



**SHIVAJI UNIVERSITY, KOLHAPUR**

**CENTRE FOR DISTANCE EDUCATION**

# **Management Principles and Applications**

For

**B. Com. Part-I**

**Semester I & II**

(Academic Year 2019-20 onwards)

**Unit -1**

**Introduction to the Management**

---

- 1.0 Objectives of the Unit
- 1.1 Introduction to Management
- 1.2 Presentation of Subject Matter
  - 1.2.1 Meaning and Definitions of Management
  - 1.2.2 Need for Study
  - 1.2.3 Contribution towards development of Management Theory
    - 1.2.3.1 Elton Mayo-Hawthorne Experiment – its implications and limitation
    - 1.2.3.2 Peter Drucker- M.B.O.
  - 1.2.4 Different Approaches to Management its use and limitations
    - 1.2.4.1 Behavioural Approach
    - 1.2.4.2 System Approach
    - 1.2.4.3 Contingency Approach
- 1.3 Summary
- 1.4 Terms to remember
- 1.5 Check your progress
- 1.6 Answers to check your progress
- 1.7 Exercise
- 1.8 Books for further reading

## **1.0 Objectives of the Unit**

After studying this unit, you will be able to :

- Understand the meaning and definitions of Management.
- Understand the need for study of Management.
- Acquaint with Contribution towards development of Management Theory.
- Familiar with different Approach to Management.

## **1.1 Introduction to Management**

Management is a key aspect of the economic life of man, which is an organized group activity. It is considered as the essential body in the modern social organization marked by scientific thought and technological innovations. Management is essential wherever human efforts are to be undertaken collectively to satisfy wants through some productive activity, occupation or profession. It is management that regulates man's dynamic activities through coordinated use of material resources. Without the leadership provided by management, the resources of creation remain resources and never become production. Management is the integrating force in all organized activity. Whenever, two or more people's works together to achieve a common objective, they have to coordinate their activities. They also have to organize and utilize their resources in such a way as to optimize the results. Not only in business enterprises where costs and revenues can be ascertained accurately and objectively but also in service organizations such as government, hospitals, schools, clubs, etc., scarce resources including men, machines, materials and money have to be integrated in a fruitful relationship, and utilized efficiently towards the achievement of their goals. Thus, management is not unique to business organizations but common to all kinds of social organizations Management has achieved an enviable importance in

recent times. We are all familiarly associated with many kinds of organizations, the most universal being the government, the school and the hospital. In fact, more and more of major social tasks are being organized on an institution basis. Medical care, education, recreation, irrigation, lighting, sanitation, etc. which are typically used to be the concern of the individual or the family, are now the domain of large organizations. Although, organizations other than business do not speak of management, they all need management. It is the specific organ of all kinds of organizations since they all need to utilize their limited resources most efficiently and effectively for the achievement of their goals. It is the most fundamental forces in the successful performance of all kinds of organized social activities. Importance of management for the development of underdeveloped economies has been recognized during the last one and a half decade. There is a significant gap between the management effectiveness in developed and underdeveloped countries. It is rightly held that development is the function not only of capital, physical and material resources, but also of their optimum utilization. Effective management can produce not only more outputs of goods and services with given resources, but also expand them through better use of science and technology. A higher rate of economic growth can be attained in our country through more efficient and effective management of our business and other social organizations, even with existing physical and financial resources. That is why it is now being increasingly recognized that underdeveloped countries are indeed somewhat inadequately managed countries. The emergence of management in modern times may be regarded as a significant development as the advancement of modern technology. It has made possible organization of economic activity in massive organizations like the Steel Authority of India and the Life Insurance Corporation of India. It is largely through the achievements of modern management that western countries have reached the stage of mass consumption societies, and it is largely through more effective management of our economic and social institutions that we can improve the quality of life of our people. It is the achievements of business management that hold the hope for the huge masses

in the third world countries that they can banish poverty and achieve for themselves reputable standards of living.

## **1.2 Presentation of Subject Matter**

### **1.2.1 Meaning and Definitions of Management**

Many experts have tried to define management. But, no definition of management has been universally accepted. Let us discuss some of the leading definitions of management :

Peter F. Drucker defines, "management is an organ; organs can be described and defined only through their functions."

According to Terry, "Management is not people; it is an activity like walking, reading, swimming or running. People who perform Management can be designated as members, members of Management or executive leaders."

Ralph C. Davis has defined Management as, "Management is the function of executive leadership anywhere."

According to Mc Farland, "Management is defined for conceptual, theoretical and analytical purposes as that process by which managers create, direct, maintain and operate purposive organization through systematic, co-ordinated co-operative human effort."

Henry Fayol, "To manage is to forecast and plan, to organize, to compound, to co-ordinate and to control."

Harold Koontz says, "Management is the art of getting things done through and within formally organized group."

William Spriegal, "Management is that function of an enterprise which concerns itself with direction and control of the various activities to attain

business objectives. Management is essentially an executive function; it deals with the active direction of the human effort."

Kimball and Kimball, "Management embraces all duties and functions that pertain to the initiation of an enterprise, its financing, the establishment of all major policies, the provision of all necessary equipment, the outlining of the general form of organization under which the enterprise is to operate and the selection of the principal officers."

Sir Charles Reynold, "Management is the process of getting things done through the agency of a community. The functions of management are the handling of community with a view of fulfilling the purposes for which it exists."

E. F. L. Brech, "Management is concerned with seeing that the job gets done, its tasks all centre on planning and guiding the operations that are going on in the enterprise."

Koontz and O'Donnel, "Management is the creation and maintenance of an internal environment in enterprise where individuals working in groups, can perform efficiently and effectively toward the attainment of group goals. It is the art of getting the work done through and with people in formally organized groups."

James Lundy, "Management is principally a task of planning, co-ordinating, motivating and controlling the efforts of other towards a specific objective. It involves the combining of the traditional factors of production land, labour, capital in an optimum manner, paying due attention, of course, to the particular goals of the organization."

Wheeler, "Management is centered in the administrators or managers of the firm who integrate men, material and money into an effective operating limit."

J. N. Schulze, "Management is the force which leads guides and directs an organization in the accomplishment of a pre-determined object."

Oliver Sheldon, "Management proper is the function in industry concerned in the execution of policy, within the limits set up by the administration and the employment of the organization for the particular objectives set before it."

Keith and Gubellini, "Management is the force that integrates men and physical plant into an effective operating unit."

Newman, Summer and Warren, "The job of Management is to make co-operative Endeavour to function properly. A manager is one who gets things done by working with people and other resources in order to reach an objective."

G.E. Milward, "Management is the process and the agency through which the execution of policy is planned and supervised."

Ordway Tead, "Management is the process and agency which directs and guides the operations of an organization in the realizing of established aims."

Mary Parker Follett defines management as the "art of getting things done through people". This definition calls attention to the fundamental difference between a manager and other personnel of an organization. A manager is one who contributes to the organization's goals indirectly by directing the efforts of others not by performing the task himself. On the other hand, a person who is not a manager makes his contribution to the organization's goals directly by performing the task himself.

Sometimes, however, a person in an organization may play both these roles simultaneously. For example, a sales manager is performing a managerial role when he is directing his sales force to meet the organization's goals, but when he himself is contacting a large customers and negotiating a deal, he is performing a non-managerial role. In the former role, he is directing the efforts of others and is contributing to the organization's goals indirectly; in the latter role, he is directly utilizing his skills as a salesman to meet the organization's objectives.

## 1.2.2 Need for Study

**1. It helps in Achieving Group Goals :** It arranges the factors of production, assembles and organizes the resources, integrates the resources in effective manner to achieve goals. It directs group efforts towards achievement of pre-determined goals. By defining objective of organization clearly there would be no wastage of time, money and effort. Management converts disorganized resources of men, machines, money etc. into useful enterprise. These resources are coordinated, directed and controlled in such a manner that enterprise work towards attainment of goals.

**2. Optimum Utilization of Resources :** Management utilizes all the physical & human resources productively. This leads to efficacy in management. Management provides maximum utilization of scarce resources by selecting its best possible alternate use in industry from out of various uses. It makes use of experts, professionals and these services leads to use of their skills, knowledge, and proper utilization and avoids wastage. If employees and machines are producing its maximum there is no under employment of any resources.

**3. Reduces Costs :** It gets maximum results through minimum input by proper planning and by using minimum input & getting maximum output. Management uses physical, human and financial resources in such a manner which results in best combination. This helps in cost reduction.

**4. Establishes Sound Organization :** No overlapping of efforts (smooth and coordinated functions), to establish sound organizational structure is one of the objective of management which is in tune with objective of organization and for fulfilment of this, it establishes effective authority & responsibility relationship i.e. who is accountable to whom, who can give instructions to whom, who are superiors & who are subordinates. Management fills up various positions with right persons, having right skills, training and qualification. All jobs should be cleared to everyone.



**5. Establishes Equilibrium :** It enables the organization to survive in changing environment. It keeps in touch with the changing environment. With the change is external environment, the initial co-ordination of organization must be changed. So it adapts organization to changing demand of market / changing needs of societies. It is responsible for growth and survival of organization.

**6. Essentials for Prosperity of Society :** Efficient management leads to better economical production which helps in turn to increase the welfare of people. Good management makes a difficult task easier by avoiding wastage of scarce resource. It improves standard of living. It increases the profit which is beneficial to business and society will get maximum output at minimum cost by creating employment opportunities which generate income in hands. Organization comes with new products and researches beneficial for society.

### **1.2.3 Contribution Towards Development of Management Theory**

The field of management grew in its formalization during the latter part of the 19<sup>th</sup> Century and throughout the 20<sup>th</sup> Century along with the rise of the industrial revolution. Kautilya had offered sound principles of state administration in 320 B. C. The concept of organization and administration existed in Egypt in 1300 B.C. The Roman Catholic Church introduced the concept of staff personal in church administration, which was further carried on by military organizations. A group of German and Austrian public administrators and intellectuals emphasized the systematic administration as a source of strengths during 16<sup>th</sup> and 18<sup>th</sup> centuries. These contributions provided some insights about how resources could be utilized more effectively. However, these contributions were outside the field of business and other economic organizations. The growth of management concepts was needed to guide the growth of industrial manufacturing in the United States and Europe. In the field of business organizations, some stray contributions have come from Robert Owen, James Watt, Charles Babbage, and Henry Towne. While Owen emphasized personnel aspects in management and advocated a number of benefits to employees, other concentrated on

developing the concepts relating to effective utilization of resources at the shop the floor level. Their contributions came bit by bit and in haphazard manner and have failed to stimulate the study of management as a distinct discipline. However, their ideas created awareness about managerial problems.

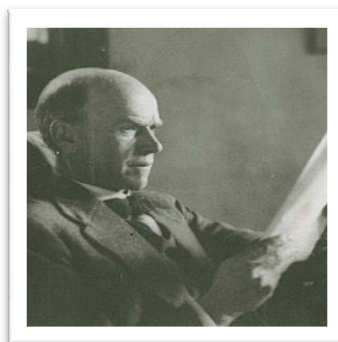
The development of principles and concepts of management encouraged the formalization of schools of business during the 20<sup>th</sup> Century. The contribution of organizational culture theory and the impact of environmental constraints is an important part of the growth of management theory over the past fifty years. Today, management emerging from a local approach to one that examines on a regional basis and with the notion of national and international linkages. The need to monitor the external environment not only locally but on an international scale is becoming a more critical element of the management literature.

Many management scientists developed lots of management theories from ancient period to modern period. Many theories, ideas, thoughts developed by them. For the study of management theories, there are three steps to be considered such as –

- A) Theories before Taylor’s contribution.
- B) Scientific Management Theory.
- C) Modern Management Theory.

### **1.2.3.1 George Elton Mayo**

(26 December 1880 – 7 September 1949)



- An Australian born Psychologist industrial researcher and organizational theorist.
- Trained at the University of Adelaide,
- Bachelor of Arts Degree with First Class Honours, in Philosophy and Psychology,
- Awarded an honorary Master of Arts Degree from the University of Queensland.
- While in Queensland, served on the University's war committee and pioneered research into the Psychoanalytic treatment of shell-shock.
- As a Psychologist helped soldiers returning from World War I recover from the stresses of war and with a Brisbane physician, pioneered the Psychoanalytic treatment of shell-shock and conducted psycho-pathological tests.
- Lecturer in Psychology and Mental Philosophy at the UQ between 1911 and 1922,
- In 1926 appointed to the Harvard Business School as a professor of Industrial Research.
- 1927 to 1932 Hawthorne experiment done in Western Electric Company, Chicago.
- 1933, The Human Problems of an Industrial Civilization.
- 1945 The Social Problems of an Industrial Civilization.
- 1949 Management and the workers.
- Significant contributions to a number of disciplines, including business management, industrial sociology, philosophy, and social psychology.

## **1. Hawth-horne Experiment (1924 – 1927)**

Hawthorne experiment was conducted in Hawthorne Plant of the Western Electrical Company in Chicago, USA from 1924 to 1932. However, the so called “Hawthorne Effect” was not foreseen by the study. Instead, the Western Electrical Company wished to show that a greater level of illumination in a working area improved productivity, hence, encouraging employees to spend more money on electricity from the company. As such, they carried out a study of how productivity varied with illumination levels. In the company, there were 30000 trained and various skills acquired labours. But they were not satisfied and lots of impact shown on their efficiency. At the first stage they have estimated that work hours, recess times, working conditions, facilities and welfare schemes were the major problems among the workers. Elton Mayo studies grew out of preliminary experiments at the Hawthorne plants from 1924 to 1927 on the effect of light on productivity. Those experiments showed no clear connection between productivity and the amount of illumination but researchers began to wonder what kind of changes would influence output. Fritz Roethlisberger and White Head was two assistant for the experiment.

The Hawthorne Experiment brought out that the productivity of the employees is not the function of only physical conditions of work and money wages paid to them. Productivity of employees depends heavily upon the satisfaction of the employees in their work situation. Mayo’s idea was that logical factors were far less important than emotional factors in determining productivity efficiency. Furthermore, of all the human factors influencing employee behaviour, the most powerful were those emanating from the worker’s participation in social groups. Thus, Mayo concluded that work arrangements in addition to meeting the objective requirements of production must at the same time satisfy the employee’s subjective requirement of social satisfaction at his work place.

Some of the major phases of Hawthorne experiments are as follows:

1. Illumination Experiments
2. Relay Assembly Test Room Experiments
3. Mass Interviewing Programme
4. Bank Wiring Observation Room Experiment.

1. Experiments to determine the effects of changes in illumination on productivity, illumination experiments, 1924-27.
2. Experiments to determine the effects of changes in hours and other working conditions on productivity, relay assembly test room experiments, 1927-28;
3. Conducting plant-wide interviews to determine worker attitudes and sentiments, mass interviewing programme, 1928-30; and
4. Determination and analysis of social organisation at work, bank wiring observation room experiments, 1931-32.

## **2. Illumination Experiments (1924-27)**

Illumination experiments were undertaken to find out how varying levels of illumination (amount of light at the workplace, a physical factor) affected the productivity. The hypothesis was that with higher illumination, productivity will increase. In the first series of experiments, a group of workers was chosen and placed in two separate groups. One group was exposed to varying intensities of illumination.

Since this group was subjected to experimental changes, it was termed as experimental group. Another group, called as control group, continued to work under constant intensities of illumination. The researchers found that as they increased the illumination in the experimental group, both groups increased production. When the intensity of illumination decreased, the production continued to increase in both the groups.

The production in the experimental group decreased only when the illumination was decreased to the level of moonlight. The decrease was due to light falling much below the normal level.

Thus, it was concluded that illumination did not have any effect on productivity but something else was interfering with the productivity. At that time, it was concluded that human factor was important in determining productivity but which aspect was affecting, it was not sure. Therefore, another phase of experiments was undertaken.

### **3. Relay Assembly Test Room Experiments (1927-28)**

Relay assembly test room experiments were designed to determine the effect of changes in various job conditions on group productivity as the illumination experiments could not establish relationship between intensity of illumination and production. For this purpose, the researchers set up a relay assembly test room two girls were chosen.

These girls were asked to choose for more girls as co-workers. The work related to the assembly of telephone relays. Each relay consisted of a number of parts which girls assembled into finished products. Output depended on the speed and continuity with which girls worked. The experiments started with introducing numerous changes in sequence with duration of each change ranging from four to twelve weeks.

An observer was associated with girls to supervise their work. Before each change was introduced, the girls were consulted. They were given opportunity to express their viewpoints and concerns to the supervisor. In some cases, they were allowed to take decisions on matters concerning them.

#### **Following were the changes and resultant outcomes :-**

1. The incentive system was changed so that each girl's extra pay was based on the other five rather than output of larger group, say, 100 workers or so. The productivity increase as compared to before.
2. Two five- minute rests one in the morning session and other in evening session were introduced which were increased to ten minutes. The productivity increased.
3. The rest period was reduced to five minutes but frequency was increased. The productivity decreased slightly and the girls complained that frequent rest intervals affected the rhythm of the work.
4. The number of rest was reduced to two of ten minutes of each, but in the morning, coffee or soup was served along with the

sandwich and in the evening, snack was provided. The productivity increased.

5. Changes in working hours and workday were introduced, such as cutting an hour off the end of the day and eliminating Saturday work. The girls were allowed to leave at 4.30 p.m. instead of usual 5.00 p.m. and later at 4.00 p.m. productivity increased.

As each change was introduced, absenteeism decreased, morale increased, and less supervision was required. It was assumed that these positive factors were there because of the various factors being adjusted and making them more positive. At this time, the researchers decided to revert back to original position, that is, no rest and other benefits. Surprisingly, productivity increased further instead of going down.

This development caused a considerable amount of redirection in thinking and the result implied that productivity increased not because of positive changes in physical factors but because of the change in girls' attitudes towards work and their work group.

They developed a feeling of stability and a sense of belongings. Since there was more freedom of work, they developed a sense of responsibility and self-discipline. The relationship between supervisor and workers became close and friendly.

#### **4. Mass Interviewing Programme (1928-30)**

During the course of experiments, about 20,000 interviews were conducted between 1928 and 1930 to determine employees' attitudes towards company, supervision, insurance plans, promotion and wages. Initially, these interviews were conducted by means of direct questioning such as "do you like your supervisor?" or "is he in your opinion fair or does he have favorites?" etc. this method has disadvantage of stimulating antagonism or the oversimplified 'yes' or 'no' responses which could not get to the root of the problem, the method was changed to non- directive interviewing where interviewer was asked to listen to instead of talking, arguing or advising. The

interview programme gave valuable insights about the human behaviour in the company.

**Some of the major findings of the Interviewing programme were as follows :-**

1. A complaint is not necessarily an objective recital of facts; it is a symptom of personal disturbance the cause of which may be deep seated.
2. Objects, persons or events are carriers of social meanings. They become related to employee satisfaction or dissatisfaction only as the employee comes to view them from his personal situation.
3. The personal situation of the worker is a configuration, composed of a personal preference involving sentiments, desires and interests of the person and the social reference constituting the person's social past and his present interpersonal relations.
4. The position or status of worker in the company is a reference from which the worker assigns meaning and value to the events, objects and features of his environment such as hours of work, wages, etc.
5. The social organization of the company represents a system of values from which the worker derives satisfaction or dissatisfaction according to the perception of his social status and the expected social rewards.
6. The social demands of the worker are influenced by social experience in groups both inside and outside the work plant.

During the course of interviews, it was discovered that workers' behaviour was being influenced by group behaviour. However, this conclusion was not very satisfactory and, therefore, researches decided to conduct another series of experiments. As such, the detailed study of a shop situation was started to find out the behaviour of workers in small groups.



## 5. **Bank Wiring Observation Room Experiment (1931-32)**

These experiments were conducted to find out the impact of small groups on the individuals. In this experiment, a group of 14 male workers were formed into a small work group. The men were engaged in the assembly of terminal banks for the use in telephone exchanges. The work involved attaching wire with switches for certain equipment used in telephone exchanges. Hourly wage for each worker was fixed on the basis of average output of each worker. Bonus is also payable on the basis of group effort. It was expected that highly efficient workers would bring pressure on less efficient workers to increase output and take advantage of group incentive plan. However, the strategy did not work and workers established their own standard of output and this was enforced vigorously by various methods of social pressure. The workers cited various reasons for this behaviour viz. fear of unemployment, fear of increase in output; desire to protect slow workers etc. The Hawthorne experiments clearly showed that a man at work is motivated by more than the satisfaction of economic needs. Management should recognize that people are essentially social beings and not merely economic beings. As a social being, they are members of a group and the management should try to understand group attitudes and group psychology.

### ❖ **Findings of Hawthorne experiments :-**

1. **Social Unit** : A factory is not only a techno-economic unit, but also a social unit. Men are social beings. This social characteristic at work plays an important role in motivating people. The output increased in Relay Room due to effectively functioning of a social group with a warm relationship with its supervisors.
2. **Informal Groups** : Hawthorne studies for the first time highlighted the impact of informal groups on the attitude and behaviour of workers. It is the informal relations among the workers which affect their performance more than the formal relations.

3. **Group Influence** : The workers in a group develop a common psychological bond uniting them as a group in the form of informal organisation. Their behaviour is influenced by these groups. Pressure of a group, rather than management demands, frequently has the strongest influence on how productive workers would be.
4. **Group Behaviour** : Management must understand that typical group behaviour can dominate or even succeed individual propensities.
5. **Motivation** : Human and social motivation can play even a greater role than mere monetary incentives in moving or motivating and managing employee group. Employee motivation has always been a central problem for leaders and managers. Unmotivated employees are likely to spend little or no effort in their jobs, avoid the workplace as much as possible, leave the organization if given the opportunity and produce low quality work. On the other hand, employees who feel motivated to work are likely to be persistent, creative and productive, turning out high quality work that they willingly undertake.
6. **Supervision** : The style of supervision affects worker's attitude to work and his productivity. A supervisor who is friendly with his workers and takes interest in their social problems can get co-operation and better results from the subordinates.
7. **Working Conditions** : Productivity increases as a result of improved working conditions in the organisation.
8. **Employee Morale** : Mayo pointed out that workers were not simply cogs, in the machinery, instead the employee morale (both individual and in groups) can have profound effects on productivity.

9. **Communication** : Experiments have shown that the output increases when workers are explained the logic behind various decisions and their participation in decision making brings better results.
10. **Balanced Approach** : The problems of workers could not be solved by taking one factor i.e. management could not achieve the results by emphasizing one aspect. All the things should be discussed and decision be taken for improving the whole situation. A balanced approach to the whole situation can show better results.

❖ **Criticism of Hawthorne Experiments :-**

The Hawthorne Experiments are mainly criticized on the following grounds :-

1. **Lacks Validity** : The Hawthorne experiments were conducted under controlled situations. These findings will not work in real setting. The workers under observation knew about the experiments. Therefore, they may have improved their performance only for the experiments.
2. **More Importance to Human Aspects** : The Hawthorne experiment gives too much importance to human aspects. Human aspects alone cannot improve production. Production also depends on technological and other factors.
3. **More Emphasis on Group Decision-making** : The Hawthorne experiments placed too much emphasis on group decision-making. In real situation, individual decision-making cannot be totally neglected especially when quick decisions are required and there is no time to consult others.

4. **Over Importance to Freedom of Workers** : The Hawthorne experiments give a lot of importance to freedom of the workers. It does not give importance to the constructive role of the supervisors. In reality too much of freedom to the workers can lower down their performance or productivity.
5. **Lack General Application** : Since the findings of Hawthorne experiments were based on the experiments on a small group of workers in one industry, they may not enjoy wide and general application in all kinds of work situations.
6. **Pro-Management bias** : Some critics say that the Hawthorne experiments had a pro-management bias. It was assumed that management objectives were correct and logical.
7. **Not a Scientific Enquiry** : Any scientific research methodology and techniques were not followed in conducting the Hawthorne experiments.

In spite of the above criticism, Hawthorne experiments have become a milestone in development of human relations theory. They stimulated an interest in human factor. They changed the dominant view prevailing in those times that people were no different from machines. They changed the traditional thinking of management from economics man to social man.

#### 1.2.3.2 Peter Drucker (1909-2005) M.B.O.



- Management Guru, an Austrian-American management consultant, academician, author and a self-defined “social ecologist”.
- Best known and most influential thinkers on the matter of management theory and practices.
- Born in Vienna, after completing his education at the local gymnasium he moved to Germany.
- Started working as a journalist, concurrently studying law in private,
- Receiving his doctoral degree from the University of Frankfurt.
- Moved first to London and then to the USA, becoming a naturalized citizen of the United States in 1943.
- Starting his career in the USA as an advisor to British banks and a correspondent to several journals and newspapers he soon switched to academics, continuing to write all along.
- An invitation from General Motors to analyze its organizational structure, resulting in his 1946 book, ‘Concept of the Corporation’, which offers assessment of large corporations as social institutions.
- Served as consultant to many well-known corporations, governmental departments as well as non-governmental organizations; all the while continuing to teach and write.
- Working almost till the end, he died at the age of ninety-five in Claremont, USA.

### ❖ **The Concept of Management By Objectives (MBO)**

The concept of MBO is closely connected with the concept of planning. The process of planning implies the existence of objectives and is used as a tool/technique for achieving the objectives. Modern managements are rightly

described as 'Management by Objectives' (MBO). This MBO concept was popularized by Peter Drucker. It suggests that objectives should not be imposed on subordinates but should be decided collectively by a concerned with the management. This gives popular support to them and the achievement of such objectives becomes easy and quick.

Management by Objectives (MBO) is the most widely accepted philosophy of management today. It is a demanding and rewarding style of management. It concentrates attention on the accomplishment of objectives through participation of all concerned persons, i.e., through team spirit. MBO is based on the assumption that people perform better when they know what is expected of them and can relate their personal goals to organizational objectives. Superior subordinate participation, joint goal setting and support and encouragement from superior to subordinates are the basic features of MBO. It is a result-oriented philosophy and offers many advantages such as employee motivation, high morale, effective and purposeful leadership and clear objectives before all concerned persons.

MBO is a participative and democratic style of management. Here, ample a scope is given to subordinates and is given higher status and positive/participative role. In short, MBO is both a philosophy and approach to management. MBO concept is different from MBC (Management by Control) and is also superior in many respects. According to the classical theory of management, top management is concerned with objectives setting, directing and coordinating the efforts of middle level managers and lower level staff. However, achievement of organizational objectives is possible not by giving orders and instructions but by securing cooperation and participation of all persons. For this, they should be associated with the management process. This is possible in the case of MBO and hence MBO is different from MBC and also superior to MBC.

MBO is an approach (to planning) that helps to overcome these barriers. MBO involves the establishment of goals by managers and their subordinates acting together, specifying responsibilities and assigning authority for achieving the goals and finally constant monitoring of

performance. The genesis of MBO is attributed to Peter Drucker who has explained it in his book 'The Practice of Management.'

