**UNIT-I**

**1. NATURE AND SCOPE OF MANGEMENT**

Every human being has several needs and desires. But no individual can satisfy all his wants. Therefore, people work together to meet their mutual needs which they cannot fulfil individually. Moreover, man is a social being as he likes to live together with other people. It is by working and living together in organised groups and institutions that people satisfy their economic and social needs. As a result there are several types of groups, eg., family, school, government, army, a business firm, a cricket team and the like. Such formal groups can achieve their goals effectively only when the efforts of the people working in these groups are properly coordinated and controlled. The task of getting results through others by coordinating their efforts is known as management. Just as the mind coordinates and regulates all the activities of a person, management coordinates and regulates the activities of various members of an organisation.

**1.1 DEFINITION OF MANAGEMENT**

It is very difficult to give a precise definition of the term ‘management’. Different scholars from different disciplines view and interpret management from their own angles. The economists consider management as a resource like land, labour, capital and organisation. The bureaucrats look upon it as a system of authority to achieve business goals. The sociologists consider managers as a part of the class elite in the society. The definitions by some of the leading management thinkers and practitioners are given below:

(i) Management consists in guiding human and physical resources into dynamic, hard-hitting organisation unit that attains its objectives to the satisfaction of those served and with a high degree of morale and sense of attainment on the part of those rendering the service. —**Lawrence A. Appley**

(ii) Management is the coordination of all resources through the process of planning, organising, directing and controlling in order to attain stated objectives. —**Henry L. Sisk.**

(iii) Management is principally the task of planning, coordinating, motivating and controlling the efforts of others towards a specific objective. **—James L. Lundy**

(iv) Management is the art and science of organising and directing human efforts applied to control the forces and utilise the materials of nature for the benefit of man. **—American Society of Mechanical Engineers**

(v) Management is the creation and maintenance of an internal environment in an enterprise where individuals, working in groups, can perform efficiently and effectively towards the attainment of group goals. —**Harold Koontz and Cyrill O’Donnell**

(vi) Management is the art of knowing what you want to do and then seeing that it is done in the best and cheapest way. **—F.W. Taylor**

(vii) To manage is to forecast and to plan, to organise to command, to coordinate and to control. —**Henry Fayol**

(viii) Management is the function of executive leadership anywhere. —**Ralph C. Davis**

(ix) Management is concerned with seeing that the job gets done; its tasks all centre on planning and guiding the operations that are going on in the enterprise. —**E.F.L. Breach**

(x) Management is a distinct process consisting of planning, organising, actuating and controlling performed to determine and accomplish the objectives by the use of people and resources. —**George R. Terry**

**CONCEPTS OF MANAGEMENT**

The term management has been interpreted in several ways; some of which are given below:

**1. Management as an Activity**: Management is an activity just like playing, studying, teaching etc. As an activity management has been defined as the art of getting things done through the efforts of other people. Management is a group activity wherein managers do to achieve the objectives of the group. The activities of management are:

* Interpersonal activities
* Decisional activities
* Informative activities

**2. Management as a Process:** Management is considered a process because it involves a series of interrelated functions. It consists of getting the objectives of an organisation and taking steps to achieve objectives. The management process includes planning, organising, staffing, directing and controlling functions.

Management as a process has the following implications:

**(i) Social Process:** Management involves interactions among people. Goals can be achieved only when relations between people are productive. Human factor is the most important part of the management.

(**ii) Integrated Process:** Management brings human, physical and financial resources together to put into effort. Management also integrates human efforts so as to maintain harmony among them.

**(iii) Continuous Process**: Management involves continuous identifying and solving problems. It is repeated every now and then till the goal is achieved.

**(iv) Interactive process:** Managerial functions are contained within each other. **For example,** when a manager prepares plans, he is also laying down standards for control.

**3. Management as an Economic Resource**: Like land, labour and capital, management is an important factor of production. Management occupies the central place among productive factors as it combines and coordinates all other resources.

**5. Management as a Team:** As a group of persons, management consists of all those who have the responsibility of guiding and coordinating the efforts of other persons. These persons are called as managers who operate at different levels of authority (top, middle, operating). Some of these managers have ownership stake in their firms while others have become managers by virtue of their training and experience. Civil servants and defence personnel who manage public sector undertakings are also part of the management team. As a group managers have become an elite class in society occupying positions with enormous power and prestige. Management as an Academic Discipline Management has emerged as a specialised branch of knowledge. It comprises principles and practices for effective management of organisations. Management has become as very popular field of study as is evident from the great rush for admission into institutes of management. Management offers a very rewarding and challenging career.

6. **Management as a Group:** Management means the group of persons occupying managerial positions. It refers to all those individuals who perform managerial functions. All the managers, e.g., chief executive (managing director), departmental heads, supervisors and so on are collectively known as management.

For example, when one remarks that the management of Reliance Industries Ltd. is good, he is referring to the persons who are managing the company.

There are several types of managers which are listed as under.

(i) Family managers who have become managers by virtue of their being owners or relatives of the owners of a company.

(ii) Professional managers who have been appointed on account of their degree or diploma in management.

(iii) Civil Servants who manage public sector undertakings. Managers have become a very powerful and respected group in modern society. This is because the senior managers of companies take decisions that affect the lives of a large number of people. For example, if the managers of Reliance Industries Limited decide to expand production it will create job for thousands of people. Managers also help to improve the social life of the public and the economic progress of the country. Senior managers also enjoy a high standard of living in society. They have, therefore, become an elite group in the society.

**NATURE AND CHARACTERISTICS OF MANAGEMENT**

The salient features which highlight the nature of management are as follows:

**(i) Management is goal-oriented:** Management is not an end in itself. It is a means to achieve certain goals. Management has no justification to exist without goals. Management goals are called group goals or organisational goals. The basic goal of management is to ensure efficiency and economy in the utilisation of human, physical and financial resources. The success of management is measured by the extent to which the established goals one achieved. Thus, management is purposeful.

**(ii) Management is universal:** Management is an essential element of every organised activity irrespective of the size or type of activity. Wherever two or more persons are engaged in working for a common goal, management is necessary. All types of organisations, e.g., family, club, university, government, army, cricket team or business, require management. Thus, management is a pervasive activity. The fundamental principles of management are applicable in all areas of organised effort. Managers at all levels perform the same basic functions.

**(iii) Management is an Integrative Force:** The essence of management lies in the coordination of individual efforts in to a team. Management reconciles the individual goals with organisational goals. As unifying force, management creates a whole that is more than the sum of individual parts. It integrates human and other resources.

**(iv) Management is a Social Process:** Management is done by people, through people and for people. It is a social process because it is concerned with interpersonal relations. Human factor is the most important element in management.

According to **Appley,** “Management is the development of people not the direction of things. A good manager is a leader not a boss. It is the pervasiveness of human element which gives management its special character as a social process”.

**(v) Management is multidisciplinary:** Management has to deal with human behaviour under dynamic conditions. Therefore, it depends upon wide knowledge derived from several disciplines like engineering, sociology, psychology, economics, anthropology, etc. The vast body of knowledge in management draws heavily upon other fields of study.

**(vi) Management is a continuous Process:** Management is a dynamic and an on-going process. The cycle of management continues to operate so long as there is organised action for the achievement of group goals.

**(vii) Management is Intangible:** Management is an unseen or invisible force. It cannot be seen but its presence can be felt everywhere in the form of results. However, the managers who perform the functions of management are very much tangible and visible.

**(viii) Management is an Art as well as Science:** It contains a systematic body of theoretical knowledge and it also involves the practical application of such knowledge. Management is also a discipline involving specialised training and an ethical code arising out of its social obligations.

On the basis of these characteristics, management may be defined as a continuous social process involving the coordination of human and material resources in order to accomplish desired objectives. It involves both the determination and the accomplishment of organisational goals.

**OBJECTIVES OF MANAGEMENT**

The objectives of management are narrated as under.

**(i) Organisational objectives:** Management is expected to work for the achievement of the objectives of the particular organisation in which it exists. Organisational objectives include:

(a) Reasonable profits so as to give a fair return on the capital invested in business

(b) Survival and solvency of the business, i.e., continuity.

(c) Growth and expansion of the enterprise

(d) Improving the goodwill or reputation of the enterprise.

**(ii) Personal objectives:** An organisation consists of several persons who have their own objectives. These objectives are as follows:

(a) Fair remuneration for work performed

(b) Reasonable working conditions

(c) Opportunities for training and development

(d) Participation in management and prosperity of the enterprise

(e) Reasonable security of service.

**(iii) Social objectives:** Management is not only a representative of the owners and workers, but is also responsible to the various groups outside the organisation.

It is expected to fulfil the objectives of the society which are given below:

(a) Quality of goods and services at fair price to consumers.

(b) Honest and prompt payment of taxes to the Government.

(c) Conservation of environment and natural resources.

(d) Fair dealings with suppliers, dealers and competitors.

(e) Preservation of ethical values of the society

**ROLE AND IMPORTANCE OF MANAGEMENT**

Management is indispensable for the successful functioning of every organisation. It is all the more important in business enterprises. No business runs in itself, even on momentum. Every business needs repeated stimulus which can only be provided by management.

According to **Peter Drucker,“** management is a dynamic life giving element in an organisation, without it the resources of production remain mere resources and never become production”.

The importance of management has been highlighted clearly in the following points:

**(i) Achievement of group goals:** A human group consists of several persons, each specialising in doing a part of the total task. Each person may be working efficiently, but the group as a whole cannot realise its objectives unless there is mutual cooperation and coordination among the members of the group. Management creates team-work and coordination in the group. He reconciles the objectives of the group with those of its members so that each one of them is motivated to make his best contribution towards the accomplishment of group goals. Managers provide inspiring leadership to keep the members of the group working hard.

**(ii) Optimum utilisation of resources:** Managers forecast the need for materials, machinery, money and manpower. They ensure that the organisation has adequate resources and at the same time does not have idle resources. They create and maintain an environment conducive to highest productivity. Managers make sure that workers know their jobs well and use the most efficient methods of work. They provide training and guidance to employers so that they can make the best use of the available resources.

**(iii) Minimisation of cost:** In the modern era of cut-throat competition no business can succeed unless it is able to supply the required goods and services at the lowest possible cost per unit. Management directs day-to-day operations in such a manner that all wastage and extravagance are avoided. By reducing costs and improving efficiency, managers enable an enterprise to be competent to face competitors and earn profits.

**(iv) Survival and growth:** Modern business operates in a rapidly changing environment. An enterprise has to adapt itself to the changing demands of the market and society. Management keeps in touch with the existing business environment and draws its predictions about the trends in future. It takes steps in advance to meet the challenges of changing environment. Changes in business environment create risks as well as opportunities. Managers enable the enterprise to minimise the risks and maximise the benefits of opportunities. In this way, managers facilitate the continuity and prosperity of business.

**(v) Generation of employment: By** setting up and expanding business enterprises, managers create jobs for the people. People earn their livelihood by working in these organisations. Managers also create such an environment that people working in enterprise can get job satisfaction and happiness. In this way managers help to satisfy the economic and social needs of the employees.

**(vi) Development of the nation:** Efficient management is equally important at the national level. Management is the most crucial factor in economic and social development. The development of a country largely depends on the quality of the management of its resources. Capital investment and import of technical knowhow cannot lead to economic growth unless wealth producing resources are managed efficiently. By producing wealth, management increases the national income and the living standards of people. That is why management is regarded as a key to the economic growth of a country.

**NATURE OF MANAGEMENT**

To understand the basic nature of management, it must be analysed in terms of art and science, in relation to administration, and as a profession, in terms of managerial skills and style of managers.

**Management is Combination of Art and Science**

Management knowledge exhibits characteristics of art and science, the two not mutually exclusive but supplementary. Every discipline of art is always backed by science which is basic knowledge of that art. Similarly, every discipline of science is complete only when it is used in practice for solving various kinds of problems faced by human beings in an organisation or in other fields of social life which is more related to an art.

Art basically deals with an application of knowledge personal skill and know-how in a specific situation for efficiently achieving a given objective. It is concerned with the best way of doing things and is consequently, personalised in nature. During the primitive stages of development of management knowledge, it was considered as an art. There was a jungle of managerial knowledge. It was not codified and systemised. People used it to get things done by others, in their own way giving an impression that whosoever uses it, knows the art of using it. This kind of loose and inadequate understanding of management supported the view that it was an art.

**Management as a Science**: Science means a systematic body of knowledge pertaining to a specific field of study. It contains general principles and facts which explains a phenomenon. These principles establish cause-and-effect relationship between two or more factors. These principles and theories help to explain past events and may be used to predict the outcome of actions. Scientific methods of observations and experiments are used to develop principles of science. The principles of science have universal application and validity. Thus, the essential features of science are as follows:

(i) Basic facts or general principles capable of universal application

(ii) Developed through scientific enquiry or experiments

(iii) Establish cause and effect relationships between various factors.

(iv) Their Validity can be verified and they serve as reliable guide for predicting future events. Let us now examine as to what extent management satisfies the above conditions:

**(i) Systematic body of knowledge**: Management has a systematic body of knowledge consisting of general principles and techniques. These help to explain events and serve as guidelines for managers in different types of organisations.

**(ii) Universal principles:** Scientific principles represent basic facts about a particular field enquiry. These are objective and represent best thinking on the subject. These principles may be applied in all situations and at all times. Exceptions, if any, can be logically explained. For example, the Law of Gravitation states that if you throw an object in the air it will fall on the ground due to the gravitational force of the earth. This law can be applied in all countries and at all points of time. It is as applicable to a football as it is to an apple falling from tree. Management contains sound fundamental principles which can be universally applied. For instance, the principle of unity of command states that at a time one employee should be answerable to only one boss. This principle can be applied in all types of organisation-business or non business. However, principles of management are not exactly like those of physics or chemistry. They are flexible and need to be modified in different situations.

**(iii) Scientific enquiry and experiments:** Scientific principles are derived through scientific investigation and reasoning. It means that there is an objective or unbiased assessment of the problem situation and the action chosen to solve it can be explained logically. Scientific principles do not reflect the opinion of an individual or of a religious guru. Rather these can be scientifically proved at any time. They are critically tested. For example, the principle that the earth revolves around the sun has been scientifically proved. Management principles are also based on scientific enquiry and investigation. These have been developed through experiments and practical experience of a large number of managers. For example, it has been observed that wherever one employee has two or more bosses simultaneously, confusion and indiscipline are likely to arise, with regard to following the instructions.

**(iv) Cause and effect relationship:** Principles of science lay down a cause and effect relationship between related factors. For example, when water is heated up to 100ºC, it starts boiling and turns into vapour. Similarly, the principles of management establish cause and effect relationship between different variables. For instance lack of balance between authority and responsibility will cause management to become ineffective.

**(v) Tests of validity and predictability:** Validity of scientific principles can be tested at any time and any number of times. Every time the test will give the same result. Moreover, the future events can be predicted with reasonable accuracy by using scientific principles. For example, the Law of Gravitation can be tested by throwing various things in the air and every time the object will fall on the ground. Principles of management can also be tested for their validity. For example, the principle of unity of command can be tested by comparing two persons, one having a single boss and other having two bosses. The performance of the first person will be higher than that of the second.

Thus, management is undoubtedly a science. It contains a systematic body of knowledge in the form of general principles which enjoy universal applicability. However, management is not as exact a science—Physics, Chemistry, Biology and other Physical sciences. This is because management deals with people and it is very difficult to predict accurately the behaviour of living human beings. Management principles are universal but they cannot be expected to give exactly the same results in every situation. That is why management is known as a soft science. Management is a social science. It is still growing, with the growing needs of human organisation.

**Management as an Art:** Art implies the application of knowledge and skills to bring about the desired results. The essential elements of arts are:

(i) Practical knowledge

(ii) Personal skill

(iii) Result oriented approach

(iv) Creativity

(v) Improvement through continuous practice

Let us judge how far management fulfils these requirements:

**(i) Practical knowledge:** Every art signifies practical knowledge. An artist not only learns the theory but also its application in practice. For example, a person may have adequate technical knowledge of painting but he cannot become a good painter unless he knows how to make use of the brush and colours. Similarly, a person cannot become a successful manager simply by reading the theory and getting a degree or diploma in management. He must also learn to apply his knowledge in solving managerial problems in practical life. A manager is judged not just by his technical knowledge but by his efficiency in applying this knowledge.

**(ii) Personal skill:** Every artist has his own style and approach to his job. The success of different artists differs even when all of them possess the same technical knowledge or qualifications. This is due to the level of their personal skills. For example, there are several qualified singers but Lata Mangeshkar has achieved the highest degree of success. Similarly, management is personalised. Every manager has his individual approach and style in solving managerial problems. The success of a manager depends on his personality in addition to his technical knowledge.

**(iii) Result-oriented approach:** Arts seeks to achieve concrete results. The process of management is also directed towards the accomplishment of desirable goals. Every manager applies certain knowledge and skills to achieve the desired results. He uses men, money, materials and machinery to promote the growth of the organisation.

**(iv) Creativity**: Art is basically creative and an artist aims at producing something that had not existed before. Therefore, every piece of art requires imagination and intelligence to create. Like any other art, management is creative. A manager effectively combines and coordinates the factors of production to create goods and services. Moulding the attitudes and behaviour of people at work, towards the achievement of the desired goals is an art of the highest order.

**(v) Improvement through people:** Practice makes one perfect. Every artist become more and more efficient through constant practice. A dancer, for example, learns to perform better by continuously practicing a dance. Similarly, manager gains experience through regular practice and becomes more effective. Thus, “management is both a science as well as an art”. It is a science because it has an organised body of knowledge consisting of certain universal facts. It is known as an art because it involves creating results through practical application of knowledge and skills. However, art and science are complementary to each other. They are not mutually exclusive. Science teaches one to know and art to do. Art without science has no guide and science without art is knowledge wasted. For example, a person cannot be a good surgeon unless he has scientific knowledge of human anatomy and the practical skill of applying that knowledge in conducting an operation.

Similarly, a successful manager must know the principles of management and also acquire the skill of applying those principles for solving managerial problems in different situations. Knowledge of principles and theory is essential, but practical application is required to make this knowledge fruitful. One cannot become an effective manager simply by learning management principles by heart. Science (theory) and art (practice) are both essential for the success of management.

**Management as a Profession** A profession is calling that requires specialised knowledge and often, long intensive academic preparation. The essential features of profession are as follows:

(i) Well defined body of knowledge

(ii) Restricted entry

(iii) Service motive

(iv) Code of Conduct

(v) Representative professional association

Let us examine to what extent management fulfils the above requirements:

**(i) Specialised body of knowledge:** Every profession has a well defined body of knowledge relevant to the area of specialisation. In order to practice a profession, a person requires specialised knowledge of its principles and techniques. Moreover, he must make deliberate efforts to gain proficiency unit. There exists a substantial and rapidly expanding body of knowledge in management. A manager must have intensive devotion and involvement to acquire expertise in the science of management. In addition, there should be competent application or judicious utilisation of this knowledge in solving complex problems. Today, management is a separate discipline having a specialised and organised body of knowledge.

**(ii) Restricted entry:** There exist institutions and universities to impart education and training for a profession. No one can enter a profession without going through the prescribed course of learning. For example one must pass the Chartered Accountancy examination to practice accountancy profession. Many institutes of management have been set up in India and abroad which offer courses for specialised training in management. Several management consultancy firms have also come into existence to offer advise for solving managerial problems. Formal education and training has become very helpful in getting jobs as managers. But no minimum qualification or course of study has been prescribed for managers by law.

**(iii) Service motive:** A profession is a source of livelihood but professionals are primarily motivated by the desire to serve the community. For example, a doctor earns his living from his medical practice. But he does not treat his patients only for the sake of money. He has a concern for the suffering of others and a desire to help the community. Therefore, a profession enjoys high community sanction or respect. Similar is the case with managers. A manager of a factory is responsible not only to its owners, but he is also expected to produce quality goods at a reasonable cost and to contribute to the well-being of the community.

**(iv) Representative association:** In every profession there is a statutory association or institution which regulates that profession. For example, the Institute of the Chartered Accountants of India establishes and administers standards of competence for the auditors. In management also associations have been established both in India and abroad. Managers have formed associations for the regular exchange of knowledge and experience. In India, there is the All India Management Association. However, this association does not have the statutory power to regulate the activities of managers. No university accepted criteria or standard exists for their evaluation. Membership of this association is not compulsory in order to become a manager.

**(v) Code of conduct:** Members of one profession have to abide by a code of conduct which contains rules and regulations providing the norms of honesty, integrity and professional ethics. For example a chartered accountant is not expected to commercially advertise his firm. The code of conduct is by the representative association to ensure self-discipline among its members. Any member violating the code can be punished and his membership can be cancelled. The All India Management Association has framed code of conduct for managers. The code requires the managers to fulfil their social and moral obligations. Members of the association are expected not to disclose the trade secrets of their employers and to make personal gain from the knowledge of internal working of the organisation. But this code does not have legal sanctions. However, observing business ethics is always helpful in becoming a more effective manager.

**SCOPE OF MANAGEMENT**

The field of management is very wide. The operational areas of business management may be classified into the following categories:

**(i) Production Management:** Production management implies planning, organising, directing and controlling the production function so as to produce the right goods, in right quantity, at the right time and at the right cost. It includes the following activities:

(a) Designing the product

(b) Location and layout of plant and building

(c) Planning and control of factory operations

(d) Operation of purchase and storage of materials

(e) Repairs and maintenance

(f) Inventory cost and quality control

(g) Research and development etc.

**(ii) Marketing Management:** Marketing management refers to the identification of consumers’ needs and supplying them the goods and services which can satisfy these wants. It involves the following activities:

(a) Marketing research to determine the needs and expectation of consumers

(b) Planning and developing suitable products

(c) Setting appropriate prices

(d) Selecting the right channel of distribution, and

(e) Promotional activities like advertising and salesmanship to communicate with the customers

**(iii) Financial Management**: Financial management seeks to ensure the right amount and type of funds to business at the right time and at reasonable cost. It comprises the following activities:

(a) Estimating the volume of funds required for both long-term and short-term needs of business

(b) Selecting the appropriate source of funds

(c) Raising the required funds at the right time

(d) ensuring proper utilisation and allocation of raised funds so as to maintain safety and liquidity of funds and the creditworthiness and profitability of business, and

(e) Administration of earnings Thus, financial management involves the planning, organising and controlling of the financial resources.

**(iv) Personnel Management:** Personnel management involves planning, organising and controlling the procurement, development, compensation, maintenance and integration of human resources of an organisation.

It consists of the following activities:

(a) Manpower planning

(b) Recruitments,

(c) Selection,

(d) Training

(e) Appraisal,

(f) Promotions and transfers,

(g) Compensation,

(h) Employee welfare services, and

(i) Personnel records and research, etc.

**FUNCTIONS OF MANAGEMENT**

Management has been described as a social process involving responsibility for economical and effective planning & regulation of operation of an enterprise in the fulfilment of given purposes. It is a dynamic process consisting of various elements and activities. These activities are different from operative functions like marketing, finance, purchase etc. Rather these activities are common to each and every manger irrespective of his level or status.

Different experts have classified functions of management.

According to **George & Jerry,** “There are four fundamental functions of management i.e. planning, organizing, actuating and controlling”.

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

For theoretical purposes, it may be convenient to separate the function of management but practically these functions are overlapping in nature i.e. they are highly inseparable. Each function blends into the other & each affects the performance of others.

1. [**Planning**](http://managementstudyguide.com/planning_function.htm)

It is the basic function of management. It deals with chalking out a future course of action & deciding in advance the most appropriate course of actions for achievement of pre-determined goals. According to KOONTZ, “Planning is deciding in advance - what to do, when to do & how to do. It bridges the gap from where we are & where we want to be”. A plan is a future course of actions. It is an exercise in problem solving & decision making. Planning is determination of courses of action to achieve desired goals. Thus, planning is a systematic thinking about ways & means for accomplishment of pre-determined goals. Planning is necessary to ensure proper utilization of human & non-human resources. It is all pervasive, it is an intellectual activity and it also helps in avoiding confusion, uncertainties, risks, wastages etc.

1. [**Organizing**](http://managementstudyguide.com/organizing_function.htm)

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

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

1. [**Staffing**](http://managementstudyguide.com/staffing-function.htm)

It is the function of manning the organization structure and keeping it manned. Staffing has assumed greater importance in the recent years due to advancement of technology, increase in size of business, complexity of human behaviour etc. The main purpose o staffing is to put right man on right job i.e. square pegs in square holes and round pegs in round holes. According to Kootz & O’Donell, “Managerial function of staffing involves manning the organization structure through proper and effective selection; appraisal & development of personnel to fill the roles designed un the structure”. Staffing involves:

* + [Manpower Planning](http://www.managementstudyguide.com/manpower-planning.htm) (estimating man power in terms of searching, choose the person and giving the right place).
  + Recruitment, Selection & Placement.
  + [Training & Development](http://managementstudyguide.com/training-and-development.htm).
  + [Remuneration](http://managementstudyguide.com/employee-remuneration.htm).
  + Performance Appraisal.
  + Promotions & Transfer.

1. [**Directing**](http://managementstudyguide.com/directing_function.htm)

It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. It is considered life-spark of the enterprise which sets it in motion the action of people because planning, organizing and staffing are the mere preparations for doing the work. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals. Direction has following elements:

* + Supervision
  + [Motivation](http://managementstudyguide.com/what_is_motivation.htm)
  + [Leadership](http://managementstudyguide.com/leadership_basics.htm)
  + [Communication](http://managementstudyguide.com/understanding-communication.htm)

1. **Supervision-** implies overseeing the work of subordinates by their superiors. It is the act of watching & directing work & workers.
2. **Motivation-** means inspiring, stimulating or encouraging the sub-ordinates with zeal to work. Positive, negative, monetary, non-monetary incentives may be used for this purpose.
3. **Leadership-** may be defined as a process by which manager guides and influences the work of subordinates in desired direction.
4. **Communications-** is the process of passing information, experience, opinion etc from one person to another. It is a bridge of understanding.
5. [**Controlling**](http://managementstudyguide.com/controlling_function.htm)

It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur.

According to**Theo Haimann**, “Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation”. According to Koontz & O’Donell “Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished”. Therefore controlling has following steps:

* + Establishment of standard performance.
  + Measurement of actual performance.
  + Comparison of actual performance with the standards and finding out deviation if any.
  + Corrective action.

