मङ्गलायतन विश्वविद्यालय

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MANGALAYATAN
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Learn Today to Lead Tomorrow

Principals of Management and Organizational Structure

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Content

UNIT 1 EVOLUTION OF MANAGEMENT THOUGHTS

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STRUCTURE

1.1 ADMINISTRATION AND MANAGEMENT

Management is a specialized activity required for the running of those social institutions which are composed of a group of human beings. The same management functions are to be found everywhere and as such, the management skill is transferable from one kind of social institution to another. Usually, this specialized ability is called "management" in business institutions and "administration" in others. The attempt to draw a distinction between "business administration" and 'business management' is thoroughly misleading and all recent studies have tried to avoid it as far as practicable. That there is no distinction even between management and public administration was pointed out by Fayol in his address to the Second International Congress of Administrative Science "All undertakings require planning, organization, command, co-ordination and control and in order to function properly, all must observe the same general principles. We are no longer confronted with several administrative sciences, but with one which can be applied equally well to public and private affairs". Persons who discharge management functions are universally called 'executives' but in business they are further known as 'managers'.

1.2 LEVELS OF MANAGEMENT

In the past, the two broad levels of management used to be denoted by administrative management and operating management. The upper level of management was usually called "administrative management" and the lower level was known as "operating management". The use of these terms implies a division of the management functions into two separate groups, viz., thinking functions and doing functions. As pointed out earlier, fundamental management functions are undertaken by all

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managers, irrespective of their leels or ranks. Accordingly, it does not fit into the facts of the real life to draw any line of separation between thinking functions and doing functions. Furthermore, the use of these terms stems from the acceptance of two different social sciences management and administration which are not existing in fact.

The current practice is to denote the upper level of management by the term "top management". The lower level or echelon of management goes by the name of "middle management". The adoption of the term middle management undoubtedly suggests that there is a further level below it. Actually, the lowest level is composed of foremen and supervisors who also perform precisely the same management functions of planning, organizing, directing and controlling in differing degrees. To be sure, whoever performs the basic functions of management are to be called 'managers' in the technical sense of the term since their functions can be sharply distinguished from those of non-managers.

Levels of management become prominent in large-sized public limited companies. Three distinct levels of management along with their respective functions are stated below:

1.2.1 Top Management

Top management of a company is constituted by its or board of directors and the chief executive. Functions of top management include (1) to make an outline of planning through the formulaton of basic objectives and policies of the company, (2) to determine the basic pattern of the company's organization structure, (3) to arrange for effective co-ordination of all activities, (4) to make staffing of departmental and other important executives, (5) to prepare overall budgets and programmes for short-range and long-range operations, (6) to exercise overall control in respect of all operations, (7) to ensure continuity of the company through modernization and innovation of material resources and the executive development of human resources and (8) to maintain public relations with all outside parties for improving the company's image and protecting its interests.

1.2.2 Middle Management

Between top management and supervisory management, there is found to exist another level of management known as middle management. In large enterprises, middle management is bifurcated into two parts upper middle or intermediate management and lower middle management. Middle management is constituted by divisional, departmental and sectional managers and its functions include (1) to develop derivative objectives and policies and to prescribe procedures and methods in different areas, (2) to prepare departmental budgets and programmes in the context of overall planning, (3) to execute plans through orders, instructions and advice, (4) to exercise control in different areas through the application of quality standards and cost standards and (5) to effect co-ordination between top management and supervisory management.

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1.2.3 Supervisory Management

Supervisory management is the lowest level of management and it is constituted by superintendents, foremen and inspectors. There are six important functions of supervisory management : (1) to supervise the actual operations through guidance, checking and overseeing, (2) to translate the plan into actions through the provision of facilities and resources and the creation of a favourable work environment, (3) to exercise control over the work-in-progress through applying quantity standards and time standards, (4) to send information and progress reports to higher management, (5) to motivate the personnel for improving productivity of the company and (6) to put all the managerial orders, instructions, policies and programmes into action and to make higher managerial accomplishments.

1.3 DEVELOPMENT OF MANAGEMENT THOUGHT

Management has become today a theory jungle by the contributions of scholars and writers from several disciplines like sociology, psychology, social psychology, cultural anthropology, political science, engineering, economics, mathematics, statistics and others. Having different backgrounds and adopting divergent approaches, these contributions have created a diversity in management thought. To understand the present state of management, it becomes necessary to trace the history of management thought. Management has been progressively developed through the following seven schools of thought.

1. Scientific Management. F.W. Taylor is the founder of scientific management at the turn of this century. Taylor's ideas on scientific management took a tangible shape through the publication of his famous work, the Principles of Scientific Management in 1911. Apart from Taylor, other contributors to scientific management include Frank B. Gilbreth, Morris L. Cooke, Henry L. Gantt and Harrington Emerson. Gilbreth contributed to scientific management through motion study as Taylor did through time study. Morris Cooke wrote about the applicability of the principles and techniques of scientific management to non-business institutions like municipalities and universities.

2. Management Theory : Henri Fayol of France was the first of management theorists who were concerned with the principles of organization and the functions of management. Through his well known work General and Industrial Management, published in French in 1916, Fayol laid the foundation of management as a separate body of knowledge and viewed that management had universal application to all forms of group activity. Other important contributors to this school of management thought are Max Weber, Oliver Sheldon, James D. Mooney, Lyndall Urwick, Chester I. Barnard and Herbert A. Simon.

3. Human Relations. After the pioneering work of Mary Parker Follett on group behaviour and group dynamics, the conclusions of Hawthorne study were published by Elton Mayo and his associates in the latter

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1930s and throughout the 1940s. Mayo's conclusions were that human behaviour is moulded by feelings or sentiments, that the group exercises a strong influence on individual behaviour and output, and that the financial incentive is less powerful than group standards and sentiments in determining output. Briefly, the Hawthorne study established that human beings are the most important and influential input for securing a greater output in any concern. Other contributors to this school of thought include Kurt Lewin, F.J. Roethlisberger and T.N. Whitehead.

4. Decision Science : In the 1950s, the contributions of economists, mathematicians and statisticians, or economietrists as they are jointly called, led to the development of another school of management thought which is known as decisionscience school. It is concerned with rational decision making by way of defining the problem, developing alternatives; evaluating such alternatives, and choosing the best possible solution thereof. According to this school, as decision making is the sole way in which managers can discharge their responsibility of managing, decision making should be taken as the central focus of the management study. Various mathematical models and analyses like linear programming, critical-path scheduling, inventory models, information models, simulation, etc. have been developed for quantitative measurement of decision results with the help of computers. Important contributors to this field include Herbert A. Simon, Russel Ackoff, Joy Forrester, Martin Starr and Kenneth Boulding.

5. Behavioural Sciences : Along with the growth of decision science school, there arose the behavioural sciences school after the World War II. Ideas of Mary Parker Follett, Chester I. Barnard and Elton Mayo were greatly extended by behavioural scientists. Reversing the findings of the human relations school which viewed that happy workers were productive workers, the behavioural sciences school puts emphasis on human behaviour as it relates to the goal achievement and efficiency improvement. With this end in view, behavioural scientists are mostly concerned with organizational change, motivation and leadership. This school contributes to our knowledge of organizational behaviour by showing the way of integrating individual goals with the organizational goals and of managing interpersonal conflicts. Important contributors to this school of thought include Herbert A. Simon, James G. March, Douglas McGregor, Chris Argyris, George C. Homans, Rensis Likert, Abraham Maslow, Frederick Herzberg, Joe Kelly and others.

6. Systems Theory. To reconcile the divergent views and approaches adopted in different schools of thought, the systems theory has been developed from the 1960s for integrating the past and present contributions by way of a systems aproach and for explaining the complexity and dynamicity of present-day organizations. The systems concept enables us to see the critical variables and constraints and their interactions with one another. Herbert A. Simon is the spiritual father of this school. Other major contributors to this school of thought are Daniel Katz, Robert L. Kahn and Richard A. Johnson.

SYSTEMS APPROACH. A system is defined as a set of regularly interacting or inter-dependent components that go to constitute a united whole. A series of flows connects the components and provides the means by which the components interact with one another. The systems approach to management has the same characteristics as are found in physical and biological systems. The systems have five essential characteristics. First, systems must have some specific components, parts, units or subunits which are called sub-systems of the system. The marketing unit, for example, is a subsystem of the enterprise system. Secondly, every system is encompassed, affected or influenced by a larger system which is called the suprasystem. Thirdly, all systems along with their subsystms must have some common objectives for unifying the components through their interrelationships. Fourthly, systems are of such a complex character that a change in one subsystem affects the other subsystems. Finally, all systems must receive inputs to survive and these inputs must be processed into outputs at such a rate that they maintain the viability of the system.

7. Contingency Theory. Allied to the systems theory, the contingency theory calls for a further refinement, extension and synthesis of past and present contributions in the sphere of management. The contingency view requires a consistency between the organization and its environment and among the various subsystems. Current management thinking is greatly influenced by both the systems approach and the contingency approach. These two approaches are recognized as the key to effective management in the 1980s. Both these approaches accept the dynamics and complexities of the organization structures and of the behaviour of their members. Important contributors to the contingency theory include Tom Burns, G.M. STalker, Joan Woodward, Paul R. Lawrence, L.W. Lorsch, Victor H. Vroom and Robert J. House.

CONTINGENCY APPROACH. The most recent development in the theory of management is what is known as the contingency theory or the situational approach. In all its operations, an organization affects and is affected. In all its operations, an organization affects and is affected in turn by its environment. The environment is composed of persons, physical resources, ecnomic and market conditions, climate, culture, attitude and laws. The environment exercises a potent influence on the enterprise and sets opportunities and limitations for the organization. Any successful organization recognizes the important environmental factors and tries to mould other factors. As a result, effective managerial principles and practices vary with the environment in which the organization operates, and any generalizations of principles are not practicable. In the sphere of organization design, leadership and motivation, the contingency approach to organizations has modified the traditional thinking on such matters. According to this approach, the organization structure, leadership styles and motivation patterns are contingent on the task, technology and environment of the organization.

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Contributors from the UK. As regards the important contributors from the U.K. Boulton and Watt introduced in 1796 Production Management by way of work study, production planning, payment by results and cost-accounting procedure. Robert Owen adopted a pioneering step in 1810 in the field of Personnel Management. Charles Babbage busied himself with an improved use of machines and the organization of human beings and published a work on the Economy of Machinery and Manufacturers in 1832. During the present century, a comprehensive work on management is The Philosophy of Management written by Oliver Sheldon in 1923. Besides, several publications of Lyndall Urwick and E.F.L. Brech have enriched our management knowledge.

Contributors from the U.S.A. In the U.S.A., Taylor's ideas on scientific management were greatly extended by his three important disciplies, viz., Henry L. Gantt, Frank Gilbreth and Harrington Emerson. Contributions from businessmen include Lectures on Organization by Russel Robb in 1910; a publication entitled Organization Engineering by Henri Dennison in 1931; a comprehensive theory of organization under the title of Onward Industry by Mooney and Reiley in 1931; and Chester I. Barnard's book, The Functions of the Executive published in 1938. Barnard's book is recognized as a landmark in management thinking for introducing social aspects in the management process. The results of Hawthorne Research have been published by three important researchers, viz., Elton Mayo, F.J. Roethlisberger and T.N. Whitehead. Herbert A. Simon is the most important and versatile contributor to management thought over a period of three decades. He contributed to management from mathematics, cybernetics and computers approaches as well as from psychological, sociological and economic viewpoints. His book, Administrative Behaviour, is a modern classic on decision making. His another book, Organizations, equally proved his genius for integrating behavioural sciences into management thinking. He is the only Nobel prize winner in the management area. Peter F. Drucker is the most objective and prolific management analyst of the present time. Drucker is currently exercising a major influence on management thinking and practice by his several publications and many of his ideas have become the basic tenets of management at present. Last but not the least, the influence of the American Management Association and the Society for the Advancement of Management is tremendous on the growth of the management theory. Moreover, a galaxy of political scientists, sociologists, psychologists and anthropologists have made some significant contributions in recent years. Of all the social scientists, the name of Mary Parker Follett deserves special mention.

Mary Parker Follett (1868-1933). Follett has made valuable contributions through books and papers on group dynamics, human relations and authority exercise, some of which bear a stiking similarity with Hawthorne Experiments published in a subsequent period. She pointed out that any human group has a life of its own which is something more than the sum of the individual lives composing it and that the individual's thoughts and actions are always moulded by the group influence. In all co-operative endeavours, the group adds a plus value when properly directed. Conflicts between persons or between groups stem from differences which can be used as an avenue towards, and a vehicle of progress when such differences are integrated rathern than compromised or suppressed under domination. Exercise of authority is involved in leadership, control as well as in the execution of decisions and orders. In all such situations, the employee acceptance of authority would be satisfactory provided "Law of the Situation" is explained through the systematic presentation of facts. Briefly, instead of imposing power over people, the use of authority and the task of order giving should be depersonalised.

Taylor F.W. (1856-1915). Taylor is well known for his famous work, The Principles of Scientific Management, published in 1911. Although the work was professed to provide general principles of management, it was in reality found to contain certain principles of factory management or production management. To improve the productive efficiency of industrial concerns, he was preoccupied with machines and their operators. With this end in view, he developed time and motion study which was regarded as the "cornerstone of scientific management." The central theme in Taylor's work was the advocacy for separation of planning functions from doing functions, management taking more and more thinking functions from workers so as to make their work purely mechanical through the formulation of rules, laws and formulas. His insistence on the application of scientific methods or "one best way of doing jobs" are the principal contribution to management theory. His ideas on selection, training, compensation and discipline of workers have some rudiments of validity. He placed several new duties on management in the form of principles: (a) replacement of the old rule-of-thumb method by scientific one through the exact determination of each man's work on the basis of elementary motions or operations ; (b) scientific selection, placement and training of workers; (c) absolute co-operation between labour and management in the performance of work ; and (d) equitable division of work and responsibility between management and labour.

Taylor's scientific management inundated the whole industrial world in a sudden flood which, however, receded back in course of time. Taylorism has become a dead cult now for two misconceptions. Subsequent studies have revealed that complete separation of planning from doing under his functional foremanship is out and out an unrealistic principle. Secondly, the assignment of mechanical job to workers by breaking a task into elementary components is thoroughly unproductive, since it denies job-satisfaction to workers and makes them inanimate cogs in the industrial machinery. Organized labour misunderstood it as a device for speeding-up and rate cutting. Moreover, the claim of Taylor and his disciples that theirs was an "exact science" has be littled the importance of it. Rather than providing fundamental principles of general management,

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Taylorism is now held to be responsible for delaying the propagation of a true management science developed by Henri Fayol in 1916. That the Americans even now use the term scientific management can be explained historically. Taylorism is nothing but shadow of the present-day concept of scientific management even in the U.S.A.

Fayol, Henri (1841-1925). Henri Fayol, the French industrialist, is regarded in responsible quarters as the real father of management science. After graduating himself as a mining engineer in 1860, he immediately joined a coal mining company as its engineer and was promoted to the position of its Managing Director in 1888 for his conspicuous ability. When he became the chief executive of the company, it was on the verge of collapse. Under his leadership over a period of 30 years, the company came out as one of the largest coal and iron combines in the country with an exceptionally strong financial position. As a successful industrialist, Fayol had the opportunity to search for sound management principles and was able to analyse the management process correctly in course of his two lectures delivered in 1900 and 1908. Subsequently he tried to reduce his ideas into a coherent philosophy by the development of principles through his famous work, General and Industrial Management, published in French in 1916. From the date of his retirement in 1918 till 1925, he devoted himself to the task of popularising his theory of management in France.

The relative contributions of these two pioneers have been reviewed by Urwick in his foreword to the English translation of ***General and Industrial Management*** in the following words : "The work of Taylor and Fayol was of course, essentially complementary. They both realized that the problem of personnel and its management at all levels is the 'key' to industrial success. Both applied scientific method to this problem. That Taylor worked primarily on the operative level, from the bottom of the industrial hierarchy upwards, while Fayol concentrated on the Managing Director and worked downwards, was merely a reflection of their very different careers. But Fayol's capacity to see and to acknowledge this publicly was an example of his intellectual integrity and generosity of spirit. They gave France a unified management body more than twenty years before the same ideal began to be realized in Great Britain." Although Taylorism has undergone a profound change under the impact of new developments, Fayol's principles have stood the test of time and have been accepted as the core of management theory even upto the present time.

1.4 BUREAUCRACY

Max Weber's contribution to management is in the area of authority structures and has description of organization based on the nature of authority relations within them. Webproposed and studied Bureaucracy as a form of organization. According to Weber, bureaucracy is a highly structured, formalized, and impersonal organization. The following are the dimensions or characteristic of **Webrian Bureaucratic model:**

1. The division of labour and the assignments of responsiblity and authority are clearly defined. Thus. a division of labour, rights, and power are essential for rational organizations.

   To carry out his duties efficiently, an individual must know the limits of his job, rights, and power and any overstepping will create confusion in the whole structure.
2. A system of rules control and regulate all behaviour in the organization. Rules provide standardization, equality, and save time and effort in the treatment of many eases.
3. A well-defined hierarchical structure and authority. Each lower level in the organizational structure is under the control of a higher level, thus providing vertical integration in the organization. Weber emphasizes rational-legal authority.
4. A system of procedures for dealing with the situation. These procedures arc recorded in writing.
5. Selection strictly based on the candidate's technical competence and not on nepotism. Promotions are decided on seniority and achievement. Employment in the organization is viewed as a life-long career and required a high degree of loyalty.
6. Separation of conduct of business operations from personal affairs. The employee's bureaucratic status should not be infringed by the demands of his non-organizational or personal statuses.

The above dimensions of bureaucracy would exist to a greater degree in the "ideaf type of bureaucratic organizations. In less bureaucratic organizations, these dimensions would be seen to a similar degree. So far we have examined some significant contributions. There are a countless number of others who have also made contributions to the theory and practice of management. Robert Owen for instance, advocated for more attention to the human being in the industrialization process. Charles Babbage stressed the importance of the division of physical and mental labour, suggested the ideas of profit sharing, anil begun observing and timing work. Charles Dypin's contribution lies in the area of management education. Luther Gulick conducted research in the application of scientific approach to public administration.

1.5 HAWTHORNE STUDIES

In the 1920s and 1930s, observers of business management began to feel the incompleteness and short-sightedness in the scientific as well as administrative management movements. The scientific management movement analysed the activities of workers whereas administrative management writers focused attention on the activities of managers. The importance of the man behind the machine, the importance of individual as well as group relationships in the workplace was never recognised.

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The social aspects of a worker's job were totally ignored; the emphasis was clearly on discipline and control rather than morale. The human relations theory (also called neo-classical theory) tried to compensate for the deficiencies in classical theory (scientific management and administrative inanagement) modifying it with insights from behavioural sciences like psychology, sociology and anthropology. This theory gained popularity after the famous studies of human behaviour in work situations conducted at the Western Electric Company from 1924 to 1933. These studies eventually became known as the 'Hawthorne Studies' because many of them were conducted at Western Electric's Hawthorne plant near Chicago.

1.5.1 Hawthorne Experiments

- ***Illumination experiments:*** The Hawthorne researchers began with illumination experiments with various groups of workers. This experiment involved prolonged observation of two groups of employees making telephone relays. The purpose was to determine the effects of different levels of illumination on workers' productivity, The intensity of light under which one group was systematically varied (test group) while the light was held constant (control group) for the second group. The productivity of the test group increased each time the intensity of the light increased. However, productivity also increased in the control group, which received no added light. The researchers felt that something besides lighting was influencing the workers' performance. In a new set of experiments, a smalt group of workers were placed in a separate room and a number of things were changed; wages were increased, rest periods of varying length were introduced; the workday and workweek were shortened. The researchers, who now acted as friendly supervisors, allowed the group to choose their own rest periods and to have a say in other suggested changes. Workers in the test room were offered financial incentives for increased production. Over the two year period, output went up in both the test and control rooms (surprisingly, since the control group was kept on the same payment schedule) steadily regardless of changes in working conditions. Why?
- ***Hawthorne Effects:*** Part of the answer may be attributed to what has come to be called the 'Hawthorne Effect'. The workers knew they were part of an experiment. They were being given special attention and treatment because of the experiment. They were consulted about work changes and, were not subject to the usual restrictions imposed from absve. The result of this special attention and recognition caused them to carry a stimulating feeling of group pride and belongingness. Also, the sympathetic supervision received by the members might have brought about improved attitudes toward their jobs and job performance. At this stage, the researchers were interested in finding out clear answers to the question: Why the

attitudes of the employees had become better after participation in the test room?

- ***Interviewing flrogrammt:*** Mayo initiated a three year long interview programme in 1928 covering more than 21,000 employees to find out the reasons for increased productivity. Employees were allowed to talk freely (non-directive interviewing) and air their opinions in a friendly atmosphere. The point demonstrated by this interviewing programme is central to the human relations movement. If people are permitted to talk about things that are important to them, they may come up widi issues that are at first sight unconnected with their work. These issues may be, how their children are doing at school, how the family is going to meet the ration expenses, what their friends think of their jobs, and so on. Talking about such matters to a sympathetic listener who does not interpret is therapeutic. When researchers began to examine the complaints made by the employees they found most of the complaints baseless. Many times nothing was done about the complaint, yet, after an interview the complaint was not made once again. It became apparent that often workers really did not want changes to be made; they mainly wanted to talk to an understanding person who did not criticise or advise about their troubles. Thus, for the first time, the importance of informal workgroups was recognised. To find out more about how the informal groups operated, the bank wiring room experiment was set up.
- ***Bank wiring room experiments:*** In this experiment, 14 male workers were formed into a small workgroup and intensively observed for seven months in the bank wiring room. The men were engaged in the assembly of terminal banks for the use in telephone exchanges. The employees in the group were paid in the regular way depending on the efficiency rating plus a bonus based on average group effort. Thus, under this system, an individual's pay was affected by the output of the entire group and by his own individual output. It was expected that highly efficient workers would bring pressure to bear on less efficient workers in an attempt to increase output and thus take advantage of the group incentive plan. However, these expected results did not come about. The researchers found that the group had established its own standard of output and this was enforced by various methods of social pressure. Output was not only being restricted but individual workers were giving erroneous reports. The group was operating well below its capability and was levelling output in order to protect itself. Thus, workgroup norms, beliefs, sentiments had a greater impact in influencing individual behaviour than did the economic incentives offered by management.

