PGBA (S1) 01-1

Management Process and Organisational Behaviour

SEMESTER - 1

BUSINESS ADMINISTRATION

BLOCK - 1

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

Subject Experts

Prof. Nripendra Narayan Sarma, Maniram Dewan School of Management, KKHSOU.
Prof. U. R Dhar, Retd. Professor, Dept of Business Administration, GU.
Prof. Mukulesh Baruah,Director, Assam Institute of Management.

Course Co-ordinator : Dr. Smritishikha Choudhury, Asst. Prof., KKHSOU

Dr. Chayanika Senapati, Asst. Prof., KKHSOU

SLM Preparation Team

UNITS	CONTRIBUTORS
1	Prof. Nripendra Narayan Sarma, KKHSOU
2	Dr. Chayanika Senapati, KKHSOU
3	Dr. Devajit Goswami, KKHSOU
4	Dr. Arpita Sharma Nath, Darrang College
5	Dr. Smritishikha Choudhury, KKHSOU

Editorial Team

Content : Prof U.R Dhar, Retd. Professor, Dept of Business Administration, GU

Structure, Format & Graphics: Dr. Chayanika Senapati, KKHSOU
Dr. Smritishikha Choudhury,KKHSOU

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Headquarters: Patgaon, Rani Gate, Guwahati-781017
City Office: Housefed Complex, Dispur, Guwahati-781006; Web: www.kkhsou.in

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MASTER IN BUSINESS ADMINISTRATION

MANAGEMENT PROCESS
AND
ORGANISATIONAL BEHAVIOUR

Block 1

DETAILED SYLLABUS

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COURSE INTRODUCTION

This is the first course of MBA Programme. This course introduces us to the subject of Management. This course is designed as an introduction to management and organisational behaviour. As such, it will provide us with an overview of the many functions that managers must perform. We will discuss what management is, and in doing so, we will discover the management functions such as planning, organizing, staffing and controlling, also we will discuss the organisation behaviour , Organizational behavior is the study of both group and individual performance and activity within an organization. This area of study in this course examines human behavior in a work environment and determines its impact on job structure, performance, communication, motivation, leadership, etc. The course has 15 units and is divided into three blocks; Block 1, Block 2 and Block 3.

Block 1 deals with the introductory concepts of mangement, development of management, functions of management, concept of planning and organising.

Block 2 concentrates on appraising human resources, communication, motivation, Introduction to OB personality & Percepation

Block 3 concentrates on the concept of values, attitude and emotions, leadership, Group and team, Power, Politics, conflict negotiation and stress. At the end of the block we have discussed some cases.

Each unit of these blocks includes some along-side boxes to help you know some of the difficult, unseen terms. Some “EXERCISES” have been included to help you apply your own thoughts. You may find some boxes marked with: “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit. This will help you in making your learning more active and efficient. And, at the end of each section, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your learning.

BLOCK INTRODUCTION

This is the first block of the course “Management Process and Organisational Behaviour”. The block is divided into 5 units which are related to the basic concepts of Management. Block one deals with introductory concepts of management, development of management, functions of management.

The block 1 is divided into the following units :

UNIT 1 : Introduction to Management and Management Process

UNIT 2 : Levels of Management and Functions of Management

UNIT 3 : Planning and Forecasting

UNIT 4 : Organizing and Staffing

UNIT 5 : Controlling

UNIT 1: INTRODUCTION TO MANAGEMENT AND MANAGEMENT PROCESS

UNIT STRUCTURE

1.1 Learning Objectives

1.2 Introduction

1.3 Importance and Basic Concepts of Management

1.4 Evolution of Management Thought

1.5 Principles of Management

1.6 Management Process and Functions

1.7 System View Concept of Management

1.8 Let Us Sum Up

1.9 Further Reading

1.10 Answers to Check Your Progress

1.11 Model Questions

1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the basic concepts, meaning and importance of management
- discuss the evolution of management thoughts
- learn the principles of management
- discuss the functions and process of management
- discuss the system view concept of management

1.2 INTRODUCTION

Management becomes effective or ineffective depending on the way things are handled. Management may be defined as the process where a set of resources are converted to the desired output subject to certain constraints. The desired output is the objective or mission of the organisation engaged in the management process. In case of a business, (or the corporate sector), the objective is to make profit on a sustained basis through growth and creation of wealth, by providing value satisfaction to its

customers. The non-corporate sector (NCS) comprising of NGOs, Government Departments etc. also uses resources and has missions and objectives. However, the objective in non-corporate sector will not be profit. In fact, the scope of making profit may not be there. Yet, to be effective, the NCS must be managed in a profitable manner, that is, the resources must be used fruitfully and most productively. Therefore, management must also be applicable to this sector. This is a sector, which is essential for any society to function. The effectiveness is determined by the results one gets from one's efforts. With the increase in the complexities of management of business concerns, the importance of 'Management' has increased enormously. The principles of management are being applied not only for managing business concerns, but also to manage various other institutions like hospitals, educational and social institutions and government. Management occupies such an important place in the modern world that the welfare of the people and the destiny of the country are very much influenced by it.

In this unit we will discuss about the basic concepts and evolution of management. In addition to this we shall also discuss the principles, processes and functions of management.

1.3 IMPORTANCE AND BASIC CONCEPTS OF MANAGEMENT

Unlike other subjects like philosophy, psychology and economics, management is a relatively new subject. The principles and techniques of management are still in a developing stage. The definitions of management given by different scholars emphasize different aspects of management. The following are some indicative definitions of the term 'management'.

1. George R. Terry: "Management is a distinct process consisting of planning, organizing, actuating and controlling performance to determine and accomplish the objectives by the use of people and resources".

2. S. George: “Management consists of getting things done through others. Manager is one who accomplishes the objectives by directing the efforts of others”
3. Peter F. Drucker: “The first definition of management is that it is an economic organ of industrial society. It means taking action for the desired results.”

From the above definitions, it is clear that management means things done through others by directing their efforts in an integrated and coordinated manner in order to attain business objectives. It is a process consisting of functions such as planning, organizing, actuating and controlling business operations in such a manner as to attain the predetermined goals. The organizations need to have clear goals and missions.

Management has the following characteristics:

1. **Management is an activity:** Management is a process of organized activity, which is concerned with the efficient use of resources of production. Resources include materials, money and people in the organization.
2. **It is concerned with the efforts of a group:** According to Appleby, management is concerned with the management of people and not the direction of things. It inspires and motivates workers to put forth their efforts to the maximum extent.
3. **Management is getting things done:** According to Koontz and O’ Donnell, management is the art of getting things done through and with people in formally organized groups. In other words, a manager does not directly do any operating work himself but gets it done through others.
4. **Involves decision-making:** Management involves decisions relating to various aspects of management. It is said that management is the decision making process and the decisions are involved in all the functions of management.
5. **It is a universal activity:** Managers, irrespective of the enterprise in which they are working and their place in the organization structure, make use of the management principles. It means that the techniques and tools of management are universally applicable.

6. **It is an integrating process:** It integrates men, machines and materials for carrying out the operations of an enterprise and for achieving the stated objectives.
7. **Management is both science and an art:** It has developed certain principles and laws, which are applicable to any group activity of the organization. It is also an art, because it is concerned with the application of knowledge for the solution of organizational problems.
8. **It is an interdisciplinary approach :** Management as a body of discipline takes the help of other social sciences like psychology, sociology, anthropology, engineering, economics, mathematics, etc. The same will be shared by all the group members together rather than one individual member shouldering the entire burden. Individuals tend to make conservative decisions because the consequences of the decisions will be accepted by the individual alone.
9. **It is dynamic not static:** Management adapts itself to the social changes and also introduces new ways of doing things.

Management today is counted as one of the most important fields of study owing to its ever increasing importance for organisational effectiveness. The recognition of management and its importance as a distinct field or discipline is a recent phenomenon, more especially in the globalised environment. In the current context mission oriented organizations have to concern themselves with –

- raising "Resources"
- manage the "Operations" to attain their mission effectively and
- also to deliver the services efficiently.

Management, in one sense, is as old as human beings. However to understand management in the emerging context, we need to refer to the works of Peter Drucker who made pioneering contributions to the development of management as a body of knowledge. In his book "The Theory of Business" (1994), Drucker pointed out that "all the great business builders" –from the founders of the Bank of England in the late seventeenth century down to IBM's Thomas Watson – had a clear understanding of business with information for all their actions and decisions.

1.4 EVOLUTION OF MANAGEMENT THOUGHT

Any organised attempt to systematise all the experiences and experiments as management practices could be traced back to around the late 19th century. Since then, management thoughts have been evolving on a continuous basis. With introduction of mass production at the beginning of the twentieth century, the business demanded the services of well-trained managers and as a result a new formal science of management discipline emerged. The principal inspiration for this in the US was Frederick Winslow Taylor, an engineer, who believed there was a single best method of completing work which could be organized through a detailed study of time and motion involved in each job. In Taylor's world, "managers' played two vital roles – the first was to coordinate the various specialized tasks and the second was to monitor and motivate the workers. A group of theorists, who became known as the pioneers of human-relations school, wanted to see workers involved in managerial decisions. Elton Mayo, a psychologist based at Harvard Business School, emphasized the importance of non-economic rewards for productivity. Management as a formal body of knowledge kept on evolving.

The way the management concepts have been developed may be categorised into five phases, namely:

1) Pre-scientific Management era (before 1880)
2) Scientific Management era (1880-1930)
3) Human Relations era (1930-1950)
4) Social science era (1930-1950)
5) Management Science era or Modern Management era (1950 onwards)

These time periods are not exact though and maybe counted as suggestive only. This is mainly because of the fact that different intellectuals from different backgrounds were making their observations, experiments and recommendations in an overlapping manner both in terms of time and ideas. Similarly, another way of understanding the development of management thought is to classify the management thoughts and ideas into three distinct theories of management: *classical, neo-classical and*

modern approach. These have been explained further which will also indicate the phases of evolution of management thoughts as outlined above.

1.4.1 Classical Approach

The classical approach comprises of the developments in management thought that mark the beginning of the systematic study of management. In other words, it includes the contributions of Robert Owen, Charles Babbage, James Watt and Henry Town emphasising personnel aspects of management. However, their contributions were considered insignificant in terms of stimulating management study as a distinct discipline. Yet, they are believed to have set the stage for a systematic study of management, which was initiated by Taylor in the early part of the 20th century.

Taylor continued with his experiments and research on how to increase efficiency of people. His findings and contributions compiled together gave way to what we know as “Scientific Management” today. Although scientific management indicates a remarkable development in the field of management, it is criticised on the ground that it relates more to the engineering perspective rather than the management viewpoint. In other words, it is more concerned with the technical aspect of efficiency instead of the broader aspects of management of an organisation. Apart from this theoretical considerations, it was also opposed by trade unions, industrialists and general public because many followers started taking an aggressive mechanical view of production and side-lined the human aspect at the work place. It further led to the growth of a strict authoritarian form of supervision and exploitation of workers. Hence, there were many who did not actually favour Taylor’s scientific management.

Apart from Taylor, another significant contributor to the classical theory of management is the French industrialist, Henry Fayol. Fayol’s contributions were first published in book form titled ‘*Administration Industrielle at Generale*’ in French language, in 1916.

However, it was only after the publication of the book in English around 1929 that Fayol rose to prominence in the field of management. Fayol believed that management is a universal phenomenon and preferred to use the term 'administration' instead of 'management'. He further emphasised that principles of management are flexible and not absolute and are usable regardless of changing and special conditions. Fayol found that the activities of an industrial organisation may be divided into six groups:

1. Technical (relating to production);
2. Commercial (buying, selling, and exchange);
3. Financial (search for capital and its optimum use);
4. Security (protection of property and person);
5. Accounting (including statistics); and
6. Managerial (planning, organising, command, coordination, and control).

1.4.2 Neo Classical Approach

The neo-classical approach to management consists of the developments that occurred during the human relations era and the social science era. It developed basically out of the famous Hawthorne's experiments. Later on, many contributions have been added to this field. The essence of neo-classical theory indicates the following two points:

i) An organisation should be viewed in social as well as economic and technical terms.

ii) The social process of group behaviour can be understood in terms of clinical method.

The neo-classical theory recognises the significance of factors like informal organisation, informal leader, non-economic motivation etc. which were otherwise almost ignored by the classical theory. It is basically humanistic in its approach and adds the study of behavioural science in the field of management. In fact many consider this approach as an extension of the classical theory of

management. The famous Hawthorne experiments mark the beginning of the intensive and systematic analysis of human factor in organisations.

Better referred to as the behavioural science approach, this approach puts more emphasis on human resources in an organisation compared to the other physical and financial resources. This approach can be understood from two perspectives: *interpersonal behaviour approach* and *group behaviour approach*. Both sociologists and psychologists have contributed to this approach of management. Among them, the names of Maslow (need hierarchy), Herzberg (motivation-hygiene theory), McGregor (theory X and theory Y), Lewin (group dynamics), etc. have also contributed towards this behavioural science approach. The major conclusions of this approach can be summarised as follows:

1. Job is a source of motivation to employees and people in general do not dislike work. Instead, if given an opportunity to establish objectives, they will want to achieve them.
2. There is tremendous untapped potential in the people which generally goes unutilised.
3. The manger must focus on using this untapped human potential for the organisation.
4. The manager should create a healthy environment to ensure optimum contribution from the subordinates.
5. Participation in important matters and self-direction for subordinates must be allowed.
6. Expansion of subordinate influence, self-direction and self-control is necessary for improving operating efficiency.
7. Full use of employee potential may lead to improvement in work satisfaction.

1.4.3 The Modern Approach

The modern approach of management is comparatively a recent development in the field of management. It is basically an

extension of the previous two approaches and makes use of various mathematical formulae, statistical tools, economic models and engineering knowledge. Several experts like Herbert Simon, Tom Peters, Peter Drucker, Michael Porter, Stafford Beer etc. belong to this era. One of the major contributors worth discussing is Peter F. Drucker.

Peter Drucker with his diverse experience and background consisting of psychology, sociology, law, and journalism, is the most widely known contemporary thinker of management. Through his consultancy assignments, Drucker contributed to various approaches of management thought. There are several books and important papers to his credit. Of the books authored by Drucker, *The Practice of Management* (1954), *Managing by Results* (1964), *The Effective Executive* (1967), and *Management Challenges for 21st Century* (1999) are worth mentioning.

Drucker emphasised on innovation and creativity as the basic objective of management and was totally against the idea of bureaucratic management. He treats management as a discipline having its own tools, skills, techniques and approaches. Drucker also highlighted the practical aspect of management and hence considers it as a liberal profession and not as a strict profession.

The major streams under the modern theory of management consist of the *quantitative approach*, the *contingency approach and the system approach* .

The quantitative approach visualises management as a logical entity, the action of which can be expressed in terms of mathematical symbols, relationships, and measurement data. Management can be regarded as the problem-solving mechanism with the help of mathematical tools and techniques. This school believes that managerial activites can be quantified. Operations research, mathematical tools, simulation, models etc., are the basic methodologies used to solve managerial problems.

The contingency approach is another important component of the modern theory and approach of management. It is based on the idea that there cannot be a particular management action that will be suitable for all situations. Rather, it counts an appropriate action as one which is designed on the basis of external environment and internal states and needs. Contingency approach tries to adequately fill the gap between organisation and its environment which is otherwise left out by the systems approach. This is facilitated by suggesting what should be done in response to an event in the environment.

The system approach is an integrating approach that considers management in its totality. It emphasises interrelationships and interdependence of all components of an organisation. In fact, it counts management as a system at large. We shall discuss about this in a later section in this Unit.



CHECK YOUR PROGRESS

Q 1: State two characteristics of management.

.....

Q 2. What is contingency approach?

.....

.....

1.5 PRINCIPLES OF MANAGEMENT

Since Taylor emphasised on solving managerial problems in a scientific manner, he is referred as the 'father of scientific management' and his contributions as the 'principles of scientific management'. According to Taylor, "scientific management means knowing exactly what you want men to do and then seeing that they do it in the best and cheapest way."

