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Block—1

Planning and Organizing Management

Unit—1

Definitions of Management

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STRUCTURE

1.1 OBJECTIVE

After going through this unit you will be able to :

- Describe about management, nature and purpose of management.
- Know the functions of managers.
- Explain about social responsibility of managers with description of broad overview of different forms of business enterprises.

1.2 INTRODUTION

Business has come to occupy a very important place in contemporary societies. It's not longer confined to manufacturing sector as the activities in agriculture and service sector too are conducted in businesslike fashion. The way business is conducted has undergone dramatic changes overtime with increasing complexity in the environment. The fast changing environment demands delicate balancing of conflicting interests of different interest groups like consumers, shareholders, management, government, society etc. The requirements of productivity, profitability and efficiency cannot be undermined, as these are vital for survival of firms. As a result an understanding of dynamics of business is crucial. The discipline of management tries to make this knowledge easy and comprehensible.

1.3 DEFINITION OF MANAGEMENT

1. "Management is a social process entailing responsibility for the effective and economic planning and regulation of the operations of an enterprise, in fulfillment of a given purpose or task, such responsibility involving:
   (i) Judgement and decision in determining plans and in using data to control performance and progress against plans.
   (ii) The guidance, integration, motivation and supervisions of the personnel composing the enterprises, and carrying out its operations.

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2. "Management may be defined as the art of securing maximum results with a minimum of effort so as to secure maximum prosperity and happiness for both the employer and the employee and give the public the best possible service."
   – John F. Mee
3. *"Management is the process by which managers create, direct, maintain and operate purposive organizations through systematic, coordinated, co-operative human effort."* **– Dalton E. McFarland**
4. "Management is guiding human and physical resources into dynamic organizational units which attain their objectives to the satisfaction of those served and with a high degree of morale and sense of attainment on the part of those rendering service." **– American Management Association**
5. "Management is the art of getting things done through the people in formally organized groups." **– Harold, Koontz and O'Donnell**
6. "Management is the function of executive leadership. It is the work of planning organizing and controlling the activities of the organization in the accomplishment of its objectives." **– R. C. Davis**
7. "To manage is to forecast and to plan, to organize, to command, to co-ordinate *and to control."* **– Henery Fayol**

1.4 NATURE AND PURPOSE OF MANAGEMENT

Management is a distinct activity having the following characteristics:

1. **Distinct Process:** Management is a distinct process consisting of such functions as planning, organizing, staffing, directing and controlling. These functions are so interwoven that it is not possible to lay down exactly the sequence of various functions of their relative significance. In essence, the process of management involves decision-making and putting the decisions into practice.
2. **Management is Universal:** Management is universal in character. The principles and techniques of management are equally applicable in the field of business, education, military, government and hospital.
3. ***Management is Goal Oriented:*** *Management is purposeful activity.* It coordinates the efforts of workers to achieve the goals of the organization. The success of management is measured by the extent to which the organizational goals are achieved.
4. **Economic Resource:** Management is one of the factors of production together with land, labour and capital. It is the most critical input in the success of any organized group activity. It is the force which assembles and integrates other resources, namely, labour, capital and materials.
5. **Multi-disciplinary Subject:** Management has grown as a field of study taking the help of so many other disciplines such as Engineering, Anthropology, Sociology and Psychology. Much of the management literature is the result of the association of these disciplines.

6. **A Science and an Art:** Management is an organized body of knowledge consisting of well defined concepts, principles and techniques which have wide applications. So it is treated as a science. The application of these concepts, principles and techniques requires specialized knowledge and skills on the part of the manager.
7. **System of Authority:** Management as a team of managers represents a system of authority, a hierarchy of command and control. Managers at different levels possess varying degrees of authority. Generally, as we move down in the managerial hierarchy, the degree of authority gets gradually reduced. Authority enables the managers to perform their functions effectively.
8. **Results through Others:** The managers cannot do everything themselves. They must have the necessary ability and skills to get work accomplished through the efforts of others. They must motivate the subordinates for the accomplishment of the tasks assigned to them.) Ans

1.5 MANAGEMENT AS A SCIENCE OR AN ART

Whether the management is a science or an art, cannot be satisfactorily answered. There are authors, like Mary Follet, who describe management as an art because management relates to practical application of knowledge and skill as per the needs of a given situation. On the other hand, there are authors, like Luther Gullick, who regard management as a science because management represents a body of well-tested principles which can be universally applied.

