



**MANGALAYATAN
UNIVERSITY**

Learn Today to Lead Tomorrow

Principles and Practices of Management

MGO-6101

Edited By

Dr. Saurabh Kumar

DIRECTORATE OF DISTANCE AND ONLINE EDUCATION

**MANGALAYATAN
UNIVERSITY**

CONTENTS

Unit 1: Management Concepts and Thoughts	1-25
1.1 Introduction of Management	1
1.2 Definition of Management	1
1.3 Nature/Characteristics of Management	2
1.4 Scope of Management	3
1.5 Functions of Management	5
1.6 Management Process	5
1.7 Levels of Management	8
1.8 Skills of Managers	10
1.9 Role of Managers	12
1.10 Evolution of Management Thought	13
Unit 2: Social Responsibility of Business and Business Ethics	26-41
2.1 Concept of Business	26
2.2 Business Functions at Enterprise Level	26
2.3 Concept of Social Responsibility	27
2.4 Social Responsibility Towards Different Interest Groups	28
2.5 Kinds of Social Responsibility	34
2.6 Environment Protection and Business	35
2.7 Major Environmental Pollution Control Activities	37
2.8 Business Ethics	38
Unit 3: Planning	42-50
3.1 Definition	42
3.2 Types of Plans	43
3.3 Strategies, Policies and Planning Premises	44
3.4 Importance of Planning	45
3.5 Principles of Planning	46
3.6 Steps in Planning	47
3.7 Limitations of Planning	48
Unit 4: Objectives	51-67
4.1 Defining Objectives	51
4.2 Characteristics of Organizational Objectives	51
4.3 Importance of Objectives	53
4.4 Areas Needing Objectives	55
4.5 Criteria of a Good Objective	57
4.6 Management by Objectives (MBO)	57

Unit 5: Forecasting		68-75
5.1	Introduction	68
5.2	Features of Forecasting	69
5.3	Elements of the Forecasting Process	69
5.4	Planning and Forecasting	70
5.5	Advantages of Forecasting	70
5.6	Limitations of Forecasting	71
5.7	Types of Forecast	72
5.8	Forecasting Techniques	72
Unit 6: Decision-Making		76-86
6.1	Introduction and Definitions	76
6.2	Importance of Decision-Making	77
6.3	Factors Involved in Decision-Making	78
6.4	Types of Decisions	78
6.5	Common Difficulties in Decision-Making	80
6.6	Guidelines for Effective Decision-Making	81
6.7	Decision-Making—The Quantitative Way	82
Unit 7: Organization		87-94
7.1	Introduction	87
7.2	Definitions	87
7.3	Principles of Organizations	88
7.4	Formal and Informal Organizations	89
7.5	Steps in Organization	90
7.6	Importance	91
7.7	Organizational Culture	92
7.8	Organization Charts	92
7.9	Organization Manuals	93
Unit 8: Departmentation		95-101
8.1	Introduction	95
8.2	The Need for Departmentation	95
8.3	Importances of Departmentation	96
8.4	Advantages of Departmentation	97
8.5	Basis of Departmentation	98
8.6	Ideal Principles of Departmentation	99
Unit 9: The Concept of Authority		102-104
9.1	Meaning of Authority	102
9.2	Characteristics of Authority	102
9.3	Distinction between Authority and Power	103
9.4	Sources of Authority	104

Unit 10: Delegation of Authority	105-114
10.1 Meaning of Delegation	105
10.2 The Process of Delegation	105
10.3 Types of Delegation	106
10.4 Principles of Delegation	107
10.5 Advantages of Delegation	108
10.6 Importance of Delegation	109
10.7 Effective Delegation	110
10.8 Limits of Delegation	112
Unit 11: Centralization and Decentralization	115-122
11.1 Centralization	115
11.2 Decentralization	116
11.3 Types of Decentralization	117
11.4 Advantages of Decentralization	118
11.5 Disadvantages of Decentralization	119
11.6 Distinction between Delegation and Decentralization	119
11.7 Effective Decentralization	120
Unit 12: Line and Staff Relationships	123-131
12.1 Concept of Line and Staff	123
12.2 Differentiation between Line and Staff	124
12.3 Line Relationship	125
12.4 Staff Relationship	126
12.5 Types of Staff	126
12.6 Evaluation	126
12.7 Line-Staff Conflict	127
12.8 Overcoming Line-Staff Conflict	128
Unit 13: Nature and Purpose of Staffing	132-138
13.1 Introduction	132
13.3 Staffing	132
13.3 Responsibility for Staffing	133
13.4 Manpower Planning (MPP)	134
13.5 Human Resource Planning (HRP)	134
13.6 Aims and Objectives of Human Resource Planning (HRP)	135
13.7 Steps in Human Resource Planning	135
Unit 14: Staffing—Selection Process & Techniques	139-148
14.1 Selection	139
14.2 Selection Process	139
14.3 Selection Tests	141
14.4 Types of Tests	142
14.5 Advantages of Selection Tests	144

14.6	Limitations of Selection Tests	...	144
14.7	Precautions in Using Selection Tests	...	145
14.8	Interview	...	146
14.9	Principles of Interviewing	...	146
Unit 15: Human Resource Management			149-166
15.1	Introduction	...	149
15.2	Human Resource Management Questionnaire	...	152
15.3	Developing a Personnel System—Assessing Personnel Needs	...	152
15.4	Scope of Personnel Management	...	153
15.5	Objectives of Personnel Management	...	155
15.6	Training—Introduction	...	156
15.7	Need for Training	...	156
15.8	Objectives of Training	...	157
15.9	Importance of Training	...	157
15.10	Responsibility for Training	...	157
15.11	Principles of Training	...	158
15.12	Training Methods	...	158
15.13	Steps in Training Programmes	...	160
15.14	Implementation of the Training Programme	...	162
15.15	Evaluation of Training Programme	...	163
15.16	Effective Management	...	163
Unit 16: Directing/Direction			167-180
16.1	Introduction	...	167
16.2	Direction Defined	...	167
16.3	Features	...	168
16.4	Importance of Direction	...	168
16.5	Principles of Direction	...	169
16.6	Elements of Direction	...	170
16.7	Managing and the Human Factor	...	171
16.8	Creativity and Innovation	...	175
16.9	Harmonizing Objectives: The Key to Leading	...	179
Unit 17: Leadership			181-195
17.1	Meaning	...	181
17.2	Nature of Leadership	...	182
17.3	Need for Leadership	...	182
17.4	Distinction between Leadership and Headship or Domination	...	183
17.5	Leadership Theories	...	184
17.6	Importance of Leadership in Management	...	188
17.7	Functions of Leadership	...	189
17.8	Types of Leaders	...	190
17.9	Qualities of Leadership	...	193

Unit 18: Motivation	196-206
18.1 Introduction	196
18.2 Definitions	197
18.3 Importance of Motivation	197
18.4 Process of Motivation	198
18.5 Elements of Motivation	198
18.6 Nature or Characteristics of Motivation	199
18.7 Theories of Motivation	200
Unit 19: Communication	207-221
19.1 Introduction	207
19.2 Definitions	208
19.3 Importance of Communication	208
19.4 Process of Communication	210
19.5 Principles of Communication	211
19.6 Communication Methods	213
19.7 Essentials of Good Communication	213
19.8 Barriers to Communication	214
19.9 Methods of Overcoming Communication Barriers	216
19.10 Effective Communication	216
19.11 Ten Commandments of Good Communication: AMA (1961)	217
19.12 Electronic Media in Communication	219
Unit 20: Control Process	222-229
20.1 Introduction	222
20.2 Definitions	223
20.3 Control Versus Controls	223
20.4 Importance of Control	223
20.5 Limitations of Control	224
20.6 Characteristics of Control	224
20.7 Elements of Control	224
20.8 Essentials of A Good Control System	225
20.9 Types of Control	226
20.10 The Control Process	227
Unit 21: Control Techniques	230-244
21.1 Traditional Techniques of Controlling	230
21.2 Modern Techniques of Controlling	236
Unit 22: Information Technologies in Controlling	245-250
22.1 Information Technology	245
22.2 The Use of Computers in Handling Information	246
22.3 Challenges Created by Information Technology	248

Unit 23: Productivity and Operations Management	251-260
23.1 Productivity	... 251
23.2 An Overview of Production/Operations Management	... 252
23.3 Techniques Employed in Planning and Controlling Operations Management	... 256
Unit 24: Overall and Preventive Control	261-270
24.1 Introductory Observations	... 261
24.2 An Overview of Overall Direct Control Techniques	... 262
24.3 Assumption Underlying Direct Control System	... 264
24.4 Principle of Preventive Control System	... 265
24.5 Assumptions Underlying Preventive Control System	... 266
24.6 Advantages of Preventive Control	... 266
24.7 Developing Excellent Managers—The Key to Preventive Control	... 267
Unit 25: Quality: Concept and Significance	271-286
25.1 Introduction	... 271
25.2 Meaning and Concept of Quality	... 272
25.3 Concept of Total Quality	... 274
25.4 Need for Quality	... 278
25.5 Functions of Quality	... 279
25.6 Developing a Quality Control System	... 280
25.7 Total Quality Control System vs. Total Quality Management System	... 282
25.8 Elements of Total Quality Control (TQC)	... 283
Unit 26: International Management	287-291
26.1 Introductory Observations	... 287
26.2 Tendencies Towards Developing A Unified Global Management Theory	... 287

UNIT 1 MANAGEMENT CONCEPTS AND THOUGHTS

Management Concepts
and Thoughts

★ STRUCTURE ★

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- 1.1 Introduction to Management
- 1.2 Definition of Management
- 1.3 Nature/Characteristics of Management
- 1.4 Scope of Management
- 1.5 Functions of Management
- 1.6 Management Process
- 1.7 Levels of Management
- 1.8 Skills of Management
- 1.9 Role of Managers
- 1.10 Evolution of Management Thought
 - Summary
 - Review Questions

1.1 INTRODUCTION OF MANAGEMENT

The managers achieve organizational objectives by getting work from others and not performing in the tasks themselves.

Management is an art and science of getting work done through people. It is the process of giving direction and controlling the various activities of the people to achieve the objectives of an organization.

1.2 DEFINITION OF MANAGEMENT

There are numerous definitions of management. Different experts have defined different points of view.

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

Harold Koontz defined as, "*Management is the art of getting things done through and with people in formally organized groups. It is the art of creating an environment in which people can perform and individuals could cooperate towards attaining of group goals.*"

In view of **Joseph Massie**, "*Management is defined as the process by which a cooperative group directs actions towards common goals.*"

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George. R. Terry's point of view, "Management is a distinct process, consisting of planning, organizing, actuating and controlling, performed to determine and accomplish stated goals by the use of human beings and other resources."

According to this definition, management is a process, a systematic way of doing things. The four management functions included in this process are planning, organizing, directing and controlling.

Planning: Managers think of their actions in advance. Their actions are usually based on some method, plan or logic, rather than on a hunch.

Organizing: Managers coordinate the human and material resources of the organization.

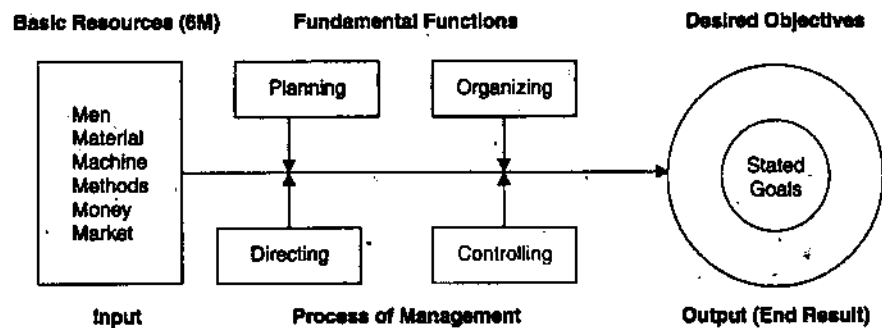
Actuating: Managers motivate and direct subordinates.

Controlling: Managers attempt to ensure that there is no deviation from the plan or norms.

This definition also indicates that managers use people and other resources such as finance, equipments, etc. in attaining their goals.

Finally, the definition states that *the management involves the act of achieving the organization's objectives*. These objectives will, of course, vary with each organization.

The following chart clearly presents this definition of management.



1.3 NATURE/CHARACTERISTICS OF MANAGEMENT

Following are the nature and characteristics of Management:

1. **Management is an activity.** It is a process of organized activity concerned with efficient utilization of resources of production like men, material, machine, money, etc.
2. **Management is a purposeful activity.** It is concerned with the achievement of an objective through its functions. Objectives may be explicit or implicit.
3. **Management concerned with the efforts of a group.** Management is concerned with management of people and not the direction of things. It motivates the workers to contribute their best.

4. **Management is getting things done.** A manager does not do any operating work himself but gets it done through others.
5. **Management applies economic principles.** Management is the art of applying the economic principles that underlie a control of men and materials in the enterprise under consideration.
6. **Management involves decision-making.** It is a decision-making process and the decisions are involved in all the functions of management.
7. **Management coordinates all activities and resources.** It is concerned with coordination of all activities and resources to attain the specific objectives.
8. **Management is a universal activity.** The techniques and tools of management are universally applicable.
9. **Management is an integrating process.** It integrates the men, materials and machines for achieving stated objectives.
10. **Management is concerned with direction and control.** It is concerned with direction and control of human efforts to attain the specific objectives.
11. **Management is intangible.** It is abstract and cannot be seen. It is evidenced by the quality of organization and through its results.
12. **Management is both science and an art.** Management has certain universally applicable principles, laws, etc. Hence, it is a science. It is also an art, because it is concerned with application of knowledge for the solution of organizational problems.
13. **Management is a profession.** It is becoming a profession because there is established principles of management which being applied in practice.
14. **Management is an inter-disciplinary approach.** Management as a body of discipline takes the help or other social science like psychology, sociology, engineering, economics, mathematics, etc.
15. **Management is dynamic and not static.** Management adopts itself to the social changes and also introduces innovation in methodology.

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1.4 SCOPE OF MANAGEMENT

The scope of management is very wide. The functional areas of management may be classified into the following categories.

- (i) Production Management
- (ii) Marketing Management
- (iii) Financial Management
- (iv) Personnel Management

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(i) **Production Management:** *Production function so as to produce the right goods in right quantity at the right time and at the right cost. It consists of the following activities.*

- Designing the product
- Location and layout of plant and building
- Operations of purchase and storage of materials
- Planning and control of factory operations
- Repairs and maintenance
- Inventory control and quality control
- Research and development, etc.

(ii) **Marketing Management:** *It refers to the identification of consumer's needs and supplying them the goods and services, which can satisfy those, wants. The activities are as follows:*

- Marketing Research to determine the needs and expectations of consumers
- Planning and developing suitable products
- Setting appropriate prices
- Selecting the right channels of distribution
- Promotional activities like advertising and salesmanship to communicate with the customers.

(iii) **Financial Management:** *It seeks to ensure the right amount and type of funds to business at the right time and at reasonable cost. The activities are as follows:*

- Estimate the volume of funds required for long-term and short-term needs of business
- Selecting the appropriate sources of funds.
- Raising the required funds at the right time.
- Ensuring proper utilization and allocation of raised funds
- Administration of earnings.

(iv) **Personnel Management:** *It involves planning, organizing, directing and controlling the procurement, development, compensation, maintenance etc. of the human resources in an enterprise. It consists of the following activities:*

- Manpower planning
- Recruitment
- Selection
- Training and development
- Performance appraisal
- Compensation and promotion
- Employee services and benefits
- Maintaining personnel records, etc.

1.5 FUNCTIONS OF MANAGEMENT

Different authors offering different names for the same functions of management.

Henri Fayol identifies five functions of management viz, *planning, organizing, commanding, coordinating and controlling.*

Koontz and O'Donnell, divides the management functions into *planning, organizing, staffing, directing and controlling.*

Warren Haynes and Joseph Massie classifies management functions into *decision-making, planning, organizing, staffing, directing, controlling, and communicating.*

Luther Gulick, states seven such functions under the catch word "POSDCORB"

Which stand for,

- P - Planning
- O - Organizing
- S - Staffing
- D - Directing
- Co - Coordinating
- R - Reporting
- B - Budgeting

As per managers are concerned, the following five functions are essential. They are Planning, Organizing, Staffing, Directing, and Controlling. In addition to above five functions, the two functions such as Innovations and Representation are also necessary for managers.

1.6 MANAGEMENT PROCESS

There is enough disagreement among management writers on the classification of managerial functions. Some classify these functions into four types, some into six or seven. The terminology is also not always alike, different authors offering different names for the same functions of management. For managerial purpose, the following five functions are very essential for managers. They are Planning, Organizing, Staffing, Directing and Controlling.

- (i) **Planning:** *Planning is the function that determines in advance what should be done. It is looking ahead and preparing for the future. It is a process of deciding the business objectives and charting out the methods of attaining those objectives. In other words, it is the determination of what is to be done, how and where it is to be done, who is to do it and how results are to be evaluated. This is done not only for the organization as a whole but for every division or department or sub-unit of the organization. It is a function, which is performed by managers at all levels,*

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like top, middle and supervisory levels of management. Plans made by top management of the organizations whole may cover periods as long as five or ten years. Also, plans made by middle or first line managers, cover such shorter periods. Such plans may be for the next days or weeks, or months, etc. for example, for a two-hour meeting to take place in a week.

Following are the sub-functions of planning: forecasting, decision-making, strategic formulation, policy-making, programming, scheduling, budgeting, problem solving, innovation and research activities.

- (ii) **Organizing:** It refers to coordinate human resources with other resources such as material, machine, money, etc. Once managers have established objectives and developed plans to achieve them, they must design and develop a human organization that will be able to carry out those plans successfully.

According to **Allen**, this organization refers to the "Structure which results from identifying and grouping work, defining and delegating responsibility and authority, and establishing relationships."

According to **Amitai Etzioni**, "An organization is a social unit or human grouping, deliberately structured for the purpose of attaining specific goals".

The process of organizing involves the followings:

- Identifying the activities necessary to achieve the objectives.
- Grouping activities into various departments.
- Assigning duties or tasks to appropriate individuals.
- Delegating necessary authority to individuals and fixing responsibilities for results.
- Defining authority and responsibility relationship among individuals.

Sub-functions of organizing functions are as follows: Functionalization, divisionalization, departmentation, delegation, decentralization, activity analysis, task allocation.

- (iii) **Staffing:** Staffing may also be considered an important function involved in building the human organization. In staffing, the manager attempts to find the right person for each job. Staffing fixes a manager's responsibility to recruit and to make certain that there is enough manpower available to fill the various positions needed in the organization. Staffing involves the selection and training of future managers and a suitable system of compensation. Staffing obviously cannot be done once and for all, since people are continually leaving, getting fired, retiring and dying. Often too, the changes in the organization create new positions, and these must be filled.

According to **Koontz and O'Donnell**, "The managerial function of staffing involves manning the organizational structure through

proper and effective selection, appraisal and development of personnel to fill the roles designed into the structure”.

Staffing function has the following sub-functions. They are manpower planning, recruitment, selection, training and development, placement, compensation, promotion, appraisal, etc.

- (iv) **Directing:** After plans have been made and the organization has been established and staffed, the next step is to move towards its defined objectives. *This function can be called by various names: ‘Leading’, ‘Directing’, ‘Motivating’, ‘Actuating’, and so on. But whatever the name used to identify it, in carrying out this function the manager explains to his people what they have to do and helps them do it to the best of their ability.*

Directing thus involves three sub-functions. They are as follows:

- (i) Communication,
 - (ii) Leadership and
 - (iii) Motivation.
- (i) **Communication** is the process of passing information and understanding from one person to another.
- (ii) **Leadership** is the process by which a manager guides and influences the work of his subordinates.
- (iii) **Motivation** means arousing desire in the minds of workers to give their best to the enterprise. It is the act of stimulating or inspiring workers. If the workers of an enterprise are properly motivated they will pull their weight effectively, give their loyalty to the enterprise, and carry out their task effectively.

Two broad categories of motivation are financial and non-financial. Financial motivation takes the form of salary, bonus, profit sharing, etc., while non-financial motivation takes the form of job security, opportunity of advancement, recognition, praise, etc.

- (v) **Controlling:** *The manager must ensure that everything occurs in conformity with the plans adopted, the instructions issued and the principles established.*

Three elements are involved in the controlling function.

- *Establishing standards of performance*
- *Measuring current performance and comparing it against the established standards*
- *Taking action to correct any performance that does not meet those standards. In the absence of sound control, there is no guarantee that the objectives, which have been set, will be realized. The management may go on committing mistakes without knowing them. Control compels events to conform to plans.*

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Controlling function has the following sub-functions. They are as follows:

- Fixation of standards
- Recording
- Measurement
- Reporting
- Corrective action.

1.7 LEVELS OF MANAGEMENT

In every company, there is a managerial hierarchy or chain of command, which consists of several levels of authority. The number of management levels may differ from company to company. In a big company the management levels may be classified into three categories viz.

- (i) Top Management
- (ii) Middle Management
- (iii) Supervisory or Operating Management

In a very large enterprise the middle management levels may be subdivided into upper middle management and lower middle management

- (i) **Top Management:** *Top management consists of the Board of Directors and the chief executives. Chief executives may be an individual, for example, Managing Director, General Manager etc., or a group of chairman and functional executive Directors. Board of directors is accountable to the shareholders in the annual general meetings of the company. The chief executive is concerned with the overall management of the company's operations. He maintains coordination among different departments/sections of the company. He also keeps the organizations in harmony with its external environment.*

Functions

- *To analyse and interpret changes in the external environment of the company*
- *To establish long-term corporate plans (goals, policies and strategies) of the company.*
- *To formulate and approve the master budget and departmental budgets*
- *To design board organization structure*
- *To appoint departmental heads and key executives*
- *To provide overall direction and leadership to the company*
- *To represent the company to the outside world*
- *To decide the distribution of profits.*

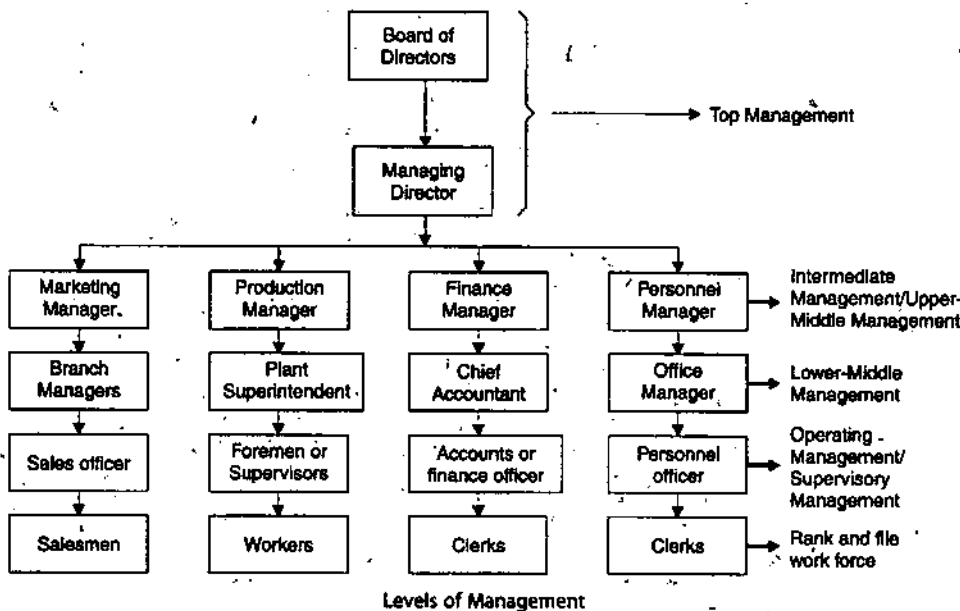
(ii) **Middle Management**

(a) **Intermediate Management:** *Intermediate/upper-middle management comprises departmental or divisional heads. For example, Marketing Manager, Production Manager, etc. It is also known as departmental or functional Management. Each divisional or departmental heads are the overall incharge of their respective division/department. He performs the usual managerial functions of planning, organizing, staffing, directing, and controlling in relation to one department.*

(b) **Lower Middle Management:** *Lower middle management levels consist of sectional heads. For example, plant manager, sales manager, branch manager etc. These executives serve as a link between intermediate or top management and the operating management.*

Functions

- To interpret and explain the plans and policies formulated by top management
- To monitor and control the operating performance
- To train, motivate and develop supervisory personnel
- To lay down rules and regulations to be followed by supervisory personnel.



(iii) **Supervisory/Operating Management:** This is the lowest or first level of management in an organization. It consists of supervisors, foremen, sales officers, accounts officer, purchase officer, etc. They maintain close contacts with the ranks and white colour workers and supervise day-to-day operations. They serve as the

channel of communication between management and the workforce. They are concerned with the mechanics of jobs.

Functions

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- *To plan day-to-day production within goals laid down by higher officials*
- *To assign jobs to workers and to make arrangements for their training and development*
- *To issue orders and instructions*
- *To supervise and control workers' operations and to maintain personal contact with them*
- *To arrange materials and tools and to maintain machinery*
- *To advise and assist workers by explaining work procedures, solving their problems*
- *To maintain discipline and good human relations among workers*
- *To report feedback information and workers' problems to the higher authorities.*

1.8 SKILLS OF MANAGERS

By managerial skills, we mean the skills or qualities desired in managers, the possession of which would enable to act as practicing managers. Following three broad types of managerial skills are very essential for managers.

- (i) Technical Skills
- (ii) Human Skill or Behavioural Skills
- (iii) Conceptual Skills

(i) **Technical Skills:** Technical skills refer to the skill and knowledge, which is required for performing an operational activity, in the best manner. *i.e.*, technical skill might be termed as technical expertise.

Technical skill is an imperative skill for managers at the lower level of management; because it is actually these people who guide and supervise work operators under their subordination. For example, mechanics work with tools; and their supervisors should have the ability to teach them how to use these tools. Similarly, the teacher, who, before, imparting teaching to pupils in a particular discipline, must be an expert in that discipline.

Technical skill is also required in managers at upper and middle levels of management. Managers at these levels do the fundamental planning for operational work leaving the detailed day-to-day operational plans to be made by the supervisory level.

