**PRINCIPLES OF MANAGEMENT**

# Nature and Functions of Management

After reading this lesson you should be able to

* Understand the meaning and importance of management
* Know the functions of management
* Differentiate administration and management
* Evaluate whether management – a science or an art?
* Know the functional areas of management.

# Introduction

Management is universal concept that is generally used in every walk of life and more so in the modern business world. It is an activity that is applied to any kind of organisation where human beings are involved as a group in order to accomplish, some common goal. The concept of management has gained importance in the last few decades due to the increase in the scale of operations of modern organisations. Changes in science and technology have created new challenges. In order to meet these challenges, every organisation requires a good management force which would be in position to adapt itself according to changing situations and environments. The major aim of management is not only to ensure maximum returns from the various factors of production but also to make sure that it satisfies its obligations towards different sections of society.

# Meaning of Management

Management is a very broad term which can be analysed in different ways. The meaning of management varies depending upon the context in which it is used. A few important meanings of management are stated below.

***Management as a Group of Persons:*** Here management generally denotes a group of managerial personnel who guide and coordinate the efforts of others in order to achieve certain pre-determined objectives. The members of the group are individually called as managers.

***Management as a Resource:*** Like all the other factors of production, management is also a factor of production, it is considered to be a very important factor because it integrates the other factors. Management is an economic resource which brings together the Six M’s namely, men, money, materials, machines, methods and markets to achieve specified objectives.

***Management as an Academic Discipline and a Field of Study:*** Here management refers to a separate branch of knowledge, which includes management concepts, principles, techniques and skills for tackling managerial problems. It is a multi-disciplinary discipline. Today management has become a very popular field of study and this is evident from the fact that institutions imparting management education have a very great demand for admission.

***Management as a Process:*** The concept of Management as a process is analysed by Geroge R.Terry. According to him, Management is a process that includes distinct management functions namely, planning, organizing, staffing, directing and controlling which are performed to accomplish specified objectives by the use of the Six M’s (men, money, materials, machines, methods and markets). Management is called a process because it includes a series of functions that lead to the achievement of certain specific objectives. Management as a process is concerned with

1. Defining the goals of an organisation;
2. Laying down the policies, procedures, strategies and programmes that are required to accomplish the organisational goals;
3. Integrating the various resources (6 M’s) and making the best use of them;
4. Exercising effective control over the various resources; and
5. Creating an environment which provides for maximum satisfaction to people associated with the organisation.

# Definitions of Management

*“Management is what a manager does’. –* Louis Allen. This concept of Management clearly indicates that irrespective of the level at which a manager may operate, he performs certain functions namely, planning, organizing, directing and controlling. He initially plans the goals to be attained through formulation of policies and plans. He then designs a suitable organisation structure which provides for division of work and assignment of authority and responsibility to the people at various levels. He then plays the role of a leader in trying to guide and motivate the action of others according to his plan.

Lastly, he will have to check and control the works of others in order to ensure that there is no deviation. In case of deviations, he will have to take remedial action.

This concept of management is simple and it indicates a series of functions that are performed simultaneously or continuously. Another important aspect is that the concept of management is universal, which can be applied to any type of organisation.

The problems of this concept are, that is does not take into consideration the social and human aspects of management but concentrates only on certain functions. Secondly, it ignores individual interest and lastly, it looks at management only from the top manager’s point of view.

“Management is the art of getting things done through the effort of other people”. – Lawrence A. Appley. In this definition, management is considered an art, and the work of a manager is to extract does not give a true picture of the term ‘management’. It ignores the scientific aspect of management, workers aspirations and feelings are not given any consideration. It gives an impression that a manger has to obtain results by some way or the other without specifying his role clearly. It also does not indicate the formal organisation structure that is required management.

To manage is “to forecast and plan, to organize, to command, to coordinate and to control” – Henri Fayol. This concept of management is in line with the views held by Louis Allen.

“Management is a multipurpose organ that manages a business and manages managers and manages worker and work” – Peter F. Drucker. In this concept the task of a manager is to accomplish economic results, to make best use of human and material resources and to provide a conducive environment for the work force. The problem regarding this concept is that the managerial functions are not clear because of the complex nature of this concept.

“Management is defined as a process by which the elements of a group are integrated, coordinated and utilised so as to effectively and efficiently achieve organisational objectives” – Howard M.Carlisle. Of all the concepts, related to management this appears to be the real concept of management because it integrates human and physical resources of an organisation to attain its objectives in an effective manner. The essence of management lies in coordinating all these activities.

# Importance of Management

Management is an essential task in every field of organised activity. It coordinates and integrates the various activities of an organisation in order to accomplish certain specified targets. The importance of Management is clearly highlighted in the following points:

1. Management helps in determination of the objectives of an organisation through sound resource planning. Unless the objectives are identified and well

–defined, no organisation can accomplish its goal.

1. It helps to accomplish the goals of an organisation through integration of human and non-human resources.
2. The resources of an organisation can be effectively utilised only when there is a sound management force, because only efficient managers can meet new challenges.
3. Management is the brain of an enterprise. It is here that decisions are taken and policies are formulated. It provides foresight to the enterprise based on which the future is predicted.
4. Economic and social development takes place through management.

# Functions of Management

Management in order to accomplish the organisation’s goal will have to perform certain tasks. We call these tasks, the functions of Management. There is no uniformity regarding the function of Management- different management experts have given their own views regarding the functions of Management. Generally speaking management consists of five important functions namely: 1) Planning 2) Organising 3) Staffing 4) Directing and 5) Controlling.

1. **Planning:** Planning is a very important function of management, it is the most basic or primary function. It is a mental process requiring the use of intellectual faculties, foresight, imagination and sound judgment. Three important aspects of planning are forecasting, decision making and problem solving. It decides in advance what to do, how, to do, when to to and who is to do it. Planning involves systematic thinking about the manner in which specified objectives are to be achieved in future. The planning process involves the following steps:
   1. Determination of the goal or mission of the organisation.
   2. Forecasting the future based on past and present activities.
   3. Selection of best course of action from different alternatives and formulation of plans.
   4. Formulation of policies, procedures, budgets etc., to achieve the objectives.
   5. Determining the actual performance.
2. **Organising:** Once plans have been established, the nest stage is that of organising. Organising establishes harmonious relationships among the members of an organisation by providing them with adequate authority and responsibility. It clearly specifies the task of each individual and the extent to which he can carry it out. According to Louis A. Allen, “organisation involves identification and grouping the activities to be performed and dividing them among the individuals and creating authority and responsibility relationships among them for the accomplishment of organisational objectives”. From this definition it is clear that organizing determines the tasks to be performed, it groups the task in such a manner that each individual knows the task to be performed by him and thereby creates a structure of authority and responsibility among them to achieve organisaitonal objectives. A good organisation helps to avoid overlapping and duplication of work. Organisation process involves the following steps:
   1. Identification and analysis of activities required for the achievement of objectives;
   2. Grouping of activities according to the requirement of the organisation;
   3. Assignment of duties to the individuals concerned;
   4. Delegating authority to the subordinates and thereby fixing responsibility for performance; and
   5. Establishing proper authority relationship throughout the organisation.
3. **Staffing:** Staffing is another important function of Management. The best form of planning and organizing will yield no result without manpower. The function of staffing fills this gap. T helps in trying to put the right man in the right job. The staffing function involves recruitment, selection, training, development and appraisal of personnel. The staffing function has gained importance, with the growing size of an organisation, improvement in technology and recognition of the human factor in industry.
4. **Directing:** Directing may be defined as a function of management which is related with instructing, guiding and inspiring the human factor in an organisation to achieve its objectives. Not only orders and instructions with those activities which deal with guiding, supervising, influencing and motivating the subordinates in their jobs. Through direction, management initiates action. It is a function that is carried out throughout the

organisation. Direction consists of three important sub-functions or elements, namely motivation, leadership and communication. Through motivation subordinates are stimulated to work effectively, through leadership they are influenced and guided and through communication they are provided with proper information to vary out their activities to accomplish the results. (Note:- These three elements of Direction are discussed in detail in units 5 and 6).

1. **Controlling:** Controlling as a function of management deals with checking and verifying the activities that have been performed against the pre-determined standards. Controlling helps to take corrective action if the results do not conform to plans already established. According to Henri Fayol, control consists in verifying whether everything occurs in conformity with the plans adopted instructions issued and principles established. The following are the steps involved in the controlling process:
   1. Establishment of standards
   2. Measurement of actual performance
   3. Comparison of actual performance against the standards established
   4. Determining the reasons for deviation
   5. Taking corrective action
   6. Feedback in order to determine actual performance

Another important function of management is coordination. In ensures unity of action. Though some management experts consider coordination as a separate function of management, it is more appropriate to say that coordination is the essence of management. It is one word that best suggests the sum total of all managerial functions and that it is not one of its functions. Coordination is otherwise termed as the manager’s functions. Coordination is the orderly arrangement of group effort, to provide unity of action in the pursuit of a common purpose.

# Administration and Management

The two terms ‘Management’ and ‘Administration’ are used interchangeably. There is a lot of controversy on the usage of these two terms. Many experts have given different views on this subject. These views have resulted in three different approaches.

1. **Administration is above Management:** Many management experts like Oliver Sheldon, William Spriegel, Milward, Lansberg, Ordway Tead etc., are of the view that Administration is a higher level activity, though both may be performed by a single individual in an organisaiton. Administration is concerned with decision making and policy formulation, while management is concerned only with the

execution of what has been laid down by the administrators. The actual difference between Administration and Management can be tabulated as follows:

|  |  |
| --- | --- |
| **ADMINISTRATION** | **MANAGEMENT** |
| Administration is a higher level function. | Management is a lower level function. |
| It is concerned with laying down the policies and goals of an organisation. | It is concerned with execution of the policies that have been laid down. |
| It refers to the owners of the organisation. | It refers to the employees. |
| Administration is concerned with decision making. | Management is concerned with execution of decision. |
| Decision making is influenced by social, economic and political factors. | Decision making is restricted to the extent of guiding and directing an organisation to accomplish its objectives. |
| It acts through the management. | It acts through the organisation. |

1. **Administration is part of Management:** This approach holds that management is ac comprehensive term and that administration is a part of it. This view point was propounded by E.F.L. Brech. According to him, “Management is the generic term for the total process of executive control involving responsibility for effective planning and guidance of the operations of an enterprise. Administration is that part of management which is concerned with the installation and carrying out of the procedures by which the programme is laid down and communicated and the progress of activities is regulated and checked against plans”. Thus Brech conceives administration as part of management. Kimball and Kimball, Richman and Copen also hold similar views. If this view is accepted, it becomes quite contrary to the previous view because administration becomes a subordinate function to overall management, which is concerned with day-to-day executive routine work which is a part of management.
2. **Administration and Management are the same:** The third view is a more practical one, where there is no distinction between the two terms ‘management’ and ‘administration’. Management is used for higher level functions like planning, organizing, directing and controlling in a business orgnisation, whereas, administration is used for the same set of function in government organizations. Many experts like Henri Fayol,

William Newman, George R.Tery, Louis Allen favoured this view. The distinction between management and administration is only of academic interest, but in real life, such there is no distinction.

In order to overcome these controversies, management can be classified into i) Administrative management and ii) Operative management. Administrative management involves the laying down of policies and objectives of the organisation, where operative management is concerned with implementing these policies to accomplish the goal of the organisation. At every level of management an individual performs both these types of functions. At the higher level they spend more time on administrative activities and at lower level they spend more time on executive activities.

# Management – A Science or an Art

Management a Science or an Art is a controversial issue with regard to the nature of management. In order to specify the learning process o management, it is necessary to indicate the exact nature of management, as a Science or an Art or both. The learning process in science differs from that of art. Learning of art involves its continuous practice whereas learning of science involves the assimilation of principles. Therefore, it is necessary to analyse and see whether management is a Science or an Art.

***Management as a Science:*** Science is a systematised body of knowledge gathered by experiment and observation, critically tested and brought under general principles. Scientific principles are universally applicable, they establish cause-effect relationship between different variables and their validity can be verified. They also help in predicting future events. The following characteristics are essential for a subject to be recognised as a science:

* 1. Systematized body of knowledge including concepts, theories and principles that are universally applicable
  2. Based on scientific enquiry
  3. Should establish cause-effect relationship
  4. Principles should be verifiable
  5. Reliable basis for predicting future results

Judging from the characteristics, it can be said that management has systematised body knowledge. However management is an ‘inexact Science’ or “Pseudo science” because it deals with people and predicting their behaviour accurately is a very difficult task. The theories and principles in Management though universal in nature, may produce different results when applied in different situation. That is why management is called a

behavioural Science, because its application does not lead to the same results whenever applied.

Recently management has come to be recognised as a Science. Earlier experience was the only means to acquire the skills of management, because knowledge of management practice was not systematised. Management experts have now given management the shape of an organised body of knowledge which has its own filed of activity and distinct boundaries. This helps in accomplishing certain goals through rational means. Hence, Management is called a Science.

***Management as an Art:*** Art involves the achievement of desired results through the practical application of theoretical knowledge and skills. If a Science is learnt, an Art is practiced. The following are the features of an Art:

* + 1. Personal skill and practical knowledge
    2. Creative in nature
    3. Helps in achieving desired and concrete results and is result oriented in its approach
    4. Clearly prescribes how an activity can be performed and how it could be improved through constant practice

Management is an art because of the following facts:

1. Management process involves the use of personal skill and practical knowledge. While dealing with people, every manager will have to apply certain skills and knowledge.
2. Management is creative. In fact, it is one of the most creative arts, because in changing environment management can achieve desired goals through moulding and welding the activities and behaviour of people.
3. Application o certain skills and practical knowledge helps to achieve concrete practical results.
4. Continuous practice of management helps in the efficient accomplishment of organisational goals.

Hence, Management is both a Science and an Art. It is a Science because it contains universal truths which form an organised body of knowledge. It is also an Art because it requires certain personal skills which are the possession of the manager, and which when applied achieve desired results.

# Functional areas of management

The concept of Management is very wide. The functional areas or operational areas of management may be broadly classified into: 1) Production Management 2) Marketing Management 3) Financial Management and 4) Personnel Management. We shall now analyse each one of these functional areas of Management separately.

1. **Production Management:** The purpose of a business unit is to produce and distribute goods and service. Production Management is concerned with planning, organising, directing and controlling the production function so that the right product is produced at the right time, in the right quantity and at the right price. It involves the following activities:
   1. Product designing.
   2. Layout and location of plant and machinery.
   3. Management of purchase and storage of materials.
   4. Proper repairs and maintenance.
   5. Effective control of inventory and quality.
   6. Research and Development.
2. **Marketing Management:** Marketing Management is the process of understanding and identifying the consumer needs and wants, and thereby satisfying these wants by supplying the requisite goods and services, it includes the following activities:
   1. Determination of consumer demand through marketing research.
   2. Designing suitable products capable of satisfying wants.
   3. Establishing appropriate pricing strategies and policies.
   4. Choosing the right and best channel of distribution.
   5. Making the best use of promotional activities like advertising, personal selling and sales promotion to reach the customers.
3. **Financial Management:** Finance is the life blood of business organisation and every managerial decision has its own financial implication. Financial Management provides the right type of funds to an organisation at the right time and at reasonable cost. The main functions of Financial Management are:
   1. Determining the extent of funds required for both long term and short term needs of business.
   2. Selection of the appropriate source of funds and maintenance of these funds at the lowest cost.
   3. Making sure that funds are obtained when they are needed.
   4. Ensuring effective use and proper allocation of funds so as to achieve optimum financial efficiency in the enterprise.
   5. Proper administration and allocation of earnings.

Financial Management thus involves proper allocation and utilisation of financial resources.

1. **Personnel Management:** Personnel Management is that function of management which is primarily concerned with the human relationship within a business enterprise. Personnel management is concerned with managerial (planning, organizing, directing and controlling) and operative functions (procurement, development, maintenance, compensation and utilisation) with a view to accomplishing organisational goals effectively and efficiently and thereby meeting individual and group goals. It involves the following activities:
   1. Organisational planning, development and task specification.
   2. Recruitment and selection.
   3. Placement.
   4. Training and education.
   5. Compensation, wage and salary administration.
   6. Motivation and Incentives.
   7. Employee welfare and benefits.
   8. Labour relations.
   9. Maintenance of employee records to be utilised for promotions transfers.
   10. Personnel research and personal audit.

# Questions

1. Explain the different functions of Management.
2. “Management is getting things done through others” – Comment.
3. Explain the concept of Management as a process.
4. “Management is both a Science as well as an Art” – Discuss.

# Lesson 1.2 Evolution of Management Thought

**Learning objectives**

After reading this lesson you should be able to

* Understand the emergence of management
* Know Taylor’s contribution to management thought
* Identify Henri Fayol’s Contribution to Management Thought
* Know George Elton mayo’s Contribution

# Introduction

The need for a systematic study of management was not realised till the beginning of the present century. The study of management is a product of the twentieth century. However management practice did exist among human beings of the past generations while they lived together in groups. Management is as old as civilization itself. The origin of management as a discipline was the work of Frederick Winslow Taylor and his associates during the scientific management movement that developed around 1900. Some of the reasons for slow development of Management thought and practice are:

* 1. Non-recognition of business as an occupation until recently.
  2. A wrong notion about the concept of management that “Managers are born and not made”.
  3. Failure to treat management as a science and not merely an art by economists, psychologists and sociologists.
  4. Management was not considered as a subject worthy of theoretical analysis by well-known economics.
  5. Even businessmen did not develop a body of principles of guide management practice.