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1.5.2 Human Relations Key Concepts

The Hawthorne experiments, thus, indicated that employees was not only economic being, but social and psychological beings as well. The man at work is motivated by more than the satisfaction of economic needs. The main emphasis should be on creating a humanistic or informal organistation in place of a mechanistic of formal organisation. The organisation must be democratised and people working therein must become part of 'one big happy family'. In the works of Keith Davis, 'Human relations are motvating people on organisations in order to develop teamwork which effectively fulfils their needs and achieves organisational goals'.

SUMMARY

- The upper level of management was usually called "administrative management" and the lower level was known as "operating management". The current practice is to denote the upper level of management by the term "top management". The lower level or echelon of management goes by the name of "middle management".
- A system is defined as a set of regularly interacting or inter-dependent components that go to constitute a united whole. A series of flows connects the components and provides the means by which the components interact with one another.
- The organization structure, leadership styles and motivation patterns are contingent on the task, technology and environment of the organization.
- Max Weber's contribution to management is in the area of authority structures and has description of organization based on the nature of authority relations within them. Webproposed and studied Bureaucracy as a form of organization. According to Weber, bureaucracy is a highly structured, formalized, and impersonal organization.
- The scientific management movement analysed the activities of workers whereas administrative management writers focused attention on the activities of managers.
- The human relations theory (also called neo-classical theory) tried to compensate for the deficiencies in classical theory (scientific management and administrative inanagement) modifying it with insights from behavioural sciences like psychology, sociology and anthropology.
- The Hawthorne experiments, thus, indicated that employees was not only economic being, but social and psychological beings as well. The man at work is motivated by more than the satisfaction of economic needs.

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REVIEW QUESTIONS

1. Define Administration and Management.
2. Explain the different levels of management.
3. Differentiate Administration with management.
4. Explain the various schools of management thoughts.
5. Discuss the characteristics of Weberian Bureaucratic Model.
6. Write short notes on:
   (a) Level of Management
   (b) Contribution of Mary Parker Fallett
   (c) Contribution of Fayol Henri
   (d) Contribution of Taylor F.W.
   (e) Hawthrone studies

UNIT 2 PLANNING

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STRUCTURE

2.1 INTRODUCTION

Every business enterprise has its own predetermined objectives to be achieved. In order to achieve the objectives in the best possible manner, it requires a lot of mental exercise based upon imagination, foresight and judgement for deciding the tasks to be undertaken and the techniques to be adopted. No doubt, the success lies in the effective and sound planning, which undoubtedly determines the future course of action.

In case, we do not plan our future activities, we shall pursue disorderly line of action, adopt 'hit or miss' method and meet the failure. We shall identify the mistakes committed in the process of action at a very late stage after wasting a lot of resources. It emphasises that the efficient management must foresee the future, determine the goal, take into consideration its available resources, socio-economic environment and plan its course of future action.

2.2 MEANING AND DEFINITION OF PLANNING

Planning is the process which helps in bridging the gap between where we are and where we want to go.

Planning is to decide future course of action. It is the very first function of management. *Planning is a systematic activity which determines, when, how and who is going to perform a specific job.* It is a sort of detailed programme, regarding task to be completed in future. It studies and analyses the work to be done, makes the arrangement of requisite men, machine, material, money and methods, so that the job may be completed effectively. It is rightly said that *well planned is half done*, because planning takes into consideration the available and prospective human and physical resources of the organisation and gets their effective coordination, requisite contribution and perfect adjustment. Planning in this way is concerned with both the process of determining the objectives of business and electing the most suitable course of action. It is, really *looking ahead and preparing for future*. It should be never taken as isolated. It is really a never ending activity because of its positive co-relationship with business, which is a continuing process.

Definitions of Planning

"Planning is a mental predisposition to do things in orderly way, to think before acting and to act in the light of facts rather than guess."

—Urwick

"Planning is deciding the best alternative among others to perform different managerial operations in order to achieve the predetermined goal."

—Henri Fayol

"Planning is selecting and relating of facts in the visualisation and formation of proposed activities believed necessary to achieve desired results." **—George R. Terry**

"Planning is a thinking process, the organised foresight, the vision based on fact and experience, that is required for intelligent action."

—Alford and Beaty

The problems of planning situation are rightly indicated by **Rudyard Kipling** in the following words:

I keep six honest serving men,
They taught me all I know.
Their names are *what, where* and *when*,
And *how* and *why* and *who*.

It shows that planning is concerned with the following:

(*i*) What is to be done? (*ii*) Where is it to be done?
(*iii*) When is it to be done? (*iv*) How is it to be done?
(*v*) Why is it to be done? (*vi*) Who is to do it?

In this way, planning is the response, we get against the above six questions.

We may now safely conclude that *planning is a continuous intellectual process, based upon facts to decide, arrange and coordinate the available and prospective physical and human factors in the best possible way to achieve predetermined goal of the enterprise.*

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2.3 NATURE/CHARACTERISTICS/FEATURES OF PLANNING

An effective planning is the key to success, so it is necessary that an efficient management must take into consideration the following characteristics of management.

1. **Planning is the primary function of management.** The management has to formulate plans first and afterwards it has to make arrangement of necessary resources, select and appoint the most suitable persons for every specific job and direct their efforts and energies towards desired goal. The actual performance is compared with the planned performance, to discover deviations and finally apply remedial measures. Necessary adjustments in the plans may also be made if required.
2. **Planning is goal oriented.** Planning is made to achieve the desired objectives of the business. The goal established should have general acceptance otherwise individual efforts and energies will be misguided and misdirected. Management being a team work, effective coordination and adjustment of individual and group efforts towards the cherished goal of the business is necessary. As such planning contributes to objectives.
3. **Planning is an intellectual process.** A good plan is based upon collection, study and analysis of the requisite facts, evaluating alternative combination of factors and deciding the most appropriate line of action, depending upon the ability and intelligence of the management.
4. **Planning is pervasive.** Planning is essential for every sort of business activities. Every department whether, Purchase, Sales, Accounts, Auditing, Marketing etc. needs systematic planning. Coordination of different departmental plans and direction of their integrated energies towards the desired goal of the business depend on planning. Effective organisation, staffing, direction and controlling needs planning. Planning in this way, is all-embracing.
5. **Planning involves decision making.** Planning is choice making of the best possible alternative out of the various alternatives. In order to accomplish the predetermined objective of the business, there can be various alternative possible courses of action. Every line of action has its own plus and minus points. Planning studies and evaluates every alternative with reference to its needs and resources. Finally it decides the most suitable line of action to be adopted by the enterprise.
6. **Planning is futuristic.** No doubt, we always plan for future. We anticipate future requirements and availability of resources. While determining the future demands, we have to take into consideration

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the existing and prospective resources of the business and fiscal, monetary and industrial policy of the Govt. Plans are always put to practice in future. It is only a setting, thinking and arrangement in advance for the future. Planning in this way is looking ahead.

7. **Planning does not eliminate future risk but enable us to face it.** What is fate cannot be averted? Planning presumes certain general uncertainties but unforeseen natural calamities cannot be predicted and as such there is always risk and we can never claim to have eliminated it. Planning only prepares the enterprise to face uncertainties and reduce the adverse effects of uncertainties. Planning may presuppose certain future events and suggest measures to face it.
8. **Planning is a continuous process.** Planning always continues in the organisation in one or the other form. The actual business situations may demand certain amendments or moderations in the plans, therefore, plans are modified. The controlling may also point out certain deficiencies in the plans and they are framed accordingly. The completion of one plan requires the other plan to be undertaken. In this way, planning is a continuous process.

2.4 IMPORTANCE/ADVANTAGES OF PLANNING

Planning is beginning and end of all managerial activities. It is involved in all managerial functions, *i.e.,* planning, organising, staffing, directing and controlling. All sorts of organisation, whether business, social, political, religious and culture have to plan their future activities. An effective planning of business activities means the achievement of objectives efficiently with lesser wastage of resources and energies. The importance of planning in management can be justified on the following grounds:

1. **Planning provides directions.** Planning anticipates future demands and evaluates existing and prospective resources. Planning provides direction by stating in advance how work is to be done. Planning ensures that goals are clearly stated so that the people of the organisation should know what to do and in which direction. It goals are well stated it helps directing towards the desired goal of the business.
2. **Planning reduces the risk of uncertainty.** It is the planning which pre-assesses the future uncertainties and also enables the organisation to face these uncertainties with minimum wastage of resources. In the absence of planning for future uncertainties, the losses being suffered may be greater.
3. **Planning reduces overlapping and wasteful activities.** Planning evaluates the alternative uses of the available and prospective resources of the business and makes their most appropriate use. It is the planning which determines the specific use of individual

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resources. The best possible use of the business resources reduces its misuse and wastage and therefore, results in an economy.

4. **Planning promotes innovative ideas.** Planning as a primary function of management promotes innovative ideas. It can take the shape of concrete plans. It is the main challenging activity for management as it drives the future actions leading to growth of the business.
5. **Planning facilitates decision-making and promotes creativity.** Planning assesses future requirements. In order to avail of the opportunities in an appropriate way concerted efforts are made and as such new ideas, methods and techniques emerge.
6. **Helpful in development and expansion.** Planning tries to avail of all the opportunities available by making the effective utilisation and integration of resources, which make the expansion of business easy.
7. **Planning establishes standards for control.** Planning helps in determining the authorities, responsibilities and duties of individual employees. It has predetermined goal with which the actual performances are compared to find out deviation and suggest remedial measures.

2.5 LIMITATIONS OF PLANNING

Planning, no doubt, is very useful for the business enterprise but it does not mean that it is the remedy of all the deficiencies of the business. Planning in itself may be defective. Now, let us consider the limitations of planning:

1. **Planning puts managerial activities in a rigid framework and creates false sense of security.** Planning depends upon forecasting, which can never be cent per cent correct. Management is committed to execute plans, so independent thinking and the initiative of the management suffers. Defective plans prove fatal to the security and safety of the enterprise. Planning makes business operations inelastic. The business situations change rapidly. New methods, techniques and equipments are invented but the enterprise cannot take the advantage of these inventions and discoveries.
2. **Planning may not work in a dynamic environment.** Business operates in a dynamic environment, nothing is constant. Planning anticipates future. It takes into consideration the possible changes in economic, political, physical, legal and social dimensions. If these changes are not expected, planning becomes ineffective. The organisation has to adapt to changes. Unexpected changes in the technology of production and marketing etc., make the plan unsuccessful.

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3. **Planning reduces creativity.** Planning strangulates the initiative of workers and compels other members to work with inelastic method. The employees have to work in conformity with plans and therefore it is incompetent to avail oneself of the existing opportunities. Thus, much of the initiative or creativity inherent in them also get lost or reduced.
4. **Planning involves huge costs.** Collection, analysis and evaluation of the different information, facts and alternatives involve a lot of expenses. According to Koontz O'Donnel expenses on planning should never exceed the estimated benefits from planning.
5. **Time consuming device.** Planning process *i.e.,* from collection of data to the suggestion of the best alternative consumes a lot of time and energies.
6. **Planning does not guarantee success:** Planning is based upon the anticipated fiscal and industrial policies. Planning should be properly executed for the success of the business. Any plan needs to be translated into actions or it becomes meaningless. Managers cannot rely upon the previously tested successful plans. It is not necessary that a plan was successful before then it will be successful again. Therefore, planning does not guarantee success but provides a base for analysing future course of action.
7. **Machinery of planning can never be free from bias.** Every planner has its own likes, dislikes, preferences, attitudes and inerests, which are reflected in the plans. If the planning machinery itself is biased, plans may not suit the general interest of the enterprise.
8. **Unsuitability for certain business.** Certain businesses like fashionable articles, where situations change rapidly, planning has limited scope. In a small business house which is itself short of finance, planning will prove to be a burden.

2.6 STAGES/STEPS/PROCESS OF PLANNING

The success of business depends upon effective planning to a greater extent. A good planner estimates in advance the future opportunities and channelises the existing and prospective energies of the business to avail himself of the maximum benefit from the opportunities. There will be different plans to meet different situations in different types of business but logical and scientific planning must go through the following steps:

1. **Setting objectives.** In order to begin with the plan a clear and definite objectives of the organisation is necessary. Plans are always made to solve business problems, to attain a certain specific objective or to avail oneself of the benefits expected from any anticipated opportunity. Thus the first step in the planning

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is identification and recognition of the problem, requirement and opportunity. Identification of the problem and opportunity must be in accordance with defined organisational objectives.

2. **Developing planning premises.** Planning is always based upon certain estimates and forecasts, which can never be cent per cent accurate. There are certain limitations, which can be taken note of. Examples of these limitations are the rate of population growth, general economic conditions, fiscal and industrial policies etc.
3. **Identifying alternative courses of action.** After setting up the objectives, an organisation identifies the alternative courses of action through which the organisation can achieve its objectives. There may be many ways to act and achieve objectives. Manager should know all the alternative ways to achieve the objectives.
4. **Examining/Evaluating alternative courses of action.** All the factors of production can be put to different alternative uses. The planner has to ascertain the possible alternative courses of action. The management has to study effective utility of various factors of production.
5. **Selecting an alternative.** There can be different alternative course of action but every course has its own plus and minus points. A proper evaluation of these points is necessary to determine which of the alternative would be the best of all. Each alternative should be subjected to a close test to determine its suitability. The decision has to be taken in favour of one or the other course of action after testing an evaluation of alternative uses of the factors. The course of action to be adopted should be the best under circumstances.
6. **Implementing the plan.** After the formulation of plan, it is necessary to workout the plan to achieve the objectives. For example, if we have set a plan to assemble 1,000 television sets. To put into action, we have to get raw materials, labour and have to spend money for expenses.
7. **Providing for future evaluation and follow up.** Planning is always with definite purpose. It aims at achieving certain predetermined objectives. In order to ascertain that plans are proceeding along right lines, it is necessary to devise a system of continuous evaluation and appraisal of the plan. In this way, shortcomings can be noted well in time and suitable remedial action may be taken before it is too late. Generally, the controlling part of management compares the actual performance with the planned performance and notices deviations, if any. Corrective actions and remedial measures are adopted to remove deviations. If there is any defect with the plan necessary modifications are made.

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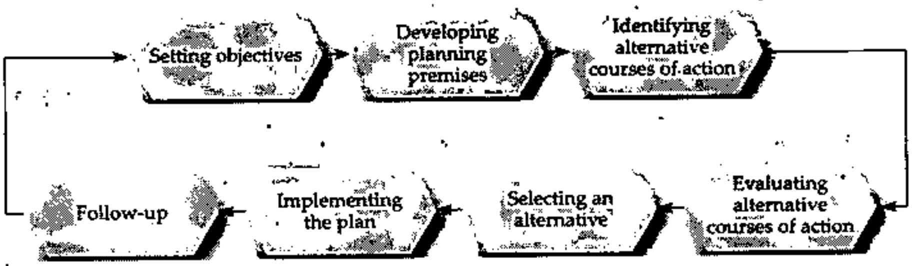

Planning Process

Internal Ambitions of ESSAR

The ESSAR group is looking to step-up its global operations by entering the riskier but profitable markets of Africa, Eastern Europe and the middle East.

In its care business of steel, the ESSAR group is also looking at a proposal to acquire an integrated steel plant in Eastern Europe.

The group has also announced its intention of setting-up Greenfield Steel manufacturing operations in Sharjah, Qatar and Iran. It has plans to set upto a 50–50 joint venture with state owned Qatar Steel Company far a 1.5 million tonne steel plant along with a 1 million tonne steel ralling plant on the outskirts of Sharjah and another tonne per annum steel plant in Iran, according to a recent ESSAR newsletter. Even the Indonesia branch of ESSAR, where the group runs a cold-ralling complex is expected to look for meager and acquisitions (M & A) opportunities in the region.

Source: *Business world 25th September, 2006.*

2.7 TYPES OF PLANS

Types of Plans

Standing Plans
1. Objectives
2. Strategy
3. Policy
4. Procedure
5. Methods
6. Rule

Single Use Plans
1. Programmes
2. Budgets

2.7.1 Standing Plans

Standing plans are those plans which are used over and over again as they focus on organisational situations that occur frequently. Such plans are used to cope with certains strategic objectives rather than being

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directed at particular issues or problems. These plans are not limited in time and normally exist during the life-time of the related organisation. Standing plans are aimed at reaching the objective of the management. They ensure that the internal operations of a given business are operating smoothly. For example: Policies, Procedures, Rules etc. The various types of standing plans are explained below.

Objectives

According to **Allen**, *Objectives are goals established to guide the efforts of the company and each of it components.* Objectives are ends towards which the physical and human energies of the enterprise are channelised. Every individual group and departmental efforts are integrated, coordinated and directed to achieve this end. Objectives can be minor, major and collateral.

Objectives, no doubt, are the goal which the enterprise would like to attain, but they are treated as plans because the determination of objectives requires all the steps of planning *i.e.,* collection of information, analysis of facts, evaluation and selection of alternatives.

Characteristics of Objectives

1. **Basis for plans.** Plans are goal oriented. No plan can violate objectives of the business. Every effort has to be directed towards objectives. It is objective, which determines the nature and size of plans.
2. **Plurality of objectives.** Every department may have its own separate objective. There can be different objectives for different activities. According to *Drucker* common objectives of the enterprise may be regarding:
   - (*i*) Productivity
   - (*ii*) Goodwill
   - (*iii*) Innovation
   - (*iv*) Profitability
   - (*v*) Physical and Financial resources
   - (*vi*) Healthy employer—employee relations
   - (*vii*) Cost reduction
   - (*viii*) Social responsibility
3. **Satisfying main and subsidiary objectives.** The enterprise should specify its main and subsidiary objectives. Profit earning may be the main objective, but in order to earn profit objectives regarding production at minimum cost and sales arrangement etc. may be subsidiary objective.
4. **Long term and short term objectives.** Both long term and short term objectives should be specified. Long term objective may be for 5–6 years, whereas short term objectives are for one year. Short term objectives should be complementary and supplementary to long term objectives.
5. **Constant review of objectives.** Objectives should be constantly reviewed from time to time. This will enable objectives to correspond to the realistic situations of business.
6. **Other characteristics**
   - (*a*) Objectives are expressed in quantitative, measurable and concrete terms.

(b) Objectives are result-oriented not activity oriented.

(c) Objectives should be challenging but achievable.

Examples of Objectives

(i) Reduction in quality rejects from existing 5% to 2%.

(ii) Appointing 50 efficient management trainees every year from campus interview.

(iii) Increasing the sales of a specific product by 5%.

(iv) Crossing 30,000 crore mark in sales by 2004.

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Strategies

According to **Newman**, *Strategy concern the direction in which human and physical resources will be deployed and applied in order to maximise the chance of achieving a selected objective in the face of difficulties.* Strategy is a military term, which means the art of projecting and planning a military movement and handling troops in the battle field. In the context of business it is the employment of business resources most effectively to achieve specific goal. It is preparing oneself for unforeseen and unpredictable factors. In practice, it is formulated to meet the challenge posed by competitor's policies and actions. Important types of strategy may be 'strike while the iron is hot, camel's head in the tent', 'unity is strength', time is the greatest healer and offence is the best form of defence.

Special Features of Strategies

1. **Strategies are directional plans.** Strategy provides a direction to human and physical resources of the enterprise.
2. **Applicable in exceptional circumstances.** Strategies are applied to meet specific challenges caused by competitor's policies and unpredictable situations.
3. **New deployment of resources.** In order to face specific situations, the resources of the enterprise are put to use in new ways. Modified method, techniques and approaches of applying human and physical resources is the special feature of strategy.
4. **Policies and strategies are different.** Policies are framed to meet general situations, whereas strategies meet specific situations.

Difference between Policy and Strategy

Bases of Difference	***Policy***	***Strategy***
1. *Situation*	Policies are framed to meet general business situations.	Strategies are applied to meet specific challenges.
2. *Period*	Policies are framed for longer periods generally 5–6 years.	Strategies are framed for short term.
3. *Guidance*	Policies guide the managers in taking decision.	Strategies make the new applications of the available resources of the business.

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Policies

According to **Dougless**, *Policy is simply a statement of an organisation and intention to act in certain ways, when specified types of circumstances arise.* Policy is the standing directon to the management to take decisions within the prescribed limit. Every executive has to honour policy and his decisions should not violate it. In this way, we can define policy as *objective oriented continuing decision guides to management in making his decisions in specific similar circumstances.*

Special Features of Policies

1. **Policies are objective oriented.** Policies are framed to achieve the predetermined objectives of the business as such they should be supplementary and complementary to objectives.
2. **Simple and clear.** Policies should be simple and clear, so that employees at different levels should understand it clearly and act accordingly.
3. **Cooperation of managers at different levels.** While formulating the policies cooperation of managers at different concerned levels be sought. Otherwise they may create hurdles in its implementation.
4. **Practicability.** Policies are framed to be adopted and implemented. Thus it should take into consideration the available resources and realistic situations so that it can be put to use.
5. **Policies are continuing decision guides.** It helps the management in making decisions in specific circumstances.
6. **Prescribing decision limits of the management.** Policies decide the boundary limit within which decisions are to be made.
7. **Policies are different from objectives and rules.**

   Examples of Policies

   (*i*) Policy of hiring only universally trained engineers.