❖ **Definitions Of Management By Objectives MBO :-**

1. According to George Odiome, MBO is "a process whereby superior and subordinate managers of an Organisation jointly define 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."
2. According to John Humble, MBO is "a dynamic system which seeks to integrate the company's needs to clarify and achieve its profits and growth goals with the manager's need to contribute and develop himself. It is a demanding and rewarding style of managing a business."

❖ **Features Of Management By Objectives (MBO) :-**

1. **Superior-subordinate participation :** MBO requires the superior and the subordinate to recognize that the development of objectives is a joint project/activity. They must be jointly agree and write out their duties and areas of responsibility in their respective jobs.
2. **Joint goal-setting :** MBO emphasizes joint goal-setting that are tangible, verifiable and measurable. The subordinate in consultation with his superior sets his own short-term goals. However, it is examined both by the superior and the subordinate that goals are realistic and attainable. In brief, the goals are to be decided jointly through the participation of all.
3. **Joint decision on methodology :** MBO focuses special attention on what must be accomplished (goals) rather than how it is to be accomplished (methods). The superior and the subordinate

mutually devise methodology to be followed in the attainment of objectives. They also mutually set standards and establish norms for evaluating performance.

4. **Makes way to attain maximum result :** MBO is a systematic and rational technique that allows management to attain maximum results from available resources by focusing on attainable goals. It permits lot of freedom to subordinate to make creative decisions by him. This motivates subordinates and ensures good performance from them.
5. **Support from superior :** When the subordinate makes efforts to achieve his goals, superior's helping hand is always available. The superior acts as a coach and provides his valuable advice and guidance to the subordinate. This is how MBO facilitates effective communication between superior and subordinates for achieving the objectives/targets set.

❖ **Steps In Management By Objectives :-**

1. **Goal Setting :** The first phase in the MBO process is to define the organizational objectives. These are determined by the top management and usually in consultation with other managers. Once these goals are established, they should be made known to all the members. In setting objectives, it is necessary to identify "Key-Result Areas' (KRA).
2. **Manager-Subordinate involvement :** After the organizational goals are defined, the subordinates work with the managers to determine their individual goals. In this way, everyone gets involved in the goal setting.
3. **Matching goals and resources :** Management must ensure that the subordinates are provided with necessary tools and materials to achieve these goals. Allocation of resources should also be done in consultation with the subordinates.



4. **Implementation of plan** : After objectives are established and resources are allocated, the subordinates can implement the plan. If any guidance or clarification is required, they can contact their superiors.
5. **Review and appraisal of performance** : This step involves periodic review of progress between manager and the subordinates. Such reviews would determine if the progress is satisfactory or the subordinate is facing some problems. Performance appraisal at these reviews should be conducted, based on fair and measurable standards.

❖ **Advantages of Management By Objectives (MBO) :-**

1. **Develops result-oriented Philosophy** : MBO is a result-oriented philosophy. It does not favour management by crisis. Managers are expected to develop specific individual and group goals, develop appropriate action plans, properly allocate resources and establish control standards. It provides opportunities and motivation to staff to develop and make positive contribution in achieving the goals of an Organisation.
2. **Formulation of dearer goals** : Goal-setting is typically an annual feature. MBO produces goals that identify desired/expected results. Goals are made verifiable and measurable which encourage high level of performance. They highlight problem areas and are limited in number. The meeting is of minds between the superior and the subordinates. Participation encourages commitment. This facilitates rapid progress of an Organisation. In brief, formulation of realistic objectives is the benefit of MBO.
3. **Facilitates objective appraisal** : MBO provides a basis for evaluating a person's performance since goals are jointly set by superior and subordinates. The individual is given adequate freedom to appraise his own activities. Individuals are trained to

exercise discipline and self control. Management by self-control replaces management by domination in the MBO process. Appraisal becomes more objective and impartial.

4. **Raises employee morale :** Participative decision-making and two-way communication encourages the subordinate to communicate freely and honestly. Participation, clearer goals and improved communication will go a long way in improving morale of employees.
5. **Facilitates effective planning :** MBO programmes sharpen the planning process in an Organisation. It compels managers to think of planning by results. Developing action plans, providing resources for goal attainment and discussing and removing obstacles demand careful planning. In brief, MBO provides better management and better results.
6. **Acts as motivational force :** MBO gives an individual or group, opportunity to use imagination and creativity to accomplish the mission. Managers devote time for planning results. Both appraiser and appraisee are committed to the same objective. Since MBO aims at providing clear targets and their order of priority, employees are motivated.
7. **Facilitates effective control :** Continuous monitoring is an essential feature of MBO. This is useful for achieving better results. Actual performance can be measured against the standards laid down for measurement of performance and deviations are corrected in time. A clear set of verifiable goals provides an outstanding guarantee for exercising better control.
8. **Facilitates personal leadership :** MBO helps individual manager to develop personal leadership and skills useful for efficient management of activities of a business unit. Such a manager enjoys better chances to climb promotional ladder than a non-MBO type.

❖ **Limitations of Management By Objectives :-**

- 1. Time-consuming :** MBO is time-consuming process. Objectives, at all levels of the Organisation, are set carefully after considering pros and cons which consumes lot of time. The superiors are required to hold frequent meetings in order to acquaint subordinates with the new system. The formal, periodic progress and final review sessions also consume time.
- 2. Reward-Punishment approach :** MBO is pressure-oriented programme. It is based on reward-punishment psychology. It tries to indiscriminately force improvement on all employees. At times, it may penalize the people whose performance remains below the goal. This puts mental pressure on staff. Reward is provided only for superior performance.
- 3. Increases paper-work :** MBO programmes introduce ocean of paper-work such as training manuals, newsletters, instruction booklets, questionnaires, performance data and report into the Organisation. Managers need information feedback, in order to know what is exactly going on in the Organisation. The employees are expected to fill in a number of forms thus increasing paper-work. In the words of Howell, "MBO effectiveness is inversely related to the number of MBO forms.
- 4. Creates organizational problems :** MBO is far from a panacea for all organizational problems. Often MBO creates more problems than it can solve. An incident of tug-of-war is not uncommon. The subordinates try to set the lowest possible targets and superior the highest. When objectives cannot be restricted in number, it leads to obscure priorities and creates a sense of fear among subordinates. Added to this, the programme is used as a 'whip' to control employee performance.

5. **Develops conflicting objectives** : Sometimes, an individual's goal may come in conflict with those of another e.g., marketing manager's goal for high sales turnover may find no support from the production manager's goal for production with least cost. Under such circumstances, individuals follow paths that are best in their own interest but which are detrimental to the company.
6. **Problem of co-ordination** : Considerable difficulties may be encountered while coordinating objectives of the Organisation with those of the individual and the department. Managers may face problems of measuring objectives when the objectives are not clear and realistic.
7. **Lacks durability** : The first few go-around of MBO are motivating. Later it tends to become old hat. The marginal benefits often decrease with each cycle. Moreover, the programme is deceptively simple. New opportunities are lost because individuals adhere to rigidly to established goals.
8. **Problems related to goal-setting** : MBO can function successfully provided measurable objectives are jointly set and it is agreed upon by all. Problems arise when: (a) verifiable goals are difficult to set (b) goals are inflexible and rigid (c) goals tend to take precedence over the people who use it (d) greater emphasis on quantifiable and easily measurable results instead of important results and (e) over-emphasis on short-term goals at the cost of long-term goals.
9. **Lack of appreciation** : Lack of appreciation of MBO is observed at different levels of the Organization. This may be due to the failure of the top management to communicate the philosophy of MBO to entire staff and all departments. Similarly, managers may not delegate adequately to their subordinates or managers may not motivate their subordinates properly. This creates new difficulties in the execution of MBO programme.

## **1.2.4 Different Approaches to Management its use and limitations**

Management knowledge is as old as human civilization. From the beginning of 20<sup>th</sup> century serious efforts were made to develop management as a separate discipline. Contribution of Adam Smith, Charles Babbage, Robert Owen, Henry Towne, Henry Sent Simon etc was birth to pre-scientific Management approaches. From this approaches the development of management thought started. These approaches also called as classical approaches. Then the neo-classical approaches were evolved. Then modern approaches were evolved. Following is the short account of these approaches.

### **❖ Pre-scientific Management approaches :-**

Adam Smith in his Wealth of Nations (1776) introduced the concept of division of labour. Smith concluded that division of labor increased productivity by increasing each worker's skill and dexterity, by saving time that is normally lost in changing tasks, and by the creation and better use of laborsaving inventions and machinery. The general popularity today of job specialization in service jobs as well as on assembly lines is undoubtedly due to the economic advantages cited over 200 years ago by Adam Smith. In 1832, Charles Babbage, a mathematician and a teacher, wrote On the Economy of Machinery and Manufactures, in which he applied his principles to the workshop. This early work introduced the idea of using scientific techniques to improve the managing process. The theoretical foundations of management lie in the classical approach to management, which sought to formulate rational principles that would make organizations more efficient. The classical approach to management consists of two subcategories: *f* scientific management approach looked at the field from the perspective of how to improve the productivity of operative personnel. General administrative approach was concerned with the overall organization and how to make it more effective.

## ❖ **Scientific Management Approach :-**

Most writers agree that the origin of the concentrated study of management was the work performed by Frederick W. Taylor and his associates during the scientific management movement that developed around 1900. Frederic W. Taylor (1865-1915) Frederic Taylor pioneered scientific management, which suggested that systematic investigation could indicate proper methods, standards and timings for each operation in an organization's activities Henry L. Gantt (1861-1919) Henry L. Gantt, a contemporary and associate of Taylor, emphasized the psychology of the worker and the importance of morale in production. Gantt devised a wage payment system, which stimulated foremen and workers to strive for improvement in work practices. Gantt also developed a charting system for scheduling production, the "Gantt chart" that remains the basis for modern scheduling techniques. Frank and Lillian Gilbreth (1868-1924 and 1878-1972) Frank and Lillian Gilbreth, the husband-and-wife team made their contribution in fatigue and motion studies to eliminate wasteful hand-and-body motions. General Administrative Approach Henri Fayol (1841-1925) Henri Fayol was a French industrialist who put forward and popularized the concept of the 'universality of management principles', the idea that all organizations could be structured and managed according to certain rational principles. Max Weber (1864-1920) Max Weber, a German sociologist, developed a theory of authority structures and described organizational activity on the basis of authority relations. He described an ideal type of organization that he called a bureaucracy, characterized by division of labour, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships. Mary Parker Follett (1868-1933) Follett introduced many new elements to the classical management approach especially in the areas of human relations and organizational structure. The trends she initiated were further developed in the then emerging behavioural and management science approaches Elton Mayo (1880-1949) Scholars generally agree that the Hawthorne studies, undertaken at the Western Electric Company's Hawthorne works in Illinois, USA, under the leadership of Elton Mayo, had a dramatic impact on management thought

towards “Human Relations”. Abraham Maslow (1908-1970), a practicing psychologist, proposed a hierarchy of five needs: physiological, safety, social, esteem, and self-actualization. In terms of motivation, Maslow argued that each step in the hierarchy must be satisfied before the next level can be activated and that once a need was substantially satisfied, it no longer motivated behaviour. Douglas McGregor (1906-1964) formulated two sets of assumptions – Theory X and Theory Y – about human nature. Theory X presents an essentially negative view of people. It assumes that they have little ambition dislike work, want to avoid responsibility, and need to be closely supervised to work effectively. Theory Y offers a positive view, assuming that people can exercise self-direction, accept responsibility, and consider work to be as natural as rest or play.

#### ❖ **Modern Approaches to Management :-**

Peter Drucker, Michael Porter, Lawrence and Launch, Senge, C.K. Pralhad etc are the modern management thinkers, they are developed their approaches. The evolution of management approaches is a continuous process. Our discussion, however, is confined in this unit to the behavioural approach, system approach and contingency approach.

##### **1.2.4.1 Behavioural Approach**

The Behavioural approach concerns itself with the social and psychological aspects of human behaviour in organization. The behaviour of members of an organization clearly affects its structure and it’s functioning as well as the principles on which it can be managed. Behavioural researches have provided sufficient evidence that human element is the key factor in the success are failure of an organization. In several experiments, it has been observed that people prefer to be consulted rather than receive order or information. Less reliance on the use of authority is preferred. Some of the more important elements or concepts of Behavioural approach may be outlined as follows :-

1. **Individual Behaviour** : Individual behaviour is closely linked with the behaviour of the group to which he belongs. The group dictates changes in his behaviour. Individuals observe those work standards which are prescribed by the group.
2. **Informal Leadership** : Informal leadership, rather than formal authority of managers is more important for setting and enforcing group standards of performance. As a leader, a manager may be more effective and acceptable to subordinates, if he adopts the democratic style of leadership.
3. **Participation** : If the subordinates are encouraged and allowed to participate in establishing goals, there will be positive effect on their attitude towards work. If employees are involved in planning, designing the jobs and decision-making, there will be least resistance to changes effected in technology and work methods.
4. **Motivation by Self-Control and Self-Development** : Behavioral scientists maintain that by nature most people enjoy work and are motivated by self-control and self-development. Managers should try to identify and provide necessary conditions conducive to the proper and sufficient use of human potential. The managers' attitude towards human behaviour should be positive.

They should know that average man is not lazy by nature. But he is ambitious. Every man likes to work and prefers to assume responsibilities. McGregor maintains that employees favour self-direction and self-control. Behavioural scientists believe that in place of the concept of social man the concept of self-actualizing man would be more appropriate to explain human motivations.

Chester I. Bernard pointed out that material reward is of crucial significance only up to a definite point. The incentives of status, power, good physical conditions, opportunities of participation and good social (i.e., cultural interrelationships) are very important.



5. **Informal Organization** : Behavioural scientists particularly Bernard, consider informal organization as an essential part of the formal organization. Informal organization must always be taken into account while determining managerial behaviour.
6. **General Supervision Not Close One** : As regards supervision of subordinates, Behavioural scientists particularly Likert, are not in favour of close supervision. They advocate general supervision, which tends to be associated with high productivity.

❖ **Basic Assumptions of Behavioural Approach :-**

The Behavioural approach is based on certain assumptions about man and organization, which may be looked upon as their prepositions (statements of opinion or judgement) also. Those may be outlined as follows:

1. Organization is socio-technical system involving people and technology as their primary components.
2. The behaviour of the members of an organization clearly affects its structure and its functioning, as well as the principles on which it can be managed.
3. Individual's behaviour is closely linked with a greatly influenced by the behaviour of the group to which he belongs.
4. A wide range of factors influences work and interpersonal behaviour of people in the organization.
5. Congruence (agreement) between organizational goals and individual goals organizations members would be established.
6. Several individual differences in perceptions, aspirations, needs, feelings, abilities and values of people exist in the organization, such difference along with their changing nature over periods of time have to be recognized.

7. Informal leadership rather than the formal authority of supervisors is more important for increase in employee performance.
8. Democratic leadership style and participative managerial style encourage positive attitude of employee towards work and foster's high moral and initiative among them.
9. By nature most people enjoy work and are motivated by self-direction, self-control and self-development.
10. Conflict in organization may to some extent to inevitable and at times even desirable for development, innovation and creativity in certain cases. Conflicts and cooperation coexist in organizations. Conflicts are not to be suppressed, but are to be resolved and that too not always, coordinated in vital for achievement of organizational goals. The above propositions are important elements of Behavioural science thinking. Thus the Behavioral approach represents a significant advance over the human relations approach.

❖ **Use of Behavioural approach :-**

1. It is easy to put into practice
2. It is simple to understand
3. The results are usually quick
4. It uses small steps to shape the behaviour
5. It doesn't require a specialist to implement it - anyone can use the approach
6. It is based on the principle that reinforced (rewarded) behaviour will be repeated
7. The results can be measured and demonstrate progress
8. It is suitable for any age and ability.

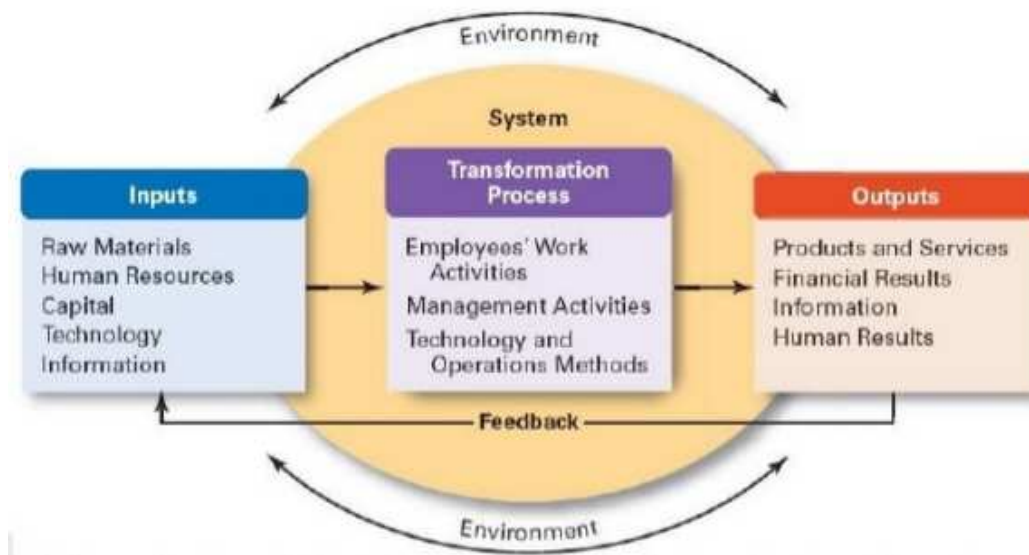
❖ **Limitations of behavioural approach :-**

1. Not always easy to get people to change their mind
2. The client may rebel against being told what to do
3. Older people may resent being 'treated like a child'
4. It doesn't consider the client's thoughts or feelings
5. It may be seen as dogmatic and a punishment
6. Punishment is often used more frequently than rewards
7. Could be seen as de-humanizing - reducing our behaviour to responses to a stimuli
8. Suggests that we are only pleasure-seeking animals

**1.2.4.2 System Approach**

A system is any set of distinct parts that interact to form a complex whole. Think of the universe. Its parts are as small as a subatomic particle and as large as galactic clusters. Each part is distinct but interacts to form the universe. An organization is also a system with parts such as employees, assets, products, resources, and information that form a complex system. Systems can be open or closed. A closed system is not affected by its environment. For example, a chunk of iron ore is not substantially affected by its environment. An open system is a system that is affected by its environment. A simple example is a living organism, such as an animal. Most theorists treat an organization as an open system. An open system consists of three essential elements. An organization receives resources such as equipment, natural resources, and the work of employees, referred to as inputs. The inputs are transformed, called throughputs, and then yield products or services called outputs. Outputs are released into the environment. Feedback loops are also an important feature of open systems. They provide information to the organization by connecting the outputs to the inputs. A negative feedback loop indicates a problem that should be corrected. For example, the

failure of product design indicated by the need to recall the product. A positive feedback loop can identify outputs that have worked well. For example, a successful marketing campaign that yields high sales. Thus, feedback loops are a means of confirming success or signalling that corrections to the system need to be made.



❖ **Features of System Approach :-**

1. **Open or closed systems** : Systems may be either open or closed: An open system is one, which depends on the outside environment for survival. A closed system does not interact with the environment.
2. **Subsystem** : The full system is made up of many parts. Each of these parts is called a subsystem. A system may be a subsystem of a larger system. For e.g. a department is a subsystem of a plant. A plant is a subsystem of a company. Continuous and effective interaction of sub-systems helps to attain goals of the larger system. Thus, every sub-system is a system and has sub-systems which together make an organization a set of mutually dependent parts and their sub-parts.

3. **Synergy** : Synergy means that the whole is greater than the sum of its parts. In an organization, when different departments co-operate and interact, they become more productive. This is called synergy.
4. **Defined boundaries** : Each system has a boundary that separates it from its environment. In case of a closed system, the system boundary is rigid. However, in an open system, the boundary is flexible. A business organization has boundaries with many external systems like creditors, suppliers, customers, government agencies, etc. The system is inside the boundary, the environment is outside the boundary.
5. **Feedback mechanism**: A system can adjust itself to the changing environment through the feedback mechanism. Feedback helps the system to find out and correct its mistakes.
6. **Multidisciplinary**: Management system uses information from many disciplines such as psychology, sociology, ecology, economics, mathematics, statistics, operations research, systems analysis, etc. Therefore, it is multidisciplinary in nature.
7. **Consideration of whole system**: No part of the system can be fully studied and understood without properly understanding all of its parts. So instead of dealing separately with different parts of one organization, the manager must study the entire organization as a whole. For example, in order to understand the working of the finance, production or marketing department, he/she must understand the company as a whole. It is because the activity of any one part of the company affects the activity of its every other part.
8. **Input-output system**: A business organization is an input-output system. Inputs consist of human, physical and financial resources

obtained from the environment. These resources are converted into outputs of products and services.

❖ **Use of System approach :-**

1. System approach provides a holistic view of the organizations and emphasizes on their adaptive nature. It increases organization's adaptability to environmental changes. The organization is studied as a whole and not through its parts. This enables it to adapt to the needs of the environment. Decisions are made keeping in mind organization-environment interface.
2. It analyses the system at different levels and inter-relates and integrates it into a unified set of direction. Starting from individual goals, it focuses on overall organizational goals, synthesizes the two and converge them into global economy.
3. System approach provides a framework for effective interaction of parts of the organization in a specific arrangement for attainment of its goals. It does not focus on one part of the organization.
4. It considers the impact of environment on the organization and vice versa. Interaction of external environment with the internal environment is the most significant contribution of systems theory.

System approach, thus, analyses the organization as an adaptive and dynamic entity.

5. System approach synthesizes the classical and behavioral theories into a broader framework to solve managerial problems.

❖ **Limitations of System Approach :-**

1. Critics of this theory claim this as a theoretical approach to management. The way an organization actually works and solves problems (by applying different techniques and methods) has no appeal in the theory.

2. Relationship amongst parts of the organization is emphasized upon but the exact nature of inter-dependence is not defined.
3. Exact relationship between internal and external environment of the organization is also not defined. For example, it specifies that change in economic policies necessitates change in internal policies of the organization but what changes are required to match the changes in economic environment is not talked about.
4. System approach fails to provide uniform approach to management. Management practices change with changes in environmental variables. No standard set of principles apply to all types of organizations. It has added nothing new to the study of management. Even before this approach was introduced, managerial decisions were taken keeping in mind the environmental variables. No specific decision-making techniques are offered to deal with specific problems.
5. It fails to provide concepts that apply to all types of organizations. The small organizations are less adaptive to environmental variables than large organizations. The theory assumes that most of the organizations are big, complex and open systems. It, thus, fails to provide a unified theory.

#### **1.2.4.3 Contingency Approach :-**

Contingency approach evolved during the 1960s. The contingency approach to management emerged from the real life experience of managers who found that no single approach worked consistently in every situation. The basic idea of this approach is that no management technique or theory is appropriate in all situations. The main determinants of a contingency are related to the external and internal environment of an organization. The process, quantitative, behavioural, and systems approaches to management did not integrate the environment. They often assumed that their concepts and

techniques have universal applicability. For example the process theorists often assumes that strategic planning applies to all situations; the quantitative experts generally feel that linear programming can be used under all conditions; the behavioural theorist usually advocates participative goal setting for all superior-subordinate pairs; and the system advocates tend to emphasize the need for computerized information flows in all situations. On the other hand practicing managers find out that a particular concept or technique from the various approached just does not work effectively in various situations. The theorists accuse practitioners of not applying the technique properly, and the practitioners accuse the theorists of being unrealistic. The contingency approach does incorporate the environment and attempts to bridge this existing theory-practice gap.

Contingency approach, also known as situational approach, Environmental change and uncertainty, work technology, and the size of a company are all identified as environmental factors impacting the effectiveness of different organizational forms. According to the contingency perspective, stable environments suggest mechanistic structures that emphasize centralization, formalization, standardization, and specialization to achieve efficiency and consistency. Certainty and predictability permit the use of policies, rules, and procedures to guide decision making for routine tasks and problems. Unstable environments suggest organic structures which emphasize decentralization to achieve flexibility and adaptability. Uncertainty and unpredictability require general problem solving methods for non routine tasks and problems. Paul Lawrence and Jay Lorsch suggest that organizational units operating in differing environments develop different internal unit characteristics, and that the greater the internal differences, the greater the need for coordination between units.

Contingency approach to management advocates that managerial actions and organizational design must be appropriate to the given situation and a particular action is valid only under certain conditions. There is no one best approach to management and it all depends on the situation. In other



words, managerial action is contingent upon external environment. There is no one best approach for all situations. What a manager does depends upon a given situation and there is an active inter-relationship between the variables in a situation and the managerial action. Contingency theory attempts to analyze and understand these interrelationships with a view towards taking the specific managerial actions necessary to deal with the issue. This approach is both analytical and situational, with the purpose of developing a practical answer to the question at hand.

❖ **Features of Contingency Theory :-**

1. Management is situational in nature. The technique of management depends on complexity of the situation.
2. It is the 'if and 'then 'approach to management, 'If' represents the independent variable and 'then' represents the dependent management variable or the technique to be adopted in that situation. 'If' workers have strong physiological needs, 'then' financial motivators should be adopted and 'If' they have strong higher-order needs, 'then' non-financial motivators should be adopted.
3. Management principles are not universal in nature as there is no best style of management. Management is situational and managerial actions depend upon the environmental circumstances.
4. It helps in understanding the complex organizations as it focuses on multivariate nature of organizations. It helps an organization to operate under different environmental conditions. Rather than having a specific solution to solve problems, it provides a framework where every solution depends upon the environmental conditions. Same problem can have different solutions at different points of time and different problems can have same solution at the same point of time.

5. It provides insight into organization's adaptability to both internal and external environment. It is a matter of fitting the internal environment to its external environment.

❖ **Use of Contingency Theory :-**

This theory has proved useful for practicing managers as :

1. It is an integration of different schools of thought; classical, behavioural and systems approach. It integrates the principles of different schools of thought and applies them contingent upon the needs of the situation.
2. It is pragmatic in nature as solution to every problem is found after analyzing the situation.
3. It follows the technique of multivariate analysis. It thinks of all possible variables or factors that affect the situation and adopts the best.
4. It is adaptive in nature. It does not presume a pre-designed structure of the organization but adopts a structure that helps the organization adapt to the environment.
5. It helps to design the organization structure and plan the information decision systems. A small-sized organization may be centralized and a large-sized organization may be decentralized in structure.
6. It helps to devise motivational and leadership approaches to motivate the workers. Autocratic style may be adopted to deal with unskilled workers and participative style to deal with skilled workers. Contingency approach to management is considered as a leading branch of management thought today.

❖ **Limitations of Contingency Theory :-**

Despite the best that contingency theory offers to the management thought, following are limitations.

1. It does not follow the concept of 'universality of principles' which often apply to specific management situations.
2. It is argued that what contingency theory asserts was asserted by Fayol also. He also talked of flexibility of management principles. Therefore, the theory has added nothing new to the management thought.
3. As there is no definite solution to a problem, managers think of alternatives to arrive at the right choice. This is costly in terms of time and money. It also does not provide theoretical foundation upon which management principles will be based.
4. It is not possible for managers to determine all the factors relevant to the decision making situation. Because of constraints of time, money and ability, managers can neither collect complete information about the environment nor analyze it completely.