The development of a theory of management has come only in the past half century because it was felt that for attainment of an effective enterprise system, proper handling of human factor was necessary. Human unrest, national unionism, manipulation of resources and the attack by government and other social groups on free private enterprises were instrumental in forcing managers to examine the nature of their job.

The Second World War and the subsequent defence and space programs also contributed to the development of a theory on Management. The emphasis was to make the best use of limited resources to accomplish the objectives. The increasing complexities of business activities and the growing competition further provided the driving force for

developing systematic management concepts and principles. In addition to this, enterprises have been faced with the problem of cost-price squeezes. Businesses which failed to use modern techniques of management were not in a position to cope up with this problem.

Early contributions to management thought have come from the Egyptians, the early Greeks and the ancient Romans. In addition to this, management thoughts have come from the Roman Catholic Church, military organisation and camera lists of the sixteenth to eighteenth centuries. These contributions were in the field of principles of specialization, selection and training of subordinates and effective use of staff in the performance of major activities. In later periods, contributions to development of management thought came from James Watt. Mathew R.Boulton, Robert Oweri and Charles Babbage. Their ideas only created an awareness about management problem. The real development of management thought began with Frederick Winslow Taylor’s scientific approach to Management.

# Pioneers of Management Thought

During the last four decades there has been a number of contributions to the development of management thought. The development of management as a discipline has come in a short period of time when compared to other sciences. Among the pioneers of Management thought, the contributions of F.W Taylor. Henri Fayol and Elton Mayo are outstanding. These contributions give a clear view about the development of Management concepts and principles. We will now examine these contributions individually.

## Taylor’s Contribution

Frederick Winslow Taylor (1856 – 1915) is called as the Father of Scientific Management and his contribution as the Principles of Scientific Management. Taylor gave up his studies in 1875 and started working as an apprentice patternmaker and machinist. In 1878, he joined the Midvale Steel Works in Philadelphia as an ordinary worker and later rose to the position of chief engineer after completing his degree in engineering through evening studies. Later on, he joined Bethlehem Steel Company. He conducted a number of experiments about how to increase the efficiency of people. He studied the problem of management from the shop floor level (lower level). According to Taylor, “Management is knowing exactly what you want men to do and then see that they do it in the best and cheapest way”. He spends most of his life as a consulting engineer. Since Taylor rose from an ordinary worker to the position of a chief engineer, he was in a position to understand the problems and attitudes of workers and this gave him ample opportunity for

improving the quality of Management. His contributions were compiled into a book called “The Principles of Scientific Management” in 1911. The contribution of Taylor to Management thought can be analysed under two broad heads, namely 1) Principles of Scientific Management and 2) Main features or Techniques of Scientific Management.

# 1. Principles of Scientific Management

The following are the principles of Scientific Management developed by Taylor on the basis of his experiments:

1. **Replacing Rule of Thumb with Science:** Taylor emphasised the use of organised knowledge in scientific management and wanted it to replace rule of thumb. Scientific methods denote precision, while rule of thumb emphasises intuition and experience to determine the work methods and tools. The basic cores of scientific management are fair work, standardisation of work etc. It is essential that these are measured properly and not based on estimates. This concept can be applied in all aspects of management.
2. **Harmony in Group Action:** Harmony in group action is one of the most important principles of scientific management where Taylor emphasised that there should be harmony in group action rather than discord. This would help in proper understanding and maximum contribution on the part of the group.
3. **Cooperation of Human Beings:** Scientific management stresses on cooperation of human beings rather than chaotic individualism. It is based on mutual confidence, utmost good faith, cooperation and good will. Mutual understanding and positive thinking would develop good cooperation between workers and management. He suggested substitution of peace for war and replacement of suspicion with mutual confidence and cooperation.
4. **Working for maximum Output:** Taylor was against inefficiency and deliberate curtailment of production. He always emphasised on continuous increase in productivity instead of restricted production either by workers or management. He pointed out that both management and workers could gain from it. Management could secure higher profits and workers could expect higher wages.
5. **Development of Workers:** Another principle of Scientific management is developing all workers to the fullest extent possible for their own and their enterprise’s highest prosperity. This involves scientific selection and training of the workers, which would improve productivity and help a worker to adapt himself according to changing situations.

# Techniques of Scientific Management

Taylor and his close associates suggested the following techniques of Scientific Management in order to put it into practice.

* 1. **Separation of Planning and Doing:** Taylor emphasised the need for planning work to be performed and he wanted the planning function to be separated from the executive function. Before Taylor’s scientific management, both planning and execution were carried out by the same individual and there was only a supervisor to control the job. This led to a lot of confusion and Taylor wanted the planning activity to be done separately by the planning department, where the worker had no role to play.
  2. **Functional foremanship:** Taylor developed a theory on functional authority called functional foremanship based on specialization of functions. Here planning was separated from executing. In this system, eight foremen were involved to direct and control the activities of the workers. Of these, four were concerned with planning, namely, route clerk, instruction card clerk, time and cost clerk and shop disciplinarian. The remaining four were concerned with getting the required performance from the workers, namely gang boss, speed boss, repair boss and inspector. The concept of functional foremanship is clearly indicated in Figure 1.

Planning Incharge

Route Clerk

Gang Boss

Speed Boss

Production Incharge

**FACTORY MANAGER**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | |  |  | | |  |
| Instruction Card Clerk | |  | Time and Cost Clerk | |  | Shop Disciplinarian | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | | |  |
| Repair Boss | |  | Inspector | |

Workers

# Figure 1: Functional Foremanship

* 1. **Job Analysis:** it is undertaken to find out the best possible way to do a particular activity. Any activity that requires minimum movements and consequently less cost and time is the best way of doing that activity or job. This can be determined by taking up time – motion and fatigue studies.

***Time study:*** this is otherwise called work measurement. It helps in recording the time required to do each element of an industrial operation. Thus, the precise time for each operation is clearly laid down. This helps in fixing fair and standard work for a period.

***Motion study:*** it helps in studying the movement of an operator or machine. Here, wasteful movements can be eliminated and the earliest method of doing a particular job can be determined.

***Fatigue study:*** Both physical as well as mental fatigue has an adverse effect on the worker’s performance and health. Fatigue study indicates the amount and frequency of rest required in completing the job. Fatigue is normally caused because of continuous work without rest pauses, repetitive operations, poor working environment etc. Fatigue study is to maintain operational efficiency of works. The concept of job analysis, as given by Taylor, suggests a fair day’s work requiring certain movements and rest pauses to complete it.

* 1. **Standardisation:** Taylor suggested standardisation of instruments and tools, amount of work, period of work, working conditions, cost system and several other items. This would help to reduce wastage and spoilage of materials, reduce fatigue among the workers and improve quality of work. Standardisation of activities and equipment should be fixed well in advance on the basis of job analysis and various elements of costs that are required for performing the work.
  2. **Scientific Selection and Training:** According to Scientific Management workers should be scientifically selected taking into account their education, experience, skill, and physical strength so that the right man is put into the right job. A person who is technically and physically fit for a given job should be assigned that work. Besides this, proper training should be given to make him efficient and perfect.
  3. **Differential Piece Wage Plan:** Taylor applied the concept of differential piece-wage plan in order to motivate and attract highly efficient workers. According to the plan if a worker completes the normal work given to him, he will be given a higher piece rate. On the other hand, one who does not complete gets a lower piece rate. Taylor also suggested that only individual performance should be taken into consideration.
  4. **Economy:** Application of scientific management should always lead to economy and profitability. For this purpose, techniques of cost estimates and control should be adopted. By making effective use of resources, wastage can be eliminated and thereby profitability and efficiency can be improved. Scientific management should not be based only on technical and scientific aspects but due consideration should also be given to profit and economy.
  5. **Mental Revolution:** The concept of Mental Revolution laid down by Taylor calls for a change in the mental attitudes of the workers and the management towards each other.

This change in mental attitude can be brought about through mutual cooperation and confidence. No principle of scientific management can be applied without the revolutionary change in attitude. Mental Revolution can be obtained by i) taking proper efforts to increase production, ii) creating a spirit of mutual confidence and trust, and iii) developing scientific attitude towards problems. Mental Revolution helps in effective accomplishment of organisational goals because both workers and management would turn their attention towards increasing the size of surplus and will not be bothered about the division of surplus.

Taylor’s scientific management has provided a number of benefits to the industry. The main benefits are conservation and savings, better utilisaion of different resources, development of workers and satisfaction of customer needs by providing quality products at lower prices.

# Criticism of Taylor’s Scientific Management

Taylor’s Scientific Management suffers criticism not only from workers and managers but also from psychologists and the general public. The criticisms are as follows:

* + 1. Taylor’s Scientific Management Concepts were confined only tto ne functional area of management, namely, production and it ignored others aspects of management like marketing, finance and personnel.
    2. The concept of functional foremanship cannot be applied in practice as it is against the principle of unity of command.
    3. Workers feel that the concept of scientific management is a means to exploit them without providing them with proportionate returns.
    4. Introduction of scientific management concepts involve huge expenditure.

In spite of these criticisms, many of Taylor’s concepts are still being applied by modern business organisations. It was Taylor who first introduced scientific reasoning to the discipline of management.

## Henri Fayol’s Contributions

Henri Fayol (1843-1925), a French industrialist is known as the real father of modern management theory. In 1860 Henri Fayol joined a French mining company as an Engineer and later became its Managing Director. When he took charge, the company was on the verge of closure, but when he retired in 1918, the company’s financial position was very sound. Fayol pointed out that the reason for his success was his system of management which he emphasized could be both learnt and taught. His observations on

the general principles of management were first published in French in 1916, under the title Administration Industrielleet Generale (General and Industrial Management). This was not translated into English nor made available outside France until 1929. Moreover, no English translation was published in the United States until 1949. Henri Fayol’s contribution could not make much impact on the development of management thought in the earlier periods because of these delays. However, after its publication, Fayol’s perception of management principles, disclosed and extraordinary insight into the basic problem of modern management.

Henri Fayol evolved a general theory of management which could be applied to any filed of organised activity, particularly from the top level of management. He viewed the problem of managing an enterprise from the top management angle. Henri Fayol’s observations fit well with the requirements of present-day management. That is why he is rightly called the Father of Modern Management Theory.

Fayol found that the activities of an industrial undertaking could be classified into six groups, namely:

1. Technical (concerned with production);
2. Commercial (related to buying, selling and exchanging):
3. Financial (search for capital and optimum use of it);
4. Security (protection of person and property);
5. Accounting (including statistics); and
6. Managerial (relating to planning, organisation, command, coordination and control).

Fayol pointed out that these activities exist in every type and size of business. He observed that the first five were well known, and consequently devoted most of his book to anyalse the last activity namely Managerial. Fayol’s contribution to management can be divided into three parts:

* 1. Managerial qualities and training, II. General principles of management, and III. Elements of Management. General principles indicate the rules or guidelines which are fundamental truths that establish cause-effect relationship, whereas, elements of management indicate the functions that are to be performed by a manger. Let us now exa…. Each one of these parts separately.

# Managerial Qualities and Training

According to Henri Fayol, there are six types of qualities that a manager should possess in order to be effective in carrying out his duties. They are:

* 1. Physical (health, vigour and address);
  2. Mental (ability to understand and learn, judgment and adaptability);
  3. Moral (relating to energy, initiative, firmness, loyalty and dignity);
  4. Educational (general acquaintance with matters not belonging exclusively to the functions performed);
  5. Technical (peculiar to the function being performed); and
  6. Experience (arising from the work).

Fayol pointed out that the technical ability of a worker was the important ability and the relative importance of managerial ability increases as one goes up the main of command. On this basis, Fayol developed the need for principles of management and for management teaching. He held that managerial ability should be first acquired in school and later in the workshop. He developed fourteen principle of management to be taught in academic institutions, in order to acquire managerial ability and knowledge.

# General Principles of Management

Principles of Management are fundamental truths and they establish cause-effect relationship. Henri Fayol has listed fourteen principles of management. Fayol emphasised on two important aspects with regard to his principles.

1. The list of principles is only suggestive and not exhaustive and only those principles which he used on most occasions had been discussed.
2. These principles are flexible and not rigid and they can be adopted to every need and situation provided one knows how to make use of them.

The fourteen principles of management are as follows:

* 1. **Division of Work:** In order to take advantage of specialisation, this concept of division of work was formulated. Specialisation leads to efficiency and accuracy which increases output. Fayol applied this principle to both managerial as well as technical work. The principle of division of work can be applied to all levels of the organisation.
  2. **Authority and Responsibility:** Henri Fayol points out that these two terms ‘authority’ and responsibility are related to one another and they go hand in hand. Responsibility is corollary to the former and arises from it. There should be parity of authority and responsibility, in order to discharge responsibility properly. According to Fayol, authority is derived from one’s position, whereas personal authority is derived from personal qualities like experience, intelligence etc.
  3. **Discipline:** Discipline is “respect for agreements which are directed to achieving obedience, application, energy and outward marks of respect”. Discipline is essential for

smooth functioning of an enterprise and it should prevail at all levels of an organisation. Discipline can be enforced through good supervision, fair and clear agreements and judicious sanction of penalties.

* 1. **Unity of Command:** This principle is based on the concept of “one man – one Boss” Every individual in an organisation should receive instructions and orders from only one superior. If a person receives instructions from two or more superiors, then it would lead to unnecessary conflict and delay. For effective functioning of an organisation, unity of command is essential. But for unity of command, authority is undermined, orders are disturbed and stability is threatened.
  2. **Unity of Direction:** According to this principle, each group of activities having the same objective must have one head and one plan. Unity of direction and unity of command are not the same. Where the later pertains to the functioning of persons, the former is concerned with the functioning of the body corporate directed towards achievement of common goals. Unity of direction leads to unity of action and coordination of efforts.
  3. **Subordination or Individual to general interest:** When there is a conflict between individual interest and general interest, individual interest should be subordinated to general interest. The interest of the organisation is above the individual interest. Factors like ambition, weakness, selfishness etc., may reduce the importance of general interest. Constant supervision, fair agreement and firmness on part of the superiors help in subordination of individual to general interest.
  4. **Remuneration of Personnel:** Fair remuneration and maximum possible satisfaction to both employees and employers, were advocated by Henri Fayol. In large scale organisation, he favoured non-financial incentives. He favoured profit-sharing plan for managers and not for workers.
  5. **Centralisation:** Without using the term centralization of authority. Fayol refers the extent to which authority is centralised or decentralised. Centralisation and decentralization are only a question of proportion. According to Henri Fayol, the size of the firm and the individual circumstances will determine the degree of Centralisation.
  6. **Scalar Chain:** Scalar chain of authority refers to the flow of communication ranging from the highest to the lowest level. All upward and downward communication should flow through each position in the line of authority which he should clear. The chain of command can be short-circuited only in special circumstances when it is absolutely essential. For this purpose, Henri Fayol has suggested the concept of ‘Gang plank’

wherein two subordinates can deal directly with each other, provided they inform their immediate superior of any action taken by them. This concept of gang plan is clearly explained in Figure 2.

X

A

B

C

D

E ----------------------- F

G

H

# Figure 2: Scalar chain and gang plank

In Figure 2, X is a superior having two immediate subordinates namely, A and B in turn they have two subordinates C and D and so on until G and H any communication from top to bottom should flow through X, A, C, E and G. Similarly, it should flow from G to X, while to go through the formal chain, namely E to X through C and A and then from X to F through B and D. Fayol suggested that this chain of communication takes time, and this can be substituted by gang plank (dotted line) without weakening the normal chain of command. E and F can communicate directly with one another provided their immediate superiors C and D authorise them to do so and it is the duty of E and F to inform their superiors of any action. By following this pattern quick decisions can be taken without any delay.

* 1. **Order:** This principle relates to two aspects to an order, namely social order and material order. In social order there should be a right person in the right place and in material order there should be a place for everything and everything should be in its place. Order in an organisation helps to establish constant balance between human requirements and resources.
  2. **Equity:** Equity refers to the combination of justice, fairness and kindness. Equity of treatment brings about loyalty in the organisation. The concept of equity should be applied at all levels in the organisation.
  3. **Stability of Tenure:** According to this principle, there should be reasonable security of jobs. Workers should not be removed within a short period. Stability of tenure is required to get a worker accustomed to his new job and help him to perform better in future. Unnecessary labour turnover affects the organisaiton to a great extent and is a cause of bad management. Fayol suggested stability of tenure for all and more so to managerial personnel.
  4. **Initiative:** Fayol advocated that managers should encourage their employees for taking initiative. It is concerned with the power of thinking out a plan and ensuring its successful implementation. It adds to the energy and zeal of human beings.
  5. **Esprit de Corps:** This is a French term which means “union is strength”. It refers to the spirit of loyalty and devotion which integrates the members of a group. Unity can be obtained in an organisation, through proper coordination of work, smooth social relationship among the work force and by creating enthusiasm among the workers to contribute to their maximum possible extent.

# Elements of Management

According to Henri Fayol, “to manage is to forecast and plan, to organize, to command, to coordinate and to control”. Fayol viewed these as the elements of management. He considered these five elements (planning, organisation, commanding, coordination and controlling) as functions of management. Planning is considered by Fayol as the most important managerial function, and failure to plan affected the organisation badly. In order to put plans into action, creation of organisaiton structure and commanding is necessary. Coordination helps to integrate working and control checks whether everything works according to plans. These functions according to Fayol are required at all levels of management and in every type of organisation.