   (*ii*) Policy of appointing MBAs only from universities as management trainees.

   (*iii*) Policy of filling-up .75% higher vacant post from the existing employees of the enterprise.

Difference between Objectives and Policies

Both objectives and policies are standing directional plans to be considered by the management, while taking important decisions. They aim at increasing productivity and profitability in an atmosphere of harmonious relationship between workers and management. The important difference between them is as follows:

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Bases of Difference	Objectives	Policies
1. *Aim*	Objectives determine the final goal of the enterprise.	Policies are framed to achieve the objectives efficiently.
2. *What and How?*	Objectives determine what is to be done. In this way, objectives *decide the specific job* to be done	Policies determine how the work is to be done. In this way, policies decide the procedures to be adopted for completion of the job.
3. *Level of Management*	Objectives are determined by owners or top level management.	Policies are determined by the top level, medium level and even lower level management.
4. *Dominance*	Objectives have dominant place in the management as compared to policies.	Policies are objective oriented. They play a supplementary and complementary role in achieving objectives.

Procedures

According to **Terry,** *A procedure is a series of related task that make up the chronological sequence and the established way of performing the work to be accomplished.* It is the particular way of doing a job. Procedures are series of steps followed in a regular definite order. Procedures are guidelines to actions. They prescribe the exact manner in which the work is to be performed.

Examples: Methods of selecting employees, wage payment, placement of order and handling of cash etc.

Special Features of Procedures

1. **Procedures are methods of doing job.** The work is performed at many stages and it is specified who and how he will accomplish particular work at particular stage.
2. **Procedures are concerned with many departments.** A particular procedure is related to many departments. For example, execution of an order from the customer concerns Sales, Finance, Accounts, Production Cost and Transport Departments.
3. **Pervasiveness of procedures.** Procedures are required for every department and every sort of activities. Procedures are systematic, orderly and detailed arrangement of accomplishing different jobs at different levels right from the decisions of the board of directors to physical work being performed by the ordinary worker.

Methods

Formalised and standardised way of doing routine jobs are known as methods. These are standard ways of doing work. It increases efficiency. There is no penalty for violation of methods.

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Examples:

Valuation of stock by LIFO (Last in first out) and FIFO (First in first out) methods.

Difference between Policy and Procedures

Bases of Difference	*Policies*	*Procedures*
1. *Necessity*	Policies are required to help in taking decisions.	Procedures are necessary to speed up the performance.
2. *Deviation*	Executives may deviate in their decision on specific job according to their wisdom, understanding and interpretation. Policies and flexible.	There is no possibility of deviation from procedures. They are to be adopted in a similar way by every officer. Procedures are rigid.
3. *Scope*	Policies decide the limits of the activities of the organisation.	It is a plan to execute decisions based on policies.
4. *Levels of Management*	Policies are decided by top level of management.	Procedures are decided by medium and low level executives.
5. *Dependence*	Policies are not dependent on procedures.	Procedures are dependent on policies.
6. *Science and Art*	Policies are systematised and specialised facts as such they are science.	Procedures are concerned with the execution and performance of work and as such it is an art.
7. *Relationship*	There may be different policies for different departments.	Different departments follow the same procedures in all similar activities.

Difference between Rules and Methods

Bases of Difference	*Rules*	*Methods*
1. *Objective*	It ensures discipline.	It ensures efficiency of operations.
2. *Basis*	Based on common sense.	Based on research and analysis.
3. *Nature*	Regarded as official and authoritative	Regarded as logical and rational.

Rules

According to **Koontz and O' Donnell**, *"A rule requires that a specific and definite action be taken with respect to a situation"*. Rules are the decisions made by the management regarding what is to be done and what is not to be done in a given situation. Rules do not leave any scope for decision-making. They do not allow any deviations. Examples—'No smoking, No admission without permission' etc. Rules are made for the purpose of creating discipline in the organisation.

Important Rules and Notifications followed in Laxmi Publications (P) Ltd.

1. Smoking is not allowed during duty hours. One can smoke out of office premises during lunch time. ' 500 will be fined for each mistake.
2. Gossiping or talking uselessly during duty hours may cause one or two absents as penalty.
3. Unnecessary/excess stay in canteen during tea time/lunch time is not allowed.
4. Anyone eating or using betel (paan), gutkha or tobacco in the office will be fined ' 500 for the first mistake. If anyone does the same mistake again he will be removed from the service.
5. Outside visitors are not allowed in any floor of the office. Please meet them in the visitor's cabin/reception.
6. Office phone should not be used for personal calls at all.
7. Having or using a mobile phone during office hours is prohibited.
8. This is the duty of the incharge to be attentive to all the above matters. If he/she finds anyone overruling or disobeying any of these rules, he/she should inform the higher authority.

Difference between Policies and Rules

Bases of Difference	*Policies*	*Rules*
1. *Basis*	Policies are based upon objectives.	Rules are based upon procedures.
2. *Flexibility*	While interpreting policy individual offers can deviate in their decisions to some extent according to their understanding.	There is no flexibility. There cannot be any deviation. There cannot be different interpretations.
3. *Situations*	Policies are meant for general situations.	Rules are framed for specific situation or specific job.
4. *Exception*	There can be exception to policies.	There cannot be exception to rules.

2.7.2 Single Use Plans

Single use plans are created to address short-term challenges for short-term initiatives. The scope of these plans is generally smaller than the scope of standing plans. They include budgets and Programmes. Generally such plans are developed for a one-time project or event having one specific goal or objective. The length of single use plan differs greatly depending on the project. It may last one day or a single project may even last weeks or months. Single use plan consists of specific activities to arrive at a specific goals or targets with a determined budget and within a determined or limited time period. The two types of single use plans are explained below.

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Difference between Rules and Procedures

Bases of Difference	*Rules*	*Procedures*
1. *Decision*	Rules are the decisions taken earlier. These are applied in specific circumstances.	Procedures are not decisions.
2. *Method*	Rules are not the methods of doing a work.	Procedures are the methods of doing work. They tell us, how to perform a specific activity.
3. *Relationship*	Rules do not have any procedures.	Procedures may have their rules.
4. *Exact and Rigid*	Rules are exact and rigid.	Procedures are not so much exact and rigid.
5. *Punishment*	Disobedience of rules is punishable.	Disobedience of procedure is not punishable.

Programmes

Programmes are concrete plans prepared with definite objective to accomplish certain specific activity. Programmes are action always based on to accomplish the given work.

They are combination of various types of plans and they are made to create a systematic working environment in the organisation. Programmes can be classified into two categories (*i*) Primary Programmes (*ii*) Secondary Programmes. The primary programmes are created by top level management whereas the supportive or secondary programmes are prepared at other levels of management for the purpose of providing support to the primary programmes.

Example: Manufacturing 500 television sets in January, 2003, or to introduce a new product in the market etc.

Advantages of Programmes

1. **Appropriate use of resources.** Programmes enable the most effective use of the available resources of the business enterprise.
2. **Efficient distribution of work.** Programmes distribute the work to be done in the most convenient parts and entrust its accomplishment to competent persons.
3. **Better utilisation of time.** Programmes are short-range time based and as such emphasise on the economical use of time.
4. **Coordination of work.** Different departments have different programmes of their own, therefore, while making the programme an effort is made to achieve the maximum integration of different programmes.

Projects

Quite often, the individual portions of a general programme are relatively distinct and planned and executed as projects. A project is a small programme.

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Quite often, individual parts of a general programme arc clear-cut and relatively distinct, so they can be planned and executed as separate projects. When the operations of a programme can be easily divided into separate parts with a clear end point, project-structure is preferred. Each project has definite goals concerning task assignments and time. The project itself may consist of several sub-plans. For example, new product development project may be a complex one including sub-plans like developing and exploring new markets for existing products, selling existing products more intensively in present markets, marketing a new product altogether and so an. According to J.M. Stewart, a project has the following features:

- The activity has a clear objective.
- Somewhat unique and unfamiliar to the existing organisation.
- The activity is complex and critical to the organisation.
- The activity is temporary with respect to the duration of need.

One advantage with the project form of organisation is that it allows the project structure to be phased out. The best available talent can be pooled to accomplish a specific and complex activity within time, cost and/or quality parameters.

Budget

The word 'BUDGET' is derived from a French word *'Bougette'*, which means a small leather bag. In simple words, the budget is a recorded plan of action expressed in quantitative terms. It is a recorded plan of action expressed in quantitative terms. It is a statement of anticipated results. In this way the *budget is an estimate of future needs, arranged according to an orderly basis, covering some or all the activities of the enterprise for a definite period of time.* In other words, it is a quantitative statement, regarding future needs for certain specific period. It may also be regarding future needs for certain specific period. It may also be regarded as a recorded plan of future estimate regarding sources and their application. In financial terms, it is a periodic statement of future revenue and their expenditure. Budgets are based on forecast and provide direction to business activities. It is rightly said to be the barometer of the business indicating future prospects.

Certain Important Definitions of Budget

"A budget is a standard, with which to measure the actual achievements of people, department etc." **—Wheldon**

"Budgets are finished products—They are formal programmes of future programmes and expected results. Budgets result from forward thinking and planning." **—Harry L. Whyle**

"The budget is a plan of operations integrated and coordinated, comprising all phases of business activities and summarised to show the financial results of carrying out the plan." **—Terry**

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In this way, we may define *budget to be a recorded estimate of future business operations during a specific period with reference to their costs and revenue.*

Budgeting is one of the control devices, so any *control affected by the use of Budget may be termed as budgetary control. Budgetary control is planning-controlling mechanism.* The Budget, like planning comes first and the budgetary control like a device of control follows the budget in the cycle of planning-controlling device.

Budgetary control is regarded by certain companies as *profit plans* or *profit paths* because it involves preparation of budgets as planning device and later comparison of actual expenditure or performance with the budgeted or planned performance and at the end taking corrective actions.

Characteristics of Budget

1. **Planning of progress.** Budgets take note of the existing *situations and performance* and plan future activities. The serious consideration is paid to the future uncertainties and seasonal fluctuations. Budgets, no doubt, are the future estimates and aspirations.
2. **Discussing future difficulties.** Future is always uncertain. There are seasonal and cyclical fluctuations. A good budget takes the maximum advantages of business opportunities.
3. **Economical use of resources.** Budgetary control is a device of making the best possible use of resources.
4. **Control over expenditure.** The purpose of making budgets is to make control over expenditure. It keeps check on extravagance and provides for expenditure, wherever it is necessary.
5. **Coordination of operations.** Budgetary control tries its best to integrate and co-ordinate the efforts of physical and human resources towards the achievement of maximum objectives.

Contigency Plan

A plan that's specific and detailed and generally covers a span to one year or less.

SUMMARY

- **Planning**

  Planning is continuous intellectual process based upon facts to decide, arrange and coordinate the available and prospective human and physical factors in the best possible way to achieve the predetermined desired goals.

- **Nature/Characteristics/Features of Planning**

  (1) Planning is the primary function of management (2) Planning is goal oriented (3) Planning is an intellectual process (4) Planning is pervasive (5) Planning involves decision making (6) Planning is

Futuristic (7) Planning does not eliminate future risk but enable us to face it (8) Planning is a continuous process.

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- **Importance/Advantages of Planning**

  (1) Planning provides directions (2) Planning reduces the risk of uncertainty (3) Planning reduces overlapping and wasteful activities (4) Planning promotes innovative ideas (5) Planning facilitates decision-making and promotes creativity (6) Helpful in development and expansion (7) Planning establishes standards for control.

- **Limitations of Planning**

  (1) Planning puts managerial activities in a rigid framework and creates false sense of security (2) Planning may not work in a dynamic environment (3) Planning reduces creativity (4) Planning involves huge costs (5) Time consuming device (6) Planning does not guarantee success (7) Machinery of planning can never be free from bias (8) Unsuitability for certain business.

- **Stages/Steps/Process of Planning**

  (1) Setting objectives (2) Developing planning premises (3) Identifying alternative courses of action (4) Examining/Evaluating alternative courses of action (5) Selecting an alternative (6) Implementing the plan (7) Providing for future evaluation and follow-up.

- **Types of Plans**

  Standing plans

  (1) Objectives (2) Strategies (3) Policies (4) Procedures (5) Methods (6) Rules.

  Single use plans

  (1) Programmes (2) Budgets

  Objectives. Goals established to guide the efforts of the company and each of its components are known as objectives.

  Strategies. Strategy concerns the direction in which human and physical resources will be developed and applied in order to maximise the chance of achieving a selected objective in the face of difficulties.

  Policies. The statement of an organisation and the intention to act in certain ways when specified types of circumstances arise is known as policy.

- **Bases of Difference between Objectives and Policies**

  (1) Aim (2) What and how? (3) Level of management (4) Dominance.

  Procedures. Series of related tasks that make up the chronological sequence and establish ways of performing the work to be accomplished are known as procedures.

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- **Bases of Difference between Policies and Procedures**

  (1) Necessity (2) Deviation (3) Scope (4) Levels of management (5) Dependence (6) Science and Art (7) Relationship.

  Methods. Formalised and standardised way of doing routine job is known as method.

  Rules. The specific and definite action to be taken with respect to a specified situation are rules.

- **Bases of Difference between Policies and Rules.**

  (1) Basis (2) Flexibility (3) Situations and (4) Exceptions.

- **Bases of Difference between Rules and Procedures**

  (1) Decision (2) Method (3) Relationship (4) Exact and rigid (5) Punishment.

  Programmes. Concrete plans with definite objective to accomplish certain specific activity is known as programme.

  Budgets. Estimate of future needs arranged according to an orderly basis covering the activities of the enterprise for a definite period of time is known as budget.

CASE PROBLEMS

An auto company C Ltd., is facing a problem of declining market share due to increased competition from other new and existing players in the market. Its competitors are introducing lower priced models for mass consumers who are price sensitive. For quality conscious consumers, the company is introducing new models with added features and new technological advancements.

Questions

1. Prepare a model business plan for C Ltd., to meet the existing challenge. You need not be very specific about quantitative parameters. You may specify which type of plan you are preparing.
2. Identify the limitations of such plans.
3. How will you seek to remove these limitations?

Case Study

A small business house involved in manufacturing of stationary and paper material is facing a problem of intense competition from the competitors. The competitors are attracting it's workforce by providing higher pay and better facilities hence the staff is not continuing for a longer period and are ready to join the competitors leading to losses for the company. The competitors are in a position to provide better quality products at a very reasonable price which is another major cause of concern.

Prepare a business plan for this company to get rid of the mentioned problem specifying the type of plan or plans needed.

[**Hint.** The company needs to bring changes in its policy and needs to prepare a new strategy].

Case Study

An auto company C Ltd., is facing a problem of declining market share due to increased competition from other new and existing players in the market. Its competitors are introducing lower priced models for mass consumers who are price sensitive. For quality conscious consumers, the company is introducing new models with added features and new technological advancements.

Questions

1. Prepare a business plan for C Ltd., to melt the existing challenge. You need not to be very specific about quantitative parameters. You may specify which type of plan you are preparing.
2. Identify limitations of such plan.
3. How will you seek to remove these limitations?

REVIEW QUESTIONS

1. Explain, in brief, the meaning of 'Policy' and 'Rules' as types of plans and give any four points of distinction between them.

2. Define '*Planning*'. State any four reasons, why planning is important?

3. Explain '*Policies*' and '*Procedure*' as the types of plans. Differentiate between the two on any four basis.

Or

Explain '*Rules*' and '*Methods*' as types of plans. Differentiate between the two on any four basis.

4. Explain how does planning help reducing uncertainties

5. Inspite of best efforts of managers sometimes planning fails to achieve desired results due to its limitations.

Explain any five limitations of planning.

6. Two years ago Madhu completed her degree in food technology. She worked for sometime in a company Manufacturing chutneys, pickles and Murabbas. She was not happy in the company and decided to have her own organic food processing unit for the same. She set the objectives and the targets and formulation action plan to achieve the same. One of her objective was to earn 10% profit on the amount invested in the first year. It was decided that raw materials like fruits, vegetables, spices etc. will be purchased

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on these months' credit from farmers cultivating organic crops only. She also decided to follow the steps required for marketing of the products through her own outlets. She appointed Mohan as a production manager who decides the exact manner in which the production activities are to be carried out. Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year. Madhu informed Mohan about her sales target for different products, areawise for the fourthcoming quarterly. While working on the production table a penalty of ₹ 100 per day for not wearing the caps, gloves and apron was announced.

Quoting lines from the above para identify and explain the different types of plans discussed.

7. Describe briefly the relationship between planning and controlling.

UNIT 3 OBJECTIVES

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STRUCTURE

3.1 DEFINING OBJECTIVES

The terms 'objective' and 'goal' indicate an end result to be sought and accomplished. Goals and objectives both have value orientations and indicate desired conditions considered necessary to improve the overall performance of the organization. Three widely quoted definitions on objectives are given below.

- Objectives are goals established to guide the efforts of the company and each of its components.
- An organization goal is a desired state of affairs which the organization attempts to realize.
- Objectives indicate the 'end point of a management programme'.

3.2 CHARACTERISTICS OF ORGANIZATIONAL OBJECTIVES

Just like any other management function, objectives have certain basic features. Generally speaking, enterprise onjectives are visible and understood by all. They provide undeniable evidence of how well the man with the gun has performed. When objectives are defined and set, it is hard to plead ignorance, forgetfulness and misunderstanding Apart from these simple descriptions, enterprise objectives have the following features:

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1. Objectives Form a Hierarchy

In many organizations objectives are structured in a hierarchy of importance. There are objectives within objectives. They all require painstaking definition and close analysis if they are to be useful separately and profitable as a whole. The hierarchy of objectives is a graded series in which organization's goals are supported by each succeeding managerial level down to the level of the individual. The objectives of each unit contribute to the objectives of the next higher unit. Each operation has a simple objective which must fit in and add to the final objective. Hence no work should be undertaken unless it contributes to the overall goal. Usually the hierarchy or objectives in an organization is described through means-ends chain. Understanding the means ends chain helps us to see how broad goals are translated into operational objectives. In the organization the relationship between means and ends in hierarchical goals established at one level require certain means for their accomplishment. These means then become the sub-goals for the next level, and more specific operational objectives are developed as we move down the hierarchy.

2. Objectives Form a Network

Objectives interlock in a network fashion. They are inter-related and inter-dependent. The concept of network of objectives implies that once objectives are established for every department and every individual in an organization; these subsidiary objectives should contribute to meet the basic objectives of the total organization. If the various objectives in an organization do not support one another, people may pursue goals that may be good for their own function but may be detrimental to the company as a whole. Managers have to trade off among the conflicting objectives and see that the components of the network fit one another. Because, as rightly pointed out by Koontz et al., "It is bad enough when goals do not support and interlock with one another. It may be catastrophic when they interfere with one another."

3. Multiplicity of Objectives

Organizations pursue multifarious objectives. At every level in the hierarchy, goals are likely to be multiple. For example, the marketing division may have the objective of sale and distribution of products. This objective can be broken down into a group of objectives for the product, advertising, research, promotion managers. The advertising manager's goals may include: designing product messages carefully, create a favorable image of the product in the market, etc. Similar goals can be set for other marketing managers. To describe the single, specific goal of an organization is to say very little about it. It turns out that there are several goals involved. This may be due to the fact that the enterprise has to meet internal as well as external challenges effectively. Internal problems may hover around profitability, survival, growth, and so on. External problems may be posed by government, society, stockholders, customers, etc. In order to meet the conflicting demands from various internal and external groups, organizations generally pursue multiple objectives. Moreover, no single objective would place the organization on a path of prosperity and progress in the long run. According to Drucker, "To emphasize profit, for instance, misdirects managers to the point where they may endanger the survival of the business. To obtain profit today they tend to undermine the future." Where several goals are involved, maximizing one goal would usually be at the cost of another. Managers have to see that various goals exist is harmony and for this purpose they must assign a definite priority of 1, 2 or 3 depending on the importance of each objective. Such assignment of priorities helps to keep a perspective, especially when there are many goals for one position.

4. Long and Short-Range Objectives

Organizational objectives are usually related to time. Long-range objectives extending over five or more years are the ultimate or 'dream' objectives for the organization. They are abstractions of the entire hierarchy of objectives of the organization. For example, planning in India has got objectives like eradication of poverty, checking population growth through birth control etc., which reflect certain 'ideals' the government wishes to accomplish in the long run. Short-range objectives (one year goals) and medium-range objectives (two to four-year period goals), reflect immediate, attainable goals. The short-range and medium-range objectives are the means for achieving long term goals and the long term goals supply a frame work within which the lower level goals are designed. Thus, all these goals reinforce each other in such a way that the total result is greater than the sum of the effects taken individually. That is why goal setting is called a 'synergistic process'. In order to remain viable, every organization needs to set goals in all three time periods.

3.3 IMPORTANCE OF OBJECTIVES

Objectives are essential to organizations. Organizations produce and market economic products and services, universities provide teaching and research, governments provide welfare and security and so on. Organizations are attainment instruments. Without some purpose, there is no need for the organization. All organizations are goal seeking, that is, they exist for the purpose of achieving some goals efficiently and effectively. Objectives affect the size, shape, and design of the organization, and they are important in motivating and directing personnel. Objectives serve the following functions:

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1. Legitimacy

Objectives describe the purpose of the organization so that people know what a stand is for and will accept its existence and continuance. Thus, Ford 'sells American Transportation', Chrysler 'sells know-how' and Godrej 'sells quality products'. Objectives help to legitimize the presence of organization in its environment. Now the organization can emphasize its uniqueness and identity.