Besides, it is not possible to establish perfect relationship amongst these factors. Application of this theory may, therefore, be a complicated task as decisions are based on limited information. These criticisms are only theoretical in nature. The theory contributes to the development of management thought if applied rationally.

### **1.3 Summary**

Management is a key aspect of the economic life of man, which is an organized group activity. Management is essential wherever human efforts are to be undertaken collectively to satisfy wants through some productive activity, occupation or profession. It is management that regulates man's dynamic activities through coordinated use of material resources. The development of principles and concepts of management encouraged the formalization of schools of business during the 20<sup>th</sup> Century. The contribution of organizational culture theory and the impact of environmental constraints is

an important part of the growth of management theory over the past fifty years. Today, management emerging from a local approach to one that examines on a regional basis and with the notion of national and international linkages. The need to monitor the external environment not only locally but on an international scale is becoming a more critical element of the management literature. Hawthorne experiments have become a milestone in development of human relations theory. They stimulated an interest in human factor. They changed the dominant view prevailing in those times that people were no different from machines. They changed the traditional thinking of management from economics man to social man. The concept of MBO is closely connected with the concept of planning. The process of planning implies the existence of objectives and is used as a tool/technique for achieving the objectives. Modern managements are rightly described as 'Management by Objectives' (MBO). This MBO concept was popularized by Peter Drucker. It suggests that objectives should not be imposed on subordinates but should be decided collectively by a concerned with the management. This gives popular support to them and the achievement of such objectives becomes easy and quick. The Behavioural approach concerns itself with the social and psychological aspects of human behaviour in organization. The behaviour of members of an organization clearly affects its structure and it's functioning as well as the principles on which it can be managed. Behavioral researches have provided sufficient evidence that human element is the key factor in the success or failure of an organization. A system is any set of distinct parts that interact to form a complex whole. Think of the universe. Its parts are as small as a subatomic particle and as large as galactic clusters. Each part is distinct but interacts to form the universe. An organization is also a system with parts such as employees, assets, products, resources, and information that form a complex system. Contingency approach to management advocates that managerial actions and organizational design must be appropriate to the given situation and a particular action is valid only under certain conditions. There is no one best approach to management and it all depends on the situation.

## 1.4 Terms to remember :-

- ✓ **Management** : Management is the force which leads guides and directs an organization in the accomplishment of a pre-determined object.
- ✓ **Hawthorne experiment** : The experiment was conducted in Hawthorne Plant of the Western Electrical Company in Chicago, USA from 1924 to 1932 by Elton Mayo.
- ✓ **Management by Objectives** : MBO is a process whereby superior and subordinate managers of an Organization jointly define 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."
- ✓ **Behavioural approach** : The behavioural approach emphasizes the scientific study of observable behavioural responses and their environmental determinants. In other words it's the study of the connection between our minds and behavioural.
- ✓ **System** : A system is a set of distinct parts that form a complex whole. A closed system is not affected by its environment.
- ✓ **Contingency approach** : Contingency approach to management advocates that managerial actions and organizational design must be appropriate to the given situation and a particular action is valid only under certain conditions.

## 1.5 Check Your Progress.

### A) Fill in the Gaps.

1. A ..... is a set of distinct parts that form a complex whole.

2. .... is the force which leads guides and directs an organization in the accomplishment of a pre-determined object.
3. Hawthorne experiment was conducted in Hawthorne Plant of the Western Electrical Company in Chicago, USA from 1924 to 1932 by .....
4. .... is a participative and democratic style of management.
5. The ..... approach concerns itself with the social and psychological aspects of human behaviour in organization.

**B) State True or False.**

1. Management is a functional concept.
2. Elton Mayo is known for Hawthorne Experiment.
3. Peter Drucker is known for Management by objectives.
4. The Behavioural approach not concerns itself with the social and psychological aspects of human behaviour in organization  
Answers to check your progress.
5. A open system is not affected by its environment.

## **1.6 Answers to Check to Your Progress.**

- A)**
1. System.
  2. Management.
  3. Elton Mayo.
  4. Management by objective.
  5. Behavioural.

- B)**
1. True.
  2. True.
  3. True.
  4. False.
  5. False.

## **1.7 Exercise.**

### **1. Answer in Short.**

- a) Explain the Hawthorne experiment.
- b) Explain the process of Management by Objective.
- c) State the use of system approach.
- d) State the limitations of behavioural approach.
- e) Explain the features of contingency approach.

**2.** Explain the need for study of management

**3.** Explain the findings and limitations of Hawthorne Experiment by Elton Mayo's

**4.** Explain the process and advantages of Management by objectives

**5.** State the use and limitations of behavioral approach.

**6.** State the features and limitations of system approach.

**7.** State the use and limitations of contingency approach.

### **8. Write short notes.**

- a) Meaning of management.
- b) Need for study of management.
- c) Hawthorne Experiment.

- d) Concept of Management by objectives.
- e) Behavioural approach.
- f) System approach.
- g) Contingency approach.

## **1.8 Books for Further Reading.**

1. **Drucker, Peter** : *“Practice of Management”*.
2. **Tripathi, P. C. and Reddy, P.N.** : *“Principles of Management”*,  
Tata McGraw Hill Publishing Ltd New Delhi.
3. **Ramasamy, T.** : *“Principles of Management”*.
4. **Shukla, M.C.** : *“Essentials of Management”*.
5. Principles and Practice of Management: Prasad L.M.
6. **Prof. (Dr.) Gurav, A. M. and (Dr.) Salunkhe, R. S.** :  
*“Management Principles and Applications”*.
7. **Prof. (Dr.) Gurav, A. M. and (Dr.) Salunkhe, R. S.** : *“Modern  
Management Practice”*.

□□□



## Unit - 2

# Planning and Decision Making

---

### Contents

#### [A] Planning

- 2.1 Objectives
- 2.2 Introduction
- 2.3 Presentation of subject Matter
  - 2.3.1 Meaning of Planning
  - 2.3.2 Definitions of Planning
  - 2.3.3 Features of Planning
  - 2.3.4 Types of Planning
  - 2.3.5 Steps of Planning Process
  - 2.3.6 Environment Analysis and Diagnosis
  - 2.3.7 Definitions Environment Analysis
  - 2.3.8 Importance of Environment Analysis
  - 2.3.9 SWOC Analysis
- 2.4 Check Your Progress
- 2.5 Answers to Check Your Progress

#### [B] Decision Making

- 2.3.10 Introduction
- 2.3.11 Concept, Meaning & Definitions
- 2.3.12 Importance of Decision Making
- 2.3.13 Decision Making Process

- 2.3.14 Rationality in Decision Making
- 2.3.15 Techniques of Decision Making
- 2.6 Summary
- 2.7 Key Terms
- 2.8 Exercise (Planning and Decision Making)
- 2.9 Check Your Progress (Decision Making)
- 2.10 Answers to Check Your Progress
- 2.11 Additional Reading Material

## **2.1 Objectives**

After studying this unit you may be able to

- 1) Understand meaning, definitions and features of planning.
- 2) Know the types of planning.
- 3) Know the process of planning.
- 4) Understand environmental analysis and diagnosis, definitions, importance SWOC analysis.
- 5) Understand decision making concept, importance and process of decision making.
- 6) Know perfect rationality and bounded rationality.
- 7) Study techniques of decision making.

## **2.2 Introduction**

Planning is a key to success and technique to achieve goals of life. It is indispensable part of human life. Knowingly and unknowingly we all are engaged in planning process. Like plan for getting-up in time at morning, having breakfast, tea, lunch, reaching office, having dinner and lastly going to

bed. As well as student's not only plans to go to school, college but they may also plan for their life goals like C.A., Doctor, Advocate, Engineer, entrepreneur, IAS and so on. Mom is busy in planning daily home routine, industrialist, businessmen plans for their goals. In this way planning is an indispensable part of life and is done by everyone on daily basis. Activities are planned by countries so as to develop it in the fields like social, economical, educational, technological, cultural, it is also a plan of the country.

In business organization planning is of utmost importance. Organizations expansion, success, efficiency, growth, profitability and productivity all are dependent on good and ideal planning. Planning is the fundamental function of management. Without planning nothing can be happened. Planning is an intellectual process and it involves what to do, when to do, how to do and who is to do it. Of course planning is a foundation of all activities. The activities of management are initiated only after planning. When manager wish to do something, he start those activities with planning. It means he has to plan first, then organizing, staffing, directing and controlling. Thus planning is a basic function; and it shows roadmap to fulfil goals of the organization.

## **2.3 Presentation of the Subject Matter**

In the present unit meaning of planning is explained. As well as definitions, types and steps in planning process are explained. Furthermore, this unit introduces the concept of environment analysis and diagnosis, definitions, importance, SWOC analysis of it. This unit also highlights on decision making concept, importance and process of decision making. Concepts of perfect rationality and bounded rationality have been presented. Decision making unit helps to understand qualitative techniques' and quantitative techniques of decision making.

### **2.3.1 Meaning of Planning**

In simple words, Planning means it is an outline of what to do, when to do, how to do and who is to do it. Planning refers to setting an organization

goal and deciding how best to achieve them. Thus it is a process of setting the goals of an organization, and overall strategy for fulfilling these goals.

### **2.3.2 Definitions of Planning**

*The definitions of planning are given by the various management thinkers, some of the important definitions are given below.*

*1. In the word of Merry Kusing Niles : “Planning is the conscious process of selecting and developing the best course of action to accomplish an objective. It is the basis from which future management actions spring.”*

*2. Koontz and ‘O’ Donnell defines that “Planning is intellectual process, the conscious determination of courses of action, the basing of decisions on purpose facts and considered estimates”*

*3. According to Luis A Allen “Management planning involves the development of forecasts, objectives, policies, programmes, procedures, schedules and budgets”*

*4. M. E. Hurley “Planning is deciding in advance what is to be done. It involves the selection of objectives, policies, procedures and programmes from among alternatives.”*

*5. In view of Hart “Planning is the determination in advance of a line of action by which certain results are to be achieved.”*

### **2.3.3 Features of Planning**

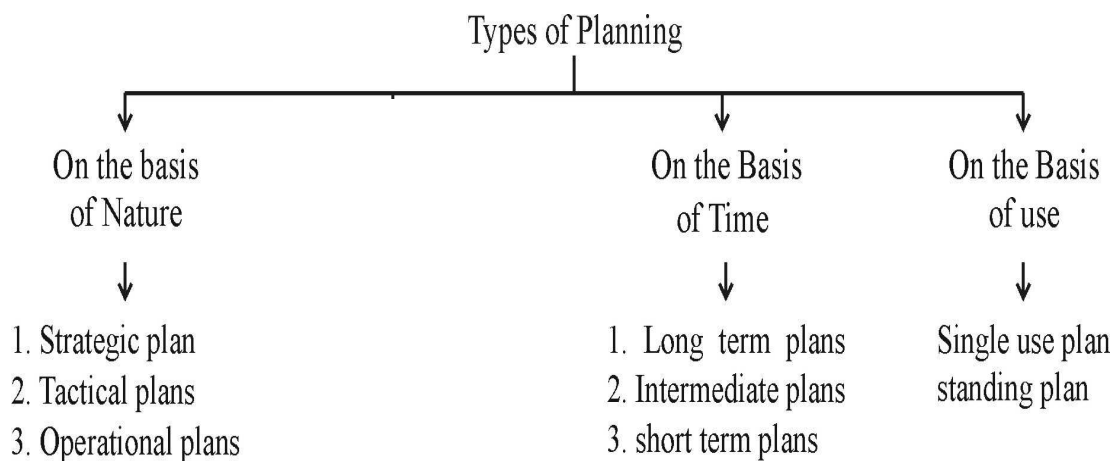
On the basis of above definitions the features of planning are as follows.

- 1] Planning is fundamental function of management. While doing any activity a manager needs to have proper plan first.
- 2] Planning is a goal oriented. Planning establishes goal of an organization and deciding how best to achieve them.

- 3] Planning by nature a pervasive function of management, because if it relates to all levels of management.
- 4] Planning is an intellectual process because it involves forecasting, decision making and thinking of future specific course of action. This needs to have talent.
- 5] Planning is ongoing process of an organization, it means it is continuous process.
- 6] Planning helps to improve the efficiency of business
- 7] Planning is a function of decision making.
- 8] Planning is an activity of future course of action.
- 9] Planning is such a function, which directs all the concern element of an organization to achieve goals.

### 2.3.4 Types of Planning

The types of planning are classified on the basis of nature, type of business, objectives duration and size. Organizational plans are roadmaps to attain organizational goals. Thus in order to attain different types of organizational goals, an organization has to adopt different types of plans. Such plans are shown as in the following chart.



## **A] On the basis of Nature**

### **1. Strategic Plan :-**

Strategic plan is the plan which is prepared by top management and Board of director. Strategic plan deals with how the organization is going to utilize its resources in order to attain its strategic goals. Usually these plans cover a longer time period for five to fifteen years. Under this plan they decide the major goals and policies of an organization. While developing this plan they have to consider all the internal factors and the risk involved in it. Strategic plans concerns with determination of strength and weaknesses, mission and control system to implement of plans of an organization as well as it deals with assessment of objectives in the light of changing environment. Hence strategic planning is system of deciding overall objectives and policies in order to fulfil those objectives.

### **2. Tactical Plans :-**

These plans are developed to attain the tactical objectives of the organization. The tactical plans are also called as functional plans. To develop tactical plans middle managers are in need of detail reports about finance, operation, market and external environment to get strategic objectives. A tactical plan provides the proper idea for executing the strategic plan. These plans are made for short time span and narrow scope, than strategic plans. Thus tactical plans relates to the process of making decisions about what to do, who is going to do it and how to do it.

### **3. Operational Plans :-**

These plans are prepared by lower level management for short term. That is for one year. The supervisor or foreman is concerned with day to day work of their team and related to implement such plans. In order to achieve long term goals the short term goals are decided for which these plans are made. Supervisions set standards, workout schedules, day to day progress

reports, proper plan of resources. The supervisors present and interpret the plans to their higher management as they apply to his unit. Operation plans help the tactical plan. It is a tool in the hand of supervisor to implement day to day, weekly and monthly activities. Hence the operational plans are detailed and specific. Usually they are concerned with functional aspects of production, finance, personnel, machinery and equipments.

## **B] On the Basis of Time**

### **1. Long term plan :-**

This plan is prepared for business mission and vision. This plan supports and directs to executives to reach their goals. Such plan is made for 5 to 15 years or more than 15 years. Capital investment plan for future expansion, plan for merger or amalgamation plan for designing and construction of plant and building etc are the examples of long term plan.

### **2. Intermediate plans :-**

There are some medium term plans prepared for medium term goals of an organization. They are made for the period of 6 months to 2 years. The departmental heads, functional managers and production line manager of the middle management are conducting these plans. In an organization intermediate plans are many times used for campaigns.

### **3. Short term plan :-**

When plans are prepared for particular period say for a week, a month or for a year then they are termed as short term plans. In other words when planning is for a short period then plan is called as short term plan. This plan is also known as tactical plan. It is concerned with available resources only and deals with the current operations of the organization. Inventory plan, "Plan for control, plan for employees training, work method are the examples of short term plan.

## **C] On the Basis of Use**

Under this type planning is classified into two types as follows

### **1. Single use plan :-**

The plan which is used for one time only is called as single used plan. This plan is specific plan. Under this type programmes are prepared in conformity with the objectives and made up of policies, procedure, schedule, budget etc. A programme involved all necessary activities for accomplishing assigned objective. Such plan is called single use plan. A plan of opening two branches in different parts of town, training program for employees for deputation and acquiring new line of business etc. are the examples of this plan.

### **2. Standing plan :-**

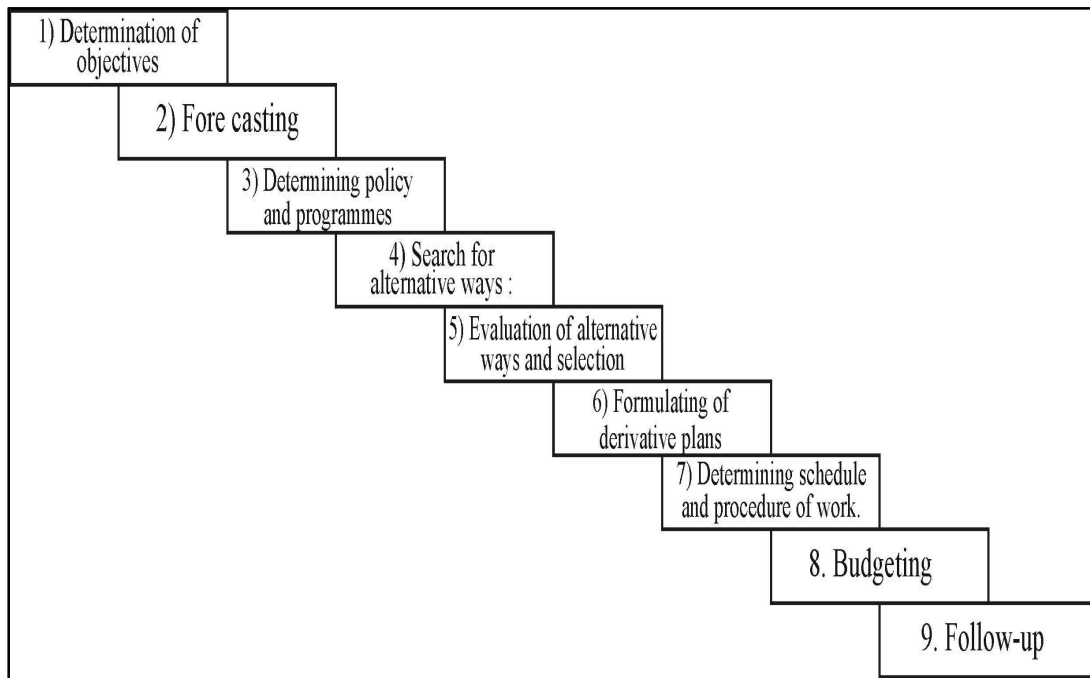
The plan prepared for once and it is repeatedly used. This plan is called standing plan. It is also called as frequent use plan. Such plan is a long term plan. So the plan which is used frequently in similar condition is called as standing plan. Standing plan is very much useful to solve difficulties which are again and again occurring.

This plan includes objectives, policies, procedures, methods, rules and strategies. Such plans are useful to executives to minimize their work load. These plans are frequently helps to managers. So it is a standing guide to solve the difficulties of an organization.

## **2.3.5 Steps in planning**

Plan is a road map of the future course of action to attain the desired goals. To achieve such goals of an organization, the important steps consisted in planning process, which are shown in the following figure.





## 1. Determination of Objectives :-

Planning is an important function of management in which the first step is to determine objectives for the whole organization and then for each sub unit. In true sense planning is prepared to achieve some objectives. If objectives are not determined then there is nothing to plan. Therefore determining objectives is the first step in planning process. Objectives may be in form of quantity for example produce 20,000 T.V. sets or capture 10% of market share in Laptop etc. There may be other objectives like profit, sales, extension, entry in new field etc. out of these objectives which are to be achieved that is determined. In this way determination of objectives is the first step of planning process.

## 2. Forecasting :-

Forecasting is true attempt to predict future outcomes based on past events and management insight. Of course planning is for future and it is a blueprint of the future course of action to active desired objectives. Hence forecasting is the function of prediction of future environmental assumptions.

Therefore assumptions are an important step in planning. Correct assumptions or forecasting leads to accurate decisions about future course of action. In short by forecasting we can assume favourable and unfavourable situation. So without forecasting making plan is a difficult task. This is the second step involved in planning process.

### **3. Determining policy and Programmes :-**

This is the third step in planning process. In planning function policies and programmes are necessary to decide. Policies are determined in the light of objectives of an organization. There are different policies of an organization, like purchase, sales, production, marketing, finance, price, advertisement, personnel etc. All these policies are determined for specific duration and programme is decided. Programme is the action plan in which fulfilment of objectives is the ultimate goal. Programmes are determined according to departments and levels of management. As well as in which sequence functions are to be carried is decided and as per the situations programmes are changed. In short in this step policies and programs are determined.

### **4. Search for alternative ways :-**

This is the fourth step of planning process. In order to achieve objectives there is number of alternatives available in the environment for example undertaking campaign for growth in sales or reducing price or quality improve. Therefore suitable alternative way is required to be select from which organizations objectives are fulfilled, of course for selecting suitable alternative it requires imagination, foresight and talent while selecting suitable alternative manager has to evaluate merits and demerits of each alternative.

### **5. Evaluation of alternative ways and selection :-**

After searching suitable alternative the next step in planning process is evaluation of alternative ways and selection. As it is stated above in the fourth step to improve sales there are many alternatives available like undertaking

advertise campaign or reducing price without disturbing quality or increasing quality. Therefore evaluation is the function of comparative study of merits and demerits of these alternatives. After comparative study of various alternatives and having weighted merits and demerits the final stage is making a decision as to which alternative is to be selected. This is the step or point of decision making. When more than one alternative are equally good then planner may decide the fit one is selected.

#### **6. Formulating of derivative Plans :-**

After the main plan has been formulated the major goals must be translated into day to day operations are called as derivative plans. In order to achieve the objectives of main plan; derivative plans are formulated for example plan for purchasing physical resources, in which purchase of machinery, purchase of raw material and purchase of other material are included. As well as such plan is also prepared for human resources, which include employee recruitment plan, selection plan, employee training plan etc. Thus after determining derivative plans which help the main plan to fulfil the work. Derivative plans are also useful to determine procedure of department. In short in this step various plans are prepared separately for different departments, sections and units.

#### **7. Determining schedule and procedure of work :-**

This is the seventh step in planning process. In which schedule and procedure is determined. Time is very important for planning when to start the work, when to be completed the work. Within which time every work will get complete. All this is scheduled for early and easy fulfilment of objective. As well as the sequence of activity also determined in this step for successful implementation. So this is as called procedure of work.

#### **8. Budgeting :-**

After determining schedule and procedure of the work the next step is budgeting. A budget is a statement of income and expenses for a specific

period. The budget for various period and departments can be prepared to give meaning to plans and for successful execution of plans. The master budget of an organization represents the sum total of income and expenses, along with desired profit, balance sheet items like cash and capital expenditures. Therefore without budget planning will be meaningless.

## **9. Follow-up :-**

This is the final step in planning. After consideration of overall plans and derivative plans, they are brought into implementation follow-up means checking the performance of activities as per the plan. So there must be provision to verify the actual work is being executed and results are received at each stage perfectly as per the plan. And if there are some derivations between actual work and planned work, corrective actions are taken immediately. This is called follow-up or review of plan.

### **2.3.6 Environmental Analysis and Diagnosis**

It is the study of organizational environment. It is carried out for identifying those environmental factors that are largely affects the organizational operations and managers' strategic decision making. In other words environmental analysis is the study of those factors which have the big impact on organizations ability to achieve its objectives. It is a device of environmental diagnosis but in case of diagnosis that it deals with identification of the factors of causes which affecting the function of organization and it is useful as a base for developing plans or strategy to increase the dynamism and effectiveness of the organization. The main objective behind analysis and diagnosis is to identify ways in which the changes in various organizational factors may directly and indirectly affect the organization and management.

### **Organizational Environment :-**

Organization environment means all of the internal and external factors that affects on business operations like production, purchase, sales, finance. In

other sense it is a combination of internal and external factors that influence a company's operating situation. The internal factors can include factors such as objectives and policies of business, management approaches, physical resources use of technology. Whereas in external environment can include factors such as suppliers, competitors, customers mediators and social, economical, technological, political, legal, global trend etc. Business organizations are regulated and controlled by internal and external factors and are essential in planning and decision making process.

Organizations are integral part of the society and exist with their environment. It means organizations are closely associated with environment because organization's profitability, success, progress, expansion etc. is not only depend upon what the products look like, but also preferably depend upon the environment. Organizations are affected by environment. Therefore organization has to adapt to its environment in order to remain successful and prosperous. If they fails to adapt to the environment may be a big cause of organization's failure.

### **2.3.7 Definitions of organizational environment**

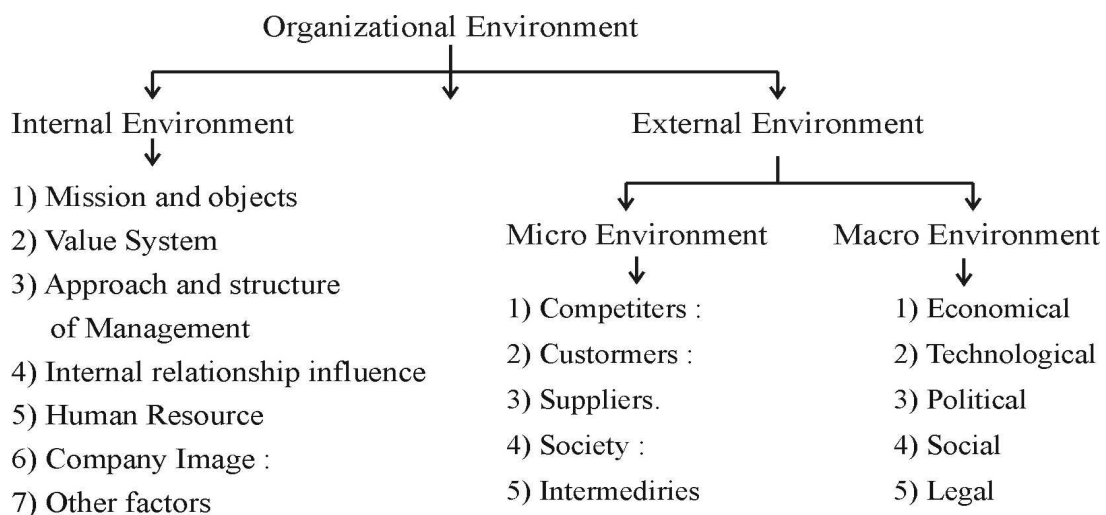
- 1) ***In the word of Arthur M. Weimer*** “*Environment encompasses the -climate’ or set of conditions, economic, social, political or institutional in which business operations are Conducted.*”
- 2) ***William Gluck and Jauch opine*** “*Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions.*”
- 3) ***Keith Davis defined as*** “*Business environment is the aggregate of all conditions, events and influences that surround and affect it.*”
- 4) ***Reincke and Schoell viewed*** as “*the environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly.*”
- 5) ***Wheeler says that*** “*the total of all things external to firms and industries that affect the function of the organization is called business environment.*”

## Features of Business Environment

- 1) Business environment is an integral part of business
- 2) Business environment constitutes by internal and external factors of business.
- 3) External environment cannot be under control of business so as business has to adjust with this environment
- 4) As environment is dynamic, therefore there are constantly changes in business environment.
- 5) Every business has different environment; because environment is according to the nature of business.
- 6) Understanding environment is difficult and complex due to its instable and indefinite nature.
- 7) Policies of business are required to be changed as per the changes in environment
- 8) Environment analysis and diagnosis have to be understood for business success and prosperity.

