wages for workers and increased profit for organisation. Higher demand creates more employment opportunities.

20.1.2 Higher productivity leads to economic growth and social progress

Higher productivity helps to reduce cost per piece which make product available at cheaper rate. Thus it is beneficial for consumers. Low price increases demand of the product which in turn increases profit of the organisation. Higher profit enables organisation to offer higher dividend for shareholders. It increases export and increases foreign exchange reserves of a country.

20.1.3 Higher productivity requires elimination of waste in all forms

It is necessary to eliminate wastage in raw material, wastage of time in case of men and machinery, wastage of space etc. to improve productivity. Several techniques like work study, statistical quality control, inventory control, operation research, value analysis etc. Are used to minimise wastage of resources.

20.1.4 Improvement in productivity is important for country like ours because it can minimise level of poverty and unemployment.

20.2 Techniques for Measurement of Productivity

Productivity has been defined as the ratio of output to input. An increase in productivity means an increase in output that is proportionally greater than increase

input. Productivity may be measured either on an aggregate basis or individual basis. On aggregate basis, output is compared with all inputs taken (added) together. This is called as total productivity. On individual basis, output is compared with any one of the input factor and this is called as partial productivity or factor productivity.

$$\text{Total productivity index} = \frac{\text{Total output}}{\text{Total inputs}} = \frac{\text{Total production of goods and services}}{\text{Labour + Material + Capital + Energy}}$$

This index measures the productivity of the entire organisation with use of all resources. It is a way of evaluating efficiency of entire plant or firm. It has been said that the challenge of productivity has become a challenge of measurement. Productivity is difficult to measure and can only be measured indirectly, that is, by measuring other variables and then calculating productivity from them. This difficulty in measurement stems from the fact that inputs and outputs are not only difficult to define but are also difficult to quantify.

Any productivity measurement system should produce some sort of overall index of productivity. A smart measurement program combines productivity measurements into an overall rating of performance. This type of system should be flexible in order to accommodate changes in goals and policies over time. It should also have the ability to aggregate the measurement systems of different units into a single system and be able to compare productivity across different units.

The ways in which input and output are measured can provide different productivity measures. Disadvantages of productivity measures have been the distortion of themeasure by fixed expenses and also the inability of productivity measures to consider quality changes (e.g., output per hour might increase, but it may cause the defect rate to rise). It is easier to conceive of outputs as tangible units such as number of items produced, but other factors such as quality should be considered.

Experts have cited a need for a measurement program that gives an equal weight to quality as well as productivity. If quality is included in the ratio, output may have to be defined as something like the number of defect-free units of production or the number of units which meet customer expectations or requirements. Therefore, it is very much essential to understand different techniques of measuring the productivity and its improvement.

20.3 PRODUCTIVITY IMPROVEMENT INDICES

Factor productivity or partial productivity indices are of following types:

20.3.1 Labour productivity

The important function in any production set-up is that the budgeted quantity of work must be achieved over a period of time. Labour productivity depends upon how labours are utilised. Labour productivity can be higher or lower depending on factors like availability of work load, material, working tools, availability of power, work efficiency, level of motivation, level of training, level of working condition (comfortable or poor) etc. Labour productivity can be measured in terms of hours or money.

$$\text{Labour productivity} = \frac{\text{Total output}}{\text{Labour input}}$$

$$\text{Labour productivity (in terms of hours)} = \frac{\text{Total quantity produced}}{\text{Actual man hours required to produce that quantity}}$$

$$\text{Labour productivity (in terms of money)} = \frac{\text{Total cost (or sales value) of output produced}}{\text{Amount in terms of rupees spent on workers}}$$

The productivity of labour can be increased by increasing efficiency of labour and reducing labour time.

20.3.2 Material productivity

Production system converts raw material into finished product with the help of mechanical or chemical processes. Material productivity plays important role in cost of production. Material productivity depends upon how material is effectively utilised in its conversion into finished product. Material productivity depends upon percentage of rejection, creation of scrap, level of spoilage, obsolescence, work wastage etc.

$$\text{Material productivity} = \frac{\text{Total output}}{\text{Material input}} \text{ or}$$

$$\text{Material productivity} = \frac{\text{Number of units produced}}{\text{Total material cost}}$$

Material productivity can be increased by using skilled workers, adequate machine tools, good design of product etc.

20.3.3 Machine Productivity

Production system converts raw material into finished product through mechanical or chemical process with the help of machines and equipment's. Machine productivity depends upon availability of raw material, power, skill of workers, machine layout etc.

20.3.4 Capital productivity

For any production set-up, facilities of machines, tools, land etc. are required which are assets of organisation. Capital is needed for such assets. As huge capital is locked in assets, their effective utilization is absolutely necessary. Capital productivity depends on how effectively assets are utilised.

Therefore decision is necessary to take about replacement of fixed assets. Early replacement of fixed assets brings down maintenance cost but requires capital expenses. On the other hand, late replacement of fixed assets improves ratio of production to capital expenditure, but it increases maintenance cost. Therefore proper balance is necessary. Organisation spent large amount (direct expenditure) for assets like direct material, direct wages, land, building, equipment etc. But a production system incurs a lot of direct expenditure like salaries of manpower employed in planning, store keeping, record keeping, inspection etc. Indirect labour is also used for material movement, good housekeeping, cleaning etc. Indirect expenditure is incurred on indirect material like tools, oils, lubricant etc.

$$\text{Capital productivity} = \frac{\text{Total output}}{\text{Capital input}} \quad \text{or} \quad \text{Capital productivity} = \frac{\text{Total output}}{\text{Capital employed}}$$

20.4 Summary

Production system converts raw material into finished product with the help of mechanical or chemical processes. Material productivity plays important role in cost of production. Material productivity depends upon how material is effectively utilised in its conversion into finished product. Material productivity depends upon percentage of rejection, creation of scrap, level of spoilage, obsolescence, work wastage etc.

20.5 Key words

Productivity-Productivity is the ratio between output and input

Labour productivity- Labour productivity depends upon how labours are utilised, It depends on the availability of work load, material, working tools, availability of power, work efficiency, level of motivation, level of training, level of working condition

Machine Productivity- Production system converts raw material into finished product through mechanical or chemical process with the help of machines and equipment's

Material productivity- Production system converts raw material into finished product with the help of mechanical or chemical processes

20.6 Self-Assessment Questions

1. Briefly Explain the Importance of Controlling
2. Discuss the Techniques for measurement of Productivity
3. Examine the Productivity improvement in India
- 4.

20.7 Further Readings

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