2. Direction

Objectives provide guidelines for organizational efforts. They keep attention focused on common purposes. Once objectives are formulated, they become the polar star by which the voyage is navigated. Every activity is directed toward the objectives, every individual contributes to meet the goals. 'Without seeing the target, a manager would be like a blindfolded archer - expending useless effort and creating havoc.'

3. Co-ordination

Objectives keep activities on the right track. They make behavior in organizations more rational, more coordinated and thus more effective', because everyone knows the accepted goals to work toward. In setting effective goals managers help members at all levels of the organization to understand how they can 'best achieve their own goals by directing their behavior toward the goals of the organization.'

4. Benchmarks for Success

Objectives serve as performance standards against which actual performance may be checked. They provide a benchmark for assessment. They help in the control of human effort of human effort in an organization.

5. Motivation

Goals are motivators. The setting of a goal that is both specific and challenging leads to an increase in performance because it makes it clear to the individual what he is supposed to do. He can compare how well he is doing now versus how well he has done in the past and in some instances how well he is performing in comparison to others. According to Latham and Yuki goal specificity enables the workers to determine how to translate effort into successful performance by choosing an appropriate action plan. Suppose a publisher sets a goal of securing orders worth Rs. 5,000 in 6 months for a sales man and announces bonus for meeting this specification. This half yearly goal is a motivational tool that influences the salesman's behavior. Having a definite figure to shoot for is much more likely to stimulate his effort than instructions to 'sell as much as you can'.

Psychologists preach the significance of setting goals in our private lives as well. You set the goal of cleaning your scooter on a Sunday morning. Despite the drudgery, you feel a sense of accomplishment a fulfilling your objective.

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3.4 AREAS NEEDING OBJECTIVES

Peter Drucker, while working as a consultant for General Electric, identified eight key areas in which organizations would establish objectives. The areas were: (1) market standing, (2) productivity, (3) physical and financial resources, (4) profitability, (5) innovation, (6) manager performance and development, (7) worker performance and attitudes, and (8) public and social responsibility.

1. Market Standing

Market standing and innovation are the foundation areas in management. Essentially an organization exists to obtain results in these areas only. Market standing is a question deciding on the optimum (not the maximum) of market share the firm is trying to capture ultimately. This requires a careful analysis of (i) customers and products or services; (ii) market segments (what groups are buying the product or service); and (iii) distribution channels (who is getting the product to the customers).

2. Innovation

In every business there are three kinds of innovations: innovation in product or service; innovation in market place and consumer behavior and values; and innovation in the various skills and activities needed to make the products and services and to bring them to the market. The chief problem in setting innovation objectives is the difficulty of measuring the importance of various innovations. Management must, first of all, anticipate the innovation goals needed to reach marketing goals. It must also find out the technological developments in all areas of the business. For example, the survival of an insurance company depends on: the development of new forms of insurance, the modification of existing policies, finding out cheaper ways of selling policies and settling claims etc. Operating in a competitive world forces business firms to place emphasis on innovation goals.

3. Productivity

Productivity is the ratio of an organization's inputs to its outputs. All business has the same resources to work with; it is the quality of management that differentiates one business from another. It must decide as to what inputs of labor, equipment and finances are necessary to produce the firm's outputs?

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4. Physical and Financial Resources

Every business must be able to attract resources—physical, financial and human—and put them to productive use to be able to perform well. Resource mobilization is a two-step process: anticipating the needs of the business and planning for obtaining the resources in an economical fashion. After mobilizing resources one also has to say "This is what is available; what do we have to be, how we have to behave, to get the fullest benefit?"

5. Manager Performance and Development

In order to 'stay in' and remain profitable every business needs strong, innovative managers. So it is highly important, especially in the case of large organizations, to set objectives relating to the quality of management performance, the development of managers at various levels in the organization.

6. Worker Performance and Attitudes

Organizations must provide tangible benefits to the individuals working for its continued growth. Thus, workers want wages, managers want salaries, and owners want profits. These are the inducements that an organization must provide in order to obtain performance (contributions) from various groups. Most of the routine or normal work is performed by operative level employees in every organization. Unless goals are established in terms of output per employee, quality of product etc. the organizational activities may be disrupted by labor strife, union problems etc.

7. Profitability

(i) Profit objectives are important for accomplishing other objectives like covering risks in the business; (ii) ensuring supply of future capital for modernization and expansion; and (iii) satisfying customer needs. "A fundamental objective of the business firm is to produce and distribute products and services that the customer is willing to buy. Its reason for being is to create value. Utility must be created or consumers will spend their money elsewhere. Profits are essential to the survival and growth of the firm." They are the rewards for the effective utilization of resources in creating values for consumers. Instead of trying to maximize profits, the firm must try to create utilities for consumers.

8. Public and Social Responsibility

To achieve the economic objective, a firm must produce the goods the consumer wants. If a firm is not able to create economic value for society, it may not stay in business along enough to make a profit. In recent years social responsibility of business has become a matter of concern for many business undertakings. Here 'responsibility' implies a sense of obligation on the part of the business toward the general public.

3.5 CRITERIA OF A GOOD OBJECTIVE

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A good objective must be specific. Specificity is a highly desirable quality. Specificity provides direction towards which efforts could be channelised. A company's objective which reads "to achieve a common condition of employment for all employees, to at least present staff conditions, by 31st December, 1995," is clearly undesirable as it lacks specificity.

Secondly, an objective must be time-bound. "To reduce the selling expenses by 5% in the domestic market by 30th November, 1995", is clearly specific and time-bound objective. But to formulate an objective such as "to apply work study techniques to methods of working so that 70% of direct employees are achieving 100% performance" is of little use as it does not specify the time limit.

Thirdly, an objective should be as measurable and quantifiable as possible. This may not always be possible, but an attempt should be made to formulate the objective in measurable terms. Clearly, an objective like "to improve return on investment on new product lines" cannot be said to be a good objective.

The other criteria of a good objective are feasibility, rationality and consistency.

3.6 MANAGEMENT BY OBJECTIVES (MBO)

MBO is difficult to define, for organizations use it in different ways and for different reasons. In broad terms, it may be stated that MBO is an overall philosophy of management that concentrates on measurable goals and end results. It provides a systematic and rational approach to management and helps prevent management by crisis. MBO is based on the assumptions that people perform better when they know what is expected of them and can relate their personal goals to organizational objectives. It also assumes that people are interested in the goal-setting process and in evaluating their performances against the target. In the words of Odirone, MBO is a 'process' whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members.'

3.6.1 MBO in Indian Organizations

The exact meaning of MBO (and its application) varies from organization to organization. In some, MBO is nothing more than a catchy slogan from the latest management jargon. MBOis dismissed as a joke, a gimmick for justifying the existence of personnel departments, a fad that will go away and a paper-shuffling hassle that won't stop. In other organizations, MBO represents an overall philosophy of management, a way of thinking

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that concentrates on achieving results. It is treated as a multifaceted tool for improving managerial as well as organizational performance. In order to understand the reasons for this diversity, it is necessary to look into the process of MBO.

1. Goal Setting

Any MBO programme must start with the absolute and enthusiastic support of top management. It must be consistent with the philosophy of management. The long term goals of the organization must be outlined initially, like: What is the basic purpose of the organization? What business are we in and why? What are the long term prospects in other areas? After these long term goals are established, management must be concerned with determining specific objectives to be achieved within a given time capsule.

2. Action Plan

The action plan is the means by which an objective is achieved. The action plan gives direction and ensures unity of purpose to organizational activities. It will wet out in detail exactly what is to be done, how the subordinate will proceed, what step will be taken and what activities will be engaged in as the subordinate progresses. It provides a specific answer to the question: 'What is to be done?' Questions like who is responsible for each activity, what resources are needed, what the time requirements are - are also answered.

3. Appraising Performance (Final Review)

This is that last phase of the MBO programme. In this step the actual results are measured against predetermined standards. Mutually agreed on objectives provide a basis for reviewing the progress. While appraising the performance of subordinates, the manager should sit with the subordinates and find out the problems encountered while accomplishing the goals. The subordinate, as in the periodic sessions, should not be criticized for failure to make sufficient progress; the atmosphere should not be hostile or threatening. A give-and-take atmosphere should prevail and the appraisal should be based on mutual trust and confidence between managers and subordinates. In actual practice this type of give-and-take session is extremely difficult to achieve and rarely reaches its potential value, unless managers are gifted with necessary interpersonal skills. Often, appraisal takes place for the purpose of determining rewards and punishments; judging the personal worth of subordinates and not the job performance. As a result, appraisal sessions become awkward and uncomfortable to the participants and intensify the pressure on subordinates while giving them a limited choice of objectives. Insecure subordinates may come to 'dread' the sessions and they may not feel free to communicate honestly and openly without fear of retaliation.

3.6.2 Benefits

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Management by objectives moulds the planning, organizing directing and controlling activities in a number of ways.

1. As objectives provide the basic foundation of planning, the programme of action is thoroughly tuned to the set of objectives. Instead of going through planning as a work or as a mental exercise in thinking, planning for performance can be made to prevail through a system of management by objectives.
2. Delegation and decentralization in the sphere of organizing become effective and fruitful only when the subordinates are trained and allowed to work under a system of management by objectives.
3. By clarifying the sense of direction and allowing subordinates to operate under greater freedom, management by objectives results in motivating managers to do the best possible work rather than enough to get by with the situation.
4. Management by objectives leads to the adoption of managerial self-control. Managerial self-control has been found from experience to be associated with higher performance goals and broader vision.
5. Management by objective has ushered an era of improved managing in the business world. It provides a practical means of allowing wider participation in goal setting and of accomplishing goals of the enterprise in a better way.

3.6.3 MBO – Problems

Each organization is likely to encounter specific problems in MBO practice but some of the common problems are given here.

1. **Time and cost**. MBO is not as simple as it looks to be. It is a process which requires large amount of the scarcest resource in the organization time of the senior managers. This is particularly so at the initial stages, when MBO is seen as something over and above the normal work. Sometimes managers get frustrated and feel overburdened. Further, MBO generates paper work because large numbers of forms are to be designed and put into practice. Therefore, there is a problem of communication overload. However, such problems are transitory and emerge only at the initial stages. Once MBO becomes a part of the organizational life, these problems disappear.
2. **Failure to Teach MBO Philosophy**. MBO is a philosophy of managing an organization in a new way. However, managers fail to understand and appreciate this new approach. They have a number of doubts about MBO like what purpose is served by MBO, how the performance is to be appraised, and how organization will benefit. MBO demands rigorous analysis as an integral element of the management process but the organization may not be

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used to rigour. Frequently both the base data and the expertise for analysis are not available. If corrective action is not taken early, the objectives become imprecise, control information may not be available and one would not know if something was achieved. This is done on a systematic basis and managers seldom appreciate this. They take MBO as another tool for control. Moreover, their old way of thinking puts difficulty in introducing MBO because they may not appreciate the full view of MBO.

3. **Problems in Objective Setting.** MBO requires verifiable objectives against which performance can be measured. However, setting of such objectives is difficult at least in some areas. Objectives are more in the form of statement rather than in quantitative form. Of course, some objectives can be quantified and can be broken in terms of time period but others lack this characteristic, for example, objectives of staff activities. In such cases, there is absence of basis for further course of action.

4. **Emphasis on Short-term Objectives.** Sometimes, in order to be more precise, there is a tendency to emphasize on short-term objectives usually for a year or even less. No doubt, this may help in performance appraisal but there is always a danger in emphasizing short-term objectives at the cost of long-term objectives.

   Sometimes, an organization's short-term and long-term objectives may be incompatible because of certain specific problems.

5. **Inflexibility.** MBO represents the danger of inflexibility in the organisation, particularly when the objectives need to be changed. In a dynamic environment, a particular objective may not be valid for ever. In the context of revised objectives, change premises, or modified policies, it is useless to follow the old objectives. However, many managers often hesitate to change objectives during a period of time. Thus inflexibility created by applying MBO may cause harm than what it may contribute.

6. **Frustration.** Sometimes MBO creates frustration among managers. This frustration may be because to two reasons. First, as experience shows, many organisations could not implement MBO properly, resulting into utter chaos. In this case, the organization is not able even to work with its old system. Second, introduction to MBO tends to arouse high expectations for rapid change, particularly among the young and junior managers. They begin to see the vision of a new world for their organization in terms of growth, profitability, and for themselves in terms of career advancement. If the rate of change is slower than expected due to any reason, managers begin to feel frustration and even disenchantment with MBO.

In spite of these obstacles and problems in MBO, it continues to be a way of managing the organization. In fact many of the problems and weaknesses of MBO can be overcome by implementing it properly.

3.6.4 MBO – Limitations & Specifications

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Limitations. But management by objectives is fraught with certain difficulties in actual practice.

First, subordinate managers are to be trained and coached for working under a philosophy of management by objectives.

Secondly, managers are to be provided with proper guidelines for goal-setting on their part by way of disseminating the planning premises and of imparting a knowledge of the network of company objectives and policies.

Thirdly, the possibility of setting easy goals by managers in quantitative terms only without caring for their qualitative aspects is to be guarded against.

Fourthly, the tendency to overlook long-run objectives and to put emphasis on short-run objectives is to be checked on the part of managers.

Fifthly, as changes in top-level objectives call for a corresponding change in lower-level objectives, inflexibility in objectives may be introduced by the failure to revise lower-lever objectives, an inflexibility in objectives.

Finally, unless the entire pattern and style of managing are suitably adjusted to it, the system may degenerate into a management gimmick. As a matter of fact, the success of MBO programmes in industrial enterprises is as low as 20 to 40 per cent.

Specifications for Objectives

A number of considerations are involved in setting objectives which are supposed to play a dominant role in management.

First, after defining the purpose and mission of business as to what the nature of business is, what is should be and what it will be, the objectives are formulated for any purposeful action. Otherwise, the objectives become good intentions or pious desires. In the context of the clear definition of the business, objectives become the strategies for committing resources and initiating actions. Developed in this way, objectives give direction to the business and provide standards for measuring performance.

Secondly, the translation of major objectives into derivative objectives should always be effected in intelligible, tangible and meaningful terms. Unless individual objectives are specified in definite terms of expected results and they are well understood by lower-level executives and operators, no successful accomplishment is practicable. Furthermore, in the hierarchy of objectives, the individual objectives must fit into the mould of overall objectives for the company to ensure effective management.

Thirdly, objectives should be set in realistic terms rather than in idealistic terms. Objectives which are not attainable and which signify the merge hope of top executives demoralize employees and retard their performance. But realistic objectives based on measured expectations

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provide incentives and job satisfaction for high performance.

Fourthly, short-range objectives should be recognized as distinct steps in the realization of long-range objectives. Otherwise, the achievement of long-range objectives becomes difficult, if not impossible. Long-range objectives involving plans for the distant future fail to make the individual objectives tangible and meaningful and to provide sensible standards for control. Such objectives may also appear as idealistic to the employees. All these difficulties can be removed by setting short-range objectives as different steps in long-range objectives.

Fifthly, as company objectives are of multiple characters, there arises the necessity of balancing various objectives through a greater concentration of resources and efforts on one or two objectives at a time. Rather than spreading resources over all objectives and stressing everything, the objectives are to be selective. Main and dominant objectives are given more care than others through the constant adjustment of short-run emphasis on such objectives.

Finally, the dynamic business environment makes the company objectives dynamic in nature, and such objectives call for changes along with changing time and situations. Although objectives are more stable than other plans, the periodic adjustment of objectives becomes necessary to keep pace with the progress of time and to cope with the expanding size of the business. Once a change is introduced in overall major objectives, the derivative objectives must also reflect the same degree of change to fit into the hierarchy of objectives.

3.6.5 Prerequisites for Installing MBO Programme

MBO is a philosophy, rather than a mere technique. As such, its installation requires a basic change in the organizational culture and environment. Many of the organizations could not use MBO successfully because of the lack of appreciation of this fact. Many of the organizations are designed so as to undermine the MBO Philosophy. This is because they could not create the proper environment required for the adoption of MBO. Below are stated some of the prerequisites and problems contained therein for installing the MBO programme:

1. **Purpose of MBO:** MBO is a means rather than an end. It has to achieve certain things in the organization; it has to solve some problems. Thus, the organization should be very clear about the purpose for which it is being implemented. As already discussed, Howell has suggested a three stage evaluation of MBO : management appraisal and development, improvement of the productivity and profitability, and long-range planning. Thus, an organization facing serious competition in both, in its product and factor markets and in the grip of secular decline, will tend to use MBO primarily for immediate improvements in productivity and profitability. On the other hand, an economically affluent organization might contemplate

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using MBO to change its management style so that it conforms to a more advanced and germane model of man-in-the-organization. In both these cause, the details and emphases of the system will vary. Thus, if the purpose of MBO is not precisely defined and particular techniques in MBO suitable to the purpose are not emphasized, there is every possibility that MBO does not produce the results as anticipated.

2. **Top Management Support.** The presence or absence of top management support is a critical factor in determining the degree to which an MBO programme will be successful. Many studies on MBO suggest that out of the several factors determining the success or failure of MBO, no single factor had greater correlation than the subordinate's perception of superior's attitude towards MBO. Thus subordinates who can see their superiors as having a positive approach towards MBO are themselves also like to show a positive attitude. MBO is a way of managing on a day-to-day basis rather than an exercise of writing objectives once a year. The manager has a responsibility of, (i) personally discussing with each subordinate the objectives that were set; (ii) evaluating progress made in achieving these objectives; and (iii) assisting and supporting the subordinate by removing obstacles that hinder his work accomplishment. Mere verbal or printed commitment is not enough. Vigorous involvement amongst the top management is essential and this must be seen and perceived as such throughout the organization. In short, an MBO programme is not an end in itself, rather a means to an end. Management support for using objectives to plan and to control, working on a continuous basis, increases the probability of success of a programme.

3. **Training for MBO:** Another critical factor in implementing MBO is the existence of some type of training programme for people who will be operating under it. Systematic training is required in the organization for disseminating the concepts and philosophy underlying MBO. The training should start with the concepts, philosophy, and need for MBO. If people in the organization are not clear about the reasons for which MBO is being undertaken, they will fear and may show their resistance because people tend to show fear to what they do not understand. This fear can lead to suspicion and mistrust which, in turn, undermines people's enthusiasm which is very important during the initial stages of MBO. One consultant on MBO has remarked that 'the importance of orientation and training should not be overlooked. I think it is important when you move into a programme like this, if you are starting from scratch, that people understand why and how your are developing the programme. Sometimes there is a certain amount of fear involved when a programme of this kind is involved.'

4. **Participation:** Success with MBO required a commitment on the part of each individual involved in this type of system. Their

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commitment, in turn, is a function of their identification with and participation in the system. The subordinate should not perceive that MBO is another technique being used by his superior to control his performance. Such undesirable perception may be avoided by encouraging the subordinate to play an active role in the preliminary phases leading to the actual writing of the objectives. Subordinate's role should include (i) the identification of important areas of accountability of his job; (ii) the determination of mutually agreeable performance measures; and (iii) the identification of this present performance level. However, the areas and scope for participation may vary in their relative emphasis according to the functional areas or hierarchical level to which an individual belongs. There cannot be a standard set of participation and each organization may make its own diagnosis about the extent and type of participation it desires under given conditions. In this context, Newport observes: 'A change to participative management involves the establishment of a situation in which people are active rather than passive, responsible rather than irresponsible, and basically more independent than dependent. Yet our heritage is one for the most part of a belief in the necessity for highly structured organizational arrangements. To change such management ideologies adopted from generation to generation is a time consuming process.

In evaluating whether participation will work or not, following questions should be asked:

(i) Has the type of participation required been carefully thought out?

(ii) Does higher management really mean to share certain managerial prerogatives that supposedly go with their rank?

(iii) Is participation perceived as a trap by subordinates?

(iv) Have subordinates the right skills and knowledge in order to shed their defences, and participate meaningfully?

5. **Feedback for Self direction and Self control:** One of the strong points in MBO system is that within this system a man can direct and control his own performance. For such a purpose, a man, who has performance objectives and knows how well he is achieving them, should know 'where he stands' and 'where he is going' so that he can make necessary adjustments to achieve the desired results on his own. As such feedback is necessary. Feedback is an essential ingredient in sustained learning and improvement in situations. By feedback, here, is not meant merely the regular supply of control information to each manager. The interpersonal aspect of feedback is equally important. Feedback under MBO should take two forms. First, the individual should get periodic reports on where he stands on an overall performance basis. This is required specially when the subordinate requires help from the superior. Second, feedback is necessary in the form of periodic counseling and appraisal interview. The superior helps to evaluate progress, to identify problems, and to offer planning suggestions.

6. **Other Factors.** Besides the above major considerations, there are several other factors that influence the success of MBO. To the extent those responsible for implementation are aware of the various problems, they can make provisions in advance to overcome these. These are as follows :

   (i) **Implementing MBO at Lower Levels.** If the full benefits of MBO are to be realized, it must be carried all the way down to the first line of the organization. There is a tendency for active participation in objective setting itself and for periodic feedback and review to diminish, the further down the management leader the programme gets. It such a tendency prevails, to that extent, the utility of MBO will be effective.

   (ii) **MBO and Salary Decision.** One of the most elusive aspects of MBO is to tie the organization's compensation system with the MBO programme. Though this problem does not arise at initial level, later on, this becomes a crucial issue. This is because rewards and penalties are among the accepted ways of exercising organizational authority over its members. There are various problems to the organizational remuneration with MBO. First, there is the problem of equating the degree of difficulty to the achievement of various objectives in various functional areas. Second if, the monetary differences between the superior and the average performer is not perceived being significant, the superior performer will lose enthusiasm to continue his outstanding performance. At the same time, minimum increases for average performers can also be discouraging. They may be doing their best work, and getting only a minimum increase may be perceived as punishment. However, such an opportunity may not exist in the organization. Third, some argue that to link MBO with reward - penalty systems would amount to bringing in the piece rate system from the shop floor to the manager's office. Thus, linking MBO with reward and penalty is really a difficult problem. One way to overcome this problem is that rewards and penalties may be thought of in qualitative terms also, instead of the usual monetary alternatives.

