

Principles of Management

Board of Studies

Prof. H. N. Verma

Vice- Chancellor
Jaipur National University, Jaipur

Prof. M. K. Ghadoliya

Director,
School of Distance Education and Learning
Jaipur National University, Jaipur

Dr. Rajendra Takale

Prof. and Head Academics
SBPIM, Pune

Subject Expert Panel

Dr. Daniel J. Penkar

Director, SBS, Sinhgad
Pune

Vijayalakshmi R.H

Subject Matter Expert

Content Review Panel

Shreya Saraf

Subject Matter Expert

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Chapter I

Introduction to Management and its Processes

Aim

The aim of the chapter is to:

- provide an introduction to management with its definition
- state a brief history about management
- mention the characteristics and functions of management
- explain different approaches to management
- distinguish between administration and management
- analyse the functions and role of a manager

Objectives

The objectives of the chapter are to:

- enlighten the students with an introduction to management with its definitions
- enrich them with a brief history about management
- enable them to determine the characteristics and functions of management
- explore different approaches to management
- differentiate between the administration and management
- understand the roles and functions of a manager

Learning Outcome

At the end of the chapter students will be able to:

- state the definition of management
- identify the characteristics and functions of management
- recall the evolution of management
- judge the two different approaches to management
- justify the difference between administration and management
- assess the functions and role of a manager

1.1 Introduction to Management

Management is *“The art of getting things done by a group of people with the effective utilisation of available resources”*.

Peter F. Drucker defines management as, *“Management is an organ; organs can be described and defined only through their functions.”*

According to Henry Fayol, *“To manage is to forecast and plan, to organise, to compound, to coordinate and to control.”*

According to F.W. Taylor, *“Management is the art of knowing what you want to do and then seeing that it is done in the best and cheapest way.”*

According to Koontz and O’Donnel, *“Management is the creation and maintenance of an internal environment in an enterprise where individuals, working in groups, can perform efficiently and effectively towards the attainment of group goals. It is the art of getting the work done through and with people in formally organised groups.”*

With the development of an organisation the complexities also increase and there comes the need of an effective management system. This is the requirement of every organisation, not necessarily a business organisation but also for banks, schools, hospitals and many more.

1.2 Brief History of Management

The concept of management was developed from the days of Adam. Management is required where a group of people are working to achieve any objective.

Henry Fayol gave the management theory in (1916) which was based on his experiences in a mining company. This management theory was compiled in a book named *“The General and Industrial Management”*.

He classified the elements of management into five categories as mentioned below:

- Planning
- Organising
- Commanding
- Co-ordination
- Control

Other important contribution was made by **Frederick Winslow Taylor** (19th century) who was the father of Scientific Management. He gave the following principles of Scientific Management:

- **Science is not a rule of thumb:** Where the worker is allotted fair work, standardised and proper system of payment which discarded the old method of working.
- **Harmony in group action:** There should be peace and friendship in the group action and any kind of dissatisfaction should be eliminated.
- **Co-operation:** There should be cooperation between management and workers; this is achieved by mutual understanding and change in thinking.
- **Maximum output:** It is achieved through division of work and responsibility by the management and workers together.
- **Improvement of workers:** Workers should be well examined on the physical, educational and psychological parameters and should be provided with the training for their growth.
- Some of the other major works in the management field were done by Peter F. Drucker, Max Weber, George Elton Mayo, Mary Parker Follett, Henry L. Gantt etc.

1.3 Characteristics of Management

The following are the characteristics of management:

- management is an art as well as a science
- it is an activity of effective utilisation of available resources
- it is a continuous process
- each activity in management is directed towards the achievement of pre-determined objectives
- it is a group of organised activities
- it is a factor of production
- it is a system of activity
- it is a discipline
- it is a purposeful activity
- it is a distinct entity
- it aims at maximising profit
- it helps in effective decision making
- it is a profession
- the principles and practices of management have universal applications
- it is dynamic in nature
- it is needed at all levels
- it is the function of executive leadership

1.4 Functions of Management

The various management functions are classified as below:

- **Planning:** It refers to the future course of action and is a primary function of management.
- **Organising:** It is the distribution of work in a group or a section for effective performance.
- **Staffing:** It consists of activities related to the selection and placement of right people for right jobs.
- **Directing:** This is a process where the manager influences the work of his sub-ordinates. It includes guidance, supervision and motivational aspects of the employees.
- **Co-ordinating:** It is a process of synchronizing activities of various people in the organisation in order to achieve goals.
- **Motivating:** Motivation is one of the key factors for the speedy and effective performance of employees which is taken care of by resourceful leaders.
- **Controlling:** It deals with the process of verifying that the achieved goals are in order with the pre-planned objectives. In case of deviation corrective measures are taken.
- **Innovation:** It includes developing new services, techniques, products and so on to cater to the changing need of the consumers and the market.
- **Representation:** It is a function where a manager has to deal with the customers, suppliers, government officials, banks, financial institutions, trade unions etc. as a representative of the company.
- **Decision-making:** It helps in functioning of organisations as every employee has to take certain decisions on everyday basis.
- **Communication:** It refers to the exchange of information for the frictionless regulation of job and coordination of the activities.

1.5 Different Approaches to Management

There are many approaches in management thought where each approach tries to explain the nature and content of management separately with different beliefs and views. Few important management approaches are as discussed below:

1.5.1 Systems Approach

Systems approach was developed some time after 1950's and initially developed by Weiner and later many significant contributions were made by other people as well.

System *“is a set of inter-connected and inter-related elements which are arranged in order and operate together to achieve certain goals.”*

The parts of a system are:

- Input
- Process
- Output

1.5.2 Types of Systems

There are four types of systems. They are as discussed below:

Closed System

This system works without any external requirement and interference and works on the principles of unity of command span of control and equal authority and responsibility

Open System

This system is dependent upon the outside environment for feedback and resources and for the disposal of finished products

General System

This approach to management has a relation with formal organisation

Specialised System

This system includes the areas of organisation structure, job design and computerized information.

Features of Management as System:

The systems approach has the following features:

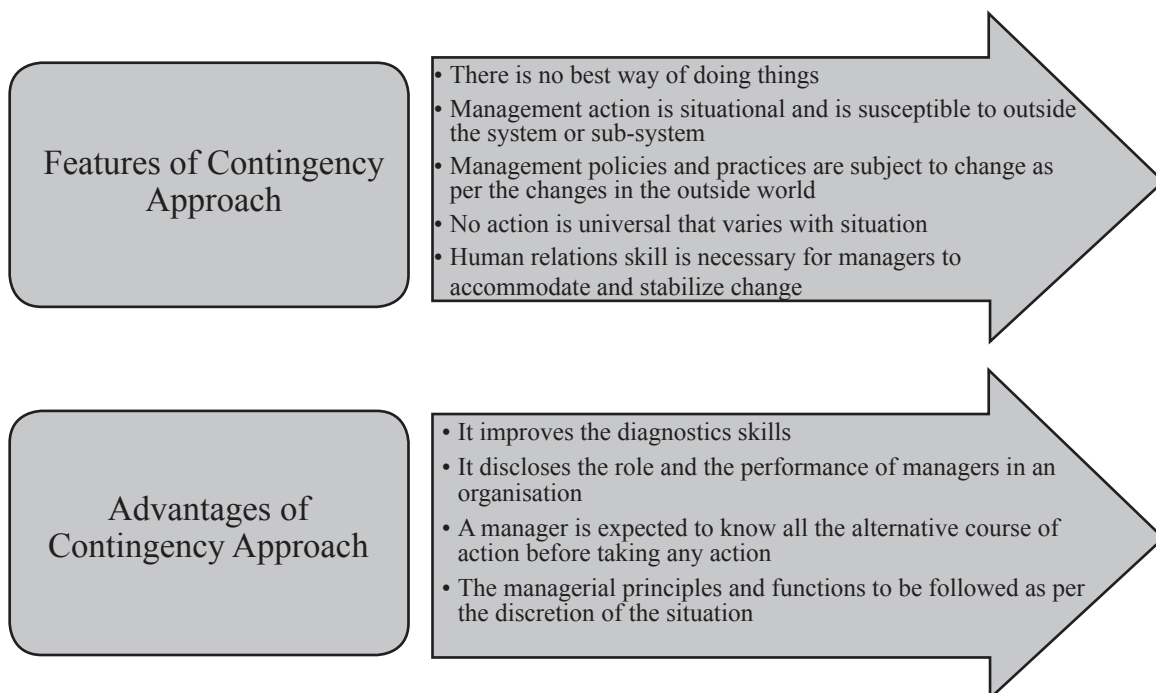
- Social system
- Open system
- Adaptive
- Multidisciplinary
- Dynamic
- Integrated Approach
- Multidimensional
- Multivariable
- Probability

Advantages of Systems Approach	Disadvantages of Systems Approach
It helps in studying the functions of complex organisations	It cannot be easily applied to large and complex organisation
It highlights interdependence between various elements in an organisation	It is not suitable for smaller organisation
It provides clue to the complex behaviour of the people	No tools and techniques are provided to the managers to implement it
It analyses problems in relation to other problems	-

Table 1.1 Advantages and disadvantages of systems approach

1.5.3 Contingency or Situational Approach

This approach was developed on the basic theme that there is no single best solution to the problems arisen in all situations. It was developed by J.W.Lorsch and P.R.Lawrence in the 1970’s which states that *“behaviour of one sub-unit is dependent on its environment and relationship to other units or sub-units that have some control over the sequences desired by the sub-unit”*.



1.5.4 Difference between System Approach and Contingency Approach

The difference between systems approach and contingency approach are as given in the Table 1.1 below:

Systems Approach	Contingency Approach
<ul style="list-style-type: none"> • It treats all organisations as same and has no unique nature 	<ul style="list-style-type: none"> • It treats each organisation as unique
<ul style="list-style-type: none"> • The contributors of systems approach are social psychologists 	<ul style="list-style-type: none"> • The contributors of contingency approach are sociologists
<ul style="list-style-type: none"> • Systems approach is the pioneer to the contingency approach 	<ul style="list-style-type: none"> • Contingency system has been built over systems approach
<ul style="list-style-type: none"> • Systems approach may specify situations under which a particular type of organisation can function well 	<ul style="list-style-type: none"> • Management action is situational and no situation is predicted accurately
<ul style="list-style-type: none"> • It provides a global theoretical model for understanding organisations 	<ul style="list-style-type: none"> • It provides operational tools and techniques for analyzing and solving problems
<ul style="list-style-type: none"> • Systems approach is vague and unspecific 	<ul style="list-style-type: none"> • Contingency approach is pragmatic, specific and action oriented
<ul style="list-style-type: none"> • The main concepts are input, output process, open system, system boundary, synergy, dynamic equilibrium, entropy and equifinality. 	<ul style="list-style-type: none"> • There are no specific concepts
<ul style="list-style-type: none"> • Systems approach emphasises interactions and inter relationships among systems and subsystems 	<ul style="list-style-type: none"> • Contingency approach emphasises interrelationships and interdependencies and their influence on organisational design and managerial style
<ul style="list-style-type: none"> • It appears to be neutral and non-committal on the universality of classical principles 	<ul style="list-style-type: none"> • It rejects the universality of principles; there is no one best way of managing
<ul style="list-style-type: none"> • Systems approach suggests definite solutions of problems to a specified organisation 	<ul style="list-style-type: none"> • Contingency approach suggests probable and flexible approach to problems
<ul style="list-style-type: none"> • It focuses the internal environment of an organisation 	<ul style="list-style-type: none"> • It focuses the external environment of an organisation

Table 1.2 Systems approach vs. contingency approach

1.6 Administration and Management

The terms administration and management are used synonymously. Some writers argue that both these terms have same meanings and there is no difference between these two terms.

1. Running of a business requires skill which is called management.
2. Functioning of government departments and non-profit institutions requiring skill is called administration.

Some writers argue that executive functions of a business unit are referred as management and executive functions of other institutions are referred as administration. In this way, administration is distinguished as a top level function while management as a lower level function. Policy and objectives of a business are determined by the top level executives (administration). At the same time, the lower level people (management) work to attain the objectives of the business unit and follow the policy framed by the administrators. This can be shown in the figure below:

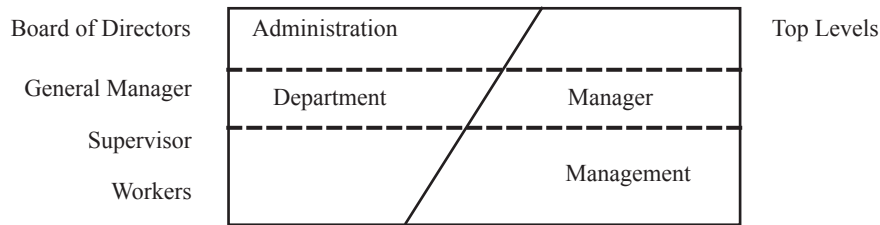


Fig. 1.1 Distinction between administration and management

The basic points of distinction between administration and management are as given below:

Sr. No.	Basis of Distinction	Administration	Management
1.	Policy and objectives	Determines policy to be followed and decide the objectives to be achieved.	Implements the policy and achieve the objectives.
2.	Directing of human efforts	Not directly involves in the execution of plan and achievement of objectives.	Directly involves in the execution of plan and achieving objectives.
3.	Main functions	Planning, organising and staffing.	Direction, motivation and control.
4.	Levels of executive	Top level executives (Owners or Board of Directors)	Lower level executives (Manager, supervisor and workers.)
5.	Position	Acts as a principal.	Acts as an agency.
6.	Knowledge	Requires administrative ability more than technical ability.	Requires technical ability more than administrative ability.

Table 1.3 Administration vs. management

1.7 The Manager

Management is a creative process which integrates and uses various available resources effectively to accomplish certain goals. For which, an individual is responsible to develop ideas and get things done through others. The concerned individual is designated as manager. *“Any person who performs the functions of planning, organisation, staffing, directing and controlling for the accomplishment of pre-determined organisation goals is called a manager.”*

Manager does not actually do the work but guides others to do things correctly. In other words, manager does not build factory or install machines and operate them or sell goods in the market but She/He directs the efforts of others at lower levels of an organisation. The primary job of a manager is the management of people. The job of manager is very difficult and requires some significant qualities to get the possible results. The manager should have the capacity and capabilities to meet the challenges of his/her job.

Functions of a Manager

The following functions are performed by a manager:

- Planning the work
- Taking decisions
- Proper and effective communication
- Getting co-operation of employees
- Encouraging team spirit
- Delegating authority
- Solving the problems
- Co-ordinating various individual efforts
- Better utilisation of resources

- Stimulating workers
- Setting target
- Solving the problems
- Guiding sub-ordinates
- Arranging training and development facilities
- Controlling the deviations
- Maintaining good human relations

Role of a Manager

A manager is responsible to integrate all the activities which are performed in an organisation. Managers play various roles as given below:

Director: A manager gives direction to people working under him/her.

Motivator: A manager understands likes and dislikes of people working under him/her and motivates them accordingly. Hence, motivation stimulates their performance of job.

Human being: A manager treats all the people working under him/her equally and without any personal bias. She/He has to mingle with others and understand the feeling of other executives.

Guide: Managers should be well aware of using the equipment, techniques and procedures involved in performing specific tasks. If so, She/He can guide others whenever need arises.

Friend: A manager acts as a friend by coming forward voluntarily and eliminating the misunderstandings.

Planner: A manager has to plan the work and assign the same to the workers working under him/her according to their position held on a daily basis.

Supervisor: A manager has to supervise and control workers' performance and maintain personal contacts with them.

Reporter: A manager acts as a reporter by providing the feedback information of the workers to the top management. She/He also acts as a liaison between the low level management and the top level management.

Summary

- A business develops in course of time with complexities. With the increasing of complexities, managing the business concern becomes a difficult one. The need of existence of management has increased tremendously.
- Every business unit has objectives of its own. These objectives can be achieved with the co-operative efforts of several personnel. The work of a number of persons is properly co-ordinated to achieve the objectives through the process of management.
- An individual cannot be treated as a managing body running any organisation. A minimum of two persons are essential to form a management. These persons perform the functions in order to achieve the objectives of an organisation.
- Management is the group of activities which drafts, plans, prepares policies and arranges men, money, machine and materials required to achieve the objectives.
- Management is concerned with the achievement of objectives of an organisation. These objectives are achieved through the functions of planning, organising, staffing, directing, controlling and decision making. The organisational objectives are clearly defined and explained to every employee.
- Management is a must for every enterprise. The existence of management ensures proper functioning and running of an enterprise. Management can plan the activities to achieve the objectives and utilise the available resources at minimum cost.
- Management thought was developed due to the contributions of many intellectuals who have different background. These contributions have not been suitably and adequately integrated to give a unified theory of management. Hence, various approaches for management analysis have been developed with the passage of time.
- A manager must create a climate which brings in and maintain satisfaction and discipline among the people. A manager directs the efforts of others at lower levels of an organisation.

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Self Assessment

1. Who wrote the book General and Industrial Management?
 - a. Henry Fayol
 - b. Max Weber
 - c. F.W.Taylor
 - d. George Elton Mayo

2. Who is the father of Scientific Management?
 - a. Henry Fayol
 - b. Max Weber
 - c. F.W.Taylor
 - d. George Elton Mayo

3. Henry Fayol gave the management theory which was based on his experiences in a _____ company.
 - a. aircraft
 - b. mining
 - c. telecom
 - d. software

4. Management is an organ; organs can be described and defined only through their functions. Who gave this definition?
 - a. Henry Fayol
 - b. Max Weber
 - c. F.W.Taylor
 - d. Peter F. Drucker

5. Which of the following statements is FALSE?
 - a. Management is a continuous process.
 - b. Management is only a science.
 - c. Management is a discipline.
 - d. Management is a system of activity.

6. Which is the primary function of management?
 - a. Controlling
 - b. Directing
 - c. Organising
 - d. Planning

7. _____ consists of activities related to the selection and placement of right people for right jobs.
 - a. Controlling
 - b. Directing
 - c. Staffing
 - d. Planning

8. _____ system is dependent upon the outside environment for feedback and resources and for the disposal of finished products.
- Open System
 - Closed System
 - General System
 - Specialized System
9. Which of the following statements is FALSE?
- Management is necessary to service organisation also.
 - A minimum of two persons are essential to form a management.
 - Management is a continuous process.
 - There is no need of explaining organisational objectives to every employee.
10. The contributors of contingency approach are _____.
- sociologists
 - psychologists
 - economists
 - scientists

Chapter II

Policy, Procedure, Method and Rule

Aim

The aim of the chapter is to:

- provide an introduction to policy, procedure, method and rule
- state the features, importance, merits and demerits of policy, procedure, method and rule
- compare between policy, procedure, method and rule

Objectives

The objectives of the chapter are to:

- enlighten the students with an introduction to policy, procedure, method and rule
- describe the features, importance, merits and demerits of policy, procedure, method and rule
- differentiate between policy, procedure, method and rule

Learning Outcome

At the end of this chapter students will be able to:

- theorise the concepts of policy, procedure, method and rule
- identify the features, importance, merits and demerits of policy, procedure, method and rule
- justify the difference between policy, procedure, method and rule

2.1 Introduction to Policy

Each management is taking a number of decisions serving long term purpose or short term purpose. Sometimes a decision may be taken within the purview of an earlier decision. A decision gives guidelines to implement a plan in the days to come. Here, policy, a part of planning is important in providing guidelines to take a valuable decision. The decision maker may be self-regulated with the help of policy. In other words, norms are provided by the policy.

2.1.1 Meaning and Definition of Policy

- A policy is a norm or guideline which is used to take a decision for achieving objectives in consideration of the organisational climate.
- A policy is a type of standing plan.
- A policy can guide sub-ordinates in order to execute the work assigned to them. Sub-ordinates can take decisions within the framework of the policy without reference to higher authorities.
- In this way, a policy is a predetermined course of action established to guide the performance of work towards the realization of accepted objectives.
- According to Dale Yoder, “*A policy is the statement or general understanding which provides guidelines in decision-making to members of an organisation in respect to any course of action.*”
- Edwin B. Flippo defines policy as “*A policy is a man-made rule or predetermined course of action that is established to guide the performance of work towards the organisation. It is a type of standing plan that serves to guide subordinates in the execution of their task.*”

2.1.2 Features of Policy

The following are features of policy:

- A policy gives guidelines to the employees of the organisation for taking a decision.
- A policy restricts the freedom of the employees in an organisation. An employee has to take a decision within the purview of the policy.
- A policy provides and explains an employee as how and what he should do rather than what he is doing.
- A policy provides some discretion to employees. So, an employee can take a decision by considering the prevailing situation. If not so, policy will become a rule.
- A policy is framed on the basis of the objectives of the organisation.
- A policy permits the top executives to delegate authority and still retain control of action.
- Policies are generally expressed in qualitative, conditional or general way.
- A policy is framed by all managers in an organisation in their respective areas.
- Policies are the recognised intention of the top management.

2.1.3 Need and Importance of a Policy

Policy stimulates an employee to take a decision at operating level and also the spontaneous co-operation of employees can be achieved through a policy formulation. The following points describe the need and importance of a policy:

- Achieving the objectives
- Clear thinking
- Uniformity
- No exploitation
- Continuity
- Delegation of authority
- Stability
- Better control

- Orientation
- Efficiency evaluation
- Training
- Self-confidence
- Team work
- Motivation
- Loyalty
- Morale
- Guide to management
- Quick decision

2.1.4 Characteristics of a Sound Policy

Policy provides clear cut directions or proper guidelines for taking managerial decision. Therefore, policies should be developed on a sound basis. If not, the management people will not be able to take quality decisions.