Fayol’s Principles of Management hold good even today, it was he who made the real beginning of development of management as a separate field of study. His aim was to improve and rationalise the system of management.

## George Elton Mayo’s contributions

George Elton mayo (1880 – 1949) was a pioneer of Human Behaviour School. He was a Professor of Industrial Psychology at the Harvard Business School and his remarkable contribution was his psychological approach to management. He published several papers and books. He led a team of researchers who carried out the famous Hawthorne experiments. The experiments were conducted in the Hawthorne plant of

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Western Electric Company in Chicago (USA) from 1924 to 1932). It employed about 30,000 employees at the time of experiments. Thought the workers were given a number of material benefits, still there was a great deal of dissatisfaction among the workers. In order to find out the reasons for this problem, the Hawthorne experiments were conducted in four stages, each stage attempting to answer the questions raised at the previous stage:

* 1. Illumination experiments to determine the effect of changes in illumination on productivity.
  2. Relay assembly test room experiment to determine the effects of change in hours and other working conditions on productivity.
  3. Mass interview programme to determine workers attitude.
  4. Bank wiring observation room experiment to determine social organization at work.

The conclusions drawn from the Hawthorne study were:

1. Workers behaviour and performance are not materially influenced by physical factors.
2. Significant influence on productivity and performance is exercised by social and psychological factors.
3. Pay is not the only means of motivation, it is the working environment that influences and motivates workers.
4. Workers react as members of a group and not as individuals. Informal groups and social norms determine the behaviour and efficiency of workers.
5. Workers attitude and performance are influenced greater by informal leaders.

The Hawthorne Studies brought about a remarkable change in the practice and teaching of management. Its findings were a source of information on individual and group behaviour. There was more stress on interpersonal relationship. Mayo’s contribution brought about a complete change in the development of management thought, where he looked at the human element in a new way. That is why, he is called as one of the pioneers of the Human Relations approach to management.

# Questions

1. Outline the contribution of F.W Taylor to Management thought.
2. What are the different functional areas of Management?
3. Assess Henri Fayol’s contribution to management thought.
4. Write a note on Elton Mayo’s contribution to Management thought.

Lesson 2.1 Planning

Lesson 2.2 Decision Making

# UNIT – II Unit structure

**Lesson 2.1 Planning and Decision Making**

**Learning objectives**

After reading this lesson you must able to

* + Understand Nature of Planning
  + Know the Purpose and Importance of Planning
  + Enumerate Planning Process
  + Evaluate its limitations and identify means of effective planning
  + Understand types of plan

# Introduction

Planning is the most important and primary function of Management. It precedes all other functions. Al other functions of Management will be of no use without setting objectives. Therefore every organisation will have to specify in advance what it wants to achieve. It is this aspect with which planning is basically related. Planning helps in deciding the future course of action. Planning is a unique function of management in the sense that it establishes objectives for the organisation and lays down steps to accomplish them before the manager proceeds to perform other functions.

# Definition of Planning

Planning is the determination of a course of action to achieve desired goals. It consists of two important elements – problem – solving and decision making. It helps to determine objectives and provides the way to reach them.

According to Koontz and O’Donnel, “Planning is deciding in advance what to do it, when to do, and who is to do it. It bridges the gap from where we are, to where we want to go. It makes it possible for things to occur which would not otherwise happen”.

According to George R. Terry, “Planning is the selection and relating of facts and making and using of assumptions regarding the future in the visualisation and formalization of proposed activities believed necessary to achieve desired results”. In this definition, Tery defines planning in terms of future course of action. A manager while

planning visualises and formulates necessary activities based on facts, constraints and reasonable premises and sees how they contribute to achieving desired results.

“Planning is, fundamentally, the choosing function and planning problems will arise only when an alternative course of action is discovered.” – Bill E. Goetz.

From these definitions it is clear that planning involves two important aspects: (1) Determining the aims and objectives and (2) Selecting the best course of action on the basis of past experience, present facts and future possibilities to realise the objectives. Planning is considered as a very important aspect in the field of business because of growing competition and complexities in business operations.

# Nature of Planning

The following features of planning clearly indicate its nature.

1. **Planning is Goal Oriented:** Accomplishment of goals is the major task of organizations and the entire planning activity starts form the formulation of objectives. It not only specifies the objectives to be attained in the future but also provides the steps necessary for proper planning. Thus planning is goal oriented.
2. **Planning is all pervasive:** Planning is a function that is carried out at all levels of management irrespective of the size and nature of organisation. It is the duty of every manager to plan effectively. At the top level policies are formulated, at the middle level departmental plans are laid down and at the lower lever, operational plans are laid down. The nature and scope of planning decreases as we go down the chain of command.
3. **Planning is a basic management function:** Planning is a primary function as it precedes all other managerial functions. Planning sets the goals and all other functions are designed to achieve the goal. Without planning no other function of management makes sense.
4. **Planning is forward looking:** Planning is future oriented. Its purpose is to achieve the goal in future. It involves forecasting of future activities. Plans cannot be prepared without any knowledge of future events, planning helps to see through the uncertain future.
5. **Planning involves selection among alternatives:** Choosing among alternative courses of action is the prime task of planning. Thus, an integral part of planning is decision making. But for alternative courses of action, there is no need for planning.
6. **Planning is a continuous process:** Planning is a continuous and ongoing process. It is a very dynamic process. Plans have to be revised or new ones have to be formulated whenever there is a change in the planning environment.
7. **Planning is an intellectual activity:** Planning involves foresight, imagination and sound judgment. It is mental process, which involves mental skills for the achievement of organiational goals. It makes it possible for things to happen, which might not otherwise happen.
8. **Planning is an integrated process:** Planning is an interdependent process which has to be initiated. Planning is a structured process in which different plans are interrelated and they constitute a hierarchy. Every other plan is dependent on the other plan and lower plans serve as a means to achieve higher plans.

# Purpose and Importance of Planning

Planning is essential to accomplish goals; sound plans are required for effective management. In all types of organisations, planning has assumed great significance. The importance of planning to an organisation is described as follows:-

* 1. Planning focuses attention on objectives and results without allowing management to deviate from the broad objectives.
  2. Planning helps an organisation to cope with change and uncertainty because these two elements are inevitable and cannot be eliminated by planning. Planning reduces risk and uncertainty.
  3. Planning coordinates all the resources and activities of an organisation. It secures unity of direction towards organisational goals. Coordination is the essence of management and planning is the base for it.
  4. Planning provides the basis for control. Plans provide a standard for evaluation of performance. The task of control is to ensure that the activities conform to the plans. Thus planning facilitates control.
  5. Planning proves a sense of direction. It lays the path through which all activities are to be performed in order to accomplish the goals. It makes work more meaningful and purposeful.
  6. Planning encourages creativity and innovation in an organisation. It is a thinking process which stimulates people of new ideas.
  7. Planning helps to bring about efficiency in operation, through optimum utilisation of resources.
  8. Planning helps in taking future – oriented decisions by predicting future. Sound planning helps in taking the right decision that is required to accomplishment. It thus acts as a guide for decision making.

# Planning Process

It is difficult to lay down the steps that are involved in planning process for all types of organizations because of change in size and complexity. However, it is possible to suggest certain major steps involve in the planning process. Figure 3 clearly indicates the different steps involved in planning process.

Identification of opportunities

Establishing of objectives

Determining Planning premises

Search for

alternative

Establishing sequence of activities

Formulation of Secondary plan

Selection of an alternative

Evaluation of alternatives

# Figure 3: Planning Process

1. **Identification of Opportunities:** This is the beginning of the planning process though it is not part of it. However, this leads to formulation of plans by providing and insight as to whether opportunities exist for taking up particular plans. The purpose of identification of opportunities is to enable an organisation to adapt to its environment. This is a preliminary stage where analysis of environment is not done very elaborately but analysis relating to the determination of opportunities is carried out. Identification of opportunities involves a preliminary look at possible opportunities in order to ascertain whether these opportunities could be exploited by the organisation to its advantage.
2. **Establishing of Objectives:** It is here that the actual planning process starts. At this stage the organisational and unit objectives are established. Objectives indicate the end- result that are to be achieved and the task to be performed. Organisational objectives should be laid down in all key result areas. Key result areas help an organisation in achieving its objectives. Examples of key result areas for an organisation may be profitability, productivity, public responsibility and so on. Once the overall objective of an organisation is laid, objectives of lower units can be established. There will always be a hierarchy of objectives in an organisation.
3. **Determining Planning Premises:** Once the organisational objective is laid down, the next step is to determine the planning premises. Planning premises refer to the limits or conditions under which planning activities will be undertaken. They are assumptions based on Internal and expected environmental conditions. Internal premises include

organisational policies and procedures, various resources etc., External premises include factors in task environment like social, political and technological, competitors’ plans and actions, government regulations and policies etc., and Forecasting plays a very vital role in planning premises. Plans are formulated based on both internal and external factors. Planning premises vary at different level of planning. At the top levels it is more external in nature. At the lower level there is a change from external to internal.

1. **Search for Alternatives:** There are several ways through which an objective can be accomplished. The task of management is to search for these alternative ways. One problem with alternatives is not that of finding alternatives alone, but to reduce the number of alternatives so that the most prominent ones may be taken up for evaluation. Through preliminary examination and screening, unwanted alternatives can be eliminated.
2. **Evaluation of Alternatives:** At this stage feasible alternatives are evaluated in order to see how each alternative contributes to the organisational objectives in the light of its strength and constraints. Each alternative should be subjected to a close examination to determine its suitability. Many quantitative techniques are available to evaluate alternatives. Alternative are evaluated on basis of their cost, limited resources, expected returns risks and many intangible factors.
3. **Selection of an Alternative:** Once evaluation is over, the most appropriate alternative is selected. Sometimes two or more alternatives may be suitable. Under such a situation the planner may choose more than one alternative. The alternative selected should be the most optimum one under the present circumstances.
4. **Formulation of Secondary Plans:** Once the basic plan is determined, the secondary plans are formulated to support it. In an organisation there may be a number of secondary plans which are developed within the framework of the basic overall plans. Basic plans cannot be executed properly unless they are supported by secondary plans.
5. **Establishing Sequence of Activities:** In this step the sequence of activities are established after formulating the basic and secondary plan, in order to put the plan into action. This clearly lays down the pattern of work to be performed and the people who will have to perform it.

# Limitations of Planning

Effective planning is not an easy task because there are a number of practical difficulties encountered in the planning process. There are a number of reasons for failure of planning in practice. Planning suffers from the following limitations:

* 1. Planning is quite a costly and time consuming process. time is spent on forecasting, evaluating alternatives etc.

Unlimited amount of By the time a plan is

established the environment might change and this requires a complete revision of the plan. Besides this, cost also increases.

* 1. Planning is future oriented activity which is based on forecast. As the period of planning increases the accuracy of forecasting diminishes. Planning loses its value if reliable and adequate data is not available.
  2. Planning becomes rigid at times because of internal inflexibilities. This reduces individual initiative and freedom, and caused delay in decision making. Internal inflexibilities like rigid policies and procedures and limited resources affect planning process.
  3. External factors beyond the control of an organisation affect the effectiveness of planning. These are very difficult to predict and this makes execution of plans very difficult. External factors like government control, technological change and trade unions affect the planning process.
  4. Another important limitation of planning is resistance to change. The human elements in an organisation always resist change; they are more concerned about the present rather than the future, which is uncertain. Planning being forward looking is always affected by this resistance to change.
  5. The entire planning process may fail, if people involved in it do not formulate correct plans. He reasons for failure of people in planning may be due to a number of reasons like, lack of commitment to planning, lack of delegation of authority, excessive reliance on past experience, tendency to overlook premises etc.

# Making Planning Effective

In order to overcome the limitations of planning certain guidelines are given to make planning effective.

1. Objectives should be clearly and specifically laid down. They should be rationale in nature. The overall objectives of the enterprise should help in achieving specific unit objectives.
2. Planning should be flexible in nature. Modern business environment is always subject to change, planning process should be able to adapt to such changes.
3. Planning premises should be carefully determined. Planning premises lay the boundary within which planning activity is to be carried out. The assumptions

should be clearly specified taking into consideration past, present and future activities.

1. Planning should originate from the top level to be effective. It should always be supported by top management. The success or failure of planning depends upon the role played by top management. Effective planning should start from the top level and get support from lower level.
2. Participation in planning process by subordinates is essential for effective planning. This level makes them committed towards implementing the plan.
3. Long term and short term plans should be integrated with one another and the short term plans should contribute towards achievement of long term plans. An interrelated network of minor and major plans will lead to more effective planning.
4. A proper management information system should be installed to make planning effective. Availability of relevant facts and figures will help a manager to carry out the planning task effectively.

# Types of Plans

Plans can be broadly classified into two categories depending on their nature and scope, namely: standing or repeated use plans (Multiuse plans) and single use plans (as shown in figure 4).

**TYPES OF PLAN**

Repeated – Use Plains Single – Use Plans

* 1. Objectives
  2. Policies
  3. Strategies
  4. Procedures
  5. Rules

# Figure 4: Types of plans

1. Programme
2. Budgets
3. Schedules

# Standing Plans

Standing plans are designed by the organisation to serve as guidelines with respect to activities which will occur frequently over a time. They are used again and again. Standing plans help an organisaiton to achieve its organisational goals. They result in

uniformity and unity of action. They provide readymade answers to all problems and help in quick decisions. Standing plans save time and effort. They include objectives, policies, strategies, procedures and rules.

Each one of these standing or repeated used plan are discussed in detail:-

# Objectives

Objectives are the ends towards which the activities of an enterprise are directed or aimed. They serve as a bench mark for measuring the efficiency of an organisation. Objectives are known by different names, like, goals, purposes, missions, aims, targets etc. Planning is carried out to achieve the objectives and they constitute the end point of planning. The different kinds of objectives that an organisation may have are market sanding, profitability, productivity, social responsibility etc. Objectives provide direction to thinking and effort.

An organisation should have both general and specific objectives. General objectives are related to the overall organization, whereas specific objectives are related to the different units and departments of the organisation. Objectives differ in time and some are long term in nature of the organisation. Objectives should be clear, so that every individual knows the extent to which he contributes towards the achievement of these objectives.

# Merits of Objectives

* + 1. Objectives provide targets for managerial action. They serve as guidelines to management and eliminate unwanted action.
    2. Objectives integrate different activities of an organisation in a meaningful manner. The act as a key to sound planning.
    3. Objectives provide a basis for effective decentralisation. By providing specific goals they reduce the need for guidance.
    4. Objectives help in evaluation of performance, they provide standards for control.

# Limitations of Objectives

1. It is difficult to define non-economic objectives like high morale, better working conditions etc., in quantitative terms.
2. Objectives if not properly defined, cannot accomplish desired results due to lack of proper resources.
3. When an organisation lays down a number of objectives, there is a possibility of one objective adversely affecting the accomplishment of another objective and this will lead to conflicting objectives which will affect the overall growth of the organisaiton. For e.g., if an organisation wants to increase productivity it will ant its workers to contribute more by better performance, this would require server checking which may not be conducive to healthy worker – management relationship.

# Essentials of a valid Objective

i.

ii. iii.

iv.

v.

# Policies

Objectives should not be vague and in general terms. They should be specific and clear.

Objectives should focus on results rather than the activity to be performed. They should be laid down in all key result areas of a business like productivity, market sanding, profitability etc.,

Objectives should be integrated with one another and they should form an hierarchy, whereby each one mutually supports the other.

Objectives should be realistic and attainable.

Policies are guidelines to thinking and action of those who are involved in the planning process. According to Koontz and O’Donnell “Policies are general statements or understandings which guide or channel thinking in decision-making of subordinates”. They provide limits within which the members of an organisation act. They provide immediate answers to all problems aced in the running of an organisation. Policies are means to accomplishment of objectives. They provide the broad outline within which decisions are to be taken. It should be noted that they do not provide any decision as such. For e.g., if management has laid an objective of promoting its employees from within. It may follow the policy of promotion by seniority. Policies are formed at different levels of the organisaiton. They allow lower managers to handle situations without going to top level managers for a decision each time.

# Characteristics of a Good Policy

A good policy should consist to the following characteristics:

* + 1. Policies should contribute towards accomplishment of objectives. They should provide broad outlines within which decisions are to be taken to achieve the objectives.
    2. Policies should be simple and clear and should not give room for misinterpretation.
    3. Policies of an organisation should be consistent. An organisation may have a number of policies dealing with different subjects. It is necessary to ensure that they do not contradict with one another.
    4. Policies should be adequate and sufficient in number to deal with different fields of activities.
    5. Policies should be flexible in nature, in order to adjust with the changing situations.
    6. Policies should be in writing in order to ensure uniformity in application.

# Kinds of Policies

Policies can be classified into the following categories:

1. **Organisational and Functional Policies:** On the basis of scope, policies can be divided into organisational policies and functional policies. Organisational policies are designed by top management for the entire organisation (overall policies), whereas, functional or departmental policies are meant for specific functions or departments of an organisation policies are meant for specific functions or departments of an organisation (unit policies).

E.g. Production policy, marketing policy etc. Departmental policies are formed on the basis of organisational policies.