The general principles of management as given by Fayol consisting of fourteen principles or statements of fundamental truth which establishes a cause and effect relationship between different variables. Henry Fayol

enumerated certain principles which he considered as not rigid but flexible. The 14 principles have been stated as follows:

1. ***Division of Work****:* This principle was advocated by Fayol with a view to reap the benefits of specialisation that may result from proper division of work.
2. ***Authority and Responsibility:*** Fayol finds that there must be a parity of authority and responsibility, because responsibility arises out of authority and to discharge it well, there must be adequate authority assigned.
3. ***Discipline:***Discipline indicates obedience, behaviour and outward mark of respect shown by employees. Fayol says the success of an organisation depends upon discipline, which may either be self-imposed or which may command discipline.
4. ***Unity of Command****:*Unity of command means a person should get orders and instructions from only one superior. This is for the purpose of avoiding the chances of conflict, chaos and confusions in an organization.
5. ***Unity of Direction:*** Fayol suggested that better coordination among various activities can be attained only when there is the concept of one head one plan practiced under the principle of unity of direction. This principle focuses on having common goals towards which all members and their efforts may be directed.
6. ***Subordination of Individual Interest to General Interes:*** This principle highlighted the importance of common interest above individual interest. During conflict situations, individual interest must be subordinated to general interest.
7. ***Remuneration of Personnel:*** Fayol believed that employees must be remunerated in a fair and satisfactory manner. He also favoured non-financial benefits though it was limited to only the large scale organisations.
8. ***Centralisation:*** The extent of centralisation and decentralisation would depend upon the type and needs of the organisation. Hence

according to Fayol, it is a matter of proportion and the management should decide the best balance of both.

9. ***Scalar Chain:*** Fayol suggested the principle of scalar chain with a view to clearly denote the line of authority and communication from the highest executives through each position to the lowest level. However, Fayol said, exceptions to this rule may be made and the route short circuited in special circumstances for the greater interest of the organisation.
10. ***Order:*** The principle of order underlines the importance of a proper place for both things and man. Material and social order is highly essential for ensuring successful management.
11. ***Equity:*** Equity indicates a balance of justice and kindness, which must be practiced by the managers while dealing with the subordinates.
12. ***Stability of Tenure:*** This principle refers to ensuring security of jobs for the employees and elimination of unnecessary turnover as well.
13. ***Initiative:*** It is all about coming forward with ideas or actions for greater interest of the organisation. This principle emphasises on liberty that needs to be allowed to everyone in the organisation in terms of suggestions, opinions and plans.
14. ***Esprit de Corps:*** This principle is based on the idea of 'unity is strength' and the extension of unity of command for establishing team work.

1.6 MANAGEMENT PROCESS AND FUNCTIONS

1.6.1 Functional Areas of Management

An organization has to carry out several functions as shown below.

a. ***Financial management:*** It includes cost control, budgetary control, financial planning, management accounting, standard costing etc

b. Personnel management: It includes aspects such as recruitment, training, transfers, promotions, retirement, industrial relations, social security, etc

c. Purchasing management: It consists of purchasing of raw materials, maintaining records, materials control, issuing materials to the departments, etc

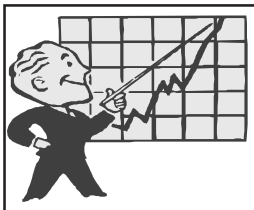
d. Production management: It deals with aspects such as production planning, quality control and inspection, production control techniques, etc.

e. Marketing management: It includes marketing of goods and services, price determination, channel determination, market research, sales promotion, advertisement, publicity, etc.

f. Office management: It is concerned with office layout, staffing, equipment of office, etc.

g. Maintenance management: It relates to the proper care and maintenance of the building, plant and machinery, etc.

h. Transport management: It includes packing, warehousing, transportation by rail, road, air etc.



CHECK YOUR PROGRESS

Q3: State the activities of an Industrial Organisation.

.....

.....

Q4. What is transport management?

.....

.....

1.6.2 Managerial Functions

For the correct and effective application of the principles of management, a study of various other subjects such as economics, sociology, mathematics, psychology, behavioral science, statistics etc. are necessary.

According to Drucker, management in itself has no functions or existence. It is the organ of its institution and enabling the institution to make contributions is the job of the manager. The manger has to perform certain functions which will ultimately make the institution contribute towards

i) the specific purpose and mission of the institution;

ii) making work productive and satisfying to the worker.

iii) managing social impacts and social responsibilities.

A manager has to perform several functions within the organisational perspective. He has to play the role of the administrator for improving upon the existing and the already known. He also has to act as an entrepreneur for redirecting the resources from areas of diminishing results to increasing results. According to Drucker a manager has to perform several functions like setting of objectives, decision making, organising and motivating. Luther Gullick coined an acronym called PODSCORB to indicate the managerial functions. PODSCORB stands for planning, organising, directing, staffing, coordinating, reporting and budgeting. However, another approach describes managerial functions as planning, organising, staffing, leading and controlling. The management functions will be discussed in greater details in **Unit 2.**

1.7 SYSTEM VIEW CONCEPT OF MANAGEMENT

This is an integrating approach that considers management in its totality. It emphasises interrelationships and interdependence of all components of an organisation. In fact, it counts management as a system at large. The systems concept as applied to management, gives the following features of management:

1. Management is a social system which consists of many subsystems which are integrated to constitute an entity.
2. Management is an open system which has to give weightage to environmental factors affecting it.

3. Management has the basic role of adaptability to environment.
4. Management as a system is dynamic as it tries to balance both internal processing and external interactions.
5. Management is probabilistic and cannot be certain owing to the dynamic environment.
6. Management has the multilevel and multidimensional features since it has both the micro and macro approach and can be applied to various subsystems.
7. Management deals with multiple variables thus making it complex in nature.
8. The systems approach ensures that management takes an integrated view of managing and not an isolated view of a phenomenon.

In "The Concept of the Corporation" (1946), Peter Drucker emphasized on treating the company as a social system as well as an economic organization. The book has sections like "The Corporation as Human Effort" and "The Corporation as a Social Institution". In the book, Drucker explained how General Motors' decentralized structure enables it to respond to challenges such as transition from war to peace and empowerment of workers. In the post-World War II scenario, management concepts and practices changed a lot; so as the environmental forces.



1.8 LET US SUM UP

In this unit, we have learnt about the meaning and importance of management and its various implementations in different fields. The concept of management has become universal and no organization can survive without it. Management consists of getting things done through others by directing their efforts in an integrated and coordinated manner for achievement of business objectives. As a body of knowledge, management is of recent origin compared to several other disciplines. It has evolved a

lot. The principles and practices as enumerated by Taylor and Fayol are very much relevant in today's context also. Peter Drucker and others have contributed a lot to develop our understanding of management as system.



1.9 FURTHER READING

1) Drucker, Peter F. (2014), *Practice of Management*, Allied Publications, New Delhi.
2) Koontz, Harold and Weihrich, Heinz (2007), *Essentials of Management*, Tata McGraw Hills, New Delhi.
3) Rao, V. S. P. and Hari Krishna, V. (2005), *Management : Text and Cases*, Excel Books, New Delhi.
4) Robbins, Stephen P., Judge, Timothy A. and Vohra N.(2016), *Organizational Behavior*, Prentice Hall, Delhi.

1.10 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: i. Management is an activity
ii. It involves decision making

Ans. to Q. No. 2: Contingency approach is based on the idea that there cannot be a particular management action that will be suitable for all situations. Rather, it counts an appropriate action as one which is designed on the basis of external environment and internal states and needs.

Ans. to Q. No. 3: Activities of an industrial organisation are technical, commercial, financial, security, accounting and Managerial.

Ans. to Q. No. 4: Transport management implies deciding on availing the mode of transportation like rail, road, air or water-ways etc. for procurement and distribution of physical goods. This requires careful consideration of availability, cost and utility of the various modes of transportation.



1.11 MODEL QUESTIONS

Q.1 : What is management?

Q.2 : Give an outline of management thought during the 20th century.

Q.3 : Briefly discuss the characteristics of management.

Q 4 : Discuss the classical approach and neo-classical approach. What are the basic differences between the two?

*** ***** ***

UNIT 2: FUNCTIONS AND LEVELS OF MANAGEMENT

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Concept of Management

2.4 Functions of Management

- 2.4.1 Planning
- 2.4.2 Organizing
- 2.4.3 Staffing
- 2.4.4 Directing
- 2.4.5 Controlling
- 2.4.6 Coordination

2.5 Levels of Management and Managerial Skills

2.6 Indian Management Style and Tradition

2.7 Let Us Sum Up

2.8 Further Reading

2.9 Answers To Check Your Progress

2.10 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss the concept of management
- define goals and objectives
- discuss the concepts of organizing, staffing, controlling and coordination
- learn the Indian Management style and tradition

2.2 INTRODUCTION

In previous unit we had gone through the meaning and evolution of Management. In the present unit we shall be discussing on the levels and the various functions of Management. The present day industrial world,

management has become universal. With the increase in the complexities of doing business, the importance of 'management' has increased enormously. The principles of management are being applied not only for managing business concerns, but also to manage various other institutions like hospitals, educational and social institutions and government. Management occupies such an important place in the modern world that the welfare of the people and the destiny of the country are very much influenced by it.

You will find this unit interesting because here you will know the importance of different functions of management and how managers plan and perform their task in the organization.

Let us discuss the concept, levels and functions of Management in the following sections

2.3 CONCEPT OF MANAGEMENT

Management is a process of maintaining and designing the organization in such a way so that the individual and the groups as a whole work efficiently for the achievement of the set goals.

In an organization a mangers plays an important role and it involves performance of management functions (see section 2.4).The functions are different for the managerial jobs and these differences arise because of the different levels in the organization. As discussed in the previous unit, we got a fair idea on the concept of management. In order to achieve the desired results, the managers perform certain basic functions namely planning, organizing, staffing, directing and controlling. We shall be discussing these functions in detail in the following sections.

2.4 FUNCTIONS OF MANAGEMENT

Henry Fayol in the early part of 20th century classified the functions of management as planning, organization, command, coordination and control. Luther Gulick classified functions of management by using the alphabets POSDCORB that refers to:

- Planning
- Organizing
- Staffing
- Directing
- Coordination
- Reporting
- Budgeting

It is clear that Gullick's classification is similar to that of Fayol, only new is that he divided the function of controlling into reporting and budgeting.

In this unit we will discuss on Planning, Organizing, Staffing, Directing, Controlling and Coordination.

2.4.1 Planning

Planning is concerned with the determination of objectives to be achieved and the course of action to be followed to achieve them. Before starting any action, one has to decide how and where it has to be performed. Thus planning implies decision-making as to what is to be done, how it is to be done, when it is to be done and by whom it is to be done. Planning helps in achieving the objectives efficiently and effectively. It involves selection of objectives, strategies, policies, programmes and procedures for achieving them. In simple words, Planning is where we are and where we want to go.

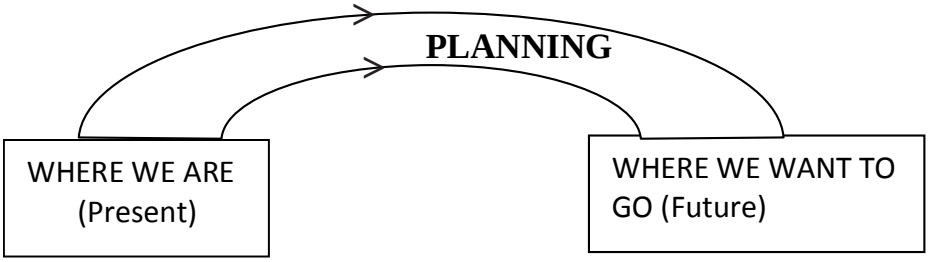


Figure 2.1: Concept of Planning

Planning is deciding in the present for what is to be done in future. It is the primary function management; it answers the following basic questions:

1. ***Where are we now?:*** This question arises because of the making realistic assessment of the current situation and forecasting how the picture may change in the future.
2. ***Where do we want to be?:*** This question arises to find out the desirable objectives keeping the present as well as future requirements in mind.
3. ***Difference*** : Finding the difference between where we are and where we want to go.
4. ***How can we go there from here?*** : This question is about what has to be done in future.

Now, let us discuss the approaches and types of Planning.

Approaches to Planning: Managers follow various approaches to planning based on the extent of participation, authority delegation and competency level of managers working at various levels, namely:

a. **Top-down Approach:** In most family-owned enterprise, authority and responsibility for planning is centralized at the top. The top management defines the mission, lays down strategies, and specifies action plans to achieve the stated goals. The blueprint is then passed on to the people working at lower levels, who have very little to contribute to the process of planning. The success of this approach is wholly dependent on the qualifications, experience and capabilities of people working at the top level.

b. **Bottom-up Approach:** Thinking and doing aspects in the planning process are two sides of the same coin. So, if lower level managers were drawn into the preparation and implementation of plans, their loyalty and commitment would go up automatically. Participation enables them to give their best to the plan document. In bottom up approach, the lower level managers convey their opinion to the top level manager.

Types of Planning: Planning may be classified into several types on the basis of comprehensiveness, time span and frequency of use of the plan. A brief description of these follows:

a. **Long-range Planning:** A plan that covers many years and affects many departments or divisions of an organization in a major way. Long range planning is quite common in stable industries such as steel, public utilities and automobiles.

b. **Short-range Planning:** A plan that is specific and detailed and generally covers a span of one year or less. Short-range plans are otherwise called operational plans. Market plans, production plans and financial plans are typical examples of operational planning.

Importance of Planning: Planning is an essential activity carried out in all organizations in the modern world. Planning helps in determining the goals of an organization and the activities needed to satisfy these goals. If organizations are operating on a day-to-day basis with no feel of where they are heading, the result will be haphazard. Planning helps an organization in the following ways:

a. **Provides Direction:** Planning as a road map shows direction where the organization is heading and for what. Without plans and goals, organizations merely react to daily occurrence without considering what will happen in the long run.

b. **Reduces Uncertainties:** Planning enables organizations to shake off their inertia and insulation in outlook. It induces them to go beyond narrow vision and cut through uncertainties of the environment.

c. **Facilitates Decision-Making:** Decision-making involves searching of various alternative courses of action, evaluating them and selecting the best one. Planned targets serve as the criteria for the evaluation of different alternatives so that best one may be chosen.

d. **Improves Efficiency:** Planning serves as a mechanism to make judicious allocation of limited resources for achieving organizational goals. Planning adds value to resource by ensuring their judicious and best use for the fulfillment of organizational requirement.

e. **Provides Unifying Framework:** Planning forces people to continually address their efforts to the most important work rather than the least important. Plans serve as the basis of coordinating the efforts of different divisions, departments and people.



ACTIVITY 2.1

List out five long range planning and five short ranges planning in any organization.

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2.4.2 Organizing

In simple words organizing is concerned with the process of structuring, integrating the organization's resources-people, materials, technology and finance in order to achieve enterprise objectives of the organization.According to Fayol, "to organize a business is to provide it with everything useful to its functioning-raw materials, tools, capital and personnel". Thus, organizing involves bringing together the manpower and material resources for the achievement of objectives laid down by the enterprise. Organizing involves the following processes:

a. Determining and defining the activities involved in achieving the objectives laid down by the management;
b. Grouping the activities in a logical pattern;
c. Assigning the activities to specific positions and people; and
d. Delegating authority to their positions and people so as to enable them to perform the activities assigned to them.

Organizing function helps in increasing the efficiency of the enterprise. Further, by avoiding repetition and duplication of activities, it reduces the operation cost of the enterprise.

But organizing function can be useful to the enterprise only when there are clear and verifiable objectives, clear understanding of the activities needed to achieve the objectives and clear definition of the authority assigned to the manager at every level.

2.4.3 Staffing

Every enterprise is very much concerned with the quality of its people, especially its managers. The staffing function is very much concerned with this aspect of management. According to Harold Koontz and Cyril O'Donell, "the managerial function of staffing involves manning the organizational structure through proper and effective selection, appraisal and development of personnel to fill the roles designed into structure", thus, the staffing function involves:

a. Proper selection of candidates for proper positions;
b. Proper remuneration;
c. Proper training and development so as to enable them to discharge their organizational functions effectively; and
d. Proper evaluation of personnel.

Staffing function is performed by every manager of the enterprise, as he is actively associated with the recruitment, selection, training and appraisal of his subordinates. For example, the Board of Directors of the enterprise undertakes the staffing function by selecting and apprising the Chief Executive who, in turn, performs these functions in relation to his sub-ordinates like divisional heads of the enterprise. Similarly, departmental heads or their sub-ordinates also perform the staffing function.

Staffing function is a difficult managerial function because it is concerned with the selection of the persons who are properly qualified and mentally well adjusted to the situations.

2.4.4 Controlling

Controlling is related to all other management functions. It is concerned with seeing whether the activities have been or being performed in conformity with the plans. According to Haimann, "control is the process of checking to determine whether or not, proper progress is being made towards the objectives and goals and acting if necessary to correct any deviation". Koontz and O'Donell have defined controlling "as the measurement and correction of the

performance of activities of subordinates in order to make sure that enterprise objectives and plans devised to attain them are being accomplished". Thus, controlling involves the following sub-functions:

a. Determination of standards for measuring work performance,
b. Measurement of actual performance,
c. Comparing actual performance with standards,
d. Finding variances between the two and reasons for variances.