   (iii) **Conflicting Objectives.** One of the, outcomes of MBO programme is that to a degree it builds a competitive climate. This is because MBO generates commitments. But it is often found in practice that over-commitment leads to competitive rivalry with respect to claims on the scarce resources of the organization. This may be dangerous if it exceeds the limits. The accomplishment of result in organizations largely requires interdepartmental cooperation and integration of efforts. The persons responsible for introducing MBO must be certain that competing objectives are not set. Some educational effort is needed to enable managers to adopt an overall approach to performance objectives. At the same time, MBO programme

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itself should not encourage sub-optimizing efforts in the short run. Intergroup and intragroup performance reviews at regular intervals should reveal the human dynamics of such sub-optimal behavior.

3.6.6 MBO in Indian Organizations

In India, there is very limited experience of MBO. In fact very few organizations have applied MBO and very few of them have shared their experience with others. MBO came to India initially through the multinational companies operating in India. At the initial stage, overseas corporate offices of multinationals provided expertise to the Indian associate companies. It was in 1969 that MBO made a systematic entry through a management institution : Administrative Staff College of India, Hyderabad, organized top management seminar on MBO in which heads of many organizations participated. Many of them appreciated the role of MBO as a system of management and applied it in their organizations.

SUMMARY

- An organization goal is a desired state of affairs which the organization attempts to realize.
- The hierarchy of objectives is a graded series in which organization's goals are supported by each succeeding managerial level down to the level of the individual.
- Objectives affect the size, shape, and design of the organization, and they are important in motivating and directing personnel.
- Delegation and decentralization in the sphere of organizing become effective and fruitful only when the subordinates are trained and allowed to work under a system of management by objectives.
- Many of the problems and weaknesses of MBO can be overcome by implementing it properly.

REVIEW QUESTIONS

1. Describe the characteristics of organizational objectives.
2. Discuss the key areas identified by Peter Drucker in which organizations should establish objectives.
3. What is the importance of setting organizational objectives in a modern complex organization?
4. What do you mean by Management By Objectives (MBO)?
5. Discuss the benefits and difficulties for MBO.
6. Write short notes on:
   (*a*) Criteria of a good objective
   (*b*) MBO process

UNIT 4 ORGANISING

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STRUCTURE

4.1 INTRODUCTION

Organisation is coordinated efforts of the different individuals working in an enterprise to achieve its goal. Man is a born troublemaker. Every human being is different from others as regards his values, beliefs, intellect, likes and dislikes, as such there are conflicts of interests and preferences. No enterprise can allow the individuals working in it to behave and work in their own way, because it will not only upset the work but may uproot even the enterprise. As such, the employees have to be motivated, guided and if necessary forced to cooperate and coordinate their activities for the accomplishment of the organisational objectives. **Chaude S. George, Jr.** rightly says about organisation. It integrates the various jobs of the enterprise into an effective organisation system for accomplishing the firms's objectives. In this way, the manager combines and co-ordinates individual as well as group activities to achieve the goal of the business in an efficient and effective manner through organisation.

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4.2 MEANING AND DEFINITION OF ORGANISING

The term 'organisation' is derived from the work *'organizm'*, which means a structure of body divided into parts. The different parts of human body performing different activities combine themselves into sound body structure. In the same way, organisation in an enterprise means the integration and coordination of individual efforts to achieve the cherished goal of the business enterprise.

Before defining organisation, it will be proper to consider the following elements of organisation:

(*i*) Organisation is a group activity.

(*ii*) Organisation consists of—Assigning duties, granting authority, fixing responsibility and coordinating activities.

(*iii*) Organisation is the means to achieve the objectives of the enterprise. It shows that organisation is used in the following two forms in the business.

(*a*) Organisation as a structure. (*b*) Organisation as a process.

4.3 STEPS IN THE PROCESS OF ORGANISING

Organising means identifying, arranging and integrating different elements of organisation into efficient working order. It requires the management to follow the following process of organising

"Organising is the establishing of effective authority relationships among selected work, persons and work places in order for the group to work efficiently." **—G.R. Terry**

"In its broad sense organising refers to relationship between various factors present in a giving endeavour or enterprise." **—William Spriegal**

"To organise a business is to provide it with everything useful to its functioning raw materials, machines and tools, capital and personnel."

"Organisation is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority relationships for the purpose of enabling people to work most effectively together in accomplishing objectives." **—Lous. A. Allen**

1. **Identification and division of work.** The main function is divided into sub-functions and entrusted to the different departmental heads. The result is the establishment of departments like Purchase, Sales, Production, Accounts, Publicity and Public relations. The departments can be further classified just as production department

into (*i*) Planning, (*ii*) Designing, (*iii*) Operations, (*iv*) Production control and (*v*) Repairs and Maintenance. The division of the work is based upon the fact that specialisation is keynote of efficient organisation.

2. **Grouping job and departmentation.** The second step is to group similar or related jobs into larger units, called departments, divisions or sections. Grouping process is called departmentation.

   The department may be based upon functions such as manufacturing, marketing and financing etc. Departments may also be based on products, such as, textiles, cosmetic, stationery etc. These departments may have different sections as per requirement.

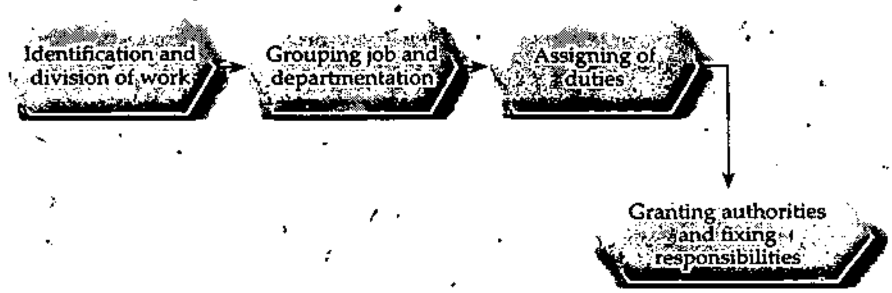
   Grouping jobs or departmentation aims at achieving coordination and facilitates unity of efforts. The departments are linked together on the basis of interdependence. The divided task is assigned to specific individual or group of individuals who are supposed to be the most qualified and specialised persons for the task.

3. **Assigning of duties.** The work to be performed by every individual is clearly defined and made known to him. Everyone must know, what he is required to do in order to avoid any misunderstanding, duplication or overlapping in the work.

4. **Granting authorities and fixing responsibilities.** Assigning of duties to individuals must coincide with the appropriate and relevant authorities. Every employee must know, what are the authorities granted to him and for what and to whom he will be responsible, liable and accountable.

   The establishment of such clear relationship helps to create a hierarchical structure and helps in coordination amongst various departments.

Process of Organising



4.4 IMPORTANCE/PURPOSE OF ORGANISING

Effective organisation is the means to achieve the objectives of the enterprise. It is the basic function of management. Organisation makes the proper arrangements of the requisite resources and make its most useful and efficient application. It provides right direction to the efforts of

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individuals and groups. The organisation structure results in the proper, balanced, coordinated and controlled development of the enterprise. It is the only means to achieve the maximum objective of the business at minimum sacrifice and wastages.

No doubt, organisation is an important tool to achieve the objectives of the enterprise, which can be proved by the following facts:

1. **Benefits of division of work and specialisation.** Organisation makes clear division of work. Every job is assigned to the right person. The duty, authority and responsibility of every employee is predetermined which enables easy control of business affairs. The scientific analysis and classification of job results in specialisation and its related advantages.
2. **Clarity in working relationship.** A good organisation structure honours the principle of the unity of command which specifies that every employee has to receive orders from the one specific person and he is responsible for his work given to him only. This enables proper execution of work and at the same time eliminates confusion, duplication and misunderstanding. The principle of unity of direction makes provision of the equal authority and responsibility at all uniform levels, so the employees feel that they are not subject to injustice and inequality.
3. **Optimum utilisation of resources.** Organising enables the enterprise to make optimum utilisation of physical and human resources. An effective organisation reduces the wastages of physical and human resources and makes their most economical use resulting in reduction of the cost of production.
4. **Adaption to change.** Elasticity in the organisation helps in the requisite changes in the organisation structure and also in the introduction of new plans and appointment of technocrats.
5. **Development of personnel.** The training facilities enable the employees to make the optimum use of business resources economically, otherwise the employees would have adopted 'trial and errors method' and caused a lot of wastage of resources.
6. **Effective administration.** An effective organisation integrates and coordinates the efforts of individuals and departments. The coordination results in the achievement of the maximum business objectives at minimum sacrifice. Thus, it brings effectiveness in administration.
7. **Expansion and growth.** Organisation helps in the growth and diversification of an enterprise by enabling it to deviate from existing rules and regulation and taking up new challenges.

K.C. Towe rightly says, *A sound organisation is the answer to every business problem, that a poor organisation could run a good product into the ground and that a good organisation with a poor product could run a good product out of the market.*

4.5 PRINCIPLES OF ORGANISATION

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The important principles of organisation, as listed by Koontz, may be stated as:

1. ***Purpose of Organising:*** Organisation should facilitate the achievement of enterprise objectives in an efficient way.
   (a) *Principle of 'unity of objective:* An organisation structure is effective when it helps in the achievement of enterprise objectives.
   (b) *Principle of organisational efficiency:* An organisation structure is efficient if it facilitates the achievement of objectives with minimum costs. An efficient organisation structure operates without wastage of resources, allows maximum utilisation of human resources, offers clear lines of authority and responsibility and provides a means for personal development.
2. ***The Cause of Organising:*** Span of management is the basic cause of an organisation structure. But for the principle of span of management, firms would ever remain small-managed by only one manager.
   (a) *Principle of spun of management:* A manager should have a limited number of subordinates reporting to him direct. Generally, the span should be short for novel, complex work and long for routine, simple work.
3. ***The Structure of Organisation (Authority):*** Authority is the cementing force in every organisation. It is the means by which groups of activities can be put under a manager. It enables the top management to coordinate enterprise work effectively. A manager can show proper direction and create an environment for sound individual performance.
   (a) *Principle of scalar chain:* A scalar chain or chain of command refers to the unbroken line of authority from the top level to the bottom of an organisation. A dour chain of command facilitates communication.
   (b) *Principle of authority and responsibility:* Adequate authority must be given to managers at the lower level. The superior must state clearly what he expects, when he expects it done and by whom; The subordinate, on his part, must show good performance, following the directives of the superior. Responsibility, in simple terms, is the obligation of a subordinate to perform die duty as required by the superior. As a matter of principle, there should be parity between authority and responsibility. Authority without corresponding responsibility results in misuse of authority while responsibility in the absence of adequate authority brings about frustration and ineffective performance. More importantly, it should be noted here that, responsibility is final and it cannot be re-delegated. By delegating work to

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lower levels, the superior is not relieved of his responsibility in any way. He is still responsible for the final result.

(c) *Principle of unity of command:* The unity of command principle states that for any given activity an employee should be made accountable to only one superior.

(d) *Authority level principle:* Decisions within the authority of individuals should be made by them and not referred upward in the organisation structure. Delegation would be a futile exercise if the subordinates wait at the doorsteps of a superior for an audience before they take actions within their authority.

4. ***The Structure of Organisation (Departmentation):*** The primary purpose of organising is to provide a basic structure in the form of a departmental framework.

(a) *Principle of functional definitions: The* duties, authority and responsibility of every individual must be clearly stated. People at various levels must know what they are supposed to do, when, and for whom. They must also know the limits to their behaviour.

5. ***The process of Organising: The*** process of organising becomes easy when the following principles arc applied sincerely:

(a) *Principle of balance:* Different departments and activities in an organisation should be given, balanced and proportionate emphasis in relation to their overall contribution to objectives.

(b) *Principle of flexibility: The* organisation structure should be designed in a flexible way. It should be possible to effect changes in the structure depending on situational requirements.

(c) *Principle of stability:* At the same time, the organisation structure should be reasonably stable. Stability refers to the organisations ability to withstand changes so as to meet stated organisational goals in an efficient manner.

(d) *Principle of simplicity:* The structure should be simple so that personnel follow the assignment of work and allocation of duties and responsibilities. The facilitates leadership activity also.

4.6 ORGANISING AS A STRUCTURE

Organisation as structure means *organisation as structure of relationship between formal positions and jobs*. It is a *classical or static concept,* because it establishes relationship between various positions in the enterprise instead of maintaining cordial relationship between persons occupying the position. According to this view organisation as structure means coordinated relationship. The view is, not accepted by modern thinkers, because it ignores informal relationship between individuals.

Some of the important definitions of organisation by those who consider organisation as a structure:

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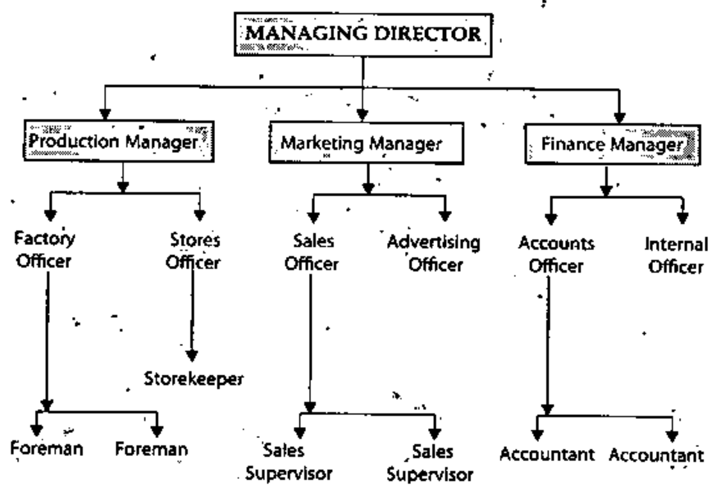
Organisation as Structure

"Organisation is a harmonious adjustment of specialised parts for the accomplishment of some common purpose or purposes." **—Haney**

"Organisation is the establishing of effective behavioural relationship among selected work, persons, and work places in order, for the group to work together effectively." **—Terry**

"Organisation is the structural frame work within which the various efforts are coordinated and related to each other." **—Theo Haimann**

ORGANISATION STRUCTURE



4.6.1 Special Features of Organisation as Structure

Organisation as structure of relationship has the following important features:

1. **Relationship between members of groups.** Organisation as a structure is the formal relationship among positions and jobs of the enterprise to a greater extent. It also stresses close relationship between individuals of group, whether large or small.
2. **Means to attain desired objectives.** Organisation is a tool to achieve the predetermined goal of the business. It is the means to attain the common objective.
3. **Cooperation between members.** In order to achieve the common goal of the business individual efforts are coordinated and integrated.
4. **Formal relationship.** Formal structure of the organisation is governed by the established rules and regulations. The authority and responsibility of various positions is clearly defined.
5. **Communication.** The persons occupying positions have communication links among themselves and share their views as and when required.

Considerations in Designing an Organisation Structure

(*i*) **Design of the job:** The jobs in the organisation should be appropriately designed so that the activities which have to be

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performed in different jobs are clear and definite. After the job has been designed it becomes easier for the manager to assign task to various subordinates and to six responsibility for them. The structure of the organisation is generally based upon the nature and design of the job.

(*ii*) **Departmentation:** The jobs designed can be classified into various functions such as marketing, finance, production etc. classifying and grouping of jobs results in creation of departments within the organisation. All the related jobs are put under one department and the functioning of the organisation becomes smoother.

(*iii*) Span of management: It refers to the number of subordinates a manager can take care of. The number of subordinates under a manager should be to that extent to which he can carry out his responsibilities effectively and efficiently. The number of persons under a manager depends upon the following factors:

(*a*) Nature of work.

(*b*) Degree of control and supervision required.

(*c*) Degree of coordination needed.

(*d*) Capability of the manager.

(*e*) Efficiency of the subordinates.

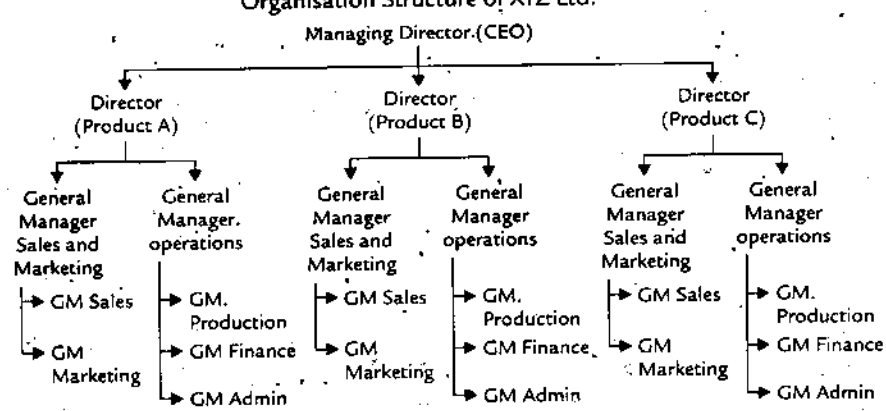
(*f*) Similarity of functions.

(*iv*) **Authority–Responsibility relationship:** (Delegation) If responsibility is assigned to a particular subordinate, he should be provided with sufficient authority so that he can perform his duties effectively and efficiently. Thus responsibility should be accompanied by sufficient amount of authority. It leads to sharing of authority in the organisation which helps in deciding the structure of various positions from top level to the lower level.

Case Study

XYZ Ltd., is a machine tool manufacturing company. The company has three products A, B and C. The current organisation structure is based on the product lines as below:

Organisation Structure of XYZ Ltd.



Recently, the company ran into trouble and its sales started declining and cost started increasing resulting in lower margin for the business. After careful analysis, the following issues were identified for bad business performance over the last 3 to 4 years.

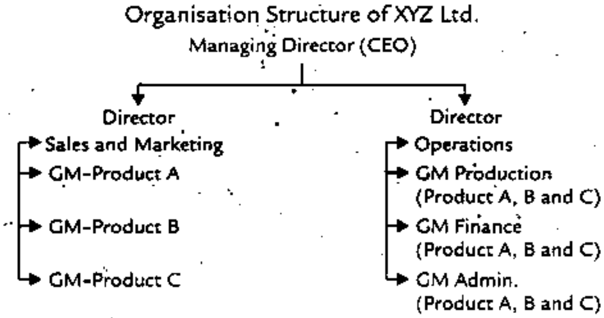
1. Each product director is looking into his/her domain without much interaction with other product directors.
2. Product A, B and C have good market but product directors do not help each other to increase sales. For example, product A is sold to one customer but product B and C are not referred to the same customer who is using other brands of the same product.
3. There is no integration between production/finance/admin. departments of product A, B and C to learn from each other to contain cost.

Question

Q.1. You need to comment on the current organisation structure and suggest another organisation structure with reason.

Ans. The current organisation structure lacks the business integration model as the directors of each product only work for their product segment. Also, there is no coordination pertaining to production/finance/admin. departments of the organisation. I would suggest the following organisation structure.

Organisation Structure of XYZ Ltd.

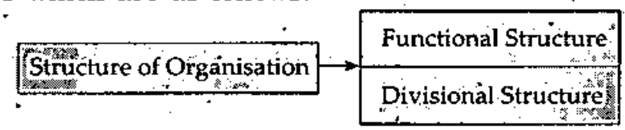


The above organisation structure will help in the following way:

1. Control will be established on both sales and cost part for all three products A, B and C.
2. The objective of director–sales and marketing is to maximise sales of all three products and bring synergy in the sales team effort.
3. The objective of director operations is to minimise cost by integrating the production, finance and admin. departments of products A, B and C. This will help in utilising available resources in the best possible way.
4. The proposed structure mentioned above is much leaves and goal oriented in terms of maximising sales and minimising cost. The above case study provides a glimpse of divisional and functional organisational structure and their application in actual business scenario.

4.7 TYPES OF ORGANISATION STRUCTURE

In order to achieve the desired goals, sound and effective organisational structure is necessary. The organisational structure can be classified under two categories which are as follows:



4.7.1 Functional Structure of Organisation

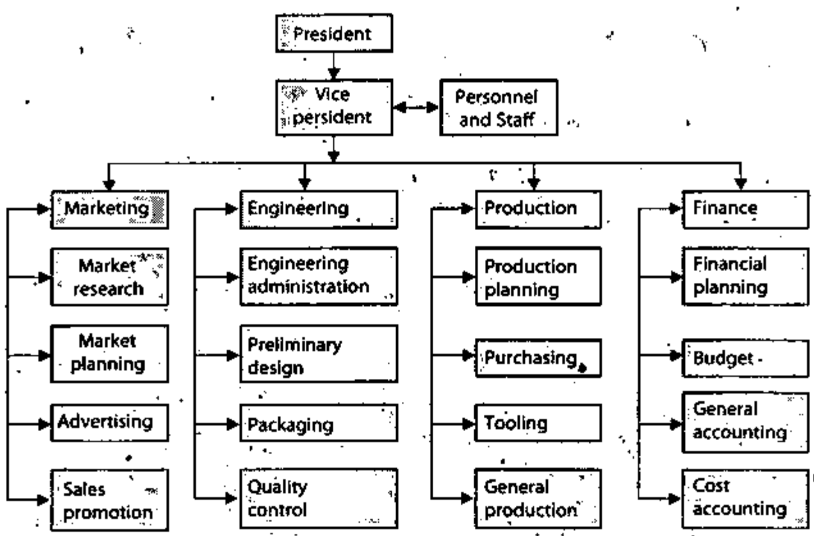
Grouping together the entire work into major functional departments and entrusting these departments to functional specialists is known as functional structure of organisation. Each major function of the enterprise is organised as a separate department. These departments may be Engineering, Production, Personnel, Finance and Marketing in a manufacturing company. If it is a retail store, these departments may be purchase, sales and stores etc., as per requirement. The names of the departments can change as per the requirements, nature and size of the enterprise.