**PLANNING**

All organizations whether it is the government, a private business or small businessman require planning. To turn their dreams of increase in sale, earning high profit and getting success in business all businessmen have to think about future; make predictions and achieve target. To decide what to do, how to do and when to do they do planning.

### MEANING:

Planning can be defined as “thinking in advance what is to be done, when it is to be done, how it is to be done and by whom it should be done”. In simple words we can say, planning bridges the gap between where we are standing today and where we want to reach.

Planning involves setting objectives and deciding in advance the appropriate course of action to achieve these objectives so we can also define planning as setting up of objectives and targets and formulating an action plan to achieve them.

Another important ingredient of planning is time. Plans are always developed for a fixed time period as no business can go on planning endlessly.

Keeping in mind the time dimension we can define planning as “Setting objectives for a given time period, formulating various courses of action to achieve them and then selecting the best possible alternative from the different courses of actions”.

### FEATURES/NATURE/CHARACTERISTIC OF PLANNING:

#### 1. Planning contributes to Objectives:

Planning starts with the determination of objectives. We cannot think of planning in absence of objective. After setting up of the objectives, planning decides the methods, procedures and steps to be taken for achievement of set objectives. Planners also help and bring changes in the plan if things are not moving in the direction of objectives.

For example, if an organisation has the objective of manufacturing 1500 washing machines and in one month only 80 washing machines are manufactured, then changes are made in the plan to achieve the final objective.

#### 2. Planning is Primary function of management:

Planning is the primary or first function to be performed by every manager. No other function can be executed by the manager without performing planning function because objectives are set up in planning and other functions depend on the objectives only.

For example, in organizing function, managers assign authority and responsibility to the employees and level of authority and responsibility depends upon objectives of the company. Similarly, in staffing the employees are appointed. The number and type of employees again depends on the objectives of the company. So planning always proceeds and remains at no. 1 as compared to other functions.

#### 3. Pervasive:

Planning is required at all levels of the management. It is not a function restricted to top level managers only but planning is done by managers at every level. Formation of major plan and framing of overall policies is the task of top level managers whereas departmental managers form plan for their respective departments. And lower level managers make plans to support the overall objectives and to carry on day to day activities.

#### 4. Planning is futuristic/Forward looking:

Planning always means looking ahead or planning is a futuristic function. Planning is never done for the past. All the managers try to make predictions and assumptions for future and these predictions are made on the basis of past experiences of the manager and with the regular and intelligent scanning of the general environment.

#### 5. Planning is continuous:

Planning is a never ending or continuous process because after making plans also one has to be in touch with the changes in changing environment and in the selection of one best way.

So, after making plans also planners keep making changes in the plans according to the requirement of the company. For example, if the plan is made during the boom period and during its execution there is depression period then planners have to make changes according to the conditions prevailing.

#### 6. Planning involves decision making:

The planning function is needed only when different alternatives are available and we have to select most suitable alternative. We cannot imagine planning in absence of choice because in planning function managers evaluate various alternatives and select the most appropriate. But if there is one alternative available then there is no requirement of planning.

For example, to import the technology if the licence is only with STC (State Trading Co-operation) then companies have no choice but to import the technology through STC only. But if there is 4-5 import agencies included in this task then the planners have to evaluate terms and conditions of all the agencies and select the most suitable from the company’s point of view.

#### 7. Planning is a mental exercise:

It is mental exercise. Planning is a mental process which requires higher thinking that is why it is kept separate from operational activities by Taylor. In planning assumptions and predictions regarding future are made by scanning the environment properly. This activity requires higher level of intelligence. Secondly, in planning various alternatives are evaluated and the most suitable is selected which again requires higher level of intelligence. So, it is right to call planning an intellectual process.

### TYPES OF PLANNING

### On the basis of Nature

* **Operational Plan:** Operational plans are the plans which are formulated by the lower level management for short term period of up to one year. It is concerned with the day to day operations of the organization. It is detailed and specific. It is usually based on past experiences. It usually covers functional aspects such as production, finance, Human Resources etc.
* **Tactical Plan:** Tactical plan is the plan which is concerned with the integration of various organizational units and ensures implementation of strategic plans on day to day basis. It involves how the resources of an organization should be used in order to achieve the strategic goals. The tactical plan is also known as coordinative or functional plan.
* **Strategic Plan:** Strategic plan is the plan which is formulated by the top level management for a long period of time of five years or more. They decide the major goals and policies to achieve the goals. It takes in a note of all the external factors and risks involved and makes a long-term policy of the organization. It involves the determination of strengths and weaknesses, external risks, mission, and control system to implement plans.

#### 2. On the basis of managerial level:

* **Top level Plans:** Plans which are formulated by general managers and directors are called top-level plans. Under these plans, the objectives, budget, policies etc. for the whole organization are laid down. These plans are mostly long term plans.
* **Middle-level Plans:** Managerial hierarchy at the middle level includes the departmental managers. A corporate has many departments like purchase department, sales department, finance department, personnel department etc. The plans formulated by the departmental managers are called middle-level plans.
* **Lower level Plans:** These plans are prepared by the foreman or the supervisors. They take the existence of the actual workplace and the problems connected with it. They are formulated for a short period of time and called short term plans.

#### 3. On the basis of time:

* **Long Term Plan:** Long-term plan is the long-term process that business owners use to reach their business mission and vision. It determines the path for business owners to reach their goals. It also reinforces and makes corrections to the goals as the plan progresses.
* **Intermediate Plan:** Intermediate planning covers 6 months to 2 years. It outlines how the strategic plan will be pursued. In business, intermediate plans are most often used for campaigns.
* **Short-term Plan:** Short-term plan involves pans for a few weeks or at most a year. It allocates resources for the day-to-day business development and management within the strategic plan. Short-term plans outline objectives necessary to meet intermediate plans and the strategic planning process.

**4. On the basis of use:**

* **Single Plan:** These plans are connected with some special problems. These plans end the moment of the problems to be solved. They are not used, once after their use. They are further re-created whenever required.
* **Standing Plan:** These plans are formulated once and they are repeatedly used. These plans continuously guide the managers. That is why it is said that a standing plan is a standing guide to solving the problems. These plans include mission, policies, objective, rules and strategy.

**IMPORTANCE OF** **PLANNING IN MANAGEMENT IS:**

Planning is the first and most important function of management. It is needed at every level of management. In the absence of planning all the business activities of the organisation will become meaningless. The importance of planning has increased all the more in view of the increasing size of organisations and their complexities.

Planning has again gained importance 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.

The following facts show the advantages of planning and its importance for a business organisation:

**(1) Planning Provides Direction:**

Under the process of planning the objectives of the organisation are defined in simple and clear words. The obvious outcome of this is that all the employees get a direction and all their efforts are focused towards a particular end. In this way, planning has an important role in the attainment of the objectives of the organisation.

For example, suppose a company fixes a sales target under the process of planning. Now all the departments, e.g., purchase, personnel, finance, etc., will decide their objectives in view of the sales target.

In this way, the attention of all the managers will get focused on the attainment of their objectives. This will make the achievement of sales target a certainty. Thus, in the absence of objectives an organisation gets disabled and the objectives are laid down under planning.

**(2) Planning Reduces Risks of Uncertainty:**

Planning is always done for future and future is uncertain. With the help of planning possible changes in future are anticipated and various activities are planned in the best possible way. In this way, the risk of future uncertainties can be minimised.

For example, in order to fix a sales target a survey can be undertaken to find out the number of new companies likely to enter the market. By keeping these facts in mind and planning the future activities, the possible difficulties can be avoided.

**(3) Planning Reduces Overlapping and Wasteful Activities:**

Under planning, future activities are planned in order to achieve objectives. Consequently, the problems of when, where, what and why are almost decided. This puts an end to disorder and suspicion. In such a situation coordination is established among different activities and departments. It puts an end to overlapping and wasteful activities.

Consequently, wastages moves towards nil, efficiency increases and costs get to the lowest level. For example, if it is decided that a particular amount of money will be required in a particular month, the finance manager will arrange for it in time.

In the absence of this information, the amount of money can be more or less than the requirement in that particular month. Both these situations are undesirable. In case, the money is less than the requirement, the work will not be completed and in case it is more than the requirement, the amount will remain unused and thus cause a loss of interest.

**(4) Planning Promotes Innovative Ideas:**

It is clear that planning selects the best alternative out of the many available. All these alternatives do not come to the manager on their own, but they have to be discovered. While making such an effort of discovery, many new ideas emerge and they are studied intensively in order to determine the best out of them.

In this way, planning imparts a real power of thinking in the managers. It leads to the birth of innovative and creative ideas. For example, a company wants to expand its business. This idea leads to the beginning of the planning activity in the mind of the manager. He will think like this:

* Should some other varieties of the existing products be manufactured?
* Should retail sales be undertaken along with the wholesales?
* Should some branch be opened somewhere else for the existing or old product?
* Should some new product be launched?

In this way, many new ideas will emerge one after the other. By doing so, he will become habituated to them. He will always be thinking about doing something new and creative. Thus, it is a happy situation for a company which is born through the medium of planning.

**(5) Planning Facilitates Decision Making:**

Decision making means the process of taking decisions. Under it, a variety of alternatives are discovered and the best alternative is chosen. The planning sets the target for decision making. It also lays down the criteria for evaluating courses of action. In this way, planning facilitates decision making.

**(6) Planning Establishes Standards for Controlling:**

By determining the objectives of the organisation through planning all the people working in the organisation and all the departments are informed about ‘when’, ‘what’ and ‘how’ to do things.

Standards are laid down about their work, time and cost, etc. Under controlling, at the time of completing the work, the actual work done is compared with the standard work and deviations are found out and if the work has not been done as desired the person concerned are held responsible.

For example, a labourer is to do 10 units of work in a day (it is a matter of planning), but actually he completes 8 units. Thus there is a negative deviation of 2 units. For this, he is held responsible. (Measurement of actual work, knowledge of deviation and holding the labourer responsible falls under controlling.) Thus, in the absence of planning controlling is not possible

**LIMITATIONS OF PLANNING:**

#### 1. Planning leads to rigidity:

Once plans are made to decide the future course of action the manager may not be in a position to change them. Following predefined plan when circumstances are changed may not bring positive results for organisation. This kind of rigidity in plan may create difficulty.

#### 2. Planning may not work in dynamic environment:

Business environment is very dynamic as there are continuously changes taking place in economic, political and legal environment. It becomes very difficult to forecast these future changes. Plans may fail if the changes are very frequent.

The environment consists of number of segments and it becomes very difficult for a manager to assess future changes in the environment. For example there may be change in economic policy, change in fashion and trend or change in competitor’s policy. A manager cannot foresee these changes accurately and plan may fail if many such changes take place in environment.

#### 3. It reduces creativity:

With the planning the managers of the organisation start working rigidly and they become the blind followers of the plan only. The managers do not take any initiative to make changes in the plan according to the changes prevailing in the business environment. They stop giving suggestions and new ideas to bring improvement in working because the guidelines for working are given in planning only.

#### 4. Planning involves huge Cost:

Planning process involves lot of cost because it is an intellectual process and companies need to hire the professional experts to carry on this process. Along with the salary of these experts the company has to spend lot of time and money to collect accurate facts and figures. So, it is a cost-consuming process. If the benefits of planning are not more than its cost then it should not be carried on.

#### 5. It is a time consuming process:

Planning process is a time-consuming process because it takes long time to evaluate the alternatives and select the best one. Lot of time is needed in developing planning premises. So, because of this, the action gets delayed. And whenever there is a need for prompt and immediate decision then we have to avoid planning.

#### 6. Planning does not guarantee success:

Sometimes managers have false sense of security that plans have worked successfully in past so these will be working in future also. There is a tendency in managers to rely on pretested plans.

It is not true that if a plan has worked successfully in past, it will bring success in future also as there are so many unknown factors which may lead to failure of plan in future. Planning only provides a base for analysing future. It is not a solution for future course of action.

#### 7. Lack of accuracy:

In planning we are always thinking in advance and planning is concerned with future only and future is always uncertain. In planning many assumptions are made to decide about future course of action. But these assumptions are not 100% accurate and if these assumptions do not hold true in present situation or in future condition then whole planning will fail.

For example, if in the plan it is assumed that there will be 5% inflation rate and in future condition the inflation rate becomes 10% then the whole plan will fail and many adjustments will be required to be made.

### EXTERNAL LIMITATIONS OF PLANNING:

Sometimes planning fails due to following limitations on which managers have no control.

#### (i) Natural calamity:

Natural calamities such as flood, earthquake, famine etc. may result in failure of plan.

#### (ii) Change in competitors’ policies:

Sometimes plan may fail due to better policies, product and strategy of competitor which was not expected by manager.

#### (iii) Change in taste/fashion and trend in the market:

Sometimes plans may fail when the taste/fashion or trend in market goes against the expectation of planners.

#### (iv) Change in technologies:

The introduction of new technologies may also lead to failure of plans for products using old technology.

#### (v) Change in government/economic policy:

Managers have no control over government decisions. If government economic or industrial policies are not framed as expected by manager then also plans may fail.

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| |  | | --- | |  |   **COMPONENTS OF PLANNING**  **Classification of plans** In the process of planning several specific plans are prepared which may broadly be classified into two categories: Standing and Single-Use Plans.  Examples of ‘Standing Plans’ are Mission, Objectives, Policies, Procedures, Rules, Strategies etc. The Standing or Repeated-Use Plans are formulated by the Managers at different levels and are meant for repeated use as and when the occasion demands. Programmes, Projects, Schedules, Budgets and Standards are examples of ‘Single-Use Plans’. The basic difference between Standing and Single-Use plans lies in the fact that Standing Plans are used over a long period of time whereas the Single-Use Plans are used only for specific periods. The components of both these types of plans are explained in the following paragraphs. STANDING OR REPEATED-USE PLANS These include the following:  **1. Mission**  Every organisation must have a mission; then only it becomes meaningful or purposive. The ‘mission’ of a business organisation may be two-fold :  (i) production and distribution of goods and services in order to satisfy the basic needs of the consumers, and    (ii) Provision of employment and a source of income to the people whereby they might be in a position to purchase their desired goods and services; The mission is the central guiding concept describing the fundamental reason for the existence of an organisation, It indicates the line of business and reflects upon philosophy of management.  ln short, the mission gives a clear-cut idea about basic long-run commitment of an organization.  **2. Objectives**  Definition. Objectives may be defined as the goals which an organisation tries to achieve. Objectives are also described as the end-points of planning.  According to Dalton E, McFarland, “Objectives are the goals, aims or purposes that organisations wish to achieve over varying periods of times”  ‘Objectives’ is a wider term and ‘Mission’ is part a and the parcel of it Objectives decide where we want to go, what we want to achieve and next what is our destination. An objective constitute the purpose of the enterprise and ends re without them no intelligent planning can take place. **Characteristics.** Important characteristics or features of objectives are as below :  (i) The objectives must be pre-determined.  (ii) The objectives must be reduced to black and white A clearly defined objective provides the clear direction for managerial efforts  (iii) Objectives must be realistic, i e they must be within the reach of the organisation.  (iv) Objectives must be measurable.  (v) Objectives must : have social sanction. Restrictions on organisational objectives are put through social rules, norms or customs.  (vi) Objectives are usually plural.    As **Drucker** puts it, “The search for one objective is essentially a search for a magic formula that will make judgment unnecessary. Objectives are needed in every area where performance and results directly and vitally affect the survival and prosperity of the business.”  **Peter Drucker** has recommended eight key areas in which business firms have to set their objectives Market standing, innovation, physical and financial resources, manager performance and development, worker performance and attitude, productivity, profitability and public accountability.  (vii) All objectives are interconnected and mutually supportive.  (viii) Objectives may be short-range, medium-range and long- range.  (ix) Objectives may be constructed into a heirarchy, e.g., overall, major, divisional, departmental. Etc  . **Advantages.**  Good management is management by objectives. According to L.Gulick, “In administration God helps those administrators who have a clearly defined objective.” An organisation can grow and prosper in an orderly and progressive manner only if well-defined goals have been established to guide its progress Certain specific benefits of sound and carefully chosen objectives are as follows :  (1) Clear definition of objectives encourages unified planning. The unifying effect arises when the plans prepared by different departmental heads are adjusted to a common objective.  (2) Objectives provide motivation to people in the organisation. Objectives help in providing the sense of unity, harmony and accomplishment to cooperative efforts.  (3) When the work is gdal-oriented, unproductive tasks can be avoided.  (4) Objectives provide standards which aid in the control of human efforts the in an organisation.  (5) Objectives serve to identify the organisation and to link it to hem the groups upon which its existence depends.  (6) Objectives act as a sound basis for the developing administrative controls.  (7) Objectives contribute to the management and process ; they influence the purpose of the organisation, policies, personnel, and leadership as well as managerial control  (8) Objectives indicate, the contribution to be made by each unit and thus it is the basis for decentralisation.  (9) MB (Management by Objectives) programme cent per cent depends upon clear cut objectives. **Types of Objectives.**  Mere maximisation of profit cannot be the sole objective of an enterprise. Objectives may be external as well as internal. ‘Service of the customer’ is the primary external objective of an enterprise. Consumerism may develop when business forgets its primary responsibility towards the consumers. As a social institution business must maintain and develop the quality of life ; it should prevent all type of pollution. Moreover, in addition to its social obligation towards the consumers, business must fulfil the expected responsibilities towards the society, community and the government. The internal objectives of an organisation relate to:  (i) maximum profitability,  (ii) maximum service and satisfaction to employees, and  (iii) fair return on the shareholder’s investments.  **Hierarchy of Objectives**:  Objectives set up by top management act as the ends and the middle managements plan to achieve those objectives (or ends). Thus at the next lower level the objectives act as the means. Each level of objectives stands as ends relative to the level below it and as means relative to the level above it ; this is known as what we call ‘Means-ends Chain of Objectives  **HIERARCHY OF OBJECTIVES**  **Setting of objectives**. The following considerations play an important role n the setting of ob :  (1) Organisational objectives are of multiple characters; hence pressing and dominant objectives should be given priority over others through the constant adjustment of short-run emphasis on such objectives.  (2) Co-ordination and balance should be maintained between the overall objectives of the organisation and the departmental goals;  (3) Translation of major objectives into operating objectives should be in tangible and meaningful terms.  (4) Objectives should be realist rather than idealistic.  (5) Objectives may be  (a)major or minor,  (b) short-term or long-term, and  (c) economic or social.  Major objectives relate to the chief purpose of the Organisation and minor objectives are subordinate to but consistent with the major objectives. In the short term an enterprise may concentrate more on satisfying customers with good products at cheap price, keeping in view the long-term objective of maximum profit. Short-term objectives should be treated as steps towards long- term objectives. Economic objectives are goals with respect to the market place. Social objectives refer to the company’s intentions towards its employees, shareholdei1 and the public at large.  (6) Objectives have to be set up for each person and for each responsibility centre. For example, the foreman on the shop floor as well as the departmental manager should know what exactly they live to achieve and how? Setting up detailed quantitative objectives is an essential task of planning.  **2. Policies**  Meaning and Definition. Policy-making is another most important component of business planning. Policies are guides to action. They provide abroad guideline as to how the objectives of an organisation are to be achieved.  In the words of Joseph L. Massie, “Policies include that body of understanding (generally known by members of the group), which makes the action of each member of the group in a given set of circumstances more pr to other members.” According to Koontz and Q’ Donnell, “Policies are general statements or understandings which guide or channel thinking in decision-making of subordinates.”  **Features of sound policy.** The following features of a policy emerge from the above definitions:  (i) The policy tries to contribute to the organisational objectives.  (ii) Policy is formulated through the various steps in the decision-making process.  (iii) Policy can be interpreted from the behaviour of the top management.  (iv) Policy provides guidelines to the members of the organisation for choosing a particular course of action.  (v) Policy-making is the task of all managers ; however, the higher manager is in the organisation, the more important is his role in policy-making  (vi) A sound policy must be flexible in its implementation.  (vii ) A policy should be uniform in its application ; it must be fair to all, offering equity and justice to those who are affected by it.  **Relationship and distinction between Policies and Objectives.**  Objectives are end-points of planning, while policies prescribe the broad ways in which the objectives can be realised. Objectives and policies may be distinguished along the following lines :  (i) Objectives are basic to the existence and functioning of air organisation but policies are not. While we cannot visualise an organisation without a mission or objective, it is possible for an organisation to function without policies  (ii) Objectives are ends ; policies are means to ends ; they throw light on the question of how objectives are to be achieved. Objectives and policies are related to each other in an ends-means chain or hierarchy.  (iii) Objectives are stated in broad ideological terms and tend to take the shape of vague, abstract aspirations expectations and intents of an organisation. Policies, on the other hand, give meaning and content to objectives, clarify the intents of top management and express its aims in more specific terms.  (iv) Objectives are often branded as official or stated goals which in many cases remain on paper. In contrast, policies indicate the real intents of the organisation and reflect its true character.  (v) Objectives are meant to be achieved but policies are meant to be observed by managers. Policies clarify the perspectives of managers for handling the managerial problems in a disciplined manner.  **Importance.**  The importance of policies can be judged from the following points—  (i) Policies lead to a uniform pattern of action in respect of various matters relating to an organisation.  (ii) Policies speed up decision-making since they provide a framework within which the decisions can be taken.  (iii) Policies help both men and boss to work for a better performance.  (iv) Policies help in securing effective Co ordination of efforts and activities in the organisation.  **Classification of Policies.** Alford and Beatty have classified the industrial policies as follows:  **1. Top management policies** are those derived from top management planning. They include policies concerned with long-range product selection, sales forecasting, sizing the enterprise, process selection, machine selection, determining plant needed, and budget.  **2. Upper middle management policies** are those which are special to a function, such as sales, production, research, finance accounting and are made by the vice-president or other executive responsible for these functions. They should he in harmony with the major policies of the enterprise.  **3. Middle management policies** are those which grow out of the planning of junior executives, superintendents of departments or divisions and others in like positions. These men are functional, product or area specialists within the sales, production, research, finance, or accounting sub-division of the enterprise.  4. **Foremen policies** are those directly related to the accomplishment of the set for his small sub-division or the whole enterprise. They include the policies concerned with the assignment of the jobs to the best suited men, the provision for adequate tools by which to do the job, and so forth.  5. **Operating force policies** are those found in little notebooks in the possession of each worker. These state his rule or code for doing each job that he is called upon to do. From it, the worker knows how long each job should take, what, tricks of the trade are required, and what quality features are emphasized. He does not trust to his memory to complete a respective job satisfactorily, for he has an established policy to follow for this recurring situation.  **6. Sales policies** may be concerned with determining location of markets, selecting channels of distribution, dividing the total market Into branch or dealer areas, pricing the product, determining sales incentives, establishing advertising policies, setting up sales control policies, and establishing sales volume and expense budgets.  **7. Production Policies** may be concerned with the making of a production budget, selection of junior executives, the organization and co-ordination of their activities, factory layout, inventory control, collective bargaining and labour relations, selection of system for quality, cost and production control, and the like.  **8. Research policies** may be concerned with the selection of projects for investigation, the choice of personnel and mechanisms for carrying out these activities, the determination of research budgets, the measurement of results and similar matters.  **9. Financial Policies**. In the area of finance a number of policies would be required, such as: (i) The method of raising funds and the ratio between the various types of sources of funds. How much risk the company can undertake ? What return does it expect on the funds procured and how much of the control aspect management is willing to give? (ii) Policy for the use of the funds and the ratio between different types of assets. (iii) The credit policy and the distribution policy towards customers. (iv) The dividend policy, i.e., how much dividends are to be declared out of the profit earned. (v) Provision for working capital requirements and other matters of this type.  **10. Costing Policy**. It may include the policy for selecting the method of costing, the method of allocating, apportioning, re-apportioning and absorbing overheads, etc. .  **11. Accounting Policy**. This may include the following: (i) The basis of valuation of stock of finished goods. It is a matter of policy whether the finished goods are valued at total cost or at direct cost or at works cost; (ii) The issue price of raw materials, whether to follow FILO or LIFO or average cost or any other method of pricing (iii) Depreciation policy. i.e., which method of depreciation be followed:  **12. The treatment of deferred revenue expenditure,** intangible assets, fictitious assets and preliminary expenses ; (v) Capitalisation of expenditure during construction period ; (vi) Policy for provision of doubtful debts, investment losses, etc.  **13. Marketing Policy.** Here a number of policies in market analysis, business law, display and salesmanship may be followed.  **14. Promotion Policies**. The objectives of the promotion policy may be: (i) to utilise fully the managerial resources of the organisation ; (ii) to provide a fair opportunity to all for advancement and promotion ; and (iii) to base the promotion on an objective assessment of merit and not merely seniority. In order to achieve the above objectives, the following policy guidelines may be laid down : (a) Promotions will be based on merit. A vacancy can be filled by promotion where the individual concerned fulfils the requirements of the job for its most effective performance, in terms of education, professional qualifications, experience, knowledge of the job, background, personality and personal qualities, etc. Factors like age, health and effect on morale or other aspirants will be considered. (b) All appointments in senior management cadres will be made by the Board of Directors as a whole, through recruitment, promotion or rotation. (c) In case of promotions to vacancies below the senior management level, these will be recommended to the Board by the line director in consultation with the personnel director. (d) High-fliers will be identified through annual appraisal system at as early a stage as possible. A list of such persons be maintained by the personnel director.  **15. Product Policies**. These may include the following :  (1) The company will deal in the whole range of engineering products for construction projects.  (ii) The products of the company will be meant mainly for government and industrial customers.  (iii) The company will purchase as many of the components as possible from small-scale industrial units and will concentrate largely on assembling.  (iv) The company will try to differentiate its products from those of the rival manufacturing units in terms of shape, design and other specifications.  (v) The company will book bulk orders and make its products available according to the specifications provided by the clients.  **Essentials of the Policy Formation.**  According to Alford and Beatty, the essentials of policy formation may be listed as below 1. A policy should be definite, positive and clear. It should be understood by everyone in the organisation.  2. A policy should be translatable into the practices and peculiarities of every department and division of the organisation.  3. A policy should be flexible and at the same time have a high degree of permanency.  4. A policy should be formulated to cover all reasonably anticipatable conditions.  5. A policy should be founded upon facts and sound judgment.  6. A policy should conform to economic principles, statutes and regulations and should be compatible with the public interest.  7. A policy should be a general statement of the established rule to follow in recurring situations ; rather than one prescribing detailed procedure.    **4. Procedure**  Meaning. A ‘Procedure’ is a standing plan describing a customary method of handling a future activity. The term ‘Procedure’ refers to a specific administrative directive prescribing the sequential manner in which a repetitive activity is to be initiated, carried forward and completed in a goal-oriented manner. Procedures are meant to standardize and routines the pattern and, pace, of work flow at the operational level. They provide the framework for doing routine things in a rational and expeditious fashion so that there is little duplication of effort, waste motion and confusion. They help the process of streamlining and simplifying administrative activity. In the words of George R. Terry, “A Procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished.”  For example, the procedure of scientific selection of employees may have the following steps :  (i) Preliminary interview,  (ii) Application blank,  (iii) Reference check,  (iv) Employment tests,  (v) Final interview,  (vi) Supervisor’s approval,  (vii) Medical checkup,  (viii) Appointment, and  (ix) Induction or Orientation.  **Importance and Benefits.**  Procedures help to standardize and streamline the day-to-day activity in organisations. Whether for procuring funds, for manpower recruitment, for receiving and inspecting materials and stores, for sanctioning expenditures or for granting leave, certain standard operating procedures are laid down as a basis for the operators to know how to process the matter in a systematic manner without leaving loose ends, in the best interest of the organisation as reflected from the management’s approval of the procedures.  A procedure has the following advantages :  (i) It ensures uniformity of action ;  (ii) It decreases the need for further decision-making laying down a standard path to follow;  (iii) It increases co-ordination among the personnel in the organisation and its departments : and    (iv) It provides a good standard for the manager to appraise his employees.  Procedures serve as tools of managerial direction, co-ordination and control of specific activities within the organisation. Managers formulate procedures for observance by people in work situations so that ‘Management by System’ takes hold ; well-laid down procedures tend to become working habits of people to the extent that they structure, smoothen and simplify the patterns of their work performance. Any intentional deviation from well-established procedures without adequate reason is bound to be frowned upon by those who have laid them and/or who are affected by them.  **Policies and Procedures distinguished.**  **(**i) Procedures are guides to action while policies are guides to decision-making.  (ii) Policies are determined by top management in general, after considering a wide range of important variables ; procedures are formulated at relatively lower managerial levels.  (iii) In the ends-means chain policies occupy a higher position than procedures ; in fact the latter are derived from the former; policies form the basis for determination of procedures.  (iv) Policies form part of the organisations strategic postures in combination with objectives and long range plans, to enhance the capability of the organisation to cope with complex external environment. Procedures are more tactical; they are operational devices for the efficient guidance of routine or ‘steady state’ organisational activity. Their scope is limited.  (v) Policies are relatively flexible and they allow managers a measure of discretion and latitude in deciding upon relevant issues. Procedures are more deterministic and are meant to be observed as faithfully as possible.  (vi) Policies serve as bridges between organisational purpose and performance while procedures serve as bridges between activities and outcomes.  (vii) A policy-centred thinking on the part of managers is considered a healthy sign and is encouraged in organisations, but in the case of procedures, a single minded focus on them is regarded as inimical to organisational goals.  **Setting a Procedure.**  The following points should be kept in view while setting a procedure:  (i) The basic principle of procedures is that they should be kept to the minimum possible.  (ii) Procedures should be based on adequate facts of the particular situation, not guesses or wishes.  (iii) Procedures to be effective must be recognised as a system of interrelated activities in a network.  (iv) While designing a procedure proper balance should be kept between stability and flexibility.  (v) Procedures should be reviewed at intervals and necessary changes should be made as per research and development programmes.  **5. Rules and Methods**  Rules and Methods are Standing Plans in a formal organisatlon, in association with policies and procedures. They are meant for repeated reference, ready guidance and strict adherence by people in work situations.  **Meaning of Rule.** The term ‘RULE’ is defined as a prescriptive directive to people on their conduct and action. Rules are almost in the nature of ‘commandments’ seeking to discipline, structure and restrain behaviour and task performance of people in formal organisational settings. A rule is in the nature of a decision made by the management regarding what is to be done and what is not to be done in a given situation. A rule is definite and rigid ; it allows no deviation or discretion to subordinates. Generally the breach of rules carries a penalty.  Illuminating examples of rules are :  (i) Employees are to retire once they attain the age of 58 years ;  (ii) Smoking is prohibited inside the factory;  (iii) Officers are not entitled for over-ti allowance ;  (iv) All purchases are to be made only through calling tenders. Rule and Procedure Differentiated. More often than not, a rule is confused with policy because both provide guidelines for action, However, there is a difference between these two. A ‘Policy ‘provides guidelines for managerial action by defined areas of discretion, whereas in a ‘Rule’ there is no such discretion. Rules are impersonal and are meant for observance irrespective of the personalities involved. Rule is a rule allowing no liberty or leniency. For example, a rule like ‘No Smoking’ is applicable to each and every person working in the concern or passing through the prohibited area. Even the chief executive is bound by such a rule. Rule and Procedure Differentiated. A rule is also different from a procedure. As a matter of fact, a procedure may be looked upon as a sequence of rules; however, a rule may or may not be a part of a procedure. For example, ‘Smoking is prohibited’ is unrelated to any procedure, but if somebody violate it, he may be penalised according to a certain set of procedures. Rule does not prescribe a time sequence for an action whereas procedure does so. Meaning of Method. A Method’ is a prescribed process in which a particular operation of a task is to be performed. It specifies the ‘one best way’ of performing each step in a task. It defines the technology of individual operations in a work situation. As compared to procedure, ‘Method’ describes how one particular step of a procedure is to be performed. Method involved only one department and one person, while a procedure may involve many departments and many persons in an organisation. A method is meant to be a complete guidance to individuals in their performance of tasks. The most important advantage of Taylor’s scientific management movement was the determination of standardized, simplified and efficient methods of performing physical task by operatives. In the modern 0 & M (Organisation and Methods) area of activity, much attention is devoted to develop and refine methods of carrying out clerical, administrative and managerial tasks. In modern computer systems also, standard methods are generated to instruct the computer what operations it has to perform in processing data.  Methods and Rules Distinguished.  It is clear from the above discussion that there are important differences between methods and rules. The main points of difference may be outlined as below:  (1) Methods are meant for efficient and Consistent performance of tasks ; they link inputs and outputs in operational situations. Rules, on the other hand, are in the nature of cautions, taboos and norms. They state in clear terms what must and must not be done. They have very little to do with efficiency of performance.  (2) Standardization of methods also calls for standardization of the related working conditions within which tasks are performed ; otherwise observance and application of methods become difficult on the part of individuals. In case of rules. no such standardization of conditions is needed.  (3) Much research and analysis goes into formulation of methods. It is not a simple or routine task. But rules are formulated by management, on the basis of its conmon-sense, applicable legal requirements and judgment n the light of personal values and corporate objectives.  (4) In general, violation of or deviation from methods, though rare, by individual employees does not attract penalty whereas the violation or by-passing of rules is viewed seriously by management and some penalty is attached to such lapses.  (5) Rules are often regarded as official, formal, authoritative and bureaucratic. They are also associated with control, order, coercion and conformism. Methods are generally free from such associations. They are more viewed as scientific, objective, rational, logical means of ensuring standardization, simplification and systematisation of work. Rules are ‘enforced’ by management whereas there is little appearance of enforcement in case of methods.  (6) Methods relate to physical and other tasks and define the way how thcy . to be performed. Rules relate to individuals and groups and define the way how they have to behave in particular situations  . **6. Strategies**  Literally speaking, the term Strategy’ stands for the war-art of the military general, compelling the enemy to fight as per our chosen terms and conditions. A strategy is a special kind of plan formulated in order to meet the challenge of the policies of the competitors.  **Characteristics of Strategy.** The following characteristics emerge from the above definitions of ‘Strategy’ :  (1) It is the right combination of different factors.  (2) It relates the business organisation to its environment.  (3) It is an action to meet a particular challenge, to solve particular problems or to attain a desired objective.  (4) Strategy may need contradictory action. For example, today a manager may adopt a particular course of action but tomorrow he may revise the same due to changes in situations  . (5) Strategy is forward looking.  (6) It is a means to an end and not an end in itself.  (7) It is a means of coping with or managing the events and changes in the external environment.  (8) It is formulated at the top management level.  (9) It is generally long-range in nature but short-range moves are also specified in it.  (10) It is and flexible and dynamic.  (11) It involves assumption of certain calculated risks.  (12) It is action-oriented and more specific than objective.  (13) It is generally meant to cope with a competitive setting, in which the behaviour of competitors and other adversaries of the enterprise affects its own functioning and performance.  **criteria for evaluating the appropriateness of a business strategy**  **1. Internal Consistency.** The strategy of an organisation must be consistent with its other strategies and also its goals, policies and plans. Serious internal inconsistency in business strategy is bound to give birth to problems in the course of its implementation.  **2. Consistency with the environment**. The strategy must be consistent with the external environment. It has both static and dynamic aspects. In a static sense, it implies judging the strategy with its suitability to the existing environment. in a dynamic sense, it implies judging the efficacy of strategy with the changing environment. The strategy selected should enhance the confidence and capability of the enterprise to manage and adapt with or gain command over the environmental forces. **3. Appropriation in the light of available resources.** Strategy needs a realistic assessment of the resources of the enterprise—men, money and materials— both existing resources as also the resources, the enterprise can command. The resources of an enterprise also include the skills of management and other manpower, command over sources of scarce raw materials, production facilities, technology, marketing capabilities, and image, and so on. It is advisable that the individual enterprise formulates its strategy within the limitations imposed by its resources. The objective is to ensure that the enterprise’s resources are not over stretched or over-strained on the one hand and to utilise the existing/commendable resources in the best possible manner, on the other  **4. Acceptable degree of risk.** Any major strategy carries with it certain elements of risk and uncertainty because it covers a relatively longer future horizon and because it seeks to cope with a complex environment. The amount of risk inherent in a strategy should be within the bearable capability of the enterprise. Resources should not be committed irrevocably, nor should they be concentrated on a single or narrow range of ventures. Also, there should be much between risk and returns, financial and otherwise.  **5. Appropriate time horizon.** Time is the essence of any strategy. A good strategy not only provides what objectives would be achieved, it also indicates when those objectives would be achieved, in selecting an appropriate time horizon, the organisation must pay careful attention to the goals being pursued. An optimal time span cannot be mathematically determined; it is a matter of environmental conditions, the objectives to be sought and the judgment of management.  **6. Workability.** Last, but not the least, the strategy must have enough degree of workability. It must be feasible and should produce the desired results within the constraints and parameters known to management. It must be realistic and relatively simple and intelligible at the level of interpretation and implementation. |