Control can be implemented before an activity commences, while the activity is going on and after the activity is completed. Accordingly, controls can be of three types:

1. **Feed-Forward Control:** Feed-forward control, as the name suggests, is taken before an activity commences so that the anticipated problems are prevented. Thus, it is future directed. For example, a company may hire additional manpower as soon as the company is sanctioned some new project.
2. **Concurrent Control:** Concurrent control takes place when an activity is in progress. Direct supervision of activity is the commonly used form of concurrent control enacted while work is going on.
3. **Feedback Control:** Control implemented after the work is over is called feedback control. The major drawback of this type of control is that by the time the information is available, the damage is already caused.

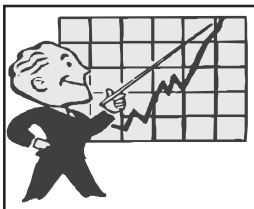
2.4.5 Coordination

Some authorities consider coordination to be a separate function of the manager. It seems more accurate, however, to regard it as the essence of managership, for achieving harmony among individual efforts toward the accomplishment of group goals. Each of the managerial functions is an exercise contributing to coordination. It is the central task of the manager to reconcile differences in approach, timing, effort, or interest and to harmonize individual goals to contribute to organization goals.

A modern enterprise consists of a number of departments such as production, purchase, sales, finance, personnel, etc., and there is need for the management to see that all the departments function in such a way that they move harmoniously towards the realization of the stated objectives of the enterprise. This function of management i.e. the harmonious blending of the activities of the different specialists and also of the different departments for the achievement of desired goals is called desired co-ordination.

Features or Characteristics of Coordination: The above discussion indicates that co-ordination has certain characteristics. They are:

1. Co-ordination is the orderly arrangement of group efforts.
2. It provides unity of action in pursuit of a common purpose. Unity of action is considered to be the heart of the co-ordination process.
3. It aims at achieving the common purpose of the enterprise through the orderly synchronization of the efforts of the sub-ordinates.
4. It is a process whereby an executive develops an orderly pattern of group efforts for accomplishing the common objectives of the enterprise.
5. The task of co-ordination is a managerial responsibility; co-ordination can be made effective only if an executive makes conscious efforts.
6. It is a continuous process.



CHECK YOUR PROGRESS

Q1: Define Planning.

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Q2. State two importance of planning.

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2.5 LEVELS OF MANAGEMENT AND MANAGERIAL SKILLS

The term "levels of Management" can be explained as a dividing line for the various managerial positions.

Management jobs are different from other jobs. It involves the obligation to make prudent use of human and material resources. It requires sound judgment to handle complex situations. Further, the nature of the job becomes increasingly complex at each higher level because of the increase in the scope of authority and responsibility. Therefore, each higher level requires increased knowledge, broader perspective and greater skills.

For purpose of analysis, skills required of any manager are classified under three different heads– technical, human (employee relations skill) and conceptual skill as shown in figure 2.2. The exhibit helps in understanding the levels of management responsibilities, the principal skill requirements, and the extent to which each kind of skill is required at each level.

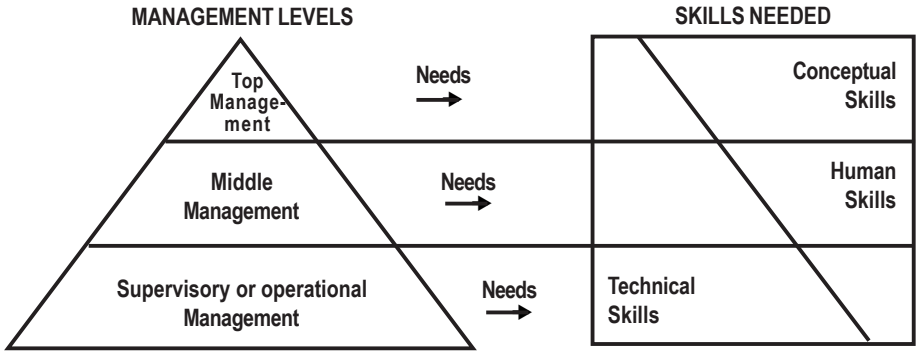


Fig. 2.2: Management skills at different levels of Management

1. **Technical Skills:** Technical skills refer to the ability to use the tools, equipments, procedures, techniques and knowledge of a specialized field, the activity to use specific knowledge, methods, and techniques in performing work. It is primarily concerned with the ways of doing the things. It implies proficiency in a specific field of activity. Technical skills are most important for the lower level managers, because by nature their job involves supervision of the workers.

Effective supervision and coordination of the work of the subordinates, therefore, depends on the technical skill possessed by the lower level managers, any supervisor without a sound knowledge of the job cannot make an effective supervision. The relative importance of the technical skills as compared to the other skills diminishes one move up to higher level of management. Thus, the President of an oil company does not need to know much of the technical details of drilling for oil or how to refine it.

2. **Human Skills:** The human skill is the ability to understand, motivate and get along with other people. This skill is essential at every level of management within the organization, but is particularly important at middle levels of management where the manager has frequent contact with operating personnel.

   Human skills are primarily concerned with persons, as contrasted with "things". When a man is highly skilled in employee relations, he is aware of attitudes, assumptions and beliefs and recognizes their limitations as well as their usefulness. He accepts, as an important fact of life, the existence of viewpoints and feelings, different from his own. Thus, human skill refers to that ability of the manager to work effectively as a group member and to build cooperative effort in the team he leads. It is the ability to work with, understand and motivate people. He understands why people behave as they do and is able to make his own behaviour understandable to them. He can foresee their reactions to possible courses of actions and, is able to take their attitudes into account. His skill in working with others is natural and continuous. He does not apply it in random or in inconsistent fashion. It is a natural ingredient of his every action.

3. **Conceptual Skills:** Conceptual skills are the mental ability to coordinate and integrate the organization's interest and activities. It refers to the ability to see the "big picture".

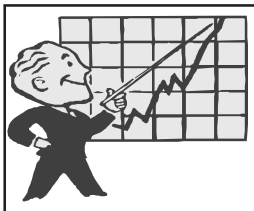
   The conceptual skill also called design and problem-solving skill and is essential at top level of management. It involves the ability–

   - To see the organization and the various components of it as a whole;

- To understand how its various parts and functions look together; and
- To foresee how changes in any one of these may affect all the others.

Conceptual skills extend to visualizing the relation of the organization to industry, to the community and to the political, economic and social forces of the nation as a whole and even to forces, which operates beyond the national boundaries. It is the creative force within the organization. A high degree of conceptual skill helps in analyzing the environment and in identifying the opportunities and threats.

The three types of skills discussed so far are not mutually exclusive. In other words, management job always requires all the three skills but in different proportion depending upon the level of management – there is a gradual shift in the emphasis from the bottom to the top of the pyramid. Technical skills and human skill are always in great demand at the lower level of management for it is there the productive processes and operations are carried out. It is there where you find most of the people. It is there where the action takes place. The need for conceptual skill is greatest at the top level of management. Obviously, the top managers are not often involved in the direct application of specific methods, procedures and techniques, compared to those at the lower ***echelons*** of management.



CHECK YOUR PROGRESS

Q.3 : Name the three levels of management.

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Q.4 : State the managerial skills

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2.6 INDIAN MANAGEMENT STYLE AND TRADITION

If there can be British style in management, American style or Japanese style, then why not an Indian style of management. Or to be more specific: is there any Indian style of management?

When looked in a larger perspective, the traditional Rajasthani carpenters, Gujarati women's skill at handicraft, the wood-carvers of Karnataka show remarkable excellence in their work and production. The Moradabad brassware workers are exporting their products though they do not know the modern concepts like QC, TQM, and ISO-9000. Then how are they doing this, Lijjat Papard, run by Indian women, or the Udupi Hotels, are other examples. In management, production, motivation, services, etc., they are showing their excellence. Unfortunately, in industry or management we do not give much importance to these examples in our textbooks. And thus we miss the salient features of Indian style of management.

We will rarely find an MBA in the above cases. We call this Indian ethos, as the true spirit of indigenous management techniques which is expressed in the above cases- by the Indian supervisors and workers. There is excellence in India, and it is better to recognize this hard fact.

We noticed this excellence, searched for indigenous style of management, and then incorporated the concepts of Vedanta and Yoga to give this a shape. Side by side we experimented with this technique in modern industries, both public and private sector companies, got the feedback, evaluated, and thus a model evolved, the system was perfected.

We call this, Indian ethos in management because; first we learnt this method from the common Indian workers- farmers, carpenters, grocers, artisans, and above all Indian women. And secondly, the Vedantic concepts and Yoga practices were incorporated.

This technique – Indian ethos in management – was applied and discussed in many companies, and the result was very encouraging. More and more management consultants and teachers are joining this movement and more and more companies are showing keen interest in this.

Because of its spirituality, long term and Holistic vision, Indian thought has made a tremendous contribution to the world over thousand of years, today, for some reasons India is no longer in the fore-front and the people seem to have lost pride in being Indians, forgetting the history of India as a land of wealth, prosperity and spirituality, to which have flocked people from all over the world, to share in its glory.



2.7 LET US SUM UP

In this unit we have learnt about different functions of management-planning, organizing, staffing, control and coordination.

Planning is concerned with the determination of objectives to be achieved and the action to be taken to achieve them. Organizing involves bringing together the manpower and material resources for the achievement of objectives. Staffing involves manning the organizational structure through proper selection, appraisal and development of personnel to fit the roles designed into the structure. Directing is concerned with actuating the members of the organization to work efficiently for attaining the organizational goals. Controlling is concerned with seeing whether the activities have been or being performed in conformity with the plans.

A manager has to perform managerial functions irrespective of the position in which he is placed. But the mix of management functions which are to be performed by a manager would depend on the organizational level, viz, top, middle or lower level, at which he is working.

There are signs that business is moving towards a unified, global theory of management. The practice of management and global competitiveness is driven by the new technology. Visionary managers are needed to provide direction to the increasingly multi-cultural workforce that responds quickly to the customers that demand low-cost quality products and services.



2.8 FURTHER READING

1) Drucker, Peter F. (2014), *Practice of Management*, Allied Publications, New Delhi.

2) Koontz, Harold and Weihrich, Heinz (2007), *Essentials of Management*, Tata McGraw Hills, New Delhi.

3) Rao, V. S. P. and Hari Krishna, V. (2005), *Management : Text and Cases*, Excel Books, New Delhi.

4) Robbins, Stephen P., Judge, Timothy A. and Vohra N.(2016), *Organizational Behavior*, Prentice Hall, Delhi.

2.9 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Planning is deciding in the present for what is to be done in future.

Ans. to Q. No. 2 : Importance of planning are:
i. Provides direction, ii. Reduces uncertainities

Ans. to Q. No. 3 : 1) Top level management
2) Middle level management
3) Lower (supervisory or operational) level Management

Ans. to Q. No. 4 : 1) Technical skill
2) Human skill
3) Conceptual skill



2.10 MODEL QUESTIONS

Q.1 : What is management? Distinguish between management and administration.

Q.2 : Give an outline of management thought during the 20th century.

Q.3 : What is scientific management? Explain its basic elements.

Q.4 : Give the 14 principles of management propagated by Henry Fayol.

Q.5 : Write short notes on (i) Human Relation Management (ii) Modern Management.

Q.6 : Define the concept of planning. Discuss the process of planning.

Q.7 : What is coordination? Explain the various principles of coordination.

Q.8 : What does controlling mean. Explain in details the various steps in controlling process.

Q.9 : Explain the principles of organization.

Q.10 : Discuss the various indicators to suggest that business is moving towards a unified, global theory of management.

Q.11 : What is Indian ethos in management

Q.12 : Discuss the proper managerial skills necessary at various levels of management.

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UNIT 3 : PLANNING

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Concept of Business Forecasting

3.4 Relationship between Planning and Forecasting

3.5 Methods of Forecasting

3.6 Meaning and Features of Planning

3.7 Importance of Planning

3.8 Types of Plans

3.9 Steps in Planning Process

3.10 Limitations of Planning

3.11 Terms Used In Planning Process

3.12 Let Us Sum Up

3.13 Further Readings

3.14 Answers To Check Your Progress

3.15 Model Questions

3.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- explain the concept of business forecasting
- discuss the advantages and limitations of business forecasting
- discuss the different methods of forecasting
- discuss the meaning and features of planning
- explain the importance of planning in a business organisation
- describe the different types of plans
- discuss the steps involved in planning process
- analyse the limitations of planning
- discuss the different terms used in the planning process

3.2 INTRODUCTION

We use the word 'plan' so often in our daily life. In our day to day life we arrange our activities according to some plan. We decide on what we have to do tomorrow or day after tomorrow or in the next three months or for the year. This is nothing but the plan according to which we perform our activities systematically. We have to be cautious so that no important activity is left out from this plan. Therefore, we all agree that planning is very important in our life.

Now, let us consider the case of a business organization. A business organization has to perform a number of activities ranging from production, marketing, financing etc. To perform these activities smoothly, it must arrange the activities properly. It means, it must have a plan to carry out these activities. Thus, just as in life, planning is also important for business organizations. At the same time, preparation of plan is not an easy task as the future is uncertain. The organization need to forecast the future. Therefore, forecasting and planning can not be separated and are important for the organization.

We are going to discuss planning in this unit. In our discussion we will take into account the concept of planning, its importance, steps involved in formulation of a plan etc. Besides, the concept and importance of forecasting will also be discussed in this unit.

This unit will help you in understanding the planning function of management. You will be able to prepare plans as we will discuss in the unit the steps involved in the preparation of plans.

3.3 CONCEPT OF BUSINESS FORECASTING

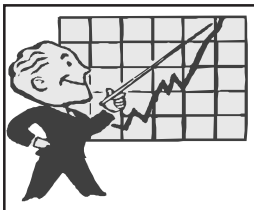
Perhaps you are aware that a business is surrounded by its environment and is continuously influenced by the elements of the environment like economics, political, socio-cultural, technological, international etc. An in-built feature of all these factors is that they changes frequently. Such ever changing environment possesses certain questions like,

how a manager will execute his/her functions?

How the manager will make business decisions?

How the manager will direct group's efforts ? etc.

The answer to such type of questions lies in the manager's ability to forecast the future events. Forecasting means the process of predicting the future. The manager's job is to forecast the likely changes that may occur in business environment. Business forecasting gives an indication of the opportunities that may present in future as well as the threats that may stand as a barrier for the business firm. Based on forecast, a manager can think ahead and synchronize all the activities and resources of the firm.



CHECK YOUR PROGRESS

Q 1: Define business forecasting

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3.4 RELATIONSHIP BETWEEN PLANNING AND FORECASTING

There is a close relationship between planning and forecasting. Planning is deciding in advance about the future. As future is uncertain, the planners need to make certain assumptions and these assumptions are based on forecast.

Therefore, planning done without forecasting, is useless. Forecasting is the precondition for successful planning. More the degree of accuracy of forecasting more will be the degree of effectiveness of planning and vice- versa.

However, it does not mean that forecasting will eliminate all future uncertainties and risks. Uncertainties and risks are inevitable and forecasting is the technique of foreseeing the likely changes that may occur in future. Planning indicates the readyness of the organisation to tap the opportunities that may come from these likely changes or to prepare the organisation to face the threats that may arise from the likely changes in future.

Thus, forecasting aids the managerial planning. To be specific, the following points may be put forwarded–

l Forecasting provide an insight in to future. It provides scope to develop ideas on the basis of the information generated through forecasting.

The chances of success of a plan increases when it is based on forecast. Forecasting provides a direction in the mids of uncertainties. It gives an edge to the organisation to develop new product (services) ideas to meet future demand.

Forecasting helps in identifying the strengths and weaknesses of an organisation in the light of the future and accordingly the organisation can take corrective steps, if required. The organisation gets an idea to streamline its resources and to make it an efficient organisation to face the future challenges.

Advantages of Forecasting

The advantages of forecasting are -

(1) Forecasting provides the basis for planning. Information gathered from forecasting helps the manager to formulate plans and to minimise the chances of failure of the organisation.

(2) Forecasting helps in coordinating the efforts of the staff and can direct the efforts towards the achievement of common goals.

(3) Forecasting identifies the strengths and weaknesses of the organisation and therefore remidial action can be taken ahead.

(4) Forecasting not only links the departments and individuals within the organisation but also with the outside world. The effect of external environmental forces can be assessed that can indicate future opportunities and challenges for the organisation.

(5) Forecasting provides competitive advantage to the organisation. Having an idea about future happening and how it will influence the organisation, gives the manager the input to face competition in the market.

Limitations of Forecasting

The limitations of forecasting are-

(1) Forecast is done for the future on the basis of past and present information. Unpredictable nature of future may put a question mark on the

correctness of forecast. If it proves wrong, the plan will face difficulty in achieving its stated objectives.

(2) Though forecast is essential for future planning, an organisation cannot rely on forecast as the events may not turned out as per forecast. Therefore, as a precautionary measure, the manager is required to continuously monitor the situation even though forecast is made prior to planning.