## Factors of business Environment :-

The Classification of business environment is divided into two parts. It is delineated in the following chart.



## **A] Internal Business Environment :-**

Internal environment means these internal factors of the business. Thus factors are generally controllable because the business has control overall these factors. Hence business can change these factors to suit the environment. Following are the internal factors which affect the planning and decisions.

### **1. Mission and objects :-**

Mission of the business is very important internal factor. Every business must have a definite mission and objectives to be accomplished. The mission must be defined precisely so that it can guide or direct the enterprise. The objectives have to be decided to get a framework. Within which the management process take place. Hence before starting any course of action the objectives have to be clearly determined, understood and explained. Mission and objectives serves to guide the direction of development, business philosophy and business policy etc.

### **2. Value System :-**

The value system of the founders has an important influence on the choice of business as well as the mission objectives and policies of the business. It is important to note that the amount to which the value system is shared by all in the organization may contribute to the success of business.

### **3. Approach and structure of Management :-**

Approach and structure of management is an important factor which influences the business decisions. The organization structure should have definite objective to be attained and it must have formal character. Simultaneously the formation of board of directors and the level of professionalization of management is also valuable factors which affecting on business decisions.

#### **4. Internal relationship influence :-**

This internal relationship factor is also crucial which influence the business decisions. The extent of support received by the top level management from their employees, shareholders, board of directors etc. have great impact on the business decisions and their implementation. The relationship between the number of directors is also important factor as well as the role of the nominees of the financial institutions on the board of companies may also impact on the business decisions.

#### **5. Human Resource :-**

This internal factor may contribute to the strength and weakness of an organization, because the characteristics of human resources such as skill, quality morale, commitment, behaviour etc. are the important factors. Which influence on business decisions.

#### **6. Company Image :-**

The image of the company could impact on business decisions. It is immensely helpful in raising finance, soliciting marketing intermediaries, entering contracts of purchase and sales, launching new products in the market.

#### **7. Other factors :-**

There are some other factors which influence the business decisions and may contribute to the success or failure of the business.

- a) Financial Factors* : It includes financial policies; financial position, capital structure etc are some important internal environmental factors which may influence business activities plan and decision.
- b) Technological factors* : It involves research and development and technological power, which determines the company's ability to innovate and compete.



- c) **Marketing Resources** : Marketing policies and strategies, marketing personnel, brand equity, distribution network have great influence on business decisions.
- d) **Physical facilities** : It involves production capacity, use of modern technology, efficiency of machinery etc. All these factors considerable influence on the business decisions.

## **B] External Environment**

This environment is categorized into two sections as micro and macro environment. These environments are external forces which have a bearing on the functioning of business. An organization has to be adaptable with its environment in which an organization exists. The term environment mostly refers to external environment.

### **(a) Micro Environment :**

It is an external environment which means the factors which have limited control. These factors influence on the business activities and decisions. Following are the factors of micro environment.

#### **1. Competitor :**

There is a great competition in business. Business has to face competitors of the same area. This factor competitors have influence on the strategy and decisions of the business.

#### **2. Customer :**

Customer is an important micro environmental factor of business. The success of business is depending on customer's response to business. If business meets the need of customers by providing goods and services satisfactory, then its good environment for business and business fails to do so, it impacts on business environment badly.

### **3. Suppliers :**

The organizational suppliers are important factors that influence business decisions. Thus this environment includes business control on supply, alternative material supply and credit facility etc. It should be noted that these factors must be taken into account for better run of the business.

### **4. Society :**

Business is a part of social system. Modern business cannot operate in isolation of the social environment in which it exists. Therefore business must satisfy the economic and social needs of the society. Because business is exist on society's capital and human capital. The social development and business success is depend upon each other. Hence society is an important factor which influences business decisions.

### **5. Intermediaries :**

Business success is based on the function of intermediaries. Availability and functions of middle men affects on business development. This environmental factor includes making good relations with intermediates and study of them. Hence performance of intermediates affect on business decisions.

## **(b) Macro Environment :**

Macro environment is an environmental factor which has great influence on business. The main feature of this environment is that business has no control on the change in such environmental factors. These factors are influencing largely on business decisions and life of business so analysis and diagnosis of these factors is an important aspect. The macro environmental factors are as follows.

### **1. Economic Environment :**

There is a great impact of nation's economic condition and the world's economic condition and the world's economic environment on business

decisions. This environment involves present condition of economy, saving and rate of investment, supply of money, per capital income; per capital production, loans, money and capital market, economic planning, industry, agricultural, population, industrial labour etc. Economic environment is a total because business unit is one unit of the total economy. Thus all these factors have great bearing on economic environment of a business.

## **2. Technological Environment :**

Technological environment has considerable influence on business activities and functions. If technology changed need to change in business technology. Technology has a great influence on productivity and competition ability. The major effect of technology is greater productivity in terms of quality and quantity and cost reduction.

## **3. Political Environment :**

The political system of the nation decides, promotes fosters, direction and controls the business activities. A stable political system ensures stability in business. The political factors are political system, governments approach, import-export policy, industrial rules and regulations, governments' facilities and services etc. All these factors influence directly and indirectly on business decisions and activities. Hence business is largely influenced by political environment.

## **4. Social Environment :**

Social environment is a broad concept of environment. It refers to the influence of certain social factors. It involves social attitude, trust, social values, social religion, education, ethics, and social responsibility etc. influence on business. As well as other some sociological factors may also affect the environment of business for example approach about workers participation, labour mobility, class structure, individual co-operation etc all these social environmental factors influence on business strategy and decisions.

## **5. Legal Environment :**

Legal environment is considered as an important factor of macro environment. It includes taxes, laws, labour laws, GST and other business laws. These legal factors have large influence on business, production, marketing, finance and Personal. Hence legal environment is also required for analysis the business environment.

### **2.3.8 Importance of Environmental analysis**

The business environmental analysis and diagnosis is an important tool for estimating environmental situation around the business. The importance of it can be discussed with the help of following points.

#### **1. Help to know internal factors :**

Environmental analysis helps to know the internal environmental factors. Internal factors include business policies, organization, structure, resources, techniques etc. these factors affect on strategic planning and decisions. After analyze becomes easy to estimate its strength, weaknesses, opportunities and challenges.

#### **2. Identify economic system :**

Analysis helps the management to find economic system. The various types of economic systems can influence on business in different ways. Therefore it is essential to identify the role of capitalists, socialist, mixed economy for future plan.

#### **3. Important to understand economic policy :**

The environmental analysis and diagnosis help to know economic policy, it involves – import policy; price policy, monetary policy, foreign exchange policy; industrial policy etc. have much impact on business product, marketing finance.

#### **4. Understanding Market knowledge :**

Analysis is helpful to understand information's about market structure, changes in market, increase and decrease in demand and supply, monopolistic practices and government interference in business etc. with the market knowledge an enterprise can make precise plans.

#### **5. Achieving goals :**

It is helpful in achieving goals of organization. It is possible to estimating strength, weakness, opportunities and challenges.

#### **6. Identify opportunities and challenges :**

Analysis is very much useful for identifying business opportunities and challenges. Opportunities help the business to make plan for alternative response to those opportunities. Similarly identifying challenges and developing an early warning system or it determine the risks which can be faced by organization in its future operations.

#### **7. Entire growth, development and survival :**

SWOC is the best techniques of environment analysis which help in deciding the suitable course of action for management successfully negotiation. Therefore it ensures growth, development and survival of business.

### **2.3.9 SWOC Analysis**

It is an important modern technique of business environment analysis and largely used all over the world. The full form of SWOC is as below –

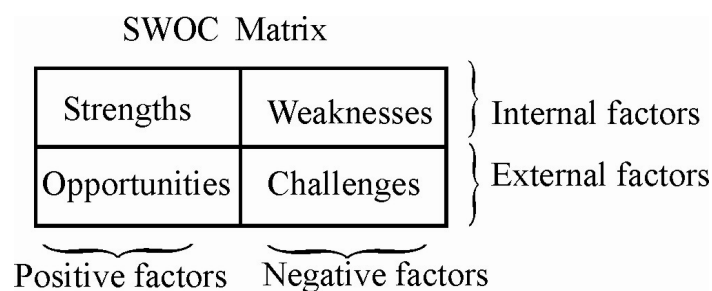
S = Strength

W = Weaknesses

O = Opportunities

C = Challenges

SWOC analysis is a strategic planning tool used to identify external as well as internal factors of business environment which influence business success and growth. Business uses this SWOC analysis to determine the strengths, weaknesses, opportunities and challenges of the business, products and competition. SWOC is the foundation for evaluating the internal capacity and limitations and the probable opportunities and challenges from the external environment. It views all positive and negative factors inside and outside the firm that affects the success. The following matrix indicators SWOC Analysis.



**1. Strength :**

It is a power of business and these factors are basic strengths of business. It include modern production technique, experienced and professional managerial group, efficient employees, modern machinery, quality production, efficient distribution system, financial support etc. After having adequate information about these strengths, it becomes possible to estimate the capacity of these strengths. These strengths are used for planning and strategies.

**2. Weaknesses :**

There are some weaknesses in business. Weaknesses are such factors that prevent business mission. Weaknesses are defined as an inherent limitation that leads to create strategic disadvantages. Therefore it is very much essential to find and make analysis of these weaknesses. It include old techniques, old machines, non-cooperation or limited co-operation, irregularity

in supply of raw materials, unskilled workers, increase in production cost, shortage of capital etc. Therefore it is essential for that planning must be made by considering these weaknesses.

### **3. Opportunities :**

It is defined as the profitable factor of the environment. It is a favourable situation in business environment. Therefore it is very essential to identify and make analysis of the profitable opportunities. The favourable or profitable environment helps the organization to consolidate and strengthen its position. It involves as growing demand, rising income level, favourable government policy, tax reduction, favourable political environment, export-import policy, favourable laws favourable financial policies etc. Therefore planning and strategies are to be made to achieve large profits of these opportunities.

### **4. Challenges :**

Threats are described as a challenging situation in the business environment. It leads to create risk for business. It include the factors changes in consumer demands, new product, competition, the rate, and availability of substitute product, adverse government policies, decrease income level, depressive trend in the economy, trade union, strikes etc. can pose challenges and adversely affect the activities of production, marketing profitability. Therefore these challenges must be estimated and analyzed carefully to reduce business risk.

## **2.4 Check Your Progress**

### **A. Fill in the blanks.**

1. Planning is ..... function of management.
2. Planning by nature is a ..... function of management.
3. Business environment is an ..... part of business.

4. Business environment constitutes by ..... factors of business.
5. Opportunities is defined as the ..... factor of the environment

**B. State true or false.**

1. Planning is ongoing process of an organization.
2. Planning helps to improve the efficiency of business.
3. Planning is not a function of decision making.
4. Planning is an activity of future course of action.
5. SWOC is an important modern technique of business environment analysis.

**C. Select the suitable alternative.**

1. In terms of the sequential relationship, the first function requiring managerial attention is .....  
(A) Planning                      (B) Coordinates  
(C) Directing                      (D) Controlling.
2. Competitor is a factor of ..... environment.  
(A) Internal                      (B) Macro                      (C) Micro.
3. .... is the first step in planning process.  
(A) Forecasting                      (B) Follow-up  
(C) Budgeting                      (D) Determination of objective
4. The plan which is frequently used is called as .....  
(A) Tactical plan                      (B) Strategic plan  
(C) Standing plan                      (D) Intermediate plan.



5. The plan which is prepared by top management and Board of director is called as.....

- (A) Single use plan
- (B) Tactical plan
- (C) Intermediate plan
- (D) Strategic plan.

**D.** How will you plan to start any small scale business.

## **2.5 Answers to check your progress**

- A.** (1) Fundamental
  - (2) pervasive
  - (3) integral
  - (4) internal and external
  - (5) profitable.
- B.** (1) True.
  - (2) False.
  - (3) True.
  - (4) True.
  - (5) True.
- C.** (1) A.
  - (2) B.
  - (3) D.
  - (4) C.
  - (5) D.

## [B] DECISION MAKING

### 2.3.10 Introduction

Everybody is involved in decision making in his or her life. Truly speaking making decision is a life. We cannot proceed to do any activity in life before taking decision. It may not be wrong if we say, Life's success is depending on good decision. In business decision making is very important. The success, growth, expansion, profitability, productivity, employees' satisfaction and employer – employee relations etc is based on decision. If anybody asked the question as what is the function of modern management then in simply two words the answer is 'Decision making.' Macdonald says that '**A manager by profession is decision maker**' and in the words of Simon '**Decision making and Management both the words are similar by meaning**'. A famous management thinker Peter ducker says that "**whatever a manager dose he dose through decision making**" it means all functions relating to planning, organizing, directing, coordinating and controlling are settled by managers through decisions. The objectives, goals, strategies, policies and structure all are required to be decided to regulate the performance of whole enterprise. In short the entire managerial process depends on decisions. Decisions are useful to tackle the problems and to achieve advantages of opportunities available. Right decisions reduce complexities, uncertainties and diversities of organizational environment. Decisions are necessary to solve uncountable issues and problems in each area of business like production, marketing, finance, personnel, administration etc. Decision making is a continuous process of management. Therefore this is one of the important functions of management.

Decisions are made only when there are two or more alternatives available to solve a single problem. If there is only one alternative then there is no question of decision making. It is said that the management without a decision is a man without backbone. Thus decision making process is the backbone of management.

### 2.3.11 Decision Making Concept

Decision making is the process and decision is the outcome of the process. To decide means to come to a conclusion. Decision-making is the act of making a choice among alternatives. It is a process to arrive at decision; the process by which individual or an organization chooses one action.

#### Definitions :

1. **Louis A. Allen** “Decision making is the work which a manager performs to arrive at conclusion and judgment”
2. **J.Terry** “decision making is the selection based on some criteria from two or more alternatives”
3. **D.E. McFarland** “A decision is an act of choice where an executive forms a conclusion about what must not be done in a given situation. A decision re-presents behavior chosen from a number of possible alternatives.”
4. **koontz and O’ Donnel** “Decision making , the actual selection from among alternatives of a course of action ,is the core of planning.”
5. **J.L. Massie** "A decision can be defined as a course of action consciously chosen from available alternatives for the purpose of the desired result" –

It is clear from the above definitions that decision making is the process of choosing a specific course of action from various alternatives to solve the organizational problems or difficulties.

#### Feature of Decision Making :-

Considering all above definitions, there are features of decision making which are as follows.

1. Decision making is an intellectual function and concept in which deep thinking is essential.
2. Decision making is a selection of process because in which there is selection of one best alternative from among.
3. In decision making implementation of decision is involved.
4. Decision making is indispensable part of planning.
5. Decision making is objective oriented. It means every decision has its objective.
6. Decision making is a continuous process.
7. Decision making is a dynamic process.
8. Decision has two sides as positive and negative.
9. Decision making involves evaluation of decision.

### **2.3.12 Importance of Decision-Making**

Decision making is considered as the backbone of management because without taking the right decision at right time, nothing can be done. The importance of decision making can be elaborated as follows:

#### **1. Better utilization of resources :**

By having best decision organizations resources are utilized properly. Resources like human and physical which include men, money, method, material, machine, market and information. All these resources are properly used without any leakage and wastage because of right decision at right time. As a result, an organization can operate entire work at a lower cost and lower cost of product makes business profitable.

#### **2. Selecting the best alternative :**

Decision making is important for selecting the best alternative. It is a process of selecting the best alternatives from among alternatives. Decision

makers evaluate the various merits and demerits of every alternative and select the best alternative.

### **3. Facilitates in evaluating the performance :**

Decision making is not only helps to select the best alternative but also necessary for evaluating the performance of a manager. The performance of manager is based on the number of correct decision that he or she takes decision for the organizational success. Therefore, decision making is important to judge the performance of top level of management.

### **4. Employees' motivation :**

Decision making plays an important role in employee's motivation. It gives an overall framework of operation and guideline to the operating level of staffs. It also offers different types of facilities and benefits in time. As a result, employees are motivated to their job as organizations expectation. This can be possible only when the right decisions at the right time.

### **5. Integral element :**

In the word of Mac Donald a manager by profession is a decision maker and making decision is the core aspect of his function. Peter Drucker also focused on importance of decision making he said whatever a manager dose he dose through decision making. Therefore decision making is an integral element of the organizational success and growth. Therefore the entire success is dependent on decision making. Without taking the right decision at right time, nothing can be performed as per the plan. So motivation is the integral element of decision.

### **6. Goal fulfilment :**

Decision making is very important to achieve the organizational goals within given time and budget. It finds out the best alternative, proper use of resources and motivates the employees at the workplace. It is resulted into fulfilment of organizational goals as per the desired results.

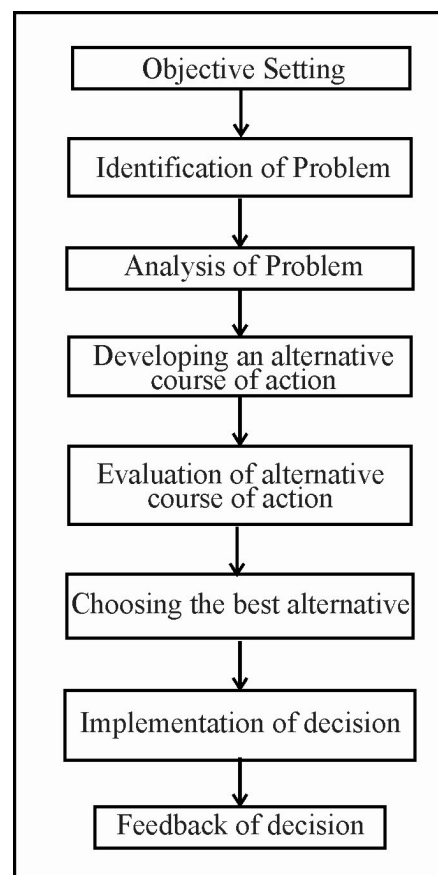
## 7. Pervasive function :

Decision-making is a pervasive function of management which is required for all levels of management to achieve goals. Decisions are taken in all managerial functions like planning, organizing, motivating, directing and controlling and in all functional areas such as production, marketing, finance, personnel, research and development. It implies that the decision-making is spread over entire areas of the organization. Therefore decision making is a pervasive function of management.

### 2.3.13 Steps in Decision-Making

Decision making process involves the selection of one course of action from two or more alternative courses of action. Decision making is imperative element of management process. Every manager has to make decision in time. Timely decisions help the organization to achieve its goals. He has to take right decisions at right time otherwise nothing can be performed as per the expectations. The process of decision making should not be rigid or fixed one. Thus in order to make rational decisions managers should follow a sequential set of steps. The following figure shows steps involved in decision making process.

**Steps in Decision Making Process**



## **1. Objectives setting :**

The first step in decision making is setting of objectives. There must be some specific objective for a decision. It is an initial point of decision making to determine the need of decision. A decision is essential to achieve some objective. Every enterprise has some objective. Therefore setting of specific objective is the outcome of earlier decision. Nevertheless the objective setting is an outcome of earlier decision, this should not be taken into account as the first step of decision process. But it gives framework for the decision.

## **2. Identification of problem :**

Identification of problem is the significant aspect of decision making. Decision making is to identify, what the exact problem that needs decision making. The problem may arise due to the gap between thinking and do the process. The reason of problems may be internal or external. Decision makers should identify the correct problems before taking any decision. It is not an easy task. Therefore, decision maker may use his own knowledge, skills, experience and collect information from internal and external sources. It is regarded that identification of the correct problem is almost half part of the decision-making process.

## **3. Analysis of problem :**

This is a the third step in decision making in which decision maker should analyze the problem properly and scientifically in terms of cost, time, legality, organizational resources and short-term and long- term effects of the problem. While analyzing the problem decision maker can apply various financial, accounting and statistical tools and techniques.

## **4. Developing an alternative course of action :**

Under this fourth step of decision making process decision maker should develop various possible alternatives for a better decision. As we know that a problem has number of alternatives for solving the problem. While

developing the alternative course of action decision maker must use his own knowledge, skill, experience and technical support from professional experts.

#### **5. Evaluation of alternative course of action :-**

This one is the fifth step involved in process of decision making. In which after developing various possible alternatives, the decision maker has to evaluate all alternatives for a better decision. In this step decision maker needs to identify the answers to the following questions :-

1. Is the alternative feasible in terms of cost, time, legality and other organizational resources or not?
2. Is the alternative satisfactory for solving the problems or not?
3. Are the features of alternatives suitable to the objectives of the business or not?

#### **6. Choosing the best alternative :**

After evaluating alternatives the next step in decision making process is choosing or selecting the best alternative. In this step decision maker has to choose the best alternative from the various alternatives. While selecting the best alternative decision maker has to consider the short-term and long term impacts. In order to get decision maker may use his skill, experience, and his own knowledge. He can also discuss with other concerns for a better decision.

#### **7. Implementation of decision :**

Under this step decision is to be implemented. Implementation is the act that decision maker or manager has to transform decision into action. While implementing decision he has to communicate with their subordinate and manage the various additional resources for the implementation of the business decision.

#### **8. Feedback of decision :**

This is final step of decision making. In which decision making process is to get review or follow-up from other concerns of the organization. If



feedback is favourable then the decision making process is successful. On the other hand if unfavourable then decision maker has to go through the first step to take a new organizational decision.

### **2.3.14 Rationality in decision making**

#### **A) Perfect Rationality :-**

Under perfect rationality decisions are based on the scientific method. Manager applies scientific process for decision making. Perfect rationality includes diagnosis the problem, determining the order of problem, searching alternative ways, evaluation of alternative ways, selecting the best alternative and follow-up. Perfect rationality can be referred to as a method for systematically selecting among possible choices that is based on reason and facts. In other words it is called as feasibility in decision making and favourable results are expected in perfect rationality. In order to have rational decision a decision maker have to be talent and rational in analysis the available information. Then it becomes possible to him to make prefect rational decision. Perfect rationality is more commonly used in the field game theory and similar to the concept of homo economics. In short perfect rationality in decision making means a method of selecting among possible choices that is based on reason and facts.

#### **B) Bounded Rationality :-**

In 1982, American economist a Nobel laureate Herbert Simon developed the concept of bounded rationality in his book “Models of Bounded Rationality and other Topics in Economics” he explained that bounded rationality as an alternative basis for the mathematical modelling of decision making, as used in economics, political science and related disciplines. It complements "rationality as optimization", which views decision-making as a fully rational process of finding an optimal choice given the information available. Simon used the analogy of a pair of scissors, where one blade

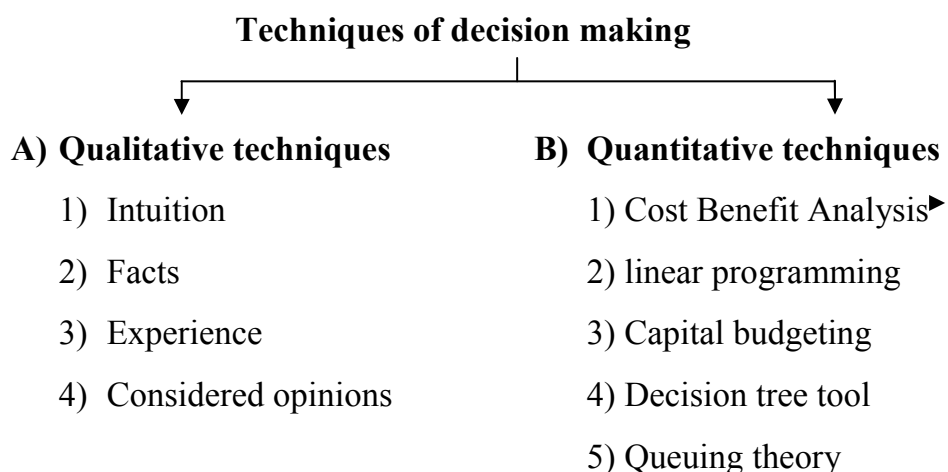
represents "cognitive limitations" of actual humans and the other the "structures of the environment", illustrating how minds compensate for limited resources by exploiting known structural regularity in the environment. Bounded or limited rationality is the idea that when individuals make decisions, their rationality is limited by the tractability of the decision problem, the cognitive limitations of their minds, and the time available to make the decision. Decision-makers in this view act as satisfiers' seeking a satisfactory solution rather than appropriate one.

Thus limited rationality is the concept that (irrespective of their level of intelligence) a manager has to make the decision under three unavoidable limitations that are : (1) only limited, often unreliable, information is available about possible alternatives and their consequences, (2) human mind has only limited capacity to evaluate and process the information that is available, and 3) only a limited amount of time is available to make a decision.

Therefore even individuals who desire to make rational choices are bound to make satisfying choices in complex situations.

### 2.3.15 Techniques of decision making

Techniques of decision making can be classified into two parts, which are shown in following figure.



## (A) Qualitative techniques

Generally there are four qualitative techniques of decision making as - (1) intuition (2) facts (3) experience and (4) considered opinions.

1. **Intuition** : This technique of decision is characterized by inner feelings of the decision maker. In this technique decisions are taken as per the dictates of his conscious. He thinks about the problem and an answer is found in his mind. The decision maker had his own preferences, influences, psychological makeup and these things play a significant role in taking a decision. The past knowledge, training and experience of the decision maker plays an important role in intuition decisions. This technique decisions are taken quickly and decision making capability of person is also used. In case the intuition of the decision maker is wrong then the decision will also be wrong.
2. **Facts** : Facts are considered to be the best tool of decision making. A decision based on facts has its roots in factual data. Such decisions will be sound and proper. The increasing use of computer has helped in systematic analysis of data. The information has become a major tool in managerial decision making. It may not be possible to secure all relevant facts for taking decisions. Managers, generally, complain of insufficient information. It is also essential that facts should be properly diagnosed, classified, and interpreted. Facts alone may not be sufficient for decision making. The imagination, experience, and belief of the decision making also required to comprehend the facts in proper perspective.
3. **Experience** : Past experience of a person is taken into consideration for decisions. When a similar situation arises the manager can depend on his past experience of decisions taken similar decisions. The person understands things in terms of

concepts with which he is familiar. Experience should not be followed blindly. The new situations should be analyzed on the basis of past knowledge. Successful decisions in the past may not prove useful this time; also on the other hand a decision once failed need not be avoided for all times in future. Though past experience is good basis but present situations should be properly analyzed and assessed before taking a decision.

4. **Considered opinions** : Some manager's use considered opinions as a basis for decision making. Besides pertinent, statistics opinion are also given due weight age sometimes discussed and considered by more persons become logical and may form a sound basis for decision making. A marketing manager before deciding a whether to market a new product or not, will like to see marketing statistics as well as considered opinions before finally making choice.

## **(B) Quantitative techniques**

The modern and scientific quantitative techniques are increasingly useful for decision making. Some of the techniques are explained as follows.