1. **Originated, Imposed and Appealed Policies:** in terms of origin, policies may be classified as Originated, Imposed and Appealed policies. Originated policies are formulated by management at different levels in order to guide the actions of other members in the organisation. They are also called internal policies. Imposed or external policies are framed by outside agencies namely, the Government, trade association, etc. Appealed policies on the other hand are formulated on the basis of complaints or suggestions given by employees of the organisation. It might deal with a particular case, not covered by earlier policies.
2. **Written and Implied Policies:** Written policies are explicit policies which are in writing or in print and they form part of the records of an organisation. Mostly all major policies of an organisation are in writing. Implied policies are unstated policies that are inferred from the behaviour or conduct of members, particularly of top executives.
3. **General and Specific Policies:** On the basis of area of freedom, policies can be classified into general and specific policies. General policies are broad in nature and give

more freedom to the different departments of an organisation. Whereas specific policies are defined intensively to restrict freedom of action and they are to be strictly followed.

# Factors that Influence Policy Making

Policies of an organisation are normally formulated by top level management.

While formulating these policies, a number of factors influence them. They are: -

* 1. The availability of finance with the organisation.
  2. The ambitions and foresight of the top management.
  3. The reaction of employees towards formulation of a particular policy.
  4. The influence of external environment, namely government control and regulation.
  5. The reaction and activities of the competitors.
  6. Public response and attitude towards the policy.

# Merits of Policies

1. Policies are guidelines to thinking and action, which provide managers with the framework within which decisions are to be taken.
2. Policies provide uniformity of performance and consistency of action throughout the enterprise.
3. Policies ensure promptness of action; they help managers to act confidently without the need for guidance from superiors.
4. Policies facilitate, effective control, they provide rational means for evaluating the results.
5. Policies ensure integration and coordination of action in achieving the organizational goals.
6. Policies help to build the confidence of managers, since they provide ready- made answers to all problems faced by the organisation.

# Limitations of Policies

1. Policies provide no scope for initiative by individuals because they are preplanned and bring about rigidity in operation due to its continuous use.
2. Policies cannot be treated as substitutes for human judgement. They only provide limits with which decisions are taken.
3. Policies do not provide solutions to all problems because policies formulated under a particular situation may not remain the same and moreover to policy lasts forever.

# Strategies

The word “strategy” is derived from the Greek word “Strategia” which means office of the general. It normally refers to the art of military leadership in the planning and execution of large scale army operations. The concept of strategy has been adopted from military science and sports where it aims to outwit the opponent. It has gained importance in modern business because of increasing competition and complexities of operation.

Strategies are framed to accomplish the objectives of an organisation in the context of external force beyond the control of the organisation. It is an overall plan designed to achieve success in the face of difficulties posed by the activities of competitors and other external forces. For example, if management anticipates the launching of a new product by its competitor, it may decide upon an advertising strategy to educate the customers about the superiority of its products. Thus strategies are primarily concerned with an enterprise’s relationship to the competitive situation and external environment inherent therein.

# Characteristics of a Strategy

The concept of strategy reveals the following characteristics of a Strategy:

* 1. Strategy is an overall and contingent plan that is designed to meet problems posed by external environment.
  2. Strategy provides the means through which physical and human resources are effectively used to accomplish enterprise goals in the face of external pressures.
  3. Strategies are always situational in nature. Strategic action depends on environment forces.
  4. Strategies are formed to interpret and give meaning to other plans under specific situations.

# Procedures

Policies and objectives, however well-framed, cannot produce action by themselves. This is because they do not establish the means through which polices are to be put into effect and objectives are to be accomplished. It is for this purpose that procedures are required. According to George R. Terry, “a procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished”.

It clearly specifies the task to be performed, the time at which it will have to be performed it. It gives a time-table for doing a particular activity. Procedures are generally

laid down for repetitive work, so that it can be often used when the same activity is performed. Procedures can be adopted for a number of activities in an organisation, namely placement of orders, grievance handling, recruitment of personnel etc.

# Merits of Procedures

* 1. Procedures ensure consistency and uniformity of action throughout an organisation.
  2. Procedures eliminate unnecessary and unwanted steps and leads to simplification of work.
  3. Procedures help managers to evaluate the performance of subordinates and thus act as a means of effective control.
  4. Procedures reduce the work of decision makers by providing them with standardised steps.
  5. Procedures facilitate coordination among various units in the organisation.

# Limitations of Procedures

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# Rules

A procedure fixes the standard way of doing a particular activity and a more effective way of doing it may not be given proper attention.

Procedures to be effective must be reviewed and evaluated constantly, because they become obsolete when the nature of business activities change. But rarely do managers update them.

Rules are the most specific and simplest type of repeated – use plans. A rule refers to a managerial decision regarding what should be done and what should not done in given situation, they are rigid and definite plans. Rules do not provide any scope for decision- making, nor do they allow any deviation. Rules regulated behaviour and facilitate effective communication. A rules normally refers to the administrative area of a procedure, however it need not be part of procedure. For e.g., “No smoking” as a rule is not related to any procedure. Violation of a rule leads to penalty and disciplinary action.

# Single use Plans

Single use plans are designed to handle non-recurring and novel problems which have limited scope. A single-use plan in order to fit a specific situation lays down a certain course of action. The plan loses its relevance once the course of action is completed. Single use plans are of a shorter duration and relate to specific of the organisation. Single use plans include programmes, budgets and schedules.

* 1. **Programme:** A programme is an established scheme of action designed to accomplish a given task. Thus, a programme is a combination of objectives, policies, procedures, budgets, task assignments, resources to be used and other elements necessary to carry out a given course of action. A programme plans for future activities and establishes a sequence of required actions. Programmes can be prepared for different activities namely, training of workers, new product development etc. a programme may be a major or a minor one.

Programmes ensure uniformity and economy in business activities. They are action based and provide practical guides to managerial actions. Another important aspect of a programme is that they provide greater motivation being result oriented.

* 1. **Budgets:** A budget is a plan of expected results expressed in numerical terms for a definite period of time. Since it establishes expected results it is used as a means of managerial control. It provides a base for evaluating actual performance in different fields and for correcting the deviations it any. Budgets express organisaiton objectives in financial and non-financial terms. Budgets are prepared for different activities in an organisation. They express a plan in precise quantitative terms. (A detailed discussion on Budgets is given in Unit IV).
  2. **Schedules:** A schedule indicates the time framework within which activities are to be performed. They lay down a time table for activities and clearly specify the priority of work and the time for each work. Schedules ensure uniformity and continuity of action and thereby avoid delay. For example, a schedule might be laid down to complete the installation of machinery within six months. Schedules provide very clear instructions for performance of activities. Schedules lay down the starting and completing dates for different activities.

# Management by Objectives (MBO)

The concept of Management by Objective has gained much importance during the past four decades. In 1954 Perter F.Drucker introduced the concept of MBO. MBO is otherwise called as Goals Management and Management by Results etc. Management by Objectives as a management philosophy is considered as the most dynamic and existing is thinking in the area of management.

# Meaning of MBO

MBO is a process whereby superiors and subordinates jointly identify common objectives, set the results that should be achieved by the subordinates, assess the contribution of each individual in terms of the results expected of them, and integrate individuals with the organisaiton so as to make best use of organisaitonal resources.

John Humble has defined MBO, “as a dynamic system which integrates the company’s need to achieve its goals for profit and growth with manager’s need to contribute and develop himself”. MBO affects the entire organisational culture, structure and style. It calls for regulating the entire managing process in terms of specific, verifiable and meaningful objectives at different levels of Management. It shapes controlling, directing and planning in a number of ways.

# Features of MBO

The meaning of MBO clearly indicates the following features of MBO:-

1. MBO is philosophy and approach to management and not merely a technique. It provides a particular way of thinking about management.
2. MBO is a goal-oriented and not a work oriented process. It regulates management in terms of specific, verifiable and meaningful objectives.
3. Self-control and self-direction are important features of MBO. It is based on the fact that employee commitment and participation in goal setting leads to better motivation and involvement towards achieving the goals.
4. MBO creates a link between individual goals and organisational goals because based on individual performance, organisaiton goals are laid down.
5. MBO is a never ending and continuous process. It helps in modifying the goals to suit situations and thereby accomplish goals in an effective manner.
6. MBO facilitates periodic review of performance. This provides a basis for effective manner.

# Process involved in MBO

MBO is a system for achieving organisational goals through employee participation and commitment. The process ensures sustained concentration of efforts towards accomplishment of organisational objectives. It involves the following steps:

1. **Setting Purpose and Objectives of an Organisation:** The first step in installing an MBO programme is the definition of organisational objectives and purpose. The purpose behind which an organisation has been set should be clearly laid down, questions like “what business we are in, why does our oranisation exist” provide the answer for its purpose. In order to determine the objectives of an organisaiotn a detailed assessment has to be made of the various resources available. The purpose of an organisaiton in combination with the external environment, determine the long-term strategic objectives of organization. Objectives are normally set at the top level of an organization and they move downwards to the lowest level. At each level they are set in verifiable units so that

performance of every department and individual can be reviewed after the end of a particular period.

1. **Determining Key Result Areas:** Key result areas should be identified on the basis of organisaitonal objectives and planning premises. Key result areas provide the priorities for organisational performance. Top management’s perspective for the future and organisational climate are clearly indicated through key result areas. Key result areas change according to new opportunities and needs. Examples of key result areas are profitability development of oranisation, innovation etc. Once the objectives for a particular key result area are accomplished, it paves way for setting new key result areas in future.
2. **Setting Subordinate Objectives:** The objectives of an organisation are accomplished through individuals. Therefore, each individual manager should know in advance what is really expected from him and what he will have to achieve. Every individual in the organisation is both a superior as well as a subordinate except the person at the top and lowest level. The actual process of objective setting begins when a superior expresses his view of what he can accomplish. The superior plays a supportive role in enabling the subordinate to develop feasible and consistent objectives. Through mutual negotiation between the superior and subordinate the final objective is set.
3. **Matching Objectives with Resources:** Once the objectives or goals to be achieved by the subordinate are laid down, there should be proper matching of resources with objectives, because only proper application of resources help to accomplish objectives effectively. Subordinate mangers should be involved when resources are allocated.
4. **Conducting Periodic Review:** Periodic review or appraisal is required to measure whether the subordinate manger is achieving his objective or not. Periodic review is normally carried out jointly by the superior and subordinates. In case of any deviation, measures are taken to rectify them. Periodic review is carried out not for any reward or punishment but to see that everything goes on according to plans and that the organisation is able to achieve its objectives without and difficulty.
5. **Recycling:** Periodic review acts as an input for recycling objective and other actions. In MBO, objectives re neither set at the top level nor are they communicated to the bottom. Here, it is a joint activity, where both the superiors and subordinate jointly lay down the objectives. Therefore what happens at one level may affect the other levels also. The outcome of appraisal at one level can be recycled to see that objectives have been set

properly at other levels. Therefore, objective setting under MBO is not only a joint activity but also in interactive process that requires recycling of objectives.

# Benefits of MBO

MBO is both an approach and philosophy to management which aims at integrating individual objectives with that of the organisation MBO provides the following benefits.

* 1. It provides for result-oriented planning wherein goals can be easily verified and translated into action plans.
  2. It helps in better managing of the organisational activities and results, which contribute to improved productivity and better performance.
  3. MBO provides for active co-operation and o-ordination in the achievement of objectives. Subordinates get positive guidance from their superiors’ and superiors get willing cooperation from their subordinates in accomplishing the organisational objectives.
  4. MBO motivates subordinates to a very great extent because of their participation in objective setting which makes them feel that they are part of organisaiton. This provides them personal satisfaction and makes them more committed towards accomplishment to the goals.
  5. MBO leads to effective communication in the organisation through frequent interaction between the superiors and subordinates. This improves the work climate and helps to locate weak areas.
  6. Through periodic review of performance, MBO helps in identifying the areas where managers need training and development.

# Limitations of MBO

MBO has its own limitations and weaknesses. Some of the problems are inherent in the system itself, whereas others occur because of wrong analysis and implementation. Some of the limitations of MBO are:

1. **Problem in Setting Objectives:** In most cases, it is difficult to set quantitative objectives. For e.g. Objectives to staff function cannot be set in verifiable terms. In such situations, there is absence of basis for further course of action. When objectives are in the form of statements, rather than in quantitative terms, it becomes difficult to implement MBO effectively.
2. **Emphasis on Short-Term Goals:** Managers in order to be more precise in goal setting tend to emphasis on short term goals. They concentrate only on their immediate goals and do not worry about the long term goals because of periodic review of performance. This

tendency on the part of managers affects the efficiency and effectiveness of the organisation.

1. **Time and Cost:** MBO as a process is time consuming and costly. In involves a lot of desk work in order to put the concept into practice. Frequent meetings are to be held, which may not allow top managers in concentrate on their normal work. When time is consumed naturally additional cost will also be involved.
2. **Failure to Teach MBO Philosophy:** Managers lack knowledge in implementing the MBO prgramme. They do not understand or appreciate the concept of MBO. This is because they lack training. They do not realise that MBO is an integral element of the management process, they feel that it is another means of control. When the concept if not properly understood, implementing it becomes a problem.
3. **The Danger of Rigidity:** managers normally hesitate to change objectives during a period of time, since goals are set normally for a year. This creates inflexibility in the organisation, particularly when objectives are to be changed in between. In a dynamic environment change is inevitable, but for fear of resistance, mangers hesitate to change objectives during a period of time. This affects the organisation to a very great extent.
4. **Frustration:** MBO creates frustration in a manager because of two reasons:
   1. When MBO is not implemented properly there is utter confusion and management is not able to adapt even to the old system.
   2. Introduction of MBO increases the expectations for rapid changes among managers, but when the rate of change is slow due to “unavoidable reason”, they get frustrated.

# Measures for making MBO effective

Despite its limitations, MBO is a very dynamic way of managing an organisation.

The following are the measures for making MBO effective.

* + 1. The Purpose of MBO system should be clearly defined. MBO is a means rather than an end. It has three important purposes according to Howell, namely, management appraisal and development, long-range planning and improvement in productivity and profitability. The concept of MBO will differ according to the purpose in which it is used.
    2. Top Management support is essential for the successful implementation of the MBO programme. If objectives are used as an instrument for planning by the top level, this practice will be followed down the organisation.
    3. Proper training is to be provided for effective implementation of the MBO programme. Training should start with the concept, philosophy and need for MBO. Since MBO requires constant interaction, training in interpersonal relationship is also necessary.
    4. Effective implementation of MBO requires active participation in goal setting by subordinates so that they will be committed towards accomplishment of goals. This can be done through an effective two way communication system.
    5. MBO to be effective requires feedback for self-control and self-direction. MBO is a system where a person can direct and control his own performance for which he requires feedback. This can be in the form of periodic reports from his superior regarding his overall performance and also through periodic appraisal and counselling.
    6. Besides these for effective implementation of MBO, a manager should periodically review goals and should alter them according to changing situations.

The concept of MBO, if applied properly and carefully would help an organisation to accomplish its purpose.

# Questions

1. What is planning? What are its characteristics?
2. What steps are necessary for effective managerial planning?
3. What are limitations of planning?
4. Explain in detail the various types of plans.
5. Define policy. What factors would you take into account while formulating a policy? What are the kinds of policies?
6. Discuss the concept of MBO. What are its benefits and problems?

# Lesson 2.2 Decision Making

**Learning Objectives**

After learning this lesson you should be able to

* Understand the meaning and definition of decision making
* Know the types of managerial decisions
* Analyse the techniques of decision making
* Evaluate the process of decision making
* Know guidelines for effective decision making

# Introduction

Decision Making is an integral part of management which is at the core of planning and applied in every function of management. Peter F. Drucker has rightly said “Whatever a manager does he does through decision making”. Managers at all levels are engaged in decision making of one kind or the other, Management and decision making go hand in hand. Every manager constantly makes decisions. Decision making is a combination of thinking, deciding and action.

# Meaning and definition of decision making

Decision making involves the selection of particular course of action among alternative courses of action. It is a course of action deliberately and consciously chosen from two or more alternatives for accomplishing a desired result. Decision making involves understanding a problem collecting information, developing and analyzing alternatives, choosing the best alternative after evaluation and applying it to achieve the desired results. Decision making includes all the activities that must take place before a final choice is made. Thus, decision making is an act of projecting one’s own mind upon an opinion or course of action.

According to Geroge R. Terry, “Decision making is the selecting of an alternative from two or more alternatives to determine an opinion or course of action”.

Haynes and Massie have defined decision making as “a process of selection from a set of alternative courses of action which is thought to fulfill the objectives of the decision problem more satisfactorily than others”.

According to Henry Sisk and Cliffton Williams, “A decision is the selection of a course of action from two or more alternatives; the decision making process is a sequence of steps leading to that selection”. From these definitions, it is quite clear that decisions take place prior to the actual performance of a course of action that has been chosen.

# Characteristics of decision making

The following are the important characteristics of Decision Making:-

* 1. Decision making is a goal-oriented activity which aims at accomplishing certain specific goals of an enterprise.
  2. It is a process of selecting a particular course of action from among the alternative courses of action.
  3. It is a conscious and human process which involves the application of intellectual activities to a great extent.
  4. It is a complex mental activity which involves careful thinking, analysis and verification.
  5. Decision making is situational and related to the environment. A decision in one situation may not be suitable for another situation.
  6. Decision making involves time dimension and time lag.
  7. It is continuous and dynamic process which is carried out at all levels in the organisation.