CHECK YOUR PROGRESS

Q 2: State two advantages of forecasting.

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3.5 METHODS OF FORECASTING

The forecast may be economic forecast, technological forecast, demand forecast etc. and the inherent nature of all forecast is to predict the future. In predicting the future the forecaster may adopt different types of forecasting methods. Let us have a look on these methods-

Broadly, the forecasting methods may be classified as qualitative and quantitative methods. Qualitative methods of forecasting are subjective in nature and based on judgement, opinion, experience etc. On the other hand, quantitative methods are objective in nature and based on mathematical calculations. Qualitative methods are applicable when there is no past records or insufficient information, e.g. the sale data of a newly lunched product, new sales territory etc. Quantitative methods are used when there is sufficient records which can be applied in a particular model to produce the results of forecast. Let us discuss some of the forecasting methods–

Qualitative methods of forecasting:

- **Executive opinion method:** In this method the opinion of top executives are collected to make the forecast.

- **Sales force opinion method:** In this method, opinion of the sales people who are intimately connected with company's products in their respective sales territories are gathered and analysed to forecast the future sales trends.
- **Delphi method:** In this method, sets of questionnaire are send to a panel of experts to collect their opinion on the basis of which forecast is made.

Quantitative methods of forecasting:

- **Time series models :** Time-series models predict future trends by using the past data.
- **Causual models:** Causual models make forecast by studying the relationship between the factor to be forecost and the other related factors.
- **Market survey:** In this method, a company may conduct a survey among the buyers in selected markets about their purchasing plans.



CHECK YOUR PROGRESS

Q 3: What is delphi method of forecasting?

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3.6 MEANING AND FEATURES OF PLANNING

Planning is the first management function. It is concerned with deciding in advance what has to be done in future. Therefore, it is the process of determining the objectives and deciding the strategies to achieve the objectives. It links up the ends and means, present and the future. Planning is the continuous process of analyzing the business environment, setting the objectives, deciding on the alternative courses of action and selecting the best alternative to achieve the pre- determined objectives.

Planning is mainly concerned with-

- What is to be done?
- How is it to be done?

- Who will do it?
- Where will it be done?
- At what time will it be done?

Features of planning

The main features of planning are-

- **Focus on Objectives:** A plan emphasises the achievement of objectives. The plan sets the objectives considering the prevailing conditions in the environment and considers the different alternative actions to achieve them and ultimately selecting the best alternative to achieve them.
- **Primacy of Planning:** Planning is the first management function on which the other functions of management are based. In the absence of planning, a manager cannot organize, direct and control the activities of the organization. Therefore, without planning an organization cannot achieve its objectives.
- **Pervasiveness of Planning:** We are aware that there are three levels of management- Top, Middle and Lower, as discussed in Unit1. The manager of each level has to perform the planning function. The top manager is concerned with the formulation of plans for the whole organization, the middle level manager is concerned with the formulation of plan for his department and the lower level manager formulates plans related to the day to day operations of the firm. The scope of the planning function differs from level to level but it extends throughout the organization.
- **Coordination:** Coordination means interrelating the different sub-systems or sub- functions into an integrated approach. In an organization, planning facilitates the coordination of all the activities which are necessary to achieve the organizational objectives. Planning helps the manager in directing and coordinating the activities of the organization.
- **Flexibility:** Planning is based on future expectation. Future is uncertain and full of risks. Under these situations, a plan must be flexible enough to adapt itself to any change which may occur in the

future and the manager may not have any prior information about this change. A rigid plan can not serve the real purpose of the organization for which it is being formulated.



CHECK YOUR PROGRESS

Q. 4: State two features of planning.

i) ……

ii) ……

3.7 IMPORTANCE OF PLANNING

In this section we will dealt with the importance of planning. Planning is important in all organisations be it small or large, private or public. The importance of planning may be discussed as under-

- **Primacy of planning:** Planning is the first managerial function. It involves determining the organizational objectives, selecting the best course of action to achieve these objectives, preparing departmental plans for coordinating all the activities etc. Hence, other managerial functions such as organizing, staffing, directing and controlling can be performed depending on the planning function. For example, if an organization sets its objective of increasing the sales volume from 10% to 15% in the coming six months, then it has to recruit additional sales force. This affects the staffing function and accordingly the new sales force has to be guided i.e. directing function.
- **Helps in achievement of objectives:** There can be no organization without objectives. Objectives are the end results which an organization wants to achieve like, increase in sales volume, expanding the business into new geographical areas etc. To achieve theses objectives, the organization has to move forward systematically i.e. the organization has to formulate plans.
- **Minimizing the impact of risks and uncertainties:** All business organizations face the problem of risks and uncertainties. The

business manager must forecast the future events that are likely to influence the business. Planning helps him in forecasting the future events and thereby to minimize the adverse effects on business.

- **Helps in coordination:** A business organization performs a number of activities. For the performance of these activities, large numbers of employees are appointed. Moreover, the activities performed by the individual employees have to be coordinated to achieve the organizational objectives. Coordination can be achieved only through effective planning.
- **Basis of control:** The controlling function of management is concerned with comparing the actual results against the standards i.e. the objectives stated at the planning stage. If there is any deviation, corrective action can be taken at the earliest. So planning provides the basis for controlling the activities of the organization.
- **Provides competitive advantage:** Planning is a systematic activity. It is prepared by taking into account the various internal and external factors of the organisation. Therefore, the organization gains an insight into the events that are likely to possess opportunities or threats for the organization. Therefore, the organization can take necessary steps to face the situation and acquire a competitive advantage over other organisations.



ACTIVITY 1

"Planning is not important for small organizations". Do you agree with the statement? Give reasons for your answer.

……

……

……

3.8 TYPES OF PLANS

Depending on the organizational activities, time factor etc. there can be different types of planning. Let us discuss the different types of plans-

- **Corporate planning:** This type of planning is done by the top level of the organization. They formulate the plan for the whole organization considering all the relevant environmental as well as internal factors of the organisation. They forecast the likely changes in environmental factors that may influence the activities of the organization. They determine the long- term objectives of the organizations which may cover a period of 3 to 5 years.
- **Functional planning:** It is a plan for the major functions of the organization. It is formulated within the purview of corporate planning. It is undertaken at the middle level of the organization. For example, in case of a manufacturing organization undertaking various activities like production, marketing, finance, human resource etc., functional planning is undertaken for each of these activities and the corporate plan of the organisation will cover all these activities. Moreover, the functional planning can also be formulated by dividing the major organizational activities further. For example, marketing function can further be divided into sales, advertising, marketing research etc. and functional planning can be done for each individual activity within the marketing function. This type of planning covers short period of time ranging from 1 to 2 years.
- **Operational planning:** Operational planning is undertaken for the day to day functioning of the organization. Operational planning translates the functional planning into specific goals. It is undertaken at the lower level of the organization and covers a period of 12 months or less.

Let us go through the following table for understanding the differences among these three types of plans-

Points of difference	**Corporate Planning**	**Functional Planning**	**Operational Planning**
1. Scope	**Broadest**- covers all activities of the organization.	**Narrower**- covers only the functional areas.	**Narrowest**- covers only the operational activities.
2. Time factor	**Longest**: 3- 5 years	**Shorter**: 1- 2 years	**Shortest**: 12 months or less.
3. Nature	Most complex as it covers both **external and internal factors**.	Less complex but specific as it covers only **specific type of activity**.	Least complex as it covers **day to day activities**.
4. Level of Management involved	**Top level**	**Middle level**	**Lower level**
5. Dependence	It depends on **business environment** and internal resources.	It is prepared on the basis of **corporate plan**.	It is prepared on the basis of **functional plan**.

Table 3.1: Differences between corporate, functional and operational plans

CHECK YOUR PROGRESS

Q.5: State two points of differences between corporate and functional planning.

i. ……

……

ii. ……

……

3.9 STEPS IN PLANNING PROCESS

Planning involves thinking. It requires the manager to follow certain steps systematically to formulate the plan. In this section we will discuss the steps involved in the planning process.

Following are the steps in planning process-

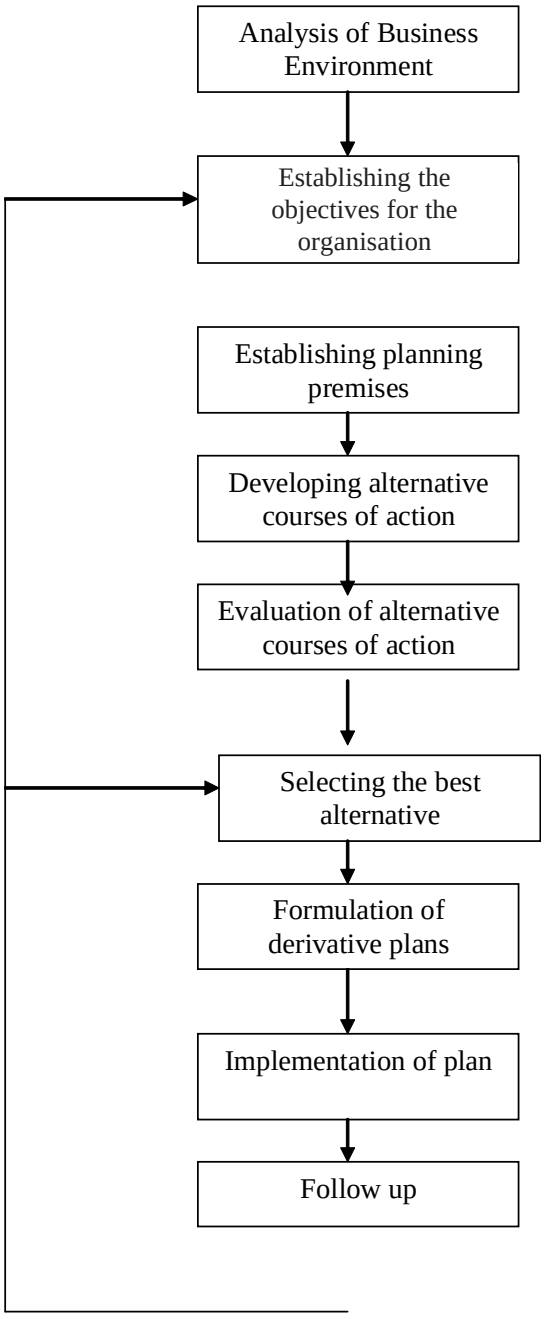


Figure 3.1: Steps in planning process

- **Analyzing the business environment:** An organization resorts to planning process to face the business challenges and to take the advantages of opportunities that may exist in business environment. Therefore, analysis of the environment is utmost important for organization. Though in strict sense it is not a step in planning process, without environmental analysis the organization will not be able to perceive any opportunities and it can not undertake any plan. So, it is essential to analyse the environment to forecast the opportunities and threats for the organization. At the same time, the organization will be able to measure its strengths and weaknesses in the light of the opportunities and threats.
- **Establishing the objectives for the organization:** In this step the objectives for the organization are established and then the objectives for the major departments are set. The objectives may relate to productivity, profitability, market share, market research etc. Objectives give direction to the organization. It helps in determining the courses of action to be taken for achieving such objectives. An organization may have multiple objectives and the manager must determine the preference for achieving the objectives. This is because all the objectives are not equally important and cannot be achieved at the same time.
- **Establishing planning premises:** The next step in the planning process is to establish the 'planning premises'. 'Planning premises' means the conditions under which the organization will implement the planning. This relates to assumptions of future changes in the various internal and external factors of the organization. Internal factors include the resources, policies etc. of the organization. The external factors cover various factors like, political, social, technological etc. This stage is important because any wrong assumption may result in failure of the plan.
- **Developing alternative courses of action:** There may be different ways to achieve the objectives by the organization. For example, if the organization establishes one of its objectives as expansion of

business, then the probable alternatives available to the organization are investing in an altogether new project, taking over an existing company, adding new products to its product line etc. Thus, in this step the manager has to develop the alternative courses of action to achieve the objectives. In developing the alternatives the manager must ensure that the alternatives must be selected on the basis of the capacity of the organization in terms of certain criteria like, time, cost etc. This will help the manager in selecting only the viable alternatives in the light of the organizational capabilities and taking up the alternatives for further investigation.

- **Evaluation of alternative courses of action:** After developing the viable alternatives, the manager must go for the detailed evaluation of the alternatives. The detailed evaluation will help the manager in choosing the best alternative among them. The evaluation of alternatives may reveal that two or more alternatives are same. In that case, the manager may take up the alternative projects one by one or may go for further evaluation of the alternatives or may take up the evaluation of new alternatives.
- **Selecting the best alternative:** In this step, the manager has to take the decision regarding the selection of the best alternative out of the alternatives evaluated.
- **Formulation of derivative plans:** After the formulation of the basic plan, the derivative plans are prepared to support the basic plan in achieving the organizational objectives. The derivative plans are prepared for the functional activities which may relate to purchasing the raw- materials, recruiting the salesmen, raising the required capital etc. Theses plans are prepared within the broad framework of the basic plan.
- **Implementation of plan:** At this stage, the plan practically comes into effect. The organization gets the determined course of action for the future. Preparing the plan step by step ensures its success. But the manager must be cautious because the plan may fail at the implementation stage. For ensuring success of the plan, the plan

must be communicated to the employees. The manager must seek their cooperation in implementing the plan. Those who are responsible for taking various actions for the plan must be informed and motivated.

- **Follow up:** The implementation of plan does not mean the ending of the process. In fact, the planning process is a never ending process. The manager must make periodic review of the main and derivative plans. This will ensure that the plan is being properly implemented in the organization and the resources are directed in the desired direction. The results of follow- up action may require changing the derivative plans or the objectives stated in the plan. Therefore, the plan can be adjusted for any unexpected change in the environmental factors at the earliest.

CHECK YOUR PROGRESS

Q.6: What is planning premise?

……

……



ACTIVITY 2

Prepare a plan for the coming 3 months to carry out your studies.

……

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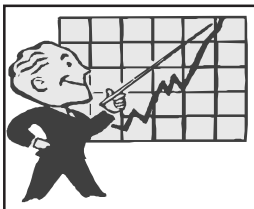
3.10 LIMITATIONS OF PLANNING

From the above discussion it is clear that planning is important for all organizations. Planning gives an added advantage to the organizations to face the future challenges. It helps an organization in its survival and growth. Besides that the organization can properly utilize its resources be it raw- materials, finance or human resources etc. and can direct the organization in the desired direction.

But despite theses advantages, planning is not without limitations. These limitations may hamper the effectiveness of planning in directing the organization. In this section we will discuss the various limitations of planning-

- **Difficulty in accurate forecasting:** Planning is concerned with determining the future course of action. It requires forecasting the future events. But it is difficult to make accurate forecast of the future events. Any unexpected change in environmental factors may result in failure of the planning effort which will adversely affect the organizational efficiency.
- **Fast changing environment:** The business environment, now a day, is characterized by fast changes. The economic, political, technological factors etc. undergo changes quite frequently and it is not easy to keep track of these changes. Under this situation, it is difficult to formulate long- range planning.
- **Rigid organizational policies:** Considering the nature of business environment, the planning process has to be flexible. Moreover, the organizational policies, procedures etc. have also to be flexible to implement the plans. But the organizational policies, procedures etc., once established, are difficult to change and they may stand as constraints in the planning process.
- **Inaccurate information:** Planning is prepared on the basis of information collected from various sources like records of previous year, governmental statistics etc. As the information relates to the past, they may not be relevant for the task of formulating plans. Moreover, any inaccurate data may result in wrong assumption which will make the planning process ineffective.
- **Time and Cost factors:** Preparation of plan is quite time consuming. The managers have to devote their time in forecasting the future changes, evaluating the alternatives, preparing the sub plans etc. As a result, other important aspects of the organization may be overlooked. Besides this, planning is a costly affair. The additional cost of staff recruited for planning purposes etc. will increase the cost for the organization.

There is no doubt that planning plays a very important role in enhancing the efficiency of an organization. The organization can prepare itself to face the future challenges in business. At the same time, planning has some limitations. But if the planning process is undertaken in a proper way, it proves beneficial for the organisation.



CHECK YOUR PROGRESS

Q.7: State two limitations of planning.

i. ……

ii. ……

3.11 TERMS USED IN PLANNING PROCESS

Now you are aware about the different aspects of planning- features, importance, limitations, and process of planning etc. In this section we will discuss some terms that are used very commonly while preparing the plans.

Objectives: Objectives are the end results which an organization wants to achieve. It provides the scope for organisational activities and sets the direction for the organization. It guides the organization in formulation of plans and relates the organization with the external environment. It provides the basis for other managerial activities like, organizing, directing and controlling. Depending on the time factor, objectives may be of short-term and long- term. Objectives may also differ depending upon the nature of the oganisations. An organization may have multiple objectives depending on its varied activities.