### **1. Cost Benefit Analysis :-**

Cost benefit analysis is a mathematical technique for decision making to be applied to evaluate the economic cost and the social benefits concerned with a particular course of action. In this technique an efforts are made to ascertain all cost and benefits. For example this type of technique is used for in decisions on public projects in which social cost and social benefits should be taken in to account. In short cost benefit analysis is the cost effectiveness analysis. This is analysis to determine the least expensive path of reaching an objective or of obtaining the greatest possible value from a given expenditure.

## **2. Linear programming :-**

This quantitative technique is used to make decision for the optimal mix of limited resources for maximizing profit or minimizing cost. Linear programming is extension of Break Even Analysis that is very much useful in analyzing complex problems. It includes the solution of linear equations and is suitable when manager must allocate limited resources to competing projects.

## **3. Capital budgeting :-**

A manager mostly depends upon linear programming when he allocates resources to competing project. On the same way capital budgeting provides a set of techniques a manager may use to evaluate the relative attractiveness of various projects in which a lump payment is made to generate a stream of earning over a future period. For example a capital budgeting projects involves an investment in new machine that will increase profit in future by reducing cost, another example- an investment of sum money into an advertising campaign to increase sales as well as profit.

## **4. Decision tree tool :-**

The decision tree is another increasingly helpful technique in making decision. Decision tree is like expanded tree. This is basically a conceptual map of possible decisions and results in a particular situation. it is helpful in cases where decision maker is in need of making a number of sequential decisions that is where earlier decisions will impact next ones.

## **5. Queuing theory :-**

It is also regarded as waiting line theory. It helps decision maker in making decisions involving for maintaining a balance between the cost of waiting time and cost of preventing the waiting line in respect of utilization of personnel, equipment and services. It is based on the assumption that although delays are costly, eliminating them may be even more costly. This technique may be used in service organizations, hospitals and banks etc.

## 2.6 Summary

The planning has great importance in men as well as in organizations' life. Day by day importance of planning is increasing due to drastic changes in business environment such as speedy progress in all fields, globalization, privatization, liberation policy, revolution in technology, competitive world, indefinite nature of market, changing trend of life style etc. All these factors have brought increasing importance of planning. Planning plays an important role in business organizations life. Organizations expansion, success, efficiency, growth, profitability and productivity all are dependent on good planning. Planning is the fundamental function of management. Without planning none of the business can proceed ahead. Planning is an intellectual process and it involves what to do, when to do, how to do and who is to do it. Of course planning is a foundation of all activities. The activities of management are initiated only after planning. When manager wish to do something, he start those activities with planning. It means he has to plan first, then organizing, staffing, directing and controlling. Work becomes easy when properly planed. Thus planning is a basic function; and it shows roadmap to fulfill goals of the organization.

Along with planning the decision making function has also immense importance. The success, growth, expansion, profitability, productivity, employees' satisfaction and relations etc is based on decision. The management thinkers stated significance of decision making in their words as 1) Macdonald says that '**A manager by profession is decision maker**' and in the world of Simon '**Decision making and Management both the words are similar by meaning**'. 2) A famous management thinker Peter ducker says that "**whatever a manager dose he dose through decision making**" it means all functions relating to planning, organizing, directing, coordinating and controlling are settled by managers through decisions. The objectives, goals, strategies, policies and structure all are required to be decided to regulate the performance of whole enterprise. In short the entire managerial process depends on decisions. Decisions are useful to tackle the problems and to

achieve advantages of opportunities available. Right decisions reduce complexities, uncertainties and diversities of organizational environment. Decisions are necessary to solve uncountable issues and problems in each area of business like production, marketing, finance, personnel, administration etc. Decision making is a continuous process of management. Therefore this is one of the important functions of management.

## 2.7 Key terms

1. **Planning** : Planning means in simple words, it is an outline of what to do, when to do, how to do and who is to do it. Planning refers to setting an organization goal and deciding how best to achieve them. Thus it is a process of setting the goals of an organization, and overall strategy for fulfilling these goals.

Management planning involves the development of forecasts, objectives, policies, programmes, procedures, schedules and budgets.

2. **Strategic plan** : Strategic plan is the plan which is prepared by top management and Board of director. Strategic plan deals with how the organization is going to utilize its resources in order to attain its strategic goals.
3. **Environmental analysis** : It is the study of organizational environment. It is carried out for identifying those environmental factors that are largely affects the organizational operations and managers' strategic decision making.
4. **SWOC** : It is an important modern technique of business environment analysis and largely used all over the world. SWOC analysis is a strategic planning tool used to identify external as well as internal factors of business environment which influence

business success and growth. Business uses this SWOC analysis to determine the strengths, weaknesses, opportunities and challenges of the business

5. **Decision Making** : The term decision making is referred to the work which a manager performs to arrive at conclusion and judgment. In other words a decision making is the process of choosing a specific course of action from various alternatives to solve the organizational problems or difficulties.
6. **Perfect Rationality** : Perfect rationality in decision making can be referred to as systematic process of selecting the best alternative among possible choices. That is based on reasons and facts.
7. **Bounded Rationality** : Bounded rationality is also termed as limited rationality. Which means while taking decision a manager or a person has to make the decision under three a unavoidable. Limitations as –
  - 1) Only limited, often unreliable information is available about possible alternatives and their consequences.
  - 2) human and has only limited capacity to evaluate and process the information that is available and,
  - 3) Only limited time is available to make a decision.

## 2.8 Check Your Progress

### A. Fill in the blanks.

1. Decision making is ..... function.
2. Decision making is .....oriented.



3. Decision has two sides as .....
4. Decision making involves .....of decision.
5. Decision making process is the ..... of management.

**B. State True or False.**

1. Decision making is a selection of one best alternative from among.
2. In decision making implementation of decision is not involved.
3. Decision making is not a part of planning.
4. Decision making is a continuous process.
5. Decision making is a dynamic process.
6. Managers when plan, organize, lead and control are called decision makers.

**C. Select the suitable alternative.**

1. Which of the following is an assumption of rationality to rational decision making?
  - (A) Preferences are clear.
  - (B) Final choice will maximize payoff.
  - (C) The problem is clear and unambiguous.
  - (D) All of the above.
2. .... is accepting solutions that are "good enough".
  - (A) Bounded rationality.
  - (B) Satisfying.

- (C) Escalation of commitment.  
(D) None of the above.
3. Making decisions on the basis of experience, feelings and accumulated judgments is called as .....
- (A) Decision making  
(B) Structured problems.  
(C) Intuitive decision making.  
(D) None of the above.
4. .... is the first step in decision making process.
- (A) Feedback of decision.  
(B) Analysis of problem.  
(C) Identification of problem.  
(D) Objective setting.
5. The factor which is largely influence on business activities is called as ..... environment.
- (A) Internal.  
(B) Macro.  
(C) Micro.

**D. Practical**

- Think you are an entrepreneur and wanted to improve profit of your business. Explain how will you take decision ?

**2.9 Answers to Check Your Progress**

- A] (1) An intellectual.

- (2) Objective.
- (3) Positive and negative.
- (4) Evaluation.
- (5) Backbone.

- B]** (1) True
- (2) False
  - (3) False
  - (4) True
  - (5) True
  - (6) True.

- C]** (1) D
- (2) B
  - (3) C
  - (4) D
  - (5) C.

## **2.10 Answers to Check Your Progress**

### **A) Long answer type questions.**

- 1) What is planning? Explain types of planning.
- 2) State the steps involved in planning process.
- 3) Define the organizational environment. Explain its internal environment.
- 4) Discuss the concept and importance of decision making.

- 5) Explain the decision making process.
- 6) Discuss the techniques of decision making in brief.

**B) Short answer types questions.**

- 1) What is planning?
- 2) Define the planning.
- 3) Explain external environment.
- 4) What is environmental analysis and diagnosis?
- 5) Explain types of plan on the basis of time.
- 6) Discuss the SWOC analysis.
- 7) Define decision making.
- 8) Discuss perfect and bounded rationality.
- 9) Explain qualitative techniques of decision making.

**C) Write Short Notes.**

- 1) Types of planning.
- 2) Steps in planning process.
- 3) Importance of environment analysis and diagnosis.
- 4) SWOC analysis.
- 5) External environments.
- 6) Concept of decision making.
- 7) Process of decision making.
- 8) Quantitative techniques of decision making.

## 2.11 Additional Reading Material

1. **C.B. Gupta** : “*Management Theory & Practrice*”, Sultan Chand and Sons, New Delhi, 2008.
2. **Prof. Suresh Bhirud, Prof. Bhaskar Naphade** : “Principles of Management” Dimond Publications, Pune, 2009.
3. **KumKum Mukherjee** : “*Principles of Management*”, Tata McGraw- Hill Education Pvt. Ltd. New Delhi, 2009.
4. **Dr. Onvir Choudhary** and **Dr. Prakash Shing** (2012) : “*Principles of Management*”, New Age International (P) Ltd., Publishers.
5. **P. C. Tripathi** and **P. N. Reddy** (2000) : “*Principles of Management*”, Tata Mc Graw-Hill Publishing Company Ltd. New Delhi.
6. **Dr. C. J. Joshi** and **Prof. K. C. Joshi** (2018) : “*Management Principles and Applications*”, Phadke Prakashan, Kolhapur.

□□□

## Unit - 3

# Organizing

---

### STRUCTURE

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Presentation of Subject Matter
  - 3.2.1 Organizing : Meaning, Process / Steps of Organization, Principles of Organizing, Organization Chart, Check your progress
  - 3.2.2 Delegation of Authority : Meaning, Elements, Difficulties in delegation, Guidelines for making delegation effective, Check your progress
  - 3.2.3 Centralization and Decentralization : Meaning, Merits and Demerits, Check your progress
  - 3.2.4 Organization Structure : Line, Line and Staff, Functional and Network Organization Structure, Check your progress
- 3.3 Summary
- 3.4 Terms to Remember
- 3.5 Answers to check your progress
- 3.6 Exercise
- 3.7 Reference for Further Study

### **3.0 Objectives**

The objectives of this unit are students should be able to –

- i) Understand the concept of Organizing, Process/Steps of Organization, Principles of Organizing, Organization Chart,
- ii) Know the Meaning of Delegation of Authority, Elements, Difficulties in delegation, Guidelines for making delegation effective
- iii) Familiar with the concepts of Centralization and Decentralization, their Merits and Demerits
- iv) Understand concept of Organization Structure, Types : Line, Line and Staff, Functional and Network Organization Structure.

### **3.1 Introduction**

Organizing is the one of the important functions of management. There are different functions of management. These functions are classified into two categories namely planning functions and executive functions. Organizing is the one of the executive functions. Organization is treated as a backbone of management. Organizing is the mechanism of execution of the planning made by the management.

### **3.2 Presentation of Subject Matter**

The subject matter is presented in four sub-points:

#### **3.2.1 Organizing : Meaning**

The concept of organizing is used in two ways – i) Organization as Function and ii) Organization as Structure.

- i) **Organization as Function** : Organizing includes various functions. It includes defining the activities, grouping the activities, delegation of authorities, guiding and directing the activities, coordinating etc.

- ii) **Organization as Structure** : As structure organization includes collecting men, materials, machines etc. and establishing the relationships among them.

Organization is treated as a backbone of management. Organizing is the mechanism of execution of the planning made by the management. To understand the concept of organization it is useful to study the various definitions given by different thinkers.

**Definitions :**

1. "Organizing is the determination of the activities necessary for action, arranging them in groups this may be assigned to individuals." - **Urwick**
2. "An identifiable group of people contributing their efforts towards the attainment of goals is called organization." – **McFarland**
3. **Terry** defines organizing as "the establishing of effective authority relationships among selected work, persons and work places in order for the group to work together efficiently."
4. "Organizing is the process of combining the work which individuals and groups have to perform with the facilities necessary for its execution that the duties so performed provide for the best channels for efficient, systematic, positive and coordinated application of efforts." - **Oliver Sheldon**
5. "Organizing is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing objectives." - **Louis Allen**
6. **Koontz and O'Donnell** define organizing as "the grouping of activities necessary to attain enterprise objectives and the assignment of each grouping to a manager with authority necessary to supervise."



The above definitions explain that it includes various functions as well as relationship between all the individuals. From the above definitions we can say the following :-

**Features or characteristics of organizing :-**

- 1) It is an identifiable group of individuals. The individuals in the group are interrelated with each other on the basis of authority and responsibility.
- 2) It aims at execution of planning.
- 3) Organizing divided the total work into activities and functions.
- 4) In an organization all the activities are first divided into units and co-ordination is established among correlated units.
- 5) Organization is a function which fulfils the common objective.
- 6) Organization refers to define the structure of duties and responsibilities of persons.
- 7) Organization is a functional concept.
- 8) Organization is a mechanism of management.

**Importance of Organization :**

Organization is regarded as the mechanism of management. The organization is important to complete any collective work. Coordination has a priority in the organizational work. The organization has the importance as it is coordinated in different departments, different individuals, different tasks, and is meant for the purpose. What significance of back bone in the human body has is the importance of organization in the business. Its importance lies in the systematically evolved pattern of relationships designed to set in motion the process of managerial functions. In other words, managerial functions like direction, co-ordination and control would remain abstract functions if organizational set up is not suitably designed. The importance of organizing is explained as under.

1. Organizing facilitates proper division of work. Since the whole work cannot be performed by the manager alone, the total work must be divided among staff in a well planned manner. It ensures optimum use of staff.
2. Properly designed organization structure can create conditions conducive for planned expansion and diversification of the activities of the undertaking.
3. A flexible and ideal organization structure can accommodate the changing technology in production, management and marketing etc:
4. Efficient organization provides for optimum and economical use of all physical resources such as buildings, machines, tools, materials, finance etc.
5. Proper division of work and fixed responsibilities facilitate control and co-ordination.
6. It brings unity in direction. Efficient delegation and effective communication system and well-knit relationships bring unity in command and direction.
7. Organization assures all round efficiency by bringing definiteness to the jobs and matching jobs with individuals and individuals with jobs by utilizing best skills, experiences and abilities and specialization. It avoids delays and wastage.
8. Organization based on clear cut authority and responsibility encourages creativity and initiative offers for specialized work, fosters the spirit of constructive and creative approach in management.

### **Process / Steps of Organization :-**

Organization is the most important function of management. It is an executive function. After planning, management has to do organizing. There

are different activities included in organizing which explains the process of organization. The following are the steps in organization.

**1. Review of objectives and policies :-**

Organization is a tool of achieving objectives. Objectives are determined by top management. So it is necessary to take the review of objectives and policies. Therefore it is the first step in the process of organization. By knowing exact objectives, it is possible to establish exact structure of the organization. The objectives are to be explained to the people involved in the organization. On the basis of it meaningful work division becomes possible.

**2. Determination of activities :-**

The next step under the process of organizing is to identify and list out the different activities and jobs which are undertaken in an enterprise. An exhaustive list of all activities is prepared. It is primary and basic exercise which lay down the foundation for all the further steps of organizing. The list is verified with the help of check-list and is finalized.

**3. Grouping of activities :-**

The listed out activities are grouped on the basis of inter-relation and inter-linkage. The main activity with its related sub-activities is divided into groups. Grouping and sub-grouping depends upon size, nature and competition. It is classification of activities for inter-connecting and smooth coordinating the activities. It is essential for effective supervision and even avoiding repetition.

**4. Establishing Departments :-**

Establishing departments is the next step in the process of organizing. Classifications of groups are further grouped into sub-sections, sections, sub-departments, departments and divisions as per requirement of a business. Advertising section, sales section, sales promotion section, after sales service

section, customer redressal section, credit section, market research section etc. sections may be grouped into Marketing Department. After sales service section may have sub-section such as repairs, spare part supply, customer relation, replacement, home service etc. Establishing the departments also depends on size, policy and financial provisions of a business.

#### **5. Job Specification and Man Specifications :-**

Before actual distribution of activities and jobs, job specifications and man specifications are undertaken. An expert team is appointed for this purpose. It analyses different jobs and identifies its characteristics. A team also identifies man-specifications i.e. required skill and qualities for performing a particular job. It facilitates distribution of jobs and activities which leads to matching of jobs and employees.

#### **6. Distributing jobs :-**

On the basis of job specifications and man specifications, different jobs and activities are distributed among employees of an enterprise. Skills, qualifications, experience, traits, training and qualities of an employee are major considerations for assigning jobs. This is most important phase of the process. Hence it is done thoughtfully and scientifically.

#### **7. Delegating Authority :-**

Granting necessary powers to employees is essential for performing their jobs. Hence authority is delegated as per requirement of a job assigned to an employee. Every job requires certain kind of authority. An employee can perform his job related duties effectively with authority. Of course, a quantum of authority to be delegated is decided in advance by the management. A line and span of authority is also explained to an employee which define his liberty.

#### **8. Determining Responsibilities :-**

Authority is followed by responsibility. Once necessary authority is delegated to an employee, corresponding responsibilities are clearly

determined for his job. Determinations of responsibility help him to use his authority more cautiously and carefully. Fixation of responsibility makes him more aware of his performance. Quantum of responsibility shall correspond with the quantum of authority. Otherwise it may affect his performance adversely.

#### **9. Defining Scalar Chain :-**

Defining relation among employees is important phase of organizing process, by which superior and subordinate relation is determined. Who shall issue orders to whom, who shall receive orders from whom, who shall report to whom, these relation among employees are clearly defined. These relations of superiors and subordinates constitute scalar chain in an organization. It ensures discipline and timely execution of orders.

#### **10. Coordination System :-**

A separate coordinating system is established because different jobs and activities are distributed among employees for higher efficiency and better performance. Basically all jobs/activities are inter-connected to each other. Hence proper co-ordination of different jobs which are distributed among different employees and groups is essential for attainment of ultimate objectives of a business. All these job-groups are coordinated on the basis of inter-connections among different jobs.

#### **11. Actual Executing :-**

After completing all the above steps, it constitutes an effective organization which is set for actual functioning. It means that an organization starts its working and executing orders or directives. It initiates actions by superiors and subordinates for fulfilling pre-determined goals. In fact this is last step of the process of organizing.

All these steps are interdependent, so it is necessary to think about it collectively. There may be merging of some steps and process may be shortened or may be addition of any new step. It depends on the philosophy of the enterprise.

## **Principles of Organizing :-**

Organizing is the important function of management. The success of any management depends on the success of organization. Organization works as a structure of men and resources as well as an execution function. It works for the attainment of common objectives. There should be some guidelines or rules necessary when the work is group work. Such rules are called as principles. As organizing is the group activity it also needs principles. E. L. F. Brach had explained the importance of principles of organization for establishing a strong organizational structure. The following are some of the important principles of organization.

### **1. Principle of Objectives :-**

This principle is related to understanding the objectives of enterprise. Objectives are determined by top management. So it is necessary to take the review of objectives and policies. By knowing exact objectives, it is possible to establish exact structure of the organization. The objectives are to be explained to the people involved in the organization. According to this principle the organization and every part of it should be directed towards the achievement of predetermined objectives.

### **2. Principle of Division of Labour :-**

According to this principle the total work in the organization should be divided into small tasks and jobs and each job should be assigned to an individual so that over a period of time he will specialize in that job. Thus it encourages specialization of work. It should be applied to the work performed by employees as well as by the managers. However, over-specialization should be avoided. Further it should be ensured that jobs will not become monotonous and boring.

### **3. Principle of Functional Definition :-**

This principle explains that the functions to be performed by an individual or department should be well defined. The duties and authority

relationships of various individuals in the organization should also be clearly defined to avoid overlapping and duplication of work. Further the results expected of each individual should be clearly stated.

#### **4. Principle of Span of Control :-**

According to this principle no executive should be required to supervise 'more subordinates than warranted by his/her, capacity. It refers to the number of subordinates working under each superior. It recognizes that no superior can control effectively a large number of sub-ordinates.

#### **5. Principle of Scalar Chain :-**

As per this principle there should be unbroken line of authority, or scalar —chain from the top to the lowest level. As far as possible this chain should be short. It defines the superior and subordinate relationships among the individuals in the organization. A clearly defined scalar chain leads to more effective decision making and improved organization communication.

#### **6. Principle of Unity of Command :-**

According to this principle each individual should receive orders from only one superior and be accountable to him for the work. Unity of command implies single source of authority over a sub-ordinate. It reduces the chances of conflict, helps to maintain discipline, creates a feeling of person a responsibility, removes uncertainty and prevents divided loyalty of employees.

#### **7. Principle of Bbalance :-**

There should be a balance between the various parts of an organization and no function should be given under emphasis at the cost of other functions. For creating structural balance it is necessary to maintain balance between line and staff authority between centralization and decentralization and between span of control and lines of communications.

**8. Principle of Flexibility :-**

According to this principle the organizational structure should be flexible in nature. It should be designed to permit growth and diversification of activities. It should permit quick and easy adaptation of the organization to the changing environment.

**9. Principle of Responsibility :-**

This principle clears that corresponding responsibilities are clearly determined for each job. Determinations of responsibility help an employee to use his authority more cautiously and carefully. Fixation of responsibility makes him more aware of his performance. Quantum of responsibility shall correspond with the quantum of authority. Otherwise it may affect his performance adversely.

**10. Principle of Delegation of Authority :-**

According to this principle authority delegated to an individual should be in consistent with the responsibility. It should be adequate to enable the individual to accomplish results expected of him. At the same time proper control should be exercised on each individual.

**11. Principle of Exception :-**

According to this principle each should take all decisions within the scope of his/her authority and only those matters which are beyond his/her scope of authority should be referred to higher level managers. The matters of routine decision should not be referred to the top management. The top management should look into only exceptional matters.

**12. Principle of Simplicity :-**

This principle explains that the organization should be simple. The organization should be so structured that everyone can understand it easily. There may be minimum levels in the organization.



### **13. Principle of Continuity :-**

According to this principle necessary precaution should be taken to ensure continuity of operations. Continuity is essential for the existence of the organization

There are some other principles of organization given by different experts. While forming and running any organization all these principles are not applied every time but the use of principles is dependent on the requirement.

### **Organization Chart :-**

Organization is a structure which includes different persons, machines, resources etc. The chart showing the relationship between various persons involved in the particular organization, their position, their authority and responsibility is called as organization chart. Organization chart is a design of an organization. It is a blueprint of organization, its functions, lines of authority, and key positions. It shows who the supervisor is and who is subordinate. It gives ideas about different formal relationship by showing the main lines of authority, the lines of communications, and the flow of authority as well as the flow of responsibility and accountability among all the levels of management. There are various advantages as well as limitations of organization chart which are explained as follows:

### **Advantages / Merits of organization chart :-**

1. It gives idea about the size of enterprise, distribution of work etc. to everybody.
2. It is possible to understand the levels of management as well as span of control from the organization chart.
3. There is clear picture of relationship among the various persons working on different positions.
4. It defines the scope and limitations of each position.

5. It can be possible to understand the deficiencies in the organization structure and facilitate to remove that.
6. It facilitates to coordinate and control the organization in a better manner.
7. It reveals whether the organization is evenly balanced or not.

### **Limitations of Organization Chart :-**

1. It only shows the position of each person but cannot explain that whose position or responsibility is more important than other.
2. It does not indicate the organization's informal relationships and channels of communication.
3. It does not give the guarantee of efficiency of organization.
4. It may create rigidity into the relationships.

### **Check Your Progress - 1**

#### **❖ Fill in the blanks.**

1. Organization is an important function of .....
2. The term organization has two meanings one as ..... and other as .....
3. .... principle refers to the number of subordinates working under each superior.
4. .... is a design of an organization.

### **3.2.2 Delegation of Authority : Meaning**

#### **Introduction :-**

The important tasks of management include organization. The organization is considered as 'function' as well as 'structure'. Different resources need to be collected to meet the objectives of the business. It is

called 'organization'. All of these components have to be built in a formal form. The delegation of authority has the highest importance in the formulation of organization structure or framework. Due to the delegation of authority, the people who work at different levels, their positions, rights, responsibilities, are explained in the organization structure. That is why the organization's work is done successfully and effectively to meet the objectives of the organization.

### **Delegation of Authority: Meaning :-**

To understand the concept of delegation of authority, first it is necessary to understand the four important concepts related to it. These four concepts are authority, power, responsibility and accountability.

**Authority :** The authority means right to do the work, function, or to tell others or to have the right to order in that respect. In the organization, the senior has the right to make decisions in his or her jurisdiction, according to which give order to the juniors to work and have the right to get it done properly. Authority flows from the senior towards the junior, as from the top to down. Members of the enterprise delegate the authority to the Board of Directors, from the Board of Directors to the Chief Manager, from the Chief Manager to the Regional Manager, from the Regional Manager to the junior manager, from the junior manager to the supervisor. When the junior person executes the orders given by the senior, he accepts the senior's authority.

**Power :** Power and Authority are often considered to be just similar in the practice. But it is important to understand the difference between them. Authority is the right to do something; power is the ability to do it. The word power shows the power of the superior to use the tools / means necessary to implement the authority. A senior person is using power in different ways. That ways include the promise of reward or give reward, showing the fear of losing a reward or profit, fear of being punished or punished.

**Responsibility :** It is the obligation to complete a task. There is some type of work assigned to each person in the organization. The duty to complete

the work properly is called as responsibility. It is the responsibility of the junior ones to complete the work entrusted to them by the superior.

**Accountability :** Responsibility and accountability are often used in the same sense. But there is a difference in that. It is the responsibility of fulfilling the task entrusted to the junior, and fulfilling this responsibility and submitting the report to the superior is the accountability. The accountability is flowing from the Bottom to Up. Every person in the organization is accountable to the senior.

All four components authority, power, responsibility and accountability are necessary to be balanced. If any one of these components is more or less its effect on work is adverse.

### **Definitions of Delegation of Authority :-**

The senior one in any organization cannot do all the work alone. He has to get help from many other people and to get work done from them. This is called management. Thus, the senior assigns some of his work to the junior and get fulfilled from them. The subordinate has been given some powers from the senior authority so that he can fulfil the task entrusted to him. This process is called the Delegation of Authority. Some authors have been defined Delegation of Authority as follows:

1. According to **F. C. Moore**, "Delegation means assigning work to others and giving them authority to do so."

2. "Delegation takes place when one person gives another right to perform work on his behalf and on his name and the second person accepts a corresponding duty or obligation to do that is required of him." - **O. S. Miner**.

3. "Delegation of authority means, if the manager requires his subordinate to perform the work, he must deploy him with part of the rights and powers which he otherwise would have exercised himself to get that work done." - **Louis Allen**.

The above definitions explain that delegation of authority is made from senior to the junior and given for the fulfilment of the work / responsibility. The rights of senior officials are not exhausted by delegation of authority or they do not give up their rights, it means only the limited transfer of rights required for the fulfilment of the relevant work done by the junior. Due to the delegation of authority, the senior is not become free from responsibility, but he is responsible for the fulfilment of junior's work and also in fulfilling the total work.