(ii) **Human Skills or Behavioural Skills:** The basic responsibility of every manager is to get things done by others. In this process,

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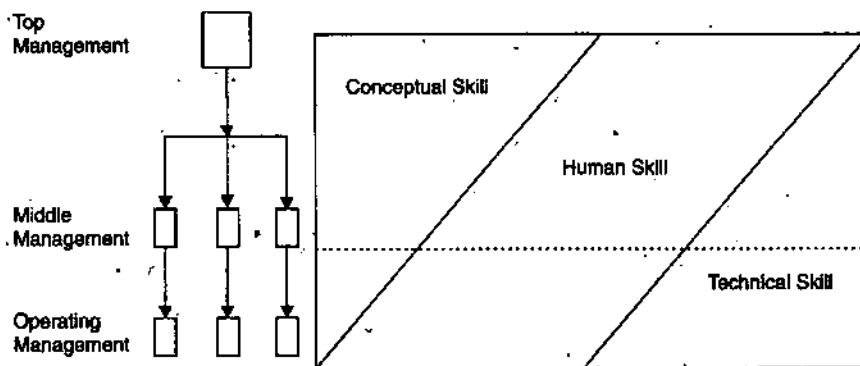
managers need human skills. **Human skills refer to those abilities, which are needed by the manager to effectively deal with subordinates. To manage, he has to understand their needs, interests and values. He interacts with them, guides, directs, leads, and motivates them.** In this regard, he is expected to know general tendencies of human behaviour and factors influencing it. By using human skills, he may establish good rapport, warmth relationships and conducive interpersonal relations with his subordinates. It is needed for providing dynamic and effective leadership and building a team spirit among employees.

Since, managers at all levels in the enterprise are supposed to deal with human beings in a subordinate position; all managers from the top to the lowest levels in the management hierarchy equally need human skill.

- (iii) **Conceptual Skills:** Conceptual skills comprise the ability to see the whole organization and the interrelationships between its parts. These skills refer to the ability to visualize the entire picture or to consider a situation in its totality. Such skills help the manager to conceptualize the environment; to analyze the forces working in a situation and to take a broad and farsighted view of the organization. Conceptual skills also include the competence to understand a problem in all its aspects to use original thinking in solving the problem. Such competence is necessary for rational decision-making.

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

Thus, Technical skills deal with jobs, Human skills with persons and Conceptual skills with ideas. These types of skills are interrelated. The relative importance of these skills may differ at various levels in the organization hierarchy. Following figure is clearly explained the importance of skills required at various levels of management.



Managerial Skills at Various Levels of Management

1.9 ROLE OF MANAGERS

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The job of a modern manager is very complex and multi-dimensional. **Mintzberg** has identified ten roles of a manager which are grouped into three categories viz.

Interpersonal Roles

- Figure head
- Leader
- Liaison

Informational Roles

- Monitor
- Disseminator
- Spokesman

Decisional Roles

- Entrepreneur
- Disturbance handler
- Resource allocator
- Negotiator

1. **Figure head:** *In this role a manager performs symbolic duties required by the status of his office. Making speeches, bestowing honours, welcoming official visitors, distributing gifts to retiring employees are examples of such ceremonial and social duties.*
2. **Leader:** *This role defines the manager relationship with his own subordinates. The manager sets an example, legitimizes the power of subordinates and brings their needs in accord with those of his organization.*
3. **Liaison:** *It describes a manager's relationship with the outsiders. A manager maintain mutually beneficial relation with other organizations, governments, industry groups, etc.*
4. **Monitor:** *It implies seeking and receiving information about his organization and external events. An example is picking up rumors about his organization.*
5. **Disseminator:** *It involves transmitting information and judgements to the members of the organization. The information relates to internal operations and the external environment. A manager calling a staff meeting after a business trip is an example of such a role.*

6. **Spokesman:** *In this role, a manager speaks for his organization. He lobbies and defends his enterprise. A manager addressing the trade union is an example.*
7. **Entrepreneur:** *It involves initiating change or acting as a change agent. For example, a manager decides to launch a feasibility study for setting up a new plant.*
8. **Disturbance handler:** *This refers to taking charge when the organization faces a problem or crisis. For example, a strike, a feud between subordinates loss of an important customer. A manager handles conflicts, complaints and competitive actions.*
9. **Resource allocator:** *In this role a manager approves budgets and schedules, sets priorities and distributes resources.*
10. **Negotiator:** *As a negotiator, a manager bargains with suppliers, dealers, trade union, agents, etc. For example, the manager may negotiate with the union leaders regarding strike issues.*

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1.10 EVOLUTION OF MANAGEMENT THOUGHT

To get proper and balanced perspective of theory and practice of management, all developments taking place since the beginning of the 20th century may be placed under three main categories. They are as follows:

- Classical or traditional management approach
- Behavioural or neo-classical approach
- Modern approach to management

1.10.1 Classical or Traditional Management Approach

The classical approach to management is one of the oldest and most popular, known as the traditional or universal process. It is based on the assumption that the objective of an organization may vary from one to another but the management of all organizations requires similar management process. *It has its roots in the basic concepts of division of labour and specialization. This approach consists mainly of scientific management developed by F.W. Taylor, administrative theory of management by Henry Fayol and bureaucratic organization by Max Weber.*

1.10.1.1 Theory of Scientific Management

Though scientific management theory is based on the contributions of many scholars and practitioners like Fredrick Winslow Taylor, Henry Gantt, Frank Gilbrith, Emerson and Carl Berth, etc. But F.W. Taylor has given a concrete shape to the theory of scientific management.

Taylor's Theory of Scientific Management

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F.W. Taylor (1856-1915) is known as the "*Father of Scientific Management*". He joined as a mechanic at Midvale Steel Company in U.S.A at 1878. He became chief engineer in the year 1884 in the same company. During his career spanning a period of 26 years, he conducted a series of experiments in three companies: Midvale Steel, Simonds Rolling Machine and Bethlehem Steel companies. While serving as a Chief Engineer of Midvale Steel Company, Taylor made several important contributions, which are classified under scientific management.

Taylor's approach aims at increasing the operational efficiency of workers by solving their work related problems, reducing in efficiency and wastage, improving their relation with management, and developing a best way of doing things. Taylor expressed the basic philosophy of scientific management in the following terms:

- **Science, not rule of thumb:** For solving problems and making decisions, the manager should adopt scientific attitude and use scientific thinking and methods. The 'rule of thumb' or 'Hit or miss' approach should be replaced.
- **Harmony, not discord:** All the departments and workers are a part of an organization. There should be complete harmony or coordination in their functioning and any kind of clash or conflict should not be allowed to crop in and, if it arises, should be reduced to a minimum.
- **Cooperation, not individualism:** Instead of fostering individualism, importance of cooperative group efforts should be recognised. Because, organizational objectives depends upon the group efforts not for individuals.
- **Maximum, not restricted output:** Production should be carried out up to the maximum capacity available in a unit.
- **Development of each man to his greater efficiency and prosperity:** For the prosperity of individual workers as well as the organization, the efficiency level of workers should be increased by providing scientific training and developing their potential abilities to the maximum.

Taylor based on his experience at the shop floor, developed guidelines to the practice of management as under.

1. Scientific Study and Planning of Work

Taylor has suggested that the work to be assigned to and performed by workers should be studied, analyzed and planned as to determine the day's fair work (standard of work) for each worker. In relation to work, following studies should be conducted to the workers on what is to be done and how it can be done, efficiently

- (i) **Work study:** The object of work-study is to improve efficiency. Efficiency could be improved and increased by expending fewer resources and reaping greater returns.
- (ii) **Motion study:** The object of motion study is to identify and eliminate unnecessary, avoidable and wasteful movements and motions of men and machines. These movements and motions are closely watched and recorded. On the basis of this study it can be determined whether the movements and motions are productive or incidental or unproductive.
- (iii) **Time study:** It is popularly known as work measurement. It is basically concerned with productivity. The exact time required to perform a job is accurately estimated. On the basis of this estimate the required number of employees is determined, suitable wage incentive schemes are devised and actual labour costs are worked out. The procedure followed in time study is to split the job into a number of component parts, the time taken to perform each part of the job is ascertained and standard timings for different parts of a job are determined.

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2. Scientific Selection, Placement and Training

To build up a team of efficient workers, Taylor realized that using scientific methods, instead of relying on intuition and judgement of the foremen should make selection. It implies selection of workers for the job by tallying job requirements with abilities and skills. Workers should be given placement on the basis of capability and aptitude. And, for developing the existing level of knowledge and potential scientific training should be imparted to workers on a regular basis.

3. Standardization

By minutely studying metal-cutting operations, Taylor suggested that the scheme of standardization should be adopted in respect of trade tools and equipments, raw material used by workers and physical working conditions provided to them. Any difference in the quality of raw material, tools and equipments may directly affect level of efficiency of workers.

4. Division of Responsibility between Management and Workers

Taylor advocated that two aspects of planning, thinking and doing should be separated. Planning of work that is thinking process should be a responsibility of managers. They should design work standards by conducting various studies, devise incentive scheme for workers, discipline them and assign work to them. Whereas role of workers should be confined to implementation of these plans. In this way benefits of division of labour and specialization may be secured.

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5. Functional Foremanship

Taylor introduced and practised the concept of functional foremanship. According to this concept instead of having one foreman as an in-charge for production department. All activities should be grouped into two groups namely planning forum and workshop forum. Each forum should have four supervisors to command over the activities of workers. In doing so dual command emerges, because each worker will get orders and instructions from eight supervisors dealing with different aspect of his job.

6. Mental Revolution

In order to get desired results of scientific management there should be complete mental revolution on the part of workers as well as management. Mental revolution is a process of bringing drastic changes in their attitude, outlook and behavioural pattern in respect of their duties toward work, toward their fellow workers and employers. Similar kind of changes in outlook should also take place among managers towards workers and their problems. To bring the change in the mental attitude of both sides, Taylor suggested scheme of workers participation in management and sharing surplus as bonus.

7. Differential Payment

F.W. Taylor firmly believed that man is motivated by economic considerations. He, therefore, introduced a new payment plan called 'the differential piece work'. He linked incentives with production. Accordingly a worker will be paid in direct proportion to how much he produced. That is a worker will receive low piece rate if he produces the standard number of pieces and high rates if he surpasses the standard. In the latter case, the higher rate would be applied to all the pieces the worker produced, including those which were produced according to the standard.

1.10.1.2 Administrative Theory of Management

Though administrative theory of management is based on the contributions of many scholars and practitioners like Henri Fayol, Max Weber, Sheldon, Mooney, Allen and Urwick, etc. But major part of it relates to Foyal's work.

Henry Fayol's Administrative Theory of Management

Henri Fayol (1841-1925) is considered the '*Father of administrative management theory*' with focus on the development of broad administrative principles applicable to general and higher managerial levels. Foyal started his career as a junior engineer in a coal mining company in France in 1860 and became its general manager in 1880. He wrote a monograph in French in 1916, entitled "**General and Industrial Administration**" which was translated into English in 1929.

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It is in four parts of which the first part deals with classification of business activities as technical activities (manufacturing or production), commercial activities (buying, selling and exchange), financial activities (raising and optimum use of capital), accounting activities (recording, costing and statistics), security activities (protection of persons and property), and administrative or managerial activities.

Second part contained basic functions of management performed by the managers in all types of organizations. In this way he identified five elements or functions of management process: Planning, organizing, commanding, coordinating and controlling.

Third part consists of 14 principles of management as general guides to the management process and management practice. These are as under.

1. **Division of Work:** Division of work in the management process produces more and better work with the same effort. Various functions of management like planning, organizing, directing and controlling cannot be performed efficiently by a single proprietor or by a group of directors. They must be entrusted to specialists in related fields.
2. **Authority and Responsibility:** As the management consists of getting the work done through others, it implies that the manager should have the right to give orders and power to exact obedience. A manager may exercise formal authority and also personal power. Formal authority is derived from his official position, while personal power is the result of intelligence, experience, moral worth, ability to lead, past service, etc. Responsibility is closely related to authority and it arises wherever authority is exercised. An individual, who is willing to exercise authority, must also be prepared to bear responsibility to perform the work in the manner desired. However, responsibility is feared as much as authority is sought after.
3. **Discipline:** Discipline is absolutely essential for the smooth running of business. By discipline we mean, the obedience to authority, observance of the rules of service and norms of performance, respect for agreements, sincere efforts for completing the given job, respect for superiors, etc.
4. **Unit of Command:** This principle requires that each employee should receive instructions about a particular work from one superior only. Foyal believed that if an employee was to report to more than one superior, he would be confused due to conflict in instructions and also it would be difficult to pinpoint responsibility to him.
5. **Unity of Direction:** It means that there should be complete identity between individual and organizational goals on the one hand and between departmental goals *inter se* on the other. They should not pull in different directions.

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6. **Subordination of Individual Interest to General Interest:** In a business concern, an individual is always interested in maximizing his own satisfaction through more money, recognition, status, etc. This is very often against the general interest, which lies in maximizing production. Hence, the need to subordinate the individual interest to general interest.
7. **Remuneration:** The remuneration paid to the personnel of the firm should be fair. It should be based on general business conditions, cost of living, and productivity of the concerned employees and the capacity of the firm to pay. Fair remuneration increases workers' efficiency and morale and fosters good relations between them and the management.
8. **Centralization:** If subordinates are given more role and importance in the management and organization of the firm, it is decentralization but if they are given less role and importance, it is centralization. The management must decide the degree of centralization or decentralization of authority on the basis of the nature of the circumstances, size of the undertaking, and the type of activities and the nature of organizational structure. The objective to pursue should be the optimum utilization of all faculties of the personnel.
9. **Scalar Chain:** Scalar chain means the hierarchy of authority from the highest executive to the lowest one for the purpose of communication. It states superior subordinate relationship and the authority of superiors in relation to subordinate at various levels. As per this principle, the orders or communications should pass through the proper channels of authority along the scalar chain. But in case there is need for swift action, the proper channels of authority may be short-circuited by making direct contact (called gang plank) with the concerned authority.
10. **Order:** To put things in an order needs effort. Disorder does not need any effort. It evolves by itself. Management should obtain orderliness in work through suitable organization of men and materials. The management should observe the principles of "right place for everything and for every man".
11. **Equity:** Equity means equality of fair treatment. Equity results from a combination of kindness and justice. Employees expect management to be equally just to everybody. It requires managers to be free from all prejudices, personal likes or dislikes. Equity ensures healthy industrial relations between management and labour which is essential for the successful working of the enterprise.
12. **Stability of Tenure of Personnel:** In order to motivate workers to do more and better work, it is necessary that they should be assured security of job by the management. If they have fear of insecurity of job, their morale will be low and they cannot give

more and better work. Further, they will not have any sense of attachment to the firm and they will always be on the lookout for a job elsewhere.

13. **Initiative:** Initiative means freedom to think out and execute a plan. The zeal and energy of employees are augmented by initiative. Innovation, which is the hallmark of technological progress, is possible only where the employees are encouraged to take initiative. According to Fayol, initiative is one of the keenest satisfactions for an intelligent man to experience; and hence, he advises managers to give their employees sufficient scope to show their initiative. Employees should be encouraged to make all kinds of suggestions to conceive and carry out their plans, even when some mistakes result.
14. **Esprit De-Corps:** This means team spirit. Since "Union is strength", the management should create team spirit among the employees. Only when all the personnel pull together as a team, there is scope for realizing the objectives of the concern. Harmony and unity among the staff are a great source of strength to the undertaking. To achieve this, Fayol suggested two things. One, the motto of divide and rule should be avoided, and two, verbal communication should be used for removing misunderstandings.

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1.10.1.3 Bureaucracy

Max Weber's contribution to management is in the area of authority structures and his description of organizations based on the nature of authority relations within them. Weber proposed 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 characteristics of **Weberian Bureaucratic model:**

1. The division of labour and the assignments of responsibility 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 cases.
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 are recorded in writing.

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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 "ideal" 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.

1.10.2 Behavioural or Neo-classical Approach

Behavioural approach was evolved gradually over many years. This is based on strong conviction that successful management depends on the ability of managers to understand the work, and background, needs, values, perceptions and personality of people. *This approach will be studied on the following two phases, namely, Human Relation movement and Behavioural science approach.*

- (a) **Human Relation Movement:** Under this approach Elton Mayo, Mary Parker, Follet, and Douglas McGregor have been the main contributors to this approach. Among the above contributors Elton Mayo's Hawthorne studies is very popular.

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 small 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?

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- **Hawthorne Effect:** 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 above, 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 Programme:** 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 with 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 recognized. To find out more about how the informal groups operated, the bank wiring room experiment was set up.
- **Bank Wiring Room Experiment:** In this experiment, 14 male workers were formed into a small workgroup and intensively observed for seven months in the bank wiring

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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.

The Hawthorne experiments, thus, indicated that employees were not only economic beings, but also 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 organization in place of a mechanistic or formal organization. The organization must be democratized and people working therein, must become part of 'one big happy family'.

- (b) **Behavioural Science Approach:** In view of certain inadequacies and drawbacks associated with human relation approach, many other social and behavioural scientists for undertaking and analyzing human behaviour methodically made concerted efforts. The term behavioural approach may be defined as systematic and scientific analysis of human behaviour with a view to determine causes of working behaviour of an individual. *This approach is also known as "Organizational behaviour Approach".* It includes an interdisciplinary approach of studying human behaviour consisting of psychology, sociology, physical and biological and cultural variables of individuals. For this approach, different views were developed by various behavioural scientists such as Douglas, McGregor, Abraham Maslow, Chester Bernard, Renis Likert and Herbert Simon.

1.10.3 Modern Approach to Management

Modern approach represents latest developments, which took place after 1950. *This approach can be studied in the following four phases namely, Quantitative approach, System approach, Contingent approach and Attributes of excellence.*

1.10.3.1: Quantitative Approach

This approach also known as 'management science approach', has been developed during 1950. It is based on the approach of scientific management. It offers systematic and scientific analysis and solution to the problems faced by managers. The quantitative approach aims at achieving high degree of precision, perfection and objectivity by encouraging the use of mathematical and statistical tools for solving complex problems. These quantitative decision making tools are known as 'Operations Research' like LPP, Simulation, queuing theory and game theory etc. It also implies use of computer-aided technology in various fields like production, finance, costing, transporting and storage etc. In simple terms, operations research may be regarded as application of scientific methods for solving problems and scientific methods consist of the following stages.

- Dividing problems into small and simple components
- Gathering required information on each component
- Analysis of data so collected
- Finding out solution to problem in hand.

The quantitative approach which involves use of knowledge and skills of several other disciplines such as statistics, engineering and accounting etc. has contributed significantly to management theory and behaviour. This approach has very limited application that too only in respect of problem solving and decision-making.

1.10.3.2 Systems Approach

Systems approach of management represents new thinking and latest developments related to organization and management. It was developed after 1950 emphasizing interdependence and interrelationship among various activities of organization. Basically this approach aims at identifying the nature of relationship among various components of the organization, which is considered as larger system. The term system may be defined as a set of interrelated and interacting components assembled in a particular sequence as to produce some results. These components may also viewed as sub-systems of larger system. It is only through this sub-systems the larger system operates, thus larger system can be viewed as a whole entity or totality. The various sub-systems which are involved in the functioning of larger one are closely related to each other and to a system as a whole. Similarly, these sub-systems interact with each other by getting influenced and influencing others. Every system has sub-system and every sub-system may be considered as a system because, it may have a sub-systems.

The system approach defines an organization as a complex whole consisting of mutually interdependent and interacting parts, which are viewed as sub-system. Therefore, the approach is said to be holistic in nature assuming that whole is greater than the sum of its parts.

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The system may be broadly classified into four categories. They are as follows:

- (i) Physical system
- (ii) Mechanical system
- (iii) Biological system
- (iv) Social systems.

- (i) **Physical systems** are the part and parcel of the nature or sub-system, of it totally governed and regulated by the nature. For example, solar system, seasons and rivers, etc.
- (ii) **Mechanical systems** refer to those devices, which are based on technology. These systems have been innovated by human beings for their betterment but are totally closed systems in nature, as they do not interact with external environment such as machines, motorcars, electronic appliances and consumer durables etc..
- (iii) **Biological systems** are those systems, which regulate and control existence and survival of all living species, human and plants are good examples of biological systems.
- (iv) **Social systems** may be defined as systems, which have been developed by human being to facilitate cooperative working to overcome the problem of isolation and desolation. All kinds of small and big formal and informal and economic and non-economic organizations are examples of social systems.

1.10.3.3 Contingency Approach

Contingency approach, though related to system approach, represents comparatively new line of thinking among management scientists. This approach basically aims at attempting to take a step away from universal application of managerial principles a recommending that the application of these principles is subject to appropriateness of the situation. It is a systematic attempt to determine package of management technique, approaches and practices which are appropriate in specific situation.

The contingency approach offers following guidelines for the managers.

- Contingency approach is situation-oriented urging upon the managers to study, analyze and diagnose the situation. It is to be done in terms of components variables of the situation and external factors affecting the situation.
- Subsequently, after the analysis of the situation, the managers are expected to prepare inventories of management theory, principle, techniques and concepts.
- In order to tackle the situation efficiently the validity and applicability of management tools and techniques is to be examined and finally package of these tools and techniques is prepared which is appropriate for that specific situation. The different situation requires different managerial response.

SUMMARY

- Management involves the act of achieving the organization's objectives.
- The functional areas of management may be classified into the following categories: Production Management, Marketing Management, Financial Management, Personnel Management.
- Directing involves three sub-sections such as communication, leadership and motivation.
- Three broad types of managerial skills are very essential for managers: Technical Skills, Human Skill or Behavioural Skills, Conceptual Skills
- Esprit De-Corps means team spirit.

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REVIEW QUESTIONS

1. Define 'Management'.
2. What is management process? What are its levels?
3. Explain briefly the evolution of management thought.
4. Discuss the 'Role of Managers'.
5. What do you mean by Neo-classical Approach?
6. Write short notes on:
 - (a) Conceptual Skills
 - (b) Bureaucracy
 - (c) Modern Approach

UNIT 2 SOCIAL RESPONSIBILITY OF BUSINESS AND BUSINESS ETHICS

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★ STRUCTURE ★

- 2.1 Concept of Business
- 2.2 Business Functions at Enterprise Level
- 2.3 Concept of Social Responsibility
- 2.4 Social Responsibility Towards Different Interest Groups
- 2.5 Kinds of Social Responsibility
- 2.6 Environment Protection and Business
- 2.7 Major Environmental Pollution Control Activities
- 2.8 Business Ethics
 - Summary
 - Review Questions

2.1 CONCEPT OF BUSINESS

Business, as we know is the sale, exchange or transfer of goods and services with profit motive. The basic requirement for every business activity is the profit. It is the profit which encourages and motivates the entrepreneur to undertake business activities. It does not mean that the business should sacrifice all social and human norms to earn profit. In the process of earning profit through business activities, workers should not be exploited and consumers should not be served with adulterated sub-standard goods and that too at a very high price. In case the business intends to survive for long with honour, dignity and reasonable growth, it must honour social commitment and must not indulge in anti-social activities. Consumers must be served with standard quality of goods at reasonable prices. Workers should also be paid fair wages.

2.2 BUSINESS FUNCTIONS AT ENTERPRISE LEVEL

Business includes a wide variety of functions performed by many different kinds of organizations called business enterprises or firms. Financing, production, marketing and human resource management are the four major functions which are performed by business enterprises to carry on business. Financing function is concerned with mobilizing and utilizing

funds for running a business enterprise. Production function involves the conversion of raw materials into finished products or generation of services. Marketing refers to all those activities which facilitate exchange of goods and services from producers to the people who need them, at a place they want, at a time they require and at a price they are prepared to pay. Human resource management function aims at ensuring the availability of working people who have necessary skills to perform various tasks in the enterprises.

2.3 - CONCEPT OF SOCIAL RESPONSIBILITY

Business, these days is recognised and accepted as a *social and economic organ of the society*. The business is formed within the society, with the resources of the society and to satisfy the needs of the society. In this way, *it is a social venture*. All the factors of production i.e., men, machine, material, capital and equipment are supplied by the society to the business, as such business owes its existence to the society.

The society originates, sustains and manages the affairs of the business, as such it is obligatory on the business to conduct its affairs in the interest of society. In this way, the conduction of business with the social interest in view is fulfilling social obligation.

In other words, social responsibility is the obligation of the business towards different groups of society, in addition to its profit earning. In short, *humanization of business to a reasonable limit is social responsibility*.

Important Views regarding Social Responsibility

"Social responsibility is the personal obligation of every one, as he acts for his owner's interests, to assure that right and legitimate interests of all others are not impinged."

—Koontz & O'Donnel

"Social responsibility of the business is to follow those lines of action, which are desirable in terms of the objectives and values of our society."

—H.R. Bowen

"Business, in order to play its proper role and contribute to the totality of human progress must come to be informed with a new spirit and new outlook. It must be made conscious of social responsibilities."

—Jai Prakash Narain

"In the real sense, the assumption of social responsibilities implies recognition and understanding of the aspiration of society and determination to contribute to its achievement."

—George A. Steiner

The study and analysis of the views expressed by the management experts reveals that the business has obligation towards the following:

- (i) Responsibility towards oneself.
- (ii) Responsibility towards owners/investors.
- (iii) Responsibility towards workers/employees.

- (iv) Responsibility towards consumers/customers.
- (v). Responsibility towards Government.
- (vi) Responsibility towards community, and public in general.

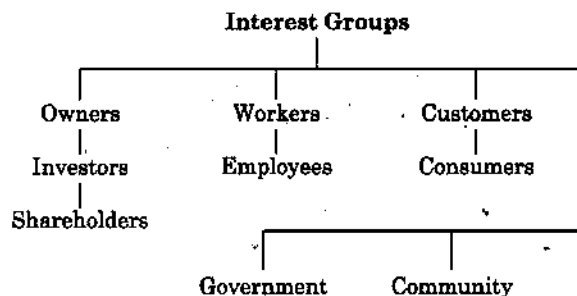
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The business has its social obligation to pay reasonable return to the entrepreneur, to pay interest at competitive rates to investors, to pay reasonable remuneration to employees, supply goods to customers at reasonable rates and to conduct the affairs of the business in accordance with the social commitment and values.

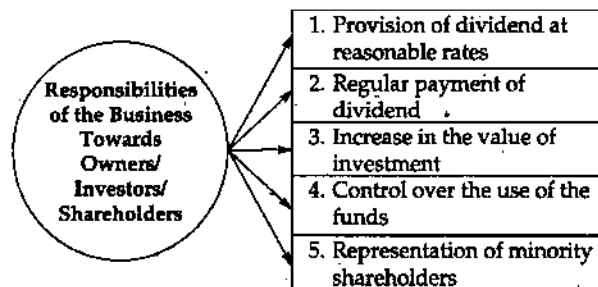
In short, business responsibility means the reasonable evaluation of all resources and their effective direction to meet business social commitments.