The major characteristics of a sound policy are as given below:

- Relationship with objectives
- Definite and simple
- Realistic approach
- Evidence
- Ensure understanding and uniformity
- Consistency
- Adequate policies
- Communication
- Recognition of interest
- Practicable
- Flexible
- Acceptable

2.1.5 Factors influencing Policy Making

There are several factors influencing policy making. Some factors are visible and some factors are invisible. Some important factors are presented below:

- Psychology of the owner or businessman
- Willingness of the owner or businessman
- Experience of the owner or businessman
- Beliefs on the policy
- Perception of the owner and top management people
- Financial resources
- Reaction of employees
- Policy of the competitors
- Achievements of the competitors
- Government regulation and control
- Business environment
- Objectives of the organisation

- Price
- Public attitudes and behaviour
- Customer and consumer behaviour

2.1.6 Formulation of a Policy

The process of policy formulation involves the following steps:

- Identification of area
- Objectives
- Analysis of environment
- Corporate analysis
- Collection of information
- Analysing the information
- Identification of alternatives
- Appraisal of policies
- Selection of a policy
- Approval of policy
- Communicating the policy

2.1.7 Types of Policy

An organisation has different kinds of policies as discussed below:

- **Internal Policy:** It is also known as originated policy. This type of policy is formulated by the management executives at different levels-top, middle and lower. This policy is prepared on the basis of nature of business and scope of the management like for example if a policy is prepared by the department manager then it is applicable to the concerned department only and if it is prepared by top management people then it is applicable to the whole organisation.
- **Appealed Policy:** This type of policy is formulated only on the requests of the subordinates. This policy helps the subordinates to handle some situations. If the existing policies do not give any scope to handle extraordinary situations; appealed policy is to be formulated.
- **External Policy:** It is also known as imposed policy. An outsider of an organisation may be instrumental to the formulation of this policy. For instance, if the Government places an order regarding the working conditions of the employees, the organisation is bound to formulate a policy to provide such type of working conditions. In this way, external policy is formulated.
- **General Policy:** General policy is that policy which does not create an impact on the performance of the employees. This policy may represent the philosophy of the top management executives. For instance, motivating the employees to do a job in a better way is a general policy.
- **Specific Policy:** A specific policy is formulated with regard to any specific issue i.e. transfer, promotion, compensation etc. A specific policy must confirm to the broad outlines mentioned in the general policies.
- **Written Policy:** This policy is formulated and intimated in written form. Here there is no possibility of any degree of deviation.
- **Implicit Policy:** This policy is inferred from the behaviour of the superior. Such policies are more flexible than other policies.

2.1.8 Merits of Policy

A well formulated policy has following merits:

- Guide to thinking
- Uniformity

- Consistency
- Applicability
- Continuity
- Builds confidence
- Security
- Quick decision
- Delegation of authority
- Control
- Orientation and training
- Team work
- Loyalty

2.1.9 Demerits of Policy

The demerits of policy are as follows:

- Not applicable to every problem
- No instant solution
- No value for human beings
- Reduce initiative
- No substitute for human judgement

2.2 Introduction to Procedure

The actual performance of assigned work is completed with the help of procedure. A policy is acting as a guideline and a well formulated policy is properly implemented with the help of procedure. There is a gap between formulation of a policy and its implementation. This gap is filled up by procedure.

2.2.1 Meaning and Definition of Procedure

The procedure decides the task to be performed specifically and the persons who will perform the work within a specified time. Procedure lays down the process to be followed and sequences of activities for the work to be done. According to Ernest C. Miller, “*Policies are general instructions while procedures are specific applications.*”

Procedure can be said as an establishing sequence of activities by identifying different phases of the work and completing the work successfully with the help of available resources in order to achieve the objectives of an organisation and effective utilisation of available resources economically.

George R. Terry defines procedure as, “*A series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished.*”

2.2.2 Importance of Procedure

Procedure is important because it:

- relieves the manager from directing the sub-ordinates. A sub-ordinate can be well directed by procedure
- specifies the steps to be taken, time and order of performance of a work
- facilitates the management to exercise control function. Management by exception principle is followed here
- gives a readymade solution to solve repetitive problems. It saves time and energy of the management executives
- can be used as a parameter to judge whether a work is done perfectly or not. Procedure serves as a basis for control
- helps the employees to improve their efficiency adhering to the standard
- facilitates orientation of new employees and training of existing and new employees

- can be used to increase the morale of the employees
- ensures consistency and uniformity of action
- speeds up not only clerical work but also any type of work and increases the speed of flow of information. A well designed procedure facilitates proper delegation of authority and fixation of responsibility
- facilitates the coordination of function of the top management people

2.2.3 Essentials of Sound Procedure

If a procedure is not a sound one it, results in various confusion and involves heavy expenditure with delay in the completion of any work. The following points should be taken into account while framing a sound procedure:

- A procedure is framed on adequate information for a particular situation. No procedure is framed on guesses or wishes of any employee.
- Procedure must ensure the achievement of objectives through implementing policies of an organisation.
- Procedure fixes the responsibility of an employee who has been favoured with delegation of adequate authority.
- Procedure is stable for a specified period.
- Procedure is reviewed at regular intervals to bring in it changes for changed business conditions.

2.2.4 Merits of Procedure

The merits of procedure are given as:

- Fixed standard
- Better Communication
- Best Control
- Co-ordination
- Saves time and energy
- Better utilisation of resources
- Consistency

2.2.5 Demerits of Procedure

The demerits of procedure are as given below:

- Avoids initiative
- Rigidity
- Outdated

2.3 Introduction to Methods

A method is a standing plan which is more specific and detailed than a procedure. Method specifies the way in which the specified work is to be performed. A method is the manual or mechanical means by which each work or operation is performed. Therefore, it is helpful in the use of a procedure with minimum expenditure of time, money and efforts.

- A method has a more limited scope than procedure.
- Method is the performance of a single operation of a procedure.
- Methods are formalised and standardised ways of performing repetitive and routine jobs.
- Standard methods prescribe one of the best ways of doing a given task. In this way, method is facilitating the work of planning and also keep operations running on the planned lines.
- Methods prevent confusion, ensure cost saving and efficient performance and keep the communication line clear.
- Methods are used as uniform norms to guide and control operations and performance. Method explains the

operation in more detail than procedure.

2.3.1 Merits of Method

The following are the merits of a method:

- Methods are parts of enterprise structure just like the nails, nuts and bolts of a product.
- One best way of doing a job prevents subjective handling of the matters.
- It helps easing various functions of departments.
- Communication line is cleared.

2.4 Introduction to Rule

- A rule is a guide to employees who are working in an organisation like a procedure. But the rule has no sequence of action as in the case of a procedure. A rule specifies what is to be done and what may not be done in a given situation.
- Rules do not give any scope for decision making. For instance, “No admission without permission” is a rule. These rules do not give any scope for discretion on the part of entrant. Rule is to be enforced rigidly and a fine or penalty may be imposed for ignoring the rule.
- Rule is a standing plan. A rule is a part of procedure. It is more rigid than a policy.
- Rule indicates the limits of acceptable behaviour of the employees of an organisation.
- Rule helps the managers to improve the efficiency and predict the behaviour of subordinates in the given situation.
- Rules are helpful in maintaining discipline.
- Rules should be so planned that they do not curtail initiative and creativity and at the same time help in smooth flow of work.

2.4.1 Features of a Rule

The following are the features of rules:

- It is a simplest type of a plan.
- Rules are very rigid.
- A fine is imposed if the rule is not followed.
- There is no scope of any decision making.

2.4.2 Difference between Policy and Procedure

The main distinction points between policy and procedure are as given below:

Policy	Procedure
It guides the thinking and decision making process.	It guides the action process.
It is derived from the objectives of an organisation.	It is derived from the policies of an organisation.
It discloses the attitude of management towards certain specific issues.	It discloses the ways to be used for handling events systematically.
It is formulated by top management people.	It is framed by middle level and lower level management people.
It gives more discretion.	It gives less discretion.
It is not based on procedure.	It is based on policy.
It lays down broad area.	It lays down little area.

It acts as a bridge between purpose and performance.	It acts as a bridge between activities and results.
It is a part of strategy.	It is a tool of tactics.

Table 2.1 Policy vs. procedure

2.4.3 Difference between Methods and Procedures

The main distinction points between methods and procedures are as given below:

Methods	Procedures
Methods are concerned with a particular step.	Procedures are concerned with series of steps.
Methods are specific.	Procedures are not specific.
Methods are standardised.	Procedures are not standardised.
Methods involve one department.	Procedures involve many departments.

Table 2.2 Methods vs. procedures

2.4.4 Difference between Rule and Policy

The main distinction points between rule and policy are as given below:

Rule	Policy
Rule is a specific statement telling the employees what should or should not be done.	Policy is a general statement of a management decision.
Rule is a guide of behaviour.	Policy is a guide to decision making.
Rule constitutes the most specific type of standing plan.	Policy is a less specific type of standing plan.
Rule is rigid, no exceptions or deviations.	Policy is flexible and has some exceptions.
Rule does not give any scope of discretion and its implementation.	Policy gives some discretion to the executives concerned with its implementation.

Table 2.3 Rule vs. policy

2.4.5 Difference between Rule and Methods

The main distinction points between rule and methods are as given below:

Rule	Methods
Rule gives norms for performance.	Methods are standard ways of doing things.
Rule wants to ensure discipline.	Methods are helping to increase efficiency of operation.
No standardisation is required.	Standardisation is required.
Rule is based on common sense and objectives.	Methods are based on research and analysis.
Penalty is specified for violation of rules.	There is no penalty for violation of method.
Rule is regarded as official and authoritative.	Methods are regarded as logical or rational.
Rule is associated with control.	Methods are not directly associated with control.
Rule is related to the behaviour of individuals and groups.	Methods are related to physical and other tasks.

Table 2.4 Rule vs. methods

2.4.6 Difference between Rule and Procedure

The main distinction points between rule and procedure are as given below:

Rule	Procedure
Rule is a specific statement to do or not to do something.	Procedure specifies series of steps to be taken.
No time sequence is specified in rule.	A chronological order (in which steps are to be taken) is laid down in the procedure.
Rule is rigid in nature. There is no discretion allowed.	Procedure may allow discretion.
Rule can be positive and negative.	Procedure is always positive in nature.
Rule may be a part of procedure.	Procedure is not a part of rule.

Table 2.5 Policy vs. procedure

Summary

- Policy means the art or manner of governing a nation, the line of conduct which rulers of a nation adopt on a particular question especially with regard to foreign countries, the principle on which any measure or course of action is based.
- Appraisal of policies is very important. Feasibility, financial implication, pros and cons of each policy are taken into consideration while appraising a policy. Value of a policy could be correctly assessed only through the process of appraisal of policies.
- Whatever the policy formulated by the organisation, it should be accepted by everyone. It means the formulated policy has to be welcomed and accepted by all the employees of an organisation.
- A well formulated policy is properly implemented with the help of procedure. The procedure decides the task to be performed specifically and the persons who will perform the work within a specified time.
- A specified procedure is followed for free flow of communication within the organisation. So, all the employees can get every piece of information without any hindrances.
- A method is a standing plan which is more specific and detailed than a procedure. Method specifies the way in which the specified work is to be performed. A method is the manual or mechanical means by which each work or operation is performed.
- A rule is a guide to employees who are working in an organisation like a procedure. But, the rule has no sequence of action as in the case of a procedure.
- Rules are helpful in maintaining discipline. Problems arise not due to rules themselves but because of the way of exercising rules on the employees. Hence, the purpose of every rule should be explained to the employees by the management.

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Self Assessment

1. _____ are provided by the policy.
 - a. Norms
 - b. Rules
 - c. Methods
 - d. Procedures

2. A policy provides some discretion to employees. So, an employee can take a decision by considering the prevailing situation. If not so, policy will become a _____.
 - a. method
 - b. rule
 - c. norm
 - d. procedure

3. Match the following:

i Internal Policy	A. policy which does not create an impact on the performance of the employees
ii Appealed Policy	B. policy is formulated only on the requests of the subordinates
iii General Policy	C. policy is formulated with regard to any specific issue
iv Specific Policy	D. policy is formulated by the management executives at different levels-top, middle and lower

- a. i-D, ii-B, iii-A, iv-C
 - b. i-C, ii-A, iii-B, iv-D
 - c. i-B, ii-C, iii-D, iv-A
 - d. i-A, ii-D, iii-B, iv-C
4. Which policy is inferred from the behaviour of the superior?
 - a. Written policy
 - b. General policy
 - c. Implicit policy
 - d. Internal policy

 5. _____ policy is also known as imposed policy.
 - a. Written policy
 - b. General policy
 - c. Implicit policy
 - d. External policy

 6. There is a gap between formulation of a policy and its implementation. This gap is filled up by _____.
 - a. method
 - b. procedure
 - c. rule
 - d. guideline

7. Who defined procedure as a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished?
 - a. Peter F. Drucker
 - b. Henry Fayol
 - c. George R. Terry
 - d. Dale Yoder

8. Which of the following statements is TRUE?
 - a. Policy is applicable to every problem.
 - b. Policy provides an instant solution.
 - c. Policy has value for human beings.
 - d. Policy reduces initiative.

9. A well designed _____ facilitates proper delegation of authority and fixation of responsibility.
 - a. rule
 - b. procedure
 - c. method
 - d. policy

10. _____ does not give any scope of discretion and its implementation.
 - a. Method
 - b. Procedure
 - c. Rule
 - d. Policy

Chapter III

Managerial Planning, Fore-casting and Decision Making

Aim

The aim of the chapter is to:

- provide an introduction to managerial planning, forecasting, management by objectives and decision making
- state the importance, features and characteristics of each of them with advantages and disadvantages
- mention the difference between planning and forecasting
- explain the planning process, forecasting process, management by objectives (MBO) process and decision making process
- analyse the various forecasting techniques and principles of decision making

Objective

The objective of the chapter is to:

- enlighten the students with an introduction to managerial planning, forecasting, management by objectives and decision making
- enrich them with importance, features and characteristics of each of them with advantages and disadvantages
- enable them to determine the planning process, forecasting process, MBO process and decision making process
- explore them with different forecasting techniques and principles of decision making
- enable them to differentiate between planning and forecasting

Learning Outcome

At the end of the chapter students will be able to:

- determine managerial planning, forecasting, management by objectives and decision making
- identify the importance, features and characteristics of each of them with advantages and disadvantages
- judge the different forecasting techniques and principles of decision making
- justify the difference between planning and forecasting
- assess the planning process, forecasting process, MBO process and decision making process

3.1 Introduction to Planning

Planning is essential in every walk of life. Each and every person has to frame a plan to proceed to achieve his/her schemes. The plan period may be short or long. Planning is the first and foremost function of management. F.W. Taylor had pointed out in his report on Scientific Management that planning is separated from execution.

3.1.1 Meaning and Definition of Planning

Planning is an intellectual process of thinking resorted to decide a course of action which helps in achieving the pre-determined objectives of the organisation in future.

Planning provides a clear sense of direction to the activities of the organisation and to the job behaviour of managers and others. It strengthens their confidence in understanding where the organisation is heading and best way to make the organisation move along the chosen path is to achieve the goals of the organisation.

According to Koontz and O'Donnel, *“Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. It bridges the gap from where we are to where we want to go.”*

According to George R. Terry, *“Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve desired results.”*

Henry Fayol defined planning as *“Planning is deciding the best alternatives among others to perform different managerial operations in order to achieve the pre-determined goals.”*

3.1.2 Characteristics of Planning

The following are the characteristics of planning:

- planning is looking into the future
- planning involves pre-determined line of action
- planning discovers the best alternative out of available many alternatives
- planning requires considerable time for implementation
- planning is a continuous process
- planning's object is to achieve pre-determined objectives in a better way
- planning integrates various activities of organisation
- planning is done for a specific period
- planning not only selects the objectives but also develops policies, programmes and procedures to achieve the objectives
- planning is required at all levels of management
- planning is an inter-dependent process which co-ordinates the various business activities
- planning directs the members of the organisation
- growth and prosperity of any organisation depends upon planning

3.1.3 Objectives of Planning

Planning in any organisation serves to realise the following objectives:

- reduces uncertainty
- induces co-operation and co-ordination
- reduces competition
- achieves the predetermined goals
- anticipates unpredictable contingencies

3.1.4 Nature of Planning

There are number of ways available to complete a certain job. Planning chooses any one of the best alternatives out of the available ones. Economy and certainty are considered while selecting the best alternative. Thus, the nature of planning is briefly discussed below:

- planning is the primary function of management
- planning contributes to objectives
- planning is an intellectual activity
- planning results in higher efficiency
- planning is a continuous process
- planning is flexible
- planning provides unity and consistency
- planning is common to all
- planning is the basis for all managerial functions
- planning coordinates various business activities
- planning considers limiting factors

3.1.5 Importance of Planning

Planning helps the businessman get early success. Success without planning is almost impossible in business. So, the planning function is very important due to the following reasons:

- planning manages objectives
- planning converts uncertainty into certainty
- planning enables economy in operation
- planning helps in coordination
- planning tackles increasing complexities of business
- planning provides effective control
- effective utilisation of resources is achieved through planning
- planning avoids business failures

3.1.6 Steps in Planning Process

The planning process is different from one plan to another and one organisation to another. Given below is a planning process which may be treated as commonly acceptable:

- analysis of external environment
- analysis of internal environment
- determination of objectives
- determining planning premises and constraints
- examination of alternative courses of action
- weighing alternative course of action
- selection of the best alternative course of action
- establishing the sequence of activities
- formulation of action programmes
- determining secondary plans
- securing participation of employees
- follow-up and evaluation

3.1.7 Methods of Planning

According to the usage and nature of planning, the methods or types or components or elements of planning are divided into the following categories:

- **Objective Plans:** Objectives are the basic foundation for planning operation. It also plays an important role in managerial work of organizing, directing and controlling.
- **Standing Plans:** These plans include policies and procedures that are liable for repetitive action. These plans provide a ready guideline for solving recurring problems and not used for the special problems.
- **Master Plans:** It covers the complete course of action along with the consideration of time and strategy. Small plans are added together in a way to speed up the course of action.

3.1.8 Advantages of Planning

The advantages of planning are as given below:

- better utilisation of resources
- helps in achieving objectives
- minimises future uncertainties
- improves competitive strength
- effective control
- economy in operation
- provides motivation
- enables cooperation
- promotes growth and improvement
- develops rationality among management executives
- delegation of authority facilitated
- encourages innovation
- prevents hasty judgement
- reduces red-tapism
- improves ability to cope with change
- creates forward looking attitude in management
- develops efficient methods and procedures of action
- anticipation of crisis

3.1.9 Disadvantages of Planning

Though planning is a primary function of management and it facilitates other functions of management, it suffers from certain limitations as given below:

- Inflexibility
- Limitation of forecasts
- Unsuitability
- Time consuming
- Costly
- Mental ability
- False sense of security
- Delay during emergency period

3.2 Introduction to Forecasting

Forecasting is the technique of estimating the relevant future events and problems on the basis of past and present behaviour or happenings. The future cannot be guessed without knowing the events which have occurred in the past and are occurring presently. Thus, forecasting involves detailed analysis of the past and present events to get a clear cut idea about probable events in the future.

3.2.1 Meaning and Definition of Forecasting

Forecasting is a systematic guessing of the future course of events with the help of analysis of past and present events. It provides the basis for planning. Forecasting includes both assessing the future and making provision for it. According to Neter and Wasserman, “*Business forecasting refers to the statistical analysis of the past and current movement in the given time series so as to obtain clues about the future pattern of those movements.*”

3.2.2 Features or Characteristics of Forecasting

The following are the features or characteristics of forecasting:

- Forecasting is concerned with future events.
- Forecasting is necessary for planning process. Planning is not possible without forecasting.
- The impact of future events has to be considered in the planning process.
- Forecasting is a guessing of future events. Therefore, the future events that might happen could be guessed only to some extent.
- Inferences or conclusions are drawn from past and present relevant events under scientific forecasting.
- Forecasting considers all the factors which affect organisational functions.
- The analysis of various factors may require the use of scientific, mathematical and statistical techniques.
- Personal observation also helps in forecasting.
- The application of scientific, mathematical and statistical techniques is much more reliable than the use of ordinary tools for obtaining conclusions.

3.2.3 Forecasting Process

The various stages in the process are described as under:

- **Thorough preparation of foundation:** Detailed investigation and complete analysis of the company are necessary for forecasting which in turn is based on the organisation structure of the company and its past performance.
- **Estimation of the future:** The future of the organisation can be estimated by consulting the key executives of the company and then passing on the communication to the entire unit.
- **Collection of results:** Relevant records are prepared and maintained to collect the results.
- **Comparison of results:** The actual results are compared with the estimated results to know deviations. In case of significant deviations proper measures are taken and it ultimately helps in forecasting.
- **Refining the forecast:** The forecast can be refined in the light of deviations that are the factors which undergo changes during the study period can be used to refine and improve the forecast.