### **Elements of Delegation of Authority :-**

Delegation of Authority means to give orders or to give instructions or to give necessary powers to the junior to perform the work given to him. It consists of three major elements:

#### **1. Assignment of Duties to Subordinate :-**

In any organization senior alone cannot fulfil all the responsibilities. Therefore, work has to be divided in subordinates. Order or instructions have to be given about it. In assigning the responsibility of work to the junior, the senior has to make a detailed review of the total work first and to determine which of the work will be given to subordinates. Due to entrusting responsibility to the subordinates, they can be involved in the fulfilment of objective of the organization. This will create a feeling among the subordinates that they are an important component of organization.

#### **2. Delegating of Authority to Subordinate :-**

If you want to complete any work properly, you have to give them the necessary rights. When the junior is entrusted with responsibility, they have to give the necessary authority to complete it. The authority to guide others in the context of the work, the use of raw materials or tools, representing the organization etc. is delegated to subordinates. The junior has to understand the span of authority given to him/her. The authority delegated to the junior does not diminish the authority of the senior.

### **3. Creating of obligation on the part of Subordinate :-**

The third important factor in the process of delegation of authority is to create commitment to properly fulfil the work by the subordinates. The delegation of authority is not limited only to give responsibility to the junior and give them the necessary powers to fulfil them. The junior is obliged to fulfil the responsibilities entrusted with the right use of the authority, and he has to complete his work properly and submit the report to the senior. At the same time, when junior accepts responsibilities, he also accepts the commitment to fulfil it.

The delegation of authority is effective only if there is proper coordination among all the above three components.

### **Principles of Delegation of Authority :-**

Delegation of authority is a very important function. It is a valuable function to make the organization successful. To make this work effective, its principles / rules have to be considered.

#### **1. Authority and responsibilities must be equal :-**

Responsibility assigned to one person and the authority provided for it must be equal. If there is an inequality in it, the proper result is not possible. If the authority is more and the responsibility is less, the authority may be misused. On the contrary, if the responsibility is more and the authority is less, the responsibility cannot be fulfilled properly.

#### **2. Responsibility is not delegated :-**

When a senior gives authority to the subordinates and is given to complete the specific task, then the senior is not free from that responsibility. Although the work entrusted to the subordinates, ultimately the senior is responsible for it.

### **3. Unity in order :-**

The subordinates should order from the one senior. There should not be a system to give orders to subordinates by more than one senior. Because there can be confusion about whose order should obey by the subordinates.

### **4. One person one responsibility :-**

While entrusting responsibility, one junior should be given the one responsibility. There is a possibility of confusion and conflicts if one responsibility is assigned to many individuals. Responsibility can be transferred on one another.

### **5. Proper Planning :-**

Before delegating the authority to the junior, the appropriate policy and rules should be prepared. It should be explained to the juniors. Proper control should be kept. Proper planning should be done in order to properly fulfilment of the responsibilities by the junior in the right time.

### **Difficulties in Delegation :-**

Delegation of authority is a very important task. But there are many difficulties in creating an effective mechanism for delegation of authority. These problems/difficulties arise from the manager as well as from the subordinates.

#### **(A) Difficulties / Problems being created by the Administrators / Managers :-**

- 1. Feelings of superiority :** Many senior people think that I can only do better in every work. If I assign this work to others, he feels that he cannot do it as well. Therefore, they are not ready to give responsibility and authority to the juniors.
- 2. Fear of creating a competitor :** Providing rights to the subordinates will increase their confidence. They can carry out

many responsibilities efficiently. So, in the future, the senior seems to be fear of creation of competitor. So they do not want to provide authority.

3. **No faith in juniors** : Many seniors think that the subordinators will not be able to handle given responsibility properly. They do not have the confidence in juniors. So they do not delegate the authority.
4. **Lack of directing ability** : If the senior entrusted the responsibility to the junior, and if the junior asks any doubts, problems, then some senior face the problem. Due to lack of directing ability, they are not ready to give authority to subordinates.
5. **Monopolistic attitude** : If the manager's attitude is autocratic, then he is not ready to give authority. He does not like to give his rights to others.
6. **Not willing to accept the risk** : The manager has given the junior authority and entrusted the responsibility and if a mistake is made from Junior, the institution may face difficulties. The manager is not ready to accept such a risk. So he is not ready to delegate the authority.
7. **Wish to dominate the junior** : Many managers want to dominate the junior. So they are not ready to give up rights.

**(B) Difficulties / Problems being created by the Subordinates / Juniors :-**

1. **Fear of criticism** : Junior employees are not ready to accept responsibility and authority because of fear of criticism if any mistake can be done.
2. **Lack of information** : The juniors oppose to accept the responsibility and authority if there is any doubt about whether the



related information will be available to fulfill a new responsibility or not.

3. **Lack of encouragement** : If the junior does not get encouragement from the superiors to accept responsibility and authority, then they are not ready to accept the responsibility and authority.
4. **Lack of decision making** : If the juniors have doubt to make the right decisions while completing a new responsibility, then they don't accept authority.
5. **Lack of confidence** : If junior employees are lacking confidence, then they are not ready to accept any new responsibility.
6. **Weak senior-junior relations** : In the organization where senior-junior relations are weak, juniors do not accept the responsibility, because they can't get the support from seniors.
7. **Depending attitude** : Many people working at the junior level are not ready to accept any new responsibility, because they are afraid of failure. They also do not want to work hard. Therefore, they continually rely on the superior. Therefore they oppose to delegate the authority.

### **Guidelines for Making Delegation Effective :-**

Delegation of authority is a very important function, so that the organization can work effectively and fulfil its goals. For making delegation effective following guidelines are to be considered.

1. **Changes in the mentality of seniors** : There is a need to change the mentality of senior people in the organization. They have to prepare to bear the mistakes of juniors and have confidence in them.
2. **Clear and definite objectives** : Objectives of the organization should be clear and definite. So, subordinates can understand what

their basic responsibilities are and what they can contribute to the achievement of objectives of the organization.

3. **Appropriate planning** : Understanding the capabilities and skills of the juniors, proper planning of allotting the rights and responsibilities to each of them is possible. Therefore, the junior can fulfil his responsibility properly.
4. **Motivation** : If seniors take proper note of the subordinates work, supervise, explain, and support them, they will be motivated to accept responsibility.
5. **Full responsibility** : When entrusting responsibility for the junior, it is worthwhile to delegate full responsibility of a particular job. So that junior can fulfil his responsibilities freely and a senior person can focus on other important tasks.
6. **Training to juniors** : Employee training is important for providing effective authority. It is necessary to explain how to take decisions and how to use the tools. If appropriate training to junior is given, they can handle new responsibilities efficiently.
7. **Good communication system** : If a good communication system is created between the senior and the junior, then the delegation of authority can be done properly. Therefore, the senior can easily send his orders and suggestions to the juniors and they understand it properly. Also, the juniors have any doubts, problems, they can get solve it. Therefore, the responsibility is fulfilled effectively.
8. **Proper control** : Proper control systems have to be created in the organization for providing effective delegation of authority. Therefore, the supervision of juniors can be monitored and if a wrong decision is made by them in some time, then they can be corrected and prevent further losses.

## Check Your Progress - 2

### ❖ **Fill in the blanks.**

1. .... means right to do the work, function, or to have the right to order in that respect.
2. The ability to implement the authority is called as .....
3. There must be balance in ..... and .....
4. Authority flow from ..... to .....

### **3.2.3 Centralization and Decentralization : Meaning**

Centralization and decentralization are important principles of management as well as of organization. But these two principles are opposite; therefore a proper coordination between them is necessary. While forming organization whether to use centralization or decentralization or use combination of two is depend on various factors. Such factors include size and scope of business enterprises, unity in policy, availability of human resources, business environment etc. The centralization and decentralization are related to authority delegation, decision making in business organization. In short the centralization means integration of decision making rights with one or limited persons and decentralization means distribution of decision making rights with more persons at each level of management.

#### **Centralization – Meaning :-**

Centralization means integration of authority, power, and rights. These powers, rights are centralized with higher authorities. Authority is not delegated to juniors. Decisions regarding planning, organizing, directing, controlling etc. are taken over only by higher authorities and juniors have to work as per the orders given by the superiors. To understand the concept of centralization it is necessary to go through the various definitions given by different experts.

1. "Centralization is the systematic and consistent reservation of authority at central point within an organization" - **Louis Allen**.

2. "Centralization stands for concentration of authority at or near the top." - **Avasthi and Maheshwari**.

3. "Everything that goes to reduce the importance of the subordinates' role is centralization." - **Fayol**.

From the above definitions we can say that centralization means concentration of authority with top executive or at top level. Subordinates or juniors are not considered as important factor, they are not allotted any power or authority. They cannot take any decision and they are dependent on superior for each activity. They have to take orders, guidance from senior for their work.

### **Merits / Advantages of Centralization :-**

The merits/advantages of centralization are as follows:

1. Decisions regarding the functioning of the organization can be taken fast.
2. It can be kept secret about the organization's policy, objectives, future planning.
3. Efficient coordination can be done in the work of subordinates.
4. It is useful for small businesses.
5. Centralized organizational structure is simple and clear to understand.
6. Repetition in the efforts of the employees, the use of the tools can be avoided. They can be used properly.
7. It's easy to control subordinate's work
8. Used in emergency situations or difficulties because decisions are taken immediately.

9. It is useful for leadership development of seniors.
10. Subordinates can be allotted with the responsibilities as per their capacities, skills, and choice.

### **Demerits/Disadvantages of Centralization :-**

The demerits/disadvantages of centralization are as follows:

1. The decision makers are limited. It is not possible that they are experts in every respect. Therefore, it can make a decision wrong and it can be disadvantages to the organization.
2. There is no encouragement for the junior staff because they are not involved in decision making.
3. The right to decide is to have one or few people. Others just have to work according to the order. Therefore, there is load of work on juniors.
4. There is no opportunity for progress to subordinates.
5. Due to rights being centralized, it can be misused.
6. There is no proper utilization of the ability, skills and knowledge of subordinates.
7. The higher authorities have to take decisions about each and every activity, it will waste their important time, skills, abilities in unnecessary work.

### **Decentralization – Meaning :-**

Decentralization is the process opposite to centralization. Decentralization means distribution or delegation of authority to subordinates at each level of management. This authority is given to carry out the particular responsibilities. When the organization's scope is large and complex, different sections are created based on the geographical criteria, depending on the functions of the work. When the rights are divided between

officers working in these sections, they are called decentralization. While granting such rights, the rights related to some important aspects are kept centrally centric. It is necessary to go through the various definitions to understand the meaning of decentralization.

1. "Decentralization denotes dispersal of authority among a number of individuals or units." - **Avasthi and Maheshwari**.

2. Everything that goes to increase the importance of the subordinates' role is Decentralization. – **Fayol**.

3. Decentralization is wide distribution of authority and responsibility to the smallest size unit that is practical throughout the organization - **Keith Davis**.

These definitions explain that decentralization means distribution of authority. It is delegation of authority to subordinates. The organization is divided into small units or sections as per functional activities or geographical area and authority is given to the officers working at each section or each level of management. The authority is given to the subordinates to carry out the respected responsibilities. In decentralization subordinates are involved in decision making.

### **Merits / Advantages of Decentralization :-**

The merits/advantages of centralization are as follows :-

1. The workload of the senior manager is reduced so that they can focus on important work.
2. The lower level managers are given rights, which encourages them and they work more efficiently.
3. Decentralization leads to increase in employee confidence.
4. Young people get an opportunity to accept new responsibilities to make decisions. This helps in creating a manager.
5. It is possible to make maximum use of the capabilities, skills, knowledge and ideas of subordinates.

6. Decisions are taken at different stages, so the decisions can be made immediately.
7. Decentralization is important for a large-scale institution.
8. Decentralization is beneficial for organizations to succeed in the changing environment and competition.
9. Through decentralization, communication will be easy. Therefore, there is no delay in decision so it avoids red tapism.
10. Decentralization can create cordial relationship between the senior and the juniors.

**Demerits / Disadvantages of Decentralization :-**

1. In decentralization authority have been split on many levels. This increases the number of officers and increases the expenditure.
2. Different people make decisions on different levels. Therefore, there is no unity in the decision.
3. On many levels many people have got right to take decision. So it becomes difficult to coordinate their work.
4. Due to decentralization repetition occurs in the work of employees, in the use of tools etc.
5. It is not possible to make quick decisions in emergency situations
6. The need for large scale expertise is created.
7. Control is difficult because different people are making decisions independently at different levels.
8. There is no secret about the organization's policy, objectives, and future planning.

The meaning of centralization and decentralization explain that pure centralization or pure decentralization is not possible. So there must be a proper coordination or balance between these two principles.

### **Check Your Progress - 3**

❖ **Fill in the blanks.**

1. .... means for concentration of authority at or near the top.
2. .... means distribution or delegation of authority to subordinates at each level of management.
3. Centralized organizational structure is useful to ..... firm.
4. .... leads to increase in employee confidence.

### **3.2.4 Organization Structure**

To carry out the function of organizing successfully and efficiently proper organization structure is necessary. Organization is a combination of human resource and other resources. Organization structure includes the formal framework among the persons involved in organization and their interrelationship. The formal structure of an organization is two dimensional – horizontal and vertical. The horizontal structure explains the differentiation of the total organizational job into different departments. The vertical structure refers to the hierarchy of authority relationship with a number of levels from top to bottom. Organization structures vary tremendously. It depends on the basis of function, product, place or some combination of the three. An organization's authority structure may range from highly centralized to decentralize. Determination of organization structure depends on various factors such as objectives of the enterprises, functions, size of the enterprises, economic condition of the enterprises, organizational culture etc. A good organization structure has various characteristics which include simple structure, specialization, right personnel, clear authority and responsibility relationship, flexibility, proper span of control, unity of direction and command etc. A good organization structure helps to fulfil the objectives of the enterprises. There are so many advantages of organization structure such as increase in efficiency of management and organization, facilitate the communication and control, selection of right person for right job, helpful for

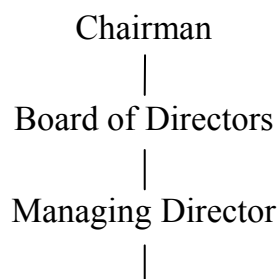


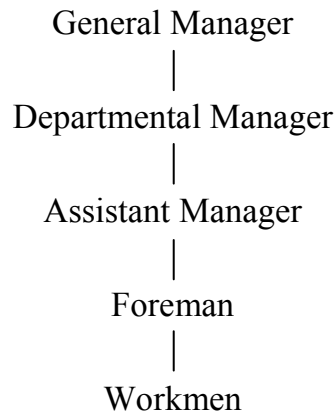
training and motivation, maintain good work environment, create healthy relations among workers etc. There are different types of organization structures. In this unit following four types are included.

- 1) Line Organization.
- 2) Line and Staff Organization.
- 3) Functional Organization.
- 4) Network Organization.

### **1. Line Organization :-**

This is the oldest type of organization structure. It is also called as military, traditional or hierarchical organization. It has used in today also. Under this system, authority flows from the men at the top to the lowest man vertically. In other words, the directions are issued by the man in-charge of the whole organization and are directly conveyed to the persons responsible for the execution of work. This makes the 'line of authority straight and vertical' In this type, each position has general authority over lower positions in the hierarchy in the accomplishment of the main operations of the firm. Authority flows directly from the chief executive to the manager, to assistant manager, to foreman and to the workmen. Each position in the organization structure enjoys general authority over all the lower positions in the hierarchy. Whereas authority flows downwards, responsibility moves upwards, but directly in a straight line. Scalar principle and the principle of unity of command are strictly followed. No subordinate is under two or more superiors. The line of authority is essentially simple mathematical sub-division. Promotion is step by step upwards. The line organization structure is as follows:





This structure is useful where the scale of business is comparatively small, and the subordinates and operatives are not too many; in process industries, such as oil refining, spinning and weaving; where work is simple and is almost of routine nature; where machinery is nearly, if not entirely, automatic and where the labour management problems are not difficult to solve. Prof. Florence explains three principles which are necessary to realize the advantages of this system, and the non-observance of which would involve inefficiency. These are commands should be given to subordinates through the immediate superior, there should be only one chain, and the number of subordinates whose work is directly commanded should be limited. The various advantages of line organization are as follows:

#### **Advantages / Merits :-**

The main advantages/merits of line organization are as under:

- i) It is the easiest to establish and simplest to explain to the employees.
- ii) It makes for unity of control thus conforming to the scalar principle of organization.
- iii) It ensures excellent discipline. This is because of unified control. The subordinates have no doubt regarding the person from whom they receive instructions.

- iv) Everybody in this type of organization knows to whom he is responsible, and who are responsible to him.
- v) The unification of authority and responsibility ensure quick and prompt decisions.
- vi) Since each executive has sole responsibility in his own position and sphere of work, he can easily adjust the organization to changes in the business situation.
- vii) It is economical and effective, because it permits of rapid decisions and effective coordination.

### **Disadvantages / Demerits :-**

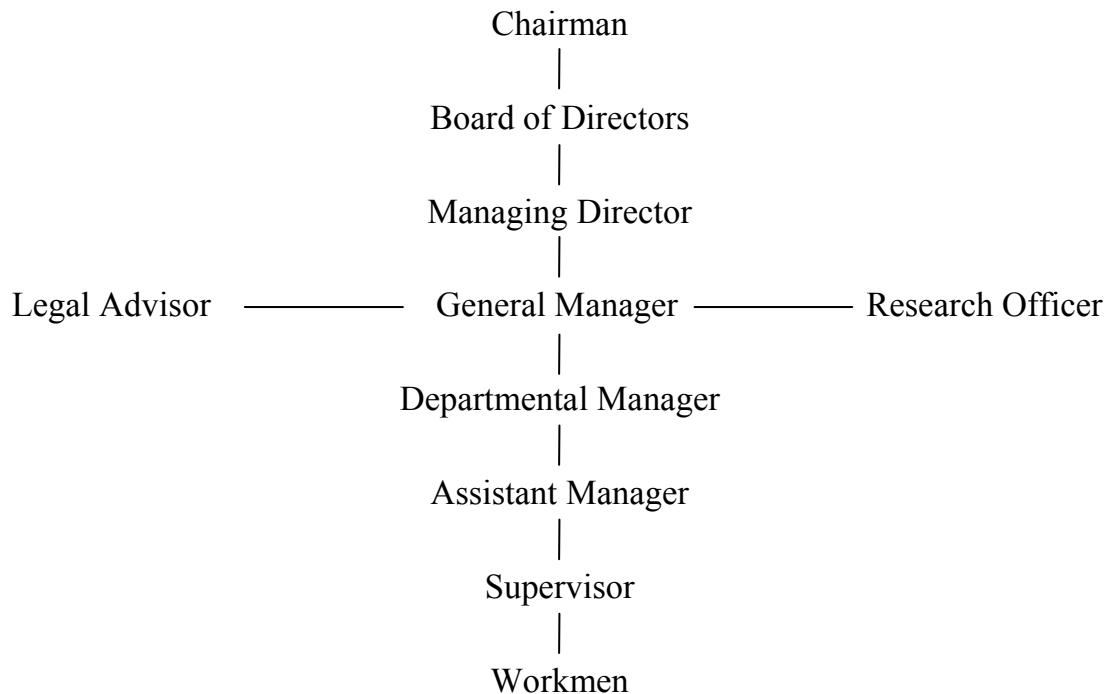
The structure has the following disadvantages/demerits:

1. It is based upon an autocratic system of management, and so business is subject to prejudiced decisions of one man.
2. The work may be divided according to the whims of the manager rather than according to any scientific plan.
3. It cramps progress and prevents effective working of the unit.
4. The foremen have so much to do that they cannot see to improvements as rapidly as is desirable.
5. It suffers from lack of specialization.
6. The stunning responsibility on the shoulder of the manager can crush him under the load of too much work-load.
7. The system has no means of rewarding the good worker and punishing the failure.
8. It is likely to encourage favouritism.
9. Line organization is rigid and inflexible. It is bureaucratic and engaged with red- tape.

## **2. Line and Staff Organization :-**

Though the line organization structure is oldest one and used on large scale, it has so many limitations. These limitations pushed to find out a new structure which is called as Line and Staff Organization. As industrial firms grew in size, the managers who worked under departmental or line form of organization found that they did not have time to give careful attention to every phase of management particularly for investigational work and solid constructive enquiry and thought. The "staff" was, therefore, instituted to discharge this work, and to advise the manager on his problems. It is the formal recognition of the Specialist or Expert in industry. In its origin staff was added purely as adviser to the line structure, with no authority to place recommendations into action. Thus, staffs refers to officers who are not in the line, but are more or less permanently detailed to special service, or to the study of someone phase of operations; and thus act as an advisory group adjunct to the line. In the industrial world, too, the staff organization came into being the result of the inability of the departmental managers to investigate, think, and plan at the same time, as they were performing the ordinary tasks of production and selling. Consequently, the work of research, investigation, recording, standardizing, and advising, i.e., the work of the expert, was wholly distinguished and separated from the direct processes of manufacturing and selling. As a result there became a clear demarcation between "thinking" and "doing" and that is, the staff being the "thinkers and the line the doers". It is to be emphasized that the staff functions are co-coordinative and cooperative, but they do not stand to one another in any order of ascending or descending scale. The manager, simply as manager, ranks and commands the sub-manager; the latter in turn commands the superintendent, who commands the foreman under whose command the operators work. That is a "line" relation, as all of them stand in a line. But the cost accountant, the expert for research and designs, and the legal and financial advisers are the "Staff" who takes no direct or executive share in carrying on the work of production and selling. The staff may be personal staff, specialized staff, or general staff.

The Line and Staff Organization structure is as under :-



### **Advantages / Merits :-**

The advantages / merits of Line and Staff Organization are as follows :-

- 1. Specialization :** In this structure planning and execution work is divided. It adds the specialist to the line. The organization can take the benefit of experts.
- 2. Effective Implementation :** The line officers can implement effectively because experts relieving the line manager of the subsidiary tasks of thinking and enabling him to concentrate on the main job of producing and selling.
- 3. Expert Advice :** The organization is benefitted with expert advice. Because establishing the staff division experienced and well qualified persons are appointed and they give advice to the line managers.

4. **Development of Staff** : It provides for better utilization of personnel. It provides opportunity to staff to work on different positions which leads to more skill development.
5. **Less Workload** : Due to division of work the line manager is relieved from the other subsidiary work. So they concentrate on their main work.
6. **Increases the Efficiency** : It provides specialization as well as division of work. Therefore the line staff effectively control and coordinate the main work and take advice from experts which increases the efficiency of the organization.

#### **Disadvantages / Demerits :-**

The structure has the following disadvantages / demerits :-

1. **Internal Clashes** : There may be internal clashes between line and staff executives because allocation of authority and responsibility may not clear as there can be confusion about the relationship between line and staff executives.
2. **Advice neglected** : The staff experts do not have the authority to implement the recommendations. Their advice may be neglected, so there is a danger of the staff experts remaining ineffective.
3. **Delay in Decisions** : Line managers are depend too much on staff experts. If the recommendations from staff are not received in time, there may be delay in decisions.
4. **No expected effect** : There may be any expected effect of expert's recommendations because the staff executives do not have the authority to implement the recommendations.
5. **Attitude of dependence** : Line managers are likely to tend to depend too much on staff experts and thus lose much of their judgment and initiative.

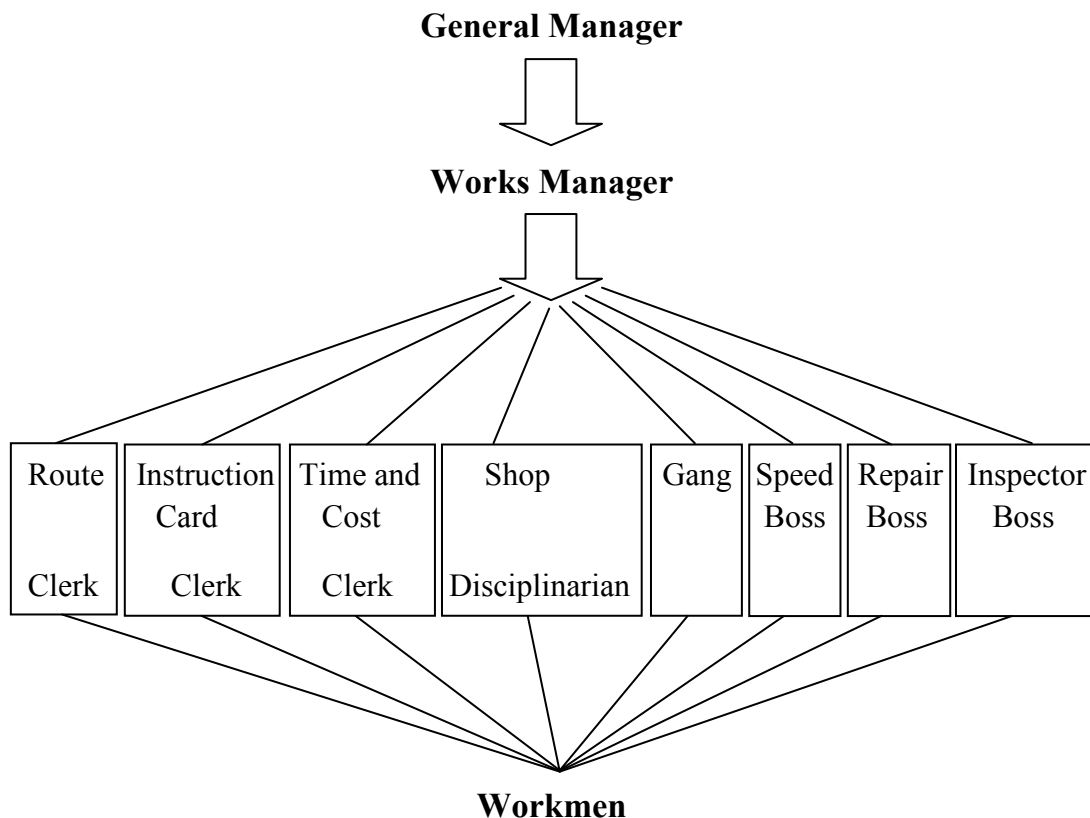
### **3. Functional Organization :-**

F. W. Taylor, the founder of Scientific Management developed the functional organization. After recognizing the limitations of the pure line organization as well as limitations of line and staff organization and appreciating the fact that there could be greater productivity and improved efficiency through the use of specialized knowledge and skill, he developed the functional organization. It is sometimes called as Functional Foremanship organization. He observed that one man, concentrating on a limited number of tasks, could become highly skilled. As part of his Scientific Management, he broke down the job of a single foreman into eight separate functions.

Its basic concept is that bifurcation of the organization should be based on functions and techniques and not on the basis of production or activities. Under this plan, specific functions common to all or several departments are each placed in the hands of a man specially qualified for his particular function. Instead of giving attention to all factors in one department, he attends to one factor in all departments. It divides personnel according to managerial functions, such as accounting, cost control, budgeting, purchasing, research, manufacturing, production control, maintenance and transport. Under the line and staff organization, the experts have no authority but under functional plan however, specialists become more than just advisers. They become executives in charge of single techniques which are common under several units of the work. The employee is no longer under one boss, but under as many bosses as his work requires. All related and similar work is done in one department under one executive. For example, the purchaser is responsible for all purchases of the company. The marketing manager will be responsible for all marketing work of company, of all the plants and for all product lines. Similarly, the Personnel manager will have direct authority over the personnel in other departments in respect personnel matters like pay, discipline, etc. The scope of the work is limited but the area of authority is unlimited.