Strategies: It is the plan of action to achieve the organisational objectives. The strategies are the ways to meet the challenges which may occur due to changes in environmental factors. While determining the strategies, the organization takes into account its internal resource position to face the business challenges. It states '**how'** the objectives will be achieved.

Policies: Policies are the general statements which guide the managers in decision- making. Policies set the broad outlines within which the managers can make decisions. Policies are not the solution to problems but the predetermined guidelines to solve an issue in a definite area. It helps the managers in decision- making for similar type of problems. Moreover, managers can delegate authority to subordinates and the policies help the manager in maintaining control over the subordinates. In other words, managers must ensure that the decision should conform to the policy framework.

The distinctions between objectives and policies may be stated as under:

Table 3.2: Distinctions between Objectives and Policies

Points of Difference	**Objectives**	**Policies**
1. Time limit	Objectives are time specific.	Policies are not time specific.
2. Purpose	Objectives are set to achieve.	Policies are the guidelines in achieving the objectives.
3. Focus	It focuses on end results.	It focuses on the ways to achieve the objectives.

The distinctions between policies and strategies may be stated as under:

Table 3.3: Distinctions between Policies and Strategies

Points of Difference	**Policies**	**Strategies**
1. Scope	Policies may be formulated for the organization or individual departments.	Strategies are formulated for the organisation.
2. Purpose	Policies deal with specific problems.	Strategies deal with environmental forces.
3. Focus	Policies are general statements.	Strategies focus on the achievements of objectives.

Procedure: Procedure means a set of sequential steps to complete a particular task. It specifies the task and the steps required to be taken to perform that task. Generally time element is attached to the different steps and once the procedure is set, it can be used for routine type of activities in the organization. For example, the organization can determine the procedure for handling the customers' complaints. The managers at different levels can set the steps to be followed by the subordinates for performing the different activities. Laying down the procedure for various activities of the organization ensures that all these activities are performed systematically. It helps in the smooth operation of the organization.

Table 3.4: Difference between Policies and Procedure

Programme: It is the plan of work to be done. It is the set of strategies, policies, procedures etc. to achieve the objectives of the organization. It is supported by budgets. It is the broader outline to determine how the activities will be undertaken. The organization may undertake some major programmes, like expansion of business, or it may be a minor one undertaken at departmental level, like training programme for the new executives.

Budget: Budget is the statement which contains the expected results of an organization in numerical terms. It is prepared for a definite period of time. It means the results expected have to be achieved within the definite time period. Budgets may be prepared for income, expenditure, production, machine hours etc. Budgets set the standard for performance and actual

performance can be measured against the standard. Therefore, it acts as a controlling device.



3.12 LET US SUM UP

In this unit we have discussed the following aspects of planning-

- Forecasting is the process of predicting the future.
- Forecasting aids the managerial planning.
- The different methods of forecasting can broadly be classified as Quantitative and Qualitative methods.
- Planning is a continuous process.
- It is concerned with what will be done, who will do it, how it will be done etc.
- The various features of planning like, it focuses on objectives, pervasiveness of planning, flexibility etc.
- Planning is important because it helps in achieving the objectives, minimizes the impact of risks and uncertainties, provides the basis for control etc.
- Corporate plans are prepared by the top management for a long period of time ranging from 3 to 5 years.
- Functional planning is prepared by the middle level managers for a period covering a period of 1 to 2 years.
- Operational plans are prepared by the lower level management for day to day activities.
- The limitations of planning like, difficulty in accurate forecasting, rigid organizational policies etc.
- Different terms used in planning process like, objectives, strategies, policies, budgets etc.

3.13 FURTHER READINGS

P. C. Tulsian & Pandey Vishal (2008). *Business organization and management*. New Delhi, Pearson Education Ltd.

3.14 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. 1: Forecasting means the process of predicting the future. In a business organisation, manager forecast the likely changes that may take place in business environment. On the basis of forecast, plans are prepared for the future.

Ans. to Q. 2: (a) Forecasting helps in the preparation of planning. It minimises the chances of failure of the organisation.

(b) Forecasting helps in coordinating the efforts of the staff.

Ans. to Q. 3: In delphi method of forecasting, sets of questionnaires are sent to a panel of experts and forecast is made on the basis of opinion gathered.

Ans. to Q. 4:

i) Focus on Objectives

ii) Primacy of Planning

Ans. to Q. 5:

i) Corporate planning is prepared by the top management.
Functional planning is prepared by the middle management.

ii) Corporate planning is prepared for a longer period.
Functional planning is prepared for a shorter period.

Ans. to Q. 6:

Planning premises means the assumptions under which the organization will implement the plan. It relates to the conditions of business environment. Any change in the premises may make the plan ineffective.

Ans. to Q. 7:

i) Difficulty in accurate forecasting.

ii) Fast changing environment.



3.15 MODEL QUESTIONS

Q.1: Define business forecasting. Discuss its advantages and limitations.

Q.2: Define planning. Discuss its features.

Q.3: Discuss the importance of planning.

Q.4: Discuss the planning process.

Q.5: Differentiate between Functional planning and Operational planning.

Q.6: Write short note:

i. Policy

ii. Strategy

iii. Pervasiveness of planning.

*** ***** ***

UNIT 4: ORGANISING AND STAFFING

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Meaning and Importance of Organising

4.3 Meaning of Organisation and its Characteristice

4.4 Different Types of organisational Structure

4.5 Span of Control

4.6 Types of Departmentation

4.7 Concept of Staffing and its importance

4.8 Let Us Sum Up

4.9 Further Readings

4.10 Answers to Check Your Progress

4.11 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- discuss the concept and importance of organization
- outline the different types of organization
- define the concept of Span of Control and affecting span of control
- discuss the types of departmentation
- describe the concept and the features of staffing
- define the importance of staffing in organizations

4.2 INTRODUCTION

In the previous unit you have learnt the basic concept of functions of management i.e. Planning, Organisating, Staffing, Directing and Controlling. In the last unit, the first of its function viz., planning is explained thoroughly. This enables you know how to decide the future course of action. The first function, planning is concerned with thinking process.

In this unit you will study how to arrange the various resources including employees in an institution or organization to get the expected results. Often you may come across the term 'Organising' in your daily life such as organising a conference, a meeting, a picnic, a get together, a marriage party etc. Organising aims to co-relate people to each other and enable them to work together for a common purpose. The organised group of people in a collective sense is known as organisation. Here you will learn the meaning, importance, principles and other related aspects of organising.

You must have observed the various functions organised in your locality or city by various institutions and organisations. You may have noticed that they have applied various process for doing so. It is therefore, best for you to understand the term organising first.

4.2 MEANING AND IMPORTANCE OF ORGANISING

Meaning of Organising:

The term 'organising' means systematic arrangement of activities. It refers to the method in which the work of a group of people is arranged and distributed among them to achieve the desired objectives of an organisation. Organising is bringing together various resources (physical, financial and human) and establishing relationship among the resources for achieving common objectives.

Thus, organising is the process of establishing orderly uses for all the resources available. The primary focus of organising is determining both what individual employees will do in an organisation and how their individual efforts should be combined for attaining the specific objectives.

The term 'organising' is not same as the term 'organisation'. Organising is a function of management where as organisation refers to a group of people who are working together to ahieve some common objectives.

As a management function, the term 'organising' refers to the process of -

a. bringing together human and non- human resources (e.g. materials, machines, money, men), and

b. defining and establishing the authority responsibility relationships for achieving the objectives.

Louis. A . Allen states “Organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, establishing relationships for the puspose of enabling people to work together most effectively in accomplishing objectives.”

Koontz and O’ Dounell define Organising as “the establishment of authority relationships with the provision for co-ordination between them both vertically and horizontally in the enterprise”

A study of the above definitions shows that organising involves in :

a) identifing and grouping of work,

b) defining the responsibility,

c) delegating of authority,

d) establishing of structural relationship and

e) co-ordinating interrelated activities.

Importance of Organising

The Organising function is extremely important in management process as it is the primary mechanism in the hands of managers to organise the plans. Organising creates and maintains relationship between all organisational resources by indicating which resources are to be used for specified activities and when, where, and how they are to be used. A thorough organising effort helps managers to reduce the possibility of duplication of efforts and also idle or unutilised resources.

The importance of organising is briefly explained below :

1. Organising increases managerial efficiency as it avoids delays, duplication or confusion in performance and removes friction or rivalry among employees. All activities are spelled out in order of their importance and are alloted to individuals as fixed duties. The assignment of fixed duties provide certainty and promptness in the doing of the work without any hassle.

2. It Promotes Specilization : The detailed job specifications help to place the right persons in the right jobs on the basis of their knowledge, skill and experience. By matching jobs with individuals and vice-verse,

organisation enlists both the benefits of functional and occupational specialisation.

3. It ensures flow of activities : Organisation structures are developed on scientific management basis (i.e. time, motion and fatigue study) to ensure logical flow of activities. Through the study of scientific management the activities and assignments are arranged in such a manner that it facilitates their performance in an easy and comfortable manner.

4. It Clarifies Authority and Power : The process of organising clarifies the authority of management of the different departments. This minimises the conflict and confusion about the powers of managers.

5. It acts as a source of Support, Security and Satisfaction : It provides a definite status, position in relation to others within the organisation.

6. It ensures better communication : Organisation structure provides a network of relationships. This makes interaction and communication among the members and departments of the organisation more effective.

7. It stimulates creative and innovative thinking : Identified areas of work and delegation of proper amount of authority promote creativity and innovativeness among the empolyees, in their respective fields as well as in the organisation as a whole.

8. It helps in the smooth Delegation of Authority: Executive can delegate the authority downwards so that they can get the things done smoothly. It also helps in fixing up the responsibility for the task. A good organisation will clearly define the authority-responsibility relationship.

9. It provides scope for training and development: Management personnel are trained to acquire a wide and varied experience in diverse activities by their placement in different jobs through job rotation and thus they are prepared for higher jobs which require generalists rather than specialists. For example if bumper crop production is the objective, the organising process can be divided into major tasks such as tilling, planting, fertilisation, watering, allocating resources like equipment and manpower etc.

Thus, organisation is the result of the organising process. Let us discuss it in detail in the following sections

4.3 MEANING OF ORGANISATION AND ITS CHARACTERISTICS

Meaning of Organisation :

Organisation is the structural framework of duties and responsibilities required of personnel in performing various functions with a view to achieve organizational goals. Management tries to combine various activities to accomplish predetermined goals. Organisation is the process of identifying and grouping 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. In an organisation, the work of each and every person is defined and authority and responsibility is fixed for establishing the same.

Characteristics of Organisation

The following are the important characteristics of organization.

- **Specialization and division of work.** The entire philosophy of organization is centered on the concepts of specialization and division of work. The division of work is assigning responsibility for each organizational component to a specific individual or group thereof. It becomes specialization when the responsibility for a specific task lies with a designated expert in that field. The efforts of the operatives are coordinated to allow the process at hand to function correctly. Certain operatives occupy positions of management at various points in the process to ensure coordination.
- **Orientation towards goals.** Every organization has its own purposes and objectives. Organizing is the function employed to achieve the overall goals of the organization. Organization harmonizes the individual goals of the employees with overall objectives of the firm.

- **Composition of individuals and groups.** Individuals form a group and the groups form an organization. Thus, organization is the composition of individual and groups. Individuals are grouped into departments and their work is coordinated and directed towards organizational goals.
- **Continuity.** An organization is a group of people with a defined relationship in which they work together to achieve the goals of that organization. This relationship does not come to end after completing each task. Organization is a never ending process.
- **Well defined authority-responsibility relationships.** An organisation consists of various positions arranged in a hierarchy with well-defined authority and responsibility. There is always a central authority from which a chain of authority relationship stretches throughout the organisation. The hierarchy of positions defines the lines of communication and pattern of relationships.
- **Cooperative relationships.** An organisation creates cooperative relationship among various members of the group. An organisation cannot be constituted by a single person. Organisation is a system which helps in creating meaningful relationship among persons.

4.4 DIFFERENT TYPES OF ORGANISATIONAL STRUCTURE

The term organisational structure explains the positions and official relationships among the various individuals working in an organisation. It simply means the systematic arrangement of people working for the organisation in order to achieve certain goals. It is the framework of authority relationship among the employees.

The structure may be of different types depending on the nature, method, process, technology and the social environment of the enterprise. The different types of the structure are given below:

4.4.1 Line Organizational Structure

A line organisation has only direct, vertical relationships between different levels in the firm. There is only line departments-

departments directly involved in accomplishing the primary goal of the organisation. For example, in a typical firm, line departments include production and marketing. In a line organisation authority follows the chain of command. The line structure is the oldest from of organisation this is also known as the 'Military Organisation' as a military organisation is formed in this fashion. The concept of line structure may be explained by means of a diagram

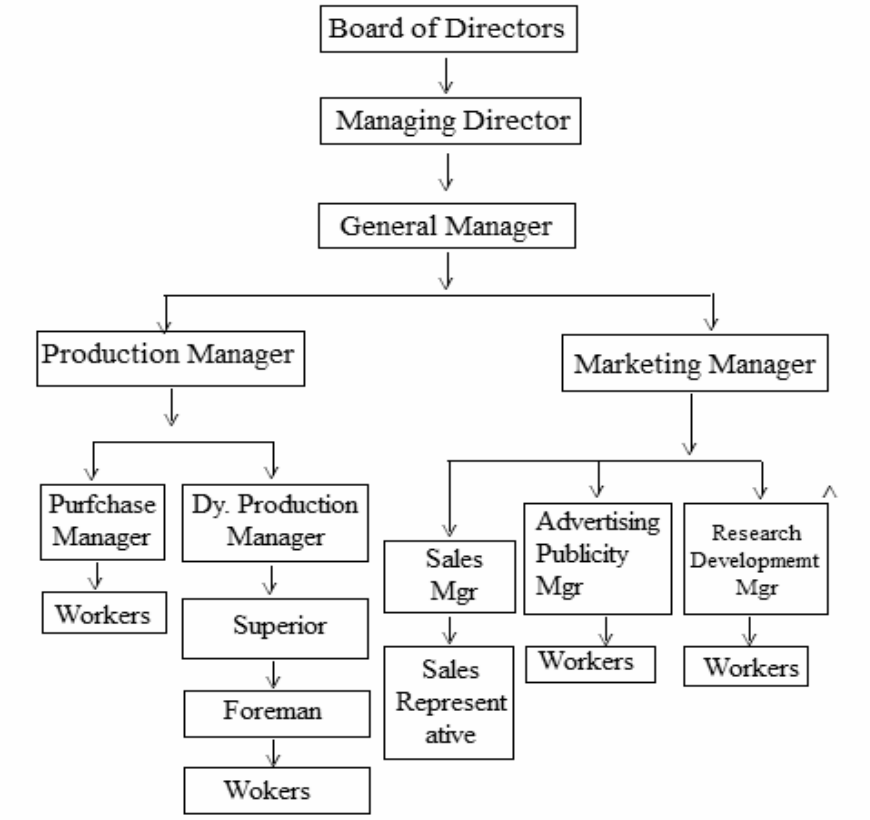


Figure 4.1: Line Organisational structure

Some of the advantages of a pure line organisation are:

i) A line structure tends to simplify and clarify responsibility, authority and accountability relationships. The levels of responsibility and authority are likely to be precise and understandable.

ii) A line structure promotes fast decision making and flexibility.

iii) Because line organisations are usually small, managements and employees have greater closeness.

However, there are some disadvantages also. They are:

i) As the firm grows larger, line organisation becomes ineffective.

ii) Improved speed and flexibility may not offset the lack of specialized knowledge.

iii) Managers may have to become experts in too many fields.

iv) There is a tendency to become overly dependent on the few key people who can perform numerous jobs.

4.4.2 Staff or Functional Organisational Structure

In this type of structure, there will be separate departments to look after different lines of activities. F.W. Taylor is the exponent of the Functional Organisation Structure. Here, the functions are done through specialised knowledge and advice. The departments are formed on the basis of the division of work and, hence, the efficiency of production and the skills of the employees are improved. Co-ordination and co-operation are enhanced to a great extent. The subordinates receive instructions not from one superior but from several functional specialists. Thus, the subordinates are accountable to different functional specialists for the performance of different functions. The jobs or positions in an organisation can be categorized as:

i) Line position: A position in the direct chain of command that is responsible for the achievement of an organization's goals and

ii) Staff position: A position intended to provide expertise, advice and support for the line positions.

The functional organisational structure has been shown by means of a diagram.