3.2.4 Importance of Forecasting

The need and importance of forecasting can be found out with the help of key role played for forecasting in the management process especially in planning process. Whatever planning is done by the management executives; their planning has to be based on the forecasting. Forecasting helps the management in the following ways:

- pivotal role in an organisation
- development of a business
- implementation of project
- primacy to planning

- co-ordination
- effective control
- key to success

3.2.5 Forecasting Techniques or Types or Methods

Various techniques of forecasting are used in the field of business because the future of any business can never be predicted with certainty. An accurate forecasting may reduce the degree of uncertainty. In practice, more than one technique can be combined for making the forecasting effective. So, some of the techniques are discussed below:

- **Similarity events method:** In this method forecast is made on the basis of the events happened in the past which are most similar to the current events.
- **Survey method:** Field survey can be conducted to collect information regarding the attitude of people. The information collected is useful for proper forecasting.
- **Time series analysis:** In this method the future is forecast on the assumption that past activities are good indicators of future activities.
- **Delphi method:** The Delphi technique is another way of obtaining group input for ideas and problem-solving. It does not require face-to-face participation. It uses a series of carefully designed questionnaires interspersed with information summaries and feedback from preceding responses.
- **Regression analysis:** Regression analysis is used to find out the effect of changes of the relative movements of two or more inter-related variables.
- **Input and output analysis:** Forecast can be made on the basis of the relationship between input and output. For instance, the power requirement of the country can be determined on the basis of the current usage rate.
- **Sales person's opinion:** The sales force of the existing product can be forecast with the help of opinions of sales persons. Sales persons are very closer to the consumers. So, the opinions expressed by the sales persons are of great value. A reasonable sales trend can be predicted based on the opinions of sales persons.

3.2.6 Advantages of Forecasting

Some of the advantages of forecasting are as given below:

- facilitates planning
- ensures coordination
- easy controlling

3.2.7 Disadvantages of Forecasting

The disadvantages of forecasting are as follows:

Forecasting is based on assumptions which may yield wrong results.

- Too much is expected of forecasting.
- It involves high cost and time investment.
- It is not a scientific method.
- Forecasting cannot be applied for a long period.
- Requires high degree of skill, but in reality experts on forecasting are rarely available.

3.2.8 Difference between Planning and Forecasting

Both forecasting and planning deal with future events. In spite of the differences between them, they are briefly explained below:

Planning	Forecasting
<ul style="list-style-type: none"> • Planning is basis for the future course of action. 	<ul style="list-style-type: none"> • Forecasting is the basis for planning.
<ul style="list-style-type: none"> • It is done at the top management level. 	<ul style="list-style-type: none"> • It is done at the middle or lower level of management
<ul style="list-style-type: none"> • Planning is not a tool for forecasting. 	<ul style="list-style-type: none"> • Forecasting is a tool of planning.
<ul style="list-style-type: none"> • Planning can be done by any person. 	<ul style="list-style-type: none"> • Forecasting is done by experts.
<ul style="list-style-type: none"> • Planning helps to arrive at certain decisions. They are regarding what is to be done, how is to be done and when is to be done. 	<ul style="list-style-type: none"> • No decision can be taken without the help of forecasting.
<ul style="list-style-type: none"> • A large number of persons are involved in planning process. 	<ul style="list-style-type: none"> • A few members are involved in forecasting process.
<ul style="list-style-type: none"> • Planning stimulates some activity to achieve the objective of organisations. 	<ul style="list-style-type: none"> • Forecasting does not stimulate the activity among employees.

Table 3.1 Planning vs. forecasting

3.3 Introduction to Objectives and MBO

Every institution or organisation is established for the purpose of achieving some objectives. An individual who starts a business has the objective of earning profits. The objective may differ from one organisation to another organisation.

MBO (Management by Objectives) is a management system in which each member of the organisation effectively participates and involves oneself. This system gives full scope to the individual strength and responsibility. MBO harmonises the goal of an individual with the organisation's goal. It creates self-control and motivates the manager into action before somebody tells him/her to do something.

3.3.1 Meaning and Definition of Objectives and MBO

Objectives are the expectation of end results for which an organisation is established and which it tries to achieve. According to Koontz and O'Donnel, "*Objective is a term commonly used to indicate the endpoint of a management programme.*"

According to George R. Terry, "*A managerial objective is the intended goal which prescribes definite scope and suggests direction to the efforts of a manager.*"

Prof. Reddin defines MBO as, "*The establishment of effective standards for managerial positions and the periodic conversion of those into measurable time bound objectives linked vertically and horizontally and with future planning.*"

3.3.2 Features of Objectives

The following are the features of objectives:

- each individual has own objectives
- the objectives of any organisation are specially mentioned
- the objectives may be short-term or long-term
- the objectives of an organisation should be clearly defined

- at top level, the organisation has broad objectives i.e. to earn certain rate of return on investments
- the whole organisation is divided into several sections
- each section has specific objectives
- the objectives of the organisation must conform to the general needs of the public
- all the organisations have several objectives at a time because the objectives are necessary in various areas of business
- the objectives of the organisation may be changed in due course
- the objectives are expressed in numerical terms
- this helps in measuring the actual performance done to realise the objectives
- the framed objectives should be achievable and reasonable ones

3.3.3 Advantages of Objectives

The following are the advantages of objectives:

- unified planning
- individual motivation
- coordination
- control
- basis for decentralization

3.3.4 Features of MBO

The following are the features of MBO:

- Integrates the goals of an organisation and individuals, leading to an effective management system.
- Emphasises on the effective performance.
- Combines the long term and the short term goals.
- Constant attention to refine, modify and improve the goals with changing times.
- Recognises participation of employees in goal setting process.
- A high degree of motivation and satisfaction is available to employees through MBO.
- Tries to relate the organisation goals with society goals.

3.3.5 Process of MBO

The process of MBO constitutes of the following steps:

- defining organisational objectives
- goals of each section
- fixing key result areas
- setting subordinate objectives or targets
- matching resources with objectives
- periodical review meetings
- appraisal of activities
- reappraisal of objectives

3.3.6 Benefits of MBO

The benefits of MBO are as given below:

- Provides a foundation of participative management.
- Gives the criteria of evaluation.
- Delegation of authority is easily done.
- Systematic evaluation of the performance.
- Managers are involved in setting objectives at various levels of management.
- Motivates employees by job enrichment.
- The responsibility of a worker is fixed through MBO.
- Provides a foundation for participative management and goal setting.

3.3.7 Limitations of MBO

The limitations of MBO are as given below:

- it is a time consuming process
- MBO fails to explain the philosophy
- emphasises on short term objectives rather than the long term
- the status of subordinates is necessary for proper objectives setting which is not possible in MBO process
- MBO's are rigid in nature
- the objectives are set without considering the available resources

3.3.8 Guidelines for Setting Effective Objectives

The limitations of MBO can be reduced to some extent if the organisation follows certain guidelines. These guidelines should be followed while setting objectives. These guidelines are as follows:

- Objectives are framed only by the participants who are responsible for implementing them.
- All the objectives should support the overall objectives of the organisation.
- Objectives should be attainable ones.
- Objectives should result in the motivation of workers.
- A periodical review of objectives is necessary for proper implementation.
- Objectives should have the characteristics of innovation.
- The number of objectives for each management member should be a reasonable one.
- Objectives should be ranked on the basis of their importance.
- Objectives should be in balance within a given organisation or enterprise.
- Objectives should be simple and clearly defined.
- Objectives should be specific and time bound.

3.4 Introduction to Decision Making

Decision making is also one of the functions of the management. The management executive takes a number of decisions everyday. They are not able to discharge their duties without taking any decisions. A decision may be a direction to others what to do or not to do. Thus, a decision may be rational or irrational.

3.4.1 Meaning and Definition of Decision Making

Decision making is the process of choosing one best alternative from among the number of alternatives available to the management. The success of management depends upon the quality of decision.

According to Andrew Smilagyi, "Decision making is a process involving information, choice of alternative actions, implementations, and evaluation that is directed to the achievement of certain stated goals."

According to George R. Terry, "Decision making is the selection based on some criteria from two or more possible alternatives."

3.4.2 Characteristics of Decision Making

The following are the characteristics of decision making:

- Decision making is a selection process.
- Decision making is the end process. It is preceded by detailed discussion and selection of alternatives.
- Decision making is the application of intellectual abilities to a great extent.
- Decision making is a dynamic process.
- Decision making is situational.
- A decision may be either negative or positive.
- Decision making involves the evaluation of available alternatives through critical appraisal methods.
- Decision is taken to achieve the objectives of an organisation.

3.4.3 Decision Making Process

This process depends upon the nature of the problem and type of organisation. Following is the simple process taken up for decision making:

- identification of a problem
- diagnosing the problem
- collect and analyse the relevant information
- discovery of alternative course of action
- analysing and screening of the objectives
- selection of best alternative
- conversion of decision into action
- implementation
- verifying the decision

3.4.4 Principles of Decision Making

A quality decision may be taken by the manager if he adopts certain principles which are as given below:

- **Marginal theory:** This theory is based on the view that organisation is aimed at maximizing profits. Here the manager adopts the Law of diminishing returns, where the management appoints additional labour and uses additional capital, the production may be increased proportionately at reduced rates. A time comes when there is no increase in the production with increase in labour and capital, so this stopped and the production of the last unit is termed marginal.
- **Principle of limiting factors:** Problem is studied, conclusion and inference is drawn on the basis of study. The manager takes decision with the help of the conclusion. Limiting factors like time, cost or resources can also be a deciding factor.
- **Principle of participation:** This principle is based on human behaviour and relationship. Subordinates should be consulted and due weightage should be given; this will make them feel honoured.
- **Mathematical theory:** Venture analysis, game theory, probability theory and waiting theory are some of the mathematical theories. Mathematical theory gives scientific approach to the manager while taking a decision.
- **Psychological theory:** A manager takes a decision on the basis of his aspiration, technological skill, personality, social status and organisation status. Though the manager is expected to take a decision confined to the scope of his responsibility and authority, there is an impact of psychology over the decision. The reason is that decision-making is a mental process.
- **Principle of alternatives:** If there is only one alternative to solve a problem, there is no need of taking a decision. Decision is a selection process where all the alternatives are evaluated and screened in the order of their usefulness and then finally the best alternative is selected according to the circumstances and purpose.

3.4.5 Characteristics of Effective Decision

A decision is taken after passing through various stages. The basic objective of passing through all the stages is to solve the problem. The solution of the problem depends on how effectively the decision has been made or implemented. Thus, a good decision has the following characteristics:

- action orientation
- goal direction
- efficiency in implementation

3.4.6 Problems in Decision Making

The various problems faced while making decisions are:

- accuracy
- environment for decision making
- timely decision
- communication of decision
- participative decision-making
- implementation

Summary

- Planning focuses on the future impact of today's decisions. Without looking to the future, managers will not know the appropriate decision to make today. Planning is often listed as the first managerial function because it is critical to the overall success of the organisation.
- Planning is an intellectual process of thinking resorted to decide a course of action which helps achieve the pre-determined objectives of the organisation in future.
- Forecasting is a systematic guessing of the future course of events with the help of analysis of past and present events. A forecast is a prediction and its purpose is to calculate and predict some future event or condition.
- Many people confuse planning with forecasting. Planning is entirely different from forecasting. Forecasting is nothing but the guessing of the future course of events correctly. It is basically a technique of anticipating events related to future. Planning is a wider term which includes forecasting. Forecasting is a part of planning and is based on the past experience.
- Objectives are the goals, aims or purposes that organisations wish to achieve over varying periods of time. The clearly defined objectives are interpreted by the executives preferably at the top level and are very useful to them for the right direction of personnel.
- The objectives of an organisation specific the purpose of each job and fix the individual goals along with the overall organisations goals. Whenever the individual accepts the organisation's objectives as desirable, the possibility of getting co-ordination is very easy.
- MBO is a system wherein the superior and the sub-ordinate managers of an organisation jointly identify its common goals, define each individual's major area of responsibility in terms of the result expected of him and use these measures guides for operating the unit and assessing the contribution of each of its members.
- Decision making is a conscious and human process involving both individual and social phenomenon based upon factual and value premises, which concludes with a choice of one behavioural activity from among one or more alternatives with the intention of moving towards some desired state of affairs.

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Self Assessment

1. Who pointed out that planning is separated from execution?
 - a. Peter F. Drucker
 - b. F.W. Taylor
 - c. Henry Fayol
 - d. George R. Terry

2. Which of the following statements is FALSE?
 - a. Planning is flexible.
 - b. Planning provides unity and consistency.
 - c. Planning is not common to all.
 - d. Planning is basis for all managerial functions.

3. Which plan covers the complete course of action along with the consideration of time and strategy?
 - a. Objective
 - b. Standing
 - c. Strategic
 - d. Master

4. Planning is not possible without _____.
 - a. forecasting
 - b. decision making
 - c. controlling
 - d. co-ordinating

5. Thorough preparation of foundation is the first step in the process of _____.
 - a. planning
 - b. MBO
 - c. forecasting
 - d. decision making

6. In which method the future is forecast on the assumption that past activities are good indicators of future activities?
 - a. Survey method
 - b. Time series analysis
 - c. Similarity events method
 - d. Delphi method

7. Objective is a term commonly used to indicate the endpoint of a management programme. This definition is given by _____.
 - a. Peter F. Drucker
 - b. F.W. Taylor
 - c. Henry Fayol
 - d. George R. Terry

8. Fixing key result areas is a step in the process of _____.
- planning
 - MBO
 - forecasting
 - decision making
9. Objectives are framed only by the _____ who are responsible for implementing them.
- managers
 - top level management
 - lower level management
 - participants
10. Which principle of decision making is based on human behaviour and relationship?
- Principle of participation
 - Principle of limiting factors
 - Principle of alternatives
 - Mathematical theory

Chapter IV

Organisation, Delegation of Authority and Decentralisation

Aim

The aim of the chapter is to:

- provide an introduction to organisation with its definition, functions, characteristics, advantages and classification
- state the different theories of organisation
- mention the different types of organisation
- list the contents of organisation charts and manuals
- theorise the concepts of delegation of authority, decentralisation, departmentalisation and span of management

Objectives

The objectives of the chapter are to:

- enlighten the students with an introduction to organisation with its definition, functions, characteristics, advantages and classification
- enrich them with a brief description about the different theories of organisation
- enable them to determine different types of organisation
- enable them to list the contents of organisation charts and manuals
- enlighten them with various concepts like delegation of authority, decentralisation, departmentalisation and span of management

Learning Outcome

At the end of the chapter students will be able to:

- explain the concept of organisation with its definition, functions, characteristics, advantages and classification
- identify the different theories of organisation
- recall the different types of organisation
- judge the contents of organisation charts and manuals
- theorise the concepts like delegation of authority, decentralisation, departmentalisation and span of management

4.1 Introduction to Organisation

Organisation is a mechanism or structure which helps the activities to be performed effectively. The organisation is established for the purpose of achieving the business objectives.

Organisation can be compared to a human body. The human body consists of hands, feet, eyes, ears, nose, fingers, mouth etc. These parts perform their work independently and at the same time, one part cannot be a substitute to another. The same principles can be identified in the organisation also. The organisation consists of different departments. Each department performs its work independently and cannot be a substitute to another.

4.1.1 Meaning and Definition of Organisation

Organisation is the detailed arrangement of work and working conditions in order to perform the assigned activities in an effective manner. Organisation is the foundation upon which the whole structure of management is built. Organisation is related with developing a frame work where the total work is divided into manageable components in order to facilitate the achievement of objectives or goals.

According to Mc Farland, *“An identified group of people contributing their efforts towards the attainment of goals is called an organisation.”*

According to George R. Terry, *“Organising is the establishing of effective behavioural relationships among persons so that they may work together effectively and gain personal satisfaction in doing selected tasks under given environmental conditions for the purpose of achieving some goal or objective.”*

4.1.2 Functions of Organisation

The functions of the organisation include the following:

- determination of activities
- grouping of activities
- allotment of duties to specified persons
- delegation of authority
- defining relationship
- coordination of various activities

4.1.3 Characteristics of Organisation

The characteristics of the organisation are:

- **Division of labour:** The work is assigned to a person who is specialized in that particular work, this will result in the increase of quality output.
- **Co-ordination:** Different people are assigned different tasks; all the tasks put together leads to the objectives so there is a need of co-ordination to reach the desired goal.
- **Objectives:** The objectives of the organisation should be clearly defined.
- **Authority-responsibility structure:** The position of each executive is defined with regard to the extent of authority and responsibility vested in him/her to discharge the duties.
- **Communication:** The success of the organisation depends upon the effective management system, so every employee working in the organisation should know the techniques and importance of communication.

4.1.4 Advantages of Organisation

- The following are the advantages of organisation:
- Facilitates administration
- Increases management efficiency
- Encourages creativity and initiation
- Facilitates co-ordination
- Adoption of new technology

- Assists growth and diversification
- Ensures optimum utilisation of material resources and human efforts
- Facilitates training and development of managerial personnel
- Places proportionate importance to the various activities of the enterprise

4.1.5 Classification of Organisation

The organisation can be classified on the basis of authority and responsibility assigned to the personnel and the relationship with each other. By this concept, organisation can be broadly divided into two categories namely formal and informal organisation.

4.1.5.1 Formal Organisation

Formal organisation clearly defines the duties, responsibilities, authority and relationships as prescribed by the top management. The inert-relationship of staff members can be shown in the organisation chart and manuals under formal organisation.

Characteristics of formal organisation

The important characteristics of formal organisation are as given below:

- It is properly planned.
- It is based on delegated authority.
- It is deliberately impersonal.
- It provides division of labour.
- Organisational charts are drawn.
- Unity of command is maintained.
- The responsibility and accountability at all levels of organisation is clearly defined.

Advantages of formal organisation

The following are the advantages of formal organisation:

- The definite boundaries of each worker are clearly fixed resulting in reduced conflict among the workers.
- Overlapping of responsibility is easily avoided and the gaps between the responsibilities of the employees are filled up.
- Buck passing is very difficult under the formal organisation.
- Normally exact standards of performance are established under the formal organisation.
- A sense of security arises from classification of the task.
- There is no chance of favouritism in evaluation and placement of the employee.
- It makes the organisation less dependent on one man.

Disadvantages of formal organisation

The following are the disadvantages of formal organisation:

- In certain cases, the formal organisation may reduce the spirit of initiation.
- Sometimes authority is used for the sake of convenience of the employee without considering the need for using the authority.
- It does not consider the sentiments and values of the employees in the social organisation.
- The formal organisation may reduce the speed of informal communication.
- It creates the problems of coordination.

4.1.5.2 Informal Organisation

Informal organisation is an organisational structure which establishes the relationship on the basis of the likes and dislikes of officers without considering the rules, regulations and procedures. Friendship, mutual understanding and confidence are some of the reasons for existing informal organisation. The informal organisation relationship exists under the formal organisation also. The informal organisation relationship or informal relations give a greater job satisfaction and result in maximum production.

Characteristics of informal organisation

The important characteristics of informal organisation are as given below:

- It arises without any external cause.
- It is social structure formed to meet personal needs.
- It has no place in organisation chart.
- It acts as an agency of social control.
- This organisation can be found on all levels of organisation within the managerial hierarchy.
- The rules and traditions of informal organisation are not written but are commonly followed.
- It develops from habits, conduct, customs and behaviour of social groups.
- It is one of the parts of total organisation.
- There is no structure or definiteness to the informal organisation.

Advantages of informal organisation

The following are the advantages of informal organisation:

- It fills up the gaps and deficiency of the formal organisation.
- Informal organisation gives satisfaction to the workers and maintains the stability of the work.
- It is a useful channel of communication.
- The presence of informal organisation encourages the executives to plan the work correctly and act accordingly.
- It also fills up the gaps among the abilities of the managers.

Disadvantages of informal organisation

The following are the disadvantages of informal organisation:

- It has the nature of upsetting the morality of the workers.
- It acts according to mob psychology.
- It indirectly reduces the efforts of management to promote greater productivity.
- It spreads rumour among the workers regarding the functioning of the organisation unnecessarily.

Difference between formal and informal organisation

Some of the differences between formal and informal organisation are discussed in the table below:

Formal Organisation	Informal Organisation
• It arises due to delegation of authority.	• It arises due to social interaction of people.
• It gives importance to terms of authority and functions.	• It gives importance to people and their relationships.
• It is created deliberately.	• It is spontaneous and natural.
• It is created for technological purposes.	• It arises from man's quest for social satisfaction.
• Rules, duties and responsibilities of workers are given in writing.	• No written rules and duties are followed.
• It comes from outsiders who are superior in the line of organisation.	• It comes from those persons who are objects of its control.
• Formal authority flows from upwards to downwards.	• Informal authority flows from upwards to downwards or horizontally.
• The formal authority is attached to a position.	• The informal authority is attached to a person.
• It grows to the maximum size.	• It tends to remain smaller.
• It is permanent and stable.	• No permanent nature and stability.

Table 4.1 Formal vs. informal organisation

4.1.6 Theories of Organisation

Organisation theory explains the structure, functioning and performance of organisation and the behaviour of individual and groups within it.

The various organisation theories are:

4.1.6.1 Classical theory

The classical theory deals with each and every part of a formal organisation and was given by Frederick W. Taylor. This theory is based on four principles as given below:

- **Division of labour:** The work is assigned to a person according to his/her specialisation and the area of interest which results in maximum production with minimum expenses incurred and minimum capital employed.
- **Scalar and functional processes:** The scalar process deals with the growth of organisation vertically whereas the functional process deals with the growth of the organisation horizontally. The scalar chain defines the success of domination by the superior on the subordinate from top to bottom of organisation.
- **Structure:** Organisational structure is a tool for creating a relationship among the various functions which make up the organisation. The two main issues in the design of the organisation are
 - **Specialisation:** which is obtained when a person is asked to do a single work and it results in the increase in productivity
 - **Coordination:** is an orderly performance in operations to achieve organisational objectives.
 - **Span of control:** It defines the effective supervision of maximum number of employees by the supervisor.

Drawbacks of classical theory:

- based on authoritarian approach
- does not give two way communication
- do not care about human element in an organisation

- neglects the importance of informal groups
- ignores the influence of external factors on individual behaviour

4.1.6.2 Neo-Classical Theory

This theory is developed to fill the gaps in the classical theory. The main contribution of the theory is that it highlights the importance of the committee management and better communication.