Due to the complexity of modern, large-scale organization, the need to make the fullest use of the specialists, and the necessity to avoid burdening on

line managers arise a need for functional organization. Taylor explained it for production activity. He instead of the usual practice of putting one foreman in-charge recommended that there should be eight foremen as follows :-



The functions of all these experts are as follows:

1. **Route Clerk** : He is the person whose duty was to determine how the job was to be done and lay down the flow chart of material and to see that the production order was completed.
2. **Instruction Card Clerk** : He is the person who determines the exact method of doing a piece of work and prepares instruction cards.
3. **Time and Cost Clerk** : The person who would lay down the standard time for the completion of the work and who would compile the cost of that piece of work.



4. **Shop Disciplinarian** : He is the person who would deal with cases of breach of discipline and absenteeism and responsible for maintaining discipline throughout the works.
5. **Gang Boss** : The person whose task it would be to assemble and set up various machines, prepare schedule of the work for the machine and getting it to the worker and also providing the tools, drawings and materials for a particular job.
6. **Speed Boss** : The person whose task is to determine at what speed the machines should be run for the efficient completion of the job and supervise machine speeds and worker performance, so as to see that the job was done correctly and at the right speed.
7. **Repair Boss** : The person who was responsible for repairs and maintenance of machines and keeping the machines in efficient working order.
8. **Inspector** : The person whose task is to checks the quality of work done and provide guidance to maintain the quality.

#### **Advantages / Merits :-**

The advantages / merits of Functional Organization are as follows :-

1. **Division of Work and Specialization** : In this structure, each work is divided into small tasks. People with special skills, abilities, and qualifications are appointed for doing such tasks. This division of work and specialization benefited the organization.
2. **Expert Advice and Guidance** : An independent expert officer is appointed for each special work. The knowledge and guidance of experts become useful to the employees in the form of advice and guidance.

3. **Increases efficiency** : Employees has to perform a specific type of work differently and frequently. Therefore, their skills increase and their efficiency increases.
4. **Workload is reduced** : Because of the division of work, one person does not have to do all kinds of tasks, so the burden on them is reduced.
5. **Increase in Production** : Employee efficiency is increases due to the division of labour and specialization. Also, more work is done by the employee due to expert advice and guidance. As a result of that, the organization's production increases.
6. **Employee Benefit** : Employee gets work as per their expertise. Specialization can increase employee performance. The organization's production increases so the employee can get higher wages or compensation.
7. **Useful for large organizations** : The size and scope of business organizations has increased. Many organizations are working globally. Therefore this organizational structure is useful for such organizations.

### **Disadvantages / Demerits :-**

The structure has the following disadvantages/demerits:

1. **Excess specialization** : In this organization, many experts are appointed in each department. Discrimination can arise if everyone's opinions are different.
2. **Discipline and control difficult** : An employee has to obey orders from many superiors. This can be confusing and difficult to maintain discipline and control.
3. **Difficult to keep co-ordination** : The principles of unity of order and unity of direction are not followed. This creates confusion in

the employee. It is therefore difficult for the officers to coordinate their work.

4. **Difficult to determine the responsibility** : If the organization's objectives cannot be met, it is difficult to determine the responsibility of the employee or officer, because many are involved in the same work.
5. **Conflicts between officials** : The employee has to obey orders from many authorities. There is a possibility of misunderstanding if one officer's order is followed and the order of the second officer is delayed. It can be caused trouble to the employee, and there may be differences or conflicts between officials.
6. **More expensive** : This organizational structure becomes more expensive because many experts have to be designated in each section. This increases the number of officers and increases the cost.
7. **Complex Composition** : This organizational structure is extremely complex because it does not strictly adopt the scalar chain principle. The same person is responsible for many senior officials at the same time. Therefore, complications arise.

In short, this system has been quite successfully followed in big concerns for division of work at the top. But for division of work in various departments themselves the system has not been found to be very successful mainly because there is no clear line of authority.

#### 4. **Network Organization :-**

Today's age is an era of advanced technology. There are extreme changes takes place in the field of information technology. Due to computers, personal computers, laptop, tabs, mobiles, smart phones etc. and satellites, telecommunication towers etc. any one from any place in the world can contact, communicate to other person at any other place in the world. This

revolution in technology affects every field and business organizations have no exception to this. To run any business or any institute organization is necessary and for that purpose structure is formed. There are various organizational structures in use from so many years. Line Organization, Line and Staff Organization, Functional Organization, Committee Organization, are the structures in use. But now a day, due to technological changes a new organizational structure is comes into practice as Network Organization. To establish a relationship among the different persons, different institutions, and associations by using internet is called as network. The scope of this network has become worldwide so it is called as World Wide Web (www).

Network organization means a structure formed by the business organization with the help of internet and computers and other devices. It is a virtual organizational structure based on software and hardware. Today this type of structure is used on large scale by business organizations particularly by marketing firms. It is difficult to form such type of organization in other business fields. Also it is not possible to form a pure network organization because in each organization human resource is must. There are no geographical limitations to Network organization. It is necessary to give training about computer application, hardware and software, internet process etc. to the all related stakes of network organization.

### **Advantages / Merits :-**

The advantages / merits of Network Organization are as follows:

1. There are no geographical limitations to Network organization. So any one from any place in the world can do business to other person at any other place in the world.
2. In this organization there is two way communications, therefore it will become helpful to understand the opinions, thoughts of each other.
3. Immediate contact and communication is possible.

4. The cost of forming the structure is relatively small.
5. This structure increases the efficiency of business organization.

### **Disadvantages / Demerits :-**

The structure has the following disadvantages/demerits:

1. In this organization human participation is very less it leads to monotonous and mechanical work.
2. The base of this organization is mainly technological and it requires consistency implements of technology.
3. It needs Technology, Equipments, Resources etc. and it requires more financial investment.
4. This organization is based on technology so training to all related persons is necessary.

### **Check Your Progress - 4**

#### **❖ Fill in the blanks.**

1. Line organization is the ..... type of organization structure.
2. The line department do ..... and the staff department do .....
3. .... developed the functional organization.
4. There are no geographical limitations to ..... organization.

### **3.3 Summary**

Organizing is the one of the important functions of management. There are different functions of management. These functions are classified into two categories namely planning functions and executive functions. Organizing is

the one of the executive functions. Organization is treated as a backbone of management. Organizing is the mechanism of execution of the planning made by the management. The concept of organizing is used in two ways – i) Organization as Function and ii) Organization as Structure. The organization is important to complete any collective work. Coordination has a priority in the organizational work. The organization has the importance as it is coordinated in different departments, different individuals, different tasks, and is meant for the purpose. What significance of back bone in the human body has is the importance of organization in the business. There are different activities included in organizing which explains the process of organization. The steps included in the process of organizing are review of objectives and policies, determination of activities, grouping of activities, establishing departments, job specification and man specifications, distributing jobs, delegating authority, determining responsibilities, defining scalar chain, coordination system, actual executing. There should be some guidelines or rules necessary when the work is group work. Such rules are called as principles. As organizing is the group activity it also needs principles. E. L. F. Brach had explained the importance of principles of organization for establishing a strong organizational structure. Organization is a structure which includes different persons, machines, resources etc. The chart showing the relationship between various persons involved in the particular organization, their position, their authority and responsibility is called as organization chart. Organization chart is a design of an organization.

Delegation of authority means assigning work to others and giving them authority to do so. There are four components. All four components authority, power, responsibility and accountability are necessary to be balanced. If any one of these components is more or less its effect on work is adverse. Delegation of authority is a very important task. But there are many difficulties in creating an effective mechanism for delegation of authority. These problems/difficulties arise from the manager as well as from the subordinates. Centralization and decentralization are important principles of management as well as of organization. But these two principles are opposite;

therefore a proper coordination between them is necessary. While forming organization whether to use centralization or decentralization or use combination of two is depend on various factors. Such factors include size and scope of business enterprises, unity in policy, availability of human resources, business environment etc. The centralization and decentralization are related to authority delegation, decision making in business organization. In short the centralization means integration of decision making rights with one or limited persons and decentralization means distribution of decision making rights with more persons at each level of management. To carry out the function of organizing successfully and efficiently proper organization structure is necessary. Organization is a combination of human resource and other resources. Organization structure includes the formal framework among the persons involved in organization and their interrelationship. There are different types of organization structures. In this unit four types Line Organization, Line and Staff Organization, Functional Organization, and Network Organization are included.

### 3.4 Key Words

- **Organizing** : Organizing is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing objectives.
- **Delegation of Authority** : Delegation of authority means assigning work to others and giving them authority to do so.
- **Centralization** : Centralization stands for concentration of authority at or near the top.
- **Decentralization** : Decentralization is wide distribution of authority and responsibility to the smallest size unit that is practical throughout the organization.

### **3.5 Answers to check your progress**

**3.2.1** 1. *Management.*

2. *Structure, Function*

3. *Span of Control.*

4. *Organization Chart.*

**3.2.2.** 1. *Authority.*

2. *Power.*

3. *Authority, Responsibility.*

4. *Top, Down.*

**3.2.3.** 1. *Centralization.*

2. *Decentralization.*

3. *Small.*

4. *Decentralization.*

**3.2.4.** 1. *Oldest.*

2. *Implementation, Guidance.*

3. *F. W. Taylor.*

4. *Network.*

### **3.6 Exercise**

#### **A) Broad Questions.**

1. Define organization. Explain the process of organization.
2. Explain the principles of organization.
3. What is mean by Delegation of Authority? State the difficulties in Delegation of Authority.
4. Explain the concepts of Centralization and Decentralization.
5. Explain the Line and Staff Organization. Give merits and demerits of Line and Staff Organization.



**B) Short Answer Questions.**

1. State the elements of Delegation of Authority.
2. Explain the Guidelines for Making Delegation Effective.
3. Give merits and demerits of Centralization.
4. Explain the Line Organization with merits and limitations.
5. Define the concept of functional organization.

**C) Short Notes.**

1. Steps in Process of Organization.
2. Organization Chart.
3. Elements in Delegation of Authority.
4. Centralization.
5. Decentralization.
6. Network Organization.

**3.7 Reference for Further Study**

1. **Bhushan Y.K.** (2007) : “*Fundamentals of Business Organization and Management*”, Sultan Chand and Sons., New Delhi.
2. **Sherlekar S.A. and Sherlekar V.S.** (2006) : “*Modern Business Organization and Management*”, Himalaya Publishing House, Mumbai.
3. **Shukla M.C.** (2007) : “*Business Organization and Management*”, S. Chand and Co., New Delhi.
4. **Tripati P. C. and Reddy P. N.** (2007) : “*Principles of Management*”, Tata McGraw Hill Publishing Co. Ltd., New Delhi.

□□□

**Unit - 4**  
**Direction and Communication**

---

Index

4.0 Objectives

4.1 Introduction

4.2 Subject Matter

4.2.1 Direction : Meaning and Definition

4.2.1.1 Elements of Direction

4.2.1.2 Principles of Direction

4.2.1.3 Techniques of Direction

Check Your Progress-I

4.2.2 Communication- Meaning and definition

4.2.2.1 Importance of Communication

4.2.2.2 Process of Communication

4.2.2.3 Types of Communication

4.2.2.4 Barriers to Communication

4.2.2.5 Overcoming Barriers to Communication

Check Your Progress-II

4.3 Summary

4.4 Key Words

4.5 Answers to Check your progress

4.6 Exercise

4.7 Books for Further Reading

## **4.0 Objectives**

After studying Direction and Communication students can understand following points.

1. Meaning of Direction and Communication
2. Elements, Principles and Techniques of direction
3. Importance and Process of Communication
4. Process of Communication
5. Barriers in Communication Process
6. Overcoming Barriers to Communication

## **4.1 Introduction**

Direction and communication are important functions of management. All the functions of management such as planning, staffing, controlling, forecasting etc. are connected each other by Directing and Communication. Direction helps to integrate the individual efforts to achieve institutional objectives and goals. Communication is the process of transfer of information from one person to another. Communication is essential for effective functioning of all managerial functions such as planning, organizing, leading, controlling and coordinating. The importance of direction and communication is increasing day by day. In this unit, students can understand the Meaning of Direction and Communication, Elements, Principles and Techniques of direction, Importance and Process of Communication, Barriers in Communication Process, Overcoming Barriers to Communication.

## **4.2 Subject Matter**

### **4.2.1 Direction-Meaning and definition**

One of the important functions of management is Direction. All the functions of management such as planning, staffing, controlling, forecasting

etc. are connected each other by Directing. It is the heart of the management process, through which management can easily take necessary actions. It is the process of leading, instructing, motivating, executing, supervising and guiding. In simple words, directing is the process of collecting people from organization, to get maximum cooperation from them and achieve the goals and objectives of the organization. However, for the effective execution of this directing process, integration of organizational goals with individual and group goals are most essential. Functioning of each and every individual affects the work done by others and, in turn, the functioning of others is affected. In this way, each individual in the organization is interrelated with each other. From this point of view, direction helps to integrate the individual efforts to achieve institutional objectives and goals.

The physical resources like money, materials, and machine i.e. three M's are handled by fourth one i.e. Men (human being) to fulfill the functions of management. It helps to achieve the organizational goals. Every action is initiated through direction. Directing is the soul of management. Without effective and efficient direction management functions may come to worthless.

#### ❖ **Definitions :-**

Some of the following definitions point out the meaning and scope of the direction.

**William Newman and E. Kirby Warren**, *“Directing deals with the steps, manager talks to get subordinates and others to carry out plans.”*

**Theo Haimann**, *“Direction consists of the process and techniques utilizing in issuing instruction and making certain that operations are carried out as planned.”*

**Earnest Dale**, *“Direction is telling people what to do and seeing that they do it to the best of their ability.”*

**Harold Koontz and O'Donnell**, *“Direction is a complex function that includes all those activities which are designed to encourage subordinates to work effectively and efficiently.”*

## **Nature / Features of Directing**

Directing is the heart of management. The functions of management such as planning, forecasting, organizing, controlling, staffing etc. cannot work properly without direction. It provides boost to all these managerial functions. The nature / features of the direction is summarized as follows.

### **1. Continuous Process :-**

Direction is the continuous and endless process. Direction continues throughout the life of the organization. The successful manager needs to give order to his subordinates, lead them, motivate them and guide them continuously. As long as work in progress direction has to continue.

### **2. Every level of Management :-**

Generally superior gives direction to its subordinates. The relation of superior and subordinates is maintained at every level of management like top level, middle level or the lower level. It means the direction is the function which is performed at each and every level of management.

### **3. Important Function :-**

Basically organization involves human and non-human resources. For the purpose of getting desired results these resources should be handled in a systematic manner by management. Direction facilitates to management making optimum use of these resources. It means the potentiality and capability of every individual in the organization will be utilized properly through direction.

### **4. Multi-objectives :-**

Marshall Dimock has pointed out the correlation between direction and work performance. With the help of direction management leads and

motivates individuals in the organization to function properly. Direction helps to the management to achieve the predetermined organizational goals. Direction has multi-objectives process. It aims at getting the work done by subordinates and provides superiors opportunities for the management work done more responsibly.

#### **4.2.1.1 Elements of Direction**

According to Urwick and Breach, 'directing is the guidance, the inspiration, the leadership of those men and women that constitutes the real core of the responsibility of management'. Direction is an unending and continuous process. The direction has to continue as long as work is in progress. In the organization every subsequent top level manager needs to give order to his subordinates. However, direction is not merely issuing orders and instructions to subordinates by its superiors but according to Urwick and Breach it includes the function of leading, communicating, guiding, motivating and inspiring the subordinates.

These are the important elements of the direction, which are discussed as follows.

##### **1. Communication :-**

Communication is the first and most important element of direction. Communication is the process of sharing thoughts and meanings by people among themselves. It involves the concept of transfer the meanings and information between each other. Through communication the facts, thoughts, ideas and feelings of one person can be transfer to another person. The manager gives instructions and orders to subordinates for getting desired results from them. However, understanding of orders and instructions by subordinates is the most important aspect to perform their jobs. Hence, communication between each other is most essential. The manager or the superiors may done their work effectively only with the help of communication. It is the only way to reaching the people. Absence of communication the direction cannot passes or it may meaningless.

## **2. Leadership :-**

Leadership is the process of influencing and supporting employees to work willingly and effectively for accomplishment of managerial goals. The success of management of any business organization is mostly depending up on Leadership. Any manager cannot manage their subordinates effectively and efficiently without leadership. The successful leader is the person who motivates their subordinates to direct their efforts towards achievement of goal which are determined by the leader. The leader creates homogeneous work group and integrates the groups by making supportive environment in the organization. Appropriate leadership alone can influence the subordinates to give their best performance in the organization.

In other words, leadership can act as a spark plug for igniting the will of subordinates to work effectively and efficiently in the organization. The trust of people, respect and confidence wins only through effective leadership.

## **3. Motivation :-**

Motivation is one of the most important factors influencing human behavior and their performance. According to Robert Dubin, “Motivation is the complex forces starting and keeping a person at work in an organization. Motivation is something that moves the person to action, and continues him in the course of action already initiated.” It is the responsibility of the manager to create such an environment in organization through which subordinates may achieve organizational goals efficiently. Motivation facilitates manager to get as much as contribution of people for the achievement of predetermined objectives of the institute. An employee has ability, interest and will to do work. The manager induces, inspires and ignites the will to do work and create adequate interest in subordinate’s mind through motivation.

In other words, motivation means inspiring the subordinates to work for the accomplishment of organizational objectives and group goals.

#### **4. Supervision :-**

The watching and overseeing the work progress of the performance of immediate assistant is known as Supervision. However, the term supervision is used in two senses. According to first sense, supervision is treated as an element of direction. In this context, the term supervision refers guiding the efforts of assistants to achieve the organizational objectives and goals. In this sense George Terry and Stephen Franklin define the supervision as, ‘Guiding and directing efforts of employees and other resources to accomplish stated work outputs.’”

The Second sense of supervision is mentioned by in their definition. According to Newman and Warren, supervision is the day-to day relationship between an executive and his immediate assistant and covers training, direction, motivation, coordination, maintenance of discipline etc. In this context, supervision refers all supervisory functions such as planning, organizing, staffing, directing, controlling etc.

Generally work of supervisory management is represented by foremen, supervisors and departmental heads. They translate plans into action. At the first line managers i.e. supervisors devoted 80 percent of their time whereas top management devotes hardly 20 percent of time on supervisory work. It clears the vital role of supervision in the achievement of organizational objectives. Though the time devoted for supervision is varying from their level of management it is done at all levels of management.

##### **4.2.1.2 Principles of Direction**

Direction is an art. For accomplishment of desired results from human and non human resources involved in the organization ,the manager can be follow some principles.

These are divided into two categories; (a) principles relating to the purpose of direction and (b) principles relating to the direction process.



## **[A] Principles relating to the purpose of direction**

### **1. Principle of Maximum Individual Contribution :-**

Devotion of subordinates and wholeheartedly contribution of individuals towards organizational objectives is most essential for accomplishment of organizational objectives at maximum level. It is the responsibility of every manager to induce such type of direction technique which enhances the level of contribution of subordinates.

### **2. Principle of Harmony of Objectives :-**

Generally satisfaction of own physiological and psychological needs are basic instinct of every employee to join and working in the organization. Every worker has their own goals and objectives *i.e.* maximization of their own income. However, the objective of organization is different, *i.e.* maximization of profit. In this context, manager tries to integrate both individual and organizational objectives for accomplishment of organizational goals effectively. For this purpose manager refers appropriate direction technique.

### **3. Principle of Effectiveness of Direction :-**

As explained in the principle of harmony of objectives an individual in the organization try to satisfy their own needs. It adversely affects the organizational goals and objectives. It is the role of successful manager to direct subordinates effectively. It facilitates manager to get desired result from employees without affecting their own goals. In this context, it is necessary to develop and adopt appropriate direction techniques.

## **[B] Principles relating to the direction process**

According to Theo Haimann, “Direction consists of the process and techniques utilizing in issuing instruction and making certain that operations are carried out as planned”. In this context, following principles are considered.”

### **1. Principle of Leadership :-**

The effective leading ability is essential for effective direction. Leadership is the process of influencing employees to work willingly and effectively for achievement of the organizational goals and objectives. It is mostly depends upon efficient functioning of subordinates which is influenced through the exercise of leadership. Leadership is a unique factor of effective and efficient management of every organization. In other words, inspiring leader can act as a spark plug for igniting the will-to-work in the subordinates.

### **2. Principle of Communication :-**

The effective and efficient communication between superiors and his subordinates is the prerequisites of the success of any organization. The manager has to tell the subordinates what to do, when to do and how to do a particular job. He gives some orders and instructions for completion of allotted work to subordinates. It is mainly possible through effective communication network. Communication is only the way of reaching subordinates by transferring facts, thoughts, ideas and feeling. On the other and, through upward communication from subordinates, manager understands how employees are working in the organization. Thus, both ways communication makes direction effective.

### **3. Principle of Comprehension :-**

Direction is process of transferring orders and instructions to subordinates what they have to do, how to do and when to do. However, understanding and comprehending of what has been conveyed by manager is the key factor of the overall success and achievement of organizational goals. Thus, the correct comprehending of orders and instructions enables subordinates to get clear situation. The employees may do work what management desired as well as avoid unnecessary queries from superior only through correct comprehending of orders and instructions.

#### **4. Principle of Unity of Command :-**

“One boss for any one” may be the rule of Principle of Unity of Command. Any subordinate who work in the organization should receive orders and instructions from only one superior. It means the hierarchy of command should be followed. The subordinate should be responsible to that particular superior only who gives the orders. If the orders and instructions are given by more than one superior, then it creates conflict and confusion amongst the subordinates. It increases the chances of misuse of authorities and duties.

#### **5. Principle of Delegation of Authority :-**

Delegation of authority is the process of assigning the duties by superior to his subordinates for making decision, taking appropriate action and utilization of resources and Creation of an obligation on the part of each subordinate. Thus, to enable the subordinates to perform his job efficiently and effectively is the main purpose of delegation of authority. Subordinates should be delegate appropriate authority by his superior so as to making his job related decisions.

According to Neoman, the delegation process is includes three steps,

1. Assignment of duties by superior to his subordinates.
2. Delegation of authority for making decision, taking appropriate action and utilization of resources.
3. Creation of an obligation on the part of each subordinate.

#### **6. Principle of Use of Direction Technique :-**

There are three major techniques of direction viz.; Consultative, free rein and Automatic. Every technique has its own importance and feature. The use of technique is varying from person to person. It is mainly depends upon nature of work, size and duration of work, psychological situation and environmental situation. Thus, by considering all these factors superior can

use the appropriate direction technique for achievement of organizational goals and objectives.

#### **7. Principle of Participative Decision Making :-**

Integration of individual goals and group goals is the essential aspect for achievement of organizational objectives effectively. It is possible by involving individuals and groups in decision making process which is the responsibility of the manager. The contribution of subordinates in decision making may be taken through inviting their ideas and suggestions. The involvement of subordinates in decision making is likely to ensure effective and efficient implementation of decisions.

#### **8. Principle of Follow Up :-**

Direction is a continuous process. This process completed with follow up of work done by subordinates. The superior of the organization gives orders and instructions to subordinates. Generally he advised him about specific job allotted to subordinates. He tells him what to do, when to do and how to do a particular job. Only passing an order is not sufficient. However, it is the duty and responsibility of the manager to supervise and take review of work done by subordinates at regular interval. He should see the employees are working properly or not. If they are having any doubts or queries relating to any order and facing any difficulties in the same, the order can be changed or modified.

#### **4.2.1.3 Techniques of Direction**

There are different types of direction techniques. The manager can choose appropriate techniques of direction to get desired result in the organization. Generally, it is depends upon the nature of superior and subordinates, work environment and situational variables. There are three major direction techniques viz., consultative, free- rein and automatic. These are discussed as follows.

## **1. Consultative Direction :-**

Under Consultative Direction technique the manager discuss with his subsequent subordinates or any other employee work in the organization regarding some issues. It is nothing but to get contribution of subordinate in decision making process. In the other words, manager consults with his subordinates before taking decisions related to their job work. The participation of subordinates in management and decision making is helpful in order to encourage organizational democracy. It also boosts the morale and motivation of employees.

### **❖ Advantages :**

1. Participation of employees and subordinates at every level is increased.
2. It encourages the morale and motivation of subordinates.
3. Better communication between manager and employees at all levels.
4. Better coordination between superiors and subordinates.
5. It leads to effective results in the organization because employee will feel a sense of commitment

### **❖ Disadvantages :**

1. It is a time consuming process.
2. Consultative Direction technique is expensive as compared to other technique
3. Sometime subordinates may consider that it is their right and privilege.

## **2. Free- Rein Direction :-**

This technique is also known as laissez-faire technique. Free rein means full freedom. Under this technique full freedom is provided to subordinates

about decision making. That means there is no any rein or influence of superiors in the work of subordinates. Under this technique, manager only formulates policies and programs for action. Thereafter, manager transfer all the authority to subordinates. He handed over the entire process to subordinates. Manager just act as a liaison between work group and outsiders. He does not make any influence in the working of subordinates. The subordinates acts or works as per their own style without any botheration. The manager merely maintains contacts with outsiders and collects the information and materials and provides to the subordinates for smooth working of the organization.

❖ **Advantages :-**

1. This technique encourages team spirit and creativity among subordinates.
2. It enables the subordinates to contribute their own ideas, thoughts, talent to the solution of the problem.
3. This technique helps subordinates to develop their personality.
4. It is suitable for highly trained and professional staff.
5. It will probably get the best and quick results.

❖ **Disadvantages :-**

1. Self-managed, creative and self-motivated subordinates is the pre requisite of use of this technique.
2. This technique may results in confusion and inefficiency.
3. The contribution of manager is almost absent, which leads to difficulty in departmental contribution and team spirit.

**3. Automatic Direction :-**

Under this technique, manager gives clear and perfect orders to his subordinates. There is no ambiguity in the instructions given by superior. It

involves what to do, when to do and how to do job effectively. This technique also gets the best and quick results when subordinates are creative, self-motivated and brilliant.

### **Check Your Progress - I**

#### **(A) Choose correct alternative from the following.**

1. .... consists of the process and techniques utilizing in issuing instruction and making certain that operations are carried out as planned.

*(a) Direction (b) planning (c) Coordination (d) Staffing*

2. .... Direction technique is also known as laissez-faire technique.

*(a) Direction (b) Free-Rein (c) Coordination (d) Staffing.*

3. Under ..... Direction technique the manager discuss with his subsequent subordinates or any other employee work in the organization regarding some issues.