# Types of managerial decisions

Managerial decisions may be broadly classified into the following categories on different bases:

1. **Personal and Organisational decisions:** A personal decision is one which a manager takes in his individual capacity and not as a member of the organisation. These decisions have no binding on the organisation and cannot be delegated to others. Whereas, an organization decision is one which a manager takes in his official capacity and on behalf of the organization. Authority with regard to such decisions can be delegated to others.
2. **Policy and Operating decisions:** Policy decisions are of vital importance as they affect the entire organisation. They are normally taken by the top management. But, operating decisions are taken for implementing policy decisions. These decisions are taken by the lower level management. They are concerned with day to day operations of an oranisation.
3. **Strategic and Routine decisions:** Strategic decisions or basic decisions are important decisions taken by the top and middle level management. They normally involve long- term commitments. These decisions are related to the handling of the external environment which is uncontrollable. Example: development of a new product is a strategic decision which requires much thinking and deliberation. A mistake in such a decision will affect the entire organisation.

Whereas, routine decisions or tactical decisions are of a recurring nature which affect only a small part of the organisation. These decisions are taken by the lower and middle management. They are based upon well-established procedures, rules and policies which do not require any extra effort on the part of the manager who makes these decisions.

1. **Programmed and Non-Programmed decisions”** Programmed decisions are of a repetitive and routine nature for which specific procedures already exist in the enterprise. They do not require independent judgement on the part of the manager and they deal with only familiar problems. They are otherwise called as structured decisions.

Non-programmed or unstructured decisions have no standard procedure for handling problems because they arise from unstructured problems. They deal with unexpected situations which require a great deal of imagination and independent judgement.

1. **Individual and Group decisions:** When a decision is taken by a single person it is called an individual decision. These decisions are taken generally in a small enterprise and in those enterprises which have an autocratic style of management. Group decisions are taken by a group of persons. It is also called collective decision. Group decisions are considered better than individual decisions because two heads and always better than one. **The Process of decision making**

Decision making is a complex mental activity which requires careful thinking, analysis and verification. It is a dynamic process which is influenced by multiple forces. It involves the entire process of establishing goals, defining he problem, searching for alternatives and developing plans in order to establish the best answer to the decision problem. The following are the different steps involved in the decision making process:-

1. **Defining the problem:** The first step in decision making is the definition of the problem. This involves clear recognition, identification and formulation of the problem. A problem is a question put forward for solution. In an oranisation a problem may arise due to unfulfilled goals or due to deviations from the desired state of affairs. In order to determine the urgency and importance of a problem, it is necessary to specify the magnitude and nature of the problem. Clear identification of the real problem depends upon how well a manager analyses the overall situation beyond the symptom. Mostly what managers consider as the problems are really symptoms of the problem. For example, if there is a fall in demand for a company’s product this is only a symptom. The real problem may be faulty design, lack of promotion, inappropriate pricing policy etc.

therefore clear understanding of the problem is necessary because it helps in providing the right alternative for solving a problem.

1. **Analysing the problem:** Once the problem is clearly defined, the next step is analysis of the problem in order to determine its causes and scope. This is done through classification of the problem and collection of relevant information. Classification helps in determining as to who should take decision and who should be consulted. The problem should be classified taking into consideration certain factors like the nature of the decision, the impact of the decision, the periodicity of the decision, the futurity of the decision and the limiting or strategic factors relevant to the decision. All this requires collection of adequate and accurate information. Therefore, appropriate collection of data is very important in decision making. Data may be collected from different sources according to the requirement. A manager will have to be clear with regard to the nature of information he wants and also the time and money he can spend in gathering the information he needs. At times it is not possible to get all the information that is needed. In such situations, the decision maker has to judge the risk involved in the decision.
2. **Developing alternatives:** After defining and analysing the problem with the help of relevant and appropriate information, the next step in the decision making process is the development of alternative solutions for the problems. There are a number of ways through which a problem can be solved but all of them are not equally good. Developing alternative course of action is essential for effective decision making, this requires considerable amount of imagination and research so that the best alternatives are considered before selecting a course of action. Development of alternatives does not always provide the guarantee of finding the best possible decision, but it helps in weighing one alternative against others and thereby eliminates unwanted alternatives.
3. **Evaluation of alternatives:** After developing different alternatives the next step is to evaluate each of these alternatives in order to make the final choice. The pros and cons of each alternative are compared and scrutinized on the basis of risk involved, resources available, accomplishment of certain goals, economy of efforts, timings etc. There are various ways through which an alternative can be evaluated. Several types of quantitative and non-quantitative methods may be used to develop alternatives. (These methods are discussed in detail later in this lesson).
4. **Choice of alternative:** Once the various alternatives have been evaluated, a clear picture is presented as to how each one of them contributes towards solving the problem. On the basis of a comparison among the various alternatives the best one is chosen. The

alternative that has been selected should be acceptable in the light of the organisational objective and it need not be the best one. In choosing an alternative, Koontz and O’Donnell have suggested three approaches, namely experience, experimentation, and research and analysis.

* 1. **Experience:-**If a manager has solved similar problems earlier he can choose an alternative on the basis of his past experience. Normally, most managers while taking decisions rely more on past experience. It is quite dangerous to give more importance to past experience because the choice of an alternative in one situation may not be suitable in a different situation. Past experience can be used more in routine decisions than in strategic decisions which require long term commitment.
  2. **Experimentation:-**Experimentation involves the practical application of an alternative in actual conditions, where the results are observed and the alternative giving the best result is selected. The approach can be effectively used in test marketing of a new product. But this technique cannot be always put into practice because it is very time consuming and costly.
  3. **Research and Analysis:-**this is considered to be the most effective approach of selecting among alternatives in case of major and crucial decisions. This approach involves a search for logical relationships among the more critical variables, constraints and premises that bear upon the desired goal. In order to make the choice of alternatives more objective and rational, it takes the help of computers and certain mathematical techniques. In the real sense, research and analysis is the right approach to decision making.

1. **Implementing the decision:** Once the alternative is selected, that is a decision is taken, it will have to be put into practice. A manager is not only concerned with taking a decision, but he will also have to implement it. Implementation of a decision involves several systematic steps.
2. All the concerned employees should be informed of the decision.
3. In case of any resistance to the decision, it will have to be overcome: subordinates should know what is expected of them and what is expected of them and what benefits they will derive out of it. Participation in decision making makes the subordinates more committed to the decision.
4. Proper procedures should be laid down for effective implementation of the decisions.
5. Responsibility should be fixed for the execution of the decisions.
6. An effective follow-up mechanism should be designed to check the progress of implementation.
7. **Follow Up:** When a decision is implemented, it brings certain results, and these results should be compared with the expected results, in order to find out whether the decision taken is appropriate or not. In case of any deviation, corrective action should be taken and the decision should be modified. This is what we call follow-up. Hence, every decision- maker should take up follow-up action in the light of feedback received from the results. In order to achieve proper follow up, an effective management information system is necessary. This should provide adequate and relevant information regarding implementation of the decision.

# Techniques of decision making

Decision making involves the selection of a particular course of action from among alternative courses of action. A decision maker should be very careful when he selects a particular alternative. A number of techniques both quantitative and non-quantitative are used in Decision Making. The technique to be adopted in a given situation depends upon the knowledge, competence and experience of the decision maker. The following are some of the important techniques involved in Decision Making:-

# Non – Quantitative techniques

1. **Intuition:** Intuition is an insight without logical backing, where an individual does something without the aid of reasoning process. It takes place by means of the senses alone. It denotes a sixth sense on the part of the individual where he gains an insight into something which others lack.

Decision Making on the basis of intuition is marked by convictions and inner feelings of the manager. Without the support of facts and figures, the manager takes a decision which leads to the expected results. Decision Making based on intuition helps to take quick decisions, but if such decisions prove to be wrong, it will affect the organisation to a very great extent.

1. **Experience:** Past is useful guide to the future. If a manger had taken a decision to solve a particular problem earlier and if the same problem occurs presently based on his experience, the manager can apply the past decision to the present situation. Past experience helps a manager to have a clear understanding of the issues involved in the present situation. It is quite dangerous to give more importance to past experience because a decision applied in one situation may not be suitable in a different situation. Past experience can be used effectively only in routine decisions.
2. **Experimentation:** Experimentation involves practical application of each alternative in actual situation, where the results are observed and the alternative giving the best result is selected. It is a time consuming and costly process which would delay the choice of the best alternative. But, however if this method is adopted, it may be the best method of choosing the right alternative. It is a very scientific approach to decision making.
3. **Patterned decisions or Follow the Leader decisions:** Under this method of decision making, a subordinate follows the guideline laid down by his superiors for taking decision. This method does not leave any scope for creativity and can be applied in case of routine decisions only. Not only that, the decisions taken by superiors in the past may not be applicable in the past may not be applicable in the present situation.
4. **Psychological analysis:** in psychological analysis, decisions are made on the basis of personal feelings of the decision maker. Whatever he personally feels is fair, good and desirable in the right of the traditions, values and belief will be taken into consideration when he makes a decision. It is the mental attitude and outlook of a decision maker that counts most.
5. **Brainstorming:** This is a very effective technique in decision making where a small group of people are simulated to creative thinking. Decisions are arrived at through maximum group participation and minimum criticism. Here a particular problem is laid down and members of the group are asked to provide solutions for solving this problem. Later all the solutions are critically evaluated in order to arrive at the best solution. Such a technique helps decision makers to arrive at innovative solutions.

# Quantitative Techniques

* 1. **Operations Research:** Operations research (commonly called OR) provides managers with quantitative bases for decision making. It enhances a manager’s ability to make long- range plans and to solve everyday problems of running a business, a government unit or a private institution. It requires a manger to gather and interpret data, build and experiment with mathematical models, predict future operations and then make recommendations. It is a scientific method of analysing a business problem.

Operations research activities have grown rapidly in business, government units and private institutions. For instance, inventory models are used to control the level of inventory. Linear programming is useful for allocation of work among individuals in the organisaiton. In addition to this there are a number of important tools of operation research which can be used by management to analyse the problems and take decisions.

* 1. **Linear Programming:** Linear programming is a mathematical technique for finding the best uses for an organisaiton’s resources. It is used to describe a relationship between two or more variables, a relationship which is directly and precisely proportional. For example, in a linear relationship between work hours and output, a 20 percent change in the number of productive hours used in some operations will cause a 20 percent change in output. Programming refers to the use of certain mathematical techniques to get the best possible solution to a problem involving limited resources. A linear programming problem should have four important characteristics. They are:
     1. The firm should have an objective that it wants to achieve
     2. The problem should have alternative courses of action.
     3. Resources must be in limited supply and
     4. The firm’s objective and its limitations should be capable of being expressed in mathematical equations or inequalities, and these must be linear equations or inequalities.

Linear programming is one of the most effectively and widely used techniques among all quantitative techniques. It has been extensively used in managerial decision- making for production planning, allocating machine capacities, warehouse location, determining transport routes etc. In this technique, equations are used to express inter- relationship between the variables.

* 1. **Simulation:** Simulation is a quantitative procedure which describes a process by developing a model of that process and then conducting a series of organised trial and error experiments to predict the behaviour of the process over time. Observing the experiments is very much like observing the process in operation. To find out how the real process would react to certain changes, we can produce these changes in our model and simulate the reaction of the real process to them.

Simulations are one of the most widely used quantitative techniques in corporate planning. Simulation technique is based on probability factor. Random numbers are assigned to each likely event depending upon the probability of its happening. This enables determination of the cost and benefit of such course of action. Simulation is used when it is not possible to develop a mathematical solution, actual creation of a system is too expensive, and when operation and observation of system is disruptive.

* 1. **Programme Evaluation and Review Technique (PERT):** PERT was developed in the 1950s by the Navy special project office in cooperation with Booz, Allen and Hamilton, a management consulting firm. It was specifically directed at planning and controlling the

Polaris missile program, a massive project which had 250 prime contractors and over 900 subcontractors. Nowadays it is widely and profitably used in a large number of engineering and construction activities. It provides a manger with alternative decisions in respect of the resources and time required to be put in for each activity.

PERT provides answers to questions like, when will the project be finished, when is each individual part of the project scheduled to start and finish, of all parts of the project, which ones must be finished on time and so on. Under this technique all the individual tasks to complete a given programme are clearly laid down. The events and activities are carefully sequenced. An even consists of a series of interrelated activities.

The time required to perform an activity is measured. Here in PERT we take into consideration not one but three time values – the most optimistic time (shortest time to perform an activity) the most likely time (the normal time required to perform the activity) and the pessimistic time (the longest time required to perform the same activity). The expected time is calculated on the basis of the following formula.

O+4m+p Time expected = --------------

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where O is optimistic time, m is most likely time and p is pessimistic time. After this the critical path is computed. This refers to the sequence of events which take the most time. Several critical paths are identified in order of importance. PERT is a useful and convenient tool in the hand of management, particularly for the top level managers who have the overall managerial responsibility of a project. It helps in solving problems of scheduling the activities of one time projects that is projects which are not taken on routine basis.

* 1. **Marginal Analysis:** In this technique there is a comparison of additional revenues from additional costs. It is also known as marginal costing in other words, the extra cost resulting from the addition of one more unit is compared with the benefit there from. Marginal analysis can also be used for comparing factors other than costs and revenues. Break-even analysis is the modification of this technique wherein it tells the management the point of production where there is no profit and no loss. Marginal analysis requires clear and complete information regarding the various factors.
  2. **Correlation:** Correlation is another important quantitative technique used in decision making. It helps to study the degree of functional relationship between two or more variables. This method helps to make an estimate of one variable when the value of

another variable is known. For example when demand is known, profit can be determined or a positive

# Common problems in decision making

Decision Making is a very critical function of management. It is an integral part of every manager’s job. The quality of managerial decision to a very great extent determines the success of an organisation. However in actual practice, decision making is a very complex activity which faces several problems. Some of the common problems in decision making are:-

1. **Lack of adequate information:** The quality of any decision depends upon the accuracy of information used. But in most cases adequate and timely information is not available. This is a very serious problem which affects the entire decision making process. In certain situations, a manager is not sure of the type of data required, nor is he able to locate its source. In such cases, the decision is either delayed or a wrong decision is taken, which affects the organisation to a very great extent.
2. **Time pressures:** In certain cases, on the spot decisions will have to be taken within a limited period of time, where there will be no scope for proper analysis. Under such circumstances sharp judgement and imagination is required on the part of the decision maker, but all managers may not possess these qualities. Hasty decisions taken under such situations affect the success of an organisation.
3. **Indecisiveness on the part of the decision maker:** A few managers tend to be indecisive. As a matter of habit or due to fear of the outcome of a decision, these managers never arrive at a conclusion easily. They postpone the process of decision making till the last moment. This leads to a lot of delay and confusion in the making process which amounts to loss of business opportunities.
4. **Problem of evaluation:** Another important problem in decision making is the failure to evaluate alternatives correctly according to situations. Managers while evaluating alternatives do not adopt appropriate techniques and thereby their choice of alternative is not suitable to solve the problems.
5. **The problem of confusing symptoms with cause:** As already mentioned managers provide solutions to the symptoms rather than the causes. This is a very serious problem in decision making. Effective decision making depends upon how well the causes of the problem have been analysed. Only when the actual causes are found out, a manager will be in a position to provide the right decision. Otherwise, whatever decision he takes will not provide the right answer for the problem.
6. **Lack of proper Follow-Up:** In most cases, managers feel that making a decision is the end of the decision making process, but in actual practice they will have to implement it and see that proper results have been accomplished. This is very essential for success in decision making. For this, an effective follow-up mechanism is required to check the results. But mostly managers feel that their job is over once they select a particular course of action.

# Guidelines for effective decision making

A decision maker should adopt the following guidelines while making decisions:

* 1. He should be problem-oriented and should be in a position to solve the problem based on actual facts. He should not think about just one solution, but must take into consideration all possible solutions.
  2. Decisions taken by a manager should always have a direct impact on the organisational goals.
  3. He should carefully think about the potential impact of a decision, while selecting an alternative. He should not be afraid to develop innovative alternatives.
  4. He should gain commitment for a decision from subordinates through effective participation and involvement in the decision making process itself.
  5. He should be flexible while selecting a particular course of action.
  6. He should always verify the accuracy and validity of information provided to him to take a decision.
  7. Decisions that are implemented should be properly followed up in order to see whether they have obtained the desired result. For this a manager should develop an effective follow-up mechanism to check the progress of implementation.

# Questions

1. Discuss the important features of Decision Making
2. Explain the different types of managerial decisions.
3. “Decision making is the primary task of management”. Discuss
4. Explain the different techniques of decision making.
5. What are the problems in decision making?
6. What are guidelines to effective decision making?

# Unit structure

Lesson 3.1 Organisation

# UNIT III

Lesson 3.2 Departmentation and Span of management

# Lesson 3.1 Organisation

**Learning Objectives**

**After reading this lesson you must be able to**

* Understand the meaning and definition of organisation
* Know the purpose of organisation
* Identify the principles of organisation
* Differentiate Formal and Informal Organisation
* Exhibit forms of Organisation Structure

# Introduction

Organisation is considered as one of the most important functions of management. In fact, it is the backbone of management. No management can perform its functions smoothly without efficient organisation. The success and continuity of a business unit to a very great extent depends upon sound organisation. A business unit is a group of people who cooperate together to achieve their personal goal. Group activity can be productive only when there is some kind of organisation. A business unit should develop a sound organisaiton which is just and objective. The organisation should have the capacity to unite workers to act with confidence and zeal so as to achieve the objectives of the enterprise in an effective and efficient way. A sound organisation facilitates optimum use of resources and new technological development which helps in growth and diversification. It also facilitates effective communication goal. Group activity can be productive only when there is some kind of organisation. A business unit should develop a sound organisaiton which is just and objective. The organisation should have the capacity to unite workers to act with confidence and zeal so as to achieve the objectives of the enterprise in an effective and efficient way. A sound organisation facilitates optimum use of resources and new technological development which helps in growth and diversification. It also facilitates effective communication which encourages better human relationship and increases employee morale and satisfaction. Therefore, sound organisation is a must for effective attainment of the goals of an enterprise.