2.4 SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

Business being a socio-economic institution has interaction with several interest groups such as government, community, consumers, owners and employees. In order to attain social objectives and values, the business has to serve all these interest groups.



2.4.1 Responsibilities of the Business Towards Owners/ Investors/Shareholders



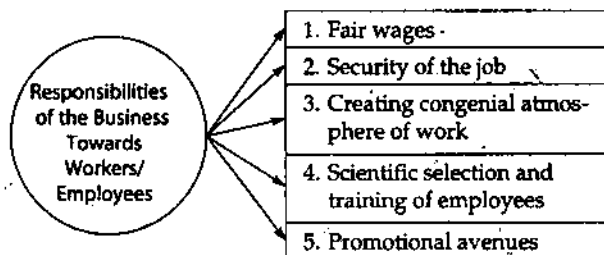
Every business needs capital to commence and conduct the affairs of the business. In case of sole proprietorship the capital is provided by the entrepreneur himself. In case of partnership, it is supplied by partners themselves, but in case of Joint stock companies, the capital is supplied by shareholders. Sole proprietorship and partnership is managed by the owners themselves, therefore they look after their interests but in case

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of joint stock companies, shareholders, being virtual owner are reduced to be the nominal owners, because the company is managed by Board of Directors. Shareholders practically, have no say in the management of company. Their relationship with their company is indirect. The special position of the shareholders demands that the business should have the following responsibilities towards them:

1. **Provision of dividend at reasonable rates:** The shareholders must get dividend at the prevailing rate of return in the capital market. In case the dividend is paid at lower rates or not paid, shareholders will like to withdraw their funds from the company. The general rate of dividend is between 5 to 25%.
2. **Regular payment of dividend:** Dividends should be paid, every year at regular interval, so that shareholders may plan about their source of income and its application.
3. **Increase in the value of investment:** There is generally an increase in the value of assets *i.e.*, land and building, etc. so it is the responsibility of the company to make an increase in the value of its shares and its assets in the business. There can be increase in value of shares, if the company earns more profit and declares dividend at higher rates.
4. **Control over the use of the funds:** Subscribing for shares is a risk investment. It is the unsecured liability of the company. There is always a danger of shareholders funds being misused by the board of directors. It is, therefore, necessary that shareholders should have control over their funds.
5. **Representation of minority shareholders:** In general majority shares are held by interested group of industrialists, who virtually own and manage the affairs of the company, thus the interest of minority group of shareholders is neglected, such a state of affairs should not be allowed to happen.

2.4.2 Responsibilities of Business Towards Workers/ Employees



Workers are essential, active and emotional factor of the business. They do not only work as a factor of production but also activate other factors. It is rightly said that owner simply contributes capital in the business, but the employees dedicate their entire life for it. It is, thus very essential, that the business should fulfill its humane, social and business obligation towards human factor in the venture. The responsibility

of the business towards workers may be enumerated and discussed as under:

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1. **Fair wages:** It is the social, moral, humane and the business responsibility of every venture to pay reasonable amount of wages and salaries to employees, so that they can lead a respectable life in the society and maintain their efficiency in the work. The enterprise must pay the minimum wages prescribed by the Government for that type of work.

Wages should be determined after taking into consideration the remuneration being paid by other ventures, cost of living and financial and non-financial incentives being provided to workers.

2. **Security of the job:** Worker's job must be safe and secure, so that he may feel himself to be the permanent asset of the business and contribute his best of efforts and energies to the business. If the worker is under constant fear of being removed and retrenched, he will not be able to render his best services. The business should satisfy itself with the efficiency of the worker at the time of his appointment, but once he is appointed, it will be in humane to kick him out for any negligence.

3. **Creating congenial atmosphere of work:** Working conditions must be healthier and refreshing. The place of work should be spacious, clean, properly ventilated, and free from dirt and suffocation. There should be proper arrangement of safety measures to avoid accidents. It will be highly appreciated, if there are beautiful parks and greeneries, so that the employee may not have feeling of fatigue.

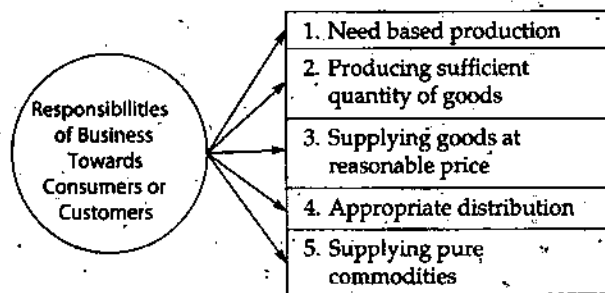
4. **Scientific selection and training of employees:** The selection and appointment of workers should not be made on emotional preferences, but should be based upon objective testing. Employees should be selected strictly as per the requirements of the work. In other words, right workers should be appointed for right jobs. Selected workers should be imparted requisite training, so that they may be more useful to the business enterprise.

5. **Promotional Avenues:** Every employee desires his promotion. In case of more promotional avenues, workers work sincerely to attain the higher status. Promotional opportunities are constant source of incentives to the employees. Promotions are justified on humanitarian grounds. In case, there is no provision for professional growth, employees will stagnate on a particular scale of pay without any incentive to work more and better. It is therefore, the obligation of the business to provide chances of promotion to workers.

We may conclude the social obligation of business towards employees in the words of our late Prime-minister Pandit Jawahar Lal Nehru.

"In the present economic and industrial structure, the relationship between workers and owners should not be that of owner and workers but workers should be treated as partner and colleague and in this way, there can be the peaceful solution of all the economic problems."

2.4.3 Responsibilities of Business Towards Consumers and Customers



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Peter Drucker rightly views that *the customers are the foundation stone of business*. The ultimate end of the business operations is to achieve maximum profit, which can be achieved if produced goods and services are consumed by the customers. It is, therefore, necessary that the business should try its best to provide maximum satisfaction to customers; as such the business has the following obligation towards customers:

- 1. Need based production:** The business should produce only those commodities which are needed by consumers. Goods must be according to the expectations and aspirations of the customers. In other words, it should have certain utility.
- 2. Producing sufficient quantity of goods:** The customers should not be exploited with insufficient production. The shortage of goods creates black-marketing. It is, therefore, obligatory on the business to use its full available capacity to produce goods and never create artificial scarcity.
- 3. Supplying goods at reasonable price:** Every business aims at producing goods at the minimum cost. It should also supply goods to consumers at reasonable price. The business should not take undue advantages of its upper hand in case of supplying commodities. The price of the commodity must be reasonable and competitive.
- 4. Appropriate distribution:** The producers and manufacturers should make their goods and services available at appropriate places and time, so that customers may not face more difficulties in acquiring it. The increase in the number of middlemen will increase the price. The channels of distribution must be sufficient to maintain the smooth supply of goods to customers.
- 5. Supplying pure commodities:** All the goods produced and manufactured by the business should have utility to customers. It should be pure and unadulterated. These goods should never be harmful to human being. It will be fatal to the existence of mankind if there is adulteration in medicines and edible articles. No business should commit such human crime. The honest businessmen should keep themselves off from duplication, imitation and adulteration.

We may now safely conclude that the business has an obligation to supply sufficient quantity of standard commodities at reasonable rates and at appropriate place.

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The importance of the customers in the business has been recognized and accepted by every one. Some of the important views are as under:

In the opinion of Botlar, "the customer holds topmost place in the organization chart". According to International seminar on the social responsibility of business, "the business venture should avoid adulteration, substandard output, defective measurement, false and misleading advertisements and omission from service and courtesy. The business should try to achieve maximum satisfaction of customers".

Other Views

"Business Premises is for customers, not the customers for the business."

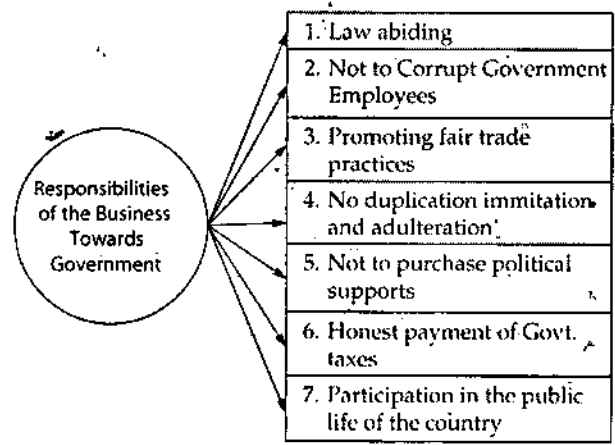
"The satisfaction of customers is our motto."

"Customer is never at mistake."

2.4.4. Responsibilities of the Business Towards Government

The ultimate aspiration of the modern democratic economy is the social and national welfare. It is, therefore, necessary, that all the resources of the country should be directed towards the national development. The planned developmental economy of the country also demands that the business should assume the following responsibility towards the government:

1. **Law abiding:** The business should be a legal entity. It should abide by the laws of the nation. It must honour the constitution and various provisions of different acts.
2. **Not to Corrupt Govt. Employees:** It will not be in the interest of the country that Govt. Employees be bribed by the big business houses to meet their ends.



3. **Promoting fair trade practices:** The business should be well-behaved and honest in their dealings. They should supply pure commodities and always go on improving the qualities of the products. They should not indulge in leg-pulling of one another. Healthy

Trade Practices are necessary to upkeep, the prestige of the country in international trade.

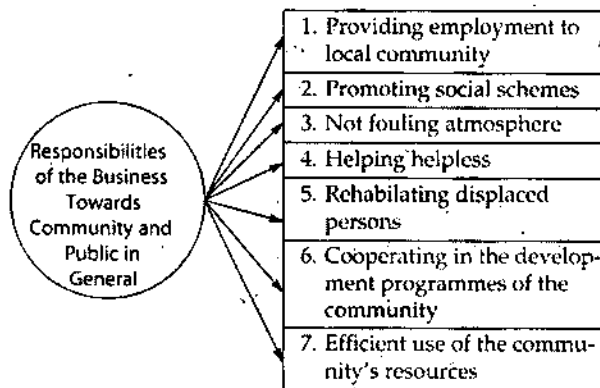
4. **No duplication, imitation and adulteration:** It will be an anti-national activity on the part of the business to indulge in the adulteration and imitation. This is an in humane activity. It also proves fatal to the citizens of the country.
5. **Not to purchase political supports:** The big business houses should not purchase the members of Parliament and Assemblies to meet their selfish ends. Such activities are harmful to the nation.
6. **Honest payment of Govt. taxes:** The business houses should be sincere and honest in the calculation and payment of Income-tax, Sales-tax and other levies.
7. **Participation in the public life of the country:** The business should help in the implementation of the Govt. Policies. It becomes the moral duty of the business to obey the different laws of the land and advise others to honour the laws. It should be the sincere effort of the business to establish and maintain peace in the country.

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2.4.5 Responsibilities of the Business Towards Community and Public in General

The businessman should be an ideal citizen of the country, as such he should assume the following responsibility towards community:

1. **Providing employment to local community:** The business has its first responsibility towards the locality, where it is situated. It should accord priority in the matters of employment to persons of the community.



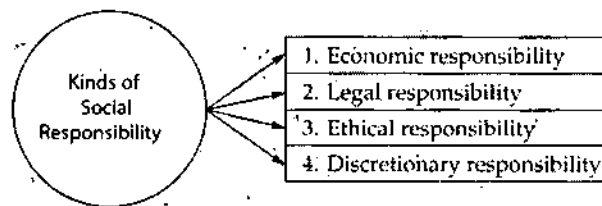
2. **Promoting social schemes:** The business should assume the responsibility for the education, medical treatment and housing accommodation to the inhabitants of the community. It should also cooperate other agencies in providing these facilities to the community.

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3. **Not fouling atmosphere:** The business should make the proper arrangement for the disposal of the smokes, dust, dirt, wastes, and scraps, etc. and not foul the environment.
4. **Helping helpless:** The local needy poor, handicapped and economically backward people should be sympathetically accommodated. They should be provided with jobs or training. It is the social obligation of the business to accommodate these types of people on humanitarian ground.
5. **Rehabilitating displaced persons:** It is the moral duty of the business to provide employment to displaced persons. It should also try to solve their residential problems.
6. **Cooperating in the developmental programmes of the community:** It will be highly appreciated if the business adopts the villages or towns, where it is located and assumes responsibility for the development of the community. In case the business cannot develop the locality all alone, it should assist other social and national agencies in their programmes for the development of the community.
7. **Efficient use of the community's resources:** The business should make its best efforts to make the best possible use of the raw material, tools and technique available in the community. The business should try to develop and assist in developing the local resources. The unutilized resources should also be put to uses.

2.5 KINDS OF SOCIAL RESPONSIBILITY

Social responsibility of the business can be classified into the following four categories:



1. **Economic responsibility:** No doubt, business is an economic activity. Therefore, the primary responsibility of the business is economic. It should produce goods and services as per needs of the society and sell them at a profit. There is no dispute regarding honouring economic responsibility by the business.
2. **Legal responsibility:** Every business should carry on its business as per the law of the land. The Government has enacted various laws and regulation in the interest of the business and society.

The businessmen are required to behave as a socially responsible citizen and abide, rules and regulations.

3. **Ethical responsibility:** It is the responsibility of the business in the interest of the society. It is not a law. The business may or may not honour ethical responsibility.
4. **Discretionary responsibility:** It is purely voluntary for the business to assume this responsibility. For example, providing donation to charitable, educational institutions or helping floods and earthquake victims.

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2.6 ENVIRONMENT PROTECTION AND BUSINESS

Business, as we know is an economic activity of generating income through buying and selling, manufacturing and rendering auxiliary services to trade. Modern business is not independent. It cannot work in isolation. It is the economic and social organ of the society, so it must achieve its economic goal. It cannot ignore the interest of the society. The government of the country has also the interest in business affairs. It enacts legislations, formulates business policies and controls business in the best interest of the public. Business as the vital organ of the society must protect environment from pollution.

After independence, Indian cities have extended greatly due to the growing population. Due to the lack of legal control, air and water pollution spread in urban areas because of the industries that were established in these areas. Although gradually these industries have been shifted to the outer places. Small- and middle-sized industries are the serious cause for environmental problems in urban areas. The condition of national capital Delhi is worse. Here 12355 industries are metal product industries. Consequently, Delhi is the most polluted city of the country. According to a report of centre for science and environment, more than 50,000 deaths occur every year due to air pollution.

2.6.1 Types/Causes of Environmental Pollution

Pollution is the main problem with the contemporary industries of today. Along with noise pollution, air, water and sound pollution should also be taken into consideration by governments and business. The causes of these environmental pollution are following:

1. **Air Pollution:** Air pollution occurs when several factors destroy the quality of air collectively. Carbon monoxide by automobiles pollutes the air. Along with it smoke from factories also pollutes the air.

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2. **Water Pollution:** Water becomes polluted, when chemicals and other waste materials are dumped into it. For many years, cities and businesses dumped waste material into rivers, lakes and streams which is cause for the pollution.
3. **Land Pollution:** Land pollution emerged with the problem of waste material on the land. The main problem that we have today is the disposal of solid wastes. However, new methods are adopted here but still there is the problem, how to prevent future contamination.
4. **Noise Pollution:** Noise caused by the running of factories and vehicles is not merely a source of annoyance but is also a serious health hazard. Noise pollution can be responsible for many diseases like loss of hearing, malfunctioning of the heart and mental disorder.

Environmental Problems

The United Nations has identified eight problems that cause damage to the natural environment. These are:

- (i) Ozone Depletion
- (ii) Global Warming
- (iii) Solid and Hazardous Wastes
- (iv) Water Pollution
- (v) Fresh Water Quality and Quantity
- (vi) Deforestation
- (vii) Land Degradation
- (viii) Danger to Biological Diversity

2.6.2 Need for Pollution Control

In our surroundings pollution can be found mostly in all walks of life like water, air and land. So, water is unfit to drink, air is harmful to breath and land is unfit to live. Here are the following measures to solve these problems:

1. **Aesthetic objective:** Visibility will improve with the improvement in the quality of air. To prevent pollution from blackening buildings, to reduce the foul odour from streams, rivers or lakes reduce the level of noise so that normal conversation can be carried on.
2. **Reducing inconvenience:** Water pollution can be dangerous physically and economically for fishing and swimming. Air pollution may cause eyes problem. So, in order to reduce inconvenience pollution control is necessary.
3. **Preventing economic losses:** There are many economic losses which can be reduced by pollution control. Pollution control can reduce cleaning and washing expenditures. Expenditure for the damage of building will also get reduced.
4. **Reducing safety hazards:** Pollution can cause hazards for aircraft trying to land or take off, and accidents on highway.
5. **Reducing health hazards:** We can reduce many diseases like heart disease, lung disease, cancer, etc. by pollution control.

2.6.3 Approaches to Pollution Control

Pollution can be controlled by many ways. Following are the measures of pollution control:

1. **Environmental evaluation:** The first approach is to evaluate industrial activity before it is undertaken. By this evaluation we can examine the primary and secondary effects of these industries.
2. **Setting-up of pollution standards:** A maximum limit should be fixed for the pollutants. In case of small cars, Euro II is the well known pollution standard.
3. **Regulation:** Government should order the industries and municipal corporations to dump their waste materials through a specific technology and method, so that pollution can be reduced.
4. **Ban:** This approach checks chemicals whether they are safe or can create hazard. These substances will be banned by the government, so that they cannot create pollution. One example of this technique is Toxic substances control legislation.

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Environment Protection Regulation

In India after the Bhopal gas tragedy the necessity for the classification of industries was felt. Like those industries which affect human life and environment directly and to those who do not adversely affect human life and environment. This tragedy or accident also showed some defects in the Indian Environment legislation. Thus, government made some amendment.

Role of Business in Environmental Protection

It is the collective responsibility to protect the environment from being spoiled. Business as an organ of the society should also protect environment. The Government can enact laws for the protection but its implementation lies with the citizens. Business enterprises have the financial resources and technological ability to prevent pollution. It is said that the business is the major pollution creator so, it must control itself.

2.7 MAJOR ENVIRONMENTAL POLLUTION CONTROL ACTIVITIES

1. National conservation strategy in 1992; policy statement for environment and development, Policy statement for abatement of pollution 1992, National Forest Policy 1988 and in 1986. Environment (Protection) Act were initiated for pollution control.
2. Standards related to air, water and noise levels were formulated by a multi-disciplinary group keeping in view the international standards, technologies and impact on health and environment.

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3. Action plans and identification of 17 categories of major polluting industries.
4. Identification of 24 major polluted areas for pollution control.
5. Factories were asked to use coal, wherein percentage of smoke will not be more than 34%.
6. Action plans for 141 polluted rivers started.
7. In order to reduce the pollution from automobiles, cleaner fuels, low sulphur diesel and Compressed Natural Gas (CNG) should be used at the manufacturing stage.
8. Starting of clean technologies for big industries.
9. For the clusters of SSI units 'Common Effluent Plants' was set up.
10. Eco mark scheme started to increase the production/consumption of Environment friendly products.
11. A zoning atlas was prepared to get environmental information at district level.
12. Environmental epidemiological studies were initiated in seven critically polluted areas to study the impact of environment on health.
13. Financial assistance to initiate pollution control environments and to shift industries in the outer places.
14. Environment pollution (Prevention and control) authority was established.
15. Prohibition of smoking in public places and use of polythene bags.

2.8 BUSINESS ETHICS

Ethics is a set of moral values, rules of conduct and professional morality. Business ethics refers to personal conduct and moral duty of business towards different sections of the society. According to **W.O. Wheeler**, "*Business ethics is an art or science of maintaining a proper harmonious relationships with society and various group and institutions as well as recognising the moral responsibility for the rightness or wrongness of business conduct*". Business Ethics, as such is the set of values, principles and standard governing the moral conduct of the business. Assuming higher degree of morality towards consumers, workers, shareholders and society is to observe business ethics. Observance of business ethics is not to indulge in:

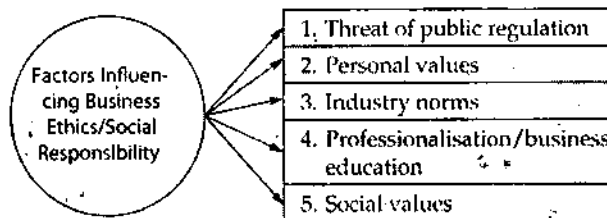
- (i) Corrupt practices i.e., corrupting public servant for getting favours
- (ii) Evasion of taxes
- (iii) Defrauding with customers
- (iv) Misbehaving with employees
- (v) Exploiting workers
- (vi) Selfishness
- (vii) Pollution of the atmosphere.

Ground Rules of Ethics

These are in the nature of some universal virtues which every human being should imbibe, develop and practice to be ethical in life;

- (i) Be trustworthy
- (ii) Have respect for others
- (iii) Own responsibility
- (iv) Be fair in dealings
- (v) Be caring towards well being of others.
- (vi) Prove to be a good citizen-through civil virtues and duties.

2.8.1 Factors Influencing Business Ethics/Social Responsibility

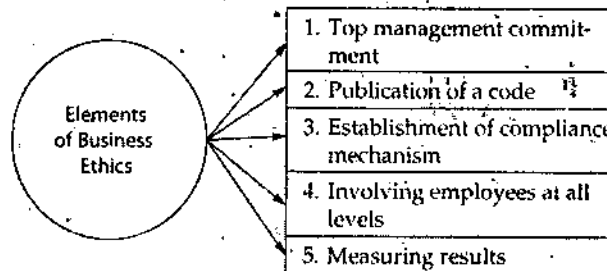


1. **Threat of public regulation:** Businessmen usually adopt unethical practices to get richer, so the government has to enact legislation to keep check on their malpractices. Certain important legislations are Essential Commodities Act, 1955, Prevention of Food Adulteration Act, 1976, Drugs and Cosmetics Act, 1946, Prevention of Black-marketing and maintenance of supplies of Essential Commodities Act, 1980, Consumers Protection Act, 1986, Factory Act and Employees Estate Insurance Scheme, etc.
2. **Personal values:** Business ethics is also influenced by individual's thinking, ideology, beliefs and values. An honest businessman must keep its personal interest subordinate to the interest of the society.
3. **Industry norms:** There is specific code of conduct for different classes of the business. An individual working in the enterprise has to observe the code of conduct of the enterprise, and norms established by the industry.
4. **Professionalization/Business education:** Managers professionally qualified have higher degree of ethical values and sense of social commitment, whereas family managers do not care much for business ethics. These days professionalization of management has been generating more ethics in the business.
5. **Social values:** Morality, behaviour, beliefs emerge from social values. Social forces exercise influence on business to observe ethics in the business.

2.8.2 Elements of Business Ethics

The business must observe the following basic elements of business ethics:

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1. **Top management commitment:** It is the top management, which takes decisions, initiates action and the leads the organization towards business ethics. The CEO and higher level managers must make sustained efforts towards honouring social commitments.
2. **Publication of a code:** The enterprises must develop a code containing the definite ethical programme. It may be regarding honesty, abiding by law, product quality, safety, health care, refreshing working conditions and fair business practices.
3. **Establishment of compliance mechanism:** The suitable mechanism should be developed to comply with the ethical standard of the enterprise. This mechanism should be regarding paying attention to values of ethics in the recruitment, training, auditing and reporting.
4. **Involving employees at all levels:** The involvement of all the employees in the ethical programme is must. Employees' representative must be taken into confidence while framing documents on ethics. It should be noted that employees participation in ethical activities is essential.
5. **Measuring results:** It is always in the interest of the organization to evaluate its ethical achievement. For this purpose, actual performance should be measured and compared with desired performance, weaknesses should be noted and corrective measures should be applied.

SUMMARY

- **Social Responsibility and ethics of the business** is to follow those lines of actions, which are desirable in terms of the objectives and values of the society.
- **Concept of Social Responsibility**

The business is formed within the society, with the resources of the society and to satisfy the needs of the society.

The business has obligation towards the following:

- (i) Responsibility towards oneself.
- (ii) Responsibility towards owners/investors.
- (iii) Responsibility towards workers/employees.
- (iv) Responsibility towards consumers/customers.

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(v) Responsibility towards Government.

(vi) Responsibility towards community and public in general.

Business responsibility means the reasonable evaluation of all resources and their effective direction to meet business social commitments.

• **Kinds of Social Responsibility**

1. Economic responsibility, 2. Legal responsibility, 3. Ethical responsibility, 4. Discretionary responsibility.

• **Business and Environment Protection:** Business as social organ must protect the environment from pollution.

• **Types/Causes of Environmental Pollution**

1. Air pollution, 2. Water pollution, 3. Land pollution, 4. Noise pollution.

• **Need for Pollution Control**

1. Aesthetic objective, 2. Reducing inconvenience, 3. Preventing economic losses, 4. Reducing safety hazards, 5. Reducing health hazards.

• **Approaches to Pollution Control**

1. Environmental evaluation, 2. Setting up of pollution standards, 3. Regulation, 4. Ban

• **Major Environmental Pollution Control Activities:** Please refer to the chapter within the book.

• **Role of Business in Environmental Protection:** It is the collective responsibility including business to protect environment from being spoiled.

• **Business Ethics:** Set of moral values, rules of conduct, and professional morality of the business is known as business ethics.

• **Factors Influencing Business Ethics/Social Responsibility**

(i) Threat of public regulation, (ii) Personal values, (iii) Industry norms, (iv) Professionalisation/business education, (v) Social values.

• **Elements of Business Ethics**

1. Top management commitment, 2. Publication of a code, 3. Establishment of compliance mechanism, 4. Involving employees at all levels, 5. Measuring results.)

REVIEW QUESTIONS

1. Explain the meaning of social responsibility.
2. Explain the social responsibilities of business towards consumers.
3. Discuss the responsibilities of the business towards workers.
4. Describe the responsibilities of the business towards itself.
5. What are the responsibilities of the business towards the government? Explain briefly.
6. Should business assume social responsibilities? Offer your arguments in favour and against assuming social responsibilities.
7. Why do the enterprises need to adopt pollution control measures?
8. Explain the various elements of business ethics.

UNIT 3 PLANNING

NOTES

★ STRUCTURE ★

- 3.1 Definition
- 3.2 Types of Plans
- 3.3 Strategies, Policies and Planning Premises
- 3.4 Importance of Planning
- 3.5 Principles of Planning
- 3.6 Steps in Planning
- 3.7 Limitations of Planning
- Summary
- Review Questions

3.1 DEFINITION

Planning is the process of determining the objectives of the administrative effort and of devising means calculated to achieve them. In other words, planning is the preparation for action. It is an endeavor to apply foresight to human activity, and is based on knowledge and research.

Terry has defined planning in terms of future course of action. He says that, "Planning is the selection and relating to facts and making using of assumptions regarding the future in the visualization and formalization of proposed activities believed necessary to achieve desired result.