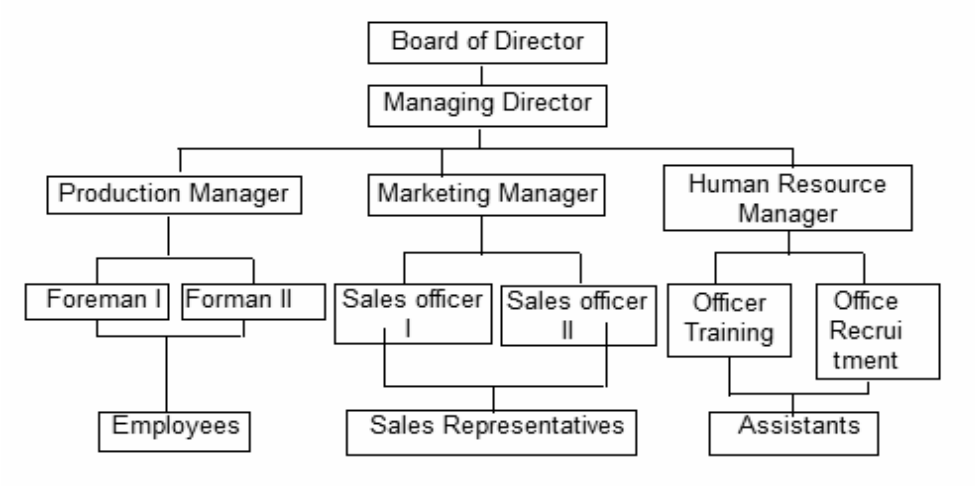


Figure 4.2: Functional Organisational structure

The line officers or managers have the direct authority (known as line authority) to be exercised by them to achieve the organizational goals. The staff officers or managers have staff authority (i.e., authority to advice the line) over the line. This is also known as functional authority.

An organisation where staff departments have authority over line personnel in narrow areas of specialization is known as functional authority organisation.

In the line organisation, the line managers cannot be experts in all the functions they are required to perform. But in the functional authority organisation, staff personnel who are specialists in some fields are given functional authority (The right of staff specialists to issue orders in their own names in designated areas).

Advantages

a) It promotes specialisation. Each department specialises in a particular line of work.
b) There is no overburdening of key executives.
c) There will be maximum efficiency as each individual concentrates on a particular task.

Disadvantages

a) Decision making process is delayed, as major decisions require the participation of maximum number of functional heads.

b) Principle of unity of command is not generally followed because the subordinates may get instructions not only from the immediate boss but also from bosses in other departments.

c) The creation of a number of departments and divisions along with the executives and subordinates involve heavy expenditure.

4.4.3 Line and Staff Organizational Structure

Most large organisations belong to this type of organizational structure. These organisations have direct, vertical relationships between different levels and also specialists responsible for advising and assisting line managers. Such organisations have both line and staff departments. Staff departments provide line people with advice and assistance in specialized areas (for example, quality control advising production department).

The line functions are production and marketing whereas the staff functions include personnel, quality control, research and development, finance, accounting etc. The staff authority of functional authority organisational structure is replaced by staff responsibility so that the principle of unity of command is not violated.

Three types of specialized staffs can be identified:

(i) Advising,

(ii) Service and

(iii) Control.

Some staffs perform only one of these functions but some may perform two or all the three functions. The primary advantage is the use of expertise of staff specialists by the line personnel. The span of control of line managers can be increased because they are relieved of many functions which the staff people perform to assist the line.

The following diagram explains the concept of Line and Staff Organisation

Figure 4.3: Line and Staff Organisational Structure

Complexities of Line and Staff Organizational Structure:

i) Even through a line and staff structure allows higher flexibility and specialization it may create conflict between line and staff personnel.

ii) Line managers may not like staff personnel telling them what to do and how to do it even though they recognize the specialists' knowledge and expertise.

iii) Some staff people have difficulty adjusting to the role, especially when line managers are reluctant to accept advice.

iv) Staff people may resent their lack of authority and this may cause line and staff conflict.

4.4.4 Committee form of Organisational Structure

Here, a number of persons may come together to take a decision, decide a course of action, advise line officers on some matters. It is a method of collective thinking, cooperative judgement and common decision. A committee may be assigned some

managerial functions or some advisory or exploratory service may be expected from it. A committee is not a separate type of organisation as such. But it is a method of attaching persons or groups to line departments for advice and guidance in business planning and execution. With the growth of organisations the need for committee is more.

Features of Committee form of Organisational Structure are:

a) Formed for managing certain problems/situations

b) Are temporary structures.

Advantages:

1. Committee decisions are better than individual decisions
2. Better interaction between committee members leads to better co-ordination of activities
3. Committee members can be motivated to participate in group decision making.
4. Group discussion may lead to creative thinking.

Disadvantages:

1. Committees may delay decisions, consume more time and hence more expensive.
2. Group action may lead to compromise and indecision.
3. 'Buck passing' may result.

4.4.5 Project Organizational Structure

A project organisation is a temporary organisation designed to achieve specific results by using teams of specialists from different functional areas in the organisation. The project team focuses all its energies, resources and results on the assigned project. Once the project has been completed, the team members from various cross functional departments may go back to their previous positions or may be assigned to a new project. Some of the examples of projects are: research and development projects, product development, construction of a new plant, housing complex, shopping complex, bridge etc.

A project organisation structure is led by a Project Manager and assisted by a team of Functional Specialists. The team focuses all its energies, skills and resources on the project. When the project is completed, the project team is abolished and its members move on to a new project or return to their parent department in the enterprise. Below is the project structure shown in a diagram form.

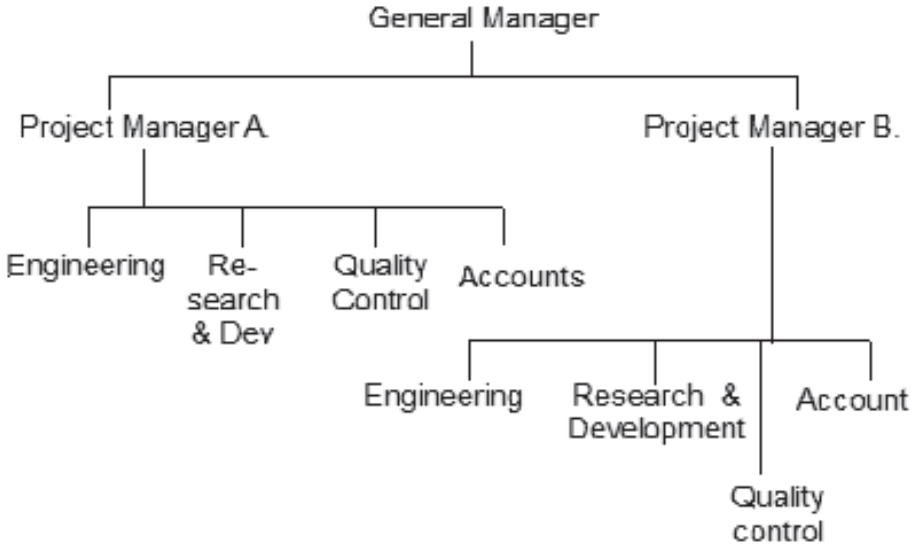


Figure 4.4: Project Organisational Structure

Characteristics of project organisation:

1. Personnel are assigned to a project from the existing permanent organisation and are under the direction and control of the project manager.
2. The project manager specifies what effort is needed and when work will be performed whereas the concerned department manager executes the work using his resources.
3. The project manager gets the needed support from production, quality control, engineering etc. for completion of the project.
4. The authority over the project team members is shared by project manager and the respective functional managers in the permanent organisation.
5. The services of the specialists (project team members) are temporarily loaned to the project manager till the completion of the project.

6. There may be conflict between the project manager and the departmental manager on the issue of exercising authority over team members.
7. Since authority relationships are overlapping with possibilities of conflicts, informal relationships between project manager and departmental managers (functional managers) become more important than formal prescription of authority.
8. Full and free communication is essential among those working on the project.

Importance of Project Organizational Structure

Project organizational structure is most valuable when:

i) Work is defined by a specific goal and target date for completion.
ii) Work is unique and unfamiliar to the organisation.
iii) Work is complex having independent activities and specialized skills are necessary for accomplishment.
iv) Work is critical in terms of possible gains or losses.
v) Work is not repetitive in nature.

4.4.6. Matrix Organisational Structure

Under this types of structure, there are functional managers and Project Managers. Functional managers are in charge of specialised resources, such as production, quality control, inventories, marketing and finance. Project managers are in charge of one or more projects. They are authorised to prepare projects strategies and they call on the various functional managers for the necessary resources.Matrix Organisation is suitable for a large number of small projects. A matrix organization is also known as a combined organisational structure. The matrix organisation has two chains of command. Here the flow of authority is both vertical (line authority) as well as horizontal. Separate departmens have to share the resources with the rest of the organization and cannot claim any exclusive right. The specimen of a matrix organization is given below.

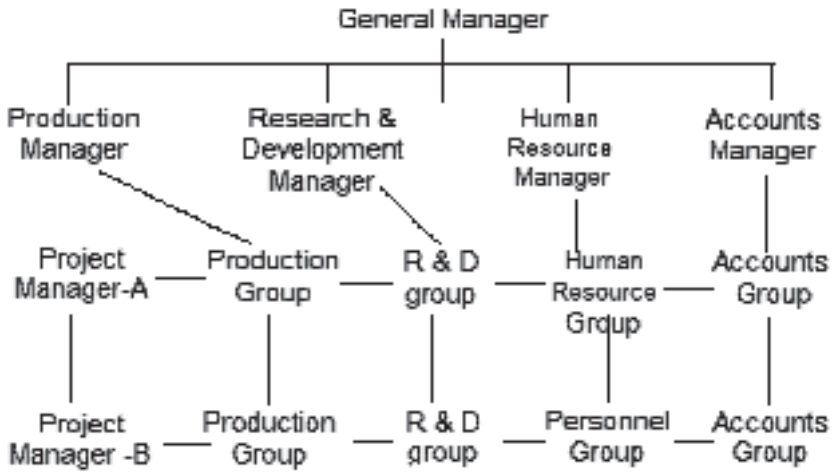


Figure 4.5: Matrix Organisational Structure

Like other structures Matrix Organization Structure also has merits and demerits as shown below :

Merits :

(I) It utilises the benefits of both functional organisation and technical specialisation.

(II) It is flexible. It allows better and quick response to the changes.

(III) It improves communication and interaction among project units and functional heads. It leads to better co-ordination.

Demerits :

(I) It does not follow the principle of unity of command.

(II) Quick decisions are not possible all the times.

4.5 SPAN OF CONTROL

Every person has a limited capacity to effectively supervise and control other people. No one can control an infinite number of subordinates. The capacity and ability of a person to supervise a large number of subordinates working under him is limited on account of time at his disposal, knowledge, energy, his personality, interest and other capabilities.

The term 'span' literally means the space between two supports of a structure, e.g., the space between two pillars of a bridge. The space between the two pillars should neither be too large nor too small. When

applied to management, 'span' refers to the number of subordinates a manager or supervisor can supervise, manage or control effectively and efficiently.

In the words of Spriegal, "Span of management or control means the number of people reporting directly to an authority. The principle of span of control implies that no single executive should have more people looking to him for guidance and leadership than he can reasonably be expected to serve."

Factors affecting span of control

1. Geographical dispersion, if the branches of a business are widely dispersed, then the manager will find it difficult to supervise each of them, as such the span of control will be smaller.
2. Capability of workers, if workers are highly capable, need little supervision, and can be left on their own, e.g.: Theory Y type of people, they need not be supervised much as they are motivated and take initiative to work; as such the span of control will be wider.
3. Capability of boss, an experienced boss with good understanding of the tasks, good knowledge of the workers and good relationships with the workers, will be able to supervise more workers.
4. Value-add of the boss, a boss that is adding value by training and developing new skills in the workers will need a narrow span of control than one who is focused only on performance management (this is the reverse of the capability of workers point above)
5. Similarity of task, if the tasks that the subordinates are performing are similar, then the span of control can be wider, as the manager can supervise them all at the same time.
6. Volume of other tasks, if the boss has other responsibilities, such as membership of committees, involvement in other projects, liaising with stakeholders, the number of direct reports will need to be smaller
7. Required administrative tasks, if the boss is required to have regular face to face meetings, complete appraisal and development plans, discuss remuneration benefits, write job descriptions and employment contracts, explain employment policy changes and other administrative tasks then the span of control is reduced.

CHECK YOUR PROGRESS

Q.1. Define Organising.

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Q.2. State two importance of organising.

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Q.3. What is Span of Control?

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4.6 TYPES OF DEPARTMENTATION

There is no single best way of departmentation applicable to all organizations or to all situations. The pattern that will be used will depend on the given situation and what managers believe will yield the best result for them in the situation they face. However, there are a few basic methods for dividing responsibilities within an organization.

They are as follows:

1. Functional basis.
2. Territorial basis.
3. Process basis.
4. Product basis.
5. Customer basis.
6. Time basis.
7. Number basis.

Let us discuss these methods in the following ways:

1. **Departmentation by Function:** The most commonly accepted practice is the grouping of the activities in accordance with the functions of an enterprise. The basic enterprise functions generally consist of production, marketing, finance, etc. This method is more logical and hence present in almost all enterprises at some level.

Merits of Departmentation by function:

1. It is a logical and time proven method.
2. This method follows the principle of specialization.
3. Authority and responsibilities can be clearly defined and fixed.
4. Since the top managers are responsible for the end results, control shall become effective.

Demerits of Departmentation by function:

1. This type of departmentation shall develop a loyalty towards the functions and not towards the enterprise as a whole.
2. Coordination of different functions shall become difficult.
3. Only the departmental heads are held responsible for defective work.
4. This pattern is not a best training ground for promotable top management people.

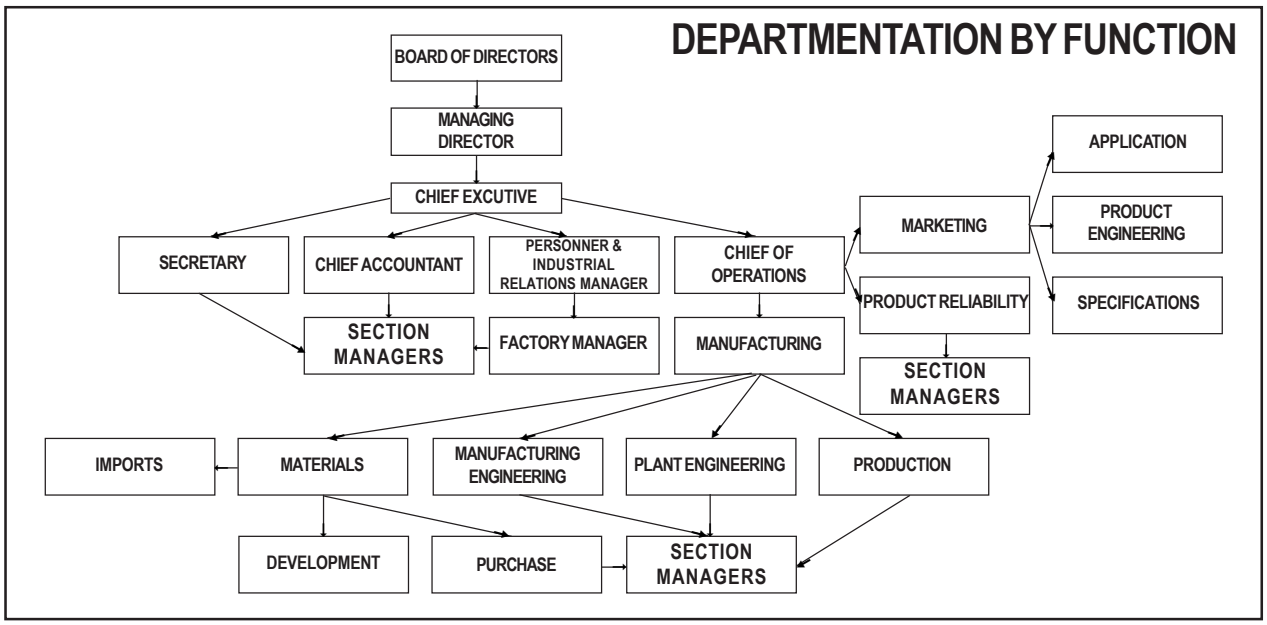


Figure 4.6: Departmentation by Functions

2. **Departmentation by Territories:** When the organization is large and geographically dispersed, departmentation on territorial basis is the best. This is also considered suitable where the branches produce the same goods or perform similar services at various locations.

Merits of Departmentation by Territory:

1. This method is highly suitable when the needs of the local customers are to be satisfied effectively.
2. Certain economies of localized operation can be availed.
3. Sales activities can be conducted more effectively. Sales personnel can spend more time on sales rather than on traveling.
4. The executives of territorial departments shall become thoroughly familiar with the key details and can take on the spot decisions in times of emergency.
5. The department has an excellent training situation for all round managers needed in the future at higher levels.

Demerits of Departmentation by Territory:

1. This type of departmentation requires more persons with general managerial abilities.
2. Coordination shall become difficult and the problem of maintaining top management control shall also acute.
3. Territorial grouping may sometime cause some problems if authority over financial matters is also decentralized.