**APPROACHES TO MANGEMENT**

**THE CLASSICAL SCHOOL**

The classical school is the oldest formal school of management thought. Its roots pre-date the twentieth century. The classical school of thought generally concerns ways to manage work and organizations more efficiently. Three areas of study that can be grouped under the classical school are scientific management, administrative management, and bureaucratic management.

### 1. SCIENTIFIC MANAGEMENT.

In the late 19th century, management decisions were often arbitrary and workers often worked at an intentionally slow pace. There was little in the way of systematic management and workers and management were often in conflict. Scientific management was introduced in an attempt to create a mental revolution in the workplace. It can be defined as the systematic study of work methods in order to improve efficiency. **Frederick W. Taylor** was its main proponent. Other major contributors were **Frank Gilbreth, Lillian Gilbreth, and Henry Gantt.**

Scientific management has several major principles. First, it calls for the application of the scientific method to work in order to determine the best method for accomplishing each task. Second, scientific management suggests that workers should be scientifically selected based on their qualifications and trained to perform their jobs in the optimal manner. Third, scientific management advocates genuine cooperation between workers and management based on mutual self-interest. Finally, scientific management suggests that management should take complete responsibility for planning the work and that workers' primary responsibility should be implementing management's plans. Other important characteristics of scientific management include the scientific development of difficult but fair performance standards and the implementation of a pay-for-performance incentive plan based on work standards.

Scientific management had a tremendous influence on management practice in the early twentieth century. Although it does not represent a complete theory of management, it has contributed to the study of management and organizations in many areas, including human resource management and industrial engineering. Many of the tenets of scientific management are still valid today.

### 2.ADMINISTRATIVE MANAGEMENT.

Administrative management focuses on the management process and principles of management. In contrast to scientific management, which deals largely with jobs and work at the individual level of analysis, administrative management provides a more general theory of management. Henri Fayol is the major contributor to this school of management thought.

Fayol was a management practitioner who brought his experience to bear on the subject of management functions and principles. He argued that management was a universal process consisting of functions, which he termed planning, organizing, commanding, coordinating, and controlling. Fayol believed that all managers performed these functions and that the functions distinguished management as a separate discipline of study apart from accounting, finance, and production. Fayol also presented fourteen principles of management, which included maxims related to the division of work, authority and responsibility, unity of command and direction, centralization, subordinate initiative, and team spirit.

Although administrative management has been criticized as being rigid and inflexible and the validity of the functional approach to management has been questioned, this school of thought still influences management theory and practice. The functional approach to management is still the dominant way of organizing management knowledge, and many of Fayol's principles of management, when applied with the flexibility that he advocated, are still considered relevant.

### 3.BUREAUCRATIC MANAGEMENT.

Bureaucratic management focuses on the ideal form of organization. **Max Weber** was the major contributor to bureaucratic management. Based on observation, Weber concluded that many early organizations were inefficiently managed, with decisions based on personal relationships and loyalty. He proposed that a form of organization, called a bureaucracy, characterized by division of labour, hierarchy, formalized rules, impersonality, and the selection and promotion of employees based on ability, would lead to more efficient management. Weber also contended that managers' authority in an organization should be based not on tradition or charisma but on the position held by managers in the organizational hierarchy.

Bureaucracy has come to stand for inflexibility and waste, but Weber did not advocate or favour the excesses found in many bureaucratic organizations today. Weber's ideas formed the basis for modern organization theory and are still descriptive of some organizations.

**b.THE BEHAVIORAL SCHOOL**

The behavioural school of management thought developed, in part, because of perceived weaknesses in the assumptions of the classical school. The classical school emphasized efficiency, process, and principles. Some felt that this emphasis disregarded important aspects of organizational life, particularly as it related to human behaviour. Thus, the behavioural school focused on trying to understand the factors that affect human behaviour at work.

### 1.HUMAN RELATIONS.

The **Hawthorne Experiments** began in 1924 and continued through the early 1930s. A variety of researchers participated in the studies, including Clair Turner, Fritz J. Roethlisberger, and Elton Mayo, whose respective books on the studies are perhaps the best known. One of the major conclusions of the Hawthorne studies was that workers' attitudes are associated with productivity. Another was that the workplace is a social system and informal group influence could exert a powerful effect on individual behaviour. A third was that the style of supervision is an important factor in increasing workers' job satisfaction. The studies also found that organizations should take steps to assist employees in adjusting to organizational life by fostering collaborative systems between labour and management. Such conclusions sparked increasing interest in the human element at work; today, the Hawthorne studies are generally credited as the impetus for the human relations school.

According to the human relations school, the manager should possess skills for diagnosing the causes of human behaviour at work, interpersonal communication, and motivating and leading workers. The focus became satisfying worker needs. If worker needs were satisfied, wisdom held, the workers would in turn be more productive. Thus, the human relations school focuses on issues of communication, leadership, motivation, and group behavior. The individuals who contributed to the school are too numerous to mention, but some of the best-known contributors include Mary Parker Follett, Chester Barnard, Abraham Maslow, Kurt Lewin, Renais Likert, and Keith Davis. The human relations school of thought still influences management theory and practice, as contemporary management focuses much attention on human resource management, organizational behaviour, and applied psychology in the workplace.

### 2.BEHAVIORAL SCIENCE.

Behavioural science and the study of organizational behaviour emerged in the 1950s and 1960s. The behavioural science school was a natural progression of the human relations movement. It focused on applying conceptual and analytical tools to the problem of understanding and predicting behaviour in the workplace. However, the study of behavioural science and organizational behaviour was also a result of criticism of the human relations approach as simplistic and manipulative in its assumptions about the relationship between worker attitudes and productivity. The study of behavioural science in business schools was given increased credence by the 1959 Gordon and Howell report on higher education, which emphasized the importance to management practitioners of understanding human behaviour.

The behavioural science school has contributed to the study of management through its focus on personality, attitudes, values, motivation, group behaviour, leadership, communication, and conflict, among other issues. Some of the major contributors to this school include Douglas McGregor, Chris Argyris, Frederick Herzberg, Renais Likert, and Ralph Stogdill, although there are many others.

**THE QUANTITATIVE SCHOOL**

The quantitative school focuses on improving decision making via the application of quantitative techniques. Its roots can be traced back to scientific management.

### MANAGEMENT SCIENCE AND MIS.

Management science (also called operations research) uses mathematical and statistical approaches to solve management problems. It developed during World War II as strategists tried to apply scientific knowledge and methods to the complex problems of war. Industry began to apply management science after the war. George Dantzig developed linear programming, an algebraic method to determine the optimal allocation of scarce resources. Other tools used in industry include inventory control theory, goal programming, queuing models, and simulation. The advent of the computer made many management science tools and concepts more practical for industry. Increasingly, management science and management information systems (MIS) are intertwined. MIS focuses on providing needed information to managers in a useful format and at the proper time. Decision support systems (DSS) attempt to integrate decision models, data, and the decision maker into a system that supports better management decisions.

### PRODUCTION AND OPERATIONS MANAGEMENT.

This school focuses on the operation and control of the production process that transforms resources into finished goods and services. It has its roots in scientific management but became an identifiable area of management study after World War II. It uses many of the tools of management science.

Operations management emphasizes productivity and quality of both manufacturing and service organizations. W. Edwards Deming exerted a tremendous influence in shaping modern ideas about improving productivity and quality. Major areas of study within operations management include capacity planning, facilities location, facilities layout, materials requirement planning, scheduling, purchasing and inventory control, quality control, computer integrated manufacturing, just-in-time inventory systems, and flexible manufacturing systems.

**SYSTEMS SCHOOL**

The systems school focuses on understanding the organization as an open system that transforms inputs into outputs. This school is based on the work of a biologist, Ludwig von Bertalanffy, who believed that a general systems model could be used to unite science. Early contributors to this school included Kenneth Boulding, Richard Johnson, Fremont Kast, and James Rosenzweig.

The systems school began to have a strong impact on management thought in the 1960s as a way of thinking about managing techniques that would allow managers to relate different specialties and parts of the company to one another, as well as to external environmental factors. The systems school focuses on the organization as a whole, its interaction with the environment, and its need to achieve equilibrium. General systems theory received a great deal of attention in the 1960s, but its influence on management thought has diminished somewhat. It has been criticized as too abstract and too complex. However, many of the ideas inherent in the systems school formed the basis for the contingency school of management.

**CONTINGENCY SCHOOL**

The contingency school focuses on applying management principles and processes as dictated by the unique characteristics of each situation. It emphasizes that there is no one best way to manage and that it depends on various situational factors, such as the external environment, technology, organizational characteristics, characteristics of the manager, and characteristics of the subordinates. Contingency theorists often implicitly or explicitly criticize the classical school for its emphasis on the universality of management principles; however, most classical writers recognized the need to consider aspects of the situation when applying management principles.

The contingency school originated in the 1960s. It has been applied primarily to management issues such as organizational design, job design, motivation, and leadership style. For example, optimal organizational structure has been theorized to depend upon organizational size, technology, and environmental uncertainty; optimal leadership style, meanwhile, has been theorized to depend upon a variety of factors, including task structure, position power, characteristics of the work group, characteristics of individual subordinates, quality requirements, and problem structure, to name a few. A few of the major contributors to this school of management thought include Joan Woodward, Paul Lawrence, Jay Lorsch, and Fred Fiedler, among many others.

**UNIT-II**

**Organization**

Organization is collection of people working together under a division of labor and a hierarchy of authority to achieve a common goal. It is the second managerial function after planning process. Organizations facilitate greater accomplishment of work by groups. Manager develops order, promotes cooperation among workers, and fosters productivity. Major component are position, task responsibilities, &Relationships.

**Organization involves**

* Defining the Company’s mission and objectives.
* Establishing policies and plans.
* Clarifying the activities necessary to meet the objectives.
* Organizing for best utilization of available human and material resources.
* Delegating the responsibility and authority to appropriate personnel.
* Grouping personnel vertically & horizontally through information & authority relationships

**What Is Organising?**

* Arranging the activities of the enterprise in such a way that they systematically contribute to the enterprise’s goals.
* The deployment of organizational resources to achieve strategic goals
* Reflects deployment of resources
* Shows division of labour
* Formal lines of authority and mechanisms is developed

**Principles**

1. **Principle of unity of objectives:** Organizational goals, departmental goals, and individual goals must be clearly defined. All goals and objectives must have uniformity. When there is contradiction among different level of goals desired goals can’t be achieved. Therefore, unity of objectives is necessary.

2. **Principle of specialization:**  Sound and effective organization believes on organization. The term specialization is related to work and employees. When an employee takes special type of knowledge and skill in any area, it is known as specialization. Modern business organization needs the specialization, skill and knowledge by this desired sector of economy and thus, efficiency would be established.

3. **Principle of coordination:** In an organization many equipment, tools are used. Coordination can be obtained by group effort that emphasize on unity of action. Therefore, coordination facilitates in several management concepts.

4. **Principle of authority:** Authority is the kind of right and power through which it guides and directs the actions of others so that the organizational goals can be achieved. It is also related with decision making. It is vested in particular position, not to the person because authority is given by an institution and therefore it is legal. It generally flows from higher level to lowest level of management. There should be unbroken line of authority.

5**. Principle of responsibility:** Authentic body of an organization is top level management, top level management direct the subordinates. Departmental managers and other personnel take the direction from top level management to perform the task. Authority is necessary to perform the work .only authority is not provided to the people but obligation is also provided. So the obligation to perform the duties and task is known as responsibility. Responsibility can’t be delegated. It can’t be avoided.

6. **Principle of delegation:** Process of transferring authority and creation of responsibility between superior and subordinates to accomplish a certain task is called delegation of authority. Authority is only delegated, not responsibilities in all levels of management. The authority delegated should be equal to responsibility

7. **Principle of efficiency**: In enterprise different resources are used. Therese resources must be used in effective manner. When the organization fulfill the objectives with minimum cost, it is effective. Organization must always concentrate on efficiency.

8. **Principle of unity of command**:  subordinates should receive orders from single superior at a time and all subordinates should be accountable to that superior. More superior leads to confusion, delay and so on.

9. **Principle of span of control**: unlimited subordinates cant be supervised by manager, this principle thus helps to determine numerical limit if subordinates to be supervised by a manager. This improves efficiency.

10. **Principle of balance**: the functional activities their establishment and other performances should be balanced properly. Authority, centralization, decentralization must be balance equally. This is very challenging job but efficient management must keep it.

11. **Principle of communication**:  Communication is the process of transformation of information from one person to another of different levels. It involves the systematic and continuous process of telling, listening and understanding opinions ideas, feelings, information, views etc, in flow of information. Effective communication is important.

12. **Principle of personal ability**: for sound organization, human resources is important. Employees must be capable. Able employees can perform higher. Mainly training and development programs must be encouraged to develop the skill in the employees.

13**. Principle of flexibility**:  organizational structure must be flexible considering the environmental dynamism. Sometimes, dramatically change may occur in the organization and in that condition, organization should be ready to accept the change.

14. **Principle of simplicity**: this principles emphasizes the simplicity of organizational structure, the structure if organization should be simple with minimum number of levels do that its member an understand duties and authorities.

**Benefits**

There are different benefits of Organisation like Increase in managerial efficiency, Proper utilization of resources, Sound communication possible, Facilitates coordination, Helpful in expansion, Increase in specialization, Check on corrupt practices, Decreases employees’ turnover, Better human relations, Training and development personnel, Development of new ideas, Facilitates promotions etc.

**1. Clarity of Functions in a Well Defined Assignment:**

An effective organisation while well defining the assignment of each individual member working within an organization structure, clarifies what particular activities he has to perform within his given assignment. This enables him to perform his job devotedly and efficiently in fulfilment of his pre­determined goals. This avoids any chances of misunderstanding, conflict or confusion' that arise between individuals over matters concerned with jurisdiction.

**2.** **Establishing Co-operative working Relationships:**

Organising, while establishing cooperative working relationships- between different segments of the organisation structure, within jobs and positions, between individuals and work groups and the like, promises smoothness and efficiency in the working.

Every member knows how he is placed in the organisation set-up. There comes a feeling of freedom in working. There is established good relationship between the job and the person doing it.Each person works best with others when he knows, for what he is responsible, to whom he is responsible and realizes the values of co-operative relationships with others. With the responsibilities well-defined and made known to the persons and with the practicing of delegation, there comes feeling of freedom.

**3.** **Best use of Human and Physical Resources:**

Organising helps making best use of available human resources and physical resources in an enterprise.

**4.** **Avoidance of Overlapping and Duplication:**

Good organizing avoids overlapping and duplication of works in an enterprise.

**5.** **Communication Rendered Effective:**

It is through organizing that communication is rendered easier and more efficient.

**6.** **Balancing of workloads:**

Organising helps considerably in balancing workloads in an undertaking.

**7.** **Assimilation of changes:**

Good organiation is competent to assimilate changes due to my environmental factors in the structure.

**8.** **Opening up of Promotional Avenues:**

Organizing helps opening up promotional avenues useful for executive development.Organisation charts and position, descriptions as provided by organising points to the position he can reach within the desired qualifications.Organising also tells if any training is needed to reach a superior position.

**9.** **Basis for Appraisal and Rating:**

Organising provides a sound basis for appraisal and rating of individual performance and capabilities. With self-appraisal an individual's is able to judge for himself how he is doing and whether he is coming up to the mark according to his job requirements.

**Organisation structure**

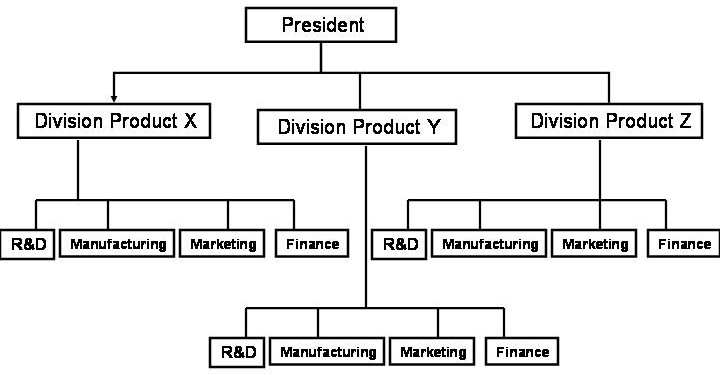
OS can be defined as the way or method through use of a hierarchy that a group, business, organization, people or objects collaborate to achieve success on one common goal.