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

According to Koontz and O'donnell, "Planning involves selecting enterprise objectives, departmental goals and programmes, and determining the ways of reaching them". Planning, thus, provides a rational approach to pre-selected objectives.

According to Philip Kotler, "Planning is deciding in the present what to do in future. It is the process whereby companies reconcile their resources with their objectives and opportunities.

3.2 TYPES OF PLANS

Planning may be of different types. We can classify some of the important types of plans according to the nature of planning below:

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1. Financial or Non-Financial Plans

- Most plans cannot be translated into action if there is no finance.
- Planning loses all its significance if sufficient financial resources are not mobilized.
- Plans that require financial resources are considered financial plans.
- Plans relating to the physical resources of an organization may be called non-financial plans.

2. Formal and Informal Plans

- More thinking by managers refers to informal plans.
- When an informal plan is finalized and prepared for implementation, it is considered to be a formal plan.

3. Specific and Routine Plans

- Any plan made with a particular object is known as a specific plan.
- Day-to-day normal activities require some type of regular plan known as a routine plan.

4. Strategic and Functional Plans

- Strategic planning is the overall planning of the enterprises objectives determined by the top management.
- A plan made in a functional area like production, purchase, marketing is referred to as a functional plan.

5. Long-range and Short-range Plan

- It depends upon the organizational structure, nature of business, the kind of industry, etc.
- In general, a short-term plan refers to a period covering six to twelve months.
- A long-range plan usually involves a time interval of between three and five years.
- The modern concern is to plan for a decade or two.

6. Administrative and Operational Plans

- Administrative plan provides the base for operative plans.

- Administrative planning is done by the top and middle-level management.
- Operational planning by the lower-level management.

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3.3 STRATEGIES, POLICIES AND PLANNING PREMISES

Strategies

- The term strategy has originally come from Greece around 400 BC and it refers to the technique of directing a military force in the light of the enemy force's action.
- In management, it has the same competitive implications. It is also regarded as interpretative planning.
- Strategy is related to the environment and its impact on the organization.

Policies

Policies are guidelines to action.

- They are the basic statements serving as guides to the thinking and action of subordinates in repetitive situations. They provide broad guidelines.
- According to Alford and Betty, "the mode of thought and the principles underlying the activities of an organization or an institution". It is a regular decision which is applicable to repetitive situations.
- Policy statement must be definite, clear and easily understandable.
- Policies made by the management should be reasonable and stable, flexible, based on proper and correct information and sound judgement, and to accomplish their purpose, be communicated. Policies should be in writing.

Planning Premises

- A plan is based on certain assumptions called premises.
- The assumptions or premises are for a future setting or happenings.
- Premises are made about market conditions, price trends, tax policy, government policy, business cycles, etc.
- Premises represent the plan environment.
- Planning premises, their choice, evaluation and usefulness depends upon the abilities of the planner.

- Planning premises are:
 - a. External and Internal
 - b. Tangible and Intangible
 - c. Controllable, Semi-controllable, and Uncontrollable

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3.4 IMPORTANCE OF PLANNING

The following points are the importance of planning.

1. Selection of Optimum Goals

- Planning involves rational thinking and decision-making concerning a proposed course of action. It also implies selection of one course of action and rejection of other possible courses of action.
- The selected course of action is naturally the one that promotes the overall organizational goals within the framework of the resource availability and economic, social and political factors.
- For optimization of overall organizational operations, it may sometimes be necessary to sub-optimize *i.e.*, to reduce the efficiency of some departments.

2. Tackling Increasing Complexities

- An organization is a heterogeneous group of human beings who differs from one another in many respects.
- It is unlikely that they will work effectively and harmoniously in the interest of the organization.
- Unless they have a plan in the making of which they have had a share and, which they regard as common property.
- So, planning is essential to any goal-directed activity.

3. Meeting Environmental Changes

- Business environmental changes move rapidly and sweepingly than can be imaged.
- Change in social values, increase in competition, new product discoveries, change in consumer tastes and preferences, have each the potential to upset any organization.
- Management should discern and exploit the emerging situation by adjusting and adapting the inputs and transformation process to suit the environmental changes.
- Only proper and effective planning can help the management to do so.

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4. Safeguard Against Business Failures

- Business failures are blamed on cut-throat competition, unpredictability of consumer tastes and preferences, rapid technological changes and abrupt economic and political development.

5. Unity of Action

- Planning enables the people within an organization to work effectively and harmoniously for accomplishment of common goals.
- It provides them a stake in their own future and thus induces them to do their utmost to meet the challenge.

6. Effective Coordination and Control

- Planning makes it easy to exercise effective control and coordination.
- The work to be done, the persons and the departments which have to do it, time-limit within which it is to be completed and the costs to be incurred, are all determined in advance.
- This facilitates proper and timely measurement of actual performance and its comparison with the planned performance.
- In case, actual performance is not as per the plans, factors responsible for the same can be ascertained.
- In the absence of planning, there will be no scientific standards to measure and evaluate performance.

3:5 PRINCIPLES OF PLANNING

The following are the principles of planning.

1. Principle of the Contribution to Objectives

Every plan and its components should help in the achievement of organizational objectives.

2. Principle of the Primacy of Planning

Planning is considered as the first and the foremost function to be performed in the process of management. It is followed by other managerial functions like organizing, staffing; directing and controlling.

3. Principle of the Pervasiveness of Planning

Planning is all-pervasive and it percolates to all the levels of management from top to bottom.

4. Principle of the Flexibility of Planning

Every plan should be made in such a way that it adjusts and adapts itself to changed circumstances. There must be a high degree of flexibility in every good plan.

5. Principle of Periodicity

Long-term plans, medium-term plans and short-term plans are to be integrated and interrelated in such a way as to achieve the organizational objectives effectively and economically.

6. Principle of Planning Premises

To develop consistent and coordinated plans, it is essential that planning be based upon carefully considered assumptions and predictions, known as planning premises.

7. Principle of Efficiency of Operations

Every plan should be designed with its components like objectives, strategies, policies, procedures, schedules, budgets, etc. to accomplish efficient realization of the plans.

8. Principle of Limiting Factors

There are various limiting factors like money, manpower, machinery, materials and management, which are to be taken into consideration while drafting a plan or taking a policy decision or devising a strategy.

9. Principle of Revision

Every plan has to be executed, and in the execution, managers should check periodically the events and decisions, and if there is any necessity, to redraw and readjust their plan to achieve the organizational objectives. They should make provision for such change.

3.6 STEPS IN PLANNING

There are various steps involved in planning. These are as follows:

1. Defining the Problem

The manager has to identify and define the problems which may appear at a future date and which may require proper planning.

2. Establishing Objectives

Every Manager should clearly establish the objectives to be achieved by the enterprise. Objectives must be specific, informative and functional.

3. Establishing the Planning Premises

Every plan has to be based on certain carefully considered assumptions and predictions, which are known as planning premises.

4. Determining Alternative Courses of Action

The next step is to search for and examine alternative courses of action.

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5. Evaluation of Alternative Courses of Action

Every alternative course of action has to be evaluated, and the relative importance of each one of them should be ascertained.

6. Selecting the Course of Action

After analyzing and evaluating the available alternatives, the manager has to select the best course of action.

7. Formulating Derivative Plans

Every major plan has to be supported and developed by the preparation of other derivative plans. Within the framework of the basic plan, derivative plans are developed in each area of the business.

8. Timing and Sequence of Operations

For every work, the manager has to prescribe the time frame, and within that, the work has to be started and completed. For smooth flow of work, it is better to maintain a sequence of operations.

9. Participation and Follow-up

Each and every plan has to be communicated and explained in great detail to subordinates so that they are kept fully informed. It also helps in securing the cooperation and complete participation of the workers in executing the plans. Every plan and programme requires good follow-up. It helps in making some adjustments and modifications in the plan if necessary. Continuous follow-up can result in the effective execution of the proposed course of action.

3.7 LIMITATIONS OF PLANNING

Planning is, and should be, the primary function of management. It sets the frame of organization, direction, control and coordination of activities in any enterprise.

1. Uncertainty

- Planning concerns the future, and nothing about the future is certain, except that it must be different from the present.
- Assessment of future can only be in terms of guesswork, probabilities, speculations, assumptions and conjectures.
- Uncertainty preferring the certainty of the present and past.

2. Action-Packed Routine

- Managers are ever preoccupied of rapping with day-to-day problems.
- This leaves them little time to think and plan about the problems of tomorrow.

- It is common to be over-concerned with the issues at hand which, if left unattended, might cause an immediate loss.
- Planning for the future does not appear to have the same urgency and can be conveniently postponed without fear of any loss for the present.

3. Abstraction

- The planning process involves thinking about vague alternatives and concern with 'what if' question.
- Almost every conceivable thing is included in the realm of possibility.
- There seems to be nothing hard and fast, just assumptions, estimates, speculation and guess work, which can be tested only when the thing to which they relate actually take place.
- This often brings in distortion in planning.

4. Rigidity

- Planning involves setting of objectives, and determination of the ideal course of action for their implementation.
- It implies that there will be no deviation from the chosen path.
- However, pursuit of vague, though predetermined, goals is against the very concept of business.

5. Costly

- Planning is an expensive exercise both in terms of time and money.
- It necessitates the formulation of estimates, collection of necessary information and facts, and a careful analysis and evaluation of the various courses of action.
- To decide on the best and the most economical course of action for the enterprise, as also for each of its workers and departments.

SUMMARY

- Planning is the process of determining the objectives of the administrative effort and of devising means calculated to achieve them. In other words, planning is the preparation for action. It is an endeavor to apply foresight to human activity, and is based on knowledge and research.
- Strategy is related to the environment and its impact on the organization. Policies are guidelines to action.

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- According to Alford and Betty, "the mode of thought and the principles underlying the activities of an organization or an institution". It is a regular decision which is applicable to repetitive situations.
- A plan is based on certain assumptions called premises.
- Planning involves rational thinking and decision-making concerning a proposed course of action. It also implies selection of one course of action and rejection of other possible courses of action.
- An organization is a heterogeneous group of human beings who differs from one another in many respects.
- Management should discern and exploit the emerging situation by adjusting and adapting the inputs and transformation process to suit the environmental changes. Only proper and effective planning can help the management to do so.

REVIEW QUESTIONS

1. What is planning? What are the steps involved in it?
2. What are the planning premises?
3. Discuss the importance of planning. What should be done to overcome its limitations?
4. Why are strategies important?
5. What do you understand by the term policy?
6. Distinguish between a policy and a strategy.
7. Explain the principles of planning.

★ STRUCTURE ★

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- 4.1 Defining Objectives
- 4.2 Characteristics of Organizational Objectives
- 4.3 Importance of Objectives
- 4.4 Areas Needing Objectives
- 4.5 Criteria of a Good Objective
- 4.6 Management by Objectives (MBO)
 - Summary
 - Review Questions

4.1 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'.

4.2 CHARACTERISTICS OF ORGANIZATIONAL OBJECTIVES

Just like any other management function, objectives have certain basic features. Generally speaking, enterprise objectives 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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4.2.1 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 of 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.

4.2.2 Objectives Form a Network

Objectives interlock in a network fashion. They are interrelated and interdependent. 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 functions 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."

4.2.3 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 favourable 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 in 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.

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4.2.4 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 framework 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.

4.3 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 attain their 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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4.3.1 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.

4.3.2 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.'

4.3.3 Coordination

Objectives keep activities on the right track. They make behaviour 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 behaviour toward the goals of the organization.'

4.3.4 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 in an organization.

4.3.5 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 Latha 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 ₹ 5,000 in 6 months for a salesman and announces bonus for meeting this specification. This half yearly goal is a motivational tool that influences the salesman's behaviour. 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.

Objectives

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4.4 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.

4.4.1 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 1. customers and products or services; 2. market segments (what groups are buying the product or service); and 3. distribution channels (who is getting the product to the customers).

4.4.2 Innovation

In every business, there are three kinds of innovations: innovation in product or service; innovation in marketplace and consumer behaviour 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.

4.4.3 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 labour, equipment and finances are necessary to produce the firm's outputs.

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4.4.4 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?”

4.4.5 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.

4.4.6 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 labour strife, union problems, etc.

4.4.7 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.

4.4.8 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 long 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 towards the general public.

4.5 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 channelized. 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 is feasibility, rationality and consistency.

4.6 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."

4.6.1 MBO Process

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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. MBO is 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 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.

4.6.1.1 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 objective to be achieved within a given time capsule.

4.6.1.2 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 set 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.

4.6.1.3 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 objective provides 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.

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4.6.2 Benefits

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 objectives 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.

4.6.3 MBO—Problems

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

4.6.3.1 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.

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4.6.3.2 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 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.

4.6.3.3 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.

4.6.3.4 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.

4.6.3.5 Inflexibility

MBO represents the danger of inflexibility in the organization, 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.

4.6.3.6 Frustration

Sometimes MBO creates frustration among managers. This frustration may be because of 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.

4.6.4 MBO—Limitations & Specifications

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-level 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.

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First, after defining the purpose and mission of business as to what the nature of business is, what it 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 mere hope of top executives demoralize employees and retard their performance. But realistic objectives based on measured expectations 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.

4.6.5 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:

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4.6.5.1 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 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 cases, 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.

4.6.5.2 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.

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4.6.5.3 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 you are developing the programme. Sometimes there is a certain amount of fear involved when a programme of this kind is involved.'

4.6.5.4 Participation

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

Objectives

- (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?

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4.6.5.5 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.

4.6.5.6 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. If 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

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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 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 behaviour.

4.6.6 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.

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REVIEW QUESTIONS

1. What do you mean by Management By Objectives (MBO)?
2. What is the importance of setting organizational objectives in a modern complex organization?
3. Discuss the benefits and difficulties for MBO.

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★ STRUCTURE ★

- 5.1 Introduction
- 5.2 Features of Forecasting
- 5.3 Elements of the Forecasting Process
- 5.4 Planning and Forecasting
- 5.5 Advantages of Forecasting
- 5.6 Limitations of Forecasting
- 5.7 Types of Forecast
- 5.8 Forecasting Techniques
 - Summary
 - Review Questions

5.1 INTRODUCTION

Planning is "a systematic economic and rational way of making decisions today that will affect tomorrow", then forecasting becomes an integral part of the planning process, specially, strategic planning which is long-range in nature.

Lyndall Unrwick defined forecasting as, "it is involved to some extent in every conceivable business decision. The man who starts a business is making an assessment of a future demand of its products. The man who determines a production programme for the next six months or twelve months is usually also basing it on some calculation of future demand. The man, who engages staff, and particularly Young staff, usually has an eye to future organizational requirements."

Business forecasting refers to a systematic analysis of past and present conditions with the aim of drawing inferences about the future course of events. **Louis Allen** defines forecasting, as "a systematic attempt to probe the future by inference from known facts."

Neter and Wasserman have defined forecasting as:

"Business forecasting refers to the statistical analysis of the past and current movement in the given time series so as to obtain clues about the future pattern of those movements."

5.2 FEATURES OF FORECASTING

Based on the above definitions the following features are explained below:

1. **Involvement of future events:** Forecasting relates to future events. Forecasting is the essence of planning because planning also aims at deciding what is to be done in the future.
2. **Depends upon past and present event:** Actually, forecasting is made by analyzing the past and present relevant data. It takes all the factors into account, which affect the functioning of the enterprise.
3. **Happening of future events:** Forecasting defines the probability of happening of future events. Therefore, happening of future events can be precise only to a certain extent.
4. **Makes use of forecasting techniques:** As can be gathered from what has gone before that forecasting is a systematic attempt to probe the future with a view to drawing certain useful inferences. Such a probing obviously demands a proper and full analysis of known facts with the help of various qualitative and quantitative forecasting techniques.

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5.3 ELEMENTS OF THE FORECASTING PROCESS

J.W. Redfield describes the following elements of forecasting process:

1. Prepare the groundwork.
2. Establishing future business.
3. Comparing actual with estimated results.
4. Refining the forecasts.

5.3.1 Prepare the Groundwork

The group work preparation requires a thorough study, investigation, and analysis of the company, its products, its market share, its organizational structure and the industry. The investigation will involve the past performance of all these factors, their growth over a period of time and the extent of their interrelationships and interdependence. The aim is to build a foundation on which future estimates can be based.

5.3.2 Establishing Future Business

The future expectancy of the business can be reasonably computed from the past data as well as the input from the key executives of the organization, sales personnel and other specialists. This forecast is developed with the participation of the key personnel and is officially

communicated to all. Thus all these people assume responsibility for meeting these forecasts and accountability for any deviations from this forecast.

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5.3.3 Comparing Actual with Estimated Results

The forecast estimates over the future years provide benchmarks against which the actual growth and results can be measured and compared. If there are significant variations between the two, one way or another, the reasons for such deviations can be investigated and analyzed.

5.3.4 Refining the Forecasts

In the light of any deviations found, the forecast can be refined to be more realistic. If some conditions have changed during the periodic evaluation, then the new values of the variables can be incorporated in the estimates. Thus, these constant revisions and refinements and improvements would add to the experience and skill in forecasting, since proficiency in forecasting can only be gained through practice and experience.

The above elements indicate a systematic approach to the problem of forecasting. As a materiality, these elements are found in any research procedure.

5.4 PLANNING AND FORECASTING

Even though both planning and forecasting are known as equals, there exists basic difference, Planning is more comprehensive which includes many sub-process and elements in order to arrive at decisions. These decisions may be in terms of what is to be done, and when to be done. Conversely, forecasting involves the estimate of future events and provides parameters to the planning. It may also involve many sub-process and elements but these are used to project what will happen in future.

Forecasting may not require any commitment of action but may help in planning the future course of action, whereas commitment of actions is the basic ingredient of planning.

The major decisions in planning are made at the top level. But forecasting is normally taken at middle level or lower level.

5.5 ADVANTAGES OF FORECASTING

Forecasting plays a vital role in the process of modern management. It is an important and necessary aid to planning and planning is backbone of effective operations. Thus, the importance or advantages of forecasting are stated below:

1. It enables a company to commit its resources with greatest assurance to profit over the long term.

2. It facilitates development of new products, by helping to identify future demand patterns.
3. Forecasting by promoting participation of the entire organization in this process provides opportunities for team work and brings about unity and coordination.
4. The making of forecasts and their review by managers, compel thinking ahead, looking to the future and providing for it.
5. Forecasting is an essential ingredient of planning and supplies vital facts and crucial information.
6. Forecasting provides the way for effective coordination and control. Forecasting requires information about various external and internal factors. The information is collected from various internal sources. Thus, almost all units of the organization are involved in this process, which provides interactive opportunities for better unity and coordination in the planning process. Similarly, forecasting can provide relevant information for exercising control. The managers can know their weakness in forecasting process and they can take suitable action to overcome these.
7. A systematic attempt to probe the future by inference from known facts helps integrate all management planning so that unified overall plans can be developed into which divisions and departmental plans can be meshed.
8. The uncertainty of future events can be identified and overcome by an effective forecasting. Therefore, it will lead to success in organization.

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5.6 LIMITATIONS OF FORECASTING

The following limitations of forecasting are listed below:

1. **Basis of Forecasting:** The most serious limitations of forecasting arises out of the basis used for making forecasts. Top executives should always bear in mind that that bases of forecasting are assumptions, approximations, and average conditions. Management may become so concerned with the mechanism of the forecasting system that it fails to question its logic. This critical examination is not to discourage attempts at forecasting, but to sound caution about the practice of forecasting and its inherent limitations.
2. **Reliability of Past Data:** The forecasting is made on the basis of past data and the current events. Although past events/data are analyzed as a guide to the future, a question is raised as to the accuracy as well as the usefulness of these recorded events.
3. **Time and Cost Factor:** Time and cost factor are also an important aspect of forecasting. They suggest the degree to which an

NOTES

organization will go for formal forecasting. The information and data required for forecast may be in highly disorganized form; some may be in qualitative form. The collection of information and conversion of qualitative data into quantitative ones involves lot of time and money. Therefore, managers have to trade off between the cost involved in forecasting and resultant benefits. So forecasting should be made by eliminating above limitations.

5.7 TYPES OF FORECAST

There are three types of forecasts, on which many business organizations rely on are:

- (i) Demand (Sales) forecast.
- (ii) Economic forecast and
- (iii) Technological forecast.

(i) *Demand or sales forecasts* are fundamental to a company's planning and control decisions. They give the expected level of demand for the company's products or services through some future periods.

(ii) *Economic forecasts* involve such matters as future state of the economy; inflation rates, etc. and have a profound influence on the success of future business activities.

(iii) *Technological forecasts* usually focus on the rate of technological progress or the nature of technological developments in areas related to the business and technology.

5.8 FORECASTING TECHNIQUES

Forecasting technique can be classified into two major categories.

- (i) Qualitative forecasting technique
- (ii) Quantitative forecasting technique

5.8.1 Qualitative Techniques

1. Jury or Executive opinion (Dolphi Technique)
2. Sales force estimates
3. Customer expectations

Jury or Executive Opinion

The jury of expert opinion sometimes referred to as the Dolphi technique; involves soliciting opinions or estimates from a panel of "experts" who are knowledgeable about the variable being forecasted. In addition to being useful in the creation of a sales or demand forecast this approach

is used to predict future technological developments. This method is fast less expensive and does not depend upon any elaborate statistics and brings in specialized viewpoints.

Sales Force Estimates

This approach involves the opinion of the sales force and these opinions are primarily taken into consideration for forecasting future sales. The sales people, being closer to consumers, can estimate future sales in their own territories more accurately. Based on these and the opinions of sales managers, a reasonable trend of the future sales can be calculated. These forecasts are good for short-range planning since sales people are not sufficiently sophisticated to predict long-term trends. This method known as the "grass roots" approach ends itself to easy breakdowns of products, territory, customer, etc. which makes forecasting more elaborate and comprehensive.

Customer Expectations

This type of forecasting technique is to go outside the company and seek subjective opinions from customers about their future purchasing plans. Sales representatives may poll their customers or potential customers about the future needs for the goods and services the company supplies. Direct mail questionnaires or telephone surveys may be used to obtain the opinions of existing or potential customers. This is also known as the "survey method" or the "marketing research method" where information is obtained concerning customer buying preferences, advertising effectiveness and is especially useful where the target market is small such as buyers of industrial products, and where the customers are cooperative.

5.8.2 Quantitative Techniques

Quantitative techniques are based on the analysis of past data and its trends. These techniques use statistical analysis and other mathematical models to predict future events. Some of these techniques are:

1. Time series analysis
2. Economic models
3. Regression analysis

5.8.2.1 Time Series Analysis

Time series analysis involves decomposition of historical series into its various components, viz., trend, seasonal variations, cyclical variations and random variations. Time series analysis uses index numbers but it is different from barometric technique. In barometric technique, the future is predicted from the indicating series, which serve barometers

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of economic change. In time series analysis, the future is taken as some sort of an extension of the past. When the various components of a time series are separated, the variations of a particular phenomenon, the subject under study stay say price, can be known over the period of time and projection can be made about future. A trend can be known over the period of time, which may be true for future also. However, time series analysis should be used as a basis for forecasting when data are available for a long period of time and tendencies disclosed by the trend and seasonal factors are fairly clear and stable.

5.8.2.2 Economic Models

Utilize a system of interdependent regression equations that relate certain economic indicators of the firm's sales, profits, etc. Data centre or external economic factors and internal business factors interpreted with statistical methods. Often companies use the results of national or regional econometric models as a major portion of a corporate econometric model. While such models are useful in forecasting, their major use tends to be in answering "what if"? Questions. These models allow management to investigate and in major segments of the company's business on the performance and sales of the company.

5.8.2.3 Regression Analysis

Regression Analysis are statistical equations designed to estimate some variables such as sales volume, on the basis of one or more 'independent' variables believed to have some association with it.

SUMMARY

- Business forecasting refers to the statistical analysis of the past and current movement in the given time series so as to obtain clues about the future pattern of those movements.
- Forecasting is the essence of planning because planning also aims at deciding what is to be done in the future.
- Planning is more comprehensive which includes many sub-process and elements in order to arrive at decisions. These decisions may be in terms of what is to be done, and when to be done. Forecasting involves the estimate of future events and provides parameters to the planning. It may also involve many sub-process and elements but these are used to project what will happen in future.
- Forecasting by promoting participation of the entire organization in this process provides opportunities for team work and brings about unity and coordination.

- Regression Analysis are statistical equations designed to estimate some variables such as sales volume, on the basis of one or more 'independent' variables believed to have some association with it.

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REVIEW QUESTIONS

1. What is forecasting and explain its features?
2. What are the elements of forecasting process?
3. What are the advantages of forecasting?
4. Write down the limitations of forecasting?
5. What are the types of forecasting?
6. Explain briefly forecasting techniques.
7. Explain quantitative forecasting techniques.
8. Describe Regression analysis.
9. "Forecasting is a systematic analysis of past and present conditions." Explain.
10. Explain the importance of forecasting.

NOTES

★ STRUCTURE ★

- 6.1 Introduction and Definitions
- 6.2 Importance of Decision-Making
- 6.3 Factors Involved in Decision-Making
- 6.4 Types of Decisions
- 6.5 Common Difficulties in Decision-Making
- 6.6 Guidelines for Effective Decision-Making
- 6.7 Decision-Making—The Quantitative Way
- Summary
- Review Questions

6.1 INTRODUCTION AND 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 or 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 Clifton 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."

6.2 IMPORTANCE OF DECISION-MAKING

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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 everyday 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.

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6.3 FACTORS INVOLVED IN DECISION-MAKING

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

6.3.1 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.

6.3.2 Intangible Factors

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

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

6.4 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.

NOTES

2. **Strategic and operational decisions:** Strategic decisions, which are often notable 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 judgement 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 judgement 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 judgement, 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.

6.5 COMMON DIFFICULTIES IN DECISION-MAKING

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

6.5.1 Incomplete Information

This is a major problem for every manager. 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.

6.5.2 Unsupporting 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.

6.5.3 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, criticize, make recommendations or decide upon policies or projects is an effective device for gaining their acceptance and commitment.

6.5.4 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.

6.5.5 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.

6.6 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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6.6.1 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.

6.6.2 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.

6.6.3 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.

6.6.4 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

NOTES

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.

6.6.5 Ensure Successful Implementation of the Decision

Even the best decision will not yield satisfactory results unless it is implemented effectively. 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. 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.

6.6.6 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.

6.6.7 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.

6.7 DECISION-MAKING — THE QUANTITATIVE WAY

6.7.1 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.