# Meaning and definition of organisation

The term ‘organisation’ is derived from the word ‘organism’ which refers to a structure with its part so integrated that their relation to each other is governed by their relation to the whole. It also refers to a system where parts work together or a system with parts dependent upon each other. However the term ‘organisation’ is a loosely used word with many management experts viewing it in different ways. According to Sociologists, organisaiton is a study of the interactions of the people or the hierarchy of an enterprise. To the psychologists, organisation is an attempt to predict, explain and influence the behaviour of individuals in a business unit. But in management, the term ‘organisation’ is used in two different senses, namely 1) organisation as a structure and, 2) organisation as a process. We will analyse each one of these separately in order to have a clear meaning of the term organisaiton.

1. **Organisaiton as a Structure:** Organisaiton as a structure is a set of planned relationships, between physical factors and personnel, and between groups of related functions required for the effective accomplishment of an enterprise’s goals. It is a framework through which people work together for the accomplishment of desired results. It consists of vertical and horizontal authority relationships. In fact, organisation as a structure is composed of people who develop formal relationship among themselves in order to accomplish a distinct purpose.

According to Koontz and O’Donnel, “organising involves the establishment of an intentional structure of roles through determination and enumeration of the activities required to achieve the goals of an enterprise and each part of it; the grouping of these activities required to achieve the goals of an enterprise and each part of it; the grouping of these activities, the assignment of such groups of activities to the manager, the delegation of authority to carry them out, and provision for coordination of authority and informational relationship, horizontally and vertically, in the organisation structure. “Organisation structure is designed to classify who is to do what and when, and who is responsible for which result.

1. **Organisation as a process:** Organisation as a process is referred as the dynamic concept of organisaiton. It is a constant managerial function with the object of arranging the tasks into manageable units and defining the formal relationship among people who are assigned the various tasks.

According to Louis A.Allen, “Organisaitonis the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority,

and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing organisational objectives”. According to this concept, organisation is the process of arranging or structuring the different parts of which a business unit is composed, namely, work, people and the system. As a process, the organising function includes division of work, grouping of activities, assignment of duties, delegation of authority and defining relationship.

# Nature (or) Characteristics of organisation

The following are the important characteristics of an Organisation:

1. **Division of Labour:** The entire work of an organisation is divided into functions and sub functions. Division of labour leads to specialisation because men acquire greater skill and knowledge when they perform a single operation again and again. Division of labour helps to overcome wastage of efforts and duplication of work. Effective and proper division of labour leads to increase in quality and quantity of output.
2. **Common Purpose:** The basis of any organisation is to achieve some common goal. The structure is bound together by the pursuit of specific and well-defined objectives. An objective cannot be achieved without an organisation, likewise an organisation cannot exist for long without goals and objectives. The structure of an organisation should reflect these objectives so as to make the entire organisation bound by common purpose.
3. **Communication:** Effective communication is vital for success in management. Every organisation has its own methods and channels of communication. These channels are necessary for mutual cooperation and understanding among the members of an organisation. The channels are communication may be upward, downward, vertical, formal or informal.
4. **Authority- Responsibility Structure:** In an organisation there is a proper arrangement of position into a graded series. There is clear definition of authority to each position. It specifies who is to direct whom and who is responsible for what result. The structure helps an individual in the organisation to know what his role is and how he is related to other roles.
5. **People:** An organiation is made up of a group of people who constitute the dynamic human element of an organisation. Therefore, authority provisions and grouping of activities must take into account the customs and limitations of people.
6. **Environment:** An enterprise functions in a very dynamic environment which comprises social, political, economic and legal factors. Thus, the structure is designed to adapt itself to the changing environment.
7. **Coordination:** An organisation structure provides for effective coordination of different activities and parts of an organisation so that it functions as an integrated whole. People in an organisation perform different functions but all of them have only one aim i.e. to accomplish the enterprise’s objectives for which the organisation provides a suitable method to ensure that there is proper coordination of different activities.
8. **Rules and Regulations:** Rules and regulations are provided for orderly functioning of people in every organisation. These may be in writing or implied from customary behaviour.

# Purpose of organisation

Organisation is the backbone of management. The success and continuity of every enterprise depends upon sound organisation. The purpose and importance of an organisation are as follows:

* 1. Organisation is an aid to management which helps in effective accomplishment of enterprise objectives.
  2. An organisation encourages and facilitates growth by providing the framework within which an enterprise functions. If this framework is flexible it will help in meeting challenges and thereby create better opportunities for growth.
  3. A sound organisation structure ensures optimum and effective use of resources by avoiding duplication of work and wastage of efforts. It also makes best possible use of latest technology.
  4. A good organisation stimulates creative thinking and initiative among its members by providing them with proper authority.
  5. A sound organisation structure helps to improve job satisfaction and morale of the workers because an opportunity is provided for team work and recognition.
  6. Continuity and certainty in work performance are ensured by providing for training and development of employees at all levels.
  7. A sound organisation provides for effective coordination and control of workers and work.

# Principles of organisation

The principles are guidelines for planning an efficient and sound organisation structure. Therefore, for good organisation, a clear understanding of these principles is essential. The important principles of organisation are:

1. **Unity of Objectives:** The objectives of an enterprise should be stated in clear and precise terms, because it is the objectives of an enterprise which help in determining the type of organisation structure. In other words, only after the objectives have been laid, an organisation structure should be developed to achieve them.
2. **Division of Work and Specialisation:** The organisation structure should be designed in such a way, that as far as possible every individual should perform only a single function according to his aptitude and ability. This is also called the principle of specialisation. The performance of work will be better when a person performs it continuously.
3. **Span of Supervision:** According to this principle, no individual should be allowed to supervise more subordinates than he can effectively manage. For effective decision making and communication, the number of levels of authority should be as few as possible.
4. **Chain of Command:** The line of authority-should be clear and unbroken. It should run from top to bottom of the organisation. Every individual in the organisation should know to whom he will have to report and who will have to report to him.
5. **Unity of Command:** According to this principle, every individual in the organisation should have only one superior to whom he will have to report. If a subordinate report to two or more superiors, then there will be confusion in the organisation and this will lead to indiscipline.
6. **Principle of Exception:** Every manager according to this principle is given authority to make routine decisions. Only in exceptional cases where it is beyond the scope of his authority, he should seek the help of higher authorities.
7. **Clear Definition of Authority and Responsibility:** The authority and responsibility of each individual in the organisation should be clearly defined, so that each one knows what is expected to him. This will help in removing any overlapping of authority and gaps between responsibility.
8. **Unity of Direction:** According to this principle, each group of activity with the same objective should have one head and one plan. This provides for better coordination among various activities to be undertaken by an organisation.
9. **Balance between authority and Responsibility:** There should be proper balance between authority and responsibility. Responsibility should always be coupled with corresponding authority. Each individual should have sufficient authority to discharge the responsibility entrusted to him. This is otherwise called parity of authority and responsibility.
10. **Absoluteness of Responsibility:** In an organisation an individual cannot pass on his responsibility to others. Only authority can be delegated whereas responsibility cannot be delegated. Even when a manager has delegated his authority to a subordinate, he is held responsible for the work performed by his subordinate.
11. **Flexibility:** The organisation structure should always be flexible in order to adapt and adjust itself to any environmental change. There should always be scope for expansion.
12. **Simplicity:** The organisation structure should be clear and simple with a few levels of authority. This helps in free and effective communication and proper coordination.
13. **Efficiency:** The organisation structure design should help the business unit to function effectively and efficiently to achieve its objectives with minimum effort and cost.
14. **Continuity:** This is another important principle of organisation. Continuity of the business unit for a long period is essential to help people gain experience in positions of responsibility. It also helps in growth and expansion of a business unit.

These principles are considered as the essential requirements of a sound organisation and knowledge of these principles is the first prerequisite for sound organising.

# Formal and Informal organisation

Formal organisation alone is not capable of achieving organisational objectives. It requires the support of informal organisation for this purpose. The working of informal groups is not as simple as it may appear to be. Thus, it is essential for every manager to carefully study the working pattern of informal organisation and make the best use of it to accomplish enterprise goals. A clear analysis of formal and informal organisation is provided here.

# Formal Organisation

Formal organisations consciously and deliberately created by management to achieve certain specific requirements. According to Chester I. Barnard, “an organisation is formal when the activities of two or more persons are consciously coordinated towards common objective”. A formal organisation refers to the planned structure of well-defined jobs and positions with clear and definite measures of authority, responsibility and accountability. It provides a systematic framework for the performance of jobs and tends to be predictable and stable, and is clearly represented in the organisation chart and manual of the business unit.

The formal organisation consists of four important elements, namely 1) Division of labour 2) Structure 3) Scalar and functional processes and 4) Span of control. These

elements are also called the principles of formal organisation. The basic principle of formal organisation is division of labour. The structure of the organisation indicates overall arrangement, which provides for effective balance between various parts of organisation. The scalar and functional processes indicate the growth of the organisation horizontally and vertically. Span of control refers to the number of subordinates who can be effectively managed by a supervisor.

# Features of Formal organisation

* 1. Top management designs the organisational structure to accomplish enterprise goals.
  2. The organisation structure concentrates on the work to be performed and not on the individual who performs it.
  3. The sentiments and values of the members of organisation are ignored.
  4. Specialisation and division of work are the bases for designing the organisational structure which help in achieving efficiency in operations.
  5. Authority and responsibility relationship established by the organisation structure is honoured by everyone.

# Informal Organisation

An informal organisation is created because of the operation of the psychological and social factors at the work place. Members on their own create such organisation to overcome the limitations of interaction patterns provided by formal relationship. According to Chester I. Barnard, “An informal organisation is a joint personal activity without conscious common purpose though contributing to joint results”. It is influenced by personal attitudes, emotions, likes and dislikes. Normally, an informal group is part of a large formal group or organisation. The informal groups are not preplanned, but develop spontaneously within the organisation according to its environment. Informal organisation or groups are formed for a number of reasons, namely, companionship, identification, job satisfaction and protection of membership.

# Features of Informal Organisation

1. Informal organisation arises spontaneously and is not preplanned.
2. Informal organisation arises from the social and personal relations of people. It is a natural process which reflects human relationships.
3. It is based on common taste, language, problem, religion, culture etc.,
4. In an informal organisation the membership is voluntary.

# Benefits and Problems of Informal Organisation

The following are the benefits of informal organisation:

1. It provides organisation with a useful channel of communication which is faster than the formal channel.
2. The informal leaders reduce the burden of the formal manager and fill the gaps in the manager’s ability.
3. It provides adequate support to the formal organisation in achieving its objectives.
4. Psychological satisfaction is provided to the members of an informal organisation because an opportunity is given to them to express their feelings.
5. Informal organisations supplement and support the formal organisation. It helps a manager to plan and act effectively.

The presence of an informal organisation creates problems to a formal organisation at times. They conform to old methods and practices and resist change. However, both formal and informal organisations are necessary for any group action just as two blades are essential to make a pair of scissors workable. Thus, management should not ignore or look down on informal organisation. It should effectively make use of informal organisation to achieve the goals of a formal organisation, because informal organisation helps to fill gaps in manager’s abilities. Therefore, management should adopt a positive attitude towards informal organisation.

# Difference between Formal and Informal Organisation

The formal and informal organisation differs from one another in the following respects:

1. **Origin:** A formal organisation is created consciously and deliberately by the action of top management, in order to overcome the shortcomings of an organisation structure. A formal organisation is need-based from the organisation’s point of view, whereas an informal organisation arises naturally within the formal organisation when members are

not satisfied by the pattern of relationships prescribed by the organisation. has no role either in creation or in abolition of an informal organisation. organisation is need-based from the member’s point of view.

Management An informal

1. **Purpose:** Formal organisations are formed to achieve certain well-defined objectives of a business unit, whereas, informal organisations or groups are created in order to satisfy psychological and social needs of its members. There is normally a clash of interest between the goals of a formal and informal organisation.
2. **Authority Structure:** The structure of authority in both formal and informal organisation is quite different. In a formal organisation an individual derives authority through delegation and re- delegation. Authority is generally delegated from a superior to a subordinate and the flow of authority is always downwards. But in an informal organisation all members are equal and they derive authority from interpersonal relationships. An individual derives authority because of his personal qualities.
3. **Behaviour of Members:** Rules and regulation govern and guide the behaviour of members in a formal organisation. These rules and regulations help to bring about efficiency in operations. In an informal organisation the behaviour of members depends upon group norms, values and beliefs. These specify the behaviour expected from every member.
4. **Nature of the Organisation:** Continuity and stability are two important features of a formal organisation. But an informal organisation is quite unstable, because they are formed to meet certain specific requirements of its members. Once they are achieved or when its members change, the organisation may disappear.
5. **Size of the Organisation:** The size of a formal organisation is quite large and may vary according to the requirements of a business unit. Formal organisations are created to give representation to various interest groups, whereas, the size of an informal organisation is quite small because an informal organisation forms part of formal organisation. An informal organisation is small in nature, in order to provide proper interaction among members.
6. **Communication Pattern:** In a formal organisation, communication flows through a formal channel which is clearly laid down in the organisation structure. But in an informal organisation there is no prescribed channel for the flow of information. Any person capable of maximum interaction is allowed to pass on information.
7. **Abolition:** A formal organisation is consciously and deliberately created by the action of management and, hence, it can be abolished by a similar action. Many formal organisations are created for a specific purpose and when the purpose is over, it is abolished. An informal organisation is created by the members on their own in order to satisfy their personal and social requirements and management cannot abolish it, though it might affect the working of the business unit badly. Any efforts by management to abolish it will only strengthen the informal organisation.

Hence, an informal organisation is an integral part of formal organisation and management should make the best use of it to accomplish its goals in a more effective and efficient manner.

# Forms of organisation structure

In order to accomplish the goals of a business unit effectively, management should create a structural relationship among different departments and individuals working therein. The organisation structure represents the hierarchical arrangement of various positions in a business unit. Developing a sound organisation structure is essential for success in management. There are several forms of organisation structures, and an enterprise can select any of these to suit its requirement. The form of organisation structure is based upon the nature and size of the business unit. The following are the various form of organisation structure:

* 1. Line Organisation
  2. Functional Organisation
  3. Line and Staff Organisation
  4. Committee Organisation
  5. Project Organisation
  6. Matrix Organisation and
  7. Free-form Organisation

The following is an analysis of the nature, merits and demerits of these structures.

# Line Organisation

This is otherwise called as scalar or military form of organisation and is the oldest type of organisation in which authority flows in a vertical manner from top to bottom. The persons with the highest authority are placed to the top and those with the lease authority are placed at the bottom. Line executives are directly involved in the performance of the activities of an enterprise and are called the doers. Each position in the organisation structure has general authority over a lower position and is in the direct chain of command as shown in Fig 5.

**Managing Director**

**Deputy Marketing Manager**

**Marketing Manager**

**Sales Executives**

**Salesman**

**1**

**Salesman**

**2**

**Salesman**

**3**

# Figure 5: Line Organisation

Line organisations are of two types – pure line organisations and departmental line organisations. In pure line organisation, all individuals perform the same type of work at any given level, whereas in departmental line organisation, there are a number of departments and each department performs different types of work.

# Merits of Line Organisation

1. A line organisation is simple and easy to establish and it can be easily understood by workers.
2. There is a clear division of authority and responsibility and each individual knows to whom he is responsible.
3. It provides unity of command, which in turn facilitates effective control and supervision.
4. It helps in taking quick and effective decisions because there is definite authority at each level.
5. It ensures proper discipline because each manager is in close contact with his subordinates.

# Demerits of Line Organisation

1. With growth and development, a line organisation over-burdens the top executive with administrative work and he is unable to perform his job properly and effectively.
2. Line organisation leads to lack of specialisation because a line manager is responsible for both planning and execution of work.
3. In a line organisation, communication flows only from top, in case of wrong decisions, subordinates carry out the decision without pointing out the defects because they lack courage.
4. In a line organisation there is concentration of authority at the top and this might lead to autocratic control which affects the enterprise adversely if the top executives are not efficient.

In spite of these limitations, a line organisation is suitable for small concerns employing a few people and carrying on routine work, where there are fewer levels of authority.

# Functional Organisation

The concept of functional organisation is based on the principles of specialisation and was devised by F.W.Taylor (Functional foremanship). In functional organisation, each specialist conveys his instructions direct to the personnel, rather than through the chain of command. Functional authority remains confined to functional guidance of different departments.

Under this type organisation, the activities of an enterprise are classified into a number of functional areas. Each functional area is managed by a functional specialist who has full control over that function throughout the organisation as shown in Figure 6.

Board of Directors

Managing Director

Chief Production Manager

Chief Marketing Manager

Chief Financial Manager

Chief Personnel Manager

Branch Manager Unit I

Branch Manager Unit II

Branch Manager Unit III

line authority

----------- Functional authority

# Figure 6: Functional Organisation

From the figure, it is clear that each chief manager is in charge of that particular activity in which he is specialised for all the three units. For example, the chief marketing manager who is a specialist in marketing is in charge of the marketing function in all three units. These functional experts enjoy functional authority over subordinates in other departments.