* Defines how tasks are divided, resources are deployed, and departments are coordinated
* The set of formal tasks assigned
* Formal reporting relationships
* The design of systems to ensure effective coordination of employees across department.

**Organizational Structure and Culture**

Organizational Structure: The formal system of work roles and authority relationships that govern how associates and managers interact with one another.

Organizational Culture: Involves the values and norms shared by managers and associates that influence behavior. It is a powerful force in organizations.



**Different Types of Organisation Structure**

* + Line
  + Line & staff
  + Functional
  + Matrix
  + Departmental
  + Formal
  + Informal

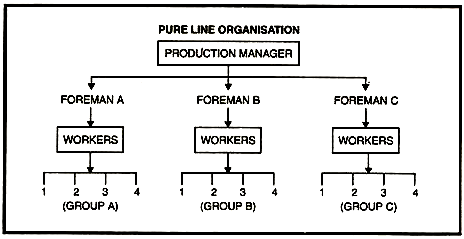
**Line Organisation Structure**

* Lines of authority and instructions are vertical, i.e. they flow from the top to the bottom.
* The unity of command is maintained in a straight and unbroken line. It implies that each subordinate receives instructions from his immediate superior alone and is responsible to him only.

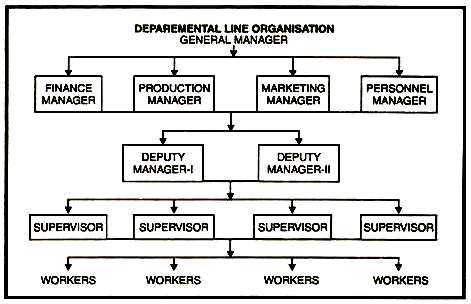
**Characteristics**

* Military Organisation
* Orders from Top to bottom
* Suggestions from bottom to top

**Types of Pure line organisation**

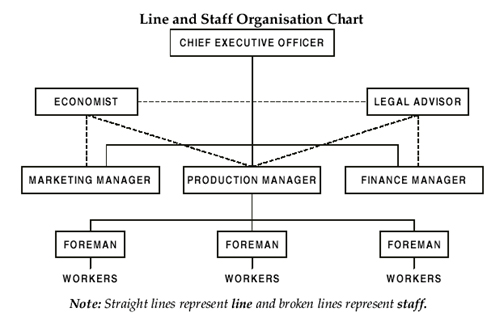


**Departmental organisation**



**Line & Staff Organisation Structure**

* Refers to a pattern in which staff specialists advise managers to perform their duties.
* Staff managers provide advice to the line manager who are generally specialists in the field.
* Staff positions are purely advisory in nature. They have a right to recommend but have no authority to enforce their preference on other dept.
* The line executives are the “DOERS” or commanders, whereas, the specialists are the “THINKERS” or advisors.

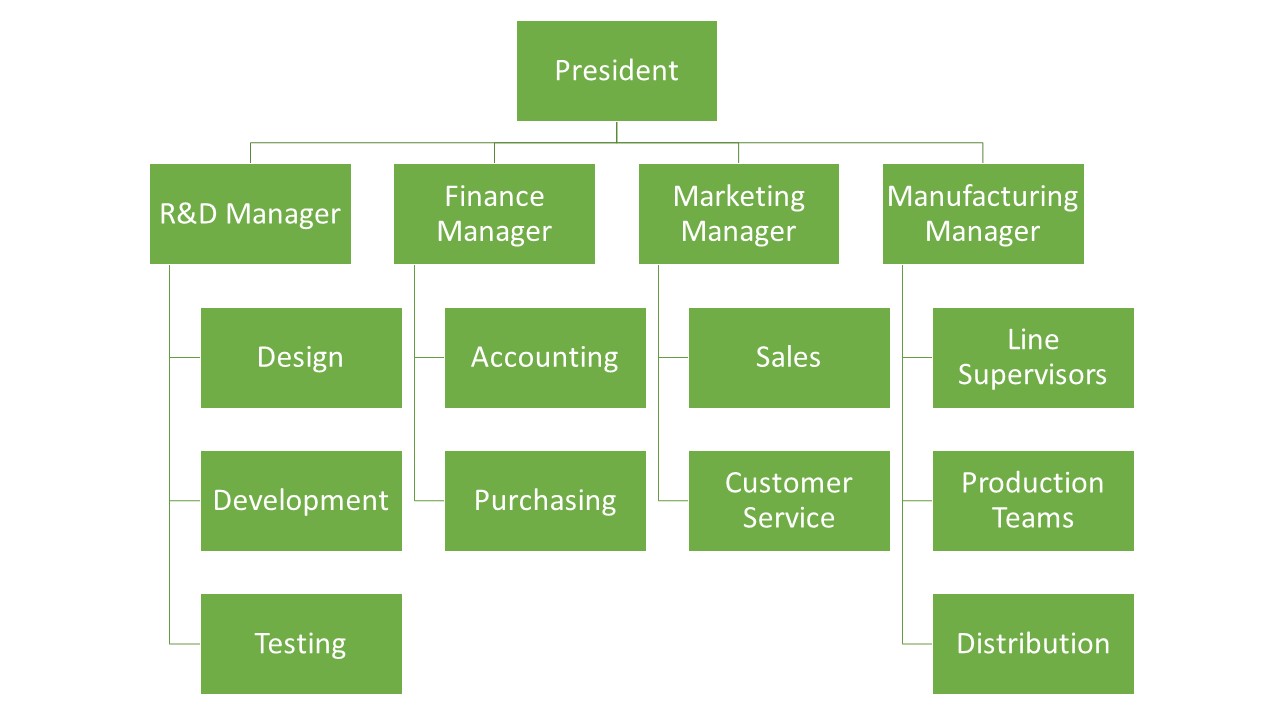


**Functional Organisation**

Functional structure is created by grouping the activities on the basis of functions required for the achievement of organisational objectives.Functions classified into “Basic”, “Secondary” & “Supportive” functions according to their nature and importance.E.g. of basic functions would be production, marketing, in manufacturing organisation.Authority relationships in functional structure may be in the form of line, staff & functional.

**Characteristics of functional structure:**

* Specialization by functions
* Emphasize on sub goals
* Pyramidal growth of the organization
* Line and Staff organisation
* Functional authority relationships among various departments.
* Limited span of management and tall structure.



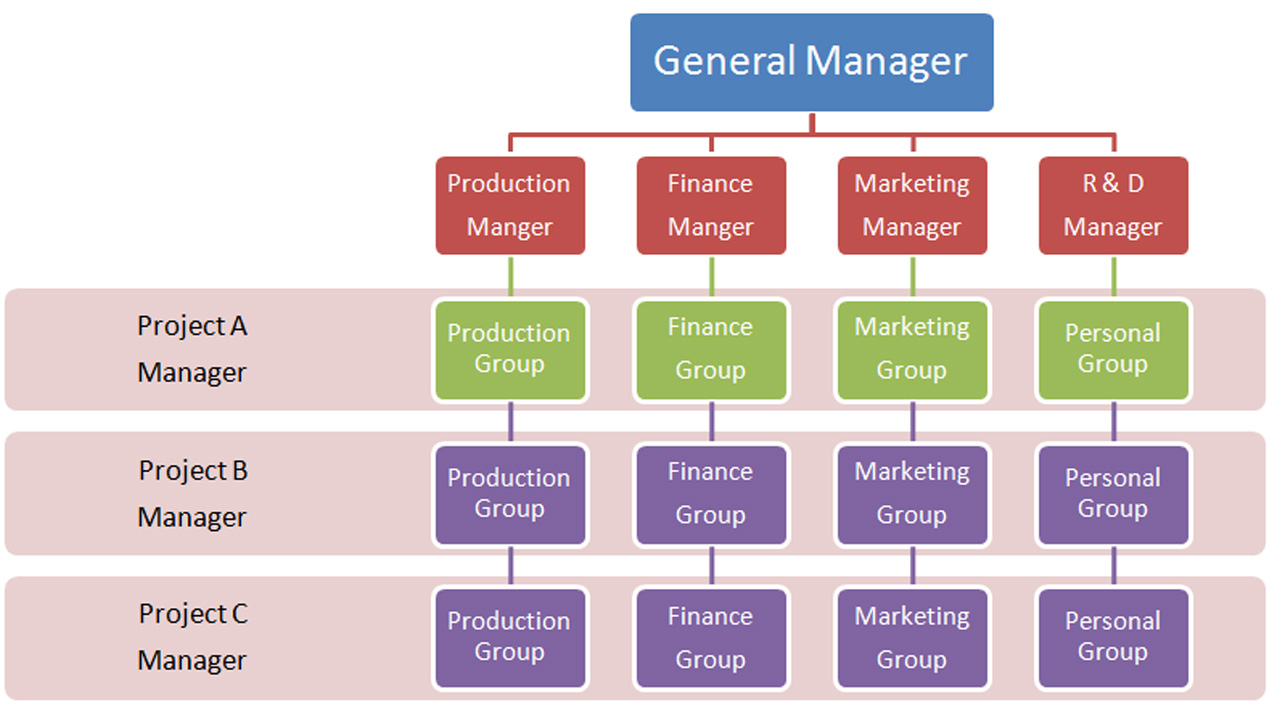
**Advantages of a Functional Structure**

* Less managers are required
* Effective use of personnel
* Jobs are clearly defined
* Groups have similar interests
* The natural flow of information is vertical
* Communication lines are short

**Matrix Structure**

It is a combination of:

* Functional departments with a stable base for specialised activities
* Units that integrate various activities of different departments on a project, programme basis.
* It is an organizational design that combines both functional and product departmentalization.
* Several projects can be conducted simultaneously.
* Employees have two bosses.
* It violates the unity of command concept.
* Creates a number of problems such as conflicting directives from two bosses, roles may not be clearly defined, power struggle between the two bosses, and subordinates may be confused regarding to whom they should report.



**Advantages**

* Access to expertise.
* Stability of permanent department assignments for employees.
* Allows for focus on specific projects, products, or customers.

**Disadvantages**

* Confusion of command.
* Power struggles and conflicts.
* Lost time in coordinating.
* Excess overhead for managing matrix functions.

**Formal Organisation**

Formal networks are those designated by someone within authority to prescribe who should communicate with whom. In other words, it depicted through formal organization chart, which spells out expliciting reports to whom.

Formal organizational structure:

* Executive decision as a result of planning.
* The relationships among people and their positions can be diagramed.
* Describes positions, task responsibilities and relationships

**Characteristics of a Formal Organisation**

* Deliberately planned and created
* Co-ordinates activities
* Hierarchically structured
* Stated objectives
* Specified tasks
* Defined authority & responsibility

**Informal organization**

Informal or Emergent networks occur from day to day interactions among people, irrespective of whether someone has specified that they communicate.

* Personal and social relationships do not appear on the organizational chart.
* Based on personal relationships rather than positional authority
* provides social satisfaction, & may gain recognition
* Informal authority is not commanded through organizational assignment.
* Authority comes from the follower’s natural respect for a colleague’s knowledge and abilities
* Provides social control of behavior.

**Characteristics of an Informal Organisation**

* Flexible, loose structure
* Relationships are not defined
* Membership is spontaneous

**Comparison between Formal and Informal Organization**

For formal organization, the accuracy of information is high, speed of information flow is moderate, reliability of information is high, validity of information is also high, quality and quantity of information is moderate.

For informal organization, accuracy of information is moderate, speed of info flow is fast, reliability and validity of information is high, quality of information is moderate, and quantity of information is high.

**A systems view of the organization**

In Systems Theory, a system is defined in two ways:

Internally, by its subsystems and internal functions. Each system is made up of components and sub-systems that interrelate and contribute to the overall purpose of the parent system. In the auto company those components might consist of engineering, production, marketing, finance, human resources and sales all of which should be supporting the system’s purpose of providing cars to the higher system, the auto market.

Externally, by its purpose. Each system has a role that it plays in the higher-level system in which it exists. Using the auto company example we can say that the auto company is a system whose role is to provide cars to the next higher-level system, the auto market. The auto market in turn has its multiple roles that it plays in the next higher-level systems of transportation and national economy and so on.

**Virtual or Networked Organizations**

“An organization distributed geographically and whose work is coordinated through electronic communications."

* Members separated geographically
* Work conducted via a networked computer
* Appear to outsiders as a “physical entity”

**Conclusion**

The structure of an organisation varies depending on a number of influencing factors. Structure is influenced by the external environment in which the business operates as well as its culture and the nature of the work and activities it undertakes. The structure can have both a positive and negative impact on a business. Having the right structure allows a business to respond and adapt to changes in the market quickly. Innovation and creativity are usually found in flatter organisational structures and in organisations with an entrepreneurial and employee focused culture. This in turn encourages them to positively contribute to generating relevant ideas and effective team working in this innovative working environment.

**Unit No: III**

**Delegation of Authority**

**Meaning of Delegation:**

The Delegation of Authority is an organizational process wherein the manager divides his work among the subordinates and gives them the responsibility to accomplish the respective tasks. Along with the responsibility, he also shares the authority, i.e. the power to take decisions with the subordinates, such that responsibilities can be completed efficiently.

The process of delegation starts from the chief executive of an organisation who has the total responsibility for the achievement of goals. In order to share the responsibility of accomplishing goals, he further delegates the work to his subordinates.

These subordinates, finding the work assigned to them by their superior exceed their “Span of Control” assign a portion of their works to their own subordinates. This process continues till all the tasks and activities are assigned to those who have the appropriate physical, psychological and professional abilities to do it.

Delegation is the downward transfer of formal authority from one person to another. Superiors delegate authority to subordinates to facilitate the accomplishment of the assigned work.

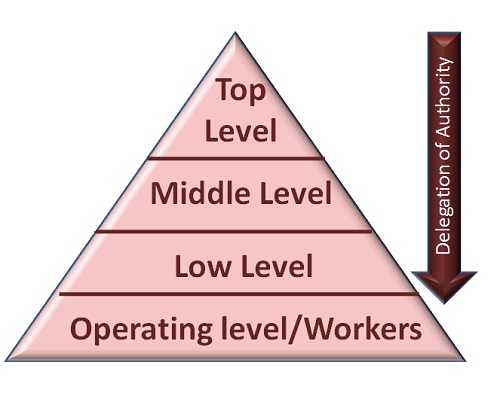
In other words, a delegation of authority involves the sharing of authority downwards to the subordinates and checking their efficiency by making them accountable for their doings. In an organization, the manager has several responsibilities and work to do. So, in order to reduce his burden, certain responsibilities and authorities are delegated to the lower level, i.e. to the subordinates, to get the work done on the manager’s behalf.

Under the delegation of authority, the manager does not surrender his authority completely, but only shares certain responsibility with the subordinate and delegates that much authority which is necessary to complete that responsibility.

According to Koontz and O’Donnell, “The entire process of delegation involves the determination of results expected, the assignment of tasks, the delegation of authority for accomplishment of these tasks, and the exaction of responsibility for their accomplishment.”

According to F.G. Moore, “Delegation of authority means assigning work to others and giving them authority to do it.”

According to Theo Haimann, “Delegation of authority merely means the granting of authority to subordinates to operate within prescribed limits.”

**[](http://businessjargons.com/wp-content/uploads/2015/12/Delegation-of-Authority.jpg)**

**Features of Delegation of Authority:**

1. Delegation means giving power to the subordinate to act independently but within the limits prescribed by the superior. Also, he must comply with the provisions of the organizational policy, rules, and regulations.
2. Delegation does not mean that manager gives up his authority, but certainly he shares some authority with the subordinate essential to complete the responsibility entrusted to him.
3. Authority once delegated can be further expanded, or withdrawn by the superior depending on the situation.
4. The manager cannot delegate the authority which he himself does not possess. Also, he can not delegate his full authority to a subordinate.
5. The delegation of authority may be oral or written, and may be specific or general.
6. The delegation is an art and must comply with all the fundamental rules of an organization.

**Elements of Delegation:**

**The following three elements are in the scheme of delegation:**

1. Assignment of duties or tasks.

2. Delegation of authority.

3. Accountability for performance of duties and exercise of authority.

**1. Assignment of Duties or Tasks:**

A manager has to assign a part of his duties to others under him or her because he cannot himself perform all the work. So, when assigning duties he should ensure that the subordinates, to whom work is assigned, perform their tasks sincerely and competently. Even after that a manager assigns duties and tasks to his subordinates; he continues to be ultimately responsible for the proper performance of these duties and tasks.

**2. Delegation of Authority:**

While the duties and tasks are entrusted to the subordinates by the superior, the authority should be granted them to perform those duties and tasks well. It is called as “delegation of authority”. This delegation of authority is considered as an essential to take all actions, which lead to accomplish their duties successfully, and the organisational goals.

**3. Accountability for Performance of Duties and Exercise of Authority:**

The person to whom any responsibility is assigned and authority is delegated should also be made accountable or answerable for the proper performance of the assigned responsibility and for proper exercise of the delegated authority.

**Steps in delegation of authority**

**Assignment of Duties -** The delegator first tries to define the tasks and duties to the subordinate. He also has to define the result expected from the subordinates. Clarity of duty as well as result expected has to be the first step in delegation.

**Granting of Authority -** Subdivision of authority takes place when a superior divides and shares his authority with the subordinate. It is for this reason, every subordinate should be given enough independence to carry the task given to him by his superiors. The managers at all levels delegate authority and power which is attached to their job positions. The subdivision of powers is very important to get effective results.

**Creating Responsibility and Accountability -** The delegation process does not end once powers are granted to the subordinates. They at the same time have to be obligatory towards the duties assigned to them. Responsibility is said to be the factor or obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is absolute and cannot be shifted. Accountability, on the others hand, is the obligation of the individual to carry out his duties as per the standards of performance. Therefore, it is said that authority is delegated, responsibility is created and accountability is imposed. Accountability arises out of responsibility and responsibility arises out of authority.

**Principles of Delegation**

**Principle of Result Excepted –** It suggests that every manager before delegating the powers to the subordinate should be able to clearly define the goals as well as results expected from them. The goals and targets should be completely and clearly defined and the standards of performance should also be notified clearly. For example, a marketing manager explains the salesmen regarding the units of sale to take place in a particular day, say ten units a day have to be the target sales. While a marketing manger provides these guidelines of sales, mentioning the target sales is very important so that the salesman can perform his duty efficiently with a clear set of mind.

**Principle of Parity of Authority and Responsibility-** According to this principle, the manager should keep a balance between authority and responsibility. Both of them should go hand in hand.

According to this principle, if a subordinate is given a responsibility to perform a task, then at the same time he should be given enough independence and power to carry out that task effectively. This principle also does not provide excessive authority to the subordinate which at times can be misused by him. The authority should be given in such a way which matches the task given to him.

**Principle of absolute responsibility-** This says that the authority can be delegated but responsibility cannot be delegated by managers to his subordinates which means responsibility is fixed. The manager at every level, no matter what is his authority, is always responsible to his superior for carrying out his task by delegating the powers. It does not means that he can escape from his responsibility. He will always remain responsible till the completion of task.

**Principle of Authority level-** This principle suggests that a manager should exercise his authority within the jurisdiction/framework given. The manager should be forced to consult their superiors with those matters of which the authority is not given that means before a manager takes any important decision, he should make sure that he has the authority to do that on the other hand, subordinate should also not frequently go with regards to their complaints as well as suggestions to their superior if they are not asked to do. This principle emphasizes on the degree of authority and the level upto which it has to be maintained.

**Principle of Functional Definition-** The related or similar activities should be grouped together according to enterprise function. When the definition of a position is clear then definition of authority becomes simple.

**Principle of Unity of Command-** This principle states that a Subordinate should report only to single superior. In this connection a subordinate should be assigned duties and delegated authority by only one superior and he should be accountable for the performance of the assigned duties and exercise of the delegated authority.

In other words, a subordinate should be responsible to only one superior who is delegating the authority to the subordinate.

**Principle of Communication-**A misunderstood responsibility can be very dangerous. A general authority can be easily misused. Accordingly, both the responsibility and authority must be clearly specified, openly communication must be continuously kept open for issuing directions as well as for receiving feedback.

**The Scalar Principle -**There are clear lines of authority in the organization, i.e. who is under whom. This helps the subordinate to know, who delegates the authority to him and to whom he shall be accountable. Also to whom he shall contact in case things are beyond his control. Thus, this principle asserts, that there should be a proper hierarchy in the organization.

**Principle of Exception -**According to this principle, the subordinate shall be given complete freedom to perform his responsibilities under the purview of his authority. The manager should not interfere in between his work and must allow him to do even if he commits mistakes. But in some exceptional cases, the managers can interfere and even withdraw the authority delegated to the subordinate.

**Functional Clarity-**The functions to be performed, the methods of operations and the results expected must be clearly defined. The authority delegated must be adequate to ensure that these functions are well performed.

**Limits to Authority to be well defined-**A manager cannot properly delegate authority unless he fully knows what his own authority is. To avoid confusion in this respect, there should be written manuals and orders to indicate the limits of authority and area of operations of each manager.

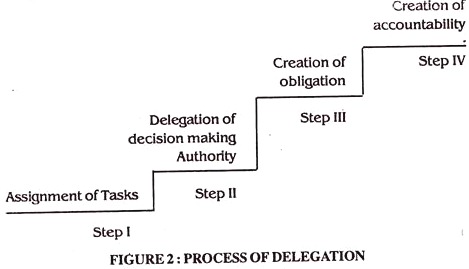
**Responsibility not Delegatable-**Authority can be delegated, but responsibility cannot be delegated. A manager cannot turn a blind eye to how the assigned duties are performed, and how the delegated authority is exercised. The ultimate responsibility for the performance of duties and exercise of delegated authority remains with him.

**Principle of Management by Exception -**Management should delegate the authority and responsibility for routing operations and decision making to subordinates, but must retain such tasks for themselves for which they alone are uniquely qualified. On the other hand, the subordinates must make decisions and take actions wherever they can and should only refer matters of such nature to their superiors, which are unique, and outside their domain of authority

This practice saves valuable time of top management, which can be utilised, for more important policy matters. Also by trying to solve most of the problems by themselves, the subordinates prepare themselves for higher challenges and responsibilities.

**Process of Delegation:**

The step, which is followed when delegating authority, is the process of delegation. Normally four steps are used in the process of delegation. It can be shown in the form of diagram.

**[](http://cdn.businessmanagementideas.com/wp-content/uploads/2016/06/clip_image002-29.jpg)**

**1. Assignment of Tasks:**

The first step in this process is to determine clearly what the subordinates are supposed to do. Then the capabilities of each subordinate should be considered to match them with the assigned duties. The tasks should be distributed in such a manner that the subordinates are not unnecessarily overburdened and that each one is capable of efficiently completing the assigned task.

The total task can divided into identifiable parts so that the manager can handle some parts himself and other parts can be given to skilled subordinates. This way the coordination and supervision would become easier.

**2. Delegation of Decision making Authority:**

The second step is to give authority to subordinates to make and implement decisions regarding procurement of resources and supervision of activities that are relevant to the duties assigned to them. This authority must be clearly stated, and if possible in writing, so that there is no ambiguity regarding making necessary decisions.

The authority should also be related to tasks so that if the tasks change, so would the authority. Any matters or decisions that do not fall within the domain of delegated authority must be referred to the superiors.

**3. Creation of Obligation:**

The third step is the creation of obligation on the part of the subordinates to perform their duties satisfactorily. The person assigned the task is morally responsible to do his best since he has willingly accepted these tasks.

Obligation is a personal concern for the task. Even if the subordinate gets part of the task done through other people, he must accept responsibility for timely completion of the task as well as the quality of the output.

**4. Creation of Accountability:**

Being answerable to someone for your actions create accountability, an obligation to accept the consequences, good or bad. According to Newman, Summer and Warren, “by accepting an assignment, a subordinate in effect gives his superiors a promise to do his best in carrying out his duties. Having taken a job, he is morally bound to complete it. He can be held accountable for results.

**Types of Delegation**

1. **General or Specific Delegation** : When authority is given to perform general managerial function like planning organizing, directing, controlling etc., the subordinate manager perform these functions and enjoy the authority required to carry out these responsibilities. The specific delegation may relate to a particular function or an assigned task. The authority delegated to the production manager for carrying out this function will be a specific delegation.
2. **Formal or Informal Delegation:** Formal delegation of authority is the part of organizational structure. Whenever a task is assigned to a person then the required authority is also given to him. Where as Informal delegation does not arise due to position but according to circumstances.
3. **Lateral Delegation:** When a person is delegated an authority to accomplish a task, he may need the assistance of a number of persons. It may take time to formally get assistance from these persons. He may indirectly contact the persons to get their help for taking up the work by cutting short time of formal delegation. When the authority is delegated informally it is called lateral delegation.

**Advantages of Delegation:**

**1. It Helps for Effective Functioning -**Delegation helps the executive to apportion that part of his work to his subordinates. So that he can devote his time to more important areas of his duties like leadership, organisation planning and coordination.

**2. It Results in Quick Decisions -**The process of delegation makes it possible to push decision making to the lowest level where information, competence and willingness to make decisions are available. Decisions can be made right away at or near the centre of operations as soon as a deviation occurs or the situation demands.

**3. Reduction in Managerial Load -**Delegation relieves the manager of the need to attend to minor or routine types of duties. Thus, he is enabled to devote greater attention and effort towards broader and more important responsibilities.

**4. It leads for Specialized Service -**Since the work is assigned to the persons who have specialized knowledge and expertise, it helps for specialized services. For example, sales may be delegated to the sales manager, marketing-to-marketing manager, finance-to-finance manager.

**5. Delegation is a Motivational Factors -**Delegation may also be used as a device to motivate the subordinate. Subordinates usually respond to delegated authority with favourable attitude. They become more responsible and more dedicated to their work and they feel proud of being given such authority and responsibility, this in turn boosts their morale.

**6. Aid to Employee Developments-** Delegation ensures the employees in the organisation to develop their capabilities to undertake new and more challenging jobs and also it promotes job satisfaction.

**7. It can be a Training Ground for Executive Ability -**Subordinates, when given control over the problems they face, are able to analyse the situation and make decisions accordingly. This continuous involvement prepares them for problem solving process when they reach a higher executive level. This process will also screen out those from the executive level who have proved to be less successful in handling problems at the lower level.