6.7.2 Business Decisions

The business manager wants to choose the course of action that is most effective in attaining the goals of the organization. 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:

$$\text{Total Expenses} = a + b \text{ units sold.}$$

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.

6.7.3 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

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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.

6.7.4 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, therefore, duplicates the essential behaviour 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.

6.7.5 Solutions

Having constructed the model, it is possible to draw certain conclusions about its behaviour 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.

6.7.6 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.

6.7.7 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.

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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.

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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 judgement as to when to modify the conclusion in view of the magnitude of error. Operations research supplements business judgement; 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.

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.

★ STRUCTURE ★

NOTES

- 7.1 Introduction
- 7.2 Definitions
- 7.3 Principles of Organization
- 7.4 Formal and Informal Organizations
- 7.5 Steps in Organization
- 7.6 Importance
- 7.7 Organizational Culture
- 7.8 Organization Charts
- 7.9 Organization Manuals
- Summary
- Review Questions

7.1 INTRODUCTION

Organization is the task of mobilizing resources. It is a structure involving a large number of people engaging themselves in a multiplicity of tasks, a systematic and rational relationship with authority and responsibility between individuals and groups. It involves dividing the entire work into manageable units, departmentation, decentralization, delegation and span of control.

7.2 DEFINITIONS

Louis A. Allen, "Organization is a mechanism or structure that enables living things to work effectively together. The evolution of all forms of life and of human society demonstrates the need for organization".

Oliver Sheldon, "Organization is the process of combining the work which individuals or groups have to perform with facilities necessary for its execution that the duties so performed provide the best channels for efficient, systematic, positive and coordinated application of available effort".

Barnard, "Organization is a system of consciously coordinated activities or forces of two or more persons".

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

Joseph L. Massie, "Organization is the structure and process by which a cooperative group of human beings allocates its tasks among its members, identifies relationships and integrates its activities towards common objectives".

Koontz and O'Donnell, "Organization is the establishment of authority and relationships with provision for coordination between them, both vertically and horizontally in the enterprise structure".

Alvin Brown, "The part which each member of an enterprise is expected to perform and the relations between such members, to the end that their consistent endeavor shall be most effective for the purpose of the enterprise".

A study of the above definitions makes it clear that organization involves: identification and grouping of work, defining responsibility; delegation of authority; establishment of structural relationships; and coordination of interrelated activities. Organization is concerned with: (a) the attainment of objectives by grouping the activities, (b) dividing these activities into different departments, divisions, sections and between individuals, (c) providing authority, delegation, coordination and communication, (d) providing physical facilities like buildings, equipment, etc. for the smooth and successful performance of the tasks; and (e) establishing clear structural relationships among individuals and groups.

7.3 PRINCIPLES OF ORGANIZATIONS

1. **Unity of Objectives:** The entire organization and every part of it should be function effectively to accomplish the basic objectives of the enterprise.
2. **Efficiency:** All the accomplishments of the organization should be at the lowest possible cost. There should not be any waste of human resources.
3. **Span of Control or Span of Management:** Urwick states that a manager can directly supervise a limited number of people. No superior at a higher level should have more than six immediate subordinates.
4. **Division of Work:** Specialization and division of work should result in separate departments "established to reflect the most efficient breakdown of enterprise activities". Each area of specialization must be interrelated.
5. **Functional Definition:** The duties and responsibilities must be properly defined. There should not be duplication or overlapping of activities.

6. **Coordination:** The efforts of everyone in the organization must be coordinated to achieve common goals. Coordination is the orderly arrangements of collective efforts to accomplish a common organizational goal.
7. **Scalar Principle (Chain or Command):** The line of authority flows, from the topmost to the lowest managerial level, and this continuation chain of command should not be broken.
8. **Unity of Direction:** There must be only one plan for a group of activities directed towards the same goal. "One person one plan" is the best way of achieving unity of direction.
9. **Unity of Command:** Each subordinate should have one superior only. Dual command is always dangerous and confusing.
10. **Delegation:** Delegation should be made up to the lowest competent level. Delegation of authority increases efficiency and smooth operation.
11. **Responsibility:** The superior is responsible for the activities of the subordinates, and the subordinates are responsible to their superiors for their performance. Authority should be consistent with responsibility.
12. **Balance:** There should be a reasonable balance between centralization and decentralization, different sizes of various departments, limited span and longer lines of management.
13. **Communication:** A good organization must have an effective channel of communication for smooth flow of information.
14. **Personal Ability:** Ultimately, an organization means people. Proper selection, placement and training of people will go a long way in developing a favourable organizational climate.
15. **Flexibility:** The organization should adopt built-in devices for any change, expansion, etc. with least disturbance. The organizational structure should not be rigid. It should be able to adapt itself to all future changes.
16. **Continuity:** There must be a provision for continuity of management and enterprise. Management development programmes should be encouraged.
17. **Exception Principle:** All routine, normal and programmed matters should be handled at the lower level itself. Only exceptionally vital decisions of unusual nature should be handled by superiors, as they have limited time.

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7.4 FORMAL AND INFORMAL ORGANIZATIONS

An organization may be formal or informal. In most organizations, formal groups will function as it is essential to execute specific tasks of the concerned formal organization. **Chester Barnard** states that



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“an organization will be a formal one when the activities of two or more persons are consciously cordial to a given objective. It refers to the structure of positions with clearly defined functions and relationships as determined by the top management”. A formal organization is mainly guided by its rules, systems and procedures. In a formal organization, authority, and responsibility and relationships must be clear, fixed and definite. A formal organization is generally based on delegation of authority and it is a legally constituted one. In fact, a formal organization is created and propagated through organization charts, rule books, manuals, procedures, models, etc. **Chester Barnard** states that: *“a formal organization comes into existence when persons are: (a) willing to communicate with one another; and (b) willing to act and share a common purpose”*. **William Brown** states that *“I personally believe that the more formalization that exists, the more clearly we will know the bounds of discretion which we are authorized to use and will be held responsible for; and prescribed policies make clear to people the area in which they have freedom to act.”*

A formal organization according to **Keith Davis** *“is a pinnacle of man’s achievement in a disorganized society. It is man’s orderly, conscious, intelligent creation for human benefit. A formal organization is a system of well-defined authority positions and responsibility centres”*.

Informal organization can be beneficial to management. **Keith Davis** states that *“work groups are important as they provide various benefits”*. Some of them are as follows.

- Informal work groups blend with the formal organization to make a workable system for getting work done.
- Informal work groups lighten the workload for the formal manager and fill in some of the gaps in the manager’s abilities.
- Informal work groups provide satisfaction and stability to the organization.
- They provide a very effective channel of communication within the organization.
- Managers will be more careful and effective with the informal work groups.

Management can neither establish nor abolish an informal organization. But any sensible management will try to live with an informal organization and can effectively develop its influence on such an organization for its advantage. It should see that an informal organization remains secondary to the formal organization.

7.5 STEPS IN ORGANIZATION

Once the necessary plans and objectives are formulated, the organizational process can be started. Every type of activity has to be grouped into workable units of similar activities. All the work has to be classified,

employees identified and an arrangement made for the assignment of work to the employees. Terry states that "organization is the establishment of effective behavioural relationships among selected work places so that their groups can work together efficiently".

The logical steps in the process of organization are as follows:

- Determine and formulate objectives, strategies, plans and policies.
- Determine the activities involved to accomplish the objectives.
- Grouping of similar activities into tasks, sections and departments.
- Define responsibility and accountability for every person.
- Delegate the required authority to perform the task.
- Integration of activities through authority relationships and communication networks.
- Provide adequate physical facilities to perform the tasks effectively.

NOTES

7.6 IMPORTANCE

Organization is the backbone of the management; it helps the enterprise in its progress and prosperity. Today, organization has become more important than ever before because of the many advantages it offers to the modern-day complex society.

1. **Encourages Specialization:** Specialization is the direct result of organization, which helps in increasing the productivity and efficiency.
2. **Eliminates the Problem of Duplicating and Overlapping:** Proper and clear division and delegation of authority and responsibility avoid duplication and overlapping.
3. **Brings Order and Cohesiveness:** Determining a clear line of authority will bring in order in the concern. Everything in its place and a place for everything can be introduced by organizing the concern.
4. **Improves Administration:** Administrative policies and day-to-day operation of the enterprise will become effective and functional with proper organization.
5. **Stimulates Creative Thinking:** A good organization provides maximum opportunity for creative people to develop their ideas for the benefit of the concern. It also provides the ways and means of doing things in a better way.
6. **Facilitates Effective Communication:** With the clear definition of authority, an organization can develop the most efficient channels of communication.
7. **Helps in Providing a Balanced Emphasis on Various Activities:** Organization, by clearly defining the importance of activities

NOTES

through divisions, departmentation, etc. gives more priority for urgent and important problems. Routine problems can be decided at the lower or middle level. Managing change, managing crisis, managing credibility become easy through proper organization.

8. **Helps to Build up and Expand the Enterprise:** An organized enterprise can build up a team of executives and workers who can develop much faster. Organized team effort helps in expanding the firm. Today, every organization is expanding the firm. Today, every organization is expanding smoothly into unimaginable large-sized units because of organized effort.
9. **Helps in the Smooth Delegation of Authority:** When executives delegate authority downwards, that can get the things done smoothly. It also helps in fixing responsibility for task. A good organization clearly defines the authority, responsibility and relationship.

7.7 ORGANIZATIONAL CULTURE

Organizational culture is the shared values, set of important assumptions, principles and traditions, that members of an Organization share in common. It speaks about the personality a company has and the style in which it does things.

7.8 ORGANIZATION CHARTS

Organization charts are a graphic representation of a firm's structure. Division into different departments are shown through organization charts. It is a plan of working relationships that shows who is to do the work that is to be done and who is to direct and supervise the action of those who are to do the work. Basically organization charts indicate the flow of work and the responsibility for its achievement. The charts perform the following functions:

- Depicts the organization's formal structure.
- It shows who reports to whom.
- It shows merely the designations of the individuals they portray along with highlighted functions, e.g. Sales manager, Production manager, Financial controller, etc.

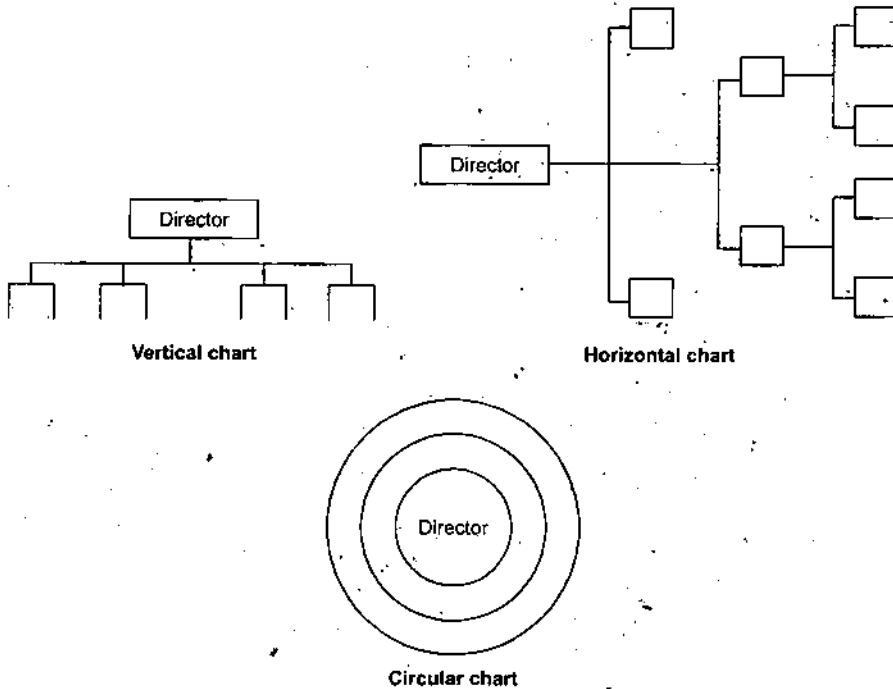
7.8.1 Types of Organization Charts

Generally, three types of charts are used in most of the organizations.

- **Vertically charts:** Such charts place major functions at the top and subordinate functions at the bottom of the organizational hierarchy.

- **Horizontal charts:** Such charts moves from left to right. The flow of authority from higher to lower levels is shown by lines moving from left to the right.
- **Circular charts:** In such charts the highest authority position is in the middle of a series of concentric circles. The lower level authorities are placed in such a way that the closer the position of the function to the centre, the more important the function. Thus, the distance from the centre indicates the degree of closeness to the top position.

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7.9 ORGANIZATION MANUALS

Organization Manuals are also known as 'Procedure manuals' or 'office manuals'. They provide detailed description of the positions, functions, and relationships as depicted in the organization chart. It is usually prepared in the form of a loose-leaf book, so that individual sheets containing incorrect or obsolete information may be easily extracted and replaced by amended sheets. The contents of organization manuals vary from enterprise to enterprise depending on their particular requirements.

SUMMARY

NOTES

- Organization is the structure and process by which a cooperative group of human beings allocates its tasks among its members, identifies relationships and integrates its activities towards common objectives.
- Organization involves: identification and grouping of work, defining responsibility; delegation of authority; establishment of structural relationships; and coordination of interrelated activities.
- The logical steps in the process of organization are as follows:
 - Determine and formulate objectives, strategies, plans and policies.
 - Determine the activities involved to accomplish the objectives.
 - Grouping of similar activities into tasks, sections and departments.
 - Define responsibility and accountability for every person.
 - Delegate the required authority to perform the task.
 - Integration of activities through authority relationships and communication networks.
 - Provide adequate physical facilities to perform the tasks effectively.

REVIEW QUESTIONS

1. Define organization.
2. What are the principles of organization?
3. Describe formal and informal organizations.
4. Write down the steps in organization.
5. Write Short notes on:
 - (a) Organizational Culture
 - (b) Organization Chart
 - (c) Organization Manual

★ STRUCTURE ★

- 8.1 Introduction
- 8.2 The Need for Departmentation
- 8.3 Importances of Departmentation
- 8.4 Advantages of Departmentation
- 8.5 Basis of Departmentation
- 8.6 Ideal Principles of Departmentation
- Summary
- Review Questions

NOTES

8.1 INTRODUCTION

Departmentation is a means of dividing the large and complex organization into smaller, flexible administrative units. It is the organization-wide division of work into various manageable units or departments. It refers to horizontal differentiation in an organization. It is the grouping of activities and employees into departments. It is a method of arranging activities to facilitate the accomplishment of organizational objectives.

Departmentation is defined as the establishment of a distinct area, unit or subsystem of an organization over which a manager has authority, for performance of specified activities and results. In simple words, the organizational process of determining how activities are to be grouped is called departmentation.

8.2 THE NEED FOR DEPARTMENTATION

Departmentation is necessary because it involves grouping of people or activities into a single department or unit to achieve organizational goals. Departmentation is essential because of the following reasons:

- Departmentation permits an organization to take advantage of specialization.
- Departmentation enables each person to know the particular part he is expected to play in the total activities of the company.

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- Departmentation facilitates communication, coordination and control and contributes to the organizational success.
- Departmentation provides an adequate platform around which the loyalties of organizational members may be built.
- It enables a manager to locate the sources of information, skills and competence to take certain vital managerial decisions.

8.3 IMPORTANCES OF DEPARTMENTATION

The major importance of the departmentation is along following lines.

1. **Advantages of Specialization:** Probably the most important single principle in an analysis of the classical approach to organizational design is specialization of work. This principle affects everyone every day. The basic advantage of the specialisation lies in terms of efficiency with which the work is performed because a person focuses his attention on a narrow aspect of the work and he gets mastery over that aspect. Naturally this results into performing the work more efficiency. Thus if the managerial function is conceived as a set of activities facilitating the work of the organization, these activities can be carried out more efficiently and effectively through the division of work leading to a specialization of managerial function.
2. **Fixation of Responsibility:** Departmentation helps in fixing the responsibility and consequently accountability for the results. Responsibility can be discharged properly when it is clear, precise, and definite. Through departmentation, the work is divided into small units where it can be defined precisely and responsibility can be fixed accurately. The manager concerned to whom responsibility is given can be delegated corresponding authority. When both responsibility and authority are clearly specified, a manager knows what exactly he has to do in the organisation. This helps the manager to become more effective.
3. **Development of Managers:** Departmentation helps in the development of managers. Development is possible because of two factors. First, the managers focus their attention on some specific problems which provides them effective on-the-job training. Second, managerial need for further training can be identified easily because the managers' role is prescribed and training can provide them opportunity to work better in their area of specialization. Thus need for training and its methods can be easily identified.
4. **Facility in Appraisal:** Managerial performance can be measured when the area of activities can be specified and standards in respect

of these can be fixed. Departmentation provides helps in both these areas. When a broader function is divided into small segments and a particular segment is assigned to each manager, the area to be appraised is clearly known; the factors affecting the performance can be pointed out more easily. Similarly, standards for performance can be fixed easily because factors affecting the work performance can be known clearly. Thus performance appraisal will be more objective when departments have been created.

5. **Feeling of Autonomy:** Departmentation provides motivation by developing feeling of autonomy to the extent possible. Normally, departments are created in the organization with certain degree of autonomy and freedom. The manager in charge of a department can take independent decisions within the overall framework of the organization. Thus, he enjoys satisfaction of being important to the organization. This feeling itself is a source of better performance among managers.

8.4 ADVANTAGES OF DEPARTMENTATION

Following are the advantages of departmentation:

1. **Advantage of Managerial Specialization:** Departmentation enables enterprises to avail of the advantages of managerial specialization. In fact, in whatever way are departments created; it is sure that each departmental head is a specialist in matters pertaining to his department. This specialization means increased efficiency of operations, leading to more profits for the enterprise.
2. **Expansion and Growth of Enterprise Facilitated:** The device of departmentation facilitates growth and expansion of the enterprise. Depending on growth requirements of business, more departments may be created in the enterprise; or within the same department, more subdepartments may be created—to handle additional workload.
3. **Decentralization Facilitated:** Departmentation facilitates the implementation of the policy of decentralization of authority. In fact, many departmental heads may be granted full powers to run their departments efficiently—through systematic decentralization. Decentralization is likely to motivate departmental heads and boost their morale—all leading to higher efficiency and increased profits for the whole organization.
4. **Fixation of Responsibility Facilitated:** Departmentation facilitates fixation of responsibility on departmental heads, as their roles and functions are clearly specified. Management, accordingly, can also install a system of 'Responsibility Accounting'; and ensure its advantages to the organization.

NOTES

5. **Performance Appraisal and Managerial Development:** On the basis at the functioning of departments, it is easier for management to undertake performance appraisal of departmental heads and their subordinates. Performance appraisal findings may provide useful clues to initiating schemes of managerial development.
6. **Facilitates Intradepartmental Coordination:** Since people in a department perform interrelated jobs and tasks pertaining to the subject matter of that department; therefore, it could be said that departmentation facilitates intradepartmental coordination. Moreover, people in the department develop better social informal relations because of frequent interactions.
7. **Administrative Control Facilitated:** Departmentation facilitates administrative control on the part of top management. In view of the nature and functioning of departments; top management can devise and implement broad but suitable controls over departmental heads.

8.5 BASIS OF DEPARTMENTATION

The activities of an organization can be grouped into departments on any of the following bases:

1. **Function:** Departments can be created on the basis of functions like production, sales, personnel, finance, etc. This is the most popular basis of departmentation.
2. **Product or Service:** Large companies with different product lines can set up separate departments for each product or service that it produces or provides. Specialized product knowledge and fixing of specific responsibilities are the merits of this division. This is also called divisionalization.
3. **Customers:** Departmentation may be done on the basis of the customers of the concern. A marketing company may have separate departments to cater to the wholesalers, retailers, mail-order customers, etc.
4. **Location:** This is also called territorial division or departmentation. A company may have separate departments to serve the southern region, northern region, etc. It has the advantage of the intimate knowledge of local conditions.
5. **Time:** When a working unit called a department works in different shifts, for each shift the working unit or department may be separate.
6. **Process:** Different departments can be created on the basis of functional processes, e.g., bleaching department, drying department, printing department, etc.

7. **Combination:** One or more bases can be adopted to constitute a department according to the necessity of the organization.

The following factors are to be considered in forming departments in an organization.

1. **Cost Factor:** The cost of creating a new department should be considered. It should be economical.
2. **Functional Specialization:** A new department should be based on this important factor of functional specialization. For every separate function like marketing, personnel or purchase, a separate department has to be created to secure the economies and benefits of functional specialization.
3. **Control Centre:** One should see whether creation of a department can serve as an effective control centre for that particular group of activities.
4. **Integration of Different Activities:** Various connected activities can be brought together into one department. Sometimes even different activities, which are not closely related can be brought together.
5. **Personnel Factors:** While creating a department, one has to see whether there is a proper personnel manager to manage the department effectively.

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8.6 IDEAL PRINCIPLES OF DEPARTMENTATION

Some of the ideal principles of departmentation are suggested below:

1. **Principle of Attainment of Enterprise Objectives:** According to this principle, the basis of departmentation must be such that there is greatest facility, in the most effective and efficient attainment of enterprise objectives.
2. **Principle of Comprehensive Departmentation:** By the principle of comprehensive departmentation, we mean that the entire organizational functioning is covered by the chosen basis of departmentation i.e., no aspect of organizational functioning is overlooked, in creating departments, in the organization.
3. **Principle of Interdepartmental Cooperation:** Departmentation must be so done in an organization, that there is maximum interdepartmental cooperation; and that the possibilities of interdepartmental conflicts are minimized.
4. **Principle of Promotion of Specialization:** The process of department creation must promote both managerial and operational specialization so that maximum organizational efficiency is achieved; as a result of such specialization.

NOTES

5. **Principle of Cost-Benefit Analysis:** The notion of 'cost-benefit analysis' must be kept in mind, by management; while creating departments, in the organization. According to this principle, the benefits obtained from creation of departments must exceed their operational costs; otherwise organizational profitability will be reduced.
6. **Principle of Top Management Control:** According to this principle, the basis of departmentation must facilitate top management's overall control over departments.

A derivative principle here is that departmentation basis must ensure exact fixation of responsibility on departmental heads vis-à-vis the performance of their departments. Then only, is it possible for top management to exercise control over departmental performances.
7. **Principle of Special Attention to Key Result Areas (KRA):** Departments must be created on such a basis, in an organisation; that special attention is paid to key result areas (KRA), during departmental performance.

KRA are those which vitally affect the long-term survival and growth of an enterprise. KRA may include profitability, market standing, public relations, etc. as determined by the top management.
8. **Principle of Best Utilization of Resources:** According to this principle, departmentation must be so done in an organization; that, there is ensured a best utilization of precious organizational resources like raw materials, manpower, machinery, technology and other inputs. There must not be any duplication of efforts or wastage of resources, by the departments created in the organization.
9. **Principle of Autonomous Feeling to Departmental Heads:** According to this principle, the basis of departmentation must be such that departmental heads have the feeling of maximum autonomy in their operational life; so that they function with creativity and innovative considerations in mind. Such autonomy will motivate them to work according to the best of their abilities and competence.
10. **Principle of Flexibility:** The basis of departmentation must lead to the emergence of a flexible departmental setup; so that in view of volatile and turbulent external environmental influences, more departments (or subdepartments) may be added to the existing setup or some departments (or subdepartments) deleted from the existing setup.
11. **Principle of Human Consideration:** The ideal basis of departmentation must not only rest on technical or financial considerations; it must give due weightage to human considerations

i.e., needs, values, attitudes, expectations, feelings, etc. of people working in the organization. Then only will departments created in the organization lead to maximum organizational efficiency and maximum human satisfaction.

Departmentation

NOTES

SUMMARY

- Departmentation is defined as the establishment of a distinct area, unit or subsystem of an organization over which a manager has authority for performance of specified activities and results.
- Departmentation facilitates the implementation of the policy of decentralization of authority.
- Departmentation facilitates administrative control on the part of top management. In view of the nature and functioning of departments, top management can devise and implement broad but suitable controls over departmental heads.

REVIEW QUESTIONS

1. What is departmentation? State its need and significance.
2. What are different bases of departmentation?
3. State and explain the ideal principles of departmentation.
4. Why is there a need for departmentation?
5. Point out the advantages of departmentation.

NOTES

★ STRUCTURE ★

- 9.1 Meaning of Authority
- 9.2 Characteristics of Authority
- 9.3 Distinction between Authority and Power
- 9.4 Sources of Authority
- Summary
- Review Questions

9.1 MEANING OF AUTHORITY

According to **Barnard**, "Authority is the character of a communication (order) in a formal organization by virtue of which it is accepted by a contributor to, or member of, the organization as governing the action he contributes that is, as governing or determining what he does or is not to do, so far as the organization is concerned."

In the words of **Simon**, authority may be defined as "the power to make decisions which guide the actions of another. It is relationship between two individuals—one superior, the other subordinate. The superior frames and transmits decisions, with the expectation that they will be accepted by the subordinate. The subordinate expects such decisions, and his conduct is determined by them".

9.2 CHARACTERISTICS OF AUTHORITY

The following characteristics of authority deserved special notice:

1. **Basis of Getting Things Done:** Authority provides the basis of getting things done in the organization. It refers to the right to affect the behaviour of others in the organization with a view to performing certain activities to accomplish the defined objectives.
2. **Legitimacy:** Authority is accepted as it has certain legitimacy about it, that is to say, it implies a right to secure performance from others. Such right may be legal or formal, or it may be supported by tradition, custom accepted standards of authenticity. The right of a manager to affect the behaviour of his subordinates is given to him by virtue of his position or office of the said organization.

3. **Decision-making:** It is a pre-requisite of authority. The manager can command his subordinates to act or abstain from acting in a particular manner only when he has made decisions as regards the course of activities to be performed by him.
4. **Subjectivity in Implementation:** Though authority has an element of objectivity about it, its exercise is significantly influenced by subjective factors, such as the personality of the manager who is empowered to use it, as also of the subordinate or group of subordinates with reference to whom it is to be exercised.

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9.3 DISTINCTION BETWEEN AUTHORITY AND POWER

Sometimes two terms 'authority and power' are used interchangeably because of their common objective of influencing the behaviour of people on whom these are exercised. However, there is a difference between these two: While authority is the right to command, power is the capacity to command. The traditional concept of hierarchy finds its essential rationale that someone has the right to command someone else and that the subordinate person has the duty to obey the command. This is implied in the notion of official legitimacy, legal in nature rather than social and informal. However, the right to command does not necessarily connote the capacity to command. For example, a person in the society may have capacity to influence the behaviour of others by his money power or muscle power but he may not have right to do so.