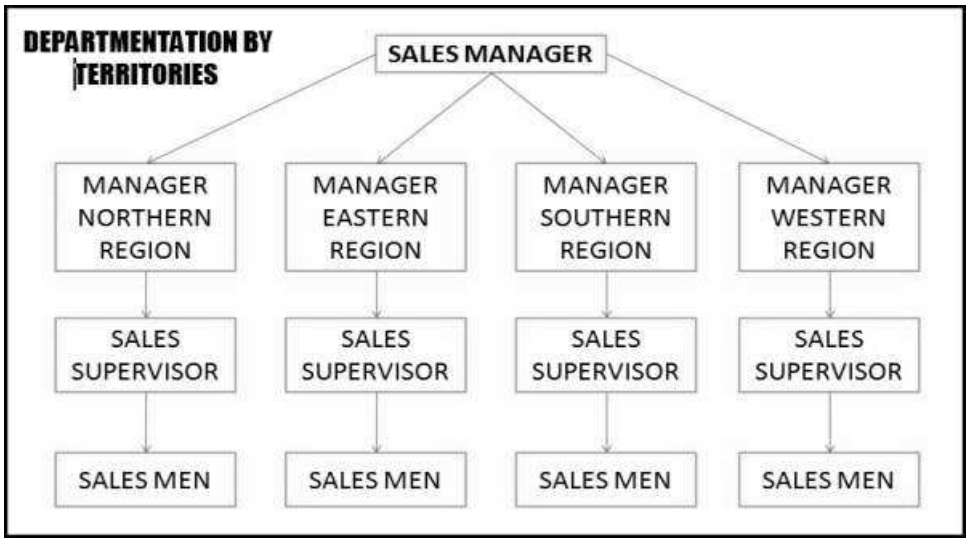


Figure 4.7: Departmentation by Territories

3. **Departmentation by Process:** Activities can also be grouped according to the process involved or the equipment used. This form of

departmentation is often employed in manufacturing enterprises. It is also called equipment departmentation. Large retail or marketing enterprises may also have process departments for receiving goods in stores, transportation, wrapping and delivery. Departmentation by process is usually decided on the basis of costs that are mainly on economic considerations.

Merits of Departmentation by Process:

The following are the important merits of this type of departmentation:

1. It is suitable for all organizations irrespective of their size.
2. The equipment can be economically used to their maximum capacity.
3. It saves money and consequently reduce the cost of production.
4. Better timing and customer service can be ensured.

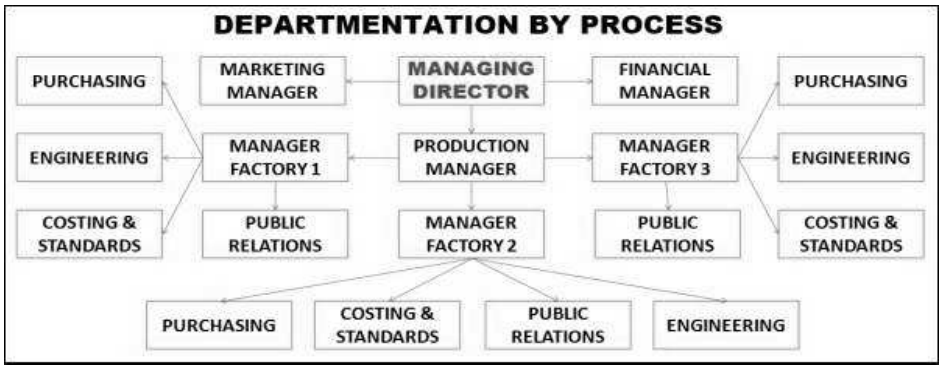


Figure 4.8: Departmentation by Process

4. **Departmentation by Product:** This type of departmentation is desirable for large undertakings which deal with a variety of products or product lines. To departmentalise on product basis means to establish each product or group of closely related products in a product line as a relatively autonomous integrated unit within the overall framework of the company. Under this method, an executive will be in charge of and responsible for all the activities relating to a particular product from production to distribution.

Merits of Departmentation on basis of Product:

1. This pattern of departmentation facilitates the optimum use of specialized skill, labour and capital.

2. Various economies relating to production, assembly and handling can be availed.
3. All the activities connected with a particular product can be effectively coordinated.
4. Better timing and customer service can be ensured.
5. Responsibility can be fixed.

Demerits of Departmentation on product basis:

1. This type of departmentation will often result in unnecessary duplication of work and ultimately result in an increase in the production cost.
2. The problem of maintaining control shall also be more acute.
3. Their pattern can also create difficulties in co-ordination with the organizational structure.
4. Successful managers will be tempted to acquire more and more powers and build up their own empire. This danger can be averted by centralizing all major policy decisions.



Figure 4.9: Departmentation by Product

5. **Departmentation by Customer:** Departmentation can also be made on the basis of customers served that are customer departmentation. In this case, the firm shows its paramount interest in the welfare of the customer and attention given to them. Under this method, the customers are divided into separate categories, such as distributors, retailers and consumers, and the task of satisfying the needs of different categories of customers assigned to specific departments.

Merits of departmentation by customer:

1. Customers are the key to any organization. Particularly in modern times, the needs of the customers should be satisfied effectively. This pattern of departmentation aims to satisfy the customers in a better and effective way.
2. It is highly useful where a product or service of wide variety is offered through many marketing channels and outlets.

Demerits of departmentation by customer:

1. There may not be enough work in each department. Hence, some salesmen have to remain idle.
2. Coordinating various departments will also pose many serious problems.
3. It may also develop an unequal development of customer groups in times of expansion and disappearance of certain customer groups in times of recession.
4. It may also create a tendency to remain rigid. Consequently, it may also become difficult to adjust to the situation in case there is a fluctuation in the activities of the enterprise.

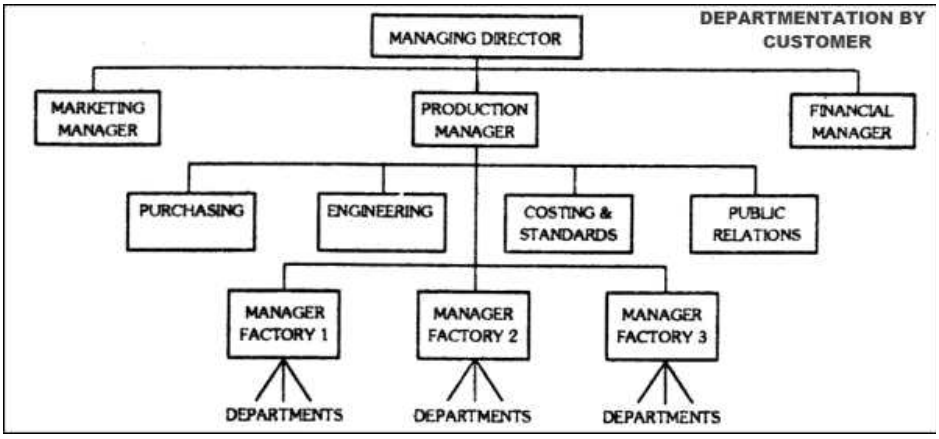


Figure 4.10: Departmentation by Customer

6. **Departmentation by Time:** It is a common practice to departmentalize activities on time basis. Enterprise engaged in continuous process can follow this pattern. We are familiar with the second shift, third shift, or night shifts, etc. Under this method, the activities performed in each

shift are similar and almost identical. But they are departmentalized on time basis. This kind of departmentation is generally found in public utilities and manufacturing establishments.

7. **Departmentation by Number:** In case of departmentation by number, activities are grouped on the basis of their performance by certain number of persons. For instance, in the army, soldiers are grouped into squaders, battalions, companies, brigades and regiments based on the number prescribed for each unit. However, this type of departmentation is not found in business concerns.

4.7 CONCEPT OF STAFFING AND ITS IMPORTANCE

The term 'Staffing' relates to the recruitment, selection, development, training and compensation of the managerial personnel. Staffing, like all other managerial functions, is the duty which the apex management performs at all times. In a newly created enterprise, the staffing would come as a. third step—next to planning and organizing—but in a going enterprise the staffing process is continuous.

In order to define and clarify the group of employees included in the staffing concept, it must be stated that the staffing function is concerned with the placement, growth and development of all of those members of the organization whose function it is to get things done through an effort of other individuals. Staffing is an integral part of human resource management. It facilitates procurement and placement of right people on the right jobs.

"The managerial function of staffing involves manning the organizational structure through effective and proper selection, appraisal, and development of personnel to fill the roles designed into the structure."

— Koontz and O'Donnell

Staffing is the function of human relationship in the organizational structure with competent staff. Staffing is that part of the management function which is concerned with people at work and with their relationship within the organisation.

Staffing may be defined as that function of management, which is concerned with selecting, developing, maintaining and utilizing the manpower such that the objectives of the organisation are achieved economically and effectively.

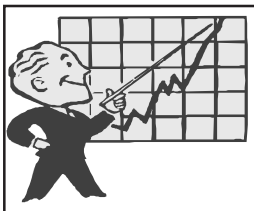
Features of Staffing:

The following are the features or nature or characteristics of the staffing function:

1. It is an universal function. It is the responsibility of every manager.
2. It is a continuous function performed by every manager to ensure successful functioning of his department and to develop his successors.
3. It is a dynamic and never ending process. With changes in the size and environment of the organization, changes take place in personnel.
4. Human resources expect and deserve dignity. So the success of the staffing function lies in involving every individual in the organisation in the task of achieving organizational goals.
5. It is a difficult function with problems of social, philosophical and psychological nature.

Importance of staffing:

1. Staffing function help in discovering of qualified and competent personnel for various jobs in the organisation.
2. Since the right person is recruited for the right jobs, it leads for maximum productivity and higher performance.
3. It promotes optimum utilization of human resources.
4. It increases job satisfaction and morale of the workers through adequate remuneration for each job.
5. Since the staffing helps to ensure maximum utilization of human resources, the labour costs per unit or production will be reduced.
6. It leads to efficient functioning of the organization due to systematic programmes for selection, training and appraisal of employees are required by proper staffing function.
7. The use of latest technology can be achieved by the right person, selected in the organization.



CHECK YOUR PROGRESS

Q4. State different types of departmentation.

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Q.5 State two importance of Staffing.

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4.8 LET US SUM UP

In this unit we have discussed the following:

- Organising means systematic arrangement of activities.
- Organising is important because –
  - It increases managerial efficiency.
  - it provides specialisation.
  - it ensures flow of activities.
  - it helps in smooth delegation of Authority.
- The structure of different organisation may be of different types depending on the nature, method, process, technology and the social environment of the enterprise.
- There is no single best way of departmentation applicable to all organizations or to all situations. The pattern that will be used will depend on the given situation and what managers believe will yield the best result for them in the situation they face. However, there are a few basic methods for dividing responsibilities within an organization. They are as follows:
  1. Functional basis.
  2. Territorial basis.
  3. Process basis.
  4. Product basis.

5. Customer basis.
6. Time basis.
7. Number basis.

- At the end of the unit, we have discussed about staffing.Staffing may be defined as that function of management, which is concerned with selecting, developing, maintaining and utilizing the manpower such that the objectives of the organisation are achieved economically and effectively.



4.9 FURTHER READING

1) Drucker, Peter F. (2014), *Practice of Management*, Allied Publications, New Delhi.

2) Koontz, Harold and Weihrich, Heinz (2007), *Essentials of Management*, Tata McGraw Hills, New Delhi.

3) Rao, V. S. P. and Hari Krishna, V. (2005), *Management : Text and Cases*, Excel Books, New Delhi.

4) Robbins, Stephen P., Judge, Timothy A. and Vohra N.(2016), *Organizational Behavior*, Prentice Hall, Delhi.

4.10 ANSWER TO CHECK YOUR PROGRESS

Ans to Q No 1: Koontz and O' Dounell define Organising as "the establishment of authority relationships with the provision for co-ordination between them both vertically and horizontally in the enterprise"

Ans to Q No 2: i)Organising increases managerial efficiency

ii) It Promotes Specilization

Ans to Q No3: Span of management or control means the number of people reporting directly to an authority.

Ans to Q No 4: Departmentation can be done based on

1. Functional basis.
2. Territorial basis.

3. Process basis.
4. Product basis.
5. Customer basis.
6. Time basis.
7. Number basis.

Ans to Q No 5:

1. Staffing function help in discovering of qualified and competent personnel for various jobs in the organisation.
2. Since the right person is recruited for the right jobs, it leads for maximum productivity and higher performance.



4.11 MODEL QUESTIONS

1. Define organization. Briefly discuss the importance of organization.
2. Explain different types of organization.
3. What do you understand by span of control? Discuss the various factors determining span of control.
4. Highlight the different bases of departmentation.
5. Define staffing. Why is it important in organizations?

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UNIT 5: CONTROLLING

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Meaning and Importance of Control

5.4 Steps in Control Process

5.5 Types of control

5.6 Dimensions of control

5.7 Resistance to control

5.8 Techniques of Managerial Control

5.8.1 Budgetary Control Techniques

5.8.2 Non Budgetary Control Techniques

5.9 Let Us Sum Up

5.10 Further Reading

5.11 Answers to Check Your progress

5.12 Model Questions

5.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- define the meaning and importance of management control
- describe the necessary steps in control process
- discuss the resistance to control
- classify the techniques of managerial control into budgetary and non-budgetary.

5.2 INTRODUCTION

Control is one of the most important elements of the managerial process. This function intends to ensure that everything occurs in conformity with the plans and predetermined goals which are successfully achieved. Thus, this function aims to make things happen in order to achieve goals. In this unit, we will discuss the meaning and some important aspects of control.

5.3 MEANING AND IMPORTANCE OF CONTROL

Meaning of control:

Control is the exercise of checking and correcting organisational functions in order to ensure that things occur in accordance with the planning. Control is a process of analysing and examining whether actual performance is going on according to planned performance and if not where the deviations are occuring and when to take measures for correction. It is a process of comparison and verification between planned and actual performance. Philip Kotler defines Control "as the process of taking steps to bring actual results and desired results closer together." According to Massie, "control is the process that measures current performance and guides it towards some predetermined goals".

Importance of Control :

Control is one of the important elements of management process. No manager can complete the management process without control. It is the only way of managers to know whether or not organisation's goals are being met and why or why not. The importance of control is discussed as follows:

a) **Smooth functioning of the enterprise:** The control function helps an enterprise in performing its activities smoothly. In this connection Peter Drucker has said that control maintains the equilibrium between ends and means, output and effort. In presence of such equilibrium position, an enterprise can perform its function smoothly. By the help of control an enterprise can maintain equilibrium between planning and purpose of the organisation.

b) **Management of big enterprise:** The control function is very much essential in the management of large organisations. In large organisations numerous complexities are associated. Large organisations produce variety of products, use automatic and computerised system of production, and also cover vast geographical areas. So, in case of these organisations, uniformity of actions and behaviour among the employees can be ensured only through effective control system.

c) **Maintaining Competitiveness:** In order to maintain competitiveness over a long period of time, a business is to apply effective control system. Through effective control system, management can utilise the valuable resources of the business for the accomplishment of its organisational goals.

d) **Attainment of goals :**By the help of control system a business can guide its activities towards the realisation of the pre-determined goals.

e) **Success of Planning :**Through control, organisational activities are checked and examined to ensure that everything is going on according to planning. That is why, Terry and Franklin have rightly said that the failure of controlling means sooner or later the failure of planning and success of planning means the success of controlling.

f) **Help in Decision-making :** By the help of control system a manager can find out the difference between actual performance and standard performance. Thereafter, the manager can easily decide how to correct the deviations.

g) **Effective delegation and decentralisation :** In order to make the delegation and decentralisation effective, control system is very much essential. Because, without proper control system, no delegation and decentralisation of authority can produce desired results.

h) **Proper Direction :** Effective direction is always possible through effective control. The managers can observe that activities of a business are effectively directed towards the pre-determined objectives through systematic control system.

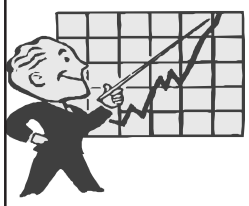
i) **Promotes Coordination :**The control system can guide the activities of an organisation towards the same direction as desired by the management. Thereby managers can ensure unity of direction and uniformity of actions and behaviour. This also helps in the development of the spirit of cooperation and coordination among the employees and various departments.

j) **Timely performance :** Time is an important factor in managerial activity. Management can perform the organisational activities in right time by the control system. Pre-decided work schedules, programmes, time tables are the different controlling techniques which ensure timely performance of organisational activities.

k) Detection and correction of mistakes : The control system finds out the deviation between standard and actual performance. Moreover, if any deviation is found then the control system detects the cause of the same and also provides corrective measures. Thus, through a control system all possible mistakes and irregularities can be detected and corrected.

l) Promotes economy : An effective control system can reduce unnecessary cost and wastages of production. Thereby, management can reduce the per unit cost of production and increase the profitability. After all, an organisation can effectively and efficiently use its resources by the help of control.

m) Organisational Stability : Organisational stability is possible, if the management can properly use its control system. Different control techniques such as plans, policies, rules, budgets, fixation of standard can contribute to the organisational stability. All of these techniques of control can provide a strong foundation to the organisation. By an effective control system management can create a good work culture and build good image and goodwill of the organisation in the society.