**8. Efficient Running of Branches -**In the modern world, where a business rarely con­fines its activities to a single place, only delegation can provide the key to smooth and effi­cient running of the various branches of the business at places far and near.

**9. Aid to Expansion and Diversification of Business-** As delegation provides the means of extending and multiplying the limited capacity of the superior, it is instrumental for en­couraging expansion and diversification of the business.

**Disadvantages of Delegation**

1. Central management is far removed from the actual operations where the decisions are made so that it becomes difficult to pinpoint major problems when they occur because decisions are made by many subordinates.

2. The second problem may lie in the area of coordination. If coordination among these many subordinates is not adequate, then confusion may result and it may become difficult to exercise control over procedures and policies.

3. It may be difficult to perfectly match the task with the capability of the subordinate.

**Features of Delegation of Authority**

1. Delegation is authorization to a manager to act in a certain manner. The degree of delegation prescribes the limits within which a manager has to decide the things. Since the formal authority originates at the top level, it is distributed throughout the organisation through delegation and re-delegation.

2. Delegation has dual characteristics. As a result of delegation, a subordinate employee receives authority from his superior, but, at the same time, his superior still retains all his original authority. George Terry comments on this concept: **“**It is something like imparting knowledge. You share with others who then possess the knowledge, but you still retain the knowledge too.**”**Delegation does not imply reduction in the authority of a manager.

3. Delegation does not mean a manager loses control and power. Authority once delegated can be enhanced, reduced or withdrawn depending on the situation or requirement. For example, change in the organisation structure, policy, procedure, methods etc. may require change in the degree of delegation of authority.

4. A manager delegates authority out of the authority vested in him. He cannot delegate which he himself does not possess. Moreover, he does not delegate his full authority to his subordinates, because if he delegates all his authority, he passes his position to the subordi­nates.

5. Delegation of authority is always made to the position created through the process of organizing. The individual occupying a position may exercise the authority so long as he holds the position. Therefore, the authority is recovered fully from the individual when he moves from the particular position

.

6. The extent of authority to be delegated depends upon several factors, like the ability and willingness of the executive to delegate, the ability of the subordinates to accept delegation, the confidence of the superior in his subordinates, the philosophy of management, etc.

7. Delegation of authority may be specific or general. It is specified when the courses of action for particular objectives are specified. It is general when these are not specified, though objectives may be specified.

**Pre-Requisites for Delegation**

1. **Willingness to Delegate:** Unless the superior is psychologically prepared to leave his authority, delegation will not be effective. If a superior is forced to delegate authority downward without his sweet will, he will try to devise methods to interfere with subordinate’s working.
2. **Climate of Trust and Confidence:** There should be a climate of trust and confidence among superiors and subordinates. The subordinates should be given enough opportunities or real job situations where they use their talent and experience. In case they make some mistakes then superiors should guide and correct them.
3. **Faith in Subordinates:** Sometimes the superiors do not delegate authority with the fear that subordinates will not be able to handle the job independently. They are not confident of the qualities of subordinates and do not want to take risks. The superior may be over conscious of his skill and competence with the result that he is hesitant to delegate authority.
4. **Fear of Supervisors:** There is often a fear among superiors that their subordinates may not over take them, once they are given higher responsibility. This is a case of inferiority complex.

**Barriers to Delegation**

**Reluctance on the Part of the Executives:**

**(A) Superior manager is likely to delegate less authority in the following situations:**

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

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

**3. Lack of confidence in the subordinates:** A manager may not delegate authority because he feels that his subordinates are not capable and reliable. He lacks confidence in his subordinates. If delegation is not made, the future manager has no opportunity to gain expe­rience. Confidence is built up gradually and on the basis of success.

**4. Lack of ability to direct:** Many managers have difficulty in giving suitable directions to guide the efforts of the subordinates. Sometimes the boss may like to delegate authority but may not be able to do it effectively due to his inability to identify, interpret and communicate the essential features of his plans. So, an executive who lacks ability to direct cannot delegate.

**5. Absence of control techniques that warn of coming troubles:** In the cases where the executive in charge of operations has practically no means of knowing serious difficulties in the working of the organisation in advance, he may hesitate in delegating authority.

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

**7. Fear of exposure:** A superior manager, specially an incompetent one, may not like to delegate simply because adequate delegation may reveal his weakness and shortcomings. This may happen especially when the superior has poor operating procedures, methods and practices. He feels that delegation may undermine his influence and prestige in the organisation. He keeps all the authority to himself for fear of being exposed.

**8. Fear of the subordinates:** A manager may not delegate adequate authority because of his fears of the subordinates. The fear of a subordinate’s growth may be real. It can take two forms. First, the subordinate might show that he can perform the superior’s work so well that he becomes entitled to the manager’s position, status or prestige.

Second, the subordinate’s increasing ability might earn him a promotion to some other part of the organisation and the superior may lose his best subordinate.

**9. Love for authority:** A superior may not delegate his authority especially if he is an autocrat. Such a manager has intense desire to dominate others, to make his importance felt in the organisation, and to see that his subordinates come frequently for approval. He thinks that delegation will lead to reduction of his influence in the organisation.

**10. Lack of Proper Controls:** There may not be proper controls in the organisation which help the manager to keep in touch with performance of subordinates. When certain controls like budgets, standards costs etc., are there then manager can exercise adequate control over the performance of his subordinates.

**11. Unwilling to let go:** The manager who wishes to delegate effectively must be willing to release the right to make decisions to the subordinates. The desire of dominance over the work of subordinates at each step hampers the process of delegation.

**(B) Reluctance on the Part of the Subordinates:**

**A subordinate may shrink from accept­ing authority for the following reasons:**

**1. Dependence on the boss for decisions:** If a subordinate finds it easier to depend upon his boss for taking decisions while tackling problems, he may avoid accepting authority even when his boss is ready to delegate it

**2. Fear of criticism:** The subordinates sometimes fear criticism on the part of their superiors. This fear is often justified. In fact, some superiors tend to criticize any action taken by a subordinate and even a small genuine mistake. This discourages initiative, causes resent­ment, and destroys a subordinate’s self-confidence.

**3. Lack of information or resources:** A subordinate will generally be unwilling to accept authority when adequate information, working facilities, and resources required for the proper performance of a task are not available.

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

**5. Inadequacy of positive incentive:** A subordinate hesitates in accepting more work delegated to him by the boss if he does not get sufficient positive incentives in the form of recognition, credit, and other rewards.

**6. Over-work:** When the subordinates are already over-burdened with duties, they may avoid delegation because they feel that they will not be able to do an additional task along with those which they presently have been assigned. This may be a perfectly legitimate reason.

**7. Inability of Subordinates:** There may also be shyness on the part of subordinates in assuming additional responsibility. They may avoid botheration occuring from delegation of authority. Fear of committing mistakes or lack of confidence on the part of subordinates may also act as a barrier in delegation of authority.

**8. Desire to play safe:** Some subordinates are unwilling to accept authority because they want to play safe by depending on the boss for all decisions. They have a love for spoon feeding.

**9. Inadiquacy of information and other resources:** Subordinates are likely to avoid delegation when adequate information, working facilities and resources are not available for proper discharge of duties.

**Difficulties on the part of Organisation**

1. Defective organisation structure and non-clarity of authority responsibility relationships.
2. Inadequate planning and policy formulation.
3. Lack of unity of command.
4. Absence of effective control techniques.
5. Splintered authority.
6. Non-availability of competent managers.
7. Unclear authority relationships.
8. Environment of interval distrust.

**Factors Influencing Degree of Delegation**

**1. Company’s History:** The history of company influences the degree of delegation. A company grown over a period of time has a tendency to centralize powers. When a company is small then most of the decision-making is done by the owner. With the growth of the business, the tendency to centralize powers remains. On the hand if a concern is the outcome of a merger, amalgamation or combination, there may be a great amount of decentralization.

**2. Availability of Capable Persons:** The element of delegation is linked to the availability of subordinate managers. If sufficient persons are available who can take responsibility then delegation can easily be done. Generally, managers complain that sufficient subordinate managers are not available who can be assigned important duties. Unless subordinates are delegated the powers they will not learn the art of management.

**3. Importance and Costliness of Decisions:** The importance and costliness of decisions greatly influences the degree of delegation. The costlier and more important the decision, the greater the probability of its being made at the upper level of the managerial hierarchy.

**4. Size of the Enterprise:** The extent of delegation is linked to the size of the enterprise. In a large unit more decision making is needed at various levels of management. There is a tendency to decentralize in big units for avoiding many difficulties.

**5. Available Controls:** A managers delegating authority wants to be sure that it is used in accordance with his intentions and the general objectives of the organizations. The better the control devices, the more will be the delegation of authority.

**6. Types of Enterprise:** The degree of delegation of authority may also be influenced by the type of enterprise. If the enterprise is in an industry which is rapidly expanding, as in the electronic field, top management will have to delegate otherwise it will be over burdened with many decisions. Decentralization of authority will take place even if the subordinate managers do not have adequate experience to exercise authority.

**7. Environmental Factor:** In addition to internal factors delegation may be influenced by external factor s too. These factors may be natural unions, Government control over business and tax policies. Some large concerns have to deal with workers’ unions at national level. In such a situation the things are decided at head quarter level and are applicability at all levels. It therefore follows that within the area of labour relations, decision-making is decentralized.

**Guidelines for Making Delegation Effective**

1. **Defining of Assignments:** The work of every person should be properly defined. The results expected from them should be made clear. They should be given sufficient authority to accomplish the given results.
2. **Proper Selection and Training:** The management must make proper assessment of subordinates in terms of their abilities and limitations before delegating the proper authority. Additionally, management must work closely with the subordinates in training them in how to improve their job performance. This constant communication will build up the self-confidence of the subordinates.
3. **Proper Communication:** There should be an open line of communication. By delegating authority superior does not abdicate his right to interfere or he is not absolved of responsibility. There may be changed circumstances which require new plans and delegation may have to see in new situation. There should be free flow of information between superior and subordinate.
4. **Establishment Proper Controls:** The manager cannot relinquish responsibility, delegation should be accompanied by adequate controls. The Performance of subordinate should be regularly assessed to see that things are going as per plans.
5. **Rewards for Proper Implementation:** There should be rewards for effective delegation and successful assumption of authority. The manager should keep a watch over the performance of various persons. Those who are successful in delegating properly and those showing good results with delegated authority should be given pecuniary or other rewards.
6. **Principles of Delegation:** Strict adherence to the principles of delegation like parity of authority and responsibility, unity of command and absoluteness of accountability is most essential for effective delegation.
7. **Appropriate Environment:** A work climate should be free from fear and frustration. Top management should provide adequate information and support and resources to subordinates for effective delegation.
8. **Motivation of Subordinates:** Adequate incentive in the form of promotion, status, better working conditions or additional bonuses must be provided for additional responsibilities will performed.
9. **Require Completed Work:** Under this doctrine, the subordinates, expects his boss to make a clearly understood delegation. So that for every step in the process of work, he need not consult his boss and there by delay the whole matter in its completion.
10. **Creating awareness for need of Delegation:** Many managers are not fully aware about the need for adequate delegation of authority. Through proper education and training, such managers can be convinced about the need for better delegation.
11. **Determining decisions and tasks to be delegated:** Delegation is adversely affected because there is no clarity about what is to be delegated. Usually those decisions and tasks that are relatively less important and more time consuming should be delegated.

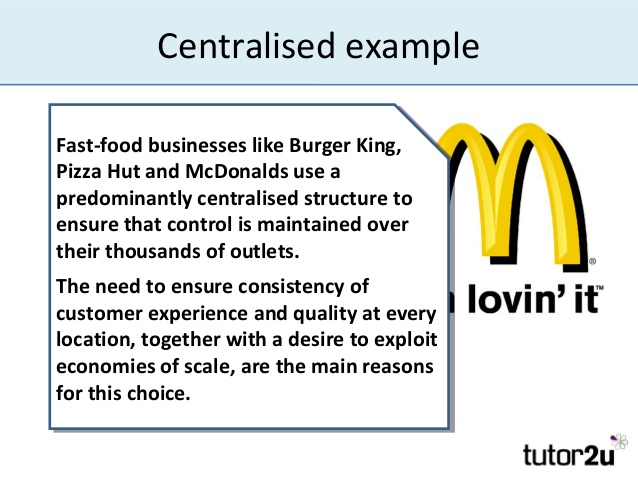
**Centralization and Decentralization**

**Centralization**

**Centralization** is said to be a process where the concentration of decision making is in a few hands. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management. According to Allen, “Centralization” is the systematic and consistent reservation of authority at central points in the organization. The implication of centralization can be:

* Reservation of decision making power at top level.
* Reservation of operating authority with the middle level managers.
* Reservation of operation at lower level at the directions of the top level.

Under centralization, the important and key decisions are taken by the top management and the other levels are into implementations as per the directions of top level. For example, in a business concern, the father & son being the owners decide about the important matters and all the rest of functions like product, finance, marketing, personnel, are carried out by the department heads and they have to act as per instruction and orders of the two people. Therefore in this case, decision making power remain in the hands of father & son.



**Characteristics of Centralisation**

1. **Most of the decisions are taken at the top level.**
2. **The executives reserves authority instead of delegating it to their subordinates.**
3. **The role of the subordinates remains confined to do what they are told to do by the top management.**
4. **There is a gap between the level where decisions are made and the level where these are implemented.**

**Factors Determining Centralization of Authority**

1. **Achieving Uniformity of Action:** Uniformity of action is possible when decision-making authority is centralized. The decisions taken at the top will be implemented at every level. There may be more then one unit under the same management and it may be desired to have same types of policies and procedures. If the unit take their independent decisions then uniformity of action will not be achieved. Under such situation centralized decision-making will enable unity of action.
2. **Facilitating Integration:** There may be a need to integrate all operations of the enterprise for achieving common objectives. Centralized management will facilitate integration of activities by devising common policies and programmes.
3. **Promoting Personal Leadership:** The small enterprises grow on the strength and capability of their manager. Even big concerns too depend upon the qualities of their managers during initial periods. The whole authority will be in hands of the Chief Executive. This will result in quick decisions and imaginative actions.
4. **Handling Emergencies:** Under uncertain business conditions, there is a need to take emergency decision. Sometimes, the existence of small scale units is endangered if timely actions are not taken. Centralized authority will enable quick and timely decisions from short term as well as long term perspective.

**Advantages of Centralization**

1. **Standardization of Procedures and Systems:** Centralization facilitates smooth working in the organization. There is also a consistency in day today working. The consumer service will also improve if standard policies are used.
2. **Facilitates Evaluation:** When same policies are used for all segments of enterprise, their performance can easily be evaluated. It also helps in comparing the results of different departments. This will bring a sense of competition among various segments. Ultimately, the overall performance will improve.
3. **Economies:** Centralization of management will bring in economies of large scale. There will be a centralized buying and selling. This will enable bulk buying resulting in discounts and savings in transportation expenses. There will be an economy in managerial expenses also.
4. **Coordination of Activities:** Coordination of Activities of various segments is also facilitated by centralized management. In the absence of centralization, different segments may pursue their independent policies. This may result in disunity and disintegration. Centralized management will help in coordinating the work of different segments in such a way that organizational goals are achieved.
5. **To Facilitate Personnel Leadership:** In the early stages of an enterprise and in small forms, the success depends largely on the personnel leadership of a dynamic and talented leader. Authority may be centralized to give full scope to facilitate personnel leadership, which may result in quick decisions and imaginative action.
6. **To Promote Uniformity of Action:** Where a company wishes all operative units to do certain things in the same way at the same time, there must be concentration of appropriate decision making. Only the top management having central authority to make decisions can bring uniformity of action by the operative units.
7. **Less Skilled Sub-ordinates:** An enterprise running on the line of centralization need not have highly skilled sub-ordinates. It results in the savings of wages and salaries.

**Disadvantages of Centralization**

1. **Destroys Individual Initiative:** Centralization revolves around one person only. One man takes all the decisions and decided the modes of implementing them. Nobody is given the authority to use his own judgement even if there are glaring lacunae in the decisions. It destroys initiative of subordinates.
2. **Over burden of Few:** This system gives all responsibility to few persons in the organisation. They remain over-burdened with routine work while subordinates do not have sufficient work. The centralization of all powers do not allow the chief executive to devote sufficient time for important tasks of planning, coordinating and motivating.
3. **Slows down the Operations:** The operations of the enterprise are slowed down under centralized set-up. All the decisions are taken only by one person and his unavailability keeps the matters pending. Even clarification about decisions is referred to the top which destroys invaluable time in formalities. If the subordinates have powers to interpret decisions then operations can be toned up.
4. **No Scope for Specialization:** Centralization does not offer any scope for specialization. All decisions are taken by one person and he may not be a specialist in all the areas. In the present competitive world, there is a need for employing the services of specialists. The specialists will be able to introduce new things in their fields and they may improve the performance of the enterprise. Even if specialists are employed under centralized setup, they will not be given freehand in their areas. They will keep on convincing the chief executive who is the ultimate decision maker. The specialists do not have any role in an organization with centralized authority.
5. **Ineffective Implementation of Decisions:** There may be problems in communication because of several layers between the top management and the operative workers. As a result, decisions are not implemented effectively.
6. **Misuse of Authority:** Under centralization, there is always scope of authority being misused at the higher levels.
7. **Low Motivation and Moral of Lower Level People:** Because employees do not have a say in management and decision making process, they generally experience lack of motivation and low moral.
8. **No Development of Future Leaders:** All the authority vests with the top management whereas lower and middle level sub-ordinates are not given any kind of power to show their competence. This kind of setup discourages the sub-ordinates to develop their potential.
9. **Delay in Decisions:** Top level executives always remain burdened with the responsibility of taking overall decisions. As a result, decisions not only get delayed but their quality also goes down.
10. **Industrial Unrests:** Because of the wide gap persisting between the superiors and the sub-ordinates, superiors fail to take notice of the problems faced by the sub-ordinates. As a result, chances of industrial unrest increases.
11. **Hindrance in Growth of Enterprise:** For growth purposes, a business needs to expand its units at different places. Therefore, delegation of authority is indispensable for it. Hence, centralized authority structure parts hindrance in the growth of the organization.

**Decentralization**

Decentralization is a systematic delegation of authority at all levels of management and in all of the organization. In a decentralization concern, authority is retained by the top management for taking major decisions and framing policies concerning the whole concern. Rest of the authority may be delegated to the middle level and lower level of management.

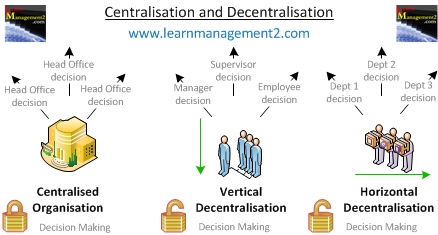
The degree of centralization and decentralization will depend upon the amount of authority delegated to the lowest level. According to Allen, “Decentralization refers to the systematic effort to delegate to the lowest level of authority except that which can be controlled and exercised at central points.

Decentralization is not the same as delegation. In fact, decentralization is all extension of delegation. Decentralization pattern is wider in scope and the authorities are diffused to the lowest most level of management. Delegation of authority is a complete process and takes place from one person to another. While decentralization is complete only when fullest possible delegation has taken place. For example, the general manager of a company is responsible for receiving the leave application for the whole of the concern.

The general manager delegates this work to the personnel manager who is now responsible for receiving the leave applicants. In this situation delegation of authority has taken place. On the other hand, on the request of the personnel manager, if the general manager delegates this power to all the departmental heads at all level, in this situation decentralization has taken place. There is a saying that “Everything that increasing the role of subordinates is decentralization and that decreases the role is centralization”. Decentralization is wider in scope and the subordinate’s responsibility increase in this case. On the other hand, in delegation the managers remain answerable even for the acts of subordinates to their superiors.

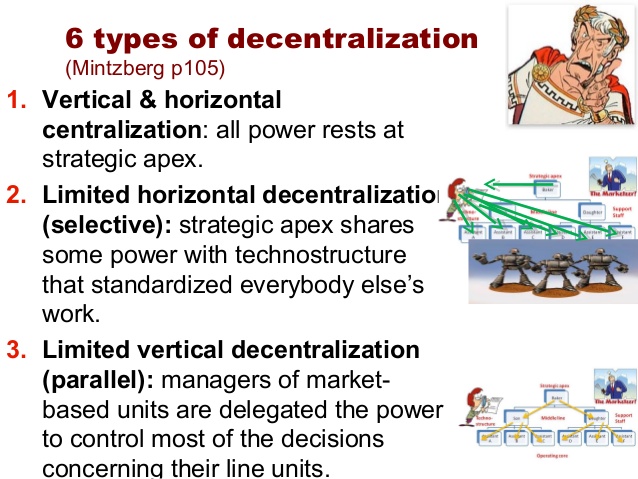
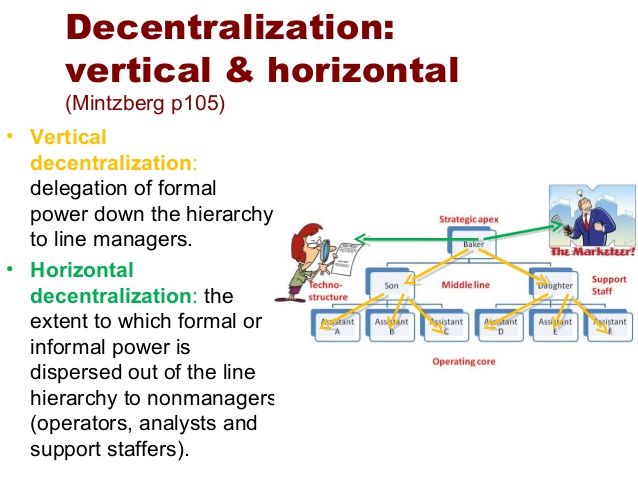
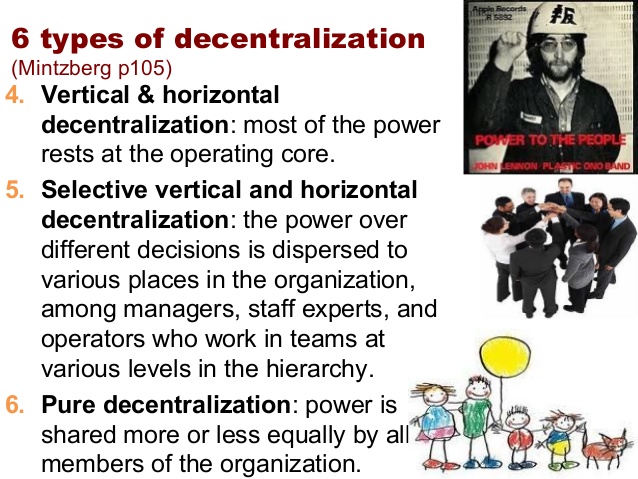
**Implications of Decentralization**

1. There is less burden on the Chief Executive as in the case of centralization.
2. In decentralization, the subordinates get a chance to decide and act independently which develops skills and capabilities. This way the organization is able to process reserve of talents in it.
3. In decentralization, diversification and horizontal can be easily implanted.
4. In decentralization, concern diversification of activities can place effectively since there is more scope for creating new departments. Therefore, diversification growth is of a degree.
5. In decentralization structure, operations can be coordinated at divisional level which is not possible in the centralization set up.
6. In the case of decentralization structure, there is greater motivation and morale of the employees since they get more independence to act and decide.
7. In a decentralization structure, co-ordination to some extent is difficult to maintain as there are lot many department divisions and authority is delegated to maximum possible extent, i.e., to the bottom most level delegation reaches. Centralization and decentralization are the categories by which the pattern of authority relationships became clear. The degree of centralization and de-centralization can be affected by many factors like nature of operation, volume of profits, number of departments, size of a concern, etc. The larger the size of a concern, a decentralization set up is suitable in it.



**Difference Between Centralisation and Decentralisation**

|  |  |  |
| --- | --- | --- |
| **Basis** | **Centralisation** | **Decentralization** |
| Meaning | It referes to the concentration of the powers at higher level only. | It refers to the distribution of powers at every level of management. |
| Authority | Top management retains maximum authority. Middle and bottom level are having low authorities. | Authority is systematically divided at every level. |
| Suitable | It is suitable for small size organisation. | It is suitable for large scale organisation. |
| Freedom | Managers have less freedom of actions. | Managers have more freedom of actions. |

**Characteristics of Decentrealisation**

1. Under it authority to make decisions is placed in the hands of those who are responsible for executing the decisions.
2. It helps to reduce the work load of top executives.
3. Under it, each department and division enjoys substantial autonomy.
4. It implies distribution of authority throughout organisation.
5. Under it, the span of management is wider and there are fewer levels of organisation.
6. It is an extension of delegation.
7. It requires the employment of trained personnel to accept authority.

**Measurement of Degree of Decentraliszation**

1. **Number of Decisions:** The greater the number of decisions made at lower levels of management the greater is the degree of decentralization.
2. **Importance of Decisions:** If important decisions are taken at lower level then degree of decentralization will be more. On the other hand if insignificant decisions are allowed at lower levels then decentralization will be much less.
3. **Effect of Decisions:** If decisions affecting more functions are allowed at lower levels then decentralization will be more. On the other hand if only operational decisions are made at lower levels then decentralization will be less. When decisions involving finances are taken at lower level then degree of decentralization will be more.
4. **Checking of Decisions:** When decisions are subject to the approval of superiors then decentralization will be less. Still, it will less if superiors are to be consulted before taking certain decisions. If subordinates are free to take decisions of their own then decentralization will be more.