Contributions made by Neo-Classical theory are as under:

- an individual should be the basis of an organisation
- organisation should be viewed in totality
- individual and organisational goals should be integrated
- employees should be allowed to participate in defining work standards and decision making
- management should recognize the existence of informal organisation

Drawbacks of Neo-Classical Theory

- The theory did not provide the clear guidelines for the actual structuring of jobs and provision for co-ordination
- The companies found little or almost nothing useful in this theory.

4.1.6.3 Modern Theory

This theory was organised in early 1950s. Following aspects are studied in this theory.

- interaction among the individuals in the system
- interaction between an individual and the environment
- studies an individual independently within and outside the system

Essentials of Modern Theory:

- views organisation as a whole
- based on system analysis
- concentrates on both quantitative and behavioural science
- integrating in nature
- based on empirical research

Drawbacks of Modern Theory:

- this theory does not provide solution to the issues raised by the theory itself
- it does not provide any new concept; work on the old management theories

4.1.6.4 Motivation Theory

It is concerned with the study or work motivation of employees of the organisation. The works are performed effectively if proper motivation is given to the employees. The motivation may be in monetary and non-monetary terms. The inner talents of any person can be identified after giving adequate motivation to employees. Maslow's hierarchy of needs theory and Honberg's two factor theory are some of the examples of the motivation theory.

4.1.6.5 Decision Theory

This theory was given by Herbert A. Simon. He regarded organisation as a structure of decision makers. The decisions were taken at all levels of the organisation and important decisions like policy decisions are taken at the higher levels of organisation. He suggested that the organisational structure be designed through an examination of the points at which decisions must be made and the persons from whom information is required if decisions should be satisfactory.

4.1.7 Types of Organisations

4.1.7.1 Line Organisation

Line organisation is the simple and the oldest type of an organisation, where the decision making authority flows from top to bottom. As shown in the Fig 3.1 below:

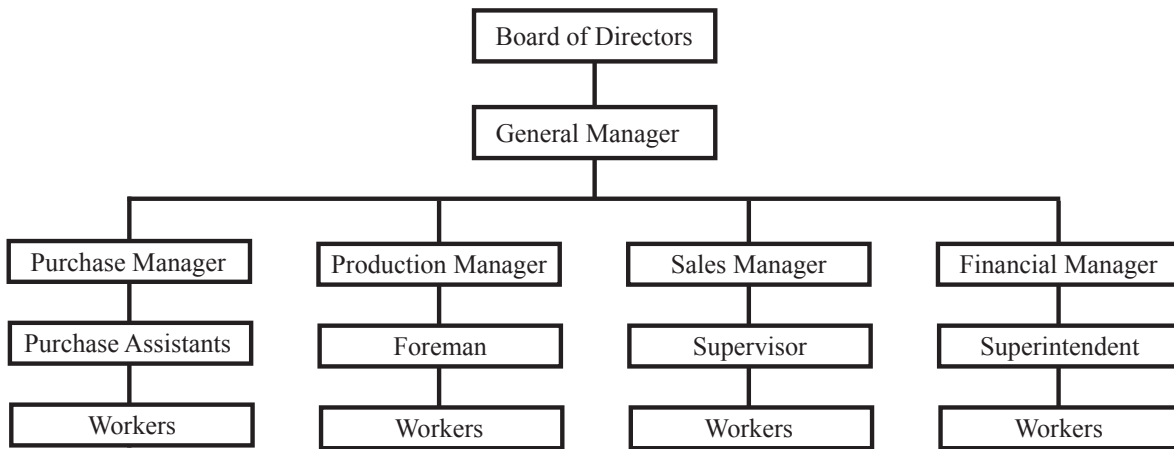


Fig. 4.1 Line organisation

Characteristics of line organisation

- Consists of vertical relationships.
- Authority flows from top to bottom level.
- Departmental heads are given full freedom to control their departments.
- Operation of this system is very easy.
- Each member has direct command over his subordinates.
- The superior takes decisions within the scope of his authority.

Advantages of line organisation

- Simplicity
- Division of authority and control
- Unity of control
- Discipline
- Flexibility
- Direct communication
- Coordination

Disadvantages of line organisation

- Lack of specialisation
- Lack of initiatives
- Dictatorial
- Scope of favouritism
- Instability

4.1.7.2 Functional Organisation

Functional organisation was proposed by F. W. Taylor, to overcome the limitations of line organisation. This type of organisation has various specialists for various functions. The directions of work are decided by functions and not mere authority. The workers under a functional unit are accountable not only to the functional specialist but to the other specialists as well as from whom they receive instructions.

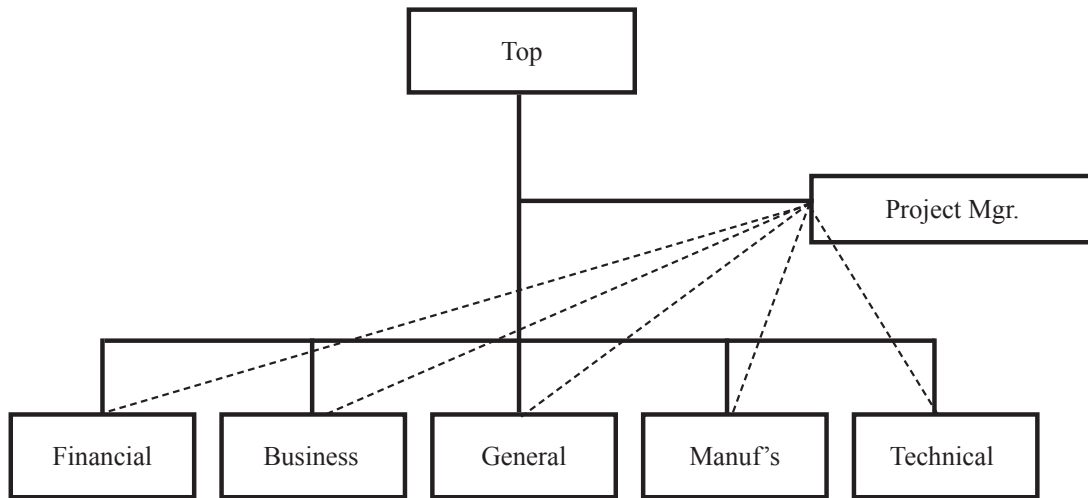


Fig 4.2 Functional organisation

Characteristics of functional organisation

- The work is divided according to the specified functions
- Authority is given to the specialist to give orders to a specific function
- Functional authority can give orders throughout the line with reference to specified area
- The decisions are taken in consultation with the functional authority.

Advantages of functional organisation

- Benefit of specialisation
- Efficiency
- Adequate supervision
- Reduce the work load
- Cooperation

Disadvantages of functional organisation

- Complex relationship
- Centralization
- Ineffective coordination
- Increase overhead expenses
- Lack of responsibility

4.1.7.3 Line and Staff Organisation

Line and staff organisation has tried to use the advantages of both the line and the functional type of organisation to overcome their demerits.

Line and staff organisation have line officers as well as the staff officers.

Line officers have the authority to take decisions and implement them to achieve the objectives of the organisation whereas staff officers assist line officers in framing the policies, plans and taking decisions.

Types of staff

- **Personal staff:** A person who assists another person in the performance of a work effectively. They are appointed at top level of organisation.
- **Specialized staff:** These officers render services to the line officers at all levels of the organisation.
- **General staff assistant:** These are the groups of people who provide service to top management in specialized matters.

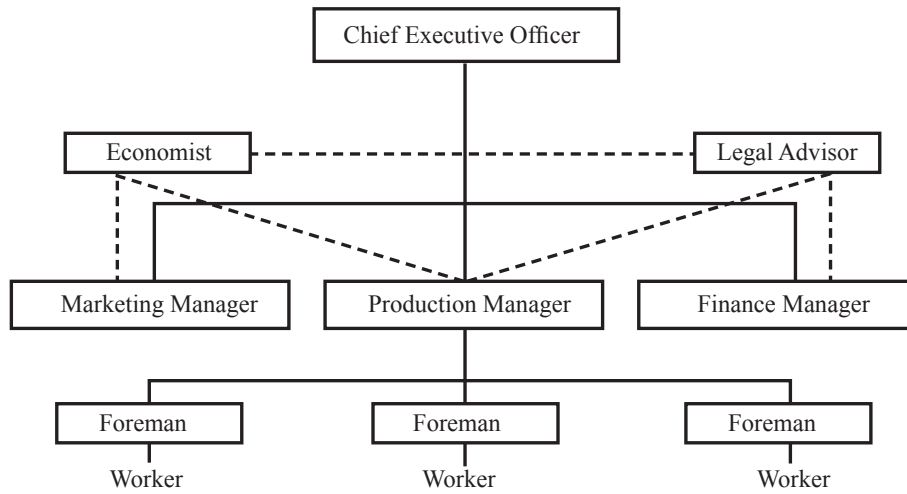


Fig 4.3 Line and staff organisation

Advantages of line and staff organisation

- Promotes efficient working of line officers
- Balanced decisions
- Expert advice
- Benefit of specialisation
- Unity of action

Disadvantages of line and staff organisation

- line and staff conflicts
- in case of communication gap between line and staff officers the degree of cooperation among them decreases
- there is no such authority with the staff officers which can compel line officers to accept their decisions

4.1.7.4 Matrix Organisation

Matrix organisation is defined as “Any organisation that employs a multiple command structure but also relates support mechanisms and an organisational culture and behaviour pattern.”

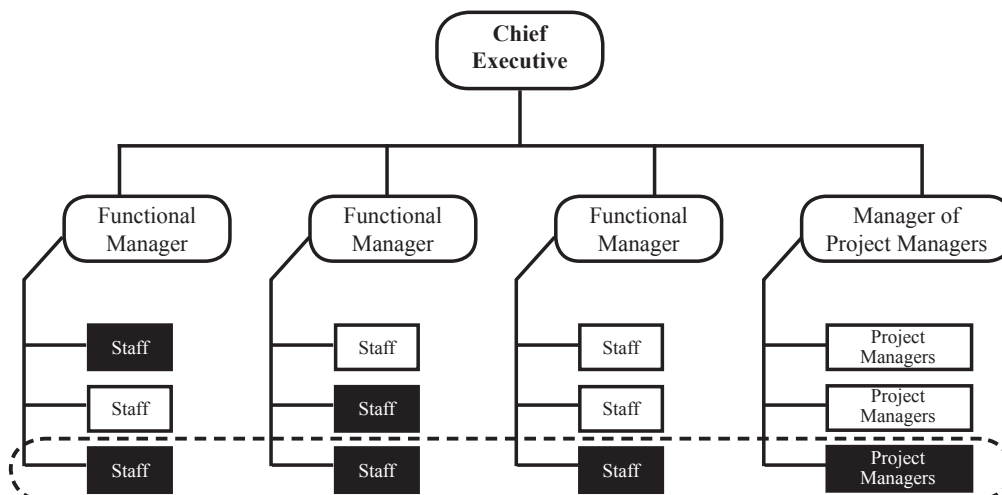


Fig. 4.4 Matrix organisation

Characteristics of matrix organisation

- Project manager should report to more than one of the superiors.
- There should be agreement between the managers regarding the authority of utilizing the available resources.
- There should be common willingness among the authority holders to face the conflicts with a view to resolve them.

Advantages of matrix organisation

- achievement of objectives
- best utilisation of resources
- appropriate structure
- flexibility
- motivation

Disadvantages of matrix organisation

- complex relationship
- struggle for power
- excessive emphasis on group decision-making
- arising conflict resolution
- heterogeneous

4.1.8 Organisation Charts and Manuals

Organisation charts are prepared for the purpose of describing the organisation structure. These are the devices showing the organisational relationships and activities within an organisation. An organisation chart is diagrammatic representation of the framework or structure of an organisation. There are four types of organisation charts as given below:

- vertical chart
- horizontal chart
- circular chart
- master and supplementary charts

Organisation manual is a document prepared in an organisation to furnish information on a particular organisation. It is a small book which contains the information regarding the organisation structure, duties and responsibilities of each position, job, description, salaries, prevailing relationships among members including organisation procedures and methods.

4.1.8.1 Contents of Organisation Charts

The following are the contents of the organisation chart:

- basic organisation structure and flow of authority
- authority and responsibilities of various executives
- the relationship between the line and staff officers
- names of components of organisation
- positions of the various office personnel
- number of persons working in an organisation
- the present and proposed organisation structure

- ways of promotion
- the requirements of management development
- salary particulars

4.1.8.2 Contents of Organisation Manual

The following are the contents of the organisational manual:

- full name and address of the organisation
- telephone number of the organisation
- address of the branch office, if any
- address of the showrooms, if any
- name and address of the top executive personnel
- a brief explanation regarding the organisation structure
- important sections or departments of the organisation
- duties and responsibilities of the executives
- information regarding the unity of command
- rules and regulations regarding leave, promotion, transfer and the like
- procedures followed in accounting, costing etc
- important decisions taken by the management date-wise
- specimen forms used in the office
- company organisational charts

4.2 Delegation of Authority

Authority is the power to make decisions which guide the action of others. Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

Elements of delegation

- **Authority:** Authority can be defined as the power and right of a person to use and allocate the resources efficiently, to take decisions and to give orders so as to achieve the organisational objectives. It should be well- defined. Authority should be accompanied with an equal amount of responsibility.
- **Responsibility:** A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. Responsibility without adequate authority leads to discontent and dissatisfaction among the employee.
- **Accountability:** It is about giving explanations for any variance in the actual performance from the expectations set. Accountability cannot be delegated. It arises from responsibility.

The process of delegation of authority includes the following steps:

- assignment of tasks and duties
- granting of authority
- creating responsibility and accountability

4.3 Decentralisation

Decentralisation is the delegation of decision-making authority throughout an organisation by allowing managers at various operating levels to make key decisions relating to their area of responsibility

A decentralised organisation is one in which decision making is not confined to a few top executives but rather is throughout the organisation, with managers at various levels making key operating decisions relating to their sphere of responsibility. Decentralisation is a matter of degree, since all organisations are decentralised to some extent out of necessity.

Advantages of decentralisation

- provides the lower level managers with the opportunity to make decisions
- greater efficiency and output
- saves time for top management as they are more involved in strategy making rather than the routine decision making
- added responsibility and decision making authority often result in increased job satisfaction

Disadvantages of decentralisation

- lack of coordination among autonomous managers
- no proper division of work
- no standardization
- duplication of work

4.4 Formation of Department (Departmentalisation)

It is a process by which similar activities of the business are grouped into units for the purpose of facilitating smooth administration at all levels.

Reasons for forming departments

- specialisation of work
- simplification of managerial task
- limitation on the number of subordinates that can be directly controlled by superiors

Process of forming departments (departmentalisation)

Departmentalisation is done through the following process:

- identification of work
- analysis of details of each work
- description of the function of the organisation
- entrusting the functions to the separate person who has specialized in the respective field and providing him with suitable staff
- fixing the scope of authority and responsibility of the departmental heads

Basic patterns of departmentalisation

- functions
- product/service
- customers
- process
- time
- numbers
- marketing channels
- regions/territory

4.5 Span of Management

Span of management refers to the number of subordinates that a manager can efficiently manage. Number of subordinates directly reporting to a manager is known as span. Span of management is important for

- determining the complexity of an individual manager's job and
- determining shape and structure of the organisation

Fewer the number of subordinates reporting to a manager larger the number of managers required.

Factors affecting the span of management:

- capacity of manager
- capacity of subordinates
- nature of work
- delegation of authority
- fixation of responsibility
- methods of communication
- degree of planning
- level of management

Summary

- Organisation is that process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.
- Organisation provides the means or techniques with strong efforts for more production and effective completion of the work. Organisation increases the certainty and promptness in the completion of work by assigning fixed duties to every person.
- Authority describes an interpersonal relationship in which one individual, the subordinate, accepts a decision made by another individual, the superior, permitting that decision directly to affect his behaviour.
- Delegation is a process whereby a superior divides his total work assignment between himself and subordinate managers or operative personnel in order to achieve other operative and management specialisation.
- Decentralisation means that each section has its own workers to perform activities within the department. Under decentralisation, separate staffs are allocated to each department for performing those activities which cannot be centralised.
- Departmentation involves the grouping of common activities under a single person's control. The activities are grouped on the basis of a function of the organisation.
- Span of management indicates the number of people directly managed effectively by a single person. A sound organisation depends upon the effective performance of work by the executive. So, the executive should neither be overloaded nor be idle.

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Self assessment

1. An identified group of people contributing their efforts towards the attainment of goals is called _____.
 - a. management
 - b. organisation
 - c. meeting
 - d. departmentalisation

2. The inert relationship of staff members can be shown in the organisation chart and manuals under _____.
 - a. formal organisation
 - b. informal organisation
 - c. line organisation
 - d. matrix organisation

3. _____ are persons who assist another person in the performance of a work effectively and are appointed at top level of organisation.
 - a. Specialized staff
 - b. Line officers
 - c. Personal staff
 - d. General staff

4. _____ was proposed to overcome the limitations of line organisation.
 - a. formal organisation
 - b. informal organisation
 - c. matrix organisation
 - d. functional organisation

5. In which type of organisation the decision making authority flows from top to bottom?
 - a. formal organisation
 - b. line organisation
 - c. matrix organisation
 - d. functional organisation

6. _____ is diagrammatic representation of the framework or structure of an organisation.
 - a. An organisation chart
 - b. An organisation manual
 - c. A vertical chart
 - d. A horizontal chart

7. Full name and address of the organisation should be included in organisation _____.
 - a. chart
 - b. diagram
 - c. manual
 - d. structure

8. _____ cannot be delegated and arises from responsibility.
- Authority
 - Power
 - Capability
 - Accountability
9. _____ refers to the number of subordinates that a manager can efficiently manage.
- Authority
 - Span of management
 - Delegation
 - Departmentalisation
10. Which theory of organisation was given by Herbert A. Simon?
- Decision theory
 - Motivation theory
 - Modern theory
 - Classical theory

Chapter V

Staffing, Performance Appraisal, Training and Development and Job Analysis

Aim

The aim of the chapter is to:

- provide an introduction to staffing with its definition, functions, process and advantages
- state a brief note on recruitment mentioning the two sources of recruitment
- mention the process of selection
- explain performance appraisal with its definition, importance, limitations and methods used
- theorise the concept of training and development with their definitions, features, importance, characteristics and types of training
- describe job analysis and evaluation with their advantages, disadvantages, procedures and methods

Objectives

The objectives of the chapter is to:

- enlighten the students with an introduction to staffing with its definition, functions, process and advantages
- enrich them with a brief note on recruitment mentioning the two sources of recruitment
- enable them to determine the process of selection
- explore the concept of performance appraisal with its definition, importance, limitations and methods used
- enable them to theorise the concept of training and development with their definitions, features, importance, characteristics and types of training
- enlighten them with the description of job analysis and evaluation along with their advantages, disadvantages, procedures and methods

Learning outcome

At the end of the chapter students will be able to:

- determine the introduction to staffing with its definition, functions, process and advantages
- identify the two sources of recruitment and also the process of selection
- recall the concept of performance appraisal with its definition, importance, limitations and methods used
- assess the concept of training and development with their definitions, features, importance, characteristics and types of training
- justify the concept of job analysis and evaluation along with their advantages, disadvantages, procedures and methods

5.1 Staffing

The managerial function of staffing involves manning the organisation structure through proper and effective selection, appraisal and development of the personnel's to fill the roles assigned to employees/workforce. The staffing function follows the planning and organising function. Staffing is a continuous process. The staffing function includes:

- Recruitment
- Selection
- Training
- Development
- Transfer
- Promotion And
- Compensation of personnel

The management must ensure a constant availability of sufficient number of efficient executives in an enterprise for the efficient functioning of the enterprise. The selected personnel should be physically, mentally and temperamentally fit for the job.

According to Koontz and O'Donnel, "*The managerial function of staffing involves managing the organisation structure through proper and effective selection, appraisal and development of personnel to fill the roles designed into the structure.*"

5.1.1 Functions of Staffing

The functions of staffing are:

- manpower planning
- development
- fixing the employment standards
- sources
- selection and placement
- training

Other functions like co-ordination, promotion, transfer, record maintenance of employees, rating of employees, motivation etc.

5.1.2 Process of Staffing

The process of staffing involves following steps:

- **Planning:** It includes the estimation of the number of staff members required in the company depending upon its size and policies.
- **Recruitment and selection:** It deals with the selection of the qualified applicants to fill the jobs in the organisation. A standard procedure is followed while selecting the staff members.
- **Training and development:** It is concerned with providing training to new staff members as well as the existing staff members to increase the work efficiency.
- **Performance operation:** It is about the assessment of the work performed by the staff members in an organisation, a standard should be fixed in order to evaluate their efficiency.

5.1.3 Advantages of Proper Staffing

Proper staffing means providing adequate qualified staff members for the purpose of effective functioning of office. Its advantages are:

- It helps in the recruitment of efficient staff members.
- It helps the proper placement of staff members according to their ability.

- Proper selection, training and development of staff members will result in the maximum production in an organisation.
- Increasing the efficiency of the workers will increase the earning capacity of the workers.

5.2 Recruitment

Recruitment is the process of finding right candidates and inducing them to apply for the job in an organisation. Success of any recruitment depends upon the procedure followed by the company while recruiting the members. Recruitment is the discovery of the staff members for the present and future jobs in an organisation. According to Edwin B. Flippo, “*Recruitment is the process of searching for prospective employees and stimulating them to apply for the jobs in the organisation.*”

5.2.1 Sources of Recruitment

The source of recruitment is based on the policy followed by the company and are classified as:

5.2.1.1 Internal Source

If the job is filled up out of the present employees of the company then it is said to be the internal source of the company.