Sometimes, right and capacity are clearly separable and can be identified easily, but at other times, the two get intermingled. For example, commanding others on the basis of money or muscle power is clearly separable but in an organization two managers of equal status and authority may have different type of command in actual practice. The difference arises because one manager may acquire more power due to his personal factors. Here, authority and power go together and distinction is not easy. In fact, there is a continuum of authority-power relationship. At one end, right and capacity would be one, while at the other end, both would be completely separable. Between these two extremes, it is possible to find a number of variations. Thus, the major difference between authority and power can be identified as follows:

1. Authority is legitimized by certain rules, regulations, laws, and practices. In the case of power, there is no such legitimization.
2. Authority is institutional and originates because of structural relationships. Power emerges because of personal factors and varies with the individuals. In the management of an organization, authority is the central element of formal organization and systematic communication. Power reflects the political realities within the organization and relates to the subtler, more informal patterns of action and interaction that occur.

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3. Authority exists in the context of organizational relationship, mostly in superior-subordinate relationships either direct or otherwise. Power relationship many exist between any two persons and organizational relationships may not be necessary.

Although these differences have been suggested, it is important to recognize that much of the controversy surrounding right and capacity to control has involved ascertain degree of semantic confusion. Much heat has been generated as to whether authority, defined to include capacity, really flows down from the top in traditional fashion or whether it arises from the bottom as a kind of consent of the governed. For example, Barnard has supported the later view when he has emphasized the flow of authority upward due to the consent of governed. Notwithstanding this, the distinction between authority and power exists on the above lines at least on conceptual level.

9.4 SOURCES OF AUTHORITY

Some disagreement has developed in management literature about the sources of authority. The basic source of disagreement arises because of the question 'who legitimizes power and gives it the status of authority?' "Who designates the areas in which a manager may legitimately exercise power, that is, exert his authority?" One view is that authority derives from higher levels; that is normally referred to as the theory of formal authority. However, according to another approach, legitimization comes from below and flows upward. Accordingly, authority is conferred by those below a given manager. To the extent this legitimization upward fails to occur, real authority is lacking. This controversy here has much common with that between economic man and administrative man theory. The discussion here is concerned with the specific nature of formal and acceptance theories and with the conflict between them.

SUMMARY

- Authority is the character of a communication (order) in a formal organization by virtue of which it is accepted by a contributor to, or member of, the organization as governing the action he contributes that is, as governing or determining what he does or is not to do, so far as the organization is concerned.

REVIEW QUESTIONS

1. What is authority? Why do people accept authority?
2. Distinguish between power and authority.

UNIT 10 DELEGATION OF AUTHORITY

★ STRUCTURE ★

NOTES

- 10.1 Meaning of Delegation
- 10.2 The Process of Delegation
- 10.3 Types of Delegation
- 10.4 Principles of Delegation
- 10.5 Advantages of Delegation
- 10.6 Importance of Delegation
- 10.7 Effective Delegation
- 10.8 Limits of Delegation
 - Summary
 - Review Questions

10.1 MEANING OF DELEGATION

To delegate means to entrust authority to a deputy so as to enable him to accomplish the task assigned to him.

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

According to **E.F.L. Brech**, "*Delegation means the passing on to others of a share in the four elements of the management process; that is to say, in the command of the activities of other people and in the responsibility for the decision that will determine the planning, coordination and control of the activities of such other people*".

In the words of **Koontz and O'Donnel**, "*The entire process of delegation involves the determination of results expected, the assignment of tasks, the delegation of authority for accomplishment of these tasks, and the exaction of responsibility for their accomplishment*".

The steps in the delegation process have been narrated above. We may have a brief look into their contents.

10.2 THE PROCESS OF DELEGATION

The steps in the delegation process have been narrated above. We may have a brief look into their contents.

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Business is run for results. The tasks set for the delegates himself and what he assigns (delegates) to the delegates, must accordingly be stated in terms of results.

No holder of a task can ever achieve the results that he is called upon to yield without the means to do so. This 'means' is the authority.

If the means is wider than the ends, part of it will go waste or be misused; if it is narrower, lacks adequacy, the ends will not be achieved. The means must, therefore, match the ends; authority and the task—results, accountability—must go together.

Finally, no manager (delegator) can or is allowed to abdicate responsibility even for the portion that he has delegated. His responsibility is total and continuous. He must, therefore, control—enforce accountability—which is another chapter of the art and practice of delegation.

10.3. TYPES OF DELEGATION

Formal, Informal and Specific Delegation.

It is customary in management literature to distinguish between: (a) formal and informal delegation; and (b) general and specific delegation.

As concepts the groupings have some merits; in practice, they overlap, as they are bound to do, the structural and human dynamics being what they are.

In a formal delegation, the delegated assignments and the accompanying authority for each delegate are spelt out, on a piece of paper. In the informal type, the delegation goes by a climate of understanding between the superior and the subordinate. As a crude analogy, in a household, the husband knows what is expected of him, so does, perhaps the housewife without so much as a charter of distribution of tasks and authority.

Whether a delegation is formal or informal, it ought to be clear. A lack of clarity as to who will do (and decide) what and who wields what authority—is a breeding ground of confusion. Confusion denudes management efficiency through consequential delays, inaction, wasteful file-shuttling and misunderstanding.

It is the merit of a formal delegation that it makes for clarity. It is all spelt out there, for all to see; it is circulated; everybody knows who is what, what he must do and achieve and what authority possesses. It clears operations of doubts and ambiguities.

A comment is often made that a formal delegation is rigid. It hamstrings initiative, curbs talents, stunts vitality, erodes adaptability to change.

Even if these were true, and the alternative was uncertainty, confusion, they are better tolerated. But the fears of inflexibility in a formal delegation, and the consequences that are postulated, need not be true. The delegation charter is the body of outline in a field of sports which helps discipline and adherence to the rules of the game. Provided the supervisor-subordinate relations are warm and healthy, no manager need suffer inhibition in the full play of his talents and initiative merely because he is known to possess certain well-defined tasks and authority.

Delegation can also be general or specific. It is said to be general when the task is broadly set, leaving it to the delegate how he would work out the details. A sales manager, who is given charge of a sales territory with broad targets and authority, without being told in so many words as to how he should go about it, has a general delegation. A general delegation would perhaps remove some of the inflexibility claimed against a formal delegation but could add some of the uncertainties of an informal delegation in the field of operation of the delegated task. These contradictions have to be carefully balanced in framing a charter of general delegation.

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10.4 PRINCIPLES OF DELEGATION

Delegation can be effective only if it conforms to certain well-established principles, which are as follows:

1. **Delegation to Conform to Desired Objectives:** The nature and extent of duties and authority to be delegated should be in tune with the objectives to be accomplished. Before assigning duties and delegating authority to his subordinate, the manager should be clear in his mind as to what he expects from them. This means that delegation should be only after he has determined his objectives, policies, plans, and also the specific jobs to be performed for the accomplishment of the objectives.
2. **Responsibility not Delegatable:** A manager can delegate only authority, not responsibility. Responsibility is never delegated. By assigning duties and delegating authority to his subordinates, a manager cannot turn a blind eye to how the assigned duties are performed, and how the delegated authority is exercised. The ultimate responsibility for the performance of duties and exercise of delegated authority remains with him.
3. **Authority to Match Duties:** Delegation of authority can be meaningful only when it enables the subordinate to discharge his duties effectively. Just as an ill-equipped soldier cannot fight a battle successfully, similarly an inadequately—authorized subordinate cannot succeed in accomplishing the assigned task.

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Assignment of a task without adequate authority will render a subordinate ineffective. Authority without matching responsibility will make him dictatorial. An ideal delegation is that where there is a proper balance between delegated authority and assigned duties.

4. **Unity of Command:** The principle of unity of command states that a subordinate should be commanded by one superior only. This means that a subordinate should be assigned duties and delegated authority by one superior only and he should be accountable for the performance of the assigned duties and exercise of the delegated authority to that same superior.

If there are many superiors to command a subordinate, it will create uncertainty and confusion, as the subordinate will find it difficult to determine which superior's order should be carried out first, and to whom he should approach for solution of his problems.

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

10.5 ADVANTAGES OF DELEGATION

Delegation offers several advantages. Important among these are as follows:

1. **Basis of Effective Functioning:** Delegation provides the basis for effective functioning of an organization. It establishes relationships through the organization and helps in achieving coordination of various activities in accomplishing enterprise objectives.
2. **Reduction in Managerial Load:** Delegation relieves the manager of the need to attend to minor or routine types of duties. Thus, he is enabled to devote greater attention and effort toward broader and more important responsibilities.
3. **Benefit of Specialized Service:** Delegation enables the manager to benefit from the specialized knowledge and expertise of persons at lower levels. Thus, purchasing may be delegated to the purchase manager, sales to the sales manager, advertising to the advertising manager, accounting to an accountant, legal matters to a lawyer, and personnel functions to a personnel manager.

4. **Efficient Running of Branches:** In the modern world, where a business rarely confines its activities to a single place, only delegation can provide the key to smooth and efficient running of the various branches of the business at places far and near.
5. **Aid to Employee Development:** Delegation enables the employees of business to develop their capabilities to undertake new and more challenging jobs. Also, it promotes job satisfaction and contributes to high employee morale.
6. **Aid to Expansion and Diversification of Business:** With its employees fully trained in decision-making in various fields, the business can confidently undertake expansion and diversification of its activities. Because, it will already have a competent team of contented workers to take on new responsibilities.

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10.6 IMPORTANCE OF DELEGATION

Delegation has a distant origin. According to the Old Testament, when Moses was faced with a problem, which he and his followers found difficult to resolve, he was advised by his father-in-law, Jethro, as follows: "What you are doing is not good. You and the people with you will wear yourselves out, for the thing is too heavy for you: you are not able to perform it alone. Listen now to my voice. Choose able men from all the people, and let them judge the people at all times; every great matter they shall bring to you, but any small matter they shall decide themselves; so it will be easier for you and they will bear the burden with you".

Delegation is a universal process. Wherever human beings live or work in groups, one or the other form of delegation is practised by them. The head of the family delegates some of his powers to other members of legislatures. Members of legislature delegate their authority to an elected leader who, in turn, delegates some of his authority to the cabinet members chosen by him.

In fact, the need for delegation arises because it is impossible for an individual, howsoever competent and capable he may be, to manage and control anything done even on a modest scale. Physical and mental limitations of an individual become all the more pronounced when it comes to management of a business enterprise. As **E.F.L. Brech** has put it, "*The tasks involved in the management process of a particular enterprise are too large, either because the amount of responsibility, or mental energy and so on, called for are too big for one individual; or because the task entitled require rather more than one individual can make available single-handed.*"

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Or as **Lounsbury Fish** says, "An individual is only one manpower. Single-handed, he can accomplish only so much in a day. The only way he can achieve more is through delegation—through dividing his load and sharing his responsibilities with others".

Through delegation, an individual can multiply himself and perform several simple and complex tasks. Take the case of the principal of a college. His responsibility is to run the college properly and he has the necessary authority for this purpose. But cannot discharge his responsibility without delegation. He cannot simultaneously look after sports, games, and other extra-curricular activities. He cannot also find time to attend to the office, incoming and outgoing letters and, above all, proper discipline in the college. For discharging his responsibility efficiently, the principal needs to delegate authority to a number of persons such as class teachers, games teachers, teachers in charge of extra-curricular activities, office superintendent, and so on.

Delegation enables a person not only to discharge his responsibility but also to discharge it efficiently and economically, because in that case he can secure the benefits of specialized knowledge and expertise of several persons. For a business with branches situated at different places, there is no alternative to delegation. Delegation ensures continuity in business, because managers at lower levels are enabled to acquire valuable experience in decision-making and they gain enough competence to fill higher positions in case of need.

10.7 EFFECTIVE DELEGATION

It takes two parties for delegation to be effective—a superior willing to delegate and give his subordinates real freedom to achieve delegated tasks and a subordinate willing to assume added responsibilities, develop solutions to problems independently and learn through the painful, though, process of trial and error. The barriers to delegation, as we have seen, are purely psychological and can be reduced through improved communication between managers and subordinates leading to better understanding. The following guidelines have been advanced by different writers to help managers delegate effectively.

10.7.1 The Subordinate

1. Select subordinates in the light of the task to be performed. Provide guidance, help and information to them. Maintain open lines of communication.
2. Do not be overawed by the errors committed by subordinates. Remove the elements of fear and frustration. Allow them to

learn through mistakes. One does not learn to play tennis/cricket by reading a book. Require completed work.

3. Allow the subordinates to see the big picture. The subordinate needs to know why his work is both necessary and important.
4. Provide sufficient authority to subordinates for accomplishing goal assignments.
5. Reward acceptance of responsibility. Perspiration does not go very far without a little inspiration.

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10.7.2 The Organization Culture

1. Create an atmosphere of trust and risk-taking.
2. Use constructive criticism to help the subordinate grow.
3. All delegations should be in writing.

10.7.3 The Authority Structure

1. Equate authority with responsibility; too much authority may be abused; too little authority may frustrate the subordinates.
2. Restrain any inclination to override, interfere with or undermine the delegation.

10.7.4 The Control Systems

1. Prevent illegitimate usurpation of authority by establishing broad controls.
2. Provide standards so that the subordinate can measure and evaluate his performance against the standard.

It would seem easy and simple to delegate the task to subordinates observing the above guidelines. But as rightly pointed out by **Robert Fulmer**, "Delegation is almost never simple. It is in fact, a skill that separates men from the boys in management. Delegation demands a closer look at all the contingent factors like size, task complexity, costliness of the decision, organizational culture, qualities of subordinates, etc." The subordinate must be willing to make a determined effort and the supervisor must be willing to extend freedom and cooperation, in turn. Koontz and O' Donnell have listed some personal qualities that can contribute to effective delegation. An effective delegator should:

- Give other peoples' ideas a chance.
- Allow subordinates to take decisions independently.
- Be a patient counselor and not a 'hovering hawk'.
- Repose confidence and trust in subordinates.
- Know how to use controls judiciously.

10.8 LIMITS OF DELEGATION

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There are certain conditions in a business system, both internal and environmental, those evoke tendencies toward centralization and work against decentralization and delegation of authority and responsibility. Some of them reflect wider, uncontrollable forces; others are open, relatively, to manipulation. We shall take note here of these important:

1. Some decisions are irreversible, especially in the short run; others can be reversed or corrected but at a high cost in terms of money or embarrassment. This is so, regardless of the size of the commitment which may be large, medium or even small. An example is say, when a dealership has to be awarded to one among an excluded category.
2. Some decisions involve large commitments in terms of money, time or direction, or a combination of them. Even an initial move (not so large in itself) can trigger off the wide commitment chain. It is unsafe to delegate such initial decisions to juniors.
3. Certain decisions are apt to create an uncomfortable precedent—being off the track or running counter to recognized enterprise policy. Regardless of the individual content (importance) of such decisions, they are better retained at a high level.
4. A certain decision, of not moment in so far as it goes, might create repercussions—a chain reaction elsewhere. An example is the waiver of the minimum educational qualification of a worker of a factory for his promotion. The repercussions may extend throughout the industrial relations climate of the enterprise: Such a decision should not be delegated.
5. Decisions where the personal (semi-judiciary) judgement of the senior is called into play. An example is passing of orders of major punishments on grounds of discipline — involving, say, dismissal or termination of service. The decision may be retained at a high level regardless of the level of employees concerned.
6. The traditional make up of the enterprise influences the degree of decentralization and delegation. With a series of able and authoritarian administrators at the top dominating an enterprise, say, for a half a century, the tradition is likely to release tendencies against decentralization and delegation.
7. In enterprises owned and managed by a dynasty or familial group decentralization tends to be confined to members of the family. The nodal points of decision and control remain in the hands of a few. Professionalization of management, in such a situation, has impact on the lower routine echelons of management and on the advisory specialist services.

NOTES

8. Policy decisions are usually retrained at higher management levels. Besides the principles of size and commitment, this is also conditioned by the need to observe uniformity.
9. The growth, diversity and complexity of an enterprise evoke tendencies of decentralization and delegation on functional, territorial or product lines or a combination of the two or more criteria.
10. Often adequacy of trained and competent managers imposes a constraint on decentralization and delegation. Key positions, in such a situation, tend to be held by a few senior and well-ried executives.
11. A situation of flux (may be, in a particular phase of an organization's life cycle) or a quick change is apt to put a brake on the progress of decentralization and the delegation scheme. A delegation system does not function well unless in a stable system and a comparative monotone of repetitive management.
12. The environment, the institutional framework and the laws of the land cast their strong influence on in-company delegation and decentralization. In a controlled system many facets of enterprise operations and decision are bound by regulatory measures and forms of a prescriptive nature.

While, in a situation as this, overall and absolute decentralization is constrained, there is nothing to prevent flow of delegation of authority at the top down the scalar chain.

SUMMARY

- Delegation is the dynamic of management; it is the process a manager follows in dividing the work assigned to him so that he performs that party which only he, because of his unique organizational placement, can perform effectively, and so that he can get others to help him with what remains.
- A general delegation would perhaps remove some of the inflexibility claimed against a formal delegation but could add some of the uncertainties of an informal delegation in the field of operation of the delegated task.
- The principle of unity of command states that a subordinate should be commanded by one superior only. This means that a subordinate should be assigned duties and delegated authority by one superior only and he should be accountable for the performance of the assigned duties and exercise of the delegated authority to that same superior.

REVIEW QUESTIONS

NOTES

1. What are the principles of delegation?
2. Discuss the types of delegation.
3. How can delegation be made more effective?
4. What are the steps in delegation?
5. Define delegation. Why is it essential for the smooth functioning of an enterprise?

UNIT 11 CENTRALIZATION AND DECENTRALIZATION

NOTES

★ STRUCTURE ★

- 11.1 Centralization
- 11.2 Decentralization
- 11.3 Types of Decentralization
- 11.4 Advantages of Decentralization
- 11.5 Disadvantages of Decentralization
- 11.6 Distinction between Delegation and Decentralization
- 11.7 Effective Decentralization
- Summary
- Review Questions

11.1 CENTRALIZATION

According to **Allen**, centralization is the systematic and consistent reservation of authority at central points within the organization. In centralization little delegation of authority is the rule; power and discretion are concentrated at the top levels. Control and decision-making reside at the top levels of the management. The more highly centralized the organization, the more control and decision-making reside at the top. However, absolute centralization is untenable because it would mean the subordinates have no duties, power or authority. Most organizations start out centralization of authority initially. Such an arrangement helps the management to be in touch with all operations and facilitates quick decision-making. Centralization may be essential in case of small organizations to survive in a highly competitive world. But as the organization becomes more complex in terms of increasing size, interdependence of work-flow, complexity of tasks and spatial physical barriers within and among groups, a function requisite for efficiency is to move decision-making centres to the operating level. Thus, the larger the size of an organization, the more urgent is the need for decentralization. This does not mean that decentralization is good and centralization is bad. Centralization or decentralization may be, in part, merely the result of circumstances. There are certain special circumstances forcing managers to reserve authority and centralize decision-making power:

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1. **To Facilitate Personal Leadership:** Centralization, generally works well in the early stages of organizational growth. Working under a talented and dynamic leader, a small firm can derive advantages in the form of quick decisions, enterprising and imaginative action, and high flexibility. Centralization enables a small organization to capitalize on the loyalties, ability and experience of its most talented top management people. Under this arrangement, the manager is in touch with all operations, makes all decisions, and gives all instructions. Thus, centralization can project the personality and skills of one outstanding leader more meaningfully.
2. **To Provide for Integration:** Under centralization, the organization moves like one unit. It keeps all parts of the organization moving together harmoniously toward a common goal. It assures uniformity of standards and policies among organizational units. The danger of actions drifting and getting off course is minimized. The manager acts like a unifying force and provides direction to enterprise activities. In the process duplication of effort and activity are also avoided. To see that all units do the same thing in the same way or at the same time without wasteful activity, centralization is essential.
3. **To Handle Emergencies:** Centralization is highly suitable in times of emergency. The resources and information can be mobilized quickly and efficiently. Quite often emergency situations like declining sales, introduction of a highly sophisticated competitive product, government policy changes may force the organization to cut down costs, maintain inventories at an optimum level, utilize resources effectively and instantaneously. Centralization of decision-making ensures prompt action necessary to meet the emergencies.

11.2 DECENTRALIZATION

Decentralization is the systematic effort to delegate to the lowest levels all authority except that which can be exercised at central points. It is the pushing down of authority and power, of decision-making to the lower levels of organization. The centres of decision-making are dispersed throughout the organization. However, the essence of decentralization is the transference of authority from a higher level to a lower level. Decentralization, in recent years, has come to be accepted as a golden calf of management philosophy. It has come to be associated as a fundamental principle of democratic management where each individual is respected for his inherent worth, and constitution. As pointed out earlier, absolute centralization (where there is no room for subordinates) or absolute decentralization (where there is no coordinated, organized activity) is fictitious in practice;

it is a matter of degree along a continuum. Generally speaking, decentralization is said to be greater:

- When more decisions are made at lower levels.
- When more important decisions are made at lower levels.
- When more functions are affected by decisions made at lower levels.
- When the checking on the decisions made at lower levels is minimal.

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11.3 TYPES OF DECENTRALIZATION

There are three approaches to assign authority and responsibility to lower level people in an organization. It is quite possible to provide for decentralization in varying degrees among various departments in the organization. For example, production and sales departments may be decentralized because of the urgency to take quick decisions; finance department may be centralized due to the need to obtain funds for the organization as a whole. Three types of decentralization are discussed below:

1. **Profit Centers:** Under profit centre decentralization the organization is first divisionalized on a product basis; each division is given the management and physical tools and facilities it needed to operate as an integrated and self-contained unit. Each division operates on a competitive basis; orders its own materials, schedules its operations and negotiates the sale of its finished products. It is accountable for the profit it earns or the loss it sustains. To use 'profit centres' authorities suggest that each one possess:
 - (a) Operational independence having control over most operational decisions affecting profits (volume, production methods, etc.)
 - (b) Complete freedom to buy and sell in alternative markets both inside and outside the organization.
 - (c) Separate, identifiable income, expense and assets from the organization so that they can operate independently and calculate their own profit.

Thus, a profit centre is a relatively autonomous organizational unit 'that can be differentiated clearly enough from the rest of the organization so that costs it incurs or revenues it generates can be reasonably accounted for and associated with it.' However, it is not always easy to find organizational submits independent enough from each other so that they may be almost as different business. One important limitation identified in the profit-centre concept is cost. Creation of profit centres demands enormous doses of investment with no guarantee of adequate returns. On the positive side, profit centre decentralization provides a strong

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incentive to divisional management to improve the efficiency of its operations. It is remarked that 'The division head, instead of merely a production boss, is a manager in every sense of the word; actually, he operates in somewhat the same manner as the head of an independent business. This gives him the greatest possible encouragement to use every iota of management ability he can command'.

2. **Cost Expense Centres:** Where it is difficult to find out revenue with a unit but is relatively easy to determine the costs of operation, cost centres are established. In the case of corporate legal staff or accounting staff it may be quite difficult to determine how much revenue is generated but it can be a cost centre since we can determine the costs necessary to run it. In a cost centre, a manager would be responsible for using resources within the overall cost or budgetary limitations. By keeping the costs under specified limitations he incurs an additional responsibility to provide required support to the rest of the organization.
3. **Investment Centres:** Investment centres are quite common in the case of multi-product enterprises like General Motors, General Electric, Hindustan Lever Ltd., etc. In order to measure product performance, decentralization by investment centres is usually advocated and the managerial response—obligations would include responsibilities for the 'acquisition, use, and disposition of fixed-use resources.

11.4 ADVANTAGES OF DECENTRALIZATION

The important advantages of decentralization are as follows:

1. **Relief to Top Executives:** Decentralization enables the top executives to devote greater attention and effort to important issues. They may not be able to do this if they keep their hands full with problems of a routine nature.
2. **Motivation of Subordinates:** Systematic decentralization results in development of initiative, responsibility, and morale among employees. Because the authority to make decisions is placed in the hands of employees who have the responsibility to execute them, the employees are more sincere and hardworking in performing their jobs.
3. **Intimate Relationships:** In a decentralized unit, employees have greater opportunities to come in close contact with one another. This results in improved communication, so that employees can benefit from expertise and experience of one another.
4. **Sense of Competition:** In a decentralized enterprise, its departments and division are independent of one another. As a result, the management can experiment with new ideas and processes in any

department without any risk of its adverse effect on the functioning of other departments.

5. **Effective Control:** Though each of the departments and divisions is granted freedom in running its affairs, the control function is not adversely affected. This is because for judging the performance of each unit, an important yardstick is its profitability and the rate of return on investment.

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11.5 DISADVANTAGES OF DECENTRALIZATION

Decentralization has also certain limitations, important among which are as follows:

1. **Lack of Coordination:** Under decentralization, each division or department of the enterprise enjoys substantial freedom in the formulation of policies and action plans. This creates a difficult problem of coordination.
2. **Costly:** Only a very large enterprise can afford the high operating costs of maintaining a decentralized setup. This is because under decentralization, each division of the enterprise has to be self-sufficient in every respect, e.g., production, marketing, accounting, personnel, etc. This may not only result in duplication of functions, but may also lead to wastage of resources, because often one or the other facility remains under utilized in each division.
3. **Lack of Able Managers:** A decentralized enterprise has to depend on divisional managers. But it is difficult to find persons who are adequately equipped to run a division independently.

11.6 DISTINCTION BETWEEN DELEGATION AND DECENTRALIZATION

Even though delegation and decentralization may be interchangeable terms, in reality there is considerable difference between them. The following are the main points of distinction:

Delegation	Decentralization
1. It is an act, or a process.	1. It is the end-result of delegation and dispersal of authority at various levels.
2. It refers to relationship between two individuals. i.e., a superior and his immediate subordinate(s).	2. It refers to a relationship between the top management and various departments and divisions in the enterprise.

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3. It is vital to management process. Only through delegation of duties, subordinates can be involved in the activities aimed at the accomplishment of enterprise objectives.	3. It is optional in the sense that the top management may or may not favour a deliberate policy to work for a general dispersal of authority.
4. Control over a subordinate's performance is exercised by his superior who constitutes the source of delegation of authority.	4. Even the power to control may be delegated to the department concerned.

For example, suppose, the chief executive of a company authorizes the production manager to make appointments to all such positions under him in the case of which the maximum salary does not exceed ₹ 1,000. This is a case of delegation of authority. But suppose the same authority is given to all departmental managers (marketing, finance, etc.), it would be called decentralization of authority.