**Factors Affecting the Degree of Decentralization**

1. **Size and Complexity of the Organisation:** In a large and complex organisation there is a greater need for decentralization. But in a relatively small and simple organisation, top management can make most of the decisions.
2. **Costliness of decisions:** In general the decisions involving heavy cost or investment will most likely be made at the higher levels of management. For example the decision for the purchase of capital goods i.e., machinery, or equipments will be made at higher levels whereas the decisions to purchase items of routine nature will be made itself by the purchasing department.
3. **Need of Quick and Appropriate decisions:** Decentralization is facilitated when need is realized to take quick and appropriate decision on the spot at a level at which it is really required with a view to encash the present opportunity.
4. **Reduction in Communication work:** When the top management wants to reduce communication work, decentralization is preferred.
5. **History and age of Organization:** If the organization has grown primarily from within, then it might have built up a very centralized structure. On the other hand, if it has grown by acquisitions and mergers, it is likely to be decentralized.
6. **Dispersal of operation:** When the production and sales of enterprise are geographically scattered, centralized control becomes very difficult and there is greater pressure for decentralization of authority. But if all the activities are located in one building centralized control is much easier.
7. **Uniformity of Policy:** Uniformity of the organisation policy determines the degree of decentralization. If the company wants to keep uniform policies in the organization then policies should be consistent or same. Where there is decentralization the company will not be in a position to take the advantage of uniformity of policies because of different habits and talents on the part of different persons.
8. **Control Techniques:** Development and use of control techniques affect the degree of decentralization by ensuring whether the performance at various levels and points of organisation is in line with planning. Higher the degree of development and use of control techniques, better is the prospect for decentralization. On the contrary, in the absence of adequate control techniques, either there is less chance for decentralization or it may not work properly.
9. **Nature of the Products or Markets:** Nature of company’s products or markets may require decentralization of decisions-making to provide special emphasis on a product line or a market. Technological changes may also create conditions favourable to decentralization.
10. **Philosophy of Top Management:** Some managers pride themselves in confidently delegating authority to their subordinates. Generally speaking, owner-managed enterprises tend to be more centralized than the professionally managed ones.
11. **Availability of Competent Personnel:** It is advisable to decentralize authority only when managers at lower levels are able and experienced. Lack of trained executives will restrict decentralization.

**Principles of Decentralization**

1. **Appropriate Centralization:** Decentralization can be effective when there is a centralized authority for overall planning and control. The central authority ensures close coordination between various operating units.
2. **Developing Managers:** It is essentials to develop competent managers who can independently handle their departments. Managers could be developed through delegation of authority and sending talented employees to management development programmes.
3. **Providing Appropriate Dispersion:** Where there is dispersion or physical separation of headquarter offices from the products plants, interference of central staff and top management can be considerably avoided. Small dispersed plants tend to promote motivation and yield larger productivity.
4. **Adequate Controls:** Effective decentralization needs an appropriate control system that will distribute the resources, lay down standards of performance and exercise control to ensure that the various operating units are working in the desired direction.
5. **Effective Communication System:** An effective communication system should be established to ensure continuous interaction between superior and subordinates. Necessary feedback on operating results should be made available to superiors. Open communication system will also enable managers to provide advice and guidance to subordinates.
6. **Coordination:** Decentralization tends to create rivalry and conflict among operation divisions. Departmental managers compete, for scarce resources. Effective coordination is essential to prevent such disintegrating tendencies. Committees, liaison officers and other mechanisms of co-ordination may be used to ensure co- ordination.
7. **Appreciation of Concept of decentralisation:** A major problem before decentralisation and its working is that managers do not really understand and appreciate the philosophy of decentralisation and therefore, they are not ready to practise it as organisational philosophy. Therefore there is a need for developing a proper climate in which decentralisation is taken in right perspective.

**Advantages of Decentralization**

1. **Reduces Burden of Top Executives:** Centralisation of authority over burdens top executives. They left with no time for planning.etc. In decentralization decision-making power is delegated to the lower levels relieving top executives of some of their burden. Under this system top executives will retain only that work which requires their personal attention otherwise everything to persons at appropriate levels.
2. **Quick Decisions:** Under decentralised system decision-making powers are delegated to the level of actual execution. Whenever there is a need for taking a decision, the concerned executive will decide the things immediately.
3. **Facilitates Diversification:** With the expansion and diversification of activities there will be a need to delegate authority at departmental level. Decentralisation gives enough authority to persons at various levels for carrying out the required task. The centralised system of authority will not allow diversification beyond a certain level because decision-making is reserved by one man only. Decentralisation system will be more suitable for expanding enterprises.
4. **Motivation of Subordinates:** Under Decentralization subordinates get opportunity for taking decision independently. This fulfils the human need for power, independence and status. Subordinates will realise their importance in the organization. They will try to put their maximum efforts so that their performance improves.
5. **Sense of Competition:** Under decentralized system different departments or units are made separate profit centres. The employees of different departments will compete with each other to show better results. The sense of competition will improve the performance of all the departments or segments.
6. **Provides Product or Market Emphasis:** Since decision-taking is scattered and goes to lower levels of management there will be more product or market emphasis. The changing tastes and fashions require prompt decisions. The decentralized system will respond immediately to the changing situations. The persons concerned with marketing will take quick decisions as are necessary under the situation.
7. **Division of Risk:** The enterprise is divided into a number of departments under decentralization. Management can experiment new ideas at one department without disturbing others. This will reduce the risk if things go adverse. Once the experiment is successful it can be used in other segments also. So risk element can be limited under decentralised system.
8. **Effective Control and Supervision:** With the delegation of authority, span of control will be effective. Since executives at lower levels will have the full authority to take important decisions, they will recommend awards or punishments as per their performance. This will improve supervision and control.
9. **Executive Development:** When authority is decentralized subordinates get the opportunity of exercising their own judgement. As a result, the problem of succession is overcome and the continuity and growth of the organization are ensured. There is better utilisation of lower-level executives.
10. **Effective Communication:** Under decentralization, the span of management is wider and there are fewer levels of organization. Therefore, communication system becomes more effective. Intimate relationships between superiors and subordinates can be developed.
11. **Effective Coordination:** Under decentralization, coordinated efforts are required only at the levels of segments created by decentralization. This makes coordination more effective.
12. **Miscellaneous Economies:** In addition to the above advantages, decentralization also secures several internal and external economies. Internal economies includes better utilization of lower and middle level executives, greater incentive to work and greater opportunities for training. This make possible for the management to reduce the cost of production to meet competition effectively.

**Disadvantages of Decentralization**

1. **Lack of Co-ordination:** Under decentralization each department, unit or section enjoys substantial powers. They have the power to formulate their own policies and programmes. It becomes difficult to coordinate the activities of various segments. Moreover, every segment emphasises its own work only without bothering about others. This creates more difficulties in co-ordinating activities.
2. **Difficulty in Control:** Since different units work independently it becomes difficult to control their activities. Top management will not be able to exercise effective control because it does not remain in touch with day to day activities of various segments.
3. **Costly:** Decentralized system involves heavy overhead expenses. Every decentralized division has to be self-sufficient for its activities like production, marketing, accounting, personnel, etc. A number of persons will be employed to manage various activities. These persons are paid higher salaries involving huge costs. Decentralization system suitable for large scale enterprises only.
4. **Lack of Able Managers:** Decentralized system will succeed only if competent persons are employed to manage various jobs in different segments. Competent persons are not sometimes available as per the requirements. The system will fail if competent personnel are not available.
5. **Lack of Uniformity:** Decentralization may lead to inconsistencies when uniform procedures are not followed by various departments. Each department may formulate its own policies and procedures.
6. **External Constraints:** Decentralization may not be possible because of external factors. If a company is subject to uncertainties, it may not be able to meet these under decentralization.
7. **Narrow Product Line:** Decentralization requires the product lines of the concern to be broad enough to allow creation of autonomous units which is not possible in small concern.

**Importance of Decentralization**

**1.Develops Initiative among Subordinates:**

Decentralization helps the managers at the lower levels to take all those decisions, which are for the betterment of organisation, on their own and to develop solutions for solving the various problems they face. This helps in enhancing confidence and self-reliance among the employees.

**2. Develops Managerial Talent for the Future:** Decentralization provides a chance to the employees to prove their abilities by handling various assignments independently. Such opportunities to take decisions increase their knowledge & experience at all levels. It also provides qualified manpower for fulfilling the top positions through promotions.

**3. Quick Decision Making:** Decentralization promotes independent and quick decision making by subordinates as they are close to the operations and are in constant touch with all activities of their departments. Approval from various levels being not required, decisions can be taken much faster on their own.

**4. Relief for Top Management:**It relieves the top executives of excessive workload as the common and day to day routines are assigned to the subordinates. The saved time can be utilized by them in making strategic plans and providing direction to the organisation for further growth.

**5. Facilitates Growth:** Decentralisation enables the managers at the lower level as well as the departmental heads to perform to their full potential and also develops a sense of competition among the departments. Such competitive spirit obviously contributes a lot towards growth of the enterprise too.

**6. Better Control:**Decentralisation helps in ascertaining the contribution of each department in meeting the objectives of the organisation by using various control techniques like balance score card, management information system etc. Thus, in case of shortfalls, corrective decisions can be taken promptly at the right time.

**Controlling: Meaning, Nature and Principles**

#### ****Meaning of Controlling:****

Controlling is one of the managerial functions and it is an important element of the management process. After the planning, organising, staffing and directing have been carried out, the final managerial function of controlling assures that the activities planned are being accomplished or not. So the function of controlling helps to achieve the desired goals by planning. Management must, therefore, compare actual results with pre-determined standards and take corrective action. Control can be defined as the process of analysing whether actions are being taken as planned and taking corrective actions to make these to confirm to planning.

It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of **controlling** is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur. According to Theo Haimann, “**Controlling** is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation”.

The managerial function controlling always maximise the use of scarce resources to achieve the purposeful behaviour of employees in an organisation. In planning stage, it is decided that how the resources would be utilised but where as in the controlling stage it is observed that whether the resources are being utilised in the same way as planned or not. Thus, control completes the whole sequence of management process.  
**Controlling** consists of verifying whether everything occurs in confirmities with the plans adopted, instructions issued and principles established. **Controlling** ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals. **Controlling** measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions

**According to E.F.L. Brech:**

“Controlling is checking performance against predetermined standards contained in the plans with a view to ensuring adequate progress and satisfactory performance.”

Ernest. Dale defines as “the modern concept of control envisages system that not only provides a historical record of what has happened and provides data that enable the chief executive or the departmental head to take corrective steps if he finds he is on the wrong track.”

The managerial function of controlling is defined by Koontz and O’Donnell,” as the measurement and correction to the performance of activities of subordinates in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished.”?

George R. Terry defined**“controlling is determining what is being accomplished, that is evaluating the performance and, if necessary, applying corrected measures so that the performance takes place according to plans.”**

Management control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation’s objectives. Further, it is defined as the process by which managers in the organisation assure that activities and efforts are producing the desired objectives in the organisation. These definitions imply three main points about management control.

First, management control is a process of some inter-related and sequential steps, secondly, management control in the organisation aims at effectiveness and efficiency in the acquisition and utilisation of resources such as money, materials, machinery and manpower. Thirdly, management control in the organisation is designed to further objectives of the organisation.

#### Nature of Controlling:

**Based on the above definitions the following natures or characteristics of controlling can be presented below:**

**1. Control is a Function of Management:**

Actually control is a follow-up action to the other functions of management performed by managers to control the activities assigned to them in the organisation.

**2. Control is based on Planning:**

Control is designed to evaluate actual performance against predetermined standards set-up in the organisation. Plans serve as the standards of desired performance. Planning sets the course in the organisation and control ensures action according to the chosen course of action in the organisation.

Unless one knows what he wants to achieve in the organisation, he cannot say whether he has done right or wrong in the organisation. Control is said to be the Last step in management process but really speaking it begins with the setting up a plan in the organisation. Control implies the existence of plans or standards in the organisation.

**3. Control is a Dynamic Process:**

It involves continuous review of standards of performance and results in corrective action, which may lead to changes in other functions of management.

**4. Information is the Guide to Control:**

Control depends upon the information regarding actual performance. Accurate and timely availability of feedback is essential for effective control action. An efficient system of reporting is required for a sound control system. This requires continuing monitoring and review of operations.

**5. The Essence of Control is Action:**

The performance of control is achieved only when corrective action is taken on the basis of feedback information. It is only action, which adjust performance to predetermined standards whenever deviations occur. A good system of control facilitates timely action so that there is minimum waste of time and energy.

**6. It is a Continuous Activity:**

Control is not a one-step process but a continuous process. It involves constant revision and analysis of standards resulting from the deviations between actual and planned performance.

**7. Delegation is the key to Control:**

An executive can take corrective action only when he has been delegated necessary authority for it. A person has authority to control these functions for which he is directly accountable. Moreover, control becomes necessary when authority is delegated because the delegator remains responsible for the duty. Control standards help a manger expand his span of management.

**8. Control Aims at Future:**

Control involves the comparison between actual and standards. So the corrective action is designed to improve the performance in future.

**9. Control is a Universal Function of Management:**

Control is a basic or primary function of management. Every manager has to exercise control over the subordinates’ performance, no manager can get things done without the process of controlling. Once a plan becomes operational, follow-up action is required to measure progress, to uncover deficiencies and to take corrective actions.

Therefore, control is an essential managerial function at every level. The process of management is incomplete without controlling.

**10. Controlling is Positive:**

The function of controlling is positive. It is to make things happen i.e. to achieve the goal with instead constraints, or by means of the planned activities. Controlling should never be viewed as being negative in character.

**Importance of Controlling**

Control is an indispensable function of management. Without control the best of plans can go away. A good control system helps an organisation in the following ways:

(i) **Accomplishing Organisational Goals:**

The controlling function measures progress towards the organisational goals and bringsto 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.

(ii) **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.

(iii) **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.

(iv) **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.

(v) **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 a close check on their activities. The box explains how an importexport company was able to track dishonest employees by using computer monitoring as a part of their control system.

(vi) **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.

#### Principles of Controlling

**The followings are the principles of controlling:**

**1. Objectives:**

Controls must positively contribute to the achievement of group goals by promptly and accurately detecting deviations from plans with a view to making corrective action possible.

**2. Interdependence of Plans and Controls:**

The principles of interdependence states that more the plans are clear, complete and integrated, and the more that controls are designed to reflect such plans, the more effectively controls will serve the need of managers.

**3. Control Responsibility:**

According to this principle, the primary responsibility for the exercise of controls rests in the manager charged with the performance of the particular plans involved.

**4. Principal of Controls being in Conformity to Organisation Pattern:**

Controls must be designed so as to reflect the character and structure of plans. If the organisation is clear and responsibility for work done is well defined, control becomes more effective and it is simple to isolated persons responsible for deviations.

**5. Efficiency of Controls:**

Control techniques and approaches are effectively detect deviations from plans and make possible corrective actions with the minimum of unsought consequences.

**6. Future-oriented Controls:**

It stresses that controls should be forward looking. Effective controls should be aimed at preventing present and future deviations from plans.

**7. Individuality of Controls:**

Control should be designed to meet the individual requirements of managers in the organisation. Although some control techniques and information can be utilised in the same form by various types of enterprises and managers as a general rule controls should be tailored to meet the specific requirements.

**8. Strategic Point Control:**

Effective and efficient control requires that attention to be given to those factors which are strategic to the appraisal of performance.

**9. The Exception Principle:**

The exception principles, whereby exceptions to the standards are notified, should be adopted.

Note must be taken of the varying nature of exceptions, as “small” exceptions in certain areas may be of greater significance than ‘larger’ exceptions elsewhere.

**10. Principal of Review:**

The control system should be reviewed periodically. The review exercise may take some or all the points emphasised in the above stated principles. Besides, flexibility and economical nature or controls, should not be lost sight of while reviewing controls.

#### The Factors to be considered in the Significance of Controlling:

**The following factors, which are common to all organisational situations:**

**1. Size of Business:**

As the organisations grow in size and diversity, they become increasingly complex to manage and hence the need for an efficient system of controls which is required to coordinate activities and accomplish integration.

**2. Uncertainty:**

Control forms a basis for future action. Today’s world of rapid and sometimes unpredictable changes makes the future very uncertain. This makes planning very difficult. Hence, control points are necessary to check the progress of activities and plans and make the necessary and constructive adjustments so as to accommodate any environmental changes.

**3. Decentralization Trends:**

The current trends in decentralization have brought the decision making authority at lower level management while accountability for results remains with the upper management. Controls serve the purpose of monitoring and ensuring performance results while delegating authority to subordinates.

**4. Control is Vital for Morale:**

Workers are happier when things are under control. People make mistakes. Intuitive decisions can result in errors of judgments, especially when there are so many variables involved. Such wrong decisions can result in lowering of morale. Control techniques reduce the chances of errors in judgment thus making the organisational environment more stable. which is morale boosting.

**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

**Step 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.

**Step 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 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.

**Step 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 uantitative 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.

**Step 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. It is necessary to identify the exact cause(s) of deviations, failing which, an appropriate corrective action might not be possible. The deviations and their causes are then reported and corrective action taken at appropriate level.

**Step 5: Taking Corrective Action:**

The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished. Corrective action might involve training of employees if the production target could not be met. Similarly, if an important project is running behind schedule, corrective action might involve assigning of additional workers and equipment to the project and permission for overtime work. In case the deviation cannot be corrected through managerial action, the standards may have to be revised.

#### Aims of Controlling:

**The aims of controlling are listed as follows:**

1. To find out the progress of the work - the work already completed and the work in progress.

2. To compare the actual performance of the work at different stages with the particulars indicated in the plans and policies.

3. To ascertain the time within which the work is completed.

4. To verify quantity and testing quality of the products.

5. To know the delays or interruptions, if any, in the performance of work and trace the cause of such delay or breakdown.

6. To see that causes of delay are eradicated and operations are suitably re-scheduled.

7. To ensure that variations in the contents and methodology of work are remedied by appropriate adjustments.

8. To assess the cost of materials and labour used and ensure that direct costs and indirect costs do not exceed the budget provisions.

9. To pinpoint the responsibility on individuals at different levels for slackness, indifference, or negligence, if any in the expected levels of performance.

10. To evaluate the value of the work performed and recognize the contributions of the staff towards realisation of the goals of the enterprise.

11. To maintain discipline and morale in the organisation.

**Barriers for Controlling**

There are many barriers, among the most important of them:  
  
• Control activities can create an undesirable overemphasis on short-term production as opposed to long- term production.  
• Control activities can increase employees' frustration with their jobs and thereby reduce morale. This reaction tends to occur primarily where management exerts too much control.  
• Control activities can encourage the falsification of reports.  
• Control activities can cause the perspectives of organization members to be too narrow for the good of the organization.  
• Control activities can be perceived as the goals of the control process rather than the means by which corrective action is taken.

**Requirements for Effective Control**

The requirements for effective control are:  
  
a) Control should be tailored to plans and positions. This means that, all control techniques and systems should reflect the plans they are designed to follow. This is because every plan and every kind and phase of an operation has its unique characteristics.  
  
b) Control must be tailored to individual managers and their responsibilities. This means that controls must be tailored to the personality of individual managers. This because control systems and information are intended to help individual managers carry out their function of control. If they are not of a type that a manager can or will understand, they will not be useful.  
  
c) Control should point up exceptions as critical points. This is because by concentration on exceptions from planned performance, controls based on the time honored exception principle allow managers to detect those places where their attention is required and should be given. However, it is not enough to look at exceptions, because some deviations from standards have little meaning and others have a great deal of significance.  
  
d) Control should be objective. This is because when controls are subjective, a manager’s personality may influence judgments of performance inaccuracy. Objective standards can be quantitative such as costs or man hours per unit or date of job completion. They can also be qualitative in the case of training programs that have specific characteristics or are designed to accomplish a specific kind of upgrading of the quality of personnel.  
  
e) Control should be flexible. This means that controls should remain workable in the case of changed plans, unforeseen circumstances, or outsight failures.Much flexibility in control can be provided by having alternative plans for various probable situations.

f) Control should be economical. This means that control must worth their cost. Although this requirement is simple, its practice is often complex. This is because a manager may find it difficult to know what a particular system is worth, or to know what it costs.  
  
g) Control should lead to corrective actions. This is because a control system will be of little benefit if it does not lead to corrective action, control is justified only if the indicated or experienced deviations from plans are corrected through appropriate planning, organizing, directing, and leading.

#### Benefits of Controlling:

**Following are the advantages of an effective s system of control:**

1. Control provides the basis for future action in the organisation. Control will reduce the chances of mistakes being repeated in future by suggesting preventive methods.

2. Control facilities decision making in the organization. The process of control is complete only when corrective measures are taken in the organization. This requires taking a right decision as to what type of follow up action is to be taken while controlling.

3. An effective system of control facilities decentralization of authority only when corrective measures are taken. This requires taking a right decision as to what type of follow up action is to be taken regarding control.

4. Control and planning go hand in hand in the organisation. Control is the only means to ensure that the plans are being implemented in real sense and not some other else. Control points out the shortcomings of not only planning but also other functions of management such as organising, staffing and directing in the organisation.

5. The existence of a control system has a positive impact on the behavior of the employees in the organisation. They are cautious when performing the duties in the organization and they know that their supervisors in the organisation are observing them.

6. Control helps in coordination of the activities of the various departments in the organisation of the enterprise by providing them unity of direction.

#### Limitations of Controlling:

**A control system may be faced with the following limitations:**

Although controlling is an important function of management, it suffers from the following limitations.

(i) **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.

(ii) **Little control on external factors:** Generally an enterprise cannot control external factors such as government policies, technological changes, competition etc.

(iii) **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).

(iv) **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.

**Techniques of Managerial Control**

The various techniques of managerial control may be classified into two broad categories: traditional techniques, and modern techniques.

**Traditional Techniques**

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

**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

**Traditional Techniques**

**Personal Observation**

This is the most traditional method of control. Personal observation enables the manager to collect first hand information. It also creates a psychological pressure on the employees to perform well as they are aware that they are being observed personally on their job. However, it is a very time-consuming exercise and cannot effectively be used in all kinds of jobs.

**Statistical Reports**

Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation in various areas. Such information when presented in the form of charts, graphs, tables, etc., enables the managers to read them more easily and allow a comparison to be made with performance in previous periods and also with the benchmarks.

**Breakeven Analysis**

Breakeven analysis is a technique used by managers to study the relationship between costs, volume and profits. It determines the probable profit and losses at different levels of activity. The sales volume at which there is no profit, no loss is known as breakeven point. It is a useful technique for the managers as it helps in estimating profits at different levels of activities. Breakeven point can be calculated with the help of the following formula:

Break Even Point =

Breakeven analysis helps a firm in keeping a close check over its variable costs and determines the level of activity at which the firm can earn its target profit.

**Budgetary Control**

Budgetary control is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison reveals the necessary actions to be taken so that organisational objectives are accomplished. A budget is a quantitative statement 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. It will contain figures of forecasts both in terms of time and quantities. The box shows the most common types of budgets used by an organisation. Budgeting offers the following advantages:

1. Budgeting focuses on specific and time-bound targets and thus, helps in attainment of organisational objectives.

2. Budgeting is a source of motivation to the employees who know the standards against which their performance will be appraised and thus, enables them to perform better.

3. Budgeting helps in optimum utilisation of resources by allocating them according to the requirements of different departments.

4. Budgeting is also used for achieving coordination among different departments of an organisation and highlights the interdependence between them. For instance, sales budget cannot be prepared without knowing production programmes and schedules.

5. It facilitates management by exception by stressing on those operations which deviate from budgeted standards in a significant way. However, the effectiveness of budgeting depends on how accurately estimates have been made about future. Flexible budgets should be prepared which can be adopted if forecasts about future turn out to be different, especially in the face of changing environmental forces. Managers must remember that budgeting should not be viewed as an end but a means to achieve organisational objectives.

**Modern Techniques**

**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.

RoI =

The net income, before or after tax, may be 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.

**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:

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.

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.

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.

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.

**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’. The head of the centre is responsible for achieving the target set for his centre. Responsibility centres may be of the following types:

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 a manufacturing organisation, production department is classified as cost centre.

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.

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 center if it is allowed to bill other production departments for the services provided to them.

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 a basis for judging the performance of the centre.

**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 andpotential deficiencies in theperformance 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.

**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 deals with time scheduling and resource allocation for these activities and aims 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 anufacture, etc.

**Management Information System**

Management Information System (MIS) is a computer-based information system that provides nformation and support for effective managerial decision-making. A decision-maker requires up-to-date, accurate and timely information. MIS provides the required information to the managers by systematically processing a massive data generated in an organisation. Thus, MIS is an important communication tool for managers.

MIS also serves as an important control technique. It provides data and information to the managers at the right time so that appropriate corrective action may be taken in case of deviations from standards.

MIS offers the following advantages to the managers:

1. It facilitates collection, management and dissemination of information at different levels of management and across different departments of the organisation.

2. It supports planning, decisionmaking and controlling at all levels.

3. It improves the quality of information with which a manager works.

4. It ensures cost effectiveness in managing information.

5. It reduces information overload on the managers as only relevant information is provided to them.

**Unit - IV**

**Leadership**

*“A leader takes people where they want to go. A great leader takes people where they don’t necessarily want to go, but ought to be.” --Rosalynn Carter*

**Introduction**

Leadership is the ability to develop a vision that motivates others to move with a passion toward a common goal. So leadership is a process by which a person influences others to accomplish an objective and directs the organization in a way that makes it more cohesive and coherent.

* leadership is the “process of social influence in which one person can enlist the aid and support of others in the accomplishment of a common task” *M Chemers.*
* "Leadership is ultimately about creating a way for people to contribute to making something extraordinary happen." *Alan Keith.*

**Leadership Behavior:**   
In early days, personal traits were considered as a man source of successful leadership. But these concepts have been changed at present. Now a days, emphases is given upon the behaviour of leadership   
That means, successful leadership does not depend upon personal qualities alone, but mainly depends upon the appropriate behaviou of a leader, his skills and actions.   
A leader uses three types of skills, namely - Technical skill, human Relation skill and Conceptual skill. Although these skills are inter-related in practice, these skills are inter-related in practice, they can be considered separately.   
(a) Technical skill:   
It refers to a person's knowledge and ability in any type of process or technique. Examples are the skill learned by Accountants, Engineers, Mechanics, Carpenters.  
(b) Human skill:  
It is the ability to work effectively with people and to build teamwork.  
(c) Conceptual skill:   
It is the ability to think in trms models, frameworks and broad relationships.Conceptual skill deals with ideas, while human skill concerned people and technical skill involves things.  
On the other hand, it is said that leaders are the product of situation. Successful leadership requires behavior that units and stimulates followers toward defined objectives in specific situation.  
The three elements-- leader, follower and situation- are variables that affect one another in determining appropriate leadership behavior.

**Leadership and Management**

 It should be clear that leadership and management are related but they are not the same. A person can be a manager, a leader, both or neither.Leadership is an important part of management, but it is not the whole story. Managers plan activities, organize appropriate structure and control resources, but the primary role of a leader is to influence others voluntarily to seek defined objectives. Mangers hold formal position. When as anyone could use their informal influence while acting as a leader. Strong leaders may be weak managers. On the other hand weak leaders may be effective managers, It is also said that a managers is necessarily a leader but a leader may not be a manager.