The internal sources of recruitment are:

- Transfer
- Promotion

Whenever a job falls vacant in an organisation, it can be filled up by giving a promotion to the present employees of the company, it depends upon the promotion policy of the company. In certain cases, a same cadre staff member is deputed to the job by the company this is called transfer. This is also based on the transfer policy followed by the company.

Advantages of internal sources of recruitment

- It increases the morale among the staff members of the company.
- Training and recruitment expenses are reduced to some extent.
- Giving promotion keeps the employee happy.
- It attracts efficient staff members.
- Internal promotion helps the staff members to derive job satisfaction.
- A person who has got a promotion inspires the staff members to acquire a thorough knowledge of his/her job.
- It ensures the continuity of job to the staff members and stability of the organisation.

Disadvantages of internal sources of recruitment

- When the higher post is filled internally the company will not be able to get fresh and original ideas from the staff members
- The outsiders do not get the opportunity to showcase their talent
- Employees may get promoted in spite of not being the deserving candidate.
- If the promotion is a guarantee to the internal staff members after the expiry of a specific period, the concerned staff member does not care to work efficiently.

5.2.1.2 External source

When the vacancy in an organisation gets filled up from the suitable candidates available outside the organisation then it is said to be the external source.

The external sources of recruitment are:

- Advertisement
- Recommendations

- Gate applicants
- Personnel consultant
- Educational institutions
- Employment exchange
- Waiting list
- Unsolicited applicants
- Jobbers and contractors
- Field trips
- Leasing

Advantages of external sources of recruitment

- New outlook
- Get to choose from large number of applicants
- Candidates have wider range of experience

Disadvantages of external sources of recruitment

- Expensive
- Lack of cooperation from the existing staff members
- Time consuming
- Grudging of old employees
- Difficult to convince the trade union
- Danger of non-adjustment of newly recruited employees

5.3 Selection

Selection is a method used in an organisation to select a suitable person who has required educational qualifications, skills, abilities and personality. Selection procedure starts with the end of recruitment. Selection is a process adopted by an organisation to select adequate number of persons who are fit for the job.

5.3.1 Process of Selection

The selection procedure has the following stages:

- **Receiving and screening of applications:** Prospective employees are requested to submit the application in a given format.
- **Initial interview:** It is a preliminary interview, which is to evaluate whether the candidate is suitable for the job
- **Blank application:** A specific format is followed by an organisation for this selection process and it varies with the nature of job. It is used to get the relevant information regarding the qualifications and the skills from the candidates pertaining to the job.
- The advantages of using blank application are that it acts as an urgent test device, shy candidates who face difficulty in facing the employer are in favour of this application, it aids to build trust among applicants, it forms a basis for final interview and it aids in preparing waiting list.
- **Test:** The test is conducted by the organisation for the purpose of knowing more about the applicants to be selected or rejected.

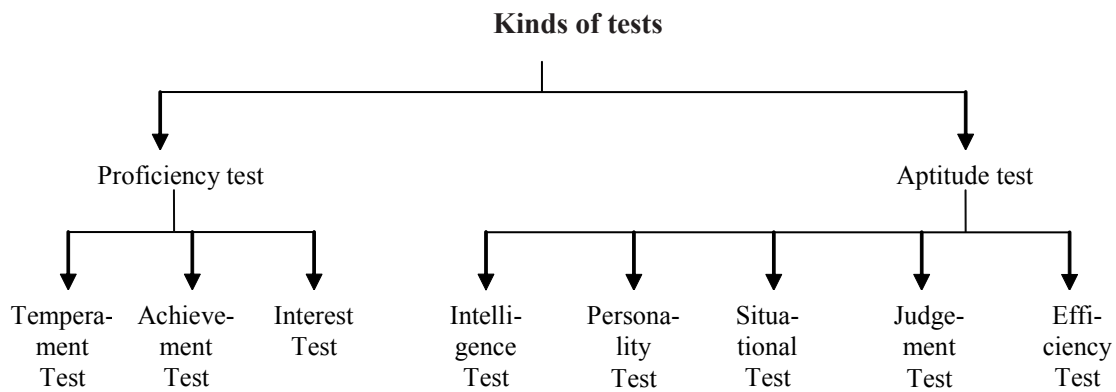


Fig. 5.1 Kinds of tests

- **Checking references:** The applicants are requested to furnish references through which the prospective employer can collect information about the applicant regarding his/her character, conduct, capability and so on from the referee.
- **Interview:** The candidates which are through to the test are called for final interview where the employer evaluates the candidate regarding the personality, smartness, intelligence, attitude, etc.
- **Final selection:** Finally, a suitable applicant is selected on the basis of performance in the test and interview. Only the required number of applicants is selected by the management.
- **Medical examination:** This is carried out for the purpose of assessing physical fitness of the prospective employee. Some applicants may be educationally qualified for the job but physically unfit for the job. There is no need for medical examination in certain jobs and so many organisations do not follow the process of medical examination. The certificate received from doctor is attached to the joining report of the new employee.
- **Placement:** The applicants are placed on a probation basis only after completing all the formalities. The probation period may vary from one job to another according to the nature of the job. The new employees are observed keenly over the probation period and are regularised on the completion of the probation period successfully.
- **Orientation:** This refers to providing the information regarding the organisation briefly to new employees to acquire knowledge of the organisation functioning without any delay.

5.3.2 Kinds of Interview

There are number of kinds of interviews conducted by the management which are as given below:

- Direct interview
- Indirect interview
- Patterned interview
- Stress interview
- Systematic in-depth interview
- Board or panel interview
- Group interview

5.3.3 Process of Interview

The following process is adopted for an interview:

- Review of background information
- Preparation of questions
- Putting the applicant at ease
- Drawing out the best applicant
- Concluding the interview

5.4 Performance Appraisal

Performance appraisal is the systematic evaluation of the performance of an employee by an expert or his/her immediate superior. Appraisal results in the comparison of more than one person in several directions with others. The purpose of appraising an employee is for the promotion of the employee. The time and venue of the appraisal should be known to both the employer and the employee.

According to Edwin B. Flippo, *“Performance appraisal is a systematic, periodic and so far a humanly possible, impartial rating of an employee’s excellence in matters pertaining to his/her present job and to his/her potentialities for a better job.”*

5.4.1 Importance of Performance Appraisal

The use of performance appraisal as a tool has following importance:

- It helps the management to take decision about the salary increase of an employee.
- Continuous evaluation of an employee helps in improving the quality of an employee in job performance.
- Minimises the communication gap between the employer and employee and improves the relationship between them.
- Training needs of an employee can be identified through this process.
- Promotion is given to an employee on the basis of performance appraisal.
- The job satisfaction which increases the morale is achieved through performance appraisal.
- It is used to transfer a person who is misfit for a job to the right placement.
- The decision for discharging an employee from the job is also taken on the basis of performance appraisal.
- The grievances of an employee are eliminated through performance appraisal.

5.4.2 Limitations of Performance Appraisal

The following are some limitations of performance appraisal:

- The performance appraisal methods are unreliable.
- If an employee is well known to an employer, the performance appraisal may not be correct.
- The inability of supervision to appraise an employee does not bring out the accurate performance appraisal.
- Some qualities of an employee cannot be easily appraised through any performance appraisal method.
- Uniform standards are not followed by the supervisors in performance appraisal.

5.4.3 Various Methods Used for Performance Appraisal

The various methods used for performance appraisal are as follows:

Ranking method: Ranking methods compare one employee to another, results in ordering of employees in relation to one another. Rankings often result in overall assessments of employees, rather than in specific judgments about a number of job components. Straight ranking requires an evaluator to order a group of employees from best to worst overall or from most effective to least effective in terms of a certain criterion. For example, in a group of ten members all the members in the working group are ranked as on the basis of performance as best performance, worst performer and so on.

Paired comparison method: Paired comparison analysis is a good way of weighing up the relative importance of the employees. All the employees to be compared are listed. Each employee is then compared against each of the other employee. The results are tallied and the employee with the highest score is the best employee.

Forced distribution method: This is a ranking technique where raters are required to allocate a certain percentage of rates to certain categories (For example: Excellent, good, better, worse) or percentiles (example: top 10 percent, bottom 20 percent and so on). Both the number of categories and percentage of employees to be allotted to each category are a function of performance appraisal design and format. The workers of outstanding merit may be placed

at top 10 percent of the scale; the rest may be placed as 20 % good, 40 % outstanding, 20 % fair and 10 % fair.

Grading: This is similar to the assessment review. The manager is given a list of categories to be assessed. This is done by selecting a grade which matches the employee's performance. This system may ask for a simple form of grading such as:

- Excellent
- Very Good
- Satisfactory
- Poor
- Very poor

Check list: In this system, a large number of statements that describe a specific job are given. Each statement has a weight or scale value attached to it. While rating an employee the supervisor checks all those statements that most closely describe the behaviour of the individual under assessment. The rating sheet is then scored by averaging the weights of all the statements checked by the rater. A checklist is constructed for each job by having persons who are quite familiar with the jobs. These statements are then categorized by the judges and weights are assigned to the statements in accordance with the value attached by the judges.

Forced Choice method: A series of groups of statements are prepared which are classified as positive or negative. These statements describe the characteristics of an employee. The rater has to select one of the statements either out of positive and negative. Final rating is done on the basis of these statements.

Critical incident method: As per this method the manager prepares lists of statements of very effective and ineffective behaviour of an employee. These critical incidents or events represent the outstanding or poor behaviour of employees or the job. The manager maintains logs of each employee, whereby She/He periodically records critical incidents of the workers behaviour. At the end of the rating period, these recorded critical incidents are used in the evaluation of the worker's performance.

5.5 Training and Development

The efficient functioning of an organisation depends upon the efficiency of personnel working in that organisation. The capability of an employee is evaluated through the performance appraisal techniques. On the basis of the performance, the need of training and development is decided by the management.

The terms training and development are used synonymously but they have different meanings. Training is a program that facilitates an employee to perform the job effectively through acquiring increased knowledge and skills whereas development includes not only the acquiring of knowledge and skills for the present job but also includes increasing capabilities for future managerial positions.

According to Edwin B. Flippo, "*While training is the act of increasing the knowledge and skills of an employee for doing a particular job, the management development includes the process by which managers and executives acquire not only skills and competence in their present job, but also capacities for future managerial tasks of increasing difficulty and scope.*"

Features of effective training and development programme are:

- Continuous process
- Effective utilisation of existing knowledge and skills
- Expanding the present knowledge and skills for future requirements
- Helping the employee to find his present position and preparing him to accept greater responsibilities

Importance for training and development arises on account of the following reasons:

- Non-availability of trained personnel
- Suitability for the job
- Getting knowledge by latest methods

Characteristics of good training and development programme:

- Individual differences
- Relating to job requirements
- Determination of training needs
- Result-oriented training
- Incentives
- Support of management

5.5.1 Types of Training

Training methods can be devised according to the mental calibre of personnel and the need to achieve the organisational objectives. The type of training is classified in two sections namely On-The-Job training and Off-the-Job training which are further divided into categories given below.

On-the-job training

- On specific job
- Rotation of position
- Special projects
- Apprenticeship

Off-the-job training

- Special courses and lectures
- Conference
- Case study
- Role playing
- Management games
- Brain-storming

5.6 Job Analysis and Evaluation

Job Analysis is a process to identify and determine in detail the particular job duties and requirements and the relative importance of these duties for a given job.

Job analysis deals with the contents and characteristics of each job. It points out:

- The duties and responsibility involved in each job
- The degree of skills necessary to perform each job
- It discloses the conditions under which each job is performed and the elements of risk involved in them
- It helps the management to fix the qualification required for each job along with the methods or techniques to perform each job

Job evaluation is a systematic process which measures the relative importance and value of each job on the basis of skills, duties, responsibilities and so on. The very purpose of job evaluation is to fix wage rates according to the job done.

A person who meets the minimum requirement of a job is recruited by the management. Job evaluation identifies the minimum and maximum requirement of each job.

The advantages of job analysis and job evaluation are:

- Job analysis facilitates the selection and placement of right personnel in each job.
- Management can provide adequate training to the needy employees.
- Reasonable wage rate is fixed with the help of job analysis.
- It helps in merit rating.

- It helps the superiors to take timely decisions like promotion, transfer, selection, disciplinary action etc.
- Industrial disputes may be put to an end with the help of job analysis.
- It helps in reducing labour turnover, absenteeism and removing inequalities in pay fixation.
- Ranking of jobs is very easy.
- Management can prepare proper incentive schemes.
- Job evaluation helps the management in the selection, placement and training of employees.

The disadvantages of job analysis and job evaluation are:

- It studies the job but not the individual doing the job.
- Uniformity in pay adversely affects the workers who are above average.
- It is very difficult to convert all the factors in terms of money for job evaluation.
- Points awarded for each characteristic of a job are purely subjective.
- It ignores the labour market condition which is also responsible for wage rate fixation.
- Job evaluation and job analysis may not be understood by the workers. So, the workers may suspect the intention of the management.

5.6.1 Procedure of Job Analysis

Job analysis is done by the management at least once in two years or three years. The following procedure is adopted to analyse each job:

- All the job holders are requested to fill up the questionnaire supplied by the management.
- The job holders are requested to keep a diary which contains the important particulars relating to the performance.
- A direct interview with the job holders is held by the management which brings out the possibilities and difficulties in the performance of a job.
- A separate person is appointed to observe the behaviour of job holders during the performance of a job.
- Finally, a detailed report is prepared by the management. It may be treated as a job analysis.

5.6.2 Procedure of Job Evaluation

The following is the procedure of job evaluation:

- A detailed study of the job-consider education, skill, training, experience and intelligence.
- Identification of physical and mental efforts necessary and the degree of responsibility.
- A job description.
- Consider the characteristics of a job in terms of points, experience and training.
- Job analysis.
- Comparison of one job with another.
- Determine the number of points to be given for each characteristic of a job.
- Add the points for each job.
- Rank the jobs on the basis of its points.
- Expression of the value of job in terms of money according to the points obtained.

5.6.3 Methods for Job Evaluation

Ranking method: Under this method the jobs are graded on the basis of their responsibility and the difficulty to perform them. Each job is valued in terms of other jobs as well in monetary terms.

Classification method: This is also termed the grading method. Initially grades are defined as common to various jobs. Then the management finds out the various requirements for each job. Then, the jobs are graded on the basis of the requirement of each job.

Factor point scoring: The management can identify the common factors of each job. Then, points are allotted to each such factor according to its relative importance. Finally, the wage rate is fixed on the basis of total points obtained by each job.

Summary

- Proper staffing means providing adequate qualified staff members for the purpose of effective functioning of office. The process involved in identifying, assessing, placing, evaluating and directing individuals at work is called staffing.
- The term recruitment applies to the process of attracting potential employees to the company through internal and external sources of recruitment.
- Selection is the process adopted by an organisation to select adequate number of persons who are fit for the job. When an organisation gets more number of applications than needed, the applications in excess are rejected. Selection starts with an end to recruitment.
- Performance appraisal means the systematic evaluation of the performance of an employee by an expert or his immediate superior. The performance of an employee is compared with the job standards which are already fixed by the management for an effective appraisal.
- Training is a program that facilitates an employee to perform the job effectively through acquiring increased knowledge and skills whereas development includes not only the acquiring of knowledge and skills for the present job but also includes increasing capabilities for future managerial positions.
- Job analysis deals with the contents and characteristics of each job. Job analysis points out the duties and responsibilities involved in each job.
- Job evaluation is a systematic procedure which measures the relative importance and value of each job on the basis of skills, duties, responsibilities and the like.

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Self Assessment

1. The _____ function follows the planning and organising function.
 - a. staffing
 - b. controlling
 - c. directing
 - d. motivating

2. The _____ function includes recruitment, selection, training, development, transfer, promotion and compensation of personnel.
 - a. controlling
 - b. directing
 - c. motivating
 - d. staffing

3. _____ means providing adequate qualified staff members for the purpose of effective functioning of office.
 - a. Proper selection
 - b. Proper training
 - c. Proper staffing
 - d. Proper recruitment

4. _____ is about the assessment of the work performed by the staff members in an organisation.
 - a. Training and development
 - b. Performance operation
 - c. Recruitment and selection
 - d. Planning

5. _____ is concerned with providing training to new staff members as well as the existing staff members to increase the work efficiency.
 - a. Training and development
 - b. Performance operation
 - c. Recruitment and selection
 - d. Planning

6. _____ is the process of searching for prospective employees and stimulating them to apply for the jobs in the organisation.
 - a. Selection
 - b. Staffing
 - c. Interview
 - d. Recruitment

7. _____ refers to providing the information regarding the organisation briefly to new employees to acquire knowledge of the organisation functioning without any delay.
 - a. Test
 - b. Placement
 - c. Orientation
 - d. Medical examination

8. Review of background information is a first step in the process of _____.
 - a. Staffing
 - b. Interview
 - c. Training
 - d. Performance Appraisal

9. Which of the following statements is FALSE?
 - a. Performance appraisal helps the management to take decision about the salary increase of an employee.
 - b. Performance appraisal is used to transfer a person who is misfit for a job to the right placement.
 - c. The grievances of an employee are eliminated through performance appraisal.
 - d. The time and venue of the appraisal need not be known to both the employer and the employee during performance appraisal.

10. _____ is a process to identify and determine in detail the particular job duties and requirements and the relative importance of these duties for a given job.
 - a. Job analysis
 - b. Job evaluation
 - c. Job specification
 - d. Job description

Chapter VI

Direction and Motivation

Aim

The aim of the chapter is to:

- provide an introduction to direction with its definition, principles, importance and characteristics
- explain the concept of motivation with its nature, importance, theories, factors and techniques

Objectives

The objectives of the chapter is to:

- enlighten the students with an introduction to direction with its definition, principles, importance and characteristics
- enable them to determine the concept of motivation with its nature, importance, theories, factors and techniques

Learning Outcome

At the end of the chapter students will be able to:

- determine the importance of direction with its definition, principles and characteristics
- identify the concept of motivation with its nature, importance, theories, factors and techniques

6.1 Direction

Directing is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals. Directing initiates action and from here the actual work starts. Direction is a managerial function performed by the top level officers of management.

According to Koontz and O'Donnel, "*Direction is the interpersonal aspect of managing by which subordinates are led to understand and contribute effectively to the attainment of enterprise objective.*"

There are three techniques of direction as follows:

- Consultative direction
- Free-rein direction
- Autocratic direction

6.1.1 Principles of Direction

The following principles of direction are useful to managers:

Harmony of objectives: Direction should be such that the individuals can integrate their objectives with organisational objectives.

Maximum individual contribution: Contribution of every member of an organisation matters. So management should implement such a technique of direction which enables the maximum contribution by members.

Unit of direction or command: An employee should receive instruction through proper channel which should be well defined otherwise it will lead to confusion.

Efficiency: Subordinates should participate in decision-making and this will increase their sense of commitment and will ensure the implementation. It will increase the efficiency.

Direct supervision: Managers should have direct relationship with their subordinates. Face to face communication and personal touch with subordinates will ensure successful direction.

Feedback information: Direction does not end with issuing orders, it is also necessary to take the suggestions of the employees as well as for the development of the organisation.

Effective communication: The superior must ensure that plans, policies and responsibilities are fully understood by the subordinates in the right direction.

Efficient control: The management should monitor the behaviour and performance of subordinates to exercise efficient control over the employees. Efficient control ensures effective direction.

Follow through: Direction is a continuous process. Mere issuing order or an instruction is not an end itself. Direction is necessary so, the management should watch whether the subordinates follow the orders and whether they face difficulties in carrying out the orders or instructions.

6.1.2 Importance of Direction

Direction is important due to the following reasons:

- direction initiates action
- it co-ordinates the group efforts
- it ensures maximum individual contribution
- it reduces the reluctance to put up with changes in the organisation
- it provides stability and balance in the organisation
- it helps to achieve the objectives of an organisation

6.1.3 Characteristics of Direction

The characteristics of direction are:

- direction is performed by all levels of executives in an organisation
- management initiates action through direction
- direction is continuous throughout the life of the organisation
- initially, direction starts at the top level management

- subordinates do the things as per the original plan
- direction creates link between preparatory functions (like planning, organising and staffing) and the control function of management

6.1.4 Issuing Orders or Instructions

An order is used by the management as a tool for direction. An order can be issued only by a supervisor. The supervisor has the right to enforce his/her order over his/her subordinates.

According to Koontz and O'Donnel, *“As a directional technique, an instruction is understood to be a charge by a superior requiring a subordinate to act or refrain from acting in a given circumstance.”*

Characteristics of a good order are:

- it should be reasonable and enforceable over subordinates
- a clearly defined order should be easily understandable
- it should be such a one as to facilitate the achievement of the objectives of an organisation
- it should be complete in all respects
- it should exhort willingness and acceptance from the subordinates
- a written order is preferable to an oral order
- appropriate tone is used by the superior while issuing an order
- it should specify the time within which a job should be completed
- it should be intelligible

6.2 Motivation

Motivation is an inspiration process which impels the members of the team to accomplish the desired goals. Motivation is a desire to achieve a goal, combined with the energy to work towards that goal.

Motivation is the characteristic that helps individuals to achieve their goal. It is the drive that pushes an employee to work hard and reach whatever it is that She/He is after. It is the energy that gives an individual the strength to get up and keep going - even when things are not going their way.