# Merits of Functional Organisation

* 1. Functional organisation helps to reap the benefits of specialisation. Every functional head is an expert in that particular function and helps subordinates to effectively accomplish results in his area.
  2. The burden of top executives is reduced in functional organisation because a functional manager looks after only one function.
  3. In a functional organisation there is effective and better control, because of the expert knowledge of the functional managers. Moreover, in a functional organisation there is joint supervision by different functional heads.
  4. When compared to line organisation, functional organisation provides better scope for expansion and diversification.
  5. Functional organisation leads to higher efficiency in operational because every individual carries out only one function and seeks guidance for the same from a specialist.

# Demerits of Functional Organisation

1. Functional organisation is against the principle of unity of command, since a subordinate is responsible to a large number of superiors.
2. Functional organisation faces the problem of succession. Lower level executives are not provided with an opportunity for all round experience and hence they do not fit into top level positions.
3. Functional organisation is very complex in nature with a number of cross relationships which create confusion among workers.
4. The decision making process in a functional organisation is very slow because certain decisions require the involvement of several functional heads.
5. Functional organisation leads to lack of coordination because a functional head thinks of only his function in the enterprise and ignores other functions.

Functional organisation is suitable for all kinds of enterprise. But is should be applied only at higher levels because at lower levels, too many cross relationships are established and this creates confusion throughout the enterprise.

# Line and Staff Organisation

Line and staff organisation is a combination of functional and line structure. In this, line authority flows from top to bottom and the line executive is directly concerned with the accomplishment of primary objectives. They are the actual doers. Line managers are generalists and to not possess specialised knowledge to tackle complex problems. In order to provide specialised assistance to line managers, staff positions are created in the organisation. The dictionary meaning to staff is a stick carried in the hand for support. This means that a staff executive helps and aids line executives in their work. They play the role of an advisory.

In line and staff organisation, the line authority remains the same as in line organisation. The only difference is that staff executives are attached along with the line executive who help them by providing necessary advice on important matters. The staff executives who are specialists do not have any power to command subordinates in other department. They only play a supportive role as shown in Figure 7.

Board of Directors

Personal Assistant to Managing Director

Chi

M

Managing Director

Line authority

Chief arketing Man ager

Personnel Manager

Budget Manager

Factory Manager

Supervisor A

Supervisor B

Supervisor c

ef Financial

anager

Chief Production

Manager

------- Staff authority

# Figure 7: Line and Staff Organisation

From the figure, it is clear that the Personnel Manager, Budget Manager and Assistant to the Managing Director play the role of advisors. They are the staff executives who help the line executives, namely the Managing Director and Chief Production Manager to perform their work effectively. In most business units, staff executives are used for collecting data required for taking decisions and to provide expert advice to line managers.

# Merits of Line and Staff Organisation

* 1. Line and staff organisations provide for specialised knowledge, where the staff executives guide and advise the action of line executives.
  2. It reduces the burden of top executives because staff executives carry on detailed investigation of each and every activity.
  3. Staff specialists provide apt and relevant information for decision making and hence better decisions are taken.
  4. It is more flexible when compared to line organisation. As the business unit grows, staff can be added to help the line executives.

# Demerits of Line and Staff Organisation

1. The concept of line and staff organisation always creates confusion because it is very difficult do define the authority relationship between line and staff.
2. Staff executives do not take the task seriously because they are not accountable for the result. This affects an organisation to a very great extent.
3. Another serious problem of line and staff organisation is the constant conflict between line and staff executives because of the different functions performed by each.

# Line and Staff Conflict

Line and staff relationship is based on the fact that both support each other and work together to accomplish organisation goals. But, since they perform different functions there is bound to be conflict and friction between line and staff executives. Al this causes delay and affects organisational effectiveness. Therefore, it is necessary to analyse the reasons for conflict between line and staff executives and provide measures to overcome these conflicts. The different factors that lead to conflict between line and staff executives can be viewed from three angles, which are as follows.

# From the Viewpoint of Line Executives

Line executives are the actual doers who are responsible for the effective accomplishment of organisational goals. According to them staff executives create conflicts in the following ways:

* 1. **Lack of Responsibility:** Line managers feel that staff personnel lack responsibility and enjoy only authority. They are not accountable for achievement of results, because of this they do not think about the overall objective of the organisation. Another important aspect is that if anything goes wrong the blame line executives, but they assume credit for success. This imbalance between authority and responsibility leads to conflict between line and staff.
  2. **Encroachment of Line Authority:** Another reason for conflict between line and staff managers is he encroachment of line authority. Instead of providing guidance and advice, they interfere with the work of line managers and try to force their recommendations on them, leading to conflicts.
  3. **Dilution of Authority:** The introduction of a staff executive makes a line executive feel insecure because line managers feel that their responsibility will be reduced and their authority will be diluted. In fact, staff authority arises out of dilution of line authority. This fear of insecurity creates conflict between line and staff executives.
  4. **Theoretical Bias:** Staff executives are academicians and their recommendations suffer from theoretical bias. They provide ideas and suggestions which may not have practical application. Another important aspect is that they are away from the actual operational scene. This once again leads to conflict in acceptance of recommendations.

# From the View point of Staff Executives

Staff executives are specialised people who advise the line executives. In most cases they feel that is the line executives who are responsible for conflicts. The reasons for conflict between line and staff executives are as follows:

* 1. **Lack of Proper Authority:** Staff executives lack proper authority to get their useful ideas implemented. Though they contribute to the accomplishment of organisational objectives, they do not enjoy any authority. It is left to the line manager either to accept or reject the advice given by staff managers. They don’t even consult staff executive while taking decisions. All this created frustration and leads to conflict.
  2. **No Proper use of Staff:** Another important reason for conflict between line and staff executives is that line executives do not make proper use of staff executives. Mostly line managers ignore the advice of staff managers while taking decisions and just communicate

it to them after it is implemented. A line manager has the power to accept or reject the idea of a staff manager irrespective of its quality. Normally line mangers consult them only as a last resort.

* 1. **Resistance To New Ideas:** Line executives always resist new ideas, they do not like change and moreover they feel that new ideas are meant to find defects in their existing operations. This creates frustration among staff executives and leads to conflict.

# On the Basis of Nature of Line and Staff Relationship

The nature of line and staff relationship is such that it leads to conflict between them. The following defects in the organisation structure lead to conflict between line and staff.

* 1. **Lack of Demarcation between Line and Staff:** The authority relationship between line and staff is not clearly defined in most cases. This leads to overlapping of activities and creates gaps in authority and responsibility. Lack of proper demarcation between line and staff relationship leads to conflict.
  2. **Different Background:** Another reason for conflict between line and staff managers is their different backgrounds. Staff executives are younger and better qualified when compared to line executives. They often look down at line executives. This creates an environment of mistrust and hatred between them.
  3. **Lack of Proper Understanding of Authority:** Normally people fail to understand the nature of line and staff authority in practice. As a result, this may lead to encroachment of authority either by the line or staff executives. Besides this, staff executives in order to get their suggestions accepted approach their common superior at a higher level which frustrates line executives and puts undue pressure on them. Al this creates a very hostile environment and leads to conflict.

# Measures to Overcome Line and Staff Conflict

The successful functioning of an organisation to a very great extent depends upon line and staff executives. Hence, it is necessary that they should work together, to effectively and efficiently accomplish organisational objectives. Normally conflicts arise because of misunderstanding or because of the working situations. Therefore, measures should be taken in order to overcome these conflicts. The following are the important measures to overcome line and staff conflict:

* + 1. **Effective Use of Staff:** Staff executives play a very crucial role in trying to solve problems of line executives by using their expertise and knowledge. The efficiency of line

executives depends how well they make use of staff executives. Line executives can make proper use of staff executives in the following ways.

* + - 1. Staff executives should be given work according to their specialisation, they should not be engaged in unimportant work.
      2. Proper education and information should be provided to line managers so as to enable them to make the best use of staff specialists.
      3. In case of emergencies, if line executives take a decision that affect staff executives without consulting them, they should immediately inform them of such action. This will help in smooth flow of work.
      4. Staff executive should be involved in decision making right from the initial stage rather than when the problem becomes crucial.
    1. **Adequate Staff Work:** In order to resolve conflict between line and staff executives it is necessary to provide for ideal staff arrangement which should result in adequate and completed staff work. Accordingly, a staff executive should study the problem and provide solutions to it in such a manner that the line executive should either accept or reject it. This concept is required because when the nature of a problem is complex, there is a tendency on the part of the staff executives to provide solution in a piecemeal manner. This creates a lot of confusion and affects the decision making process of line executives.

When staff executives provide solutions, they should provide all alternatives capable of solving a problem. The recommendations and suggestions should be adequate and clear, so that a line executive can easily adopt them.

* + 1. **Proper Understanding of Authority Relationships:** Proper understanding of authority relationship, to a very great extent helps to resolve most of the conflicts between line and staff executives. The following guidelines if adopted properly help to understand the authority relationship between line and staff executives and help to reduce conflict.
       1. Line executives should be provided authority for making operational decisions because they are directly involved in the actual accomplishment of organisational objectives.
       2. Staff executives provide advice and guidance to line executives, hence, they should be granted functional authority in order to see that their recommendations are put into force.
       3. Line executives as far as possible should consult staff executives when they make decisions.
       4. By virtue of their competence and knowledge staff executive should be able to impress line executives. They should not be worried about authority of position but should be concerned about authority of knowledge and competence.
    2. **Establishing Conducive Organisational Climate:** Line and staff conflict can be resolved by establishing a conductive organisational climate which is full of mutual trust and confidence. An organisational climate which is conducive can be established under two situations – a) when line and staff executives mutually recognise the importance of each other, and b) when line executives recognise the need for change and accept new ideas. This is possible only through mutual trust and respect where each one appreciates the efforts of others.

Line and staff organisation is more suitable for large organisations. It provides adequate scope for specialisation and its success depends upon the harmonious relationship that exists between line and staff executives.

# Committee Organisation

A committee is a group of persons who are consciously and deliberately formed to discuss a problem and provide solutions to overcome it. They are formed for a specific or state purpose and the scope it its activities are limited. Thus, a committee is a group of persons to whom some matter is committed and they meet on an organised basis to discuss and deal with the matter placed before it.:

The following are the characteristics of a committee:

* + 1. A committee consists of a group of people, with a minimum of at least two people and there is no limit for the maximum number of people.
    2. The scope of a committee is limited to extent of work that has been assigned to it. It cannot deal with matters not specifically assigned it.
    3. The members of a committee arrive at decisions on the basis of one member one-vote, provided they have authority to go into the problem assigned to them.
    4. Committees may be either executive or non-executive in nature. A executive committee takes decisions and implements them, whereas a non-executive committee only provides suggestions and recommendations.

# Types of Committees

The following are the different types of committees on the basis their nature and function:

1. **Standing or Ad-hoc Committee:** A standing committee or a permanent committee is one which continues for an indefinite period of time and is always present in the

organisation. An ad-hoc or temporary Committee is formed for a specific and definite purpose. It is a special purpose committee that is dissolved as soon as the task is completed.

1. **Executive or Advisory Committee:** An executive committee is one which has full authority to take decisions and implement them, whereas an advisory committee has authority only to provide suggestions and recommendations which may or may not be accepted.
2. **Line of Staff Committee:** A line committee has executive authority over its subordinates and it coordinates and controls their activities. Whereas, a staff committee only acts as a advisory body having no authority, it only provides advice and assistance to line managers.
3. **Formal or Informal Committee:** Formal committees are duly constituted by management on the basis of organisational rules and policies and are meant to accomplish the objectives of an organisation. They are represented in the organisational structure, whereas informal committees are not constituted by management. They arise because of personal relationship among employees who join together in order to solve common problems.

# Merits of Committees

The following merits of committees clearly highlight their use in management.

1. **Pooling of Knowledge and Experience:** The most important merit of using committee is group judgement where knowledge and experience are pooled together. Decisions are arrived in a joint manner. A committee works on the principle that tow heads are better than one. There is exchange of ideas and opinions before a conclusion is arrived at. Hence, decisions taken by a committee are more logical and objective when compared to those taken by a single individual.
2. **Motivation through Participation:** In a committee, the members are allowed to participate in the decision making process. This motivates them positively and makes them more committed to the decision. Their involvement in decision making helps them to effectively and efficiently implement the decision. Thus, committees help in effective motivation of its members through participation.
3. **Effective and Proper Coordination:** Committees provide for effective coordination by bringing together managers from different departments. Normally decision making in a committee is a joint effort where members share information and express diverse

viewpoints. Through coordination a number of organisational problems are solved by committees.

1. **A Tool for Management Development:** Committees provide an opportunity for management development through participation and involvement. By being a member in different groups, a manager gains a lot of experience which helps him to a great extent in performing his job. A committee being a group of persons, helps one another to learn from the experience and mistake of others. Thus, committee’s act as tools for management development.
2. **Representation of Diverse Interest Groups:** Through committees, an organisation can provide representation to various interest groups, whereby conflicting views can very easily be settled through motivation and participation. When different interest groups are represented in a committee, there is involvement and commitment in the decision making process.
3. **Effective Communication:** Since committees involve representation of diverse interest groups, information can be effectively and quickly transmitted throughout the organisation. By convening a committee meeting any information can very easily be passed on to all members of the organisation.
4. **Consolidation of Authority:** Committees enable management to consolidate authority that is splintered over several departments. In certain cases, an individual manager may have limited authority and he cannot solve the problem without simultaneous exercise of authority by other manger related to the problem. Under such a situation a committee might be formed, where splintered authority is consolidated, in order to solve special problems. The committee includes all managers related with the problem.
5. **Fear of Too Much Authority in a Single Person:** At times committees are formed to avoid concentration of too much authority in a single person. The line authority for certain actions is delegated to a committee rather than to an individual, in order to control and check the excessive use of authority by a single person.
6. **Avoidance of Action:** Committees can be formed in order to delay and avoid action. Management makes use of committees to cool off agitation and temper on part of the affected people. Committees help management to buy time and to avoid individual responsibility.

# Demerits of Committees

The excessive use or lack of proper utilisation of committees creates a server problem to management. A committee is one made of the unfit, selected by the unwilling to do the unnecessary. The following are the problems with committees:

* 1. Formation of a committee is a very costly and time consuming activity. The cost incurred in formation of a committee is far below its benefits.
  2. Decisions taken by a committee are arrived at only slowly after a lot of discussion and debate. Therefore committees do not help to take quick and on the spot decisions.
  3. Normally, in order to arrive at a unanimous decision, agreements are reached on the basis of a compromise which may not be really helpful to management. Compromise decisions only postpone a problem and they do not solve it.
  4. In certain cases, committees are dominated by few persons and their views are accepted by the majority of the members when a unanimous decision is to be taken because of undue pressure put on them.
  5. Committees provide for group responsibility where it is difficult to fix individual responsibility and as such, members feel unaccountable. This leads to inefficiency.
  6. Committees are often misused to delay, avoid or to take unpleasant decisions.

# Measures for Making Committees Effective

The following measures if implemented effectively will go a long way in making committees effective.

1. **Right Size:** A committee to be effective should have a right size and should be represented by different interest groups. It should not be too large or small. Its size will depend upon its purpose and requirement. Where more representation is required sub- committees can be formed.
2. **Selection of Member:** The members of a committee should be carefully and properly selected taking into consideration their personal characteristics and functional background. A member should not be a misfit in a committee.
3. **Well Defined Authority and Scope:** The authority and scope of a committee should be well-defined and clearly specified. The responsibility function and organisation of a committee should be specified in clear cut terms. Everything should be in writing so that there is no scope for ambiguity.
4. **Effective Leadership:** The success of a committee depends upon effective Leadership. The Chairman of a committee should be able to guide and direct the group towards accomplishment of specific and stated goals. He should be a friend, guide and philosopher to other members. He should follow logical procedures and guidelines for orderly and meaningful conduct of meetings.

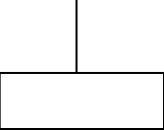
**V. Follow – Up:** Committees are formed to allow its members to participate in the discussion or to provide solutions to a problem and the result of its simultaneously informed to them. Yet members may walk away from meetings with different interpretations as to what was accomplished. In order to avoid this, the minutes of a meeting should be carefully prepared and the draft should be circulated among members for modification and correction before the final copy is approved by the committee. This procedure has the advantage of compelling committee members to agree or disagree with the results of the meeting.

When recommendations are made, actions taken in this regard should be communicated to the members. Checking of conclusions provide an effective means for follow-up and help to determine the effectiveness of a committee.

# Project Organisation

Project organisation is of recent origin developed after World War II. It is directed towards completion of a big project or a small number of big projects. Project organisation appears very much like a functional structure. But a project organisation disappears as soon as the project task is over, whereas a functional structure is created on a permanent basis. Moreover project organisation has been designed with a view to overcome the problems of the functional organisation namely, delay in decision making and lack of coordination.

The project organisation is led by a project manager who is responsible for the completion of the project. He coordinates all activities of the project. Functional managers are drawn from different functional departments and they remain in the project organisation till their task is over. A project manager does not have proper authority over functional managers. As a result he will have to convince the functional people to help him, to successfully complete the project. Project organisation structure can be presented as shown in Figure 8.



**Chief Executive**

Project Manager Division I

Project Manager Division II

Production

Finance

Personnel

Production

Engineering

Finance

Personnel

Engineering

# Figure 8: Project Organisation

Project organisation is most suitable under the following situations.