*(a) Automatic (b) Free-Rein (c) Consultative (d) Staffing*

#### **(B) Fill in the blanks.**

1. Communication, Leadership, Supervision and Motivation are the important elements of the .....
2. ....is the process of influencing and supporting employees to work willingly and effectively for accomplishment of managerial goals.

#### **(C) True or False.**

1. Staffing is telling people what to do and seeing that they do it to the best of their ability.

2. The watching and overseeing the work progress of the performance of immediate assistant is known as Supervision.

#### **4.2.2 Communication : Meaning and Definition**

The word “Communication” is derived from the Latin word ‘Communize’ which means ‘Common’ that stands for sharing of ideas in common. The term ‘Communication’ has varied meanings generally, it refers to various meanings of transmitting information from one person to another or from one place to another. However, the term ‘communication’ involves the concept of transfer, meanings and information.

Communication is known as the oxygen of every organization. It is a continuous process by which persons involved in organization try to share meanings through the transmission of messages. Open and free communication is essential for the smooth functioning of the organization. Communication is the process of transfer of information from one person to another. The importance of communication is increasing day by day. Communication is essential for effective functioning of all managerial functions such as planning, organizing, leading, controlling and coordinating.

Thus, in the context of organization, communication is the process through which two or more persons come together and exchange their ideas and understanding each other.

#### **❖ Definitions :-**

1. **Keith Davis**, *“Communication is the transfer of information from one person to another person. It is a way of reaching others by transmitting ideas, facts, thoughts, feelings and values”.*

2. **F.E.X. Dance**, *“Communication is defined as the process by which people seek to share meaning via the transmission of symbolic messages”.*

3. **Newman, Summer and Warren**, *“Communication is an exchange of facts, ideas, opinions or emotions by two or more persons.”*



4. **Koontz and O' Donnell**, "*Communication is a way in which one organization member shares meanings and understanding with another.*"

5. According to Oxford English Dictionary Communication means, "*The imparting , conveying or exchange of ideas, knowledge etc. , whether by speech, writing or signs.*"

Thus, from the above definition communication means interchange of ideas, messages, facts, attitude, information, feelings and emotions among two or more persons. The effective communication implies that the subordinates (*i.e.* receiver) should understand the message send by the superior (*i.e.* sender) , accept it and comply with it.

#### **4.2.2.1 Importance of Communication**

According to Haney, "*Communication is eminently essential in business, in government, military organizations, hospitals, schools, communities, homes- anywhere people deal with one another.*"

It is said that, whatever a manager does in the organization does through communication. It shows the importance of Communication in the managerial activities. The ability of manager to communicate effectively with his superiors, subordinates, peers and other persons related to organization is the key of achievement of organizational goals effectively.

##### **1. Helpful to Managerial Functions :-**

The effectiveness of all the managerial functions are depends up on Communication. For the preparation of planning various type of information is required by management. This required information is obtained by manager through communication only. All the function of management such as leading, motivating, and supervision depends upon communication.

##### **2. Enhance Managerial Efficiency :-**

Communication plays important role in enhancing the managerial efficiency. For effective management of change, organizational development

and organizational behavior communication is much essential. It is the master key to the entire process of management.

### **3. Develop Interpersonal Relations :-**

The exchange of ideas, information, opinions, views, instructions and suggestions with each other may facilitate to develop the interpersonal relations. The manager has to establish interpersonal relations with superiors, subordinates, peers and other persons related to organization. It is possible through communication only.

### **4. Boost the Moral :-**

The proper understanding of directions and instructions boost the will-to-do of the employee. The satisfaction of the subordinates, peers, superiors and all the persons related to organization is mostly depend upon sharing of instructions, views, suggestions, and experiences with each other. It create moral among them and they get motivated to do effectively. It is possible only with the help of communication. Thus, communication helps to boost the moral among people.

### **5. Way of Co-ordination :-**

The coordination among all groups, individuals and various departments is prerequisite for achievement of organizational objectives effectively. It can be obtained by sharing information, views, and suggestions etc. regularly. Communication is only the way to coordinate each other. e.g. production, sales, advertising, finance, personnel and marketing departments coordinate each other by sharing related information through communication.

### **6. Promote Trust and Confidence :-**

Job satisfaction and job security among employees create trust and confidence among them. It is mostly depend upon understanding of instructions and orders given by superior. Communication make easy to understand the instructions and orders. It increases the ability of subordinates

will to do work in the organization. Thus, communication promotes mutual trust and confidence among management and employees.

#### **7. Builds Public Image :-**

The availability of the information related to financial position, profitability, organizational policies and social responsibility of the organization are the major factors which builds positive public image of organization. The interpersonal relation of stakeholders such as customers, financiers, suppliers, government agencies etc. improved through communication.

#### **8. Helps in Feedback :-**

To measure the results with predetermined standards and to take necessary action to correct it is possible through feedback of subordinate's performance. The corrective action should again communicated to subordinates which helpful to improve their performance. Thus, communication helps to take feedback effectively.

### **4.2.2.2 Process of Communication**

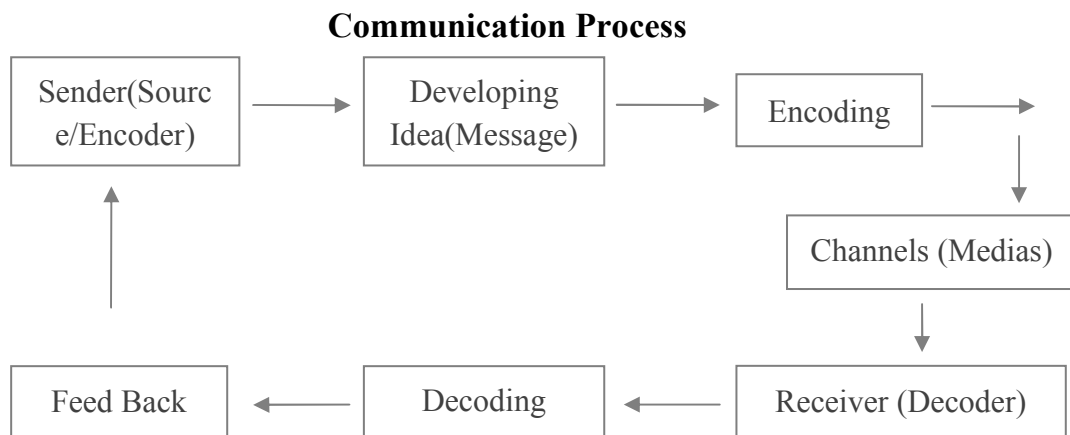
Communication has been defined as a process. Action, Continuous change in time, Progress over time and Goal are the four elements of process. For every communication, at least two persons are required i.e. a sender and a receiver. A communication is transmitted from one person to another or one place to another in any organization. The process of communication includes- sender, message, encoding, transmitting, receiving, decoding, accepting, action, receiver and feedback. These are summaries as follows.

#### **1. Sender :-**

A sender is a person who intends to make contact with the objective of passing information, ideas to other person. It is the starting point of the communication.

## 2. Generation of Idea :-

This is the subject matter of communication. It is the first and important step in communication process. The communication process begins when an idea, thought or feelings arises in the mind of the person and he wants to transmit to other person. If there is no message /information to send all other steps are useless.



## 3. Encoding :-

The ideas or subject matter of communication may intangible. For the purpose its transmission , the use of certain symbols such as words, actions, pictures, graphs, sounds, gestures etc. are require. The conversion of these ideas in to symbol is known as encoding.

## 4. Message :-

The ideas or subject matter of communication Is converted into symbols for transmission. It is known as message. It should be clear and easily precise.

## 5. Channel and Media :-

After the message is encoded into symbols, it is transmitted by the sender through some suitable channel and medias. The channel may be written form, personal contact, phone, cell, mail, fax, sound waves, speech, internet etc.

## **6. Receiver :-**

Receiver is the person to whom message is meant for. The message transmitted should be received by the receiver. The receiver may be either the superior or subordinate working in the organization.

## **7. Decoding :-**

Decoding is concerned with understanding of the message. It is opposite of encoding. The receiver receives the message in the form of symbols. The receiver converts the symbols received from the sender to give him the meaning of the message.

## **8. Feed-Back :-**

Feedback is the final step in communication process. The sender sends message and wants feedback from the receivers i.e. the receiver has received message and understood in the same sense. When receiver decodes interprets and understands the message, he conveys his response to the sender, it is called as feedback. After feedback communication process is completed.

All the above interconnected stages form a communication cycle which is presented in the following diagram.

### **4.2.2.3 Types of Communication**

The ideas, views, instructions, messages, suggestions etc. are the subject matter of communication. Generally it is not in physical form. They are in abstract or intangible form. Hence, for the effective transmission and receipt of subject matter some symbols are essential. These symbols may be in the form of words (Oral or written), pictures or non-verbal forms. For sharing these information various communication methods are used. They are classified in to three categories such as i) on the basis of Organizational Relationship, ii) on the basis of Direction and iii) on the basis of Channel or Method of Expression which are summarized as follows.

## **[I] On the basis of Organizational Relationship**

### **1. Formal Communication :-**

Under formal communication intentional efforts are made to manage the flow of communication. It make possible to flows information smoothly, accurately and timely. The various formal channels of communication are used to transfer the formal information. The forms of formal communication are as,

- (a) Departmental Meetings,
- (b) Conferences,
- (c) Telephone Calls,
- (d) Company News Bulletins,
- (e) Special Interviews etc.

The formal communication system enables the standardized information to transmit without more managerial attention. It save the valuable time of managers and it may devote on policy matters of the organization.

### **2. Informal Communication :-**

It is also known as ‘Grapevine’ communication. Under Informal Communication method informal groups invariably tend to develop their own communication system. In this method membership of the group is the prerequisite for participation in the Informal Communication process. If any employee is not the member of the group he left out from that particular Informal Communication *i.e.* grapevine. Under grapevine system the flow of communication is very fast. However, there may be ambiguity in the information *i.e.* it may be true or false, fact or imaginary, accurate or misleading. It is free from all sorts of formalities. Under this method the subordinates are free to express their view, attitude, feelings, and emotions about superiors as well as organization. Generally, the information which is not transmitted through official channel but having vital in the general interest

of organization is transmitted through informal channel. Generally this method is adopted by manager when any important information is not collected from the employees.

Though this method is beneficial it transmits distorted, inaccurate, rumours, misinterpreted information often.

### **[III] On the Basis of Direction**

#### **1. Downward Communication :-**

When Communication flows from top level to lower level i.e. from superior to subordinates is known as Downward Communication. It carries organizational and departmental objectives, policies, managerial decisions, strategies, instructions, rules, standards, guidance etc. from top level to lower level. Through Downward Communication channel orders and instructions as well as superiors guide, advice etc. are transmits to subordinates.

Katz and Khan elaborated five elements of Downward Communication viz., job instruction, rational for the tasks and their relationship with other tasks and goals, information relating to organizational policies and practices, feedback of employee performance and developing trust.

A manager has frequently used Downward Communication media. Basically it includes written, face to face, posters, bulletin boards, company magazine, employee handbook, public address system, information racks, annual reports, letters etc. It is instructive type communication. Generally it expect action and result from subordinates.

#### **2. Upward Communication :-**

Upward Communication is exactly opposite to Downward Communication .Under Upward Communication subordinates transmitting ideas, request and information to their superiors. It acts as feedback in the communication process. Through Upward Communication the subordinates

reports to his superior about his performance, problems as well as organizational policies and practices.

Whether messages have been transferred and received properly is determined with the help of Upward Communication. Therefore it is as much as essential the Downward Communication for effective performance of any organization. It refers task related and interpersonal messages. Task related messages include performance report, reply to query, information to planning and decision making. Interpersonal messages includes suggestions, grievances, difficulties etc. are transmitted from employees to manager. It cannot demand any action by superiors. It is non-directive communication.

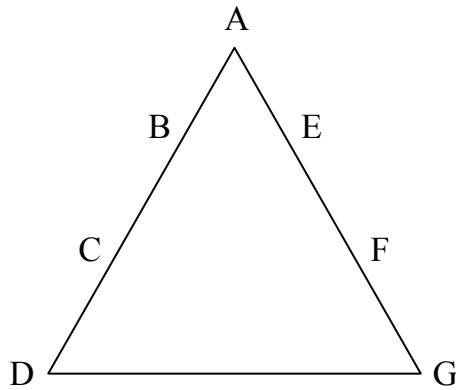
The chain of command, suggestion boxes, private lines, personal contacts, attitude and moral surveys, grievance procedure, labour union etc. are the major means of Upward Communication.

### **3. Horizontal Communication :-**

The managers or executives working at same position in the organization prefer Horizontal Communication to exchange information between each other e.g. head of the various departments such as finance, marketing, production etc. are communicate with each other through Horizontal Communication method. It is also facilitate and used by various departments working at same level. This channel avoids the hierarchical channels based on superior subordinate relations.

Henry Fayol opined that the formal channel of Communications both upward and downward often caused delays and adversely affects the work performance. e.g. In the diagram shown in fig. 4.1 , if D needed some information from G, under formal communication channel , he send message to G, through C to B , B to A , A to E, E to F and F to G. If G needed some help from D, follows the same channel back again. Fayol suggested “Gangplank” between D and G. It enables D and G to communicate directly with each other.



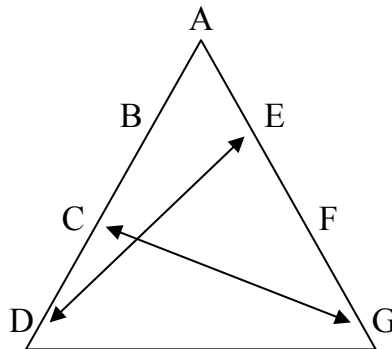


**Fig. 4.1 : Horizontal Communication**

Horizontal Communication channel is essential and helpful to take prompt decision and speedy actions. Without Horizontal Communication flows no organization can function effectively and efficiently. Thus, it facilitates smooth functioning of organization.

**4. Diagonal Communication :-**

When two or more managers working at different levels make communication each other by cutting across the hierarchical line of authority is called as Diagonal Communication. The managers involved in this communication process are responsible to report each other. In fig. 4.2, communication between D and E or C and G is the example of diagonal communication. It facilitate to management when line manager's delegates functional authority to line or staff. The horizontal and diagonal channels are most essential when organization expands in its size and volume.



**Fig. 4.2 : Diagonal Communication**

### **[III] On the Basis of Methods of Expression**

#### **1. Oral and Verbal Communication :-**

The spoken words are the main element of Oral and Verbal media of Communication. Oral and Verbal Communication may take place face to face contacts or through electronic or mechanical devices. Under this process persons involved in communication exchange their ideas, views, opinions etc. through oral words either by face –to- face contact or by electronic devices like mobile, telephone, video conferencing, wacky talky etc.

Oral and Verbal Communication system is very easy and more effective. It receives instant feedback from subordinates. This method is time saving and less expensive. Oral and Verbal Communication method is much flexible than other. It facilitate for informal communication.

Apart from above mentioned advantages this method has some limitations. It has Lack of authenticity as well as Lack of proof. Many times due to breakdown in electronic devices this method may Ineffective.

#### **2. Written Communication :-**

Written Communication refers written words, graphs, diagrams, pictures etc. The letters, circulars, notes, manuals, magazines etc. are also some forms of written communication. No any organization hasits own memory excluding information stored in computer or recorded in files or the employees remember. Therefore, written communication is very important method of providing organizational memory.

Written communication method is more advantageous because it provides written proof. This method is authentic and more accurate, precise and effective. It facilitates in distance places and also provides organizational memory. However, this method is costlier and time consuming. It carries chances of misinterpretation of words. Under this method immediate feedback is not possible.

### **3. Gestures and Nonverbal Communication :-**

When any person communicates with each other through actions or body language is considered as Gestures Communication. Generally it is used when face to face communication is going on. It refers movement of eyes, facial expression, hand and body movements etc. The gestures or actions are facilitates to modify the spoken word or enhance the meaning of words. It improved that, to accomplish organizational goals effectively, word should be supported by voice tone and body language.

Non-verbal communication refers Pictorial communication. It includes pictures, graphs, diagrams, charts, blueprints etc. The proverb, 'a picture is worth a thousand words' explicit the importance of pictorial communication.

Gestures and Nonverbal Communication helps to motivate subordinates and also provides speedy feedback.

#### **4.2.2.4 Barriers in Communication**

When a message is sent by the sender to the receiver, some time it may not be effectively understood by the receiver in the same sense as the sender intended it to. There are several reasons for its ineffectiveness called as barriers. The barriers in communication may summarize as Physical barriers, Personal Barriers, Organizational Barriers, Semantic Barriers, and Mechanical Barriers etc. They are discussed as follows.

##### **1. Poor Planning :-**

Effective communication requires perfect planning on the part of the sender. If the sender does not plan the message properly then he fails to reach his message to the receiver.

##### **2. Language :-**

The language of message may be special or technical. The language of businessman, a politician, a worker and common man can't be uniform. Lack of clarity and precision in a message makes its badly expressed. If the receiver

does not understand the message, he may not get correct meaning of the message.

### **3. Faulty transactions :-**

The leader receives various types of message from superiors and subordinates. He must translate information destined for superiors and subordinates into language suitable to them. So the message has to be put in to words appropriate to the framework in which the receiver operates. It requires high level of linguistic capacity. Faulty translation leads to impaired efficiency.

### **4. Geographic Distance :-**

If the distance between sender and receiver is more, the message cannot reach in proper time. It also takes time to clarify the doubts of receivers. Now days, this barrier is reduced due to developed communication skill.

### **5. Net work breakdown :-**

Now days, network breakdown is major barrier in communication process. It includes technical problems in computer, network failure, virus and malware problems etc. It may cause information or message will be blocked.

### **6. Emotion :-**

Emotional and psychological factors are the prime barrier in inter personal communication. It is one of the common barriers in the communication process. Unhealthy relations between subordinates and leader, bad environment in the organization may affect the psychology of the employee which hampers the communication process. Messages are interpreted differently in different emotions such as happiness, anger, sadness, depression etc.

### **7. Fear and mistrust :-**

Fear and mistrust in the mind of receiver or sender may be creating barrier in communication. Some people become extremely anxious when they

talk on phone or face to face. Due to fear and mistrust they cannot be communicate message properly.

**8. Information overload :-**

Information overload is another major barrier to effective communication. If there is overload of information it will result into confusion in processing the message. If there are number of messages, employee may confuse about preference of implementation of messages.

**9. Status :-**

Status is one of the personal barriers in communication process. Workers enjoying higher status in the organization are generally reluctant to listen seriously to the employees, who are working at lower levels.

**10. Unwillingness to communicate :-**

Sometimes, subordinates are unwilling to communicate certain information. If he feels that he is likely to be adversely affected by particular information, he is unwilling to provide such information.

**11. International Environment :-**

There are different culture, different languages, different code of conduct and values in different countries. It is major barrier of the communication at global level. e.g. Eight number is treated unlucky in India, whereas it is lucky in Japan.

**12. Different Background :-**

The different individuals interpret the same communication differently. Each individual uses his own frame of reference which is based on his experience and knowledge. The person with different experience and knowledge is the barrier of communication.

### **13. Intellectual Level :-**

Intellectual capacity of both the parties should be same. If the Intellectual level of the receiver is less than sender, then meaning of the message cannot be taken properly.

### **14. Lack of Training :-**

The training of understanding messages, coding and decoding of the messages etc. is essential. In addition to that modern technique, information regarding internet, computer is also known by employees, otherwise communication may hampered.

## **4.2.2.5 Overcoming Barriers to Communication**

Communication is most important management tool to achieve organizational goals by transmitting various ideas, views, information, orders, opinions etc. effectively. In order to make communication process more effective and responsive, following guidelines should be considered.

### **1. Clear Ideas :-**

Communication is the process of transmitting various ideas, views, information, orders, opinions etc. The manager should be clear about in their mind which he wants to communicate with subordinates. It is the key of success.

### **2. Clear Objectives :-**

Getting behavioral response from the receiver is the basic objective of any communication. The manager should communicate effectively with subordinates to get desired result and to achieve the organizational goals. Therefore, he should keep in mind that why does he want to communicate and what he get from communication.

### **3. Empathically Listening :-**

Marginally listening is adversely affects the communication process. Most of times superiors are not listen to their subordinates carefully. For effective and efficient communication empathetic listening is required. Newman suggested the guides to emphatic listening such as listen the other person patiently, avoid arguments about facts, do not get emotionally involved with the communicator etc.

### **4. Empathy in Communication :-**

The manager should be sensitive towards receiver's needs, feelings, emotions etc. When he looks at the problem from receiver's point of view, it minimizes the misunderstanding. The sender of message treats himself in the view point of the receiver.

### **5. Appropriate Language :-**

The message which is communicated to subordinates may in the form of tangible or intangible. For the purpose of transmission the message is encoding into symbol. These symbols may be in the form of words, pictures, graphs, gesture etc. If the words are used for communication the language used for message simple and understandable to receiver.

### **6. Two Way Communication :-**

According to Keith Davis, Communication is the transfer of information from one person to another person. Thus it is two way communication process. It refers continuous dialogue between sender and receiver i.e. superior and subordinates.

### **7. Use of Body Language :-**

It is said that action speaks louder than words. Appropriate action supporting to words achieve objectives of communication. Generally body language includes hand movements, face expression, body movement, eye

movement etc. The use of body language in communication enhances the involvement of employees in the communication process which in turn increases the workability of the employees.

#### **8. Consultation with Subordinates :-**

As discussed above communication is two way process. The success of communication is mostly depends upon wholeheartedly participation of communicator. Consultation and participation helps to lend additional insight and objectivity to message.

#### **9. Follow up :-**

The follow up stage is the last but most important stage in the communication process. Follow up is essential for the achievement of aims and objectives of communication. The superior may follow up the communication by asking questions, encouraging the receiver to express his reactions, by follow up contacts, by subsequent review of performance etc.

### **Check Your Progress-II**

#### **(A) Choose correct alternative from the following.**

1. The proverb, 'a picture is worth a thousand words' explicit the importance of ..... communication.  
*(a) pictorial (b) verbal (c) Formal (d) informal.*
2. .... is an exchange of facts, ideas, opinions or emotions by two or more persons.  
*(a) Direction (b) Communication (c) planning (d) Coordination.*
3. Informal Communication is also known as ..... communication. Under  
*(a) Apple vine (b) Strawberry vine (c) Grape vine (d) None.*



**(B) Fill in the blanks.**

1. The spoken .....are the main element of Oral and Verbal media of Communication.
2. The .....of communication includes- sender, message, encoding, transmitting, receiving, decoding, accepting, action, receiver and feedback.
3. The term .....involves the concept of transfer, meanings and information.

**(C) True or False.**

1. Emotional and psychological factors are the prime barrier in inter personal communication.
2. When two or more managers working at different levels make communication each other by cutting across the hierarchical line of authority is called as Downward Communication.
3. Under formal communication intentional efforts are made to manage the flow of communication.

### **4.3 Summary**

All the functions of management such as planning, staffing, controlling, forecasting etc. are connected each other by Directing. It is the heart of the management process, through which management can easily take necessary actions. It is the process of leading, instructing, motivating, executing, supervising and guiding. Direction helps to integrate the individual efforts to achieve institutional objectives and goals. Communication, Leadership, Supervision and Motivation are the important elements of the direction. The manager can choose appropriate techniques of direction to get desired result in the organization. Generally, it is depends upon the nature of superior and subordinates, work environment and situational variables. There are three

major direction techniques viz., consultative, free- rein and automatic. For the success of organization the manager can be follow some principles. These are divided into two categories; a) principles relating to the purpose of direction and b) principles relating to the direction process.

Communication is the process of transfer of information from one person to another. The process of communication includes- sender, message, encoding, transmitting, receiving, decoding, accepting, action, receiver and feedback. Due to some barriers in communication, message sent by the sender, may not be effectively understood by the receiver in the same sense as the sender intended it to. For sharing the information various communication methods are used. They are classified in to three categories such as (i) on the basis of Organizational Relationship, (ii) on the basis of Direction and (iii) on the basis of Channel or Method of Expression. The barriers in communication may summarize as Physical barriers, Personal Barriers, Organizational Barriers, Semantic Barriers, and Mechanical Barriers etc.

#### 4.4 Key words

- **Communication** : Communication is the process of sharing thoughts and meanings by people among themselves.
- **Leadership** : Leadership is the process of influencing and supporting employees to work willingly and effectively for accomplishment of managerial goals.
- **Direction** : Direction is telling people what to do and seeing that they do it to the best of their ability.
- **Motivation** : Motivation means inspiring the subordinates to work for the accomplishment of organizational objectives and group goals.
- **Barriers** : The reasons for ineffectiveness of communication is called as barriers.

- **Downward Communication** : When Communication flows from top level to lower level *i.e.* from superior to subordinates is known as Downward Communication.

## 4.5 Answers to Check Your Progress

### ❖ Check Your Progress-I

- (A)
  1. Direction.
  2. Free- Rein.
  3. Consultative.
- (B)
  1. Direction.
  2. Leadership.
- (C)
  1. False.
  2. True.

### ❖ Check Your Progress-II

- (A)
  1. Pictorial.
  2. Communication.
  3. Grapevine.
- (B)
  1. Words.
  2. Process.
  3. Communication
- (C)
  1. True .
  2. False.
  3. True.

## **4.6 Exercise**

### **(A) Short Answer Type Questions.**

1. Explain the communication process.
2. Discuss the various barriers in communication.

### **(B) Broad Questions.**

1. Describe the meaning and definition of direction. Also explain the elements of direction.
2. What do you mean by direction? Discuss the principles of direction.
3. Define directing? Discuss various techniques of directions.
4. What is meant by communication? Describe the process of communication.
5. Define communication? Explain the importance of communication in management.
6. What is communication? Explain the various types of communication.
7. Define communication? Describe various barriers to communication.
8. What are the common barriers to communication? How can these be overcome?

### **(C) Short Notes.**

1. Meaning and definition of direction.
2. Principles of direction.
3. Techniques of directions.

4. Elements of direction.
5. Importance of communication.
6. Communication barriers.
7. Types of Communication.
8. Process of Communication.

#### **4.7 Books for Further Reading**

1. **Dr. T. Ramasamy** : Principles of Management.
2. **K. Natrajan and K. P. Ganesan** : Principles of Management.
3. **Manmohan Prasad** : Management concepts and practices
4. **Dr. N. V. Shaha, Dr. P. S. Rao, Dr. V. S. Patil, Dr. Babu Thomas** : Management Concepts and organizational Behaviour.
5. **Dr. J. S. Chaudhari** : Principles of Business Management
6. **Prof. Nirmal Singh** : Principles of Management
7. **R. Srinivasan and S. A .Chunawala** : Management Principles and Practices.
8. **L. M. Prasad** : Principles and Practices of Management.
9. **J. S. Chandan** : Management Theory and Practice.
10. **Prof. Valgadde B. V., Dr. Girigosavi B. D., Dr. Pawar S. R.** : Management Principles and Applications : Paper-I.

□□□