Major functions of the enterprise differ from each other on account of technicalities involved, specialised education and training needed. However, these functions have common goal of achieving maximum efficiency to maximise overall returns of the enterprise. The functional heads are provided functional authority over the subordinates under their command.

Functional organisation is the developed form of Taylor's functional foremanship. In practice, modern functional organisation is restricted to top level of the organisation structure and not carried down to the lowest level as recommended by Taylor.

Functional structure of organisation is extensively used these days by almost every enterprise at different levels. The sales, production, finance and marketing functions are so widely recognised that almost every enterprise uses it as the basis of departmentation.

FUNCTIONAL ORGANISATION STRUCTURE (Manufacturing Company)



Advantages of Functional Structure

1. **It is a logical reflection of functions.** It differentiates functions in such a manner that each function is organised on a logical pattern for its performance. This helps in integrating the diverse organisational activities towards achievement of common goal.
2. **It maintains power and prestige of major functions.** Major functions like production, marketing, finance etc., are assigned to departmental head to drive major activities concerning these functions.
3. **It follows principle of occupational specialisation.** Each function is separated and taken special attention in overall organisational set-up. This facilitates division of labour and specialisation for each function. Each department is managed by a specialist.
4. **It simplifies training.** Due to success of specialisation, it becomes easy to train new entrants. Simplified training methods are used to reduce learning curve of new employees.
5. **It furnishes means of tight control at top.** Each functional head is responsible for the performance of his function. Budget is allocated to these functional heads on the basis of which their performance is measured.
6. **Convenient supervision.** The manager becomes acquainted with the activities under his command. It facilitates supervision.

Disadvantages of Functional Structure

1. **De-emphasis of overall company objectives.** Due to separation of each function from each other, overall organisational objectives suffers. Each functional head emphasis on the performance of his function and lacks emphasis on the overall objectives of the company.
2. **Overspecialises and narrow viewpoint of key personnel.** Personnel concentrate on their own functions without caring about its impact on the overall organisation. This narrows their viewpoint and they miss the broader view of organisational achievement.
3. **Responsibility for profits is at the top only.** Responsibility for profits lies with the president or CEO while each functional head looks after his assigned area of activity. This makes it difficult to integrate diverse functions towards achievement of common objectives.
4. **Slow adaptation to changes in environment.** Due to lack of inter-functional interaction personnel tend to become less responsible to any change. Their style of functioning does not remain as dynamic as the external and internal environmental changes taking place in the organisation.
5. **Limits development of general managers.** General managers act as mere supervisor rather than learning in depth the organisational activities. Each functional head reports to general manager, who has little interference in the performance of that function. This limits the development of general managers.

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Suitability of Functional Structure

Functional structure is suitable in the following situations:

(i) Where enterprise is large sized with high degree of specialisation.

(ii) Where workload on managers is uneven.

(iii) Where authority is decentralised.

(iv) Where specialist services are required and activities are diversified.

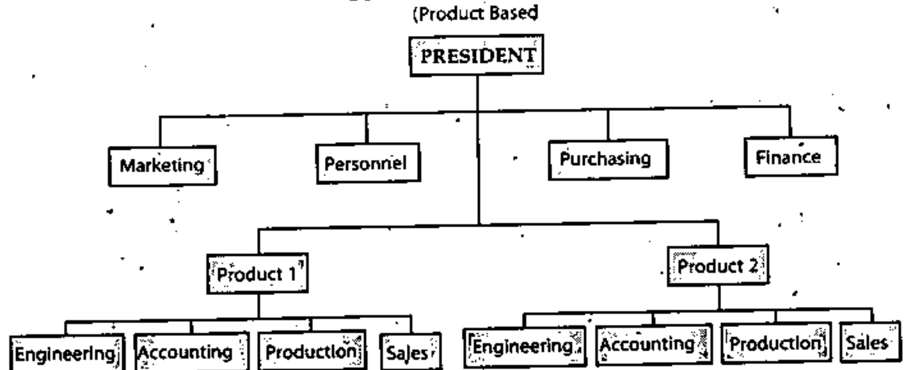
4.7.2 Divisional Structure of Organisations

Grouping of activities or departmentation on the basis of product, product lines and areas is known as divisional structure of organisation. Divisional structure has been finding favour with the multiple large scale enterprises. Under this structure the top level delegates extensive authorities to the divisional heads. The divisional head is the incharge of the manufacturing, purchase, sales, engineering and other departments of the division under his command. He is also made responsible for the profit or loss of his division.

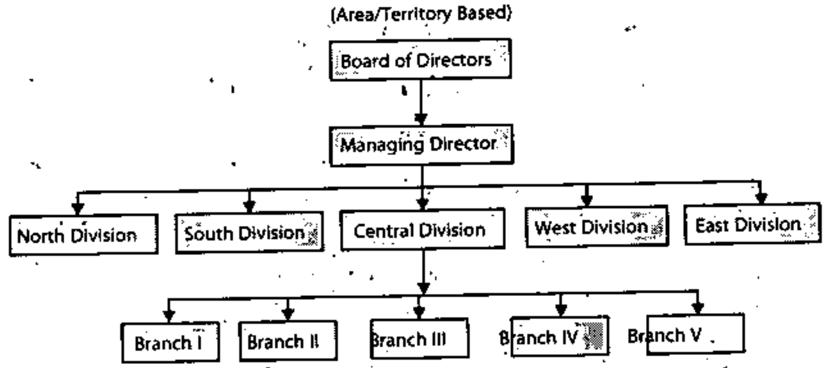
Product based Divisional Structure

Product and product line is an important basis for departmentation. It facilitates the use of specialised and specialist services of the divisional managers in their product line. He can use his personal skill and his specialised knowledge for the development of his department.

DIVISIONAL STRUCTURE
(Product Based



(Area/Territory Based)



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Advantages of Divisional Structure

1. **Places attention and effort on product line.** It facilitates attention on individual product line so that highest efficiency in terms of production and sales can be achieved in that product line.
2. **Facilitates use of specialised capital, skills and knowledge.** The resources are used for a single product line to bring specialisation in its performance. Allocation of resources is made between different product lines.
3. **Permits growth and diversity of products and services.** Attention on individual product line permits its growth and facilitates diversification of enterprise.
4. **Improves coordination of functional activities.** Activities like sale, marketing, production are better coordinated due to their clear-cut attention on different product lines. Overlapping of functional activities is avoided.
5. **Places responsibility for profits at the divisional level.** Responsibility can be fixed according to product lines. Each responsibility centre has to take care of its performance in terms of profitability.
6. **Furnishes measurable training ground for general managers.** Separation of responsibility according to product lines facilitates smooth and specialised training for managers. It helps in achieving maximum benefit out of their efforts.

Disadvantages of Divisional Structure

1. **Requires more persons with general manager abilities.** It requires more managerial resources especially in enterprises, where single product lines are not vast enough to need separate managerial resource.
2. **Tends to make maintenance to economical central services difficult.** Centralized services like lighting, furnishing etc. become difficult to maintain due to their distribution amongst separate product lines. If they are used in a centralized manner, it would have been more economical.
3. **Overlapping of functions.** Top management has to monitor each product line separately which makes it difficult to analyse the overlapping of the functions.
4. **Excessive expenditure.** Separate departments with separate entire set of activities become the victim of excessive expenditure. Multiplication of the same efforts and selfish attitude of the department adds to the cost of operation.
5. **Duplication of efforts.** Generally certain set of activities are found in every departments. Repetition of these activities results in the duplication and multiplication of efforts and expenditure.

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6. **Self-centred.** Every division tries to maximise its own profit, sometimes at the cost of other divisions. The divisions become selfish and self-centred. Consequently overall performance of the enterprise suffers. Lack of coordination and mutual distrust disturbs the smooth functioning of the enterprise.

Suitability of Divisional Structure

Divisional structure is suitable in the following situations:

(*i*) When an organisation is involved in the production of different line of products.

(*ii*) Organisations needing product specialisation.

(*iii*) Business houses which plan to produce more line of products in future.

(*iv*) Organisations having various divisions and each division require separate departments such as production, sales finance etc.

Difference between Functional and Divisional Structure

Bases of Difference	*Functional Structure*	*Divisional Structure*
1. *Meaning*	Every major function has separate department.	Every major product or area has separate divisions.
2. *Utility.*	It is useful for all types of enterprises.	It is useful for diversified organisations.
3. *Nature of Specialisation*	Its specialisation is based upon occupations having functional departments.	It is product or territory based specialisation having separate divisions and sub-divisions.
4. *Cost of the Structure*	It is economical as compared to Divisional Structure.	It is expensive as compared to Functional Structure.
5. *Coordination and Control*	Coordination between departments is difficult but control of the departments is simple.	Coordination between divisions is simple but control of divisions is difficult.
6. *Responsibility for Performance*	Responsibility of poor or excellent performance is joint.	Every division is responsible for its poor or excellent performance.
7. *Autonomy*	Its departments have lesser autonomy.	Its divisions have more autonomy.

4.8 FORMAL AND INFORMAL ORGANISATION

Organisation builds harmonious relationship between individuals. It integrates the individual efforts and leads to the achievement of common objectives of the enterprise. Relationship between individuals in the organisation can be classified into formal and informal organisation.

4.8.1 Formal Organisation

The formal organisation is legally, deliberately and rationally constituted by defining the duties, authorities and responsibilities of employees individually and collectively. The mutual relationship between different individuals and groups is determined as per rules, regulations and policies of the enterprise. According to **J.A.C. Brown** "formal organisation refers to structure of well defined jobs each bearing a definite measure of authority, responsibility and accountability."

Characteristics of Formal Organisation

(i) This organisation is *predetermined and deliberately* constituted.

(ii) The organisation is *based upon scientific analysis* and serious considerations.

(iii) The relationship is determined *according to the jobs* and its nature.

(iv) The organisation is *based upon the jobs to be performed* not according to the individuals whom it has been entrusted.

(v) Organisation structure is *determined by the top level.*

(vi) The relationship established by formal organisation has *to be honoured.*

(vii) The organisation does *not take into consideration emotional aspect.*

Advantages of Formal Organisation

(i) *Fixing of responsibilities* in case of failures.

(ii) *Clear determination of duties*, authorities and responsibilities.

(iii) *Reasonable and balanced division* and sub-division of the activities.

(iv) *Easy and effective co-ordination* and control over activities.

(v) *Stability in the organisation through rules and regulation.*

(vi) *Ensures optimum utilisation of the available resources.*

In this way, formal organisation is a planned organisation structure describing the set pattern of authority and responsibility. It is a power structure to achieve corporate goals.

Limitations of Formal Organisation

(i) *Delay in action* as in a formal organisation chain of command is followed which increases the time taken for decision making.

(ii) Formal organisation *does not give importance to social needs* of employees which demotivates them.

(iii) A formal organisation *does not understand human relationship*, it emphasises more on structure and work.

(iv) *If reduces creativity as employees are bound to follow the policies and rules.*

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4.8.2 Informal Organisation

Informal organisation is a psycho-social system developed due to inter-personal and social relationship. It arises spontaneously on the basis of friendship and common interest, which may or may not be work related. This organisation is formed informally between worker, employees, travellers, pilgrims, players and friends etc. According to Keith Davis "Informal organisation refers to the relationship between the people in the organisation based on personal attitudes, prejudices, likes, dislikes etc."

Informal organisation arise because man by nature is a social animal.

Characteristics of Informal Organisation

(*i*) Informal *relationship is established spontaneously.*

(*ii*) The relation is based upon friendship and *common interest.*

(*iii*) It is a *voluntary* organisation.

(*iv*) The relationship is based upon *social, emotional* and *psychological needs.*

(*v*) The relationship is based upon *personal preferences* and understanding.

(*vi*) It is *not pre-planned* and not even determined officially.

(*vii*) It *reflects human relationship.*

(*viii*) Management does not create informal organisation and cannot abolish it.

In this way, it is *voluntary and independent organisation, developed automatically and spontaneously between individuals to satisfy their social and human needs.*

Role/Importance/Advantages of Informal Organisation (Relationship with Formal Organisation)

(*i*) Informal organisation *influences the attitudes* of human element in the enterprise towards the work and enterprise.

(*ii*) *Satisfies human desire of co-existence,* fellow-feeling and brotherhood.

(*iii*) It *provides social status* and sense of social security.

(*iv*) It removes the weaknesses of formal organisation. Thus, it is *complementary to formal organisation.*

(*v*) It is an *effective means of communication.* It is a grapevine communication and spreads where formal organisation fails to do.

(*vi*) It keeps a *check on the authoritative behaviour* of managers.

Informal organisation may sometimes be dangerous to the management, because it may spread rumours against the management, its policies and intentions, but management cannot stop it, just as it cannot form it. The best course for the management will be to utilise the informal organisation in the best interest of the enterprise.

Limitations of Informal Organisation

(*i*) Most of the information passed through informal structure are rumours which can mislead the employees.

(ii) Informal organisation does not have a systematic working structure for smooth running of the business.

(iii) It is very difficult to implement change if the informal organisation opposes them.

(iv) Informal organisation emphasises more on individual interests and satisfaction rather than organisational interests.

(v) Informal organisation may lead to situation and circumstances which are against the interest of the organisation. It may resist changes in the organisation which can adversly affect the growth of the enterprise.

Difference between Formal and Informal Organisation

Both formal and informal organisations co-exist in an enterprise. Though formal organisation is formed but informal organisation emerges itself spontaneously. In order to keep the enterprise working, both formal and informal organisations are necessary as the two blades of a scissors.

Bases of Difference	***Functional Organisation***	***Informal Organisation***
1. *Formation*	It is the result of company's rules, policies regulations and is deliberately planned.	It is the result of working together, and social interactions.
2. *Predetermined purpose*	It achieves predetermined purpose and planned goals.	It has no predetermined purpose. It achieves social satisfaction.
3. *Stability*	It is well thought, and predetermined so enjoys stability.	It is spontaneously and automatically developed, so, it has no stability.
4. *Relationship / Behaviour*	The relationship between boss and subordinates and even employees is clearly ascertained. Behaviours are directed and governed by the rules and procedures laid down by the management.	There is no specific and clear relationship. Behaviours are spontaneous over-flow of heart and governed by the personal beliefs, values and attitudes.
5. *Structure*	It is official organisation, consciously constructed.	It is sentimental organisation, automatically developed.
6. *Examples*	Formal groups exist in every organisation. Committees, project, teams, small sections or cells and task forces are its examples.	Its examples are the relationship between travellers, passengers, players and pilgrims. It develops on the basis of common interest.
7. *Flow of authority*	Authority flows vertically.	Flow of authority in horizontal.

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8. *Effective Co-ordination*	Organisation is planned to result in balanced and effective co-ordination between individuals and their efforts.	There is no planned relationship as such the question of integration and coordination between individuals and their efforts does not arise.
9. *Emphasis*	It emphasises jobs and functions of enterprise.	It emphasises emotions of members.
10. *Cherished goal*	It intends to achieve organisational goals.	It provides social satisfaction to people.
11. *Adherence to rules*	Rules are written and rigidly followed.	There are no set rules. It is a grapevine.
12. *Communication*	Communications have to pass through prescribed channels.	There is no prescribed channel of communication. It is informal.
13. *Leadership*	Appointed managers are leaders.	Leaders are voluntarity chosen.

4.9 DELEGATION OF AUTHORITY

Large scale and complex nature is the notable features of modern business. Management has to perform various, varied and diverse activities, which he cannot do all alone. It is, therefore necessary that the management must share its work with others, so that the task assigned must be performed. In this way, the process of sharing task with its corresponding authority with the subordinates is known as delegation of authority.

Interview with Azim Premji

Knowledge.wharton.upenn.edu: April 20, 2006

Azim Premji, owns more than 80 per cent of Bangalore-based Wipro, India's third largest software exporter, which had annual revenues of US$ 1.8 billion in 2005. Forbes magazine reckons that his net worth exceeds US$ 13 billion, and it places him at No. 25 in its most recent ranking of the world's richest people Premji speaks with Ravi Aron, a professor of operations and information management at Wharton, about Wipro's reorganisation.

Definition of Delegation of Authority

"Delegation of authority merely means the granting of authority to subordinates to operate within prescribed limits." **—Haimen**

"Delegation means assigning work to others and giving them authority to do it." **—Moore**

"Delegation means in brief the passing on to other of a share in the four elements of the management process." **—E.F.L. Brech**

"Delegation is in a way an elementary art of managing."

—Koontz and O' Donnell

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4.10 ELEMENTS OF DELEGATION

4.10.1 Authority

Authority is the power to command employees and instruct them to do a piece of work. The authority enables the employee to know certain facts, to enjoy a privileged position and to command respect and obedience from subordinates.

Authority in the opinion of management experts:

In the words of **F.W. Moore,** *"Authority is the right to decide and the power to act and carry out decisions."*

In the opinion of **Koontz and O' Donnell,** *"Authority is legal or rightful power, a right to command or to act."*

According to **Henri Fayol,** *"Authority is the right to give order and the power to exact obedience."*

According to **Davis Filley**, *"Authority consists principally of the rights to decide and command."*

G.R. Terry, defines, *"Authority as the power to exact others to take actions considered appropriate for the achievement of predetermined objective."*

Special Features of Authority

(*i*) It is the *legitimate right to command* and control subordinates.

(*ii*) Authority has *social, legal and biological limits.*

(*iii*) Authority is granted to *achieve the cherished goal* of the enterprise.

(*iv*) Authority is exercised *through persuasion and sanctions.*

(*v*) Authority is the *right to direct* others to get things done.

(*vi*) Authority is also a *commanding force* binding different individuals.

(*vii*) Authority is delegated downward.

It is now obvious, that the term authority is used in various ways in management literature, depending upon the perspective of authority. However we shall define, Authority is as the right of the managers to guide, lead and direct the efforts of the subordinates to achieve organisational goals.

It is a right to decide, command and exact obedience from subordinates.

Difference between Authority and Power

(*i*) Authority is the right to influence others, whereas power is the capacity to influence.

(*ii*) Delegation of authority is possible and usually done but power cannot be delegated.

(*iii*) Power is the personal capacity, while authority is linked to official status.

Authority is classified as formal, technical and acceptance. Formal is an official authority delegated through chain of command. Technical authority

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emerges from specialised knowledge and skill. Acceptance authority is the results of obedience due to faith or fear.

4.10.2 Responsibility

It is closely related to authority and power. Responsibility is the obligation to do something. In organisation, responsibility is the duty that one has to perform in organisational tasks, functions or assignments. A manager can delegate his authority but responsibility cannot be delegated.

Responsibility as defined by Management Authorities

"Responsibility is the obligation of the individual to perform assigned duties to the best of his abilities under the direction of his executive."

—Davis

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

"Responsibility is the obligation to carry out assigned activities to the best of his abilities."
—George R. Terry

Special Features of Responsibility

(*i*) Responsibility is *assigning duty* to human beings only.

(*ii*) Responsibility *always flows upward* from juniors to seniors.

(*iii*) Responsibility is the *result of duty assigned.*

(*iv*) Responsibility is the *obligation to complete* the job as per instruction.

(*v*) Responsibility *can never be delegated.* It is *personal obligation*, and *absolute also.* The manager remains responsible to his superiors for the job even after its delegation.

Responsibility is therefore an obligation to perform the assigned task to the best of one's worth.

Delegation is aimed at reducing the workload of executives, so that they may make the best possible use of their time and energies in solving important matters, thus the manager cannot delegate all of his work. If it is done, there will be no necessity of the executive himself.

Jobs which can be Delegated

(*i*) Works of routine nature.

(*ii*) Works, which do not require specialised competence.

(*iii*) Jobs, which are not confidential.

(*iv*) Jobs, which are to be performed by subordinates in the interest of organisation.

(*v*) The performance of job will increase the knowledge, competence and experience.

Following Functions should Not be Delegated

(i) All confidential works.

(ii) Functions of planning, organisation, direction and controlling.

(iii) Disciplinary work.

4.10.3 Accountability

It means holding an individual answerable for final results. The subordinate is held accountable to superiors. The subordinate has to give explanations, before his superiors for the failure in case of accountability. Accountability arises from responsibility.

The important principle of accountability is the principle of *single accountability, which means accountability refers to individuals not groups.*

Special Features of Accountability

(i) Accountability *can neither be shared nor delegated.*

(ii) Accountability is a *legal responsibility.*

(iii) Accountability is *unitary.*

(iv) Accountability *relates to assigned duties.*

(v) Accountability is always from *downward to upward.*

(vi) Accountability is *different from responsibility.*

Responsibility relates to the work to be done, whereas accountability is the obligation to do the work satisfactorily.

Comparison of Authority, Responsibility and Accountability

Bases	*Authority*	*Responsibility*	*Accountability*
1. *Meaning*	It is legal right to command and extract work from others.	It is an obligation to perform the assigned task.	It refers to the answerability for the outcome.
2. *Origin*	Authority originates from laws, rules and regulations.	Mutual relation of superiors with their subordinate leads to origin of responsibility.	It originates from responsibility or duties assigned.
3. *Delegation*	Authority can be delegated.	Responsibility cannot be delegated.	Since it is absolute it cannot be delegated.
4. *Flow or direction*	Authority always flows downward.	Responsibility always flows upward.	It flows in an upward direction.
5. *Nature*	Authority is power	Responsibility is duty or obligation.	Accountability is answerability.