* 1. The activity is unique and unfamiliar to the present organisation.
  2. It has well defined and clear specifications and goals.
  3. It is complex in nature with interdependent tasks.
  4. Its successful completion is crucial to the organisation.
  5. The task is to be completed is crucial to the organisation.

# Merits of Project Organisation

1. Project organisation allows maximum utilisation of specialised skill and knowledge.
2. It is tailor-made to meet specific needs of a particular project by concentrating attention on a complex project.
3. It provides more flexibility in handling resources by allocating them to the projects when they are needed.

# Demerits of Project Organisation

1. Normally, project organisation has a limited time and this creates a feeling of uncertainty and insecurity among people in the organisation.
2. Lack of proper vertical authority makes the job of a project manager very difficult. He has responsibility for completion of the project without direct authority over people in the project.
3. Decision making is very difficult in a project organisation because of undue influence and pressures from specialists of diverse fields.
4. Project organisation may lead to conflicts among the specialists because of their different orientation. Thus, motivation of specialists poses another problem to the project manager.

# Matrix Organisation

Just like project organisation, matrix organisation is also recent origin developed after World War. II. It provides a flexible structure to achieve a series of project objectives. It is created by merging two complementary organisations. It has a hybrid grid structure where pure project organisation is superimposed on a functional structure. Matrix Organisation is a combination of project organisation and functional organisation. In order to meet problems of growing size and complexity of undertaking Matrix organisation has been formed. It is more technically oriented and flexible than the traditional line and staff organisation.

Paul R. Lawrence and Stanely M. Davis have defined matrix organisation as “any organisation that employs a multiple command system that includes not only multiple command structure but also related support mechanism and an associated organisation culture and behzaviour pattern”. From the definition it is clear that matrix organisation leads to an overlapping of command, control and behaviour pattern.

A Matrix organisation is different from a project organisation in the sense, that matrix organisation involves a large number of small projects, whereas, a project organisation is suitable in case of accomplishment of a small number of large projects. Another important difference is that in a project manager has full responsibility for completion of the project because separate divisions or departments are created and each manager is provided resources which he can independently use. But in matrix organisation the project manager does not have complete authority, he will have to share resources with the rest of the enterprise. Matrix organisation consists of permanent functional departments. Besides, this temporary project groups are established to handle unique short term projects. Personnel required are taken from the functional department. The project manager controls and coordinates their activities. Once the project task is completed they go back to their respective functional departments. Thus, an individual in a matrix organisation has two superiors. One is his permanent functional head and the other his project manager. A matrix organisation structure is clearly presented in Figure 9.

Managing Director

Production Finance Marketing Personnel

Production

Finance

Marketing

Personnel

Project I

----------------------------------------------------------------------------------------------------

Project II

Project

Production Finance Marketing Personnel

----------------------------------------------------------------------------------------------------

Production Finance Marketing Personnel

----------------------------------------------------------------------------------------------------

# Figure 9: Matrix Organisation

Line authority

--------- Project authority

# Merits of Matrix Organisation

* 1. It facilitates better control and planning because it focuses attention and resources on a single project.
  2. Matrix organisation is more flexible than the traditional functional organisation.
  3. It provides for effective coordination and communication by facilitating direct contact between the functional group and project manager. This provides positive motivation to people engaged in a project.
  4. It emphasises authority of knowledge rather than position and thereby it leads to better utilisation of professional services.

# Demerits of Matrix Organisation

1. Matrix organisation leads to overlapping of command, thus violating the principle of unity of command. People receive instructions and orders from both functional and project managers.
2. The relationship in a matrix organisation is very complex this leads to a lot of confusion. Coordination of efforts becomes very difficult because subordinates are not in a position to identify their superior as there are both formal and informal relationships.
3. Matrix organisation involves sharing of resources and joint decision making. In the absence of mutual trust and undertaking, conflicts arise. This affects the organisation and delays completion of the project.
4. The morale of people in a matrix organisation is very low, because people are drawn temporarily from various departments and the project manager has no line authority over them. This at times leads to lack of commitment and involvement in the project.

Matrix organisation will be successful only when there is mutual trust and understanding between key executives in an organisation. They should be willing to share authority and resources. Proper implementation and a systematic approach will result in maximum gains in the areas where matrix organisation is applied.

# Free-Form Organisation

A free form organisation is closely related to project and matrix organisation. It is also called as organic, naturalistic or ad-hoc form of organisation. It is based on the logic that the organisation is an open system and the basic task of a manger is to ensure and facilitate change in the organisation which requires flexibility and adaptability. The following are some of the important features of free form organisation.

* 1. It is formed in order to meet challenges posed by the external environment which is very unstable and dynamic.
  2. The objectives of a free-form organisation are development oriented and long- term in nature.
  3. In a free form organisation any individual who is complete and suitable, is given the power to make decisions.
  4. In a free form organisation authority is based to competence and knowledge, and not on status.
  5. The structure of a free form organisation will differ from situation to situation depending upon the dynamic environment.
  6. There is no fixed channel for the flow of communication in a free-form organisation.
  7. A free form organisations is very flexible and adapts itself to the highly dynamic environment.

Thus, free-form organisations are suitable for those business units which work in a highly dynamic environment, which are ever changing and highly flexible.

# Organisation Charts and Manuals

Organisation charts and manuals provide vital information about organizational relationship. They clearly provide information about authority relationship and the pattern of work that is carried out in a business unit. Preparation of Organisation Charts and manuals is not necessary. But they are required for efficient management, because they provide clarity in action.

# Organisation Charts

An organisation chart is a diagrammatical representation of various positions in a business unit and the formal relationship among them. It clearly indicates the major functions and their relationship along with the formal authority of each manager who is in charge of the respective function. It enables each individual to understand his position in the organisation and to know to whom he is accountable. According to George R.Terry, “an organisational chart is a diagrammatical form, which shows important aspects of an organisation including the major functions and their respective relationship, the channels of supervision, and the relative authority of each employee who is in charge of each respective function”. Thus, it provides a bird’s-eye view of the authority in an organisation as well as the relationship between departments or units of an enterprise.

The following are the distinct features of an organisational chart.

* 1. It is diagrammatical representation of different positions in an organisation.
  2. The formal organisation structure is provided in an organisational chart.
  3. It shows the principal line of authority in the organisation.
  4. In indicates inter-play of various functions and relationship.
  5. It provides the formal channel of communication for the organisation.
  6. It clearly indicates the pattern of supervision.

Organisation charts can be divided into a) Master Charts b) Supplementary Charts. Master charts show the whole formal structure of an organisation with all positions and relationships. Supplementary charts are used to show separately department-wise structures of an organisation with positions and relationships of each department. Supplementary charts are used in big enterprises where all necessary information cannot be provided in the master chart.

# Types of Organisational Charts

Organisation charts can be broadly classified into three different categories:

1. **Vertical Charts:** Many organisations use this type of chart, which provides information in the form of a pyramid about different levels in the organisation. This chart flows vertically from top to bottom and therefore it is otherwise called as top-to-down chart. In this chart, the highest position is shown at the top level followed by other positions according to the hierarchy. Thus, line of command proceeds from top to bottom in a vertical manner as shown in Figure 10.

Board of Directors

General Manager

Marketing Manager

Personnel Manager

Production Manager

Finance Manager

Sales Manager Zone I

Sales Manager Zone II

Sales Manager Zone III

Salesmen

Salesmen

Salesmen

# Figure 10: Vertical Chart

1. **Horizontal Charts:** A Horizontal chart is also called a left to right chart which shows the highest to lower level from left to right to horizontally as shown in Figure 11. In a horizontal chart, organisational levels are represented by vertical columns, whereas the flow of authority is represented by movements from left to right. These charts are occasionally used.

Production Manager

Sales Manager Zone I

Finance Manager

Salesmen

Board of Directors

General Manager

Marketing Manager

Sales Manager Zone II

Salesmen

Personnel Manager

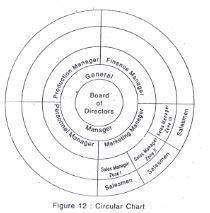
Sales Manager

Salesmen

Zone III

# Figure 11: Horizontal Chart

1. **Circular Charts:** Circular Charts present the various positions or functions of an organisation in a circular manner. Top positions having supreme authority are placed in the centre of the circle and the lowest position is placed at the outermost circle. Positions of equal status are located at the same distance from the centre. Distance of position from the centre clearly indicates the degree of closeness to the top position as shown in Figure 12.



# Advantages and uses of organisation charts

1. An organisation chart is a vial management tool that clearly indicates the various positions and relationships in the organisation.
2. At a glance it shows the line of authority and responsibility in an organisation, and this helps individuals to determine the limits of their authority.
3. It provides a framework for classification and evaluation of personnel. It helps an individual to determine his line of promotion.
4. It is very useful guide to new personnel, because it helps them easily understand their position in the organisation.
5. Organisational charts help to overcome deficiencies and inconsistencies in organisation relationship. They help to identify overlapping authority and unintended relationships.

# Limitations of organisation charts

1. Formal relationship is only shown in the organisation chart, whereas it ignores informal relationship. But informal relationship plays an important role in the functioning of the organisation.
2. An organisation chart only indicates in line of authority, it does not indicate the limits of authority or the extent to which an individual accountable.
3. An organisation chart provides only formal structure of an organisation at a given time. Thus, it shows only a static state of affairs of the organisation and does not represent flexibility which is required in a dynamic organisation.
4. Organisation chats may lead to conflicts and misunderstanding among members in an organisation because they create feelings of superiority and inferiority.
5. Organisation charts do not give a true picture of relationships that exist in the organisation, but show only the ‘supposed to’ relationship.

In spite of all these limitations, organisation chart serves an effective tool of management. It provides a blue print of the company’s organisation structure. It helps employees to identify their positions and relationship with others in the organisation.

# Organisation Manual

An organisation manual is a booklet containing information about the organisational objectives, authority and responsibility of different positions and the procedures and methods followed. It supplements and provides more details about the information shown in the organisational chart. An organisation chart only indicates the

line of authority; it does not indicate the limits of authority or the duties that each individual in the organisation should perform. In order to provide detailed information, large business units prepare manuals that include job descriptions and other information in addition to the organisation charts. Organisation manuals help to control and guide the activities of employees.

An organisation manual can be divided into three parts, namely a) Introductory; b) Administrative; and c) Procedural. In the introductory, part information relating to the nature, purpose and objectives are provided. Whereas, in the administrative part, details regarding organisation structure, policies of the management, job descriptions and regulations are given. The procedural part consists of specimen forms to be used, general office procedures and practices, instructions relating to the performance of standardised and non-standardised jobs. An organisation manual can be prepared for the entire organisation or part of it. Thus, an organisation can have many manuals depending upon its size and functioning.

# Types of Organisation Manuals

1. **Company Organisation Manuals:** It provides the entire set-up of a company. It explains the duties and responsibilities of different departments and their respective executives. It clearly lays the formal line of command which helps in smooth functioning of the organisation.
2. **Policy Manual:** It indicates the general policies of an organisation. It acts as guide to thinking and action of those involved indecision making. Policy manuals provide a broad outline within which actions are to be taken.
3. **Operational Manual:** Operational Manuals provide employees with information regarding procedures, standards and established methods of doing the various kinds of work. It clearly indicates the different steps to be taken while doing a particular job and supplements them with figures, charts, sketches etc.,
4. **Departmental Practice Manual:** Information and procedures relating to a particular department are provided in this Manual. It provides detailed information about internal policies and procedures of a single department. Inter-departmental relationships are also shown with the help of charts and figures.
5. **Rules and Regulations Manual:** it contains detailed and precise information about the operating rules and employment regulations of an organisation. It provides information about working hours, leave, recreation etc. It also explains the various employee benefit

plans like group insurance, housing, medical benefits etc. In fact, it is a booklet of employment rules.

# Advantages of Manuals

* 1. All important decisions relating to the internal organisation of an enterprise are provided in written form in the manual.
  2. All rules and regulations as well as instructions are in the written form and hence they need not by explained time and again to the employees.
  3. It ensures quick decisions, as policies and procedures are stated in clear and definite words.
  4. A manual clearly indicates the line of authority and its limits, and thereby avoid jurisdictional conflict.
  5. It enables new employees to know their responsibility and their relationship with others in the shortest possible time.

# Disadvantages of Manuals

1. Preparation of manuals is a time consuming and costly process. Hence, small organisations cannot afford to have manuals.
2. Manuals leave little scope for individual initiative and discretion because it creates rigidity in an organisation by putting standard procedures and practice in writing.
3. Relationships which should not be exposed may be put on record through manuals.

Despite these limitations, manuals serve as an effective instrument for directing and controlling the activities of employees in an organisation. It is also an useful supplement to organisation charts.

# Questions

|  |  |  |
| --- | --- | --- |
| 1. | Briefly explain the different principles of organisation. |  |
| 2. | Differentiate between formal and informal organisation. |
| 3. | Explain the different types of organisation. |
| 4. | What are the reasons for conflict between line and staff organisation? | How will |
| 5. | you resolve these conflicts?  Write a note an organisation charts. |  |
| 6. | What are the advantages and disadvantages or organisation manuals? |  |

# Lesson 3.2 Departmentation and Span of Management Learning Objectives

After reading this lesson you should be able to

* Know the need and importance of Departmentaion
* Understand bases of Departmentation
* Understand the meaning of Span of Management
* Differentiate Narrow and Wide span

# Departmentation

Departmentation or departmentalisation is an integral part of the organisation process. The most important task in developing and organisation structure is the identification and grouping of activities. Departmentation refers to the process of grouping the activities. It is a means of dividing the large and complex organisation into smaller and flexible administration units. The terms used to designate departments are a result of departmentation vary according to their nature and scope. In business units, terms such as branch, division, section are used, in the army these are referred to as group, regiment, battalion, company etc. whereas, in the government they are called as branch, department, section and bureau. Therefore, Departmentation refers to the process of grouping activities and employees of a business into work units (departments) so as to effectively accomplish organisation objectives.

# Need and Importance of Departmentation

Departmentation is required in an organisation to provide for specialisation of work and to overcome the limitation on the number of persons that a supervisor can directly control. UT for departmentation, expansion of an organisation will not be possible.

Not only that, it also helps to bring about overall efficiency in the organisation. The following points highlight the need and importance of departmentation:

1. **Advantage of specialisation:** Departmentaiton helps on organisaiton to take advantage of specialisation which provides for efficiency in work. Departmentation enables division of work, which leads to more and better work with the same effort.
2. **Expansion:** Deapartmentation provides an opportunity for expansion. It overcomes the limitation on the size of the organisation. Grouping of personnel and activities into departments makes it possible to expand an organisation to any extent.
3. **Fixation of responsibility:** Departmentation divides the work into small units, where it clearly and precisely defines the work and fixes the responsibility relating to it. Thus, an individual knows what is expected of him and to whom he is responsible. Proper fixation

of responsibility leads to commitment and involvement in the accomplishment of organisational objectives.

1. **Management Development:** Departmentation helps in the development of mangers. By grouping of activities into different departments, it provides them an opportunity to take initiative and since their attention is focused on specific activities, they are provided with effective on-the-job training. Moreover, as their field of operation is restricted it is easy to identify the areas where they require development.
2. **Effective appraisal:** Departmentation helps in effective performance appraisal, because it not only specifies the activities to be performed but also clearly lays down the standards of performance. Thereby, fixing of responsibility and evaluation of work can be very easily done.
3. **Feeling of autonomy:** Departmentation creates a feeling of autonomy and this motivates mangers to a very great extent. By dividing work into small units, the manager incharge of each unit is given adequate freedom to take independent decisions with regards to his unit. This feeling of autonomy motivates managers positively and acts as a source of better performance among managers and simultaneously leads to efficiency in operations. **Bases of Departmentation**

Departmentation is a process by which activities of an enterprise are grouped into various divisions for the purpose of efficient management. There are several bases for departmentation which are as follows:

* 1. Departmentation by function
  2. Departmentation by product
  3. Departmentation by territory
  4. Departmentation by process or equipment
  5. Departmentation by customer
  6. Departmentation by numbers and time

# Departmentation by Function

It is one of the most widely used method of grouping the activities of an enterprise. Here departments are created on the basis of certain specified functions that are to be performed at various levels in the organisation. Normally the functions are divided into basic and secondary functions. A basic function is one which is essential for the survival of the organisation and it contributes to the organisational efficiency. For example, in a manufacturing organisation, production, finance, personnel and marketing are basic functions. A basic or major function may be divided into sub-functions in order to ensure

proper control and to take advantage of specialisation. These sub-functions are called secondary function. For example, activities in the marketing department may be classified into marketing research, and planning, promotion, sales administration. Figure 13 clearly indicates departmentation by function.

Board of Directors

General Manager

Production

Finance

Marketing

Personnel

Marketing Research and Planning

Promotion

Sales Administration and Sales

# Advantages

**Figure 13: Departmentation by Function**

* 1. It is most logical form of departmentation which reflects on the functions of an organisation.
  2. It follows the principle of specialisation.
  3. It acts as a means of tight control at the top.
  4. It facilitates effective delegation of authority.
  5. Duplication of effort is eliminated in functional departmentaion.

# Disadvantages

1. Deparmental heads are overburdened with work and responsibilities.
2. Coordination of activities among different departments may be difficult because of the empire-building tendency of functional heads which may lead to conflicts.
3. Organisations operating over a large geographical area cannot adopt this type of departmentation.
4. It narrows the viewpoints of key personnel by over-specialisation.