When departmental heads or those below them are granted authority in respect of the following it would be decentralization:

- (a) Sanctioning increase in wages and salaries.
- (b) Sanctioning disbursement of travel expenses.
- (c) Sanctioning promotions.
- (d) Sanctioning purchase of goods, machines, etc.

In a decentralized enterprise, there may even be separate balance sheet and profit and loss account for each division.

11.7 EFFECTIVE DECENTRALIZATION

Like delegation, decentralization has a technique by which it can be effectively achieved. When an organization decides in favour of votes for decentralization, it has to take some concrete steps to make it more effective. Effective decentralization requires a balance of the necessary centralization of planning, organization, motivation, coordination, and control.

1. **Establish Appropriate Centralization:** If decentralized management is to flourish, it is necessary to provide for a centralized authority which will act as a nerve centre of the enterprise. Here, plans would be formulated, appropriate organization structure would be decided and coordination and control mechanisms would be provided. Within such a broad administrative framework individual operating components of the organization would be established as profit centres. The central authority ensures close coordination between various operating units and secures maximum total

performance. Without the strong cement of centralized planning, organization, coordination and control the diversified company is in danger of coming apart at the seams.

2. **Development of Managers:** Effective decentralization demands a large number of highly competent managers who are capable of exploiting their mental faculties fully and independently in the service of the organization. They must be able to look ahead, to plan for themselves and to run a business. In order to develop managers, the organization should take certain steps:

(i) Managers do not develop overnight. Instead; they develop through the painful process of trial and error. Every manager should be allowed to take decisions independently and commit mistakes initially. One must develop management ability by managing; one must learn to make decisions by making decisions only.

(ii) Senior executives must enthusiastically accept the principle of delegation and know the technique of doing it.

3. **Provide for Communication and Coordination:** The inherent dangers in decentralized management must be recognized by all managers working in an independent fashion. Decentralization tends to create rivalry and conflict among operating divisions. Departmental managers constantly jockey for power and prestige, they compete for scarce resources and in order to show performance they may be working at breakneck speed at the cost of other departments. The remote control from headquarters may prove to be ineffective as the enterprise grows in size and complexity. To prevent the disintegrating tendencies arising from out of a tunnel vision on the part of each divisional manager, it is necessary to provide for communication and coordination among operating divisions at regular intervals. Coordinating executives and committees may be appointed to meet this end. The dangers of too much fragmentation can be avoided by laying special emphasis on interdepartmental coordination, mutual help and cooperation.

4. **Establish Adequate Controls:** Profit centre decentralization demands an appropriate control system that will distribute the resources, assign costs fairly and indisputably to the operations unit that utilizes or incurs them. Budgets can be prepared and standards devised to see whether various units are going in the desired direction. To ensure accountability managers at all levels should be allowed to participate in budget formulation. This would not only make managers feel responsibility but also ensure an objective standard to measure performance and reward the same suitably.

Decentralization is not a panacea. It cannot be plugged into any situation and be expected to work well. It is quite possible that

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interdepartmental or divisional) tensions and rivalries can trouble the top management with an unmanageable number of problems. Decentralization, no doubt is highly beneficial but at the same time it is complex and challenging. Effective decentralization requires a contingency perspective which examines particular functions and departments, in a dispassionate manner. Much depends on how the philosophy of decentralization is being translated into practice. As a matter of fact, a programme of decentralization should not be initiated until the following points have been properly settled:

Top management is willing to share authority for decision-making with others.

Middle management is capable and is willing to accept new responsibility. Policies are adequate to guide decision-making but not unduly restrictive.

Control system exists to evaluate effectiveness of middle management decisions.

Existing structure must lend itself to, or can be modified to, facilitate decentralized operations.

SUMMARY

- Centralization enables a small organization to capitalize on the loyalties, ability and experience of its most talented top management people.
- Decentralization is the systematic effort to delegate to the lowest levels all authority except that which can be exercised at central points. It is the pushing down of authority and power of decision-making to the lower levels of organization.

REVIEW QUESTIONS

1. Define "Centralization". Distinguish between centralization and decentralization.
2. Discuss various types of decentralization that is practised in organizations.
3. What are the primary advantages of a decentralized organization?
4. Differentiate between delegation and decentralization.

UNIT 12 LINE AND STAFF RELATIONSHIPS

Line and Staff
Relationships

NOTES

★ STRUCTURE ★

- 12.1 Concept of Line and Staff
- 12.2 Differentiation between Line and Staff
- 12.3 Line Relationship
- 12.4 Staff Relationship
- 12.5 Types of Staff
- 12.6 Evaluation
- 12.7 Line-Staff Conflict
- 12.8 Overcoming Line-Staff Conflict
 - Summary
 - Review Questions

12.1 CONCEPT OF LINE AND STAFF

Even in conceptual framework, line and staff are defined from two viewpoints. One of the viewpoints is that they denote different functions within the organization. The other viewpoint is that they refer to authority relationships in the organization. According to functional approach, line functions are those that are related directly with the attainment of the organizational objectives and staff functions are those that help line functions in attaining the objectives. In this form, **Allen** has defined line and staff as follows:

“Line functions are those which have direct responsibility for accomplishing the objectives of the enterprise and staff refers to those elements of the organization that help the line to work most effectively in accomplishing the primary objectives of the enterprise.”

Thus, the organizational objectives are the basic determinant of line and staff functions and with the change in the objectives, line and staff functions may change. Thus, what may be line function in one organization may be staff function in another. For example, personnel function in an employment agency is line but it is staff in manufacturing organization. In a manufacturing—organization whose basic objective is, to produce and sell goods, production and marketing are line functions and others such as finance, personnel, legal, etc. are staff functions. Further, within

a department, there may be line and staff functions, for example, in marketing selling may be line function but market research is staff function. A person performing staff function is called staff manager or simply staff.

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Koontz and others have defined line and staff authority as follows:

'Line authority becomes apparent from the scalar principle as being that relationship in which a superior exercise directs supervision over a subordinate—an authority relationship in direct line or steps. The nature of staff relationship is advisory. The function of people in a pure staff capacity is to investigate, research, and give advice to line managers to whom they report.'

12.2 DIFFERENTIATION BETWEEN LINE AND STAFF

The differentiation between line and staff is necessary for the following reasons:

1. **To Provide Specialized Services:** In managing the complex organization in dynamic environment; a manager's requirement of knowledge is varied and it is not possible for him to have all such knowledge. For this purpose, a manager needs the services of specialists. Such services are needed throughout the organization. However, both managers requiring and using such services and specialists providing the services must understand the nature of relationship existing them, otherwise they may lead to conflicts reducing organizational efficiency.
2. **To Maintain Adequate Checks and Balances:** Sound management requires the system of countervailing forces in the organization so that authority delegated to individuals or groups is kept within prescribed bounds by counter-balancing authority. The system of checks and balances requires that 'each force or activity throughout the organization is opposed by a counterforce which operates as a check and thereby sets up a balance of force. Through the balance of forces, the energies of each activity are regulated. Effective control, in particular, requires appropriate checks and balances of this kind. The authority for planning and doing is separated to some extent under line and staff. Managers performing duties need assistance from persons who are not directly under their control'.
3. **To Maintain Accountability:** Organization being a cooperative endeavor requires the services of various persons. Each person has a definite role to play in the organization. This casts certain responsibilities on him. However, the responsibility should be clearly defined in the context of contributions. Thus, persons should be

identified who are accountable for end results. It ensures that persons would exercise authority for end results. The line and staff relationship makes this identification possible.

There are many reasons for misunderstanding and difficulty in identifying line and staff. Many managers fail to identify the clear distinction between line and staff which often leads to overstepping the use of authority leading to conflict between line and staff. Difficulty in identification of line and staff arises because of the confusion in the type of organization structure, failure to identify authority limitations, and classification of line and staff.

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12.3 LINE RELATIONSHIP

A line manager has clearly defined role to play in the organization which requires understanding of the nature of line authority. Line authority exists between superior and his subordinate. In the organizing process, activities are assigned to the individuals making them responsible for the proper performance of these activities. Authority is delegated to these individuals to perform the activities. These individuals, in turn, assign some of the activities to persons working below them in the hierarchy and delegate them authority. This process goes on creating superior-subordinate relationships in the organization. The direct relationship between a superior and his subordinate is created through the enforcement of line relationship. Such a relationship works as follows:

1. **As a Chain of Command:** A command relationship exists between each superior and subordinate. Line authority is the heart of this relationship because it entitles a superior to direct the work of his subordinate. In this relationship, a superior has uncontrolled authority, except those controls prescribed by the organization or regulated by the environmental factors, of giving orders to his subordinate and subordinate has no alternative except to obey those orders.
2. **As a Channel of Communication:** Line authority can be treated as channel of communication between members of the organization. Communication, up and down in the organization, flows through the line relationship. Barnard has emphasized the role of line relationship as a channel of communication by suggesting that line of communication should be established and every member of the organization should be tied into the system of communication by having someone to report to and others to report him. Such a line can be maintained easily through line of command.
3. **As a carrier of Responsibility:** The line relationship carries ultimate responsibility for the work assigned. Though the process

of assigning activities goes on till the level where actual work is performed by operatives, each individual is accountable for the proper performance of the activities assigned to him.

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12.4 STAFF RELATIONSHIP

The relationship between a staff man and the line manager with whom he works depends in part on the staff duties. A man who only gathers facts or only checks on performance will have relationships with line manager that are different from those of a man who has concurring authority. Therefore, there will be quite variations between line and staff relationships. Such relationships may run along a continuum with only advice at one extreme point and functional authority at other extreme point. In between, two more situations represent compulsory staff consultation and concurring authority.

12.5 TYPES OF STAFF

Staff support to line executives may be in any of the following ways:

1. **Personal staff:** Personal staff consists of a personal assistant or adviser attached to the line executive at any level. His main function is to aid and advise the line executives as also to perform any other work assigned to him.
2. **Specialized staff:** The staff in this case has expert knowledge in specific fields such as accounting, personnel management, public relations, chemical or industrial engineering, etc. For each of these functions, there may be an expert or group of experts placed under a separate department.
3. **General staff:** The staff in this case also consists of experts in different fields. But generally, this category of staff operates at higher levels and is meant to aid and advise the top management.

12.6 EVALUATION

Merits

1. **Expert advice:** Line executives, and through them the enterprises as a whole, benefit a great deal from the expert advice and guidance provided by the staff officers.
2. **Relief to line executives:** Staff executives carry on detailed analysis of each important managerial activity. As such, line executives do not have to undertake specialized investigation of each problem-situation, for which they may not always be competent.

3. **Training of young staff executives:** A line and staff organization offers an opportunity to young staff executives to acquire expertise in their respective fields of activity.

Demerits

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1. **Confusion:** It may not always be possible to determine the pattern of authority relationships between line and staff executives, which might create confusion.
2. **Expertise not aided by authority:** Staff executives may be experts in their fields of activity but they only have an advisory role. They lack authority to implement their advice.
3. **Centralization:** In a line and staff organization, line executives alone have the power to make and execute decisions. Thus, it tends towards centralization of authority in a few hands.

12.7 LINE-STAFF CONFLICT

The conflict between line and staff may be attributed to: (a) personal backgrounds of the line and staff personnel, resulting in different attitudes to the organizational activities; and (b) tendency on the part of both line and staff to play disruptive political games because of consciousness as regards differences in their authority positions.

Generally, staff people are relatively young; better educated and more sophisticated in appearance and articulation of their viewpoints. They also suffer from a notion that their ideas if implemented will produce miraculous results. However, their problem is that they, generally, lack the command authority to translate their often grand ideas into action, and have, therefore, to pursue the exasperating course of persuasion and political game-playing.

As against this, line personnel view their staff counterparts as a source of irritation because the advice and recommendations emanating from the latter may involve change in the status quo, experimentation with altogether new ideas; and high expectations as regards what can be accomplished. Line personnel also regard the staff personnel as making unreasonable demands on their time, though without any useful results. In the process, while the line people accuse the staff people of being impractical and empty visionaries, the staff people return the compliment by saying that line people are unimaginative, obstinate and afraid to change the status-quo.

However, the line-staff conflict may be inevitable and even welcome in a limited way, because it forces the staff people to be more practical

and result-oriented, and the line people to be less dogmatic and resistant to change. But through effective coordination and formalized standardization, much of the ill-effects of such conflict may be avoided.

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12.8 OVERCOMING LINE-STAFF CONFLICT

Line and staff, both are necessary for the successful functioning of an organization. Therefore, they should work together to enhance the smooth functioning of the organization. However, some conflict may arise between the two. Since the conflict arises either because of misunderstanding between the two or because of the organizational situations in which they are working, attempts should be made to overcome these problems and situations. In particular, attempts can be directed towards: 1. understanding of authority relationships, 2. proper use of staff, 3. completed staff work, and 4. setting congenial organizational climate.

12.8.1 Understanding Authority Relationships

The first basic approach in overcoming the problem of line-staff conflict is the proper understanding of line-staff authority relationships. This can be done in better way by following guidelines.

1. Line people have the ultimate responsibility for the successful operation of the organization. Therefore, they should have authority for making operating decisions.
2. Staff people contribute to achieve organizational objectives by making recommendations and providing advice in their respective fields. In some situations, they may be granted functional authority through which they can ensure that their recommendations are put in operation.
3. Since in most cases, solicitation of advice and acceptance of that is usually at the option of the line people, it becomes imperative for the staff to offer advice and services whenever these are not solicited but staff feels that these will be helpful in arriving at suitable decisions.
4. Barring few exceptional situations where time factor is of utmost importance for decision-making, line should be impressed upon for compulsory consultation and giving serious thinking to the advice rendered by staff.
5. Staff people should sell their ideas to line people. They should rely more on the authority of knowledge and competence rather than authority of position.

12.8.2 Proper Use of Staff

Staff people are needed in the organization because line people are not able to solve the problems which require special knowledge and expertise. The effectiveness of line people depends to a large extent on how they make use of staff. For making proper use of staff, following points are important.

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1. There should be encouragement and education to line people as to how to make maximum use of staff effectively. Line people cannot make use of staff unless they know what a specialist can do for them. Staff people also have responsibility to let line people know how they can contribute for the better performance of line activities.
2. In order to make proper use of staff, they should not be kept busy in unimportant work because it does not serve any meaningful purpose. Instead, they should be assigned critical work in the area of their speciality.
3. Staff people should be involved at the basic stage of planning of an activity, rather than when the problem becomes critical. When they are involved at the level of planning, many of the problems may not arise at all because care must have been taken against those problems.
4. If line people have taken some actions directly affecting staff activities without consulting staff people, they should be informed immediately about these.

The information will help in removing misunderstanding, if any, created in the minds of staff people. At the same time, staff people will be informed about the actions going on in their area of activities and can pinpoint the drawback in action, if it exists.

12.8.3 Completed Staff Work

Generally, ideas staff arrangement results in completed staff work. Completed staff work is the study of a problem, and presentation of a solution, by a staff man in such a manner that all that remains to be done on the part of the line manager is to indicate his approval or disapproval of the completed action. The concept of completed action is emphasized; because the more difficult the problem is, more the tendency is to present the problem to the line manager in piecemeal fashion. The completed staff work requires more rigorous exercise on the part of staff people but it results into two things. First, the line superior is protected from half-baked ideas, voluminous paper work, and immature oral presentations. Second, staff people who can put forward their ideas in the form of completed staff work command more respect and value which help in getting their ideas accepted.

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While making recommendations, staff people should study the problem carefully, listing all possible alternatives and effect of these alternatives of problem-solving and clear recommendations for action. They should also provide how recommendations can be put into practice, get clearance from persons likely to be affected by recommended action, and suggestions about avoiding any difficulties involved.

12.8.4 Setting Congenial Organizational Climate

Congenial organizational climate full of mutual trust and respect, self-restrain and control, coordinative approach, and mutual help is a vital factor for successful operation of any managerial process including line and staff relationship. However, two points that need special emphasis in this respect are: (1) recognition of line and staff as necessary element for organizational functioning; and (2) recognition of need for change.

The first aspect is related to the fact that line and staff authority relationship lays the foundation for an organizational way of life. Staff is necessary to take the advantage of specialization. Line managers should recognize the importance of staff people. They should develop a feeling that staff people help in attaining organizational objectives. On the other hand, staff people must convince the line people to sell their ideas, rather than enforcing their ideas through the use of authority. The second aspect is related to the recognition of need for change and overcoming resistance to change. Managers in the organization, particularly line managers, resist change especially when new way of working creates initial problem. A recommendation from staff people means a change in the operation in some way. Therefore, there is a need for analyzing important factors underlying resistance to change and relevant actions to be undertaken. Normally a change is better accepted when it fits in the overall goals and interests of people in the organization and they are informed and consulted before the introduction of change. Therefore, change process should be such that it creates less offence. Staff people have to share the responsibility of bringing change in their respective areas without creating undue friction in the organization.

SUMMARY

- Line authority becomes apparent from the scalar principle as being that relationship in which a superior exercise directs supervision over a subordinate—an authority relationship in direct line or steps. The nature of staff relationship is advisory. The function of people in a pure staff capacity is to investigate, research, and give advice to line managers to whom they report.
- The conflict between line and staff may be attributed to: (a) personal backgrounds of the line and staff personnel, resulting in different

attitudes to the organizational activities; and (b) tendency on the part of both line and staff to play disruptive political games because of consciousness as regards differences in their authority positions.

- Line and staff, both are necessary for the successful functioning of an organization. Therefore, they should work together to enhance the smooth functioning of the organization.

REVIEW QUESTIONS

1. Explain line and staff organization.
2. Distinguish between line and staff organization.
3. Explain the various types of staff.
4. Discuss elaborately the nature of conflict between line and staff.

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UNIT 13 NATURE AND PURPOSE OF STAFFING

NOTES

★ STRUCTURE ★

- 13.1 Introduction
- 13.2 Staffing
- 13.3 Responsibility for Staffing
- 13.4 Manpower Planning (MPP)
- 13.5 Human Resource Planning (HRP)
- 13.6 Aims and Objectives of Human Resource Planning (HRP)
- 13.7 Steps in Human Resource Planning
 - Summary
 - Review Questions

13.1 INTRODUCTION

Perhaps the most important resources of an organization are its human resources—the people who supply the organization with their work, talent, creativity and drive. Without the competent people, at the operational as well as managerial levels, organizations will either pursue inappropriate goals or find it extremely difficult to achieve appropriate goals once they have been set. People are, in fact, the vital resources for an effective organization.

People are the essential ingredient in all organizations, be the organizations business, governmental; religious, educational, and the way in which people are recruited, selected, and utilized by the leadership largely determines whether the organization will achieve its objectives successfully. It is then not too surprising that management is concerned constantly with the management of human resources—with the way in which these resources are developed and utilized, with the assumptions made about them, with the formulation of personal policy, with the methods and procedures used in dealing with the company workforce. Staffing function of management deals with these aspects.

13.2 STAFFING

In simple words, staffing is the processing of obtaining and maintaining capable and competent people to fill all positions from top management

to operative level. This includes securing, recruiting, selecting, training, appraising and maintaining the individuals in organizations. Let us pull the views of management scholars on the definition of staffing:

- Staffing is the function by which managers build an organization through the recruitment, selection, development of individuals as capable employees.
- Staffing is the executive function which involves the recruitment, selection, compensating, training, promotion and retirement of subordinate managers.
- Staffing is concerned with the placement, growth, development of all those members of the organization whose function is to get things done through the efforts of other individuals.
- Staffing is the whole personnel function of bringing in and training the staff and maintaining favourable conditions of work.

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13.3 RESPONSIBILITY FOR STAFFING

As far as the responsibility for staffing is concerned, different scholars have different opinions. Some contend that the responsibility for staffing in an organization should rest upon the personnel department. That is why large organizations have their own personnel departments separately. But some scholars strongly feel that the responsibility for effective execution of staffing of personnel function rests upon all the members in the organization. As **Koontz** has pointed out, "*Neither the personnel department nor any other service group is the proper place for staffing function*". Staffing is the unassigned, unspecified and implied duty of every manager. In small organizations, where staffing process is comparatively easier, the owner-managers or executives perform the entire staffing function on their own. On the other hand, large business firms tend to maintain separate personnel department to look after the staffing function: The personnel department assists guides and directs the line executives in performing the staffing activities effectively. A line manager cannot alone perform all the activities alone—such as selecting the large number of employees, recruiting them, providing those training, fixing their compensation, maintain their wage records, etc. in a big firm. A manager may not have sufficient time at his disposal to perform these multifarious staffing functions. Lack of time apart, a manager may not possess specialized knowledge, skills in performing these activities. Organizations relieve the manager by creating a separate department known as personnel department the primary responsibility of which is to recruit, select and supply the qualified and dedicated employees to various work units in an organization.

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13.4 MANPOWER PLANNING (MPP)

Human resources have one unique feature; it is the only human resources which appreciate with time if sufficient care is taken to impart skill and knowledge. Human resources become an asset in the long run. Organizations which employ and utilize other resources can improve the efficiency of operations only when they have trained manpower. Manpower planning and development on a comprehensive basis assumes greater importance in organizations.

Manpower planning is basically a strategy for procurement, development, and allocation and utilization of an organization's human resources.

Manpower planning:

- is an ongoing process (it is not a static exercise)
- includes the planning and development of human resources.
- is not just forecasting demand and supply of human resources.
- is not simply a matter concerned with individual career planning and development.
- is not just a planning for changing organizational structure.

Though some firms drift along for several long years without paying adequate attention to human resource programmes, but long-term organizational success cannot be achieved without reasonable effort toward manpower planning. The importance of systematic and comprehensive manpower planning is recognized by organization due to the following reasons:

- (a) It is vital for determining personnel needs of the organization in future.
- (b) It enables the organization to cope with changes in competitive forces, markets, technology, products, etc.
- (c) Manpower planning is an essential component of strategic planning.

In addition to the above, manpower planning focuses on the working conditions and relationships in which individuals function. Manpower planning ensures optimum use of available human resources. It also assesses the future skill requirements of personnel and determines the future levels of recruitment. It provides adequate control measures to ensure that necessary resources are available as and when conditions of business change. Manpower planning also anticipates redundancies and avoids unnecessary dismissals. On the whole, it provides a basis of management and organizational development programmes.

13.5 HUMAN RESOURCE PLANNING (HRP)

HRP basically involves applying the fundamental planning process to the human resource needs of an organization. To be effective, any human resource plan must be derived from the long-range plans of the organization.

Unfortunately, HRP is quite often than not, isolated from organizational planning. A common error which human resource planners make is that they focus their attention on the short-term replacement needs. They do not tie in with the long-range plans of the enterprise. Focusing on short-term replacement needs is a natural consequence of not integrating human resource planning with organizational planning. Human resource planning and organizational planning must be integrated logically and fruitfully. A non-integrated approach almost always leads to surprises which force the personnel/human resource planners to focus on short-term crisis.

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13.6 AIMS AND OBJECTIVES OF HUMAN RESOURCE PLANNING (HRP)

The major aims of human resource planning are to ensure that the organization:

- (a) obtains and retains the quality and quantity of manpower it needs;
- (b) makes the best use of its manpower resources;
- (c) is able to anticipate the problems arising from potential surpluses or deficits of manpower.

13.7 STEPS IN HUMAN RESOURCE PLANNING

Sometime back there was a lot of ad hocism in the matter of recruitment of personnel. This was happening because no prior estimates are made about the manpower needs in a continuous way in organizations. Organizational units never used to maintain an up-to-date record of employees—about their service, resignation, termination, recruitment, death, or disablement, etc. Especially in small organizations employees do not get sufficient notice about their approaching retirements. Organizations too, are not prepared for their replacements. Organizations used to make ad hoc decisions. In the crisis, in the form of granting extensions to the existing members, and causing frustration among those who are aspiring for higher jobs. Effective human resource planning does not create such embarrassing situations.

In every organization it is necessary to: (a) analyze the current manpower supply; (b) tap various recruitment sources whenever and wherever necessary; (c) estimate various factors which generate manpower demands; (d) prepare a rational manpower recruitment plan; and (e) undertake educational, training and development schemes. All these are related to human resource planning.

HR provides, in general, the structure, impetus and assistance. HRP consists of four basic steps:

1. Determining the organizational objectives.

2. Determining the skills and expertise required to achieve the organizational and departmental objectives.
3. Determining the additional human resource requirements in the light of the organization's current human resources.
4. Developing action plans to meet anticipated human resource needs.

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13.7.1 Determining Organizational Objectives

First of all, human resource plans must be based on overall organizational objectives. That is to say, the objectives of human resource planning must be derived from organizational objectives.

The organizational objectives indirectly specify the human resource requirements in terms of number and characteristics of employees. Organizational objectives are basically designed to provide an organizational unit and its members a direction and purpose. The objectives are to be stated in terms of expected results. The organizational goal-setting process begins at the top of the organization with a statement of central purpose. Then, the long-range objectives and strategies are formulated based on the stated central purpose for which organization has come into existence. Based on the long-term objectives, the short-term performance objectives are specified. The divisional, departmental objectives are then derived from company's short-term objectives. This process of goal-setting is labeled as 'cascade approach' to objective-setting. The cascade approach should not be misunderstood as a form of 'top-down' planning whereby objectives are passed down to the lower levels of the organization. Actually, the basic idea is to involve all levels of management in the planning process. One advantage of involving all the levels of management in organizational planning is that it leads to an upward as well as downward flow of information during the planning stage. Again, this ensures that the objectives are communicated and coordinated throughout the organization. The cascade approach to goal-setting thus involves both the operating and divisional managers in the overall company planning process. The human resource development identifies the particular shortcomings and strengths in the organizational personnel, and provides this information to the management. This information is significant in influencing the overall direction of the organization.

13.7.2 Determining the Skills and Expertise Required

Once the organizational, divisional, departmental and individual unit objectives are established, it is the responsibility of the operating managers to determine the skills and expertise required to meet the respective objectives. The key point to note is that the managers should (in addition to the skills and abilities of the present employees) determine the skills and abilities required to meet the objectives. To take hypothetical example, suppose the objective of marketing department is to increase total sales by 20% (of a certain item). Once this objective has been established, the marketing manager must determine precisely how this objective can be

translated into human resources. A logical starting point in this connection is to review the present/current job descriptions. Managers should, then, determine the skills necessary to meet the set objectives. Finally, the manager should translate the needed skills and abilities into types and number of employees.

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13.7.3 Determining the Net Additional Human Resource Requirements

Having determined the types and number of employees required to achieve the company objectives, the manager must analyze the requirements in the light of the current as well as anticipated human resources of the organization. This requires a thorough analysis of the presently employed personnel as well as forecasting the changes in employment.