Relationship between Authority and Responsibility

Authority and responsibility go together. They are intimately related. If management is supposed to be cycle, authority and responsibility are

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its two wheels. In order to achieve the desired goal of the enterprise, authority and responsibility must flow together.

Special Features of Delegation of Authority

(*i*) *Obtained authorities* only can be delegated.

(*ii*) The officer who delegates the authority *remains liable* even after the delegation of authority to subordinates.

(*iii*) Authorities granted as per delegation *can be withdrawn.*

(*iv*) Authorities regarding *ordinary* and *routine works* only can be delegated.

(*v*) There should be *control of the officer* over subordinates in case of delegation.

(*vi*) The subordinates work *according to* order and instructions of the original officers.

(*vii*) Authority, responsibility and duty are clearly specified.

In this way, *Delegation of authority is an art of granting certain ordinary, routine and exact authorities to competent subordinates, so that they can perform the work as per instruction efficiently.*

4.11 IMPORTANCE/ADVANTAGES OF DELEGATION

Delegation of authority is an essential tool for effective organisation. Every executive has to perform wider range of activities. His scope of authority is wide enough but his capacity to work and supervise is limited, so it is always in the interest of the organisation that the routine, ordinary and general work should be delegated to competent subordinates. This will result in the effective accomplishment of work on the one hand and on the other hand, it will increase efficiency of the executive. The manager will be in a position to get a major part of work done by competent subordinates, and he will multiply himself as regards the quantity of work done on his behalf by delegatees. We can now summarise the advantages of delegation of authority:

1. **Effective management.** Delegation enables the executives' jobs to be performed by the subordinates, which no doubt, multiplies executive services. He is spared from routine affairs and attends to important complicated matters.
2. **Facilitating employee development.** The subordinate performs the work of the executive as per delegation and becomes competent and capable of replacing him in case of absence and retirement of the manager. He performs his piece of work intelligently in case of his promotion.
3. **Facilitation of growth.** The delegatee learns the executive's job and becomes capable of doing it, which increases his ability, understanding and competency and thus results in professional growth.

4. **Helping the expansion of business.** If the enterprise expands, well-trained, experienced and competent persons are readily available to take up the positions. These persons are also habituated of working in the real situations of the business.
5. **Motivation of employees.** The subordinate performs the work of executive as per delegation and thereby their morale and self-confidence is increased. He works with zeal, and improves his efficiency to get promotion.
6. **Better coordination.** Delegation enables managers and subordinates to establish close relationship with each other. It improves the atmosphere and maintains effective co-ordination at all levels of management.
7. **Achieving business goals.** Delegation is made in such a way, that it integrates and channelises the efforts and energies of individuals to the desired goal of the business and facilitates in achieving it.

4.12 PROCESS OF DELEGATION OF AUTHORITY

Delegation is the systematic process of sharing routine duty and the corresponding authority with the subordinates.

The process of delegation has the following three important elements:

1. Assigning duty or task or responsibility 2. Granting authority 3. Creation of obligation or accountability.

1. **Assigning duty or task or responsibility.** Responsibility refers to the task assigned to a person, positions or job. Responsibility involves all those mental and physical activities which need to be performed to carry out a certain duty.

The expansion of business makes it very difficult for the management to perform all the work entrusted to him effectively, therefore, he shifts a part of his routine duty to competent subordinates. The delegated piece of work should be complete in itself, so that the delegatee may not escape from the responsibility. All the details regarding the work delegated and the result expected should be clearly defined and explained to the delegatee.

The delegatee should be *under control* of and *in contact* with the original officer for effective accomplishment of the work. The assigned duties must be *ordinary, general, routine* and less important from organisational point of view. The original officer should himself perform the important, secret and complicated work.

The person who delegates duty is himself responsible for its successful accomplishment to his superior, therefore, he should get the work done under his guidance and supervision.

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2. **Granting authority.** The authority regarding the assigned duty should also be delegated otherwise the work cannot be done efficiently. Authority according to Allen is the sum total of the power and rights entrusted to make possible the performance of work delegated.

According to **Koontz and O' Donnell,** *Actually the authority vested in a managerial position is the right to use discretion, the right to create and maintain an environment for the performance of individual working together in a group*. There are the following three types of authorities:

(*i*) Authority of knowledge (*ii*) Authority of position (*iii*) Legal authority.

Authority in this way, is the power to incur expenses, purchase essential articles, appoint employees, order workers to do certain work and to carry out orders. An authority, wherein the subordinate employees cannot be compelled to do a piece of work is useless. It means that the requisite and relevant authority in accordance with the duty assigned must be delegated, whether it is authority of knowledge or position.

3. **Creation of obligation or accountability.** Accountability means holding an individual answerable for final results. The subordinate is held accountable to superior. Accountability originates, because the manager has a right to require an accounting for the authority delegated and task assigned to a subordinate.

Accountability, according to **Allen** *is the obligation to carry out responsibility and exercise authority in terms of performance standard established.*

Dalton E. McFarland has put it as *Accountability refers to the fact that each person who is given authority must recognise that the executive above him will judge the quality of his performance.*

The delegatee is accountable to superior for the piece of work delegated to him. Likewise the superior will also be accountable before his superior for the entire work even if a part of it was delegated by his subordinate. It means *delegation is the art of getting work done effectively, not escaping from accountability to superiors. Accountability on the part of delegatee means giving explanation of work delegated to him to his superior.*

4.13 CENTRALISATION OF AUTHORITY

Retention or concentration of authority at top level for decision-making with one or few managers is known as centralisation of authority. In case, all the decisions are retained with the top management, the organisation is said to be highly centralised. As such, there is little delegation of authority in case of highly centralised organisation. Every command and instruction flows from owners of the enterprise.

For example, a private company consisting of three members Mr. Ansar, Mrs. Ansar and their son has purchase officer, sales marketing and finance officers as employees. The departmental heads are not independent in taking decisions. The decision is taken by the proprietors. Every decision, command and instructions originate from the owners. It is the example of highly centralised enterprise. Strict discipline, control, better performance, quick response and no initiative is the feature of this organisation.

4.14 DECENTRALISATION OF AUTHORITY

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Decentralisation of authority means the dispersal of decision-making authority to lower levels. In case of decentralisation important authorities regarding planning, organising, directing and controlling is retained at top level and other functions are delegated at lower level.

Decentralisation is the result of effective delegation of authorities. Decentralisation transfers authorities to subordinates and thus the authority instead of being centralised in few hands in spread over a number of employees. Decentralisation is this way, is the division of business functions into certain units and entrusting each unit to different persons with overall authority and responsibility.

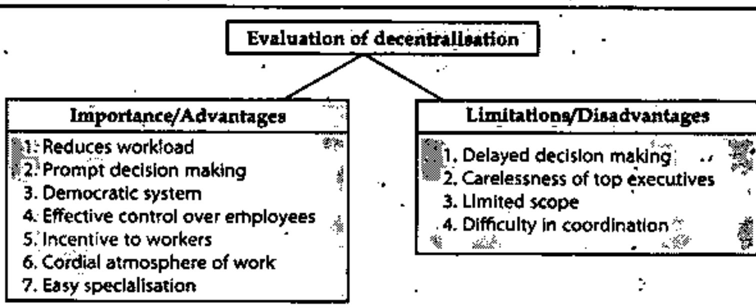
Decentralisation as Defined by Management Experts

According to **Koontz and O' Donnell,** *"Decentralisation of authority is a functional phase of delegation to the extent that authority is not delegated, it is centralised."*

In the words of **Allen, L.A.,** *"Decentralisation refers to systematic effort to delegate to the lowest level of authority except the one which can be exercised at Central Points."*

In the opinion of **Henri Fayol,** *"Every thing that goes to increase the importance of the subordinate's role is decentralisation."*

4.15 EVALUATION OF DECENTRALISATION



Importance/Advantages of Decentralisation

1. **Reduces workload.** Decentralisation is the technique of distributing authority, responsibility and duty among managers, so the workload of the manager is reduced and restricted to the job assigned to him.
2. **Prompt decision-making.** Managers are free to make their own decision promptly within the specific area of task assigned to them. The enterprise enjoys the benefit of quick decision-making.

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3. **Democratic system.** Decentralisation shares authority and responsibility between managers. It avoids concentration of power, which is a democratic approach towards management.
4. **Effective control over employees.** Decentralisation provides managers at lower level adequate authority to take their own decisions regarding production schedule and disciplinary action against shirkers. Efficient supervision leads to effective control.
5. **Incentive to workers.** Decentralisation boosts the morale of employees. It provides them job satisfaction by providing them independence, status and participation in the activities of the enterprise.
6. **Cordial atmosphere of work.** There is cordial atmosphere of work due to harmonious relationship between employees caused by job satisfaction. Morally-boosted employees enjoy sense of pleasure in performing their job.
7. **Easy specialisation.** Under decentralisation, authority in all departments and at all levels are dispersed systematically and assigned to the experts of the departments. It enables the emergence of specialisation easily. The enterprise avails of the economies of specialisation.

Limitations/Disadvantages of Decentralisation

1. **Delayed decision-making.** Decision making at different levels by different managers delays the process of decision making whereas in case of centralisation decisions are taken collectively and quickly for all departments. It is also due to the lack of coordination due to large number of decision making authorities.
2. **Carelessness of top executives.** Decentralisation makes top executives careless in performing their duty. They rely too much on their juniors, which is sometime injurious to the enterprise.
3. **Limited scope.** Decentralisation cannot be made in all sorts of work *i.e.*, Planning and Accounting etc. Decentralisation in all organisations and at all levels is not useful. Complete decentralisation is not possible.
4. **Difficulty in coordination.** Decentralisation is responsible for the emergence of large number of decision making managers. It is very difficult to maintain coordination among them.

4.15.1 Difference between Delegation and Decentralisation

Delegation and Decentralisation; both concern with the transfer of authorities to low level employees but even then they differ from each other. In case of delegation full responsibility and accountability is not transferred to delegatee, whereas decentralisation transfers full authorities, rights and accountability to the subordinates. Delegation is the result of interpersonal relations and understanding between the executive and subordinate and decentralisation is the result of organisational policies..

Difference between Delegation and Decentralisation of Authority

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Bases of Difference	*Delegation of Authority*	*Decentralisation of Authority*
1. *Compulsion*	There is delegation in every organisation at every level. Delegation is more or less compulsory in the enterprise.	Decentralisation may not be in the organisation. It is the top level management, which decides introduction of decentralisation in the organisation.
2. *Control*	There is more control of top level executive over the medium and bottom level executive.	There is lesser control over low level executive. Decentralisation is not a
3. *Process*	Delegation of authority is a process.	process, it is result of the policy of the organisation.
4. *Relationship*	Delegation is interpersonal relationship between manager and his subordinates.	Decentralisation is related process, it is result of the organisation.
5. *Coverage*	Delegation is restricted to different executive and their subordinates.	Decentralisation covers entire organisation. The authority is spread and entrusted to executive according to their level.
6. *Responsibility and Accountability*	Full responsibility and accountability is not transferred. The executive remains liable to his superior even after delegation of authority.	Full responsibility and accountability is transferred. The executives holding authority are held liable.
7. *Purpose*	The purpose of delegation is the multiplication of the manager. It means that large amount of work can be performed with the delegation of authority.	The purpose of the decentralisation is to increase subordinates' role in the organisation and achieve the objective of the business.
8. *Parties Involved*	Delegation involves two Parties, the officer delegating the authority and the subordinate whom authority is delegated.	It involves the entire organisation. It is concerned with all managerial levels.
9. *Withdrawal of Authority*	Delegation of authority can be withdrawn by the officer, who had delegated the authority. It is the individual officer's sweet will to continue or withdraw the authority.	Decentralisation of authority of cannot be withdrawn easily. These authorities can be withdrawn when decision to discontinue the policy of decentralisation is takes.

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SUMMARY

- **Organising**

  Organising means the integration and coordination of individual efforts to achieve the desired objectives of the business.

- **Steps in the Process of Organising**

  (1) Identification and division of work (2) Grouping job and departmentation (3) Assigning of duties (4) Granting authorities and fixing responsibilities.

- **Importance/Purpose of Organising**

  (1) Benefits of division of work and specialisation (2) Clarity in working relationship (3) Optimum utilisation of resources (4) Adaption to change (5) Development of personnel (6) Effective administration (7) Expansion and growth.

- **Organising as a Structure**

  Special features of organisation structure.

  (1) Relationship between members of groups (2) Means to attain desired objectives (3) Co-operation between members (4) Formal relationship (5) Communication.

- **Types of Organisation Structure**

  1. Functional structure of organisation.

  2. Divisional structure of organisation.

  Functional Structure of Organisation

  Grouping together the entire work into major functional departments and entrusting these departments to functional specialists is known as funtional structure.

  Advantages of Functional Structure

  (1) Logical reflection of functions (2) Maintaining power and prestige of major function (3) Following principle of occupational specialisation (4) Simplifies training (5) Furnishes means of tight control at top (6) Convenient supervision.

  Disadvantages of Functional Structure

  (1) De-emphasis of overall company objectives (2) Overspecialises and narrows viewpoint of key personnel (3) Responsibility for profits is at the top only (4) Slow adaptation to changes in environment (5) Limits development of general managers.

  Suitability of Functional Structure

  (1) For larger sized enterprise (2) For high degree specialisation (3) For uneven workload on managers (4) Where authority is decentralised (5) Where specialist services are required and activities are diversified.

  Divisional Structure of Organisation

Grouping of activities or departmentation on the basis of product, product lines and area is known as Divisional structure.

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Advantages of Divisional Structure

(1) Places attention and effort on product line (2) Facilitates use of specialised capital, skills and knowledge (3) Permits growth and diversity of products and services (4) Improves coordination of functional activities (5) Places responsibility for profits at the divisional level (6) Furnishes measurable training ground for general managers.

Disadvantages of Divisional Structure

(1) Requires more persons with general manager abilities (2) Tends to make maintenance to economical central services difficult (3) Overlapping of functions (4) Excessive expendi-ture (5) Duplication of efforts (6) Self-centred.

Difference between Functional and Divisional Structure

Bases of difference: (1) Meaning (2) Utility (3) Nature of specialisation (4) Cost of the structure (5) Coordination and control (6) Responsibility for performance (7) Autonomy.

- **Formal Organisation**

It is deliberately and scientifically designed and legally constituted by defining authorities and responsibilities of employees individually and collectively.

Characteristics of Formal Organisation

(1) Predetermined and deliberately constituted

(2) Based upon scientific analysis (3) Relationship is determined according to job (4) Based upon jobs to be performed (5) Structure determined by top level (6) Honouring relationship (7) Emotional aspect not taken into consideration.

Advantages of Formal Organisation

(1) Fixing of responsibilities (2) Clear determination of duties (3) Reasonable and balanced division of activities (4) Easy and effective coordination (5) Stability in the organisation through rules and regulation (6) Ensures optimum utilisation of the available resources.

Limitation of Formal Organisation

(1) Delay in action (2) Does not give importance to social needs (3) Does not understand human relationship. (4) If reduces creativity as employees are bound to follow the policies and rules.

- **Informal Organisation**

It is psychosocial system of organisation developed due to inter-personal and social relationship.

Characteristics of Informal Organisation

(1) Spontaneous relationship (2) Relationship based upon common

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interest (3) Voluntary organisation (4) Meets emotional needs (5) Based upon personal preferences and understanding (6) Not pre-planned (7) Reflects human relationship (8) Management cannot abolish.

Advantages of Informal Organisation

(1) Influences human attitude (2) Satisfies human desire of co-existance (3) Provides social status (4) Complementary to formal organisation (5) Effective means of communication (6) Check on authoritative behaviour of managers.

Limitations of Informal Organisation

(1) Information passed through informal structure are rumours (2) Does not have systemic working structure (3) Does not implement changes (4) Emphasises more on individual interests and satisfaction (5) Informed organisation may lead to situation and circumstances which are against the interest of the organisation.

Bases of difference between Formal and Informal Organisation

(1) Formation (2) Predetermined purpose (3) Stability (4) Relationship/behaviour (5) Structure (6) Examples (7) Flow of authority (8) Effective coordination (9) Emphasis (10) Cherished goal (11) Adherence to Rules (12) Communication and (13) Leadership.

- **Delegation of Authority**

  The process of sharing task with its corresponding authorities, with the subordinates is known as Delegation of authority.

- **Elements of Delegation**

Authority

It is the right to command, decide, direct, take actions and exact obedience from subordinates. The authority enables the employees to enjoy privileged position, to command respect and obedience from subordinates.

Responsibility

Responsibility is the obligation to do something. It is the duty, which has to be performed as per assignments. It always flows upward. It is personal obligation and absolute also, so it can never be delegated.

Accountability

Accountability means holding an individual answerable to final results. Accountability refers to individuals not groups. Accountability can neither be shared nor delegated.

Special Features of Delegation

(1) Delegation of obtained authorities (2) Executive remaining liable even after delegation (3) Delegated authorities can be withdrawn

(4) Delegation of routine authorities only (5) Control of officer over subordinate (6) Work according to order and instructions. (7) Clear specification of authority, responsibility and duty.

- **Bases of difference between Authority and Responsibility**

  (1) Meaning (2) Origin (3) Delegation (4) Flow or Direction (5) Period (6) Nature.

- **Importance/Advantages of Delegation**

  (1) Effective management (2) Facilitating employee development (3) Facilitation of growth (4) Helping the expansion of business (5) Motivation of employees (6) Better coordination and (7) Achieving business goals.

- **Process of Delegation of Authority**

  (1) Assigning duty or task or responsibility (2) Granting authority (3) Creation of obligation or accountability.

- **Centralisation of Authority**

  Concentration of authority regarding decision-making with an individual or few managers is known as centralisation of authority.

- **Decentralisation of Authority**

  It is dispersal of decision-making authority to lower levels. It divides business functions into certain units and entrusting the different units to certain persons with appropriate authority and responsibility.

- **Evaluation of Decentralisation**

  Importance/Advantages of Decentralisation

  (1) Reduces workload (2) Prompt decision-making (3) Democratic system (4) Effective control over employees (5) Incentive to workers (6) Cordial atmosphere of work (7) Easy specialisation.

- **Limitations/Disadvantages of Decentralisation**

  (1) Delayed decisionmaking (2) Carelessness of top executives (3) Limited scope (4) Difficulty in coordination.

- **Bases of Difference between Delegation and Decentralisation**

  (1) Compulsion (2) Control (3) Process (4) Relationship (5) Coverage (6) Responsibility and Accountability (7) Purpose (8) Parties involved and (9) Withdrawal of authority.

REVIEW QUESTIONS

1. What is meant by 'divisional structure' of an organisation ? Explain any two of its advantages and two limitations.
2. Explain the steps involved in the process of organisation.
3. Briefly explain the considerations that need to be kept in mind while designing the organisational structure of a company.
4. What is meant by 'Functional Organisational Structure'? State any two advantages and two disadvantages of such structures.

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Or

Describe the steps involved in the process of 'organising'.

5. Explain the organisational structure. Distinguish between Functional and Divisional structure on the following bases:
   (*i*) Formation (*ii*) Managerial development (*iii*) Responsibility (*iv*) Suitability.
6. Discuss briefly the principles of parity of authority and responsibility and 'unity of command'.
7. The concept of centralisation and decentralisation are related to the concept of delegation. Explain:
8. A manager is of the view that he is not responsible for the quality of work that he has delegated to subordinate. Do you agree with this viewpoint? Justify your answer by giving appropriate answer.
   [We do not agree because of 'the principle of absoluteness of responsibility.']
9. Define the terms *'Responsibility' 'Authority'* and *'Accountability'*.
10. Explain, in brief, any six points which highlight the importance of decentralisation in an organisation.
11. Differentiate between functional and divisional structure of organisation an any six basis.
12. The functional structure of organisation has certain advantages and disadvantages which an enterprise must take into consideration before adopting it. Explain any such three advantages and any three disadvantages of this structure.
13. Decentralisation is an important philosophy that implies selective dispersal of authority. In the sight of this statement, explain any four points of importance of decentralisation.
14. Put simply, decentralisation refers to delegation of authority throughout all the levels of the organisation. In the light of the above statement give the meaning of and difference between delegation of authority and decentralisation.
15. Aman Chadha started 'Bulls Eye' a company for providing cyber security solutions to businesses. Its objective is to prevent, detect and respond to cyber attacks and protect critical data. He was a hardworking software engineer and an expert in cyber security. His reputation grew by leaps and bounds as he was not only a person of integrity but also did his work with utmost honesty and sincerity.
    The business started growing day by day.
    He was delighted when he was offered a big project by the Ministry of Defence. While working on the project, he found that the volume of work made it impractical for him to handle all the work by himself. He decided to expand the team. The company maintained a close liaison with a local engineering college. During a campus placement,

Ishan and Vrinda were appointed to work for the new project.

He found the new employees capable, enthusiastic and trustworthy. aman Chadha was thus, able to focus on objectives and with the help of Ishan and Vrinda, The project was completed on time. Not only this Aman Chadha was also able to extend his area of operations. On the other hand Ishan and Vrinda also got opportunities to develop and exercise initiative.

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(*i*) Identify the briefly explain the concept used by Aman Chadha in the above case which helped him in focusing on objectives.

(*ii*) Also, state any four points of importance of the concept identified in (*i*) above.

16. Explain any four differences between delegation and decentralisation specifying the basis of difference.

17. Voltage fluctuations have been common and quite high in India. They harm our electrical appliances like televisions, refrigerators and air conditioners, often leaving them in a permanently damaged conditions. N-Guard company decided to manufacture stabilizers for North India where the voltage fluctuation ranges from 220 V to 230 V. Once the demand for North India was taken care of, they decided to launch stabilizers in other regions of India also. Three engineers were appointed for South, West and East regions of India, as the voltage was different in all the three regions.