**Leadership and Power**

The first ingredient of leadership is power. Power is the potential ability to affect the behavior of others,In organizational setting, there are usually five kinds of power:

1. **Legitimate power:**  This power is granted through the organizational hierarchy. It is the same as the authority all managers have legitimate power over their subordinates.
2. **Reward power:** This power is the power to give withhold rewards. In general, the greater the number of rewards controlled by a manager and the more important the rewards are to the subordinates, the greater the manager's reward power. ( Rewards may be salary, bonuses, promotions, praise, recognition, interesting).
3. **Coercive power:** This type of power is the power to force compliance via psychological, emotional or physical punishment. The more a manager uses coercive power, the more likely he or she is to provoke resentment and hostility.
4. **Referent power:** This type of power is more abstract that other types of power. It is usually based on identification or imitation. It may also take the form of charisma, an intangible attribute inte leader's personality that inspires loyalty and enthusiasm.
5. **Expert power:** Expert power is derived from expertise. This power is the personal power that accrues to someone based on the information or expertise that the possess.

**Theories of leadership**

The different theories of leadership are discussed below:

1.     **Trait Theory of leadership:**

The trait theory also called the “Greatman Theory” of leadership is based on the view that leaders are born, not made. According to this theory, the leadership is innate.

In ancient times the Greek and Romans believed that leaders were to have certain inborn qualities such as, intelligence, assertiveness, good vocabulary, attractiveness, self confinece above average height and similar attributes:

In recent studies, the following key leadership traits have been identified:

a)      Drive (including achievement, ambition, energy, initiative and tenacity).

b)      Leadership motivation (the aspiration to lead).

c)       Honesty and integrity, self- confidence

d)      Cognitive ability and an understanding in the business.

e)      Creativity, flexibility, adjust-ability and charisma.

This study has not been very faithful approach to explaining leadership. Not all leaders possesses all the traits and many non-leaders may possess most or all of them.

Example of Greatman Leadership:-

Prophet Muhammad (s), khaled Bin Walid, Isa Khan, Akbar the Great  etc.

2.        **Situational theory of leadership:**

The general be3lief of situational theory is that leaders are products of real situation rather that gifts of nature.

A large number of studies have been made on the premise that leadership is strongly affected by the situation from which the leader emerges and in which he or she operates. Example are – the rise of Mao Ts c-tung in China in the period after World War second and the emergence of Gandhi in India during the eighty decades of the twentieth century.

This theory is also known as contingency y  theory which is mainly developed by F.E.Fiedler and his associates.

This approach mainly focuses on the following elements:

a)      The leader member relations:  The effectiveness of a leader depends upon how the leader is accepted by its members, how much he is popular among the members.

b)      Task structure: If the tasks are clear, the quality of performance can be more easily controlled. Designing well-defined task structure is a success for a good leader.

c)       Position power:  A leader with clear and considerable position power can obtain good fellowship more easily than one without such power.

3.      **Path-goal theory:**

The Path-goal theory developed by Martin G. Evans and Robert House suggests that the main function of the leader is to clarify and set goals with subordinates, help them find the best path for  achieving the goals and remove obstacles.

4.       **Behavioral theory of leadership:**

In this theory, the success of leader depends upon the behavior pattern of the leader to his subordinates irrespective of his quality or traits.

5.       **Follower theory of leadership:** This theory is developed by F.H.Sanford. According to his theory, the subordinates or members of the group accepts a person a leader who is always determined to meet their expectations, hopes and aspirations, demands etc and fulfill their personal grievances.

**Functions of leadership**

The following functions are included to leadership:

1)      Influence on the behavior of subordinates/follower.

2)      Goal setting

3)      Maintaining unity

4)      Solution of internal conflict

5)      Responding subordinates needs

6)      Representation

7)      Ensuring security

8)      Praising for good work.

**Leadership Qualities:**

The following qualities are required to become a successful leader:

* Attitude of accepting overall responsibility
* Physical fitness
* Pleasant personality
* Administrative and Organizing ability
* Farsightedness
* Self determination and control
* Justice
* Cooperative attitude
* Courage and Initiative
* Time consciousness
* Work related knowledge

**Leadership traits**

Theories abound to explain what makes an effective leader. The oldest theories attempt to identify the common traits or skills that make an effective leader. Contemporary theorists and theories concentrate on actions of leaders rather than characteristics.

A number of traits that appear regularly in leaders include ambition, energy, the desire to lead, self‐confidence, and intelligence. Although certain traits are helpful, these attributes provide no guarantees that a person possessing them is an effective leader. Underlying the trait approach is the assumption that some people are natural leaders and are endowed with certain traits not possessed by other individuals. This research compared successful and unsuccessful leaders to see how they differed in physical characteristics, personality, and ability.

A recent published analysis of leadership traits (S.A. Kirkpatrick and E.A. Locke, *“Leadership: Do Traits Really Matter?”* Academy of Management Executive 5 [1991]) identified six core characteristics that the majority of effective leaders possess:

* **Drive.** Leaders are ambitious and take initiative.
* **Motivation.** Leaders want to lead and are willing to take charge.
* **Honesty and integrity.** Leaders are truthful and do what they say they will do.
* **Self‐confidence.** Leaders are assertive and decisive and enjoy taking risks. They admit mistakes and foster trust and commitment to a vision. Leaders are emotionally stable rather than recklessly adventurous.
* **Cognitive ability.** Leaders are intelligent, perceptive, and conceptually skilled, but are not necessarily geniuses. They show analytical ability, good judgment, and the capacity to think strategically.
* **Business knowledge.** Leaders tend to have technical expertise in their businesses.

Traits do a better job at predicting that a manger may be an effective leader rather than actually distinguishing between an effective or ineffective leader. Because workplace situations vary, leadership requirements vary. As a result, researchers began to examine what effective leaders do rather than what effective leaders are.

**Leadership skills**

Whereas traits are the characteristics of leaders, skills are the knowledge and abilities, or *competencies,* of leaders. The competencies a leader needs depends upon the situation.

* These competencies depend on a variety of factors:
* The number of people following the leader
* The extent of the leader's leadership skills
* The leader's basic nature and values
* The group or organization's background, such as whether it's for profit or not‐for‐profit, new or long established, large or small
* The particular culture (or values and associated behaviours) of whomever is being led

To help managers refine these skills, leadership‐training programs typically propose guidelines for making decisions, solving problems, exercising power and influence, and building trust.

Peter Drucker, one of the best‐known contemporary management theorists, offers a pragmatic approach to leadership in the workplace. He believes that consistency is the key to good leadership, and that successful leaders share the following three abilities which are based on what he refers to as good old‐fashioned hard work:

* **To define and establish a sense of mission.** Good leaders set goals, priorities, and standards, making sure that these objectives not only are communicated but maintained.
* **To accept leadership as a responsibility rather than a rank.** Good leaders aren't afraid to surround themselves with talented, capable people; they do not blame others when things go wrong.
* **To earn and keep the trust of others.** Good leaders have personal integrity and inspire trust among their followers; their actions are consistent with what they say.

In Drucker's words, “Effective leadership is not based on being clever, it is based primarily on being consistent.”

Very simply put, leading is establishing direction and influencing others to follow that direction. Keep in mind that no list of leadership traits and skills is definitive because no two successful leaders are alike. What is important is that leaders exhibit some positive characteristics that make them effective managers at any level in an organization.

Leadership styles

No matter what their traits or skills, leaders carry out their roles in a wide variety of styles. Some leaders are autocratic. Others are democratic. Some are participatory, and others are hands off. Often, the leadership style depends on the situation, including where the organization is in its life cycle.

The following are common leadership styles:

* **Autocratic.** The manager makes all the decisions and dominates team members. This approach generally results in passive resistance from team members and requires continual pressure and direction from the leader in order to get things done. Generally, this approach is not a good way to get the best performance from a team. However, this style may be appropriate when urgent action is necessary or when subordinates actually prefer this style.
* **Participative.** The manager involves the subordinates in decision making by consulting team members (while still maintaining control), which encourages employee ownership for the decisions.

A good participative leader encourages participation and delegates wisely, but never loses sight of the fact that he or she bears the crucial responsibility of leadership. The leader values group discussions and input from team members; he or she maximizes the members' strong points in order to obtain the best performance from the entire team. The participative leader motivates team members by empowering them to direct themselves; he or she guides them with a loose rein. The downside, however, is that a participative leader may be seen as unsure, and team members may feel that everything is a matter for group discussion and decision.

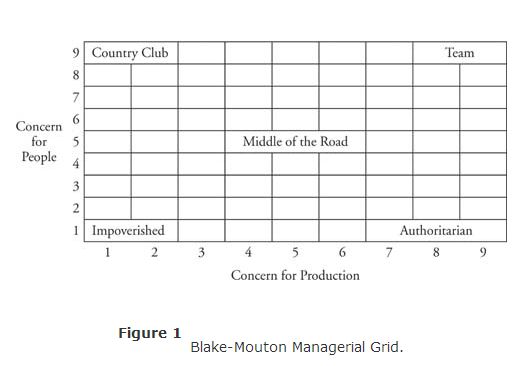
* **Laissez‐faire** (also called free‐rein). In this hands‐off approach, the leader encourages team members to function independently and work out their problems by themselves, although he or she is available for advice and assistance. The leader usually has little control over team members, leaving them to sort out their roles and tackle their work assignments without personally participating in these processes. In general, this approach leaves the team floundering with little direction or motivation. Laissez‐faire is usually only appropriate when the team is highly motivated and skilled, and has a history of producing excellent work.

Many experts believe that overall leadership style depends largely on a manager's beliefs, values, and assumptions. How managers approach the following three elements—motivation, decision making, and task orientation—affect their leadership styles:

* **Motivation.** Leaders influence others to reach goals through their approaches to motivation. They can use either positive or negative motivation. A positive style uses praise, recognition, and rewards, and increases employee security and responsibility. A negative style uses punishment, penalties, potential job loss, suspension, threats, and reprimands.
* **Decision making.** The second element of a manager's leadership style is the degree of decision authority the manager grants employees—ranging from no involvement to group decision making.
* **Task and employee orientation.** The final element of leadership style is the manager's perspective on the most effective way to get the work done. Managers who favor task orientation emphasize getting work done by using better methods or equipment, controlling the work environment, assigning and organizing work, and monitoring performance. Managers who favor employee orientation emphasize getting work done through meeting the human needs of subordinates. Teamwork, positive relationships, trust, and problem solving are the major focuses of the employee‐oriented manager.

Keep in mind that managers may exhibit both task and employee orientations to some degree.

The managerial grid model, shown in Figure and developed by Robert Blake and Jane Mouton, identifies five leadership styles with varying concerns for people and production:



* The **impoverished style,** located at the lower left‐hand corner of the grid, point (1, 1), is characterized by low concern for both people and production; its primary objective is for managers to stay out of trouble.
* The **country club style,** located at the upper left‐hand corner of the grid, point (1, 9), is distinguished by high concern for people and a low concern for production; its primary objective is to create a secure and comfortable atmosphere where managers trust that subordinates will respond positively.
* The **authoritarian style,** located at the lower right‐hand corner of the grid, point (9,1), is identified by high concern for production and low concern for people; its primary objective is to achieve the organization's goals, and employee needs are not relevant in this process.
* The **middle‐of‐the‐road style,** located at the middle of the grid, point (5, 5), maintains a balance between workers' needs and the organization's productivity goals; its primary objective is to maintain employee morale at a level sufficient to get the organization's work done.
* The **team style,** located at the upper right‐hand of the grid, point (9, 9), is characterized by high concern for people and production; its primary objective is to establish cohesion and foster a feeling of commitment among workers.

The Managerial Grid model suggests that competent leaders should use a style that reflects the highest concern for both people and production—point (9, 9), team‐oriented style.

**Power versus authority**

Effective leaders develop and use power, or the ability to influence others. The traditional manager's power comes from his or her position within the organization. Legitimate, reward, and coercive are all forms of power used by managers to change employee behavior and are defined as follows:

* **Legitimate power** stems from a formal management position in an organization and the authority granted to it. Subordinates accept this as a legitimate source of power and comply with it.
* **Reward power** stems from the authority to reward others. Managers can give formal rewards, such as pay increases or promotions, and may also use praise, attention, and recognition to influence behavior.
* **Coercive power** is the opposite of reward power and stems from the authority to punish or to recommend punishment. Managers have coercive power when they have the right to fire or demote employees, criticize them, withhold pay increases, give reprimands, make negative entries in employee files, and so on.

Keep in mind that different types of position power receive different responses in followers. Legitimate power and reward power are most likely to generate compliance, where workers obey orders even though they may personally disagree with them. Coercive power most often generates resistance, which may lead workers to deliberately avoid carrying out instructions or to disobey orders.

Unlike external sources of position power, personal power most often comes from internal sources, such as a person's special knowledge or personality characteristics. Personal power is the tool of a leader. Subordinates follow a leader because of respect, admiration, or caring they feel for this individual and his or her ideas. The following two types of personal power exist:

* **Expert power** results from a leader's special knowledge or skills regarding the tasks performed by followers. When a leader is a true expert, subordinates tend to go along quickly with his or her recommendations.
* **Referent power** results from leadership characteristics that command identification, respect, and admiration from subordinates who then desire to emulate the leader. When workers admire a supervisor because of the way he or she deals with them, the influence is based on referent power. Referent power depends on a leader's personal characteristics rather than on his or her formal title or position, and is most visible in the area of charismatic leadership.

The most common follower response to expert power and referent power is commitment. Commitment means that workers share the leader's point of view and enthusiastically carry out instructions. Needless to say, commitment is preferred to compliance or resistance. Commitment helps followers overcome fear of change, and it is especially important in those instances.

Keep in mind that the different types of power described in this section are interrelated. Most leaders use a combination of these types of power, depending on the leadership style used. Authoritarian leaders, for example, use a mixture of legitimate, coercive, and reward powers to dictate the policies, plans, and activities of a group. In comparison, a participative leader uses mainly referent power, involving all members of the group in the decision‐making process.

**Formal Leader**

Formal leaders are given leadership based on their position with a group. They are actually assigned to be leaders as part of their role in the group. Examples of formal leaders would be the teacher in a classroom or the manager within a company.

The formal leader has a job to organize and direct group members to meet the goals of the organization or team. Formal leaders are often the best leaders in a company but that's not always the case.

**What Is an Informal Leader?**

In contrast to the formal leader, the informal leader is someone who does not have the official authority to direct the group. Despite this, the group chooses to follow the lead of this person. For example, the class clown may be someone that the students in the class take cues from even though the teacher is the official leader of the classroom.

The informal leader may arise because he is charismatic and outgoing so that people want to listen to him, because she is easy to talk to, or because she exhibits certain knowledge and ideas that seem useful to the group.

He may specifically choose to take on a leadership role or this may just naturally happen as part of the dynamics of the group. The informal leader can be the best leader in the group because of the fact that the group has naturally chosen him or her.

**Understanding the Difference**

The difference between a formal and informal leader goes well beyond just the fact that the formal leader has been given official authority to lead the group. We can see this when we look at the teacher / class clown example. After all, the goals of the class clown are in direct competition with the goals of the teacher. It is important for formal leaders and informal leaders to figure out a way to work together if a group is going to truly have solid leadership.

Creating a positive balance between informal and formal leaders begins with an understanding of their different roles. Formal leaders direct individuals in meeting the goals of the company, organization or team. Informal leaders may or may not do this as they tend to follow their own agenda.

In the case of the teacher and class clown, the teacher is encouraging the group to follow the rules of the school whereas the class clown is encouraging the kids to have fun. They are each the best leader in their respective areas.

**The Issue of Loyalty**

It’s important to understand the issue of loyalty when figuring out how formal and informal leaders can work together. That’s because these two types of people have different loyalties and the group has different levels of loyalty to each of them.

The formal leader’s loyalty is to the organization or team (the teacher’s is to the school) whereas the informal leader’s is generally to the group itself. (The informal leader may be self-involved but needs to please the group to become a leader.)

As a result of this, the loyalty of the group tends to be with the informal leader rather than with the formal leader even though the formal leader may be able to issue consequences or provide rewards that the informal leader cannot.

**Reconciling the Two Types**

Groups that are experiencing any kind of conflict between the formal and informal leaders should consider this issue of loyalty carefully. If the formal leader can gain the trust of the informal leader then the goals of both the group and the organization can be aligned.

We see this happen in sports teams where the goal of both the team and the team leader is to win games. An informal team leader would have this same primary goal. The fact that everyone wants the same thing tends to lead to success.

**What If You Don't Want to Be a Leader?**

Some people find that they are frequently in the role of leader even though they never apply for official leadership positions. These people tend to be smart, charismatic, and likeable people who are empathetic enough to relate to big groups. If you find yourself in this position, consider these things:

* Being chosen as a leader is a positive thing. It means that you are a strong character with a group and that people like you. You may not want the burden or responsibility but it’s really an honour.
* You aren’t obligated to play this role. Don’t let a group pressure you into any activities or choices you don’t want to make. They may see you as the best leader for the group but that doesn’t mean that you have to do anything special in your role as an informal leader.
* Working with the formal leader will make your role simpler. There will be less conflict within the group and less pressure on you in terms of the group’s demands and needs.
* You may want to get paid for your role. Why is it that you’re not applying for leadership roles if you’re constantly being seen as a leader? Think carefully about this. It usually has to do with either self-esteem issues or problems with being an authority figure. You might want to rethink your position and get paid for your work.

Conversely, if you want to be a leader but never get chosen as one then start figuring out who the informal leaders are in your groups and figure out how to take cues from that about becoming one yourself.

* [**Most Recognized Organizational Leadership Models**](javascript:hpLoadLink('article',537491,%20'',%20''))  
  Leadership is the art of influencing positive outcomes in a variety of organizational situations. Human resources come from different backgrounds with their own sets of cultural norms and respond to...
* [**What Is Leadership In the 21st Century?**](javascript:hpLoadLink('article',273129,%20'',%20''))  
  Leadership functions and roles may be changing in the 21st Century. In some workplaces, everyone is a member of a team and must coordinate efforts. In other places, one must work alone...

**Unit - IV**

**Motivation: Concept and Significance of Motivation**

**Concept of Motivation:**

The term motivation is derived from the word ‘motive”. The word ‘motive’ as a noun means an objective, as a verb this word means moving into action. Therefore, motives are forces which induce people to act in a way, so as to ensure the fulfillment of a particular human need at a time. Behind every human action there is a motive. Therefore, management must provide motives to people to make them work for the organization.

**Definition**

Motivation may be defined as a planned managerial process, which stimulates people to work to the best of their capabilities, by providing them with motives, which are based on their unfulfilled needs.

“Motivation means a process of stimulating people to action to accomplish desired goods.” —William G. Scott

“Motivation is the process of attempting to influence others to do your will through the possibility of gain or reward.” — Flippo

Motivation is, in fact, pressing the right button to get the desired human behaviour.

Motivation is no doubt an essential ingredient of any Organisation. It is the psychological technique which really executes the plans and policies through the efforts of others.

**Following are the outstanding Features of the concept of motivation:**

**1. Motivation is a personal and internal feeling:**

Motivation is a psychological phenomenon which generates within an individual.

**2. Motivation is need based:**

If there are no needs of an individual, the process of motivation fails. It is a behavioural concept that directs human behaviour towards certain goals.

**3. Motivation is a continuous process:**

Because human wants are unlimited, therefore motivation is an ongoing process.

**4. Motivation may be positive or negative:**

A positive motivation promotes incentives to people while a negative motivation threatens the enforcement of disincentives.

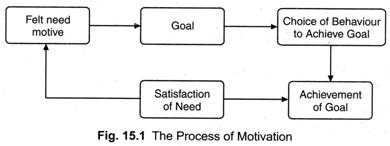
**5. Motivation is a planned process:**

People differ in their approach, to respond to the process of motivation; as no two individuals could be motivated in an exactly similar manner. Accordingly, motivation is a psychological concept and a complex process.

**6. Motivation is different from job satisfaction:**

**The process of motivation is illustrated in the figure given below:**

Figure 15.1 shows an employee has a need or urge for promotion to a higher position. If this need is strong, the employee will fix his goal and find alternatives to reach the goal. The might have two alternatives, namely, (i) hard work and (ii) enhancement of qualification (e.g., getting MBA) and hard work.

**[](http://cdn.yourarticlelibrary.com/wp-content/uploads/2014/02/clip_image002278.jpg)**

He might choose the second alternative and succeed in getting promotion (goal achievement) thus, his need for promotion would be satisfied and he would start again for the satisfaction of a new need.

# What are the Main Objectives of Motivation Process in Business?

The objective of motivation process is to know as to where from does it starts and where does it end. This is a work that cannot be finished at one go. It is a combination of various steps. Robbins and Coulter have presented the following ‘Need-satisfying Process’:

**(1) Unsatisfied Need:**

At the first step of motivation a person feels the need of something or there is a feeling that he lacks something.

**(2) Tension:**

The person concerned gets tensed at the very idea of his need not being satisfied.

**(3) Drives:**

Drive signifies some sort of tumult in the mind of the person concerned. At this step the person concerned endeavors to fulfill his need. The fulfillment of need depends on the direction and intensity of the drive.

**(4) Search Behaviour:**

At this step, a person tries to discover different options to fulfill his need. He puts the best option into operation.

**(5) Need Satisfied:**

If the option really happens to be a correct one, satisfaction is obtained.

**(6) Reduction of Tension:**

The person concerned gets relieved when his need is satisfied.

**Significance/Importance of Motivation:**

Motivation is an integral part of the process of direction.

**While directing his subordinate, a manager must create and sustain in them the desire to work for the specified objectives:**

**1. High Efficiency:**

A good motivational system releases the immense untapped reservoirs of physical and mental capabilities. A number of studies have shown that motivation plays a crucial role in determining the level of performance. “Poorly motivated people can nullify the soundest organisation.” said Allen.

By satisfying human needs motivation helps in increasing productivity. Better utilisation of resources lowers cost of operations. Motivation is always goal directed. Therefore, higher the level of motivation, greater is the degree of goal accomplishment.

**2. Better Image:**

A firm that provides opportunities for financial and personal advancement has a better image in the employment market. People prefer to work for an enterprise because of opportunity for development, and sympathetic outlook. This helps in attracting qualified personnel and simplifies the staffing function.

**3. Facilitates Change:**

Effective motivation helps to overcome resistance to change and negative attitude on the part of employees like restriction of output. Satisfied workers take interest in new organisational goals and are more receptive to changes that management wants to introduce in order to improve efficiency of operations.

**4. Human Relations:**

Effective motivation creates job satisfaction which results in cordial relations between employer and employees. Industrial disputes, labour absenteeism and turnover are reduced with consequent benefits. Motivation helps to solve the central problem of management, i.e., effective use of human resources. Without motivation the workers may not put their best efforts and may seek satisfaction of their needs outside the organization.

**(5) Improves Performance Level:**

The ability to do work and willingness to do work both affect the efficiency of a person. The ability to do work is obtained with the help of education and training and willingness to do work is obtained with the help of motivation.

Willingness is more important in comparison to ability. For example, a person is highly educated and he is recruited on this very basis. But it is not essential that he will do outstanding work.

He shall have to be motivated to do good work. This is possible only through motivation. Therefore, motivation improves efficiency. The efficiency of a person is reflected through increase in productivity and decrease in costs.

**(6) Helps to Change Negative or Indifferent Attitudes of Employees:**

Some employees of an organisation have a negative attitude. They always think that doing more work will not bring any credit. A manager uses various techniques to change this attitude.

For example, if the financial situation of such an employee is weak, he gives him a raise in his remuneration and if his financial condition is satisfactory he motivates him by praising his work.

**(7) Reduction in Employee Turnover:**

The reputation of an organisation is affected by the employee turnover. This creates a lot of problems for the managers. A lot of time and money go waste in repeatedly recruiting employees and giving them education and training.

Only motivation can save an organisation from such wastage. Motivated people work for a longer time in the organisation and there is a decline in the rate of turnover.

**(8) Helps to Reduce Absenteeism in the Organisation:**

In some of the organisations, the rate of absenteeism is high. There are many causes for this-poor work conditions, poor relations with colleagues and superiors, no recognition in the organisation, insufficient reward, etc. A manager removes all such deficiencies and motivates the employees. Motivated employees do not remain absent from work as the workplace becomes a source of joy for them.

**(9) Reduction in Resistance to Change:**

New changes continue taking place in the organisation. Normally workers are not prepared to accept any changes in their normal routine. Whereas it becomes essential to bring in some changes because of the demands of time.

Employees can be made to accept such changes easily with the help of motivation. Motivated people accept these changes enthusiastically and improve their work performance.

### (10) Basis of coordination

Motivation is the basis of coordination among all members of the organization. Motivated employees develop a better understanding among themselves. They appreciate their mutual problems and resolve differences through mutual consent. The main reason for the differences in approach among the workers is the lack of coordination. However, motivation helps to maintain coordination among the workers. The maintenance of coordination helps to develop the attitude of team spirit and group effort for common goals

### (11) Minimizes supervision cost

Motivated employees perform their work themselves. In other words, the concept of sell responsibility is developed among them and they perform work smoothly. For such employees, only guidance and timely suggestion is sufficient. Therefore, regular and close supervision is not required to such employees. Motivation indirectly contributes to minimizing supervision cost

### (12) Achievement of organization goals

Every organization is established to achieve definite objectives. Similarly, the main responsibility of the management is to focus on organizational objectives. Motivated workers put their effort toward the attainment of organization objectives. The best utilization of human effort contributes for the proper utilization of other resources. This is helpful to minimize cost of output or service and maximize profitability.

# What are the Main Objectives of Motivation Process in Business?

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Analytics Made Easy - StatCounter](data:image/gif;base64,R0lGODlhAQABAJH/AP///wAAAMDAwAAAACH5BAEAAAIALAAAAAABAAEAAAICVAEAOw==)](http://statcounter.com/)MOTIVATIONAL FACTORS**

There are several factors that motivate a person to work. The motivational factors can be broadly divided into two groups:

I. MONETARY FACTORS:

a. **Salaries or wages:**

Salaries or wages is one of the most important motivational factors. Reasonable salaries must be paid on time. While fixing salaries the organization must consider such as :

• Cost of living

• Company ability to pay

• Capability of company to pay etc,

**b. Bonus:**

It refers to extra payment to employee over and above salary given as an incentive. The employees must be given adequate rate of bonus.