According to Stanley Vance, *“Motivation is any emotion or desire which so conditions one's will that the individual is propelled into action.”*

According to Koontz and O'Donnel, *“Motivation is a general term applying to the entire class of drives, desires, needs, wishes and similar forces that induce an individual or a group of people to work.”*

6.2.1 Nature of Motivation

The nature of motivation can be understood from the following points:

- unending process
- a psychological concept
- the whole individual is motivated
- motivation may be financial or non-financial
- frustrated man cannot be motivated
- goals are motivators
- unifying force
- it can be positive or negative
- it can be extrinsic or intrinsic
- motivation and job satisfaction are different

6.2.2 Importance of Motivation

A manager guides the people in a desired manner in order to achieve organisational objectives. Two important things necessary to perform any job are:

- ability to work
- willingness to work

There is a need for motivation to create willingness in the minds of workers to do a job. Performance can be expressed by the following formula:

The importance of motivation can result in the following:

- maximum utilisation of factors of production
- willingness to work
- reduced absenteeism
- reduced labour turnover
- increase in efficiency and output
- sense of belonging
- improvement upon skill and knowledge

6.2.3 Theories of Motivation

The following are different theories of motivation:

6.2.3.1 Theory X

This theory states that the manager has thorough knowledge and excludes the worker from decision making process. A manager has the authority to take decisions. The workers should follow whatever decisions are taken by the manager.

Assumptions of Theory X

- workers have an aversion to work inherently
- workers may do the job half-heartedly
- workers may find a way to postpone the work completion in laziness
- fear of punishment can motivate the workers into action
- the worker may know the hazards of non-performance of a work
- no worker is ready to accept any responsibility
- there is a need for explaining the consequences of being inactive
- a worker prefers to get directed by others
- workers hate to improve their efficiency

Theory X is regarded as the means to supervise and control the workers. Decision making in all fields is entrusted with managers. Workers are allowed to express their suggestions, but the decisions are taken by managers and workers are forced to follow the decisions.

6.2.3.2 Theory Y

Theory Y is just opposite to Theory X. Theory X is considered to be a traditional theory and Theory Y is considered to be the modern one. Theory Y emphasises the importance of workers in the accomplishment of enterprise objectives.

Assumptions of Y-Theory

- The average human being has the tendency to work. A job is as natural just like a play
- Once the workers understand the purpose of assigned job, She/He may extend his/her cooperation for job completion

- Worker has self direction, self motivation, self discipline and self control
- The existing worker has competence to work and can take right decisions
- A worker expects recognition of the successful accomplishment of task
- If right motivation scheme is prepared by the management, the worker is ready to accept extra responsibility
- According to Theory Y, a worker has integrity and readiness to work hard. He is willingness to participate in the decision making process and shows a sense of creativity and imagination. So, Theory X is said to be negative and Theory Y to be positive.

Difference between Theory X and Theory Y

Theory X	Theory Y
Workers dislike to work by themselves.	Workers feel that work is as natural as play.
Workers are not ready to accept responsibility.	Workers are ready to accept responsibility if proper motivation is available to them.
Workers prefer to be directed by others.	Workers are directed by themselves.
Workers are unambitious.	Workers are ambitious.
Workers by nature resist changes and want security.	Workers are ready to cope with changes.
Workers lack creativity and fail to solve organisational problems.	Workers have a high degree of creativity and succeed in solving organisational problems.
It focuses the lower level needs of workers i.e. physiological and safety.	It focuses not only the lower level needs but also higher level needs i.e. social, esteem and self actualisation of workers.
Strict control is necessary to achieve organisational objectives.	Workers exercise self control and self direction to achieve organisational objectives.
Authority is not delegated.	Authority is delegated.
Autocratic leadership is followed.	Democratic leadership is followed.

Table 6.1 Theory X vs. Theory Y

Theory Z

Prof. William G.Ouchi has developed Theory Z. This theory is based on the comparative study of Japanese and American management practices. It describes how Japanese management practices can be adopted to the environment of other countries especially in United States.

This theory focuses attention on the organisational behaviour side of the philosophy of management. It is treated as a model for motivation.

Theory Z emphasises on external control of human behaviour. Mutual trust reduces the conflict among employees and ensures team spirit.

Features of Theory Z

- Trust
- Life time employment
- Involvement of employees
- Integrated organisation
- Restricted Promotions
- Coordination
- No formal structure
- Motivation
- Stable working environment

6.3 Maslow's Hierarchy of Needs

Dr. Abraham H. Maslow classified the various needs of the human beings in a definite order. This order is widely accepted. According to Maslow, human wants are innumerable and never ending. If one want is satisfied, another want emerges in that place.

The satisfied wants do not motivate the workers. Only unsatisfied wants induce the man to hard work. Hence he classified needs as lower level needs and higher level needs.

The hierarchy of needs is as under:

- **Basic physiological needs:** The basic physiological needs are concerned with breeding, shelter, sexual gratification, clothing and so on. These needs are inherent in nature. If these are not satisfied, other needs will not emerge.
- **Safety and security needs:** Safety needs are concerned with physical danger or loss of existing basic physiological needs, like loss of job, support and so on. Therefore the workers attempt to get job security, insurance, pensioner benefits and so on.
- **Belonging and social needs:** Man is a social animal. He wants to love and be loved in a society or in a family. Exchange of feelings and grievances, love, sociability, recognition, conversation and belongingness are some of the social needs.
- **Esteem and status needs:** These needs are also referred to as ego needs. Self-confidence, independence, competence, knowledge, status, recognition and appreciation are some of the esteem and status needs.
- **Self-actualization needs:** These are also called as self-realization needs. It refers to the desire to become everything that one is capable of becoming, a maximum level of excellent performance is done by the individual.

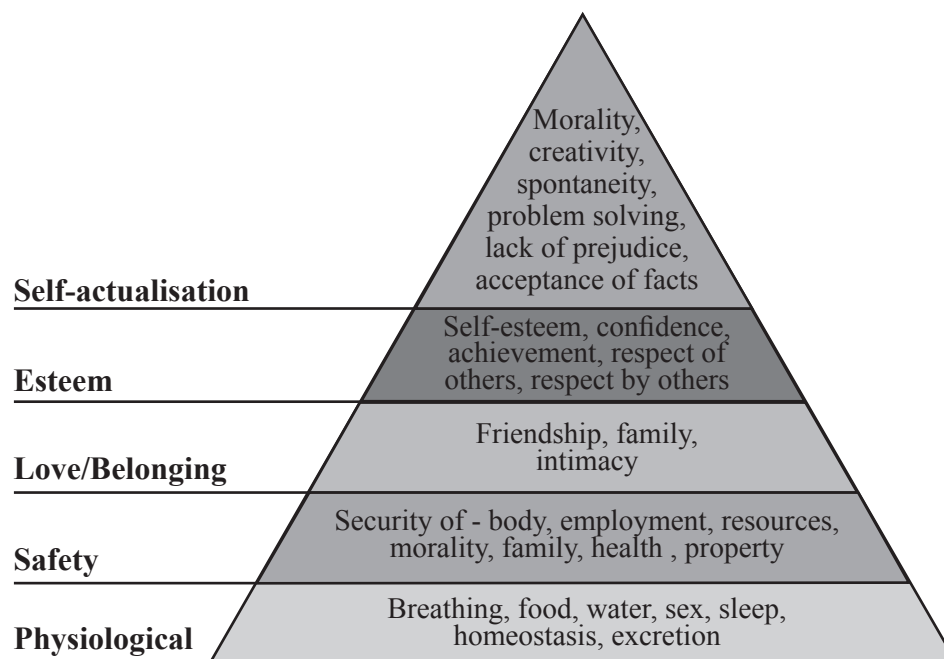


Fig. 6.1 Maslow's need hierarchy theory

From the above mentioned five needs, the first three needs that is basic physiological, safety and social needs are termed as lower level needs by Maslow. The remaining two needs that is esteem and self-actualization needs are termed as higher level needs. The lower level needs are satisfied by monetary and non-monetary compensation. The higher level needs are satisfied through allowing in decision-making process, delegating authority and responsibility and so on.

6.3.1 Herzberg's Theory of Needs

Frederick Herzberg had conducted a study on motivation in late 1950s; this study developed a theory of work motivation. This theory is known as Herzberg motivation theory or Maintenance theory of motivation or Hygiene theory or Two-factor theory of motivation.

Herzberg tried to understand from his studies the motivation problem and to identify the human behaviour, nature and needs which are invaluable to organisation and individuals. The studies reveal that the factors responsible for job satisfaction are quite different from those responsible for job dissatisfaction.

According to Herzberg motivational factors are responsible for job satisfaction. Hygiene or maintenance factors are responsible for job satisfaction.

6.3.2 Motivational Factors

The presence of some factors creates motivation to workers and at the same time absence of such factors does not cause dissatisfaction. These are called motivational factors. Some of the motivational factors are:

- Achievement
- Recognition
- Advancement
- Work
- Possibility of growth

6.3.3 Maintenance Factors

The presence of some set of factors may not motivate the workers but the absence of these factors cause serious dissatisfaction. These factors are called maintenance of hygiene factors. Some of the hygiene factors are:

- Company policy and administration
- Technical supervision
- Inter personal relations with sub-ordinates
- Salary
- Job security
- Personal life
- Working conditions
- Status

6.3.4 Motivational Techniques

Some of the motivational techniques are:

- Monetary incentives
- Job based techniques
- MBO techniques
- Leadership techniques
- Sensitivity training

6.3.5 Requirements of a Sound Motivational System

The following are some of the requirements of a sound motivational system:

- It should balance the objectives and philosophy of organisation workers
- It should be understood by the members of the organisation in the right direction
- It should cover all the activities of the workers
- It should have corresponding relationship with efforts and rewards
- It should be flexible, and changes should be incorporated from time to time.

Summary

- Direction is the guidance, the inspiration, the leadership by those men and women that constitute the real core of the responsibilities of management.
- The management should adopt a technique of direction which enables maximum contribution by members.
- Motivation is the process of attempting to influence others to do your will through the possibility of gain reward.
- An individual is motivated fully and not partly because motivation is related to psychology. Besides, the basic needs of man determine motivation to a great extent. All these needs are interrelated and cannot be separated from each other.
- The classification of needs is primary needs and secondary needs. The primary needs are necessary to survive and for preservation of life. e.g. food, water, air etc. Secondary needs are concerned with mind and spirit e.g. recognition, love, affection etc.
- The motivational system should be flexible. It means that some changes are incorporated in the motivational system from time to time according to the requirements.
- Motivational factors are responsible for job satisfaction while hygiene or maintenance factors are responsible for job dissatisfaction.

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Self Assessment

1. _____ is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals.
 - a. Directing
 - b. Controlling
 - c. Co-ordinating
 - d. Motivating

2. Which principle of direction states that managers should have direct relationship with their subordinates?
 - a. Maximum individual contribution
 - b. Harmony of objectives
 - c. Efficiency
 - d. Direct supervision

3. Which of the following statements is FALSE?
 - a. Direction initiates motivation.
 - b. Direction co-ordinates the group efforts.
 - c. Direction ensures maximum individual contribution.
 - d. Direction reduces the reluctance to put up with changes in the organisation.

4. _____ is understood to be a charge by a superior requiring a subordinate to act or refrain from acting in a given circumstance.
 - a. A direction
 - b. An instruction
 - c. A power
 - d. An authority

5. Which theory states that workers should follow whatever decisions are taken by the manager?
 - a. Theory Z
 - b. Theory Y
 - c. Theory X
 - d. Classical Theory

6. Which theory is considered as the modern theory?
 - a. Theory Z
 - b. Theory Y
 - c. Theory X
 - d. Classical Theory

7. Which theory is considered as negative theory?
 - a. Theory Z
 - b. Theory Y
 - c. Classical Theory
 - d. Theory X

8. Which needs are concerned with physical danger or loss of existing basic physiological needs?
 - a. Basic physiological needs
 - b. Esteem and status needs
 - c. Safety and security needs
 - d. Belonging and social needs

9. Which theory is also known as hygiene theory?
 - a. Theory Z
 - b. Theory Y
 - c. Herzberg motivation theory
 - d. Theory X

10. Who has developed Theory Z?
 - a. Maslow
 - b. Herzberg
 - c. Peter Drucker
 - d. Prof. William G.Ouchi

Chapter VII

Leadership, Supervision and Communication

Aim

The aim of the chapter is to:

- provide an introduction to leadership with its definition, importance, functions, styles, characteristics, theories, types and techniques
- mention the introduction to supervision with its functions, qualities and types
- explain communication with its definition, importance, objectives, elements, barriers, characteristics, process, principles and types

Objective

The objective of the chapter is to:

- enlighten the students with an introduction to leadership with its definition, importance, functions, styles, characteristics, theories, types and techniques
- enrich them with a brief introduction to supervision with its functions, qualities and types
- explore them with the concept of communication with its definition, importance, objectives, elements, barriers, characteristics, process, principles and types

Learning Outcome

At the end of the chapter students will be able to:

- determine the introduction to leadership with its definition, importance, functions, styles, characteristics, theories, types and techniques
- assess the concept of supervision with its functions, qualities and types
- theorise the concept of communication with its definition, importance, objectives, elements, barriers, characteristics, process, principles and types

7.1 Leadership

Leadership is defined as the process of influencing people so that they will strive willingly towards the achievement of group goals.

The success of an organisation is dependent upon the ability of its leadership. The leaders are not only responsible for directing the followers but also for the attainment of goals of the organisation. Whenever and in whatever situation if someone tries to influence the behaviour of another individual or a group, there is leadership.

According to Peter F. Drucker, *“Leadership is the lifting of man’s visions to higher rights, the raising of man’s performance to higher standards, the building of man’s personality beyond its normal limitations.”*

According to Koontz and O’Donnel, *“Leadership is generally defined as influence, the art of process of influencing people so that they will strive willingly towards the achievement of group goals.”*

7.1.1 Importance of Leadership

Leadership is important for the following reasons:

- Perfect organisation structure
- Directing group activities
- Technological, economic and social changes
- Better utilisation of manpower
- Avoiding imbalances
- Source of motivation
- Reconciliation of goals
- Developing good human relations
- Promoting the spirit of co-ordination

7.1.2 Theories of Leadership

The various theories of leadership are as discussed below:

Traitist’s Theory

Trait means quality. This theory states that the leadership behaviour is influenced by certain qualities of a leader. Researchers found out a number of qualities of leadership from their study. The qualities are:

- Good personality
- Tirelessness
- Ability to take quick decision
- Courage to face competitors
- Persuasion
- Intelligence
- New outlook
- Reliability
- Physical fitness

Weaknesses of Trait’s Theory

- No common equalities list
- No measurement of quality
- No scope for future development
- No consideration for situational factors
- No need of uniform traits

Behavioural Theory

- This theory is based on the fact that how management viewed the workers and the focus now shifted to leaders' behaviour from leaders' qualities.
- Behaviour theory assumes that people are lazy and irresponsible by nature. So there is a need of an instrument to give motivation to workers, here leadership acts as an instrument. Manager is an instrument holder.
- Autocratic, democratic or supervisory styles are some of the leadership styles. Behavioural approach developed these leadership styles which produce different and conflicting results.

Situational Theory

- The usefulness of traits and behaviours is tested in a particular situation where the two of the above theories lack. As per the situational theory, a leader is strongly affected by the situation in which She/He works. Situation helps the person to develop their leadership qualities. Here traits and behaviour are supporting elements to leaders.
- Situational theory believes that there is interlink between the group of workers and its leaders. Some groups of workers have aspirations. They follow the leaders who are capable of realizing their aspirations

Follower's or Acceptance Theory

- Follower's theory states that only followers decide whether a person is a leader or not. Followers take a decision analyzing the qualities of the person who helps to have their needs fulfilled. Here there is a need for forming a group and fulfilling some needs of such a group.
- Modern managers are of the opinion that Acceptance theory plays a significant role in managing people at present. The needs of the group are the crucial and guiding factor in determining the leader.

System or Path-Goal Theory

- System theory is focused on a person's act rather than his/her traits or behaviour. A leader coordinates the efforts of his/her followers. The process of coordination is done by a person (leader). It is termed person's act. The process of co-ordination stimulates the people to achieve the goal in a particular situation.
- System theory considers all variables. These variables include leader, followers, situation, leadership traits, environment goals and group nature and so on. This theory is considered modern theory of leadership.

7.1.3 Functions and Qualities of a Leader

The functions of a business leader are:

- Taking initiative
- Representation
- Guide
- Encouraging others
- Arbitrator and mediator
- Planner
- Rewards and punishments
- Integration
- Communication
- Production

The qualities of a leader are:

- Physical appearance and strength
- Mental vigour
- Emotional stability
- Sense of judgment
- Goodwill
- Motivation

- Communication skills
- Guiding ability
- Sociability
- Technical knowledge

7.1.4 Types of Leaders

The type of leaders is classified on the basis of behaviour of leaders. They are briefly explained below:

Autocratic leader: An autocratic leader is one who wants to run the organisation all by him. She/He frames the objectives of the organisation and requires the followers to achieve the objectives.

- She/He thinks that his/her followers do not have much ability to do a job effectively.
- She/He avoids discussions with his/her followers regarding job completion
- She/He doesn't delegate any authority to his followers
- She/He has close supervision and control over his followers
- Followers are rewarded and punished as per their performance

Intellectual leader: An intellectual leader wins the confidence of his/her followers by intelligence. She/He provides an expert advice depending upon his/her area of expertise and gets the work done through others.

Liberal leader: A liberal leader is one who permits his/her followers to do their job howsoever they want to do. The leader has not framed any policy or procedure which the followers are expected to follow in their job.

- The liberal leader would not exercise any influence over his/her followers and vice-versa
- Wide scope and opportunities are available for free discussion which aims at performing the job effectively
- Followers should have a high degree of maturity

Democratic leader: A leader acts according to the wishes of his/her followers. She/He frames the policy or procedure according to the opinion of the majority of his/her followers and act as a representative of followers to management. She/He is loyal to his/her followers and involved in protecting the interests of his followers.

The other types of leaders are:

- Institutional leader
- Inducing leader
- Paternal leader
- Creative leader

7.1.5 Leadership Styles

Some of the leadership styles are discussed below:

A. Blake Mouton Managerial Grid

A popular framework for thinking about a leader's 'task versus person' orientation was developed by Robert Blake and Jane Mouton in the early 1960s known as the Managerial Grid, or Leadership Grid, which plots the degree of task-centeredness versus person-centeredness and identifies five combinations as distinct leadership styles.

The Managerial Grid is based on two behavioural dimensions:

- **Concern for People** - This is the degree to which a leader considers the needs of team members, their interests, and areas of personal development when deciding how best to accomplish a task
- **Concern for Production** - This is the degree to which a leader emphasises concrete objectives, organisational efficiency and high productivity when deciding how best to accomplish a task.

Using the axis to plot leadership 'concerns for production' versus 'concerns for people', Blake and Mouton defined the following five leadership styles:

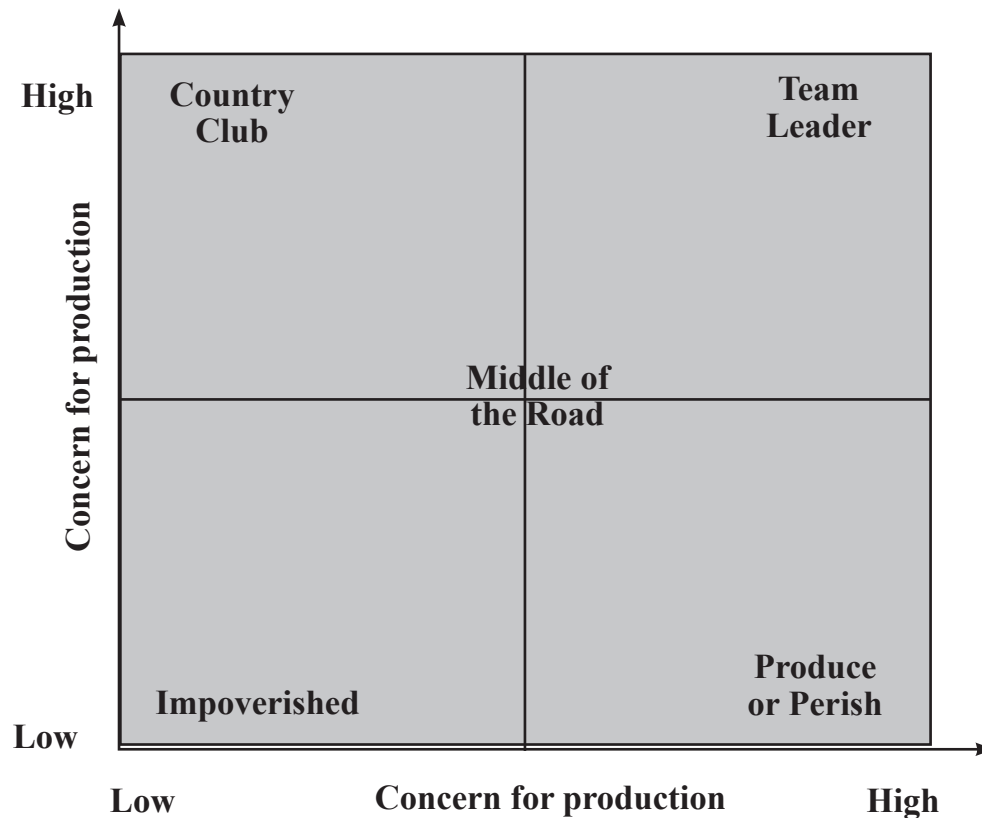


Fig. 7.1 Mount and Blake leadership model

Country club leadership: High People/Low Production

This style of leader is most concerned about the needs and feelings of members of team. These people operate under the assumption that as long as team members are happy and secure then they will work hard. What tends to result is a work environment that is very relaxed and fun but where production suffers due to lack of direction and control.

Produce or perish leadership: High Production/Low People

Also known as Authoritarian or Compliance Leaders, people in this category believe that employees are simply a means to an end. Employee needs are always secondary to the need for efficient and productive workplaces. This type of leader is very autocratic, has strict work rules, policies, and procedures, and views punishment as the most effective means to motivate employees.