CHECK YOUR PROGRESS

Q 1: Define Control.

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Q.2. State two importance of control.

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5.4 STEPS IN CONTROL PROCESS

Control is a continuous or ongoing dynamic process. Control process involves the following steps:

1) Establishment of Standards: Establishment of standards is the first step of control process. Standard is the criteria of performance or yardstick

for judging results. Standards are level of activities established by the management for evaluating performance. Standard may be in several forms. Standard should be defined in quantitative terms to make control more specific.

Different forms of standard are:

a. **Productivity Standards:** Productivity or quantity standards are expressed in numerical terms, as the expected number of items produced per man, per hour or per given activity. These goals are the key to operational efficiency.

b. **Time Standards:** The goal will be set on the basis of the time lapse in performing a particular task.

c. **Cost Standards:** These standards indicate the financial expenditure involved per unit of activity. Budgets are established to reflect these costs and they provide monetary check points for comparing actual costs with budgeted costs.

d. **Quality Standards:** These standards express the levels of quality expected of a product or service.

e. **Return on investment Standards:** Return on investment is a comprehensive and a useful standard as it involves all facets of the business such as turnover, sales, working capital, invested capital, inventory levels at a given time and so on.

Standard should be fixed in all the key areas of business. Moreover, standards should always be flexible and capable of being adapted to changing environment.

2) Measurement of Performance: The next step in the control process is the measurement of actual performance. Monitoring and measuring is a continuous activity and involves collecting relevant data that represents the actual performance of the activity, so that a comparison can be made between what has been accomplished and what was intended to be accomplished. Personal observation, samples, reports, accounting statement etc are the various methods of measuring actual performance. Depending on various situations, the method of measurement may be quantitative, or qualitative or a combination of both. Managers should carefully

select the methods of measurement and time gap within which performance will be measured. The measurement of performance should always be clear, complete, precise and objective.

3) Comparison between actual performance and standard: The third step in the control process is the comparison of actual performance with the standards. In this step, the managers not only find the deviation between the actual and the standard performance, but also identify the cause of this deviation. The managers should distinguish between noncritical and critical deviation. It is important to mention that focusing on critical deviations is known as control by exception. The management can provide information relating to work performance through relevant data, charts, graph and written reports.

4) Correction of Deviation: This is the last step in the control process. Management should take immediate corrective measure after determining the causes of deviations. In order to improve performance managers can provide training, revise compensation plan, redesign job; change the strategy, changing the organisational structure etc.

5.5 TYPES OF CONTROL

Depending on the time at which control is applied, controls can be categorized into of three types:

1. **Feedback control:** It is the process of gathering information about a completed activity, evaluating that information and taking steps to improve similar activities in future. Feedback control enables managers to use information on past performance.
2. **Concurrent control:** Concurrent control techniques immediately consider a problem and analyse it to take necessary and corrective steps before any major damage is done.
3. **Predictive or feedforward control:** Here the control system anticipates problems that the management may encounter in future. Cash budget is an example of this type where the finance manager is in a position to estimate the next year's flow of cash.

5.6 DIMENSIONS OF CONTROL

In a large multi- product, multi plant and multi location organization, it is not possible to check everything and initiate timely, remedial steps whenever things go off the track. Managers therefore, focus attention on key or critical areas which have a significant bearing on the performance of various departments in an organization. The following ways have been found to relevant in this regards.

Critical or strategic point control: For control to be effective, it should focus on key result areas which are critical to the success of an enterprise. So, management while reviewing standards must pick some strategic points that reflect the entire organization.

Management by exception: Management by exception is an important principle of organizational control. According to this principle, the managers should give attention only on a significant deviation from standards of performance. By this principle, manager can separate important and unimportant deviation. As per this principle, a managers should send only information of important deviation to the top management. The managers should concentrate their effort only on important matters. They should not observe each and every matter of the organization. If managers can apply this principle, they can handle their control system more efficiently. This principle says that subordinates should perform all routine matters of the organization and thereby the subordinates should leave the manager free to deal with non-routine or exceptional organizational issues. As for example, the manager establishes a quality control standard, under which 2% defective production can be allowed. So, according to the principles of management by exception, managers should inform the top management, if the defective is found more than 2% and they should not inform the management about any defective production up to or less than 2%.

Benefits of Management by Exception: From the use of the principles of management by exception, the following benefits can be enjoyed :

- It can save the time of top level management.
- It can increase the concentration of executive efforts on major problems.

- It provides better facilities in systematic delegation of authority.
- It makes possible the use of the knowledge of the managers and the important data and information for the productive purpose.
- It helps the managers in the identification of critical problems.
- It provides both qualitative and quantitative yardsticks to judge situation and people.
- It improves the quality of communication among various segments of an organization.
- It plays vital role in the control system of big organizations.
- It helps in the development of skill of the lower level managers.
- It minimizes the frequency of decision making.

5.7 RESISTANCE TO CONTROL

In spite of the benefits that control provides, some employees resist control, especially if they feel over controlled, if they think control is inappropriately focused or rewards inefficiency, or if they are uncomfortable with accountability.

a. Over control: When organizations try to control too many things, employees may feel over controlled if the controls directly affect their behavior. When employees think that attempts to limit their behavior are unreasonable, trouble can occur.

b. Inappropriate focus: If the control system is too narrow or focuses too much on quantifiable variables, leaving no room for analysis or interpretation, it may be judged as having an inappropriate focus. When this happens, employees resist the intent of the control system by focusing their efforts only at the performance indicators being used.

c. Rewards for inefficiency: If control systems knowingly or unknowingly reward inefficient activity, employees likely will resist by behaving in ways that run counter to the organization's intent.

d. Too much accountability: Effective control lets managers determine whether employees are doing their jobs. People who do not want to be answerable for their mistakes or who do not want to work as hard as their boss might like them to work are likely to resist control.

Overcoming Resistance to Control: The best way to overcome resistance to control is to design effective controls initially. Two other ways to overcome resistance are encouraging participation and developing verification procedures.

a. Encouraging employee participation: When employees are involved with planning and implementing a control system, they are less likely to resist it.

b. Developing verification procedures: The accuracy of performance indicators can be verified by having multiple standards and information systems. These checks and balances can be important verification procedures.



CHECK YOUR PROGRESS

Q.3. State any two types of control.

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Q.4. What is resistance to control?

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5.8 TECHNIQUES OF MANAGERIAL CONTROL

Managerial control is a systematic effort to set performance standard along with planning targets. There are various techniques of managerial control. All techniques can be classified broadly into two categories. Such as :

A. Budgetary control techniques

B. Non-budgetary control techniques

5.7.1 Budgetary Control Techniques

A budget is a recorded plan of action expressed in quantitative terms. Budgetary control is derived from the concept and use of budgets. According to George R. Terry, “Budgetary control is a process of comparing the actual results with the corresponding budget”.

There are generally four steps of modern system of budgetary control. These are mentioned below:-

- **Budget Policy Guidelines:** In an organisation, line managers have to base their expectations on various assumptions in time of preparing budgets. These assumptions are related to economy, political trends, government policies, competitors' actions, strengths of organisation, basic managerial policies etc. The top management should prepare a common set of budget policy guidelines to be followed by all managers of middle and lower level. Budget Policy Guidelines also lay down the fundamental targets necessary for continuous progress of the business.
- **Preparation of Budgets:** According to nature, activities and size of organisation, different types of budget are prepared. Different departmental heads have to prepare their own budget as per guidelines given by the top management. Thereafter the budget committee would discuss all the budgets and observe that budgets are prepared within the safety margin.
- **Reporting of variance:** Cost variance is the difference between a budgeted cost and an actual cost. There are mainly three cost variances. such as material cost variance, labour cost variance and overhead cost variance. On the basis of variance analysis, the managers can take immediate corrective action. The managing director can know the overall position of the organisation from the report of variance. Generally the performance is measured against the budget and the variance is calculated by the budget department under the control of budget officer.
- **Review and Follow-up:** It is an important step in budgetary control process. Generally, the budget committee meets periodically to review the performance of various departments. If this review and follow-up action is neglected, then no system of budgetary control becomes effective.

Objectives of budgetary control: - The main objectives of budgetary control are as follow –

- **Ensure planning:** The main objectives of budgetary control are to ensure planning through different budgets.
- **Coordinate the activities:** Another objective of budgetary control is to coordinate the different activities of different departments.
- **Operation of cost center:** By the budgetary control, various cost centers and departments can operate with efficiency and economy.
- **Eliminate wastes:** As a result of budgetary control, an organisation can eliminate its wastes and unnecessary cost, which can ultimately increase profitability.
- **Capital expenditure:** Budgetary control can anticipate capital expenditure of an enterprise for the future.
- **Control:** Budgetary control can centralise the control system of an organisation.
- **Correction:** Different corrective measures can be adopted, which can minimise the deviations from the standards established earlier.
- **Responsibility:** By the budgetary control the responsibility of different employees and officers can be fixed.

Advantages of Budgetary Control:

The budgetary control has the following advantages -

- **Profitability:** By virtue of budgetary control, the profitability of an organisation can be maximised.
- **Increase Coordination:** Another advantage of budgetary control is to increase the coordination among different activities, departments, employees etc.
- **Achievement of goals:** Organisational goals can be achieved by the help of budegtary control.
- **Measuring performance:** Budgetary control can be used as a tool for measuring performance. Under budgetary

controldifferent targets are provided to different departments and thereafter actual performance is compared with the target. The deviations between the actual and the budgeted targets are reported to the top management.

- **Economy:** Under the budgetary control system, different expenditures are systematically alloted to different departments and activities. Thereby, wastage can be minimised and the resources of an orgnisation can be economically used.

Limitation of Budgetary Control

Inspite of many advantages, the budgetary control system suffers from the following limitations :

i) **Unknown and Unseen future :** Budgetary control system entirely depends upon the future. On the other hand,the future is unseen and unknown. So, the future may not come as per estimate in budget. The change in business environment, market, government policy may adversely affect the budgetary control of an organisation.

ii) **Revision :** Budgetary control is based on some assumption. So, if these assumption do not come true, then budgets should be revised. Frequent revision of budget can reduce its value and importance.

iii) **More efficient employees may be discouraged :** Generally the target are fixed under the budget to be achieved by the average quality employees. So, the more efficient employees may be discouraged under the budgetary control system.

iv) **Conflicts among departments :** Under budgetary control system, different amounts of finance are allotted to different departments. All departmental heads want to get the maximum allocation of funds, which is not practically possible. As a result, conflict may arise among these departments.

v) **Depends upon top management:** The support of the top management is essential for the success of budgetary control.

So, if at any time, there is a lack of necessary support from the top management the budgetary control system may fail to deliver the expected result or adversely affect the performance.

5.7.2 Non-Budgetary Control Techniques

There are some other techniques of control, which are not based on budget. These are called non-budgetary control techniques. Some non-budgetary control techniques are discussed below –

i) **Reports :** Different special reports and records can be prepared by the experts for controlling purpose. Such special reports contain much deeper information. These are generally called investigative reports. These reports indicate the depth of the problems and can suggest the way of solving the problem.

ii) **Ratio analysis :** Ratio anaysis is the most important method of interpreting the financial statements. A financial ratio implies a relationship between two variables of financial statements of an organisation. Generally the variables for ratio analysis are taken from both profit and loss account and balance sheet. Ratio may be expressed in three ways, such as percentage (25%), a proportion (1:4) or a fraction (¼).

iii) **Break-even analysis :** Break-even analysis is a graphical technique of control. By this technique business can identify an appropriate number of units to be produced to generate maximum revenue to cover the cost. By this technique a point is located where the total cost is equal to the total revenue. By the use of this technique production and sales volume can be controled to avoid loss.

iv) **PERT/CPM :** These are the network techniques used for controlling the action and performance. The full meaning of PERT is Programme Evaluation and Review Technique and the full meaning of CPM is Critical Path Method. Under the

PERT/CPM method, a network diagram is prepared to display the sequence of activities necessary for the completion of a project. So, PERT helps an organiser in planning the schedule of a project and to monitor and control the progress of this project. This method also helps in identifying possible obstacles and shifting the resources as necessary to keep the project on schedule.

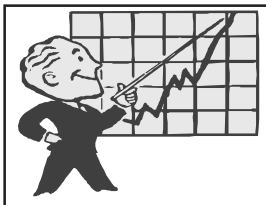
v) **Inventory control :** Inventory control is also called material control, which includes the kind, amount, location and timing of various materials. The main objective of inventory control is to provide the right material at right time at right place. Different parameters of inventory control are safety inventory level, maximum inventory level, re-ordering level, etc.

vi) **Statistical Quality Control (SQC) :** SQC is a statistical method which analyse data in the determination and control of quality. It is a preventive method and can reduce cost and time of inspection work.

vii) **Financial statement :** Profit and Loss account and balance sheet are the two principle financial statements. These financial statements show the working as well as finantial position of a business. There are various techniques of analyzing these financial statements such as ratio analysis, comparative statement, break-even point, trend analysis etc. which can be used as techniques of controlling the day-to-day financial activities of an organisation.

viii) **Human Resource Accounting :** According to Eric Flamholt Human Resource Accounting is the accounting for people as an organizational resource. It involves measuring the costs incurred by business firms to recruit, select, hire, train and develop human assets. It also involves measuring the economic value of people to the organisation. Human Resource Accounting can change the attitude of executives and in this way it can provide necessary data and information for controlling human resource of an organisation.

ix) Management Information System : Under the Management Information System selected decision oriented information is provided by management for planning, controlling and evaluating the activities of the corporation. It is designed to control the organizational activities at all levels. The Management Information System requires the current as well as future information on marketing, administration, production, research functions etc. On the basis of the data and information supplied by the Management Information System, the top management can formulate appropriate control technique.



CHECK YOUR PROGRESS

Q 5: What is budgetary control system?

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5.9 LET US SUM UP

In this unit, we have discussed the following–

Controlling is a process of analysing and examining whether actual performance is going on according to planned performance and if not where the deviations are and when to take measures for correction. Control is a continuous process. It is goal oriented and based on planning. Control is very much essential in the management of large organisation. Control can help an organisation in fulfilment of its predetermined goals. It is also helpful in the decision making process. There are mainly four steps of control process: Establishment of standard, Measurement of performance, Comparison between the actual perfornamce and standard, correction of deviation. The essence of the control system is the people, not things or resources. The control system affects the behaviour of the employees.

So, control system should consider the feeling, motive, behaviour and attitude of employees. Management by exception is an important principle of organisational control. Under the principle, managers should give attention only on significant deviations from the standards of performance. This principle has six basic ingerdients, these are - measurement, projection, selection, observation, comparision and decision making. This principle can save the time of the top level managers so they can give more attention on the major problems. There are several techniques of managerial control. All of these techniques can be classified mainly into two categories, such as budgetary control techniques and non-budegtary control techniques.



5.10 FURTHER READINGS

1) Gupta R.N. (2006). *Business organisation and management*, New Delhi, S. Chand &b Company Ltd.

2) P. C. Tulsian & Pandey Vishal (2008). *Business organization and management*. New Delhi, Pearson Education Ltd.

3) Knootz Harold & Weihrich Heinz (2007). *Essentials of management: An international perspective*. New Delhi, Tata McGraw Hill.

4) Massie Joseph (2007). *Essentials of management*. New Delhi, Prentice – Hall of India Pvt. Ltd.

5) Dutta M. (2002). *Management Control System*. New Delhi, S. Chand & Company Ltd.

5.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Control is the process of taking steps to bring actual results and desired results closer together.

Ans to Q No 2: Maintains discipline and honesty and timely performance.

Ans to Q No 3: Feedback control and Concurrent control.

Ans to Q No 4: In spite of the benefits that control provides, some employees resist control, especially if they feel over controlled, if they think control

is inappropriately focused or rewards inefficiency, or if they are uncomfortable with accountability.

Ans to Q No 5: In budgetary control system, actual results are compared with the budget and for any significant variations immediate corrective steps are taken. The performance review is regularly undertaken under this system.



5.12 MODEL QUESTIONS

Q 1: Define control. Explain the main characteristics of control.

Q 2: Access the importance of managerial control.

Q 3: Discuss the main steps in the control process.

Q 4: What are the behavioural implications of control ?

Q 5: Explain the principle of Management by Exception.

Q 6: What are the various techniques of control ?

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