**c. Incentives:**

The organization may also provide additional incentives such as medical

allowance, educational allowance, hra ,allowance, etc.

**d. Special individual incentives:**

The company may provide special individual incentives. Such incentives

are to be given to deserving employees for giving valuable suggestions.

**II. NON MONETARY FACTORS:**

**a. Status or job title:**

By providing a higher status or designations the employee must be motivated. Employees prefer and proud of higher designations.

**b. Appreciation and recognition:**

Employees must be appreciated for their services. The praise should not

come from immediate superior but also from higher authorities.

**c. Delegation of authority:**

Delegation of authority motivates a subordinate to perform the tasks with

dedication and commitment. When authority is delegated, the subordinate knows that his superior has placed faith and trust in him.

**d. Working conditions :**

Provision for better working conditions such as air-conditioned rooms,

proper plant layout, proper sanitation, equipment, machines etc, motivates

the employees.

**e. Job security:**

Guarantee of job security or lack of fear dismissal, etc can also be a good

way to motivate the employees. Employees who are kept temporarily for a

long time may be frustrated and may leave the organization.

**f. Job enrichment:**

Job enrichment involves more challenging tasks and responsibilities. For

instance an executive who is involved in preparing and presenting reports

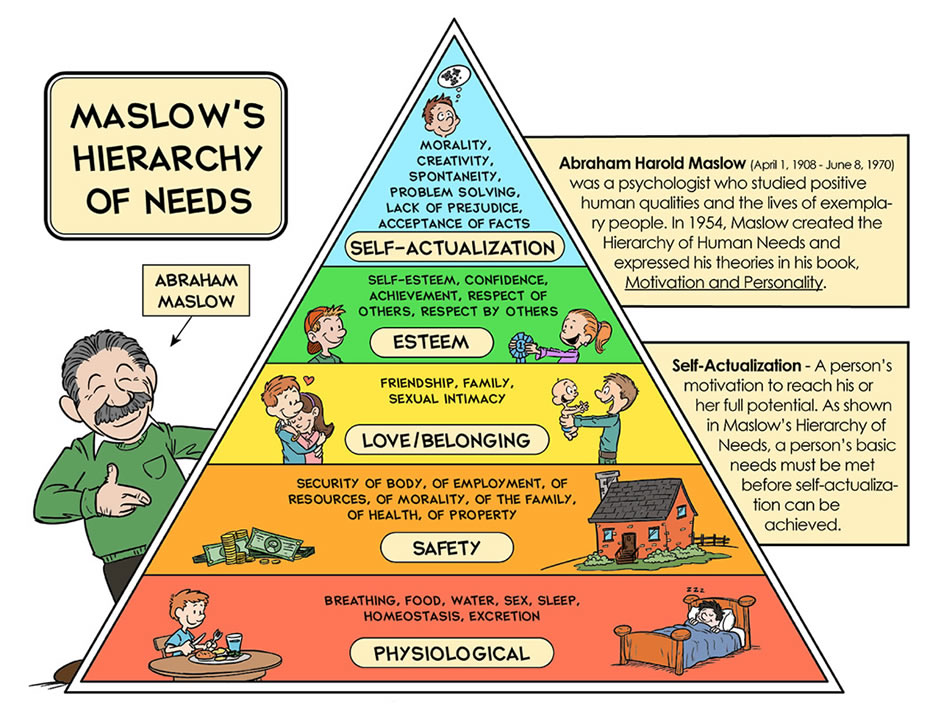
of performance, may also asked to frame plans.

**CONTENT THEORIES OF MOTIVATION**

**1 MASLOW’S NEED THEORY**

One of the earliest and best-known content theories is **needs hierarchy theory**. Psychologist Abraham Maslow (1954) focused on motivating forces in individuals and established a "hierarchy of needs." According to Maslow, individuals would move to satisfy their needs in a hierarchical manner. Once a need is satisfied, it no longer has have the ability to motivate. At the bottom of the hierarchy are physiological needs such as food, shelter, and sexual gratification. These were followed by safety needs (protection from environmental dangers), social needs (love and belonging), and esteem (self-respect and the approval of others). The highest need is the need for self-fulfillment, which involves deriving a sense of value and satisfaction from one's work. While people generally fill these needs in order, Maslow recognized that the hierarchy was flexible within individuals, and that priorities could vary. Maslow did not include money in his schema because of the ambiguity in the meaning of money. For some people, money is a way to achieve the basic requirements of food and shelter. Others view money as a measure to satisfy their need for self-fulfillment.

If motivation is driven by the existence of unsatisfied needs, then it is worthwhile for a manager to understand which needs are the more important for individual employees. In this regard, Abraham Maslow developed a model in which basic, low-level needs such as physiological requirements and safety must be satisfied before higher-level needs such as self-fulfillment are pursued. In this hierarchical model, when a need is mostly satisfied it no longer motivates and the next higher need takes its place. Maslow's hierarchy of needs is shown in the figure 2.1:



**Physiological Needs:**Physiological needs are those required to sustain life, such as *air, water, nourishment and sleep*. According to Maslow's theory, if such needs are not satisfied then one's motivation will arise from the quest to satisfy them. Higher needs such as social needs and esteem are not felt until one has met the needs basic to one's bodily functioning.

**Safety Needs:**Once physiological needs are met, one's attention turns to safety and security in order to be free from the threat of physical and emotional harm. Such needs might be fulfilled by *living in a safe area, medical insurance, job security and financial reserves.*According to Maslow's hierarchy, if a person feels that he or she is in harm's way, higher needs will not receive much attention.

**Social Needs:**Once a person has met the lower level physiological and safety needs, higher level needs become important, the first of which are social needs. Social needs are those related to interaction with other people and may include

*need for friends, need for belonging, need to give and receive love.*

**Esteem Needs:**Once a person feels a sense of "belonging", the need to feel important arises. Esteem needs may be classified as internal or external. Internal esteem needs are those related to self-esteem such as self respect and achievement. External esteem needs are those such as social status and recognition. Some esteem needs are *self-respect, achievement, attention, recognition, reputation.*Maslow later refined his model to include a level between esteem needs and self-actualization: the need for knowledge and aesthetics.

**Self-Actualization:**Self-actualization is the summit of Maslow's hierarchy of needs. It is the quest of reaching one's full potential as a person. Unlike lower level needs, this need is never fully satisfied; as one grows psychologically there are always new opportunities to continue to grow. Self-actualized people tend to have needs such as *truth, justice, wisdom, and meaning*. Self-actualized persons have frequent occurrences of peak experiences, which are energized moments of profound happiness and harmony. According to Maslow, only a small percentage of the population reaches the level of self-actualization.

**IMPLICATIONS FOR MANAGEMENT**

If Maslow's theory holds, there are some important implications for management. There are opportunities to motivate employees through management style, job design, company events, and compensation packages, some examples of which follow:

**Physiological needs:**Provide lunch breaks, rest breaks, and wages that are sufficient to purchase the essentials of life.

**Safety Needs:**Provide a safe working environment, retirement benefits, and job security.

**Social Needs:**Create a sense of community via team-based projects and social events.

**Esteem Needs:**Recognize achievements to make employees feel appreciated and valued. Offer job titles that convey the importance of the position.

**Self-Actualization:**Provide employees a challenge and the opportunity to reach their full career potential.

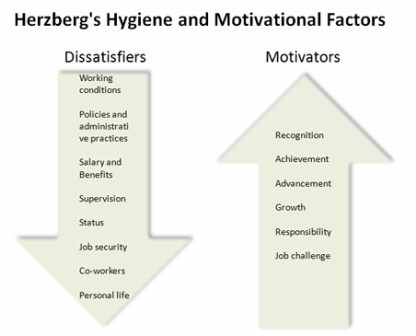
However, not all people are driven by the same needs -at any time different people may be motivated by entirely different factors. It is important to understand the needs being pursued by each employee. To motivate an employee, the manager must be able to recognize the needs level at which the employee is operating, and use those needs as levers of motivation.

**LIMITATIONS OF MASLOW'S HIERARCHY**

While Maslow's hierarchy makes sense from an intuitive standpoint, there is little evidence to support its hierarchical aspect. In fact, there is evidence that contradicts the order of needs specified by the model. For example, some cultures appear to place social needs before any others. Maslow's hierarchy also has difficulty explaining cases such as the "starving artist" in which a person neglects lower needs in pursuit of higher ones. Finally, there is little evidence to suggest that people are motivated to satisfy only one need level at a time, except in situations where there is a conflict between needs. Even though Maslow's hierarchy lacks scientific support, it is quite well-known and is the first theory of motivation to which many people they are exposed.

**2. HERZBERG’S THEORY**

The motivation-hygiene theory was proposed by psychologist Frederick Herzberg. In the belief that an individual's relation to his or her work is a basic one and that his or her attitude toward this work can very well determine the individual's success or failure, Herzberg investigated the question "What do people want from their jobs?" he asked people to describe, in detail, situations when they felt exceptionally good or bad about their jobs. Herzberg, Mausner, and Snyderman (1959) interviewed 200 engineers and accountants to explore what factors were motivating. They concluded that many factors that were thought to be motivating, such as pay and managerial style, were not motivating at all. Herzberg (1966) proposed that job satisfaction and dissatisfaction are not opposite ends of a continuum, but rather represent two distinct variables. Intrinsic motivational factors (called "satisfiers") included achievement, recognition, and responsibility. Extrinsic factors (called "hygiene factors") consisted of things like pay, status, job security, and management style. Herzberg theorized that lack of satisfiers would not cause dissatisfaction. The presence of hygiene factors would not cause satisfaction, but their absence would cause dissatisfaction. Herzberg developed a list of factors that are based on Maslow's hierarchy of needs, except that his version is more closely related to the working environment.



**HERZBERG'S HYGIENE AND MOTIVATIONAL FACTORS**

**Hygiene or Dissatisfiers**:

* Working conditions
* Policies and administrative practices
* Salary and Benefits
* Supervision
* Status
* Job security
* Co-workers
* Personal life

**Motivators or Satisfiers**:

* Recognition
* Achievement
* Advancement
* Growth
* Responsibility
* Job challenge

Hygiene factors must be present in the job before motivators can be used to stimulate that person. That is, one cannot use motivators until all the hygiene factors are met. Herzberg's needs are specifically job related and reflect some of the distinct things that people want from their work as opposed to Maslow's Hierarchy of Needs which reflect all the needs in a person’s life.

While Hertzberg's two-factor theory generated considerable research, "repeated factor analytic studies of job attitudes have failed to demonstrate the existence of two independent factors corresponding to motivators and hygienes" (Campbell, 1970).

**IMPLICATIONS FOR MANAGEMENT**

If the motivation-hygiene theory holds, management not only must provide hygiene factors to avoid employee dissatisfaction, but also must provide factors intrinsic to the work itself in order for employees to be satisfied with their jobs. Herzberg argued that job enrichment is required for intrinsic motivation, and that it is a continuous management process. According to Herzberg:

* The job should have sufficient challenge to utilize the full ability of the employee.
* Employees who demonstrate increasing levels of ability should be given increasing levels of responsibility.
* If a job cannot be designed to use an employee's full abilities, then the firm should consider automating the task or replacing the employee with one who has a lower level of skill. If a person cannot be fully utilized, then there will be a motivation problem.

**LIMITATIONS OF HERZBERG’S THEORY**

Critics of Herzberg's theory argue that the two-factor result is observed because it is natural for people to take credit for satisfaction and to blame dissatisfaction on external factors. Furthermore, job satisfaction does not necessarily imply a high level of motivation or productivity. Herzberg's theory has been broadly read and despite its weaknesses its enduring value is that it recognizes that true motivation comes from within a person and not from hygiene factors.

Top of Form

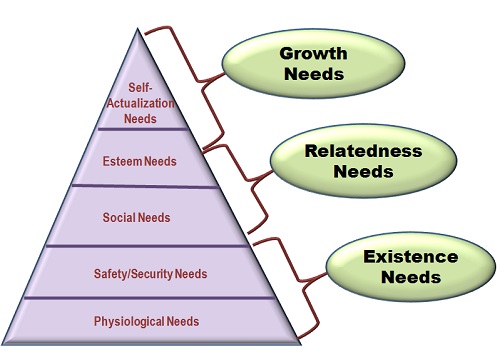
**3. ALDERFER'S ERG THEORY**

The ERG theory is an extension of Maslow's hierarchy of needs. Alderfer identified three categories of needs. Alderfer suggested that needs could be classified into three categories, rather than five. These three types of needs are existence, relatedness, and growth.

**Existence**needs are the desires for material and physical well being. These needs are satisfied with food, water, air, shelter, working conditions, pay, and fringe benefits.

**Relatedness**needs are the desires to establish and maintain interpersonal relationships. These needs are satisfied with relationships with family, friends, supervisors, subordinates, and co-workers.

**Growth**needs are the desires to be creative, to make useful and productive contributions, and to have opportunities for personal development.



**Similarities to Maslow's Hierarchy:**Studies had shown that the middle levels of Maslow's hierarchy have some overlap; Alderfer addressed this issue by reducing the number of levels to three. The ERG needs can be mapped to those of Maslow's theory as follows: Existence : Physiological and safety needs Relatedness : Social and external esteem needs Growth : Self-actualization and internal esteem needs Like Maslow's model, the ERG theory is hierarchical -existence needs have priority over relatedness needs, which have priority over growth.

**Differences from Maslow's Hierarchy:**In addition to the reduction in the number of levels, the ERG theory differs from Maslow's in the following three ways:

* Unlike Maslow's hierarchy, the ERG theory allows for different levels of needs to be pursued simultaneously.
* The ERG theory allows the order of the needs be different for different people.
* The ERG theory acknowledges that if a higher level need remains unfulfilled, the person may regress to lower level needs that appear easier to satisfy. This is known as the frustration-regression principle.

Thus, while the ERG theory presents a model of progressive needs, the hierarchical aspect is not rigid. This flexibility allows the ERG theory to account for a wider range of observed behaviors. For example, it can explain the "starving artist" who may place growth needs above existence ones. ERG theory demonstrates that (1) more than one need may be operative at the same time, and (2) if the gratification of a higher-level need is stifled, the desire to satisfy a lower-need increases.

**IMPLICATIONS FOR MANAGEMENT**

If the ERG theory holds, then unlike with Maslow's theory, managers must recognize that an employee has multiple needs to satisfy simultaneously. Furthermore, if growth opportunities are not provided to employees, they may regress to relatedness needs. If the manager is able to recognize this situation, then steps can be taken to concentrate on relatedness needs until the subordinate is able to pursue growth again.

**4. MCCLELLAND'S LEARNED NEEDS THEORY**

In his acquired-needs theory, David McClelland proposed that an individual's specific needs are acquired over time and are shaped by one's life experiences. Most of these needs can be classed as achievement, affiliation, or power. A person's motivation and effectiveness in certain job functions are influenced by these three needs. McClelland's theory sometimes is referred to as the three need theory or as the learned needs theory. McClelland's theory suggests that individuals learn needs from their culture. Three of the primary needs in this theory are the need for affiliation (n Aff), the need for power (n Pow), and the need for achievement (n Ach).

**Achievement**motivated people thrive on pursuing and attaining goals. They like to be able to control the situations in which they are involved. They take moderate risks. They like to get immediate feedback on how they have done. They tend to be preoccupied with a task-orientation towards the job to be done.

Some people who have a compelling drive to succeed are striving for personal achievement rather than the rewards of success. From research into the achievement need, McClelland found that high achievers differentiate from others by:

* Their desire to attain personal responsibility for finding solutions;
* Their need in immediate feedback about their performance;
* Setting moderately challenging goals; 50% probability of success ­optimum opportunity to experience feelings of accomplishment and satisfaction from their efforts.

**Power**motivated individuals see almost every situation as an opportunity to seize control or dominate others. They love to influence others. They like to change situations whether or not it is needed. They are willing to assert themselves when a decision needs to be made.

**Affiliation**motivated people are usually friendly and like to socialize with others. This may distract them from their performance requirements. They will usually respond to an appeal for cooperation.

The main point of the learned needs theory is that when one of these needs is strong in a person, it has the potential to motivate behavior that leads to its satisfaction.

**IMPLICATIONS FOR MANAGEMENT**

People with different needs are motivated differently.

**High need for achievement**-High achievers should be given challenging projects with reachable goals. They should be provided frequent feedback. While money is not an important motivator, it is an effective form of feedback.

**High need for affiliation**-Employees with a high affiliation need perform best in a cooperative environment.

**High need for power**-Management should provide power seekers the opportunity to manage others.

**5. EQUITY THEORY**

As per the equity theory of J. Stacey Adams, people are motivated by their beliefs about the reward structure as being fair or unfair, relative to the inputs. People have a tendency to use subjective judgment to balance the outcomes and inputs in the relationship for comparisons between different individuals. If people feel that they are not equally rewarded they either reduce the quantity or quality of work or migrate to some other organization. However, if people perceive that they are rewarded higher, they may be motivated to work harder.

Equity theory says that it is not the actual reward that motivates, but the perception, and the perception is based not on the reward in isolation, but in comparison with the efforts that went into getting it and the rewards and efforts of others. If everyone got a 5% raise, B is likely to feel quite pleased with her raise, even if she worked harder than everyone else. But if A got an even higher raise, B perceives that she worked just as hard as A, she will be unhappy.

In other words, people's motivation results from a ratio of ratios: a person compares the ratio of reward to effort with the comparable ratio of reward to effort that they think others are getting.

Of course, in terms of actually predicting how a person will react to a given motivator, this will get pretty complicated:

1. People do not have complete information about how others are rewarded. So they are going on perceptions, rumors, and inferences.

2. Some people are more sensitive to equity issues than others.

3. Some people are willing to ignore short-term inequities as long as they expect things to work out in the long-term.

**6. GOAL-SETTING THEORY**

This motivation theory was developed primarily by Edwin Locke and Gary Latham (1990). The goal-setting theory posits that goals are the most important factors affecting the motivation and behavior of employees. Goal-setting theory emphasizes the importance of specific and challenging goals in achieving motivated behavior. Specific goals often involve quantitative targets for improvement in a behavior of interest. Research indicates that specific performance goals are much more effective than those in which a person is told to "do your best." Challenging goals are difficult but not impossible to attain. Empirical research supports the proposition that goals that are both specific and challenging are more motivational than vague goals or goals that are relatively easy to achieve. Instead of giving vague tasks to people, specific and pronounced objectives, help in achieving them faster. As the clearity is high, a goal orientation also avoids any misunderstandings in the work of the employees. The goal setting theory states that when the goals to be achieved are set at a higher standard than in that case employees are motivated to perform better and put in maximum effort. It revolves around the concept of “Self-efficacy” i.e. individual’s belief that he or she is capable of performing a hard task.

Several factors may moderate the relationship between specific and challenging goals and high levels of motivation. The first of these factors is goal commitment, which simply means that the more dedicated the individual is to achieving the goal, the more they will be motivated to exert effort toward goal accomplishment. Some researches suggest that having employees participate in goal setting will increase their level of goal commitment. A second factor relevant to goal-setting theory is self-efficacy, which is the individual's belief that he or she can successfully complete a particular task. If individuals have a high degree of self-efficacy, they are likely to respond more positively to specific and challenging goals than if they have a low degree of self-efficacy.

According to Locke and Latham, goals affect individual performance through four mechanisms. First, goals direct action and effort toward goal-related activities and away from unrelated activities. Second, goals energize employees. Challenging goals lead to higher employee effort than easy goals. Third, goals affect persistence. Employees exert more effort to achieve high goals. Fourth, goals motivate employees to use their existing knowledge to attain a goal or to acquire the knowledge needed to do so.

The elements of goal-setting theory are shown in Figure below:



The goal-setting model indicates that individuals have needs and values that influence what they desire. A need is defined as a lack of something desirable or useful. According to Maslow's hierarchy of needs, all individuals possess the same basic needs. Individuals do, however, differ in their values. Values are defined as a group of attitudes about a concept that contains a moral quality of like or dislike and acceptable or unacceptable. Values determine whether a particular outcome is rewarding. Employees compare current conditions to desired conditions in order to determine if they are satisfied and fulfilled. If an employee finds that he or she is not satisfied with the current situation, goal setting becomes a way of achieving what he or she wants.

**7. REINFORCEMENT THEORY**

The reinforcement theory of motivation *(also called contingency theory)*is an outgrowth of the behaviorist school of psychology.

B.F. Skinner (1974), who propounded the reinforcement theory, holds that by designing the environment properly, individuals can be motivated. Instead of considering internal factors like impressions, feelings, attitudes and other cognitive behavior, individuals are directed by what happens in the environment external to them. Skinner argued that the internal needs and drives of individuals can be ignored because people learn to exhibit certain behaviors based on what happens to them as a result of their behavior. Skinner states that work environment should be made suitable to the individuals and that punishments actually leads to frustration and de-motivation. Hence, the only way to motivate is to keep on making positive changes in the external environment of the organization. The basic principles of the theory are:

* reinforced behavior tends to be repeated
* reward is more effective than punishment
* feedback is necessary for improvement
* rewards should be given without delay
* rewards should be given for successive approximations of the desired

behavior (Schneier, 1974).

The most important principle of reinforcement theory is, of course, reinforcement. Generally speaking, there are two types of reinforcement: positive and negative.

**Positive reinforcement**results when the occurrence of a valued behavioral consequence has the effect of strengthening the probability of the behavior being repeated. The specific behavioral consequence is called a reinforcer. An example of positive reinforcement might be a salesperson that exerts extra effort to meet a sales quota (behavior) and is then rewarded with a bonus (positive reinforcer). The administration of the positive reinforcer should make it more likely that the salesperson will continue to exert the necessary effort in the future.

**Negative reinforcement**results when an undesirable behavioral consequence is withheld, with the effect of strengthening the probability of the behavior being repeated. Negative reinforcement is often confused with punishment, but they are not the same. Punishment attempts to decrease the probability of specific behaviors; negative reinforcement attempts to increase desired behavior. Thus, both positive and negative reinforcement have the effect of increasing the probability that a particular behavior will be learned and repeated. An example of negative reinforcement might be a salesperson that exerts effort to increase sales in his or her sales territory (behavior), which is followed by a decision not to reassign the salesperson to an undesirable sales route (negative reinforcer). The administration of the negative reinforcer should make it more likely that the salesperson will continue to exert the necessary effort in the future.

As mentioned above, punishment attempts to decrease the probability of specific behaviors being exhibited. Punishment is the administration of an undesirable behavioral consequence in order to reduce the occurrence of the unwanted behavior. Punishment is one of the more commonly used reinforcement-theory strategies, but many learning experts suggest that it should be used only if positive and negative reinforcement cannot be used or have previously failed, because of the potentially negative side effects of punishment. An example of punishment might be demoting an employee who does not meet performance goals or suspending an employee without pay for violating work rules.

**Extinction**is similar to punishment in that its purpose is to reduce unwanted behavior. The process of extinction begins when a valued behavioral consequence is withheld in order to decrease the probability that a learned behavior will continue. Over time, this is likely to result in the ceasing of that behavior. Extinction may alternately serve to reduce a wanted behavior, such as when a positive reinforcer is no longer offered when a desirable behavior occurs. For example, if an employee is continually praised for the promptness in which he completes his work for several months, but receives no praise in subsequent months for such behavior, his desirable behaviors may diminish. Thus, to avoid unwanted extinction, managers may have to continue to offer positive behavioral consequences.

**SCHEDULES OF REINFORCEMENT**

The timing of the behavioral consequences that follow a given behavior is called the reinforcement schedule. Basically, there are two broad types of reinforcement schedules: continuous and intermittent. If a behavior is reinforced each time it occurs, it is called continuous reinforcement. Research suggests that continuous reinforcement is the fastest way to establish new behaviors or to eliminate undesired behaviors. However, this type of reinforcement is generally not practical in an organizational setting. Therefore, intermittent schedules are usually employed. Intermittent reinforcement means that each instance of a desired behavior is not reinforced. There are at least four types of intermittent reinforcement schedules: fixed interval, fixed ratio, variable interval, and variable ratio.

**Fixed interval schedules**of reinforcement occur when desired behaviors are reinforced after set periods of time. The simplest example of a fixed interval schedule is a weekly paycheck. A fixed interval schedule of reinforcement does not appear to be a particularly strong way to elicit desired behavior, and behavior learned in this way may be subject to rapid extinction. The fixed ratio schedule of reinforcement applies the reinforcer after a set number of occurrences of the desired behaviors. One organizational example of this schedule is a sales commission based on number of units sold. Like the fixed interval schedule, the fixed ratio schedule may not produce consistent, long-lasting, behavioral change.

**Variable interval reinforcement**schedules are employed when desired behaviors are reinforced after varying periods of time. Examples of variable interval schedules would be special recognition for successful performance and promotions to higher-level positions. This reinforcement schedule appears to elicit desired behavioral change that is resistant to extinction.

Finally, the variable ratio reinforcement schedule applies the reinforcer after a number of desired behaviors have occurred, with the number changing from situation to situation. The most common example of this reinforcement schedule is the slot machine in a casino, in which a different and unknown number of desired behaviors (i.e., feeding a quarter into the machine) is required before the reward (i.e., a jackpot) is realized. Organizational examples of variable ratio schedules are bonuses or special awards that are applied after varying numbers of desired behaviors occur. Variable ratio schedules appear to produce desired behavioral change that is consistent and very resistant to extinction.

**REINFORCEMENT THEORY APPLIED TO ORGANIZATIONAL SETTINGS**

Probably the best-known application of the principles of reinforcement theory to organizational settings is called **behavioral modification**, or behavioral contingency management. Typically, a behavioral modification program consists of four steps:

1    Specifying the desired behavior as objectively as possible.

2    Measuring the current incidence of desired behavior.

3    Providing behavioral consequences that reinforce desired behavior.

4   Determining the effectiveness of the program by systematically assessing behavioral change.

Reinforcement theory is an important explanation of how people learn behavior. It is often applied to organizational settings in the context of a behavioral modification program. Although the assumptions of reinforcement theory are often criticized, its principles continue to offer important insights into individual learning and motivation.

Behaviour modification focuses on the external environment by stating that a number of employee behaviours can be affected by manipulating their consequences. The alternative consequences include positive and negative reinforcement, punishment, and extinction. Reinforcement can be applied according to either continuous or partial schedules. The major benefit of behaviour modification is that it makes managers become conscious motivators. It encourages managers to analyze employee behaviour, explore why it occurs and how often, and identify specific consequences that will help change it when those consequences are applied systematically