Impoverished leadership - Low Production/ Low People

This leader is mostly ineffective. He/she has neither a high regard for creating systems for getting the job done, nor for creating a work environment that is satisfying and motivating. The result is a place of disorganisation, dissatisfaction and disharmony.

Middle-of-the-road leadership - Medium Production/Medium People

This style seems to be a balance of the two competing concerns. It may at first appear to be an ideal compromise. Therein lies the problem, when there is a compromise, you necessarily give away a bit of each concern so that neither production nor people needs are fully met. Leaders who use this style settle for average performance and often believe that this is the most anyone can expect.

Team leadership - High Production/High People

These leaders stress production needs and the needs of the people equally highly. The premise here is that employees are involved in understanding organisational purpose and determining production needs. When employees are committed to, and have a stake in the organisation's success, their needs and production needs coincide. This creates a team environment based on trust and respect, which leads to high satisfaction and motivation and, as a result, high production.

B. Lewin's leadership styles

Kurt Lewin did leadership decision experiments in 1939 and identified three different styles of leadership, in particular around decision-making which are explained as under:

Autocratic

- In the autocratic style, the leader takes decisions without consulting others. The decision is made without any form of consultation. In Lewin's experiments, he found that this caused the maximum level of discontent.
- An autocratic style works when there is no need for input on the decision, where the decision would not change as a result of input, and where the motivation of people to carry out subsequent actions would not be affected whether they were or were not involved in the decision-making.

Democratic

- In the democratic style, the leader involves the people in the decision-making, although the process for the final decision may vary from the leader having the final say to them facilitating consensus in the group.
- Democratic decision-making is usually appreciated by the people, especially if they have been used to autocratic decisions with which they disagreed. It can be problematic when there are a wide range of opinions and there is no clear way of reaching an equitable final decision.

Laissez-Faire

- The laissez-faire style is to minimise the leader's involvement in decision-making, and hence allowing people to make their own decisions, although they may still be responsible for the outcome.
- Laissez-faire works best when people are capable and motivated in making their own decisions, and where there is no requirement for a central coordination, for example in sharing resources across a range of different people and groups.

C. Likert's leadership style

Rensis Likert identified four main styles of leadership, in particular around decision-making and the degree to which people are involved in the decision.

Exploitive authoritative

- In this style, the leader has a low concern for people and uses such methods as threats and other fear-based methods to achieve conformance. Communication is almost entirely downwards and the psychologically distant concerns of people are ignored.

Benevolent authoritative

- When the leader adds concern for people to an authoritative position, a 'benevolent dictatorship' is formed. The leader now uses rewards to encourage appropriate performance and listens more to concerns lower down the organisation, although what they hear is often rose-tinted, being limited to what their subordinates think that the boss wants to hear. Although there may be some delegation of decisions, almost all major decisions are still made centrally.

Consultative

- The upward flow of information here is still cautious and rose-tinted to some degree, although the leader is making genuine efforts to listen carefully to ideas. Nevertheless, major decisions are still largely centrally made.

Participative

- At this level, the leader makes maximum use of participative methods, engaging people lower down the organisation in decision-making. People across the organisation are psychologically closer together and work well together at all levels.

7.1.6 Techniques of Leadership

Some of the techniques a leader uses to extract work from his followers are:

- Securing co-operation
- The use of power
- Co-ordination
- Discipline
- Morale

7.1.7 Characteristics of Leadership

Following are some of the characteristics of leadership:

- There must be followers
- There must be working relationship between leader and followers
- Personal quality
- Reciprocal relationship
- Community of interests
- Guidance
- Related to a particular situation
- Shared function
- Power relationship

7.2 Supervision

Supervisor refers to a person who is responsible for overseeing the performance of employees at work. Supervisor has different names like foreman, departmental head, charge head, departmental in-charge, overseer, sectional head, head clerk, charge man, chief clerk, head assistant, inspector, section officer etc.

Supervisor's work is directly concerned with the workers' activities which are responsible for achieving the objectives of an organisation. So, the supervisor is regarded as a key man in management.

7.2.1 Functions of Supervisor

The supervisor performs the following functions:

- She/He gives orders, instructions and implements the rules
- She/He converts the goals, programmes, policies and resources into products or services
- She/He creates a proper climate or working conditions in the working places
- She/He arranges work assignments, determines procedures and prescribes methods
- She/He arranges tools and materials for workers
- She/He motivates the workers as to how well they can do their jobs
- She/He provides technical knowledge to workers
- She/He acts as an example to his/her group members or sub-ordinates
- She/He hears the grievances and complaints of his/her subordinates and helps to solve them
- She/He recommends promotions, transfers and pay increase of his/her subordinates

7.2.2 Qualities of Supervisor

The qualities of a supervisor are as follows:

- Have sufficient technical knowledge
- Knowledge of the organisation

- Ability to talk well
- Administrative ability
- Ability to listen
- Honesty
- Ability to memorise
- Understand and respect the feelings of others
- Ability for orderly thinking
- Complete information
- Ability to judge the people
- Physical appearance
- Patience
- Self motivated
- Self confidence

7.2.3 Kinds of Supervisors

The supervisors are classified into the following categories:

- Bureaucratic regulative
- Autocratic — directive
- Idiocratic — manipulative
- Democratic — integrative

7.3 Communication

Communication is the passing of information. It is necessary for better performance of job. A manager works through the co-operation of others. So, one should communicate the policies, plans, programmes of management to the workers. Communication ends only when it reaches the destination.

Communication is a process through which an information, idea or opinion is transferred to more number of people. The essential element of communication is that the communicated information should be understood correctly and transferred in the right direction.

According to D.K. Mc Farland, *“Communication may be broadly defined as the process of meaningful interaction among human beings. More specifically, it is the process by which meanings are perceived and understanding is reached among human beings.”*

According to Koontz and O’Donnel, *“Communication is an intercourse by words, letters, symbols or messages and is a way that one organisation member shares meaning and understanding with another.”*

7.3.1 Importance of Communication

The importance of communication is understood from the following points:

- an aid to managerial performance
- achieving co-ordination
- helps in smooth working
- increase managerial efficiency
- helps in decision making
- maintaining industrial peace
- saves time

- aid to job satisfaction
- aid to leadership
- aid to public relation

7.3.2 Objectives of Communication

The following are the main objectives of communication:

- communicating right information
- co-ordination of efforts
- development of managerial skill
- better industrial relationship
- effectiveness of policies

7.3.3 Elements of Communication

A communication process has following elements:

- Information
- Sender
- Receiver
- Communication channel
- Symbols
- Feedback

7.3.4 Barriers to Communication

The barriers to communication are as follows:

- Noise
- Missing information
- Alteration of information
- Overloading
- Lack of facility
- Inadequate policies, rules and procedures
- Status patterns
- Lack of attention
- Quick conclusion
- Lack of confidence over the communicator
- Improper state of mind
- Lack of time
- Badly expressed messages
- Technical language
- Poor retention

7.3.5 Methods of Overcoming the Barriers

The steps to overcome the barriers are:

- The management should clearly define its policy to the employees
- The management sets up a system through which only essential information could be supplied

- All the information should be supplied through a proper channel
- Every person in the management shares the responsibility of good communication
- Adequate facilities should be provided by the management
- There should be mutual understanding

7.3.6 Characteristics of Effective Communication

The effective communication has the following characteristics:

- complete communication
- understanding in the same sense
- message to have substance
- vital to managerial function
- continuous process
- mutual understanding
- communication may be oral, written or gestural
- communication may be formal or informal

7.3.7 Process of Communication

There are two persons necessary irrespective of the mode of communication. communication process consists of a message being sent from the sender's side and received from the receiver's side. The message may be verbal or non-verbal. A communication process comes to an end only when the receiver understands the message as the sender communicates.

The following are the steps involved in communication process:

- Ideation
- Encoding
- Transmission
- Receiving
- Decoding
- Action

7.3.8 Principles of Communication

The sender should observe the following principles for effective communication in all types of communication:

- Language
- Clarity
- Purpose of communication
- Consultation
- Content of message
- Follow-up action
- Time and opportunity
- Action support communication
- Personnel cooperation
- Physical and human setting
- Training to the communicators
- Listening

7.3.9 Factors Deciding the Communication Programme

The following factors will influence while selecting a communication programme:

- Cost
- Secrecy
- Accuracy
- Speed
- Convenience
- Suitability
- Proper recording
- Expressive

7.3.10 Media of Communication

The following are some of the media of communication:

- Bulletin
- Announcements
- Meeting
- Suggestion/ grievance boxes
- Company publications

7.4 Types of Communication

Types of communication can be classified on the following basis:

7.4.1 On the basis of organisational relationship

Formal communication: The communication flows through the formal channel. Formal channel refers to the way in which the information is passed and it has a recognized position in the organisation structure.

Informal communication: Information is not passed in accordance with any formalities and rules and regulations of an organisation. Most of the informal communication is done verbally.

Personal matters are also discussed and passed under informal communication which is also known as ‘**Grapevine**’. Grapevine is the primary source of upward communication. Under this system of communication there is no clear cut way for transmitting the information. It operates like a cluster chain as shown below.

7.4.2 On the basis of direction of flow of communication

Downward communication: A communication which starts from the top level executive and ends with the lower functionaries through middle management is known downward communication. While communicating scalar chain is followed, this ensures proper communication.

Upward communication: Upward communication is just the reverse of downward communication. Passing of information starts with the lowest level and ends with the chief-executive. There are two types of upward communication

- There is a feedback of information in response to original communication.
- Information is given by the subordinates voluntarily

Horizontal communication: It is also called lateral communication and refers to the passing of information among the executives who are at equal level in an organisation. Here, the receiver and the sender may be in the same department or different departments in order to coordinate the activities of various departments or persons.

7.4.3 On the basis of way of expression

Oral communication

Oral communication is also known as verbal communication. This mode of communication is generally adopted when there is lack of time to send the written communication. Forms of oral communication are:

- Conferences
- Meetings
- Interviews
- Calling
- Lectures

Written communication

This type of communication is followed to transmit any information. This is an essential form of communication for an organisation.

Forms of written communication

- Notes
- Circulars
- Reports
- Bulletin
- Manuals
- Diagrams
- Graphs

Summary

- Leadership is a process by which an executive directs, guides and influences the work of others in choosing and attaining specific goals by mediating between the individual and the organisations in such a manner that both will obtain maximum satisfaction.
- A dynamic leader can co-ordinate the activities of the subordinate. A leader promotes the spirit of co-ordination among the workers.
- The type of work is to be decided by the leader. The leader can decide when a work is to be done, where it should be done and by whom it should be done. Thus, planning work is completed by the leader.
- The term “supervisor” typically refers to one’s immediate superior in the workplace, that is, the person whom you report directly to in the organisation. For example, a middle manager’s supervisor typically would be a top manager. A first-line manager’s supervisor would be a middle manager. A worker’s supervisor typically would be a first-line manager.
- Supervisors typically have strong working knowledge of the activities in their group, e.g., how to develop their product, carry out their service, etc.
- Communication, fundamental and vital to all managerial action, is the process of imparting ideas and making oneself understood by others.
- The basic purpose of any communication is to elicit a behavioural response from the receiver. The next stage is that the order should be accepted by the subordinate. So, the sender must make efforts to achieve the objective of this response.

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Self Assessment

1. _____ is defined as the process of influencing people so that they will strive willingly towards the achievement of group goals.
 - a. Authority
 - b. Power
 - c. Leadership
 - d. Supervision

2. Which theory states that the leadership behaviour is influenced by certain qualities of a leader?
 - a. Situationalist Theory
 - b. Behavioural Theory
 - c. Acceptance Theory
 - d. Traitist's Theory

3. Which theory assumes that people are lazy and irresponsible by nature?
 - a. Situationalist Theory
 - b. Behavioural Theory
 - c. Acceptance Theory
 - d. Traitist's Theory

4. As per the _____, a leader is strongly affected by the situation in which he works.
 - a. Situationalist Theory
 - b. Behavioural Theory
 - c. Acceptance Theory
 - d. Traitist's Theory

5. Which leader acts according to the wishes of his followers?
 - a. Autocratic
 - b. Liberal
 - c. Intellectual
 - d. Democratic

6. Which leader avoids discussions with his followers regarding job completion?
 - a. Autocratic
 - b. Liberal
 - c. Intellectual
 - d. Democratic

7. Which style of leadership in the Managerial Grid is most concerned about the needs and feelings of members of team?
 - a. Produce or Perish Leadership
 - b. Country Club Leadership
 - c. Impoverished Leadership
 - d. Team Leadership

8. Which is the third step in the process of communication?
 - a. Ideation
 - b. Receiving
 - c. Transmission
 - d. Encoding

9. In which type of communication, the information is not passed in accordance with any formalities and rules and regulations of an organisation?
 - a. Informal communication
 - b. Formal communication
 - c. Horizontal communication
 - d. Oral communication

10. Which communication is also called as lateral communication?
 - a. Informal communication
 - b. Formal communication
 - c. Horizontal communication
 - d. Oral communication

Chapter VIII

Controlling and Co-ordination

Aim

The aim of the chapter is to:

- provide an introduction to controlling with its definition, scope, process, requirements, techniques, features, advantages and limitations
- state in brief about budgetary control with its objectives and advantages
- explain the concept of co-ordination with its definition, features, importance, techniques, types and process

Objectives

The objectives of the chapter are to:

- enlighten the students with an introduction to controlling, with its definition, scope, process, requirements, techniques, features, advantages and limitations
- enrich them with a brief note on budgetary control with its objectives and advantages
- explore the concept of co-ordination with its definition, features, importance, techniques, types and process

Learning Outcome

At the end of the chapter students will be able to:

- know controlling with its definition, scope, process, requirements, techniques, features, advantages and limitations
- assess the concept of budgetary control with its objectives and advantages
- theorise the concept of co-ordination with its definition, features, importance, techniques, types and process

8.1 Introduction

The controlling function will be unnecessary to the management if other functions of management are performed properly. If there is any imperfection in the planning and actual performance, control will be needed. The deviations are set right by the controlling function. Planning identifies the activities and controlling regulates the activities. Success or failure of planning depends upon the result of success or failure of controlling.

Controlling

Controlling is determining what is being accomplished, that is evaluating the performance and if necessary, applying corrective measures so that the performance takes place according to plans.

Control is necessary for judging the accuracy of standards, minimise dishonest behaviour and for better performance.

According to Henry Fayol, *“Control consists of verifying whether everything occurs in conformity, is with the plans adopted, the instructions issued and principles established. It has for its object to point out weaknesses and errors in order to rectify them and prevent recurrence.”*

According to George R. Terry, *“Controlling is determining what is being established, that is, evaluating the performance and if necessary applying corrective measures so that the performance takes place according to plans.”*

8.1.1 Scope or Areas of Control

The main areas of control are:

- the policies of the concern
- organisation
- the personnel employed in an organisation
- capital available to the concern
- production
- capital expenditure
- production
- wages and salaries paid to the employees
- the cost of production
- public relations
- research and development
- tools and equipments

8.1.2 Steps in Control Process

Control points out the deviations of the plans and suggests remedial action to improve future plans. Some of the procedures are found to be defective due to human limitations. Here the control function is put to action. The steps for control are as follows:

- Establishing standards
- Measuring performance
- Comparison of actual with standards
- Taking corrective action

8.1.3 Requirements of Effective Control System

The requirements of effective control system are:

- Feedback
- Objective
- Suitability
- Prompt reporting
- Forward looking
- Pointing out exceptions
- Flexible
- Economy
- Intelligent
- Should suggest remedial action
- Motivation

8.1.4 Techniques of Control

A. Break even analysis

It is also termed cost volume profit analysis. It analyses the relationship among cost of production, volume of production, volume of sales and profits. Total cost is divided into two namely

- Fixed cost
- Variable cost

Fixed cost will never change according to the changes in the volume of production. Variable cost varies according to the volume of production.

This analysis helps in determining the volume of production or sales and the total cost which is equal to the revenue. The excess of revenue over total cost is profit. The point at which sales is equal to the total cost is known as 'Break Even Point' (BEP), this is a point at which there is no profit or loss.

The formula for BEP is:

$$\text{BEP} = \frac{\text{Fixed cost}}{\text{Selling price per unit} - \text{Variable cost per unit}}$$

B. Performance evaluation and review technique (PERT) and Critical path method (CPM)

PERT was developed by Booz, Allen and Hamilton. This technique is used to solve problem which crops up once a while not for the continuous once. It helps the organisation to closely watch the entire performance of the project to find out the deviations if any. PERT is used to assist in reducing the time required for completion of a project. It takes care of the time aspect of the project.

A project is broken down into the individual tasks that must be performed. A network is drawn showing the sequence of activities from start to final completion, thus defining the work to be done.

CPM technique also follows the principle of PERT. CPM concentrates on cost rather than duration. It assumes that duration of every activity is constant. Time estimate is made for each activity.

PERT and CPM are the best suitable techniques for the following projects.

- Large weapon system
- Ship building
- Planning and launching a new project
- Air port facilities building
- Creation of road facilities

C. Management Information System (MIS)

Relevant information is collected and transferred to all the persons who are responsible to take decisions. A communication system is developed through which levels of employees are informed about the growth of the organisation. Whenever deviation is found, the corrective measure or control action is taken by the person in charge.

MIS emphasize the need for adequate information in time for taking the best decision. Thus MIS helps the management in managerial decision-making by giving the right information at the right time and in the right form.

8.1.5 Features of Control Function

The main features of control function are:

Controlling process: Controlling is a continuous process where the head has continuously watched over the entire operations and ensured that all the efforts are made to achieve the desired objectives. Any deviations takes control action to correct them.

Universal: Control is applied at all levels of management and irrespective of the organisation. The nature, scope and limit of the control exercised by the manager vary according to the levels of management.

Control involves management: Control recommends the future course of action on the basis of evaluation and measurement.

An essence of action: The correction action should be taken by the management on the basis of information available.

Forward looking: Past cannot be controlled but future activities may be controlled on the basis of past experience. The presence of control reduces the wastages, losses and deviation from standards.

Dynamic process: The control technique is changed according to the nature of deviations. The same technique is not followed throughout the year or a particular period. Also, the control results in changes in the performance of other functions of management.

Influencing factor: Control avoids the undesirable happenings and shapes the future plan. Control influences the people to conform to the norms and standards in performance.

8.1.6 Advantages of Control

A good control system gives the following benefits to the management:



8.1.7 Limitations of Control

Control process has some limitations as follows:

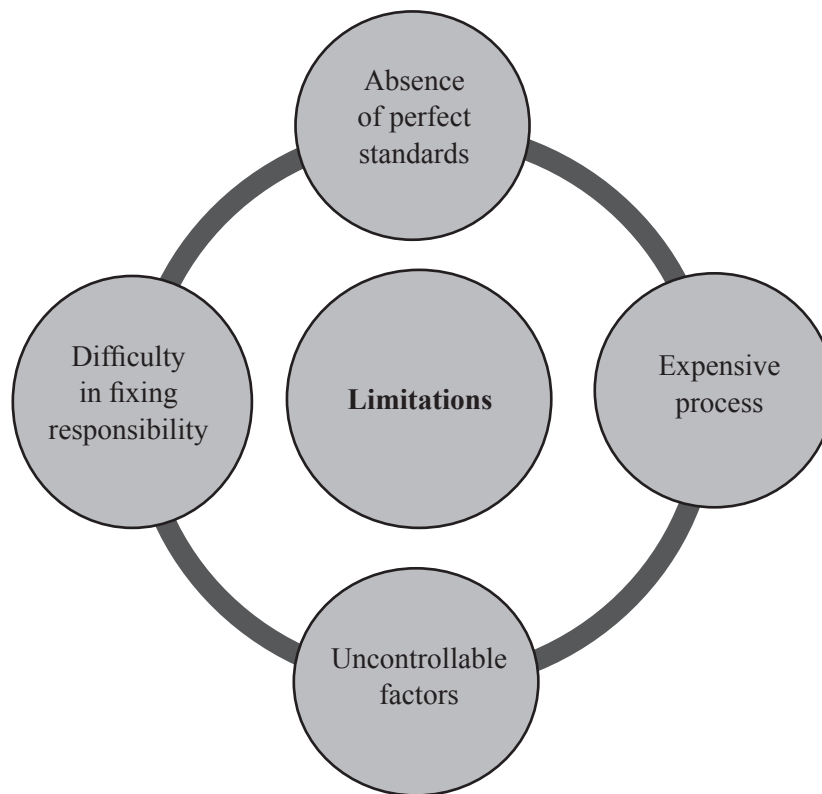


Fig. 8.1 Limitations of control

8.2 Budget Control

Budget is a pre-determined statement of management policy during a given period which provides a standard for comparison with results annually achieved.

Budgetary control is a tool used by the management to obtain the objectives expressed as in the form of budget. It is a process of finding out what is being done and comparing these results with the corresponding budget data in order to approve accomplishment or to remedy differences by either adjusting the budget estimates or correcting the cause of difference.

8.2.1 Objectives of Budgetary Control

The main objectives of budgetary control are:

- Fixation of the income and expenditure department wise
- Defining the goals or objectives of the organisation for a stipulated period
- Forecasting the financial position of the company
- Centralising the management control
- Establishing measure of performance for each division

8.2.2 Advantages of Budgetary Control

Some advantages of budgetary control are:

- Tool for planning the activities
- Co-ordination of efforts

- Control of expenditure
- Resolving financial issues
- Better utilisation of resources
- Promotion of efficiency
- Promoters balanced activities
- Criteria of self examination

8.3 Co-ordination

Various departments or sections are assigned different tasks to perform. They are assigned on the basis of their specialisation. Employees of each department perform their duties with a view to achieve common objectives collectively. It is co-ordination.