Though all the engineers were appointed to manufacture stabilizers but the product differed from region to region.

(*a*) Identify the organisational structure of N-Guard company.

(*b*) State any two advantages and two limitations of the structure identified in the above para.

CASE PROBLEMS

1. A company, which manufactures a popular brand of toys, has been enjoying good market reputation. It has a functional organisational structure with separate departments for Production, Marketing, Finance, Human Resources and Research and Development.

Lately to use its brand name and also to cash on to new business opportunities it is thinking to diversify into manufacture of new range of electronic toys for which a new market is emerging.

2. A company X limited manufacturing cosmetics, which has enjoyed a pre-eminent position in business, has grown in size. Its business was very good till 1991. But after that, new liberalised environment has seen entry of many MNC's in the sector.

With the result the market share of X limited has declined. The company had followed a very centralised business model with Directors and divisional heads making even minor decisions. Before 1991, this business model had served the company very

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well as consumers had no choice. But now the company is under pressure to reform.

3. XYZ Ltd., decided to start a business of manufacturing bags. They identified various activities which they have to perform like
   (*a*) purchase of raw material
   (*b*) purchase of machinery
   (*c*) production of bags
   (*d*) arrangement of finance
   (*e*) sale of bags
   (*f*) selection of employees.

   In order to look after production finance, marketing and personnel managers were appointed.

1. Identify the function of management involved in the above mentioned para.
2. State the steps involved in the process of this function of management.

UNIT 5 DECISION-MAKING

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STRUCTURE

5.1 INTRODUCTION & DEFINITIONS

Decision-making is an integral part of every manager's job. Decision-making has a wide-range, covering matters from selection of the venue for holding a meeting, to significant issues such as, assignment of resources, hiring and firing of personnel, rate of dividend, merger, etc. In the words of John MacDonald, "The business executive is by profession a decision-maker. Uncertainty is his opponent, overcoming it is his mission. Whether the outcome is a consequence of luck of wisdom, the moment of decision-making is without doubt the most creative event in the life of the executive."

Decision-making is not the monopoly of top management alone, though it is true that decisions made at this level are of far-reaching importance for the organization as a whole. In fact, managers at all levels are engaged in decision-making of one kind or another, the significance of their decisions differing in proportion to the duties assigned and authority delegated to them.

Definitions

George R. Terry: "Decision-making is the selecting of an alternative, from two or more alternatives, to determine an opinion or a course of action."

Andrew Szilagyi: "Decision-making is a process involving information, choice of alternative actions, implementation, and evaluation that is directed to the achievement of certain stated goals."

Henry Sisk and Cliffton Williams : "A decision is the selection of a course of action from two or more alternatives; the decision-making process is a sequence of steps leading to that selection."

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5.2 IMPORTANCE OF DECISION-MAKING

Decision-making is an indispensable component of the management process. It permeates all management and covers every part of an enterprise. In fact whatever a manager does, he does through decision-making only; the end products of manager's work are decisions and actions. For example, a manager has to decide (i) what are the long term objectives of the organization, how to achieve these objectives, what strategies, policies, procedures to be adopted (planning); (ii) how the jobs should be structured, what type of structure, how to match jobs with individuals (organizing); (iii) how to motivate people to peak performance, which leadership style should be used, how to integrate effort and resolve conflicts (leading); (iv) what activities should be controlled, how to control them, (controlling). Thus, decision-making is a central, important part of the process of managing. The importance of decision-making in management is such that H.A. Simon called management as decision-making. It is small wonder that Simon viewed decision-making as if it were synonymous with the term 'managing'. Managers are essentially decision makers only. Almost everything managers do involves decision-making. Decision-making is the substance of a manager's job. In fact, decision-making is a universal requirement for all human beings. Each of us makes decisions every day in our lives. What college to attend, which job to choose, whom to marry, where to invest and so on. Surgeons, for example, make life-and-death decisions, engineers make decisions on constructing projects, gamblers are concerned with taking risky decisions, and computer technologists may be concerned with highly complex decisions involving crores of rupees. Thus whether right or wrong, individuals as members in different organizations take decisions. Collectively the decisions of these members give 'form and direction to the work an organization does'. Some writers equate decision-making with planning. In fact, Koontz and O'Donnell viewed 'decision-making as the core of planning', implying that is not at the core of organizing or controlling. However, instead of taking extreme positions it would be better to view decision-making as a pervasive function of managers aimed at achieving goals. According to Glueck there are two important reasons for learning about decision-making: (i) Managers spend a great deal of time making decisions. In order to improve managerial skills it is necessary to know how to make effective decisions. (ii) Managers are evaluated on the basis of the number and importance of the decisions made. To be effective, managers should learn the art of making better decisions.

5.3 FACTORS INVOLVED IN DECISION-MAKING

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There are two kinds of factors to be considered in decision-making in favor of any alternative. These may be classified as (a) tangible and (b) intangible factors.

Tangible factors

Among the tangible factors relevant to decision-making the important ones are (a) sales; (b) cost; (c) purchases; (d) production; (e) inventory; (f) financial; (g) personnel and (h) logistics.

The effect of any decision on one or more of the tangible factors can be measured and therefore it is easy to consider the pros and cons of every decision. Decisions based on these factors are likely to be more rational and free from bias and feelings of the decision-maker.

Intangible factors

Among the intangible factors which may influence decision-making in favor of any alternative, the important ones are the effects of any particular decision (a) prestige of the enterprise; (b) consumer behavior, (c) employee morale; and so on.

Accurate information and data about these factors is not easy to obtain. Therefore, intuition and value-judgment of the decision-maker will assume a significant role in the choice of a particular alternative.

5.4 TYPES OF DECISIONS

Though managers are constantly called upon to make decisions and all managerial decisions are important in their own ways, some decisions have a limited scope while others involve the entire organization in a significant manner. For better understanding of the managerial decisions, we may classify them as follows:

1. **Personal and organizational decisions**. This classification was first mooted by Chester Barnard. Accordingly, personal decisions are concerned with the managers as individuals rather than the organizations. As against this, organizational decisions are made by the managers in their official capacities and within the constraints set by their formal authority. Since personal decisions are based on subjective evaluation of the managers, these can neither be delegated nor there any interference or influencing from the top. But organizational decisions may be, and often are delegated to subordinates.

   In order to avoid bias in decision-making, which may be harmful both to the organization and the decision-maker, a clear distinction between personal and organizational decisions has constantly to be maintained, though it is often a difficult task.

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2. **Strategic and operational decisions**. Strategic decisions, which are often table for their novelty and complexity and involve uncontrollable factors such as actions of competitors or the state of the economy, are invariably made by the top management. Increasing the rate of dividend, expansion of business, etc., are the examples of strategic decisions.

   Operational decisions are concerned with day-to-day operations of the enterprise. They do not involve much discretion or independent judgment on the part of managers, as the parameters within which the decisions have to be made, are often clearly defined.

3. **Structured and unstructured decisions**. Structured decisions are those which are made within the limits set by the policies, procedures, tradition or custom. They do not require creativity or independent judgment on the part of the manager. As against this, unstructured decisions have neither any existing policies or procedures, nor any tradition or custom as their basis. For this reason, they call for a great deal of imagination and independent judgment, and hence are often within the purview of the top management only.

4. **Crisis and research decisions.** Crisis decisions are those which are made to meet unanticipated situations which do not allow much scope for extensive investigation and analysis of the factors relevant to them. They have to be made instantaneously under pressure of circumstances.

   As against this, research decisions are those which are made after a thorough analysis of pros and cons without any pressure.

5. **Initiative or forced decisions.** Initiative decisions are the hall-mark of aggressive managers who search for or create situations calling for decision-making by them. Most of such decisions may not be needed in many cases. As against this, forced decisions are those where the managers have no alternative but to make decisions, either under orders from their superiors or due to pressured persuasion by subordinates.

6. **Problem and opportunity decisions.** Problem decisions are concerned with resolving problem situations which have arisen as anticipated, or otherwise. On the other hand, opportunity decisions pertain to taking advantage of an opportunity for increased profits, growth, etc. The frequency of opportunity decisions will depend on how far the manager is prepared to take risks and his skill for recognition of an opportunity.

7. **Programmed Decisions.** Herbert Simon has provided a popular classification scheme for managerial decisions – programmed and non-progammed. A programmed dicision is one that is routine and

repetitive, Rule and policies are established well in advance to solve recurring problems quickly. Thus, a hospital establishes a procedure for admitting new patients; a supervisor administers disciplinary actions against workers reporting late for work, a store clerk orders requisition for additional supplies, as soon as the existing stock drops below a specifed level. On the basis of pre-established set of alternatives, programmed decisions can be made in a routine way. Since programmed decisions are relatively easy and simple for managers to make, they allow and equip managers for more challenging and difficult problem-solving. However, routine procedures leavelittle room for the manage to chose. Judgement cannot be used and freedom is affected. Programmed decisions are usually made by lower level personnel on organisations in which the market and technology are relatively stable, and many routine, highly structured problems must be solved. For example, in banks and insurace companies, the market and technology are relatively stable and usually routine problems confront operating personnel. Decisions are highly routinised and the decision-maker simply recognises the problem to implement the predetcemined solution.

8. **Non-programmed decisions.** In such cases. the decision-maker has to make a decision in a poorly structured situation-onein which there no pre-existing, cut-and-dried solutions. Deciding whether to take over a sick unit. how to resttructure an organisation to improve efficiency, which to locate new company warehouse, whom to promote to the vacant position of Regional Manager at one of the comany's plants, are example of non-programmed decisions. The commonfeature in these decisions is that they are novel and non-recurring and there are no readymade courses of action to resortt to.

5.5 COMMON DIFFICULTIES IN DECISION-MAKING

Some common difficulties faced in making decisions and implementing them are as follows.

Incomplete information

This is a major problem for every manger. Lack of information leaves a manager adrift in a sea of uncertainty. Not only this, most decisions involve too many complex variables for one person to be able to examine all of them fully.

Un-supporting Environment

The environment - physical and organizational – that prevails in an enterprise affects both the nature of decisions and their implementation. If there is all round goodwill and trust and if the employees are properly motivated, the manager is encouraged to take decisions with confidence. On the other hand, under the opposite circumstances he avoids decision-making.

Non-Acceptance by Subordinates

If subordinates have a stake in the decision or are likely to be strongly affected by it, acceptance will probably be necessary for effective implementation. On the other hand, subordinates may not really care what decision is reached. In such situations, acceptance is not an issue. Democratic leadership style which encourages subordinates to suggest, criticise, make recommendations or decide upon policies or projects is an effective device for gaining their acceptance and commitment.

Ineffective Communication

Another important problem in decision-making is the ineffective communication of a decision. This makes implementation difficult. The manager should, therefore, take care to communicate all decisions to the employees in clear, precise and simple language.

Incorrect Timing

In decision-making, the problem is not merely of taking a correct decision. It is also of selecting an appropriate time for taking the decision. If the decision is correct but the time is inopportune, it will not serve any purpose. For example, if the manager wants to decide about introducing a new product in the market, he should take the decision at a correct time. Otherwise, he may lose the market to his competitors.

5.6 GUIDELINES FOR EFFECTIVE DECISION-MAKING

Decision-making is an arduous task. A successful and correct decision is gratifying to the decision maker but he also experiences frustration when he faces ill-structured and uncertain situations and when his decision fails to achieve the decision objectives. Yet, managers must make decisions as it is their most important responsibility to their organization. They cannot afford to display an attitude of "sailing around the world without landing", and "talking about a subject without getting it". The success of an executive depends on his ability to make the right decision at the right time and to pursue its effective implementation. The following guidelines are offered as an aid to effective decision-making.

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1. Define the Goals

The decision-maker should define the goals that he seeks to achieve by making a decision. The goal of a decision is derived from his objectives which in turn are a part of the total organizational objectives. Thus, the goal of a decision should be compatible with and contribute to larger goals.

2. Ensure that the Decision Contributes to the Goal

Once the goal has been determined, it becomes the criterion for making the decisions, as well as for evaluating its results. Often, an executive seeks to achieve not one but more than one goals through a decision. For example, the goal of a marketing decision may be not only to increase the sales volume but also increase the profit margin. These goals may not always be compatible. It requires the decision maker to balance the conflicting goals in such a manner that he can achieve all the goals simultaneously.

3. Adopt a Diagnostic Approach

A decision-maker has to be a diagnostician in many ways. He has to identify and define the problem. Further, he has to diagnose what and how much information is relevant to the problem being attacked, and where he will get it. Development and evaluation of alternative also require diagnostic abilities. He also has to diagnose the surrounding situation comprising the internal and external environmental forces. Thus, effectiveness in decision making significantly depends on an executive's diagnostic abilities.

4. Involve Subordinates in Decision-Making Process

Involvement of subordinates in decision-making process serves many purposes. It improves the quality of the decision, particularly if the decision-maker does not possess all the special abilities required for making a particular decision. It is more likely to happen than not, as every decision has several aspects such as administrators, technical, human relations and financial aspects. The most important stage at which subordinates' participation can enhance the decision quality is the stage of development and evaluation of alternative solutions to problems. Their participation can bring not only new insights to the problem but also elicit their commitment to implement the decision. Those who participate in making a decision tend to become ego involved in it, and thereby committed to its successful implementation.

5. Ensure successful implementation of the Decision

Event he best decision will not yield satisfactory results unless it is implemented effectively. Successful implementation of a decision

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significantly depends on the extent of understanding of the decision and its implications, and motivation of the subordinates who have to carry it. An executive can enhance his effectiveness in both these directions by promoting upward communication. He should also be able to know when and what kind of guidance is needed by them, and be willing to extend it to those who need it. He can be more effective if he successfully welds his subordinates into a team with himself as the team leader.

6. Evaluate the Results

The purpose of a decision is to accomplish some goal which will not be attained without it. The results of the decision should, therefore, be evaluated in terms of its predetermined goals.

7. Be Flexible

The decision-maker should adopt a flexible approach not only in making the decision but also after the decision has been put into implementation. If it is not yielding the desired results, he should modify, discard, or replace it with another decision which may produce better results.

5.7 DECISION-MAKING—THE QUANTITATIVE WAY

Introduction

The administration of a modern business enterprise has become an enormously complex exercise. There has been an increasing tendency to turn to quantitative techniques and models as a potential means for solving many of the problems that arise in such an enterprise. Management in action is decision-making. We consider decision-making in business to be a process whereby management, when confronted by a problem, selects a specific course of action or solution from a set of possible courses of actions. Since there is generally some uncertainty about the future, we cannot be sure of the consequences of a decision made. The process of making decisions in a business has the same essential characteristics as problem-solving behaviour in general.

Business Decisions

The business manager wants to choose the course of action that is most effective in attaining the goals of the organisation. In judging the effectiveness of different possible decisions, we must use some measuring unit. The most commonly used measure in making decisions is the amount of profit in monetary terms but for our purpose here, we will take only a few of these.

1. Decisions under certainty or uncertainty.
2. Decisions made for one time-period only or a sequence of inter-related decisions over several time-periods.

3. Decisions where the opponent is nature (a family planning, a picnic) or a thinking opponent (setting the price of a product after considering the actions of the competitors).

The following general process of solution is adopted for all types of decision situations:

1. Establish the criteria that will be utilized. One of the criteria may be maximization of profit. In a capital budgeting decision, we choose the project with the highest pay off.
2. Select a set of alternatives for consideration.
3. Determine the model which will be used and the values of the parameter of the process, e.g., we may decide that the algebraic expression of the model of total expenses is:

   Total Expenses = a+ b units sold.

   The parameters are "a" and "b" and their values would have to be determined in order to use the model.
4. Determine that alternative which optimizes or falls in line with the criterion that has been chosen in item 1 above.

Abstraction

Real life problems are very complicated in nature. In empirical situation, there is a large number of inherent "facts," Moreover, every potential course of action triggers off a chain reactions - of course an effect and interaction - and there is no end to this process. Consider the problem of erection of a factory building. Much time is spent on gathering factual information about the project, e.g., the exact location, the physical features of the building ; a minute study of the climatic conditions of the potential sites and their bearing on most of the construction; the raising of finance and the cost of finance raised. By far the most important decision is in respect of the alternative uses to which these funds can be put in the present and future periods. If the manager as a decision-maker prefers to collect all the facts before he acts, it follows that he will never act. It is to be appreciated that it is beyond the comprehension of human mind to consider every aspect and dimension of an empirical problem. Some characteristics of the problem must be ignored if at all a decision is to be made. In other words, it is for the decision-maker to abstract from the empirical situation those factors which he considers to be the most relevant to the problem he faces. In this way, abstraction initiates the solution of many a human problem.

Model Building

Once the selection of the critical factors or variables has been made by the decision-maker, the next step is to have their combination in a logical manner so as to form a counter-path or model of the empirical situation; ideally, it strips a natural phenomenon of its complexity. It,

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therefore, duplicates the essential behavior of the natural phenomenon with a few variables, simply related. The more the simplicity of the model, the better it is for the decision-maker, provided the model serves as a reasonably reliable counter-path of the empirical order.

The advantages of a simple model are:

1. It economizes on time as well as on thought.
2. It is within the reach of comprehension and ability of the decision-maker.
3. If occasion arises, the model can be modified quickly and effectively.

The aim of the decision-maker in constructing a model is to approximate reality as far as possible. In other words, a model is a de facto approximation of reality. Replication of reality seems to be a lofty aim and meeting it would consume an infinite length of time. Besides, such an elaborate model would be beyond the reach of human comprehension. Therefore, the manager as a decision-maker wants the simplest possible model that predicts outcomes reasonably well and consistent with effective action on his part.

Solutions

Having constructed the model, it is possible to draw certain conclusions about its behavior by means of a logical analysis. The decision-maker bases his action or solution on these conclusions. The effectiveness of a model depends upon the logical analysis used in drawing conclusions and the abstraction of critical variables from our example. The decision-maker may decide that an interest rate of 12% matches the annual opportunity cost of money for his firm. He can make his decisions on the construction of the factory premises by calculating the present value of the cash flows and would not have to consider the alternative uses of which his funds can be put to in detail.

Errors

Generally, there are two possible types of errors in decision-making to start with. He can err in applying logic to the process of reasoning from premises to conclusions to solutions. The concern may be able to obtain funds at the cost of 12% but management may have decided not to raise any new capital. The premise that one can use the interest rate to represent an opportunity cost is valid, but the conclusion that the use of interest rate applies to all investments is erroneous.

Secondly, there may be a mistake in selecting the variables or the variables selected are not adequate for the construction of the model in our example. The decision-maker has taken into account the time value of money but has ignored the risk element that is associated with the use of money. It is not possible to eliminate errors of this type altogether because it would amount to a consideration of all conceivable pertinent variables and would preclude decisive action. Abstraction does violate reality to some extent but it is a necessary condition for problem-solving. This is one reason why decision-making carries with it the possibility of errors.

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Model-Building Techniques

There are several ways of representing the models. Common place repetitive problems as those of eating, walking and opening doors are a matter of thinking in the mind of the decision-maker in an informal and intuitive manner. Such problems are resolved without the aid of a formal model. If the problem is somewhat more complex or unusual, we spend more time on it. It is possible to express to the extent of selecting the important elements of the problem and proceeding to examine and experiment with them. The nature of variables determines the technique of describing and relating selected variables. If the variables are amenable to a quantitative representation, then there are strong reasons for selecting a mathematical representation of the model. Mathematics has a theoretical rigour of its own, and so it ensures a certain orderly procedure on the part of the investigator. It demands specificity in respect of the variables that have been abstracted and the relationships assume to be existing amongst them. For example, it is more difficult to make implicit assumptions in a mathematical model than in a literary model. Secondly, mathematics is a potent tool for relating variables and for deriving logical conclusions from the given premises. Mathematics facilitates the solution of problems of bewildering complexities and also facilitates the decision-making process where quantitative analysis is applicable.

In the recent past, especially since World War II, a host of business problems have been quantified with some degree of success, leading to a general approach which has been designated as operations research. Undoubtedly, the quantitative representation of business problems is much older than operations research, considering the practice of accountancy. However, recently, the use of quantitative techniques has covered all the areas of modern business.

A word of caution is necessary for those businessmen who are found to employ quantitative techniques for business decisions. The conclusion derived from a mathematical model contains some degree of error because of the abstraction process. It is a matter of judgment as to when to modify the conclusion in view of the magnitude of error. Operations research supplements business judgment; it does not supplant it. Moreover, there are many business problems which cannot be given a quantitative representation and so they require the use of qualitative models and solutions. Within the constraints mentioned here, quantitative analysis can become an extremely productive technique for managerial decision-making. Problems which would perplex the initiation of the most experienced executives may, on some occasions, be resolved with relative ease.

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SUMMARY

- Decision-making is a process involving information, choice of alternative actions, implementation, and evaluation that is directed to the achievement of certain stated goals.
- The effect of any decision on one or more of the tangible factors can be measured and therefore it is easy to consider the pros and cons of every decision. Decisions based on these factors are likely to be more rational and free from bias and feelings of the decision-maker.
- Structured decisions are those which are made within the limits set by the policies, procedures, tradition or custom.
- Successful implementation of a decision significantly depends on the extent of understanding of the decision and its implications, and motivation of the subordinates who have to carry it.

REVIEW QUESTIONS

1. Define 'decision-making'.
2. What is the importance of decision-making?
3. Discuss tangible and intangible factors relevant to decision-making?
4. Write short notes on:
   (a) Factors involved in decision-making.
   (b) Programmed and Non-programmed decision.
   (c) Common difficulties in decision-making.
5. Discuss the guidelines that are offered as an aid to effective decision-making.