Skills inventory: The skill inventory is also called personnel register. This is prepared to determine the net additional requirements of human resources. The skills inventory provides consolidated information about the organization's human resources. It provides a running commentary on all employees in the organization. A skills inventory, in its simplest form, includes a list of names, characteristics and skills of the employees in an organization. A more comprehensive skills inventory contains the following information:

- (a) *Personal data:* Age, sex, marital status of employee.
- (b) *Skills:* Educational qualifications, skills, job experience, training, etc.
- (c) *Special qualifications:* Membership in professional groups, special achievements.
- (d) *Salary and job history:* Past as well as present, salary date of increment, various positions held previously prior to the current employment.
- (e) *Company data:* Benefit plan date, retirement information, seniority, etc.
- (f) *Capacity of the individual:* Test scores, on psychological and other tests, information about health, etc.
- (g) *Special preferences of individuals:* Type of job, geographic location, etc.

The advantages of preparing a skills inventory can be summarized thus:

- (a) It provides a means of quickly and accurately evaluating the skills and abilities that are available in an organization.
- (b) It helps in determining the net human resource requirements in the present as well as future.
- (c) It helps in taking some crucial managerial decisions—such as accepting a new project, to bid on a new contract, or to introduce a new design or product.

- (d) It also aids the management in planning the future employee training and management development programmes.
- (e) It helps management in recruiting and selecting new employees.

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13.7.4 Developing Action Plans

Soon after determining the net human resource requirements, a manager must develop action plans to achieve the desired results. If the net requirements indicate a genuine need for additional employees, plans must be made to recruit, select, induct, and train new personnel. On the contrary, if a reduction in personnel is necessary (of course, it is a rare case) plans must be made to realize the necessary adjustments through attrition, layoffs or discharges. The action plans so developed should utilize the skills of the present as well as newly recruited personnel to the fullest extent possible.

SUMMARY

- Staffing is the processing of obtaining and maintaining capable and competent people to fill all positions from top management to operative level. This includes securing, recruiting, selecting, training, appraising and maintaining the individuals in organizations.
- Manpower planning is basically a strategy for procurement, development, and allocation and utilization of an organization's human resources.
- The major aims of human resource planning are to ensure that the organization:
 - (a) obtains and retains the quality and quantity of manpower it needs;
 - (b) makes the best use of its manpower resources;
 - (c) is able to anticipate the problems arising from potential surpluses or deficits of manpower.
- The skill inventory is also called personnel register. This is prepared to determine the net additional requirements of human resources. The Skills inventory provides consolidated information about the organization's human resources.

REVIEW QUESTIONS

1. Define staffing.
2. What is the importance of staffing as function of management?
3. Define Human Resource Planning (HRP). What are the main objectives of human resource planning?
4. Write short notes on Manpower Planning (MPP).

UNIT 14 STAFFING—SELECTION PROCESS & TECHNIQUES

*Staffing—Selection
Process & Techniques*

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★ STRUCTURE ★

- 14.1 Selection
- 14.2 Selection Process
- 14.3 Selection Tests
- 14.4 Types of Tests
- 14.5 Advantages of Selection Tests
- 14.6 Limitations of Selection Tests
- 14.7 Precautions in Using Selection Tests
- 14.8 Interview
- 14.9 Principles of Interviewing
 - Summary
 - Review Questions

14.1 SELECTION

Selection is a deliberate effort of the organization to select a fixed number of personnel from a large number of applications. Identifying sources of manpower recruitment and attracting the people to offer for employment, though not strictly the part of employee selection, may be considered as the base for selection. When an organization gets applications from more candidates than the actual requirement, the organization has to devise methods through which it can divide these applications into categories those who will be offered employment and those who will not be offered employment. Since more candidates will be rejected than those hired through this process, this is also called as the process of rejection instead of selection. For this reason, selection is frequently described as a negative process in contrast with the positive programme of recruitment.

14.2 SELECTION PROCESS

A selection process involves a number of steps. The basic idea is to solicit maximum possible information about the candidates to ascertain their suitability for employment. Since the type of information required

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For various positions may vary, it is possible that selection process may have different steps for various positions. For example, more information is required for the selection of managerial personnel as compared to workers. Similarly, various steps of selection process may be different for various organizations because their selection practices may differ. For example, same organizations conduct selection tests of various types while others may not use these. However, a standard selection process has the following steps; screening application forms, selection tests, interview, checking of references, physical examination, approval by appropriate authority and placement. Below is a discussion of the various steps.

1. **Screening of Applications:** Prospective employees have to fill up some sort of application forms. These forms have variety of information about the applicants like their personal bio-data, achievements, experience, etc. Such information is used to screen the applicants who are found to be qualified for the consideration of employment. The information may also be used to keep permanent records of those persons who are selected. Based on the screening of applications, only those candidates are called for further process of selection who are found to be meeting the job standards of the organization. When the number of applicants meeting the job standards far exceeds the actual requirements, the organizations decides a suitable number of candidates who will be called for further selection process.
2. **Selection Tests:** Many organizations hold different kinds of selection tests to know more about the candidates or to reject the candidates who cannot be called for interview, etc. Selection tests normally supplement the information provided in the application forms. Such forms may contain factual information about candidates. Selection tests may give information about their aptitude, interest, personality, etc. which cannot be known by application forms. Types of tests and principles of testing have been discussed in detail in this part of the chapter.
3. **Interview:** Selection tests are normally followed by personal interview of the candidates. The basis ideal here is to find out overall suitability of candidates for the jobs. It also provides opportunity to give relevant information about the organization to the candidates. In many cases, interview or preliminary nature can be conducted before the selection tests. For example, in the case of campus selection, preliminary interview is held for short listing the candidates for further process of selection.
4. **Checking of References:** Many organizations ask the candidates to provide the names or referees from whom more informations about the candidates can be solicited. Such informations may be

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related to character, working, etc. The usual referees may be previous employees, persons associated with the educational institutions from where the candidates have received education, or other persons of prominence who may be aware of the candidates' behaviour and ability. In our country, references are not given adequate importance because of their biasness but these can give very useful information which may not be available otherwise.

5. **Physical Examination:** Physical examination is carried out to ascertain the physical standard and fitness of prospective employees. The practice of physical examination varies a great deal both in terms of coverage and timing. While many organizations do not carry physical examinations at all, others carry on a very comprehensive basis. Some organizations only have general check up of applicants to find the major physical problems which may come in the way of effective discharge of duties. In the context of timing also, some organizations, locate the physical examination near the end of the selection process, other place it relatively early in the process. This latter course is generally followed when there is high demand for physical fitness.
6. **Approval by Appropriate Authority:** On the basis of the above steps, suitable candidates are recommended for selection by the selection committee or personnel department. Though such a committee or personnel department may have authority to select the candidates finally, often it has staff authority to recommend the candidates for selection to the appropriate authority. Organizations may designate the various authorities for approval of final selection candidates for different categories of candidates. Thus, for top-level managers, board of directors may be approving authority. In university, it may be syndicate/executive committee. When the approval is received, the candidates are informed about their selection and asked to report for duty to specified persons.
7. **Placement:** After all the formalities are completed, the candidates are placed on their jobs initially on probation basis. The probation period may range from three months to two years. During this period, they are observed keenly, and when they complete this period successfully, they become the permanent employees of the organization.

14.3 SELECTION TESTS

In India, the use of psychological and other tests is gaining popularity. A test is an instrument designed to measure selected psychological factors. Monappa and Saiyadain define tests as follows: 'Psychological

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tests are essentially and objective and standardized measure of a sample of behaviour.

Three important concepts in this definition are objective, standardized, and sample of behaviour. Objective in this definition refers to the validity and reliability of measuring instruments. Validity of a test refers to the content of measurement, that is, it is measuring the relevant qualities of the candidates. Reliability refers to the consistency with which a test yields the same results throughout a series of measurement. Both these aspects are very important in a test. The second aspect of definition is standardized which refers to uniformity of procedure in administering and scoring the test, as well as of testing conditions which include the time limit, instructions, tester's state of mind and health, and other facilities while administering the test. The third aspect of definition is sample to behaviour which refers to the fact that a total replication of reality in the testing situation is not possible. Test items are representative of eventual behaviour, and need not closely resemble the behaviour the test is to predict.

14.4 TYPES OF TESTS

The use of tests in selection is so widespread that these may be classified in various ways. They may have different objectives and measure different attributes. However, most of these test fall in one of the following categories: achievement, intelligence, personality, aptitude, and interest.

1. **Achievement Test:** It is also called performance test or trade test Achievement is concerned with what one has accomplished. When candidates claim that they have done certain things and know these, the achievement test may be conducted to measure how well the candidates know these. A candidate's knowledge may be measured through his answers to certain questions or his performance at a practical test. For example, a typing test may measure the typing performance of a typist in terms of speed, accuracy, and efficiency. Performance test may be administered for selecting employees at operative level as well as at junior management level.
2. **Intelligence Test:** Intelligence test tries to measure the level of intelligence of a candidate. This test, generally, includes verbal comprehension, word fluency, memory, inductive reasoning, number facility, speed of perception, spatial visualization, etc. The score on the test are usually expressed numerically as Intelligent Quotient (IQ) which can be calculated as follows:

$$IQ = \frac{\text{Mentalage}}{\text{Actualage}} \times 100$$

It means that the IQ is derived by converting actual age into mental age and multiplying it by 100 in order to facilitate comparison. Higher is the figure, higher is the level of intelligence. Intelligence test is designed on the basis of age-groups. Thus, each age-group may have different intelligence test.

The basic idea behind intelligence is that organization is able to get people with higher intelligence, its training and learning process will be easier because intelligent employees learn faster than dull employees.

NOTES

3. **Personality Test:** The personality test is administered to predict the performance of success for jobs that require dealing with people, or jobs that are essentially supervisory or managerial in character. Dimensions of personality such as interpersonal competence, dominance-submission, extroversion-introversion, self-confidence, leadership ability, patience, and ambition can be measured through personality tests. Personality test is essential to be employed by the organization. Among the most widely used personality test is Thematic Evaluation of Management Potential (TEMP).
4. **Aptitude Test:** Aptitude test is used for measuring human performance characteristics related to the possible development of proficiency on specific jobs. These basic characteristics can be thought of as aptitudes. As such, aptitude test measures the latent or potential characteristics to do something provided proper environment and training are provided to the individuals. This test is more valid when the applicants have no experience or very little experience along the lines of the jobs. Specific tests have been developed for jobs that required clerical, mechanical, spatial relationships, and manual dexterity abilities and skills. However, aptitude test does not measure motivation. Since on the job motivations is found to be more important than aptitude for the job, aptitude test is supplemented by interest tests.
5. **Interest Test:** Interest test is designed to discover a person's area of interest, and to identify the kind of jobs that will satisfy him. It is assumed that a person who is interested in a job can do much better than the person who is not interested. Interest test, generally, measures interest in outdoor activities, mechanical, computational, scientific, persuasive, artistic, literary, musical, clerical, social services, etc.

The above discussion shows that different tests are used for different purpose. Each of them has the usefulness and limitations in specified areas. Therefore, a combination of tests should be

for selection purpose. Moreover, these tests should be released with the nature of posts to be filled up.

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14.5 ADVANTAGES OF SELECTION TESTS

Various steps of selection process including selection tests are meant to solicit information about the candidates so as to arrive at a decision to select the most desirable candidates out of several available. Since only some informations are available from other sources like application forms, reference, etc. selection tests are used to solicit ore information about the candidates. Therefore, the use of selection tests has many advantages.

1. Selection tests are standrdized and unbiased methods of soliciting information about the prospective employees. Thus, a person who does not get selected on the basis of selection tests cannot argue for the partiality in selection process. It is to be noted that in many organizations, impartiality in selection process is of prime importance like public sector organizations.
2. Selection tests can be used to weed out the large number of candidates who may not be considered for employment in the organization. Normally, organizations receive application. They all meet the basis requirements of the jobs, but all cannot be called for interview because it is very time-consuming process. Selection tests will provide the cut-off point above which candidates can be called for interview. Thus, the tests will save lot of time and money.
3. The tests are able to uncover the qualities and potentials of prospective employees which cannot be known by other methods including personal interview. Since the people are taken in the organization not only for the present jobs but they are also promoted over the period of time, tests provide good opportunities to test potentials for such promotions also. Thus, tests are more reliable source for predicting the overall suitability of candidates for the employment.

14.6 LIMITATIONS OF SELECTION TESTS

Selection tests may provide some useful information but they suffer from some limitations also. Two such limitations are quite important which suggest that use of tests should be supplemented by other means of soliciting information about the candidates.

1. Selection tests cannot make a hundred per cent prediction of an individual's on-the job success. At best, they just reveal that those who have scored above the cut-off point (other things

being equal) will be more successful than those who have scored below the cut-off point. Therefore, it is desirable to use tests only as supplementary method of selection.

2. These are suitable when there is large number of candidates for limited number of jobs or positions. If the number of candidates is small, the use of tests is not economical. In such a case, it is desirable to select persons on the basis of interview only.

Besides these two limitations, many people criticize tests on the basis that these discriminate against the deprived classes because affluent classes can know better how to defect the tests. However, this limitation can be overcome by suitable design and administration of tests. A further criticism is put against the tests that these often invade privacy of people because they put many questions on the personal life of the candidates.

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14.7 PRECAUTIONS IN USING SELECTION TESTS

Various limitations of selection tests suggest that these should be used cautiously. Test results can improve decision-making regarding selection of employees, and as a result, organizations can select the best possible candidates if following precautions are taken in using the tests.

1. A test can be effective only when it has validity. The validity of a test is the degree to which it measures what it intends to measure. Thus, a valid test is one which accurately predicts the criteria of job success. In the absence of validity of test, it may give wrong result and the persons selected on its basis may be even inferior to those who have been rejected.
2. Another feature which is important in a test is its reliability. The reliability of a test is the consistency with which it yields the same scores throughout a series of measurements. Thus, if a test has high reliability, a person who is tested a second or third time with the same test and under the same conditions will obtain the same result.
3. Norms should be developed as a source of reference on all tests used in selection. Norms are standardized scores that help translate raw scores into a comparative statement. Some companies use minimum marks obtained in a test while others use cut off score for selecting candidates for further selection process. Norms can be fixed on the basis of success or failure of employees in the organization selected on the basis of similar tests.
4. Tests should not be used merely to decide cut-off point of weeding out the candidates. Instead the test administrators should ensure

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that tests have validity and therefore, these can play important role in the selection process. In order to make maximum advantages of tests, proper weightage can be given to scores in the tests. This may help in avoiding personal biases in the selection considerably.

5. Test administration, scoring, and interpretation require technical competence and training in testing. Therefore, tests should be handled by properly trained and competent people. In fact, some of the standardized tests insist that their use be restricted to registered approved users only so that these are not used for the selection which may give horrible results.
6. The tests should be used as an additional factor in selection a candidate. If other factors in selection like information given in application forms, references, and interviews are used along with tests, decision-making regarding the selection of a candidate is improved to high level.

14.8 INTERVIEW

Interview is a selection technique that enables the interviewer to view the total individual and to appraise him and his behaviour. It consists of interaction between interviewer and applicant. If handled properly, it can be a powerful technique in achieving accurate information and getting access to material otherwise unavailable. However, if the interview is not handled properly, it can be a source of bias, restricting or distorting the flow of communication. Interview is the most widely used selection technique because of its easiness.

There can be several types of interviews: preliminary interview, stress interview, patterned interview, and depth interview. Preliminary interview is held to find out whether the candidate is required to be interviewed in more details. Stress interview is directed to create situations of stress to find out whether the applicant can perform well in a condition of stress. Patterned interview is structured and questions asked are decided in advance. This is done to maintain uniformity in different boards of interviewers. Depth interview, also known as non-directive interview, covers the complete life history of the applicant and includes such areas as the candidate's work experience, academic qualification, health, interests, hobbies, etc. The method is informal, conversational with freedom of expression to the candidate.

14.9 PRINCIPLES OF INTERVIEWING

As indicated earlier, interview is the most frequently used technique for selection. However, it can give better results only when it is conducted

properly. Following points can be taken into consideration to make and interview more effective.

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1. There should be proper planning before holding the interview. Planning may include determination of who will conduct interview, what way it will be conducted, on what basis the candidate is to be evaluated, and how much weightage will be given to interview in the total selection process. Preparation on these lines will avoid ambiguity and confusion in interviewing.
2. There should be proper setting for conducting interview. The setting is required both of physical and mental nature. The physical setting for the interview should be comfortable and free from many physical disturbance.
The mental setting should be one of rappings between the interviewer and the candidate. The interview should not start unless the candidate is composed and overcomes from the mental stress of the interview. It is a well known fact that the candidates feel nervous the moment they enter in the interview room. They may react badly about any showing of surprise of disapproval of their clothes or manner. In such a case, there may not be proper evaluation of the candidates.
3. When the candidate feels at ease, the interview may be started. At this stage, the interview obtains the desired information and may provide the information sought by the candidate. The interviewer can solicit important personal information if he demonstrates a basic liking and respect of people. He should ask questions in a manner that encourages the candidate to talk. He should listen to carefully when the candidate is furnishing the information. This gives an impression to the candidate that the interviewer is quite serious about him and he will do his best.
4. The interview of the candidate should be closed with pleasant remarks. If possible, the interviewer should given an indication about the likely end of the interview. 'Saying thanks', 'good wishes' or similar things carries much better impression about the interviewer.
5. Immediately after the interview is over, the interviewer should make an evaluation of the candidates. At this stage, the things are quite fresh in his mind. He can give remarks about the characteristics of the candidate or give grade or mark as the case may be. This will help the interviewer to make a comparative evaluation of all candidates easily.

SUMMARY

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- Selection is a deliberate effort of the organization to select a fixed number of personnel from a large number of applications.
- Interview is a selection technique that enables the interviewer to view the total individual and to appraise him and his behaviour. It consists of interaction between interviewer and applicant.
- A test is an instrument designed to measure selected psychological factors.
- Reliability refers to the consistency with which a test yields the same results throughout a series of measurement.

REVIEW QUESTIONS

1. What do you mean by selection for employment? Outline a suitable selection process for a large business organization.
2. Discuss the major tests that are used in selection. What are the benefits and problems in using selection tests? What precautions should be taken to make selection tests more effective?
3. Discuss the various types of selection interviews. On what factors does the success of an interview depend?

UNIT 15 HUMAN RESOURCE MANAGEMENT

*Human Resource
Management*

NOTES

★ STRUCTURE ★

- 15.1 Introduction
- 15.2 Human Resource Management Questionnaire
- 15.3 Developing A Personnel System—Assessing Personnel Needs
- 15.4 Scope of Personnel Management
- 15.5 Objectives of Personnel Management
- 15.6 Training-Introduction
- 15.7 Need For Training
- 15.8 Objectives of Training
- 15.9 Importance of Training
- 15.10 Responsibility for Training
- 15.11 Principles of Training
- 15.12 Training Methods
- 15.13 Steps in Training Programmes
- 15.14 Implementation of the Training Programme
- 15.15 Evaluation of Training Programme
- 15.16 Effective Management
 - Summary
 - Review Questions

15.1 INTRODUCTION

Personnel management is concerned with the effective use of the skills of people. They may be sales people in a store, clerks in an office, operators in a factory, or technicians in a research laboratory. In a business, personnel management starts with the recruiting and hiring of qualified people and continues with directing and encouraging their growth as they encounter problems and tensions that arise in working towards established goals. In addition to recruiting and hiring, some of the responsibilities of a personnel manager are:

- To classify jobs and prepare wage and salary scales.
- To advise employees.

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- To deal with disciplinary problems.
- To negotiate with labour unions and service union contracts.
- To develop safety standards and practices.
- To manage benefit programmes, such as group insurance, health, and retirement plans.
- To provide for periodic reviews of the performance of each individual employee, and for recognition of his or her strengths and needs for further development.
- To assist individuals in their efforts to develop and qualify for more advanced jobs.
- To plan and supervise training programmes.
- To keep abreast of developments in personnel management.

To understand the personnel management's job consider the following examples of challenging employee situations.

The firm's employee – especially the most qualified ones – can get comparable, if not better jobs with other employers.

When a firm faces a scarcity of supervisory and specialized personnel with adequate experience and job capabilities, it has to train and develop its own people. This can be time consuming and expensive.

The cost of hiring and training employees at all levels is increasing, for instance, several thousand rupees for a salesperson. A mistake in hiring or in slow and inefficient methods of training can be costly.

Personnel managers must comply with the law by employing, training and promoting women and persons from minority groups. The problem in doing so is that many of these employees have not had appropriate experience and education in the past.

Most employees, whether or not represented by labour unions, continue to seek improvements in direct compensation, employee benefits, and working conditions. All commitments must be based upon what the firm can afford, comply with current practices of other employers, and be understood and accepted by the employee. To do this, all employee policies and operating procedures should be developed and negotiated with great care.

Some employees may not perform satisfactorily simply because their firm offers competitive compensation, benefits, and working conditions. In addition to these financial or physical, compensations, they want responsibility, the opportunity to develop, and recognition of accomplishment in their jobs.

The law has requirements for pension and other benefit plans, and also mandatory retirement age. Complying with such changes presents real challenges. Personnel management works to achieve practical solutions to such problems. In large firms, it generally provides support to line management. In this staff capacity, the personnel department has the responsibility to develop and implement policies, procedures, and programmes for recruitment, selection, training, placement, safety, employee benefits and services, compensation, labour relations, organization planning, and employee development.

Often, the owner - manager of a firm also has to be the personnel manager. In such a case it is necessary to have an overview of current trends and practices in personnel management. All small businesses must staff their operations. This involves bringing new people into the business and making sure they are productive additions to the enterprise. Effective human resource management matches and develops the abilities job candidates and employees with the needs of the firm. A responsive personnel system assists in this process and is a key ingredient for growth.

Human resource management is a balancing act. At one extreme, we hire only qualified people who are well suited to the firm's needs. At the other extreme, we train and develop employees to meet the firm's needs. Most expanding small businesses fall between the two extremes *i.e.*, they hire the best people they can find and afford, and they also recognize the need to train and develop both current and new employees as the firm grows.

One function of personnel management deals with how to hire and train the right people and addresses the characteristics of an effective personnel system, such as;

- Assessing personnel needs
- Recruiting personnel
- Screening personnel
- Selecting and hiring personnel
- Orienting new employees to the business
- Deciding compensation issues

Another function addresses the training and development side of human resource management. A third function deals with how the personnel system and the training and development functions come together to build employee trust and productivity. These three functions stress the importance of a good human resource management climate and provide specific guidelines for creating such a climate.

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15.2 HUMAN RESOURCE MANAGEMENT QUESTIONNAIRE

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- Does the business have a plan for forecasting long-term personnel needs?
- Are there guidelines for hiring personnel, or are employees hired based on gut feelings?
- Are there job descriptions for all positions?
- What do employees like about their jobs?
- What do employees leave the organization?
- Is there an active training programme?
- It is based on an assessment of where the firm is now or where it should be in the future?
- Are a variety of training programmes available?
- How is morale in the firm?
- Do employees really believe what you have to say?
- Are all employees treated fairly?

15.3 DEVELOPING A PERSONNEL SYSTEM— ASSESSING PERSONNEL NEEDS

The small business owner should base the firm's personnel policies on explicit, well proven principles. Small businesses that follow these principles have higher performance and growth rates than those that do not follow them. The most important of these principles are:

- All positions should be filled with people who are both willing and able to do the job.
- The more accurate and realistic the specifications of and skill requirements for each job, the more likely it is that workers will be matched to the right job and therefore, be more competent in that job.
- A written job description and definition are the keys to communicating job expectations to people. Do the best job you can is terrible job guidance.
- Employees chosen on the basis of the best person available are more effective than those chosen on the basis of friendship or expediency or recommendation.
- If specified job expectations are clearly spelled out, and if performance appraisals are based on these expectations, performance is higher.

Also, employee training results in higher performance if it is based on measurable learning objectives.

- The first step in assessing personnel needs for the small business is to conduct an audit of future personnel needs.

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Personnel Management Must ask to Himself:

- Can the work load I visualize be accomplished by the present workforce? Will more or fewer employees be needed? Consider seasonal patterns of demand and probable turnover rates.
- Can any job be eliminated to free people for other work? What balance of full-time or part time, temporary or permanent, hourly or salaried personnel do I need?
- What does the labour supply look like in the future?
- Will I be able to fill some of the jobs I have identified? How easily?
- What qualifications are needed in my personnel?

Develop a method to forecast labour demand based on your answer to these questions. Once your needs are estimated, determine strategies to meet them.

The process of selecting a competent person for each position is best accomplished through a systematic definition of the requirements for each job, including the skills, knowledge and other qualifications that employees must possess to perform each task to guarantee that personnel needs are adequately specified,

1. Conduct a job analysis
2. Develop a written job description, and
3. Prepare a job specification.

15.4 SCOPE OF PERSONNEL MANAGEMENT

Scope of personnel management was very limited in beginning. In those days was called "Health and happiness" department. The scope of management in general and personnel in particular has changed considerably, covering more areas and responsibilities. According to American Society for Training and Development (ASTD), it is broadly classified into nine major areas namely,

1. Human Resource Planning (HRP)
2. Design of Organization and Job
3. Selection and Staffing
4. Training and Development

NOTES

5. Organization Development
6. Compensation and Benefits
7. Employee Assistance
8. Union/Labour Relations
9. Personnel Research and Information Systems

15.4.1 Human Resource Planning (HRP)

HRP, this function is to ensure, the right type of persons at the right time at right place. It also forecast demand and supplies and identify sources.

15.4.2 Design of Organization and Job

The objective of Design of organization and job is to form the organization structure, authority, relationship and responsibilities and work contents for each position in organization.

15.4.3 Selection and Staffing

This is the process of recruitment and selection of staff. In recruitment, process of attracting qualified and competent personnel for different jobs. This includes identification of existing sources of labour market, new development of new sources and the need for attracting a large number of potential applicants so that a good selection is possible. Selection is concerned with the development of selection policies and procedures and evaluation of potential employees in terms of job specification. Selection process includes the development of application blanks, valid and reliable tests, interview techniques, employee referral techniques, evaluation and selection of personnel in terms of job specifications, the making up of final recommendations to the line management, and the sending of offers and rejection letters.

15.4.4 Training and Development

Process of increasing the capabilities of individuals and groups to that they may contribute effectively to attainment of organizational goals. This includes, the determination of training needs of personnel at all levels, skill training, employee counseling, and programmes for managerial, professional and employee development. Self-initiated developmental activities, (formal education) during off hours (including school/college/professional institutes) reading and participation in the activities of the community.

15.4.5 Organization Development

This is an important aspect where by developing healthy interpersonal and inter-group relationship in the organization.