Co-ordination is a process which ensures smooth interplay of the functions of management. Common objectives are achieved without much wastage of time, efforts and money with the help of co-ordination.

According to George R. Terry, “*Co-ordination deals with the task of blending efforts in order to ensure the successful attainment of an objective. It is accomplished by means of planning, organising, actuating and controlling.*”

8.3.1 Features of Co-ordination

The features or characteristics of co-ordination are:

- Not a separate function of management
- Managerial responsibility
- Provides unity of action
- Co-ordination is necessary at all levels of organisation
- Relevant for group efforts
- Continuous and dynamic process
- System concept

8.3.2 Importance of Co-ordination

The following points show the importance of co-ordination:

- Unity in diversity
- Team work or unity of direction
- Functional differentiation
- Specialisation
- Reconciliation of goals
- Large number of employees
- Congruent flows
- Differentiation and integration

8.3.3 Essentials of Effective Co-ordination

In order to ensure effective co-ordination, the co-ordination should be based on certain principles which are as follows:

- Early start
- Personnel contract
- Continuity
- Reciprocal relationship
- Dynamism

- Simplified organisation
- Self co-ordination
- Clear cut objectives
- Clear definition of authority and responsibility
- Effective communication
- Effective supervision
- Effective leadership

8.3.4 Methods or Techniques Used for Co-ordination

- Clearly defined objectives
- Effective chain of command
- Co-ordination through group meetings
- Harmonious policies and procedures
- Effective communication
- Sound organisational structure
- Co-ordination through a liaison officer
- Co-operation
- Self co-ordination
- Co-ordination by leadership
- Incentives

8.3.5 Types of Co-ordination

Co-ordination is broadly divided in two types as follows:

Internal co-ordination: Co-ordination within the organisation among the various levels of employees. It is further divided into two categories

- **Vertical Co-ordination:** It refers to the Co-ordination in which a superior authority coordinates work with sub-ordinates and vice-versa.
- **Horizontal coordinates:** It refers to the establishment of a relationship between people of the same status.

External Co-ordination: It refers to the Co-ordination between the employees of an organisation and the outsiders. These outsiders could be the general public, market agencies, competitors so on.

8.3.6 Problems of Co-ordination

Co-ordination faces certain problems which are as given below:

- Natural hindrances
- Lack of administrative talent
- Lack of techniques of co-ordination
- Ideas and objectives
- Misunderstanding

8.3.7 Steps for Effective Co-ordination

To get effective co-ordination, the management should follow the following steps:

- Proper delegation of authority and responsibility at all levels of management
- Division of entire activities department-wise or section-wise according to the size of the organisation
- Establishment of employees grievances cell
- Proper reporting system

- Skilled workers are to be rewarded adequately
- Establishment of an effective communication system
- Preparation and adherence to rigid rules and regulations, procedures, policies and so on

8.3.8 Difference between Co-ordination and Co-operation

Co-ordination	Co-operation
• It is one of the functions of management.	• It is not a function of management.
• Co-ordination is an orderly arrangement of group efforts.	• Co-operation is willingness to work with others or help others.
• The early success of an organisation depends upon the degree of co-ordination.	• Co-operation is the basis for co-ordination.
• There is a direct link between the achievement of objectives and co-ordination.	• There is no such direct connection between co-operation and the achievement of objectives.
• Co-ordination is obtained officially.	• Co-operation is a voluntary service.

Table 8.1 Co-ordination vs. co-operation

Summary

- Management control is the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of an organisation's objectives.
- Control is applied at all levels of management and irrespective of the organisation. The nature, scope and limit of control exercised by the managers vary according to the levels of management.
- Control gives unity of direction. Proper performance of all managerial functions is necessary to achieve co-ordination. A manager has to co-ordinate the activities of his subordinates with the help of control. Control helps to maintain equilibrium between means and ends.
- A budget is a predetermined statement of management policy during a given period which provides a standard for comparison with the results annually achieved. Budgetary control is a system which uses budgets as a means of planning and controlling all aspects of producing and/or selling commodities or services.
- Co-ordination is a part of all phases of administration and that it is not a separate and distinct activity.
- Co-ordination involves the development of unity of purpose and the harmonious implementation of plans for the achievement of desired ends.
- Co-operation is the result of better relations among the employees of the organisation. The sound policies and procedures provide a basis for better relations. Informal contacts are also encouraged to ensure co-ordination through co-operation.

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Self Assessment

1. _____ is necessary for judging the accuracy of standards, minimise dishonest behaviour and for better performance.
 - a. Co-ordination
 - b. Co-operation
 - c. Control
 - d. Power

2. Which technique of control is also termed as cost volume profit analysis?
 - a. Break even analysis
 - b. Critical path method
 - c. Management information system
 - d. Performance evaluation and review technique

3. The point at which sales is equal to the total cost is known as _____.
 - a. break odd point
 - b. break even point
 - c. melting point
 - d. sales even point

4. For ship building project which technique of control is used?
 - a. MIS
 - b. Break even analysis
 - c. Gantt Chart
 - d. PERT and CPM

5. _____ is an expensive process.
 - a. Co-operation
 - b. Motivation
 - c. Direction
 - d. Control

6. _____ helps the management in managerial decision-making by giving the right information at the right time and in the right form.
 - a. Management information system
 - b. Coordination
 - c. Controlling
 - d. Management audit

7. Break even analysis is a point of _____.
 - a. no profit no loss
 - b. loss
 - c. profit
 - d. excess loss

8. PERT technique of controlling takes care of the _____ aspect of the project;
 - a. cost
 - b. planning
 - c. duration
 - d. effectiveness

9. PERT stands for:
 - a. Performance Evaluation and Review Technique
 - b. Preview Evaluation and Review Technique
 - c. Performance Evaluation and Report Technique
 - d. People Evaluate Review Technique

10. CPM stands for _____.
 - a. Critical Path Means
 - b. Central Path Method
 - c. Critical Path Method
 - d. Central Peace Method

Chapter IX

Management Audit and Business Ethics

Aim

The aim of the chapter is to:

- provide an introduction to management audit with its objectives, needs, advantages and disadvantages
- explain the concept of business ethics with its needs, regulations, factors affecting, principles and benefits

Objectives

The objectives of the chapter are to:

- enlighten the students with the introduction to management audit with its objectives, needs, advantages and disadvantages
- enrich them with the concept of business ethics with its needs, regulations, factors affecting, principles and benefits

Learning Outcome

At the end of the chapter students will be able to:

- determine the introduction to management audit with its objectives, needs, advantages and disadvantages
- theorise the concept of business ethics with its needs, regulations, factors affecting, principles and benefits

9.1 Management Audit

Management audit is the process of examining various policies and action of the management on the basis of certain specified objectives. It is conducted to critically evaluate the activities and efficiency of the management. It is an independent appraisal activity. Management audit is also called operational audit. It is an overall scientific appraisal of the quality of management.

According to William F. Kelly, *“A management audit is a critical review of an organisational structure and administration. Its purpose is making recommendations for adjustment and improvement. An audit may involve a whole company structure or be restricted to one of its parts such as division or department.”*

Management audit covers the following areas:

- Examination of organisation structure in full or part thereof
- Checking the operations of management and its effectiveness
- A critical appraisal of activities of management executives
- Examination is to be carried on independently by experts
- Evaluation of the functioning of the management board
- Analysing goals, plans, policies and activities of the management
- Evaluation of the earning capacity of the management
- Identification of management weaknesses and suggesting suitable measures for rectification
- Making management to face or tackle any problem effectively in future

9.1.1 Objectives of Management Audit

The basic objectives of management audit are to:

- Identify the level of achievement of the key objectives of the organisation
- Identify the defects or irregularities of management executives
- Help the management to do efficient administration of the operations
- Improve the profitability of the organisation
- Suggest to the management the ways to achieve the objectives
- Help the management executives in the effective discharge of their duties and responsibilities

9.1.2 Need for Management Audit

Management audit has become necessary on account of the following main reasons:

Management audit examines whether the policies laid down by the company are carried out properly or not.

- It helps in the improvement of the performance of various managers including the general manager.
- Management audit offers suggestion to eliminate wastage or reduce the cost of production.
- It helps the general manager to analyse the performance independently.
- It points out the ways available to maximise profit and for optimum utilisation of all resources.
- It finds out the shortcomings which are responsible for inefficient performance and brings improvement in performance.
- It helps the management to sort out financial and non-financial incentive schemes and link them with the performance and also ascertain the financial soundness of the company.
- Banks and financial institutions may require management audit to find out whether the loan amounts have been properly utilised or not.

9.1.3 Advantages of Management Audit

The advantages of management audit are as follows:

- To identify the present and potential strength and weaknesses in management.
- Establishing and reviewing the system of planning in an organisation.

- Improving the communication and control system.
- Review the decision making and quality of decision.
- Protects the interests of the organisation by continuous review of all the aspects of the organisation.
- Helps the management to ensure free flow of communication between the responsibility centres.
- Helps the management to improve co-ordination and to evaluate the control techniques.
- Suggests the management to bring about better efficiency and overall improvement.

9.1.4 Disadvantages of Management Audit

The disadvantages of management audit are as follows:

- The scope of management audit is not well defined.
- It has no standard techniques of its own.
- It is not conducted every year. So, it is not possible to improve anything during the interval period.
- It is very difficult to get a competent and expert management auditor to conduct management audit.
- It may create complexity in authority relationship.
- It is expensive. So, many business units consider it unnecessary.
- Management auditor may try to find fault with others in order to justify his appointment.
- Manager will always pay attention to keep the books of accounts correct instead of concentrating on more production and efficiency.

9.2 Business Ethics

Business ethics is the behaviour of a businessman while conducting a business, by observing morality in business activities. It is an art for maintaining, harmonious relationship with society, its various group and institutions as well as reorganizing the moral responsibility for the business conduct. If a custom is adopted and accepted by businessmen and public, that custom will become an ethic.

According to T.M. Garrett, *“Business ethics is primarily concerned with the relationship of business goals and techniques to specifically human ends.”*

9.2.1 Need for Business Ethics

It is necessary to observe business ethics for the following reasons:

- Survival of the business unit
- Growth of business unit
- Earning goodwill
- Improving the confidence
- Maintaining inter-relationship
- Dealing with social problems

9.2.2 Regulations of Business Ethics

Some of the regulations of business ethics are as presented below:

- Legislative measures
- Goodwill of business unit
- Social status of businessman
- Trade union
- Business association
- Consumer movement

9.2.3 Factors Affecting Business Ethics

There are some factors affecting the adoption of business ethics which are as given below:

- Unhealthy competition
- Abnormal profit motive
- Political interference
- Political uncertainty
- Unjust legislation
- Corruption
- Lack of education
- Lack of ethical attitude
- Non-cooperation of workers
- Red-tapism

9.2.4 Principles of Business Ethics

Following are some of the basic principles of business ethics:

- Service motive should be in the first place rather than profit motive
- There is no discrimination against any particular group of people
- Fullest satisfaction should be available to consumers
- There is no lack of consideration for clean environment
- Human feelings are properly considered while rendering service
- There is no wastage or misuse of available scarce resources
- Business must be dynamic and efficient one
- Business should provide quality products at reasonable price
- Business must maintain or improve standard of living
- There must be healthy competition
- There should be job security to employees
- Businessman must be sincere in payment of fair wages
- Better working conditions or environment should be provided
- Efficient employees are properly motivated and recognised
- Employees are requested to participate in management
- Monetary and non-monetary incentives must be available to employees
- Businessman must pay taxes promptly and obey other obligations promptly
- Business unit must avoid unfair trade practices like hoarding, black-marketing etc
- Businessman must disclose all relevant information to needy persons
- Businessman must prepare genuine books of accounts and presents before all authorised persons as and when required by them
- Businessman should be ready to extend mutual co-operation and mutual help
- Businessman should act as a partner in the development of nation
- Businessman should follow proper communication system at all levels
- Businessman should not make promises that could not be fulfilled
- Business assets should not be utilised by its owner or employees for personal use
- Employees are allowed free speech in the work place
- Business unit should follow proper personnel policy with regard to promotion, transfer and the like
- Businessman should not indulge in politics

9.2.5 Benefits of Business Ethics

The following benefits of business ethics are listed group-wise:

A. Customers

- Receive quality goods
- Pay reasonable price
- No difficulty in obtaining goods
- No price discrimination
- No price fluctuation

B. Employees

- Fair wages
- Better working conditions and working environment
- Recognising human feelings
- Reward for efficiency
- Job security
- Participation in management
- Proper personnel policy

C. Industry

- Healthy competition
- Better co-operation and co-ordination
- Steady growth

D. Business

- Adequate profit
- Fast growth
- Fast diversification of business
- Less labour turnover

E. Society

- Better utilisation of resources
- Improve standard of living
- No pollution problem

F. Government

- Prompt collection of taxes
- Development of nation
- Easy implementation of legislation

Summary

- Management audit is a new concept in the field of auditing. The expansion of internal audit is now called management audit.
- Management auditing is a diagnostic appraisal process for analysing goals, plans, policies and activities in every phase of operation to turnover unsuspected weaknesses and to develop ideas for improvement in areas that have escaped management attention.
- The scope of management audit will depend upon the objectives of management audit and requirements of the management. Management audit covers the review of the activities of the entire organisation or only a part of it.
- A single person cannot possess the various skills required for conducting management audit. The management audit should be conducted by a team of experts in order to produce best results.
- Business ethics means the behaviour of a businessman while conducting a business by observing morality in his business activities. Business ethics is a set of moral rules and principles to protect the interest of customers, employees, society, business unit and the industry as a whole.
- Business ethics applies to all aspects of business conduct and is relevant to the conduct of individuals and business organisations as a whole.
- An increasing number of companies also require employees to attend seminars regarding business conduct, which often include discussion of the company's policies, specific case studies, and legal requirements. Some companies even require their employees to sign agreements stating that they will abide by the company's rules of conduct.

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Self Assessment

1. _____ is the process of examining various policies and action of the management on the basis of certain specified objectives.
 - a. Management audit
 - b. Business ethics
 - c. Planning
 - d. Communication

2. What process offers suggestion to eliminate wastage or reduce the cost of production?
 - a. Business ethics
 - b. Planning
 - c. Communication
 - d. Management audit

3. Which of the following is FALSE?
 - a. Management audit identifies the defects or irregularities of management executives.
 - b. Management audit suggests to the management the ways to achieve the objectives.
 - c. Management planning offers suggestion to eliminate wastage or reduce the cost of production.
 - d. Management audit suggests the management to bring about better efficiency and overall improvement.

4. Business ethics is primarily concerned with the relationship of business goals and techniques to specifically human ends is a definition given by:
 - a. Peter F. Drucker
 - b. T.M. Garrett
 - c. George R. Terry
 - d. Henry Fayol

5. Which of the following is TRUE?
 - a. The scope of management audit is not well defined.
 - b. Management audit has standard techniques of its own.
 - c. Management audit is conducted every year.
 - d. Management audit is cheap.

6. _____ is the behaviour of a businessman while conducting a business, by observing morality in business activities.
 - a. Business manners
 - b. Business ethics
 - c. Corporate governance
 - d. Business etiquettes

7. _____ is one of the factors affecting business ethics.
 - a. Profit motivation
 - b. Healthy competition
 - c. Corruption
 - d. Co-operation of workers

8. _____ motive should be in the first place rather than profit motive in business ethics.
 - a. Help
 - b. Control
 - c. Plan
 - d. Service

9. _____ applies to all aspects of business conduct and is relevant to the conduct of individuals and business organisations as a whole.
 - a. Business plan
 - b. Budgetary control
 - c. Leadership
 - d. Business ethics

10. Which of the following statements is FALSE?
 - a. Businessman should indulge in politics.
 - b. Businessman should act as a partner in the development of nation.
 - c. Business must be dynamic and efficient one.
 - d. Business should provide quality products at reasonable price.

Case Study I

Recruitment and Selection

The Southern Steel Company manufactures tin plated steel primarily for canning companies. It employs about 5,000 persons. The company applies modern scientific methods wherever possible.

The personnel department applied one such scientific method in the selection of management trainees. A battery of tests was used to determine the interests, emotional stability, general intelligence and personality of the candidates. The tests were applied by an agency which has an excellent reputation in preparing and analysing tests. The company purchased the tests from the agency, gave them to the applicants and returned them to the agency for grading and analysis.

In addition to the tests, the personnel director analysed the data on the application forms. The applicant with the highest grade on the tests and with satisfactory application rating were selected for interviews with the personnel director. After the interviews, selections were done.

By the end of one year, the company had hired 30 applicants by this method. Upon evaluation of these trainees, the company was surprised to find that 14 of them did not have the qualifications considered necessary for executive personnel. The total expenditure on these unqualified trainees amounted to approximately Rs.26000.

The personnel department then took steps to evaluate the testing and hiring procedure. It found that the tests had been used successfully by other steel companies. It found no faults in the tests or in the administration. The personnel director was undecided as to what to do. He referred the problem to the executive committee comprising eight departmental heads. The head of the Industrial Relations Department suggested that error was in the tests and that they should abandon them and set-up another method for selecting management trainees.

Questions

1. What are the short-comings in the company's hiring procedure?

Suggestions

- The company should have applied a condition on the qualification required for the posts and then conduct the test.
 - Instead company did not consider the qualification at start and directly conducted the test on the applicants, this also mounted to unnecessary cost to approximately Rs. 26000 on the test.
2. On the basis of the information given what actions should the company take to solve the problem of selection?

Suggestions

- Company should have bifurcated the applicants according to their qualification and then accordingly conduct the test only on those who have the required qualification for the post.
- As the tests were successfully used by other steel companies it did not mean that it would be successful for this company also. So, the personnel department should make certain changes in the tests to make it applicable for this company.

Case Study II

The Human Aspects of Personnel

Mr. Ramlal, the owner of a three star hotel in Muradabad, employed 50 persons to man various jobs in his hotel in 1980. Almost all of them were educated up to 10th Standard. The salaries paid by Ramlal were higher compared to other hotels in Muradabad. He provided various benefits including free boarding, lodging, medical and recreation to all employees. He was rated as the best employer in the hotel industry in Muradabad. But never allowed any two of the employees to interact with each other while at work or off the work except for work transaction. He did not allow even the accountant and manager to share their personal or family problems. He however used to discuss work-related issues with every worker quite seriously. But he never asked or allowed them to speak about their needs, desires, sentiments, values etc., as he thought that he was the model employer in hotel industry in Muradabad and he was meeting all the needs of his workers.

Another three star hotel was started in 1985 in Muradabad under the ownership of Mr. Rajesh Sethi. He offered comparatively lesser wages and benefits. Even then surprisingly, 35 employees working with Ramlal including the manager and accountant joined Sethi's hotel.

Questions

1. Do you feel that the workers of Mr. Ramlal were really satisfied with their jobs? If Yes, why? If not, why did they keep quiet until 1985?
2. Why did 35 workers leave Mr. Ramlal despite higher wages and better benefits compared to all other hotel employees at Muradabad?
3. Do you find any impact of change in the trends towards human management on human desires in this case?

Case Study III

Ethnic and Religious Considerations

Sri Rama Paper Mills Ltd., was established at Rajahmundry (A.P) in 1954. The company was located here due to the availability of raw material and labour. The company employed most of manual labour from scheduled caste communities, technical staff from the Muslim community and supervisory staff from other communities. The company has Saturday off as weekly holiday as majority of the employees (almost all manual labour and supervisory staff) belong Hindu Religion. Hindus, especially in AP Religion, worship Lord Venkateswara on Saturdays. The company's performance had been above the targets including industrial relations during 1950's, 1960's and 1970's.

Christianity had spread in the villages particularly among the scheduled caste people during 1980 to 1985. Consequently almost all manual workers (belonging to schedule caste) converted themselves to Christians. They found that it had been much difficult for them to attend the factory on Sunday as they had to go to church. They demanded the management to declare Sunday as weekly holiday instead of Saturday. The management did not accept this demand as all the directors of the board and executives belonged to Hindu religion. Employees belonging to Hindu religion organised demonstrations and demanded the management to keep the Saturday as weekly holiday.

In the meanwhile, the technicians belonging to Muslim community requested the management to consider their demand for Friday as weekly holiday. Management did not consider any of these demands. Suddenly, all the manual workers did not attend to work on Saturday. This resulted in closure of factory on that day and management introduced the policy of 'no pay-no work' and discontinued the services of all the temporary workers. Immediately all the manual workers formed a union and organised strike against the management's action and were pressing for their demand for declaring Sunday as weekly holiday.

Questions

1. What was the root cause for the tension between labour and management?
2. How would you solve the problem if you were the Managing Director of the company?
3. What would you suggest to the Managing Director if you were the Personnel Manager of the company?

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Self Assessment Answers

Chapter I

1. a
2. c
3. b
4. d
5. b
6. d
7. c
8. a
9. d
10. a

Chapter II

1. a
2. b
3. a
4. c
5. d
6. b
7. c
8. d
9. b
10. c

Chapter III

1. b
2. c
3. d
4. a
5. c
6. b
7. d
8. b
9. d
10. a

Chapter IV

1. b
2. a
3. c
4. d
5. b
6. a
7. c
8. d
9. b
10. a

Chapter V

1. a
2. d
3. c
4. b
5. a
6. d
7. c
8. b
9. d
10. a

Chapter VI

1. a
2. d
3. a
4. b
5. c
6. b
7. d
8. c
9. c
10. d

Chapter VII

1. c
2. d
3. b
4. a
5. d
6. a
7. b
8. c
9. a
10. c

Chapter VIII

1. c
2. a
3. b
4. d
5. d
6. a
7. a
8. c
9. a
10. b

Chapter IX

1. a
2. d
3. c
4. b
5. a
6. b
7. c
8. d
9. d
10. a