Elements of Art

(*i*) It is descriptive.
(*ii*) It translates theory into practice.
(*iii*) It requires personal skill, which differs from individual to individual.
(*iv*) It is creative in the sense that it seeks to achieve results by means of adapting, modifying and innovating ideas and techniques.
(*v*) It requires sound common sense and deep human understanding.
(*vi*) It requires constant practice to achieve perfection.

Elements of Science

(*i*) It is definitive.
(*ii*) It represents a body of knowledge and principles, which can be applied in all situations.
(*iii*) It requires a scientific enquiry to examine and evaluate all the aspects of a given situation.
(*iv*) It establishes a cause-effect relationship between different factors.
(*v*) It seeks to predict events on the basis of knowledge of relationships between different factors.
(*vi*) It prescribes a rigorous control procedure to test the results.

1.6 PURPOSE AND IMPORTANCE OF MANAGEMENT

Management is indispensable for the successful functioning of every organization. It is all the more important in business enterprises. No business runs on itself, even on momentum. Every business needs repeated stimulus, which can only be provided by management.

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The importance of management can be explain more clearly from the following points:

1. **Reduces costs:** To secure efficiency of operations, management is concerned with reducing costs of production and increasing the output. Through better planning, organizing and control, and the use of various cost reduction techniques, efficient management leads to reduced costs and increased output.
2. **Establishes a sound organization:** Management lays down a pattern of authority-responsibility relationship. The structure so formed shows the various interrelated positions for which the right type of persons with right qualifications and training are selected.
3. **Maintains equilibrium:** Management helps an organization to survive in its dynamic environment. Good management enables an enterprise to adjust to the complex and ever-changing external environment. Thus, management is responsible for the survival and stable growth of an organization.
4. ***Generation of employment:*** By setting up and expanding business enterprises, managers create jobs for the people. People earn their livelihood by working in these organizations. Managers also create such an environment that people working in enterprises can get job satisfaction and happiness.
5. **Essential for Prosperity of the Society:** Efficiency of management leads to greater and more economical production for the society. Through increased welfare activities, it improves the standard of living of the people.
6. **Management creates social responsibilities:** Managers today are not only responsible towards their bosses alone but also they have an equal and foremost responsibility towards the society. It is important that the consumer gets the right product at the right time, the rules of society are adhered to government is given adequate support and society gets new employment opportunities. Efficient management is required to fulfill all these social responsibilities.
7. **Development of the nation:** Efficient management is equally important at the national level. Management is the most crucial factor in economic and social development. The development of a country largely depends on the quality of the management and its resources.

1.7 APPROACHES TO OPERATIONAL MANAGEMENT

A heterogeneous group of management practitioners, thinkers and social scientists have contributed to the accumulation of knowledge in management. Therefore, several approaches to the study of management has emerged over the years. Some of these approaches are described here.

Classical Approach

The classical approach is also known as traditional approach, management process approach or empirical approach. The main features of this approach are as follows:

1. Formal education and training is emphasized for developing managerial skills among the would be managers. Case study method is often used for this purpose.
2. Emphasis is placed on economic efficiency and the formal organizational structure.
3. Management is viewed as a systematic network (process) of interrelated functions. The nature and content of these functions, the mechanics by which each function is performed and the interrelationship between these functions is the core of the classical approach.

4. People are motivated by economic gains. Therefore, the organization controls economic incentives.
5. On the basis of experiences of practicing managers, principles are developed. These principles are used as guidelines for the practicing executive.
6. *Functions, principles and skills of management are considered universal.* They can be applied in different situations.

The classical approach was developed through three mainstreams—scientific management, administrative theory and bureaucracy. Scientific management was developed by engineers and technicians like F.W.Taylor, Harrington.

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The System Approach

The system approach to management was developed during the late 1950's. Many pioneers such as E.L. Trist, A.K. Rice, F.E. Kast, J.E. Rosenzweig, R.A. Jhonson, R.L. Khan, Daniel Kartz, and Kenneth Boulding have made significant contributions to this approach. The fundamental features of the systems approach are as follows:

1. Management is expected to regulate and adjust the system to secure better performance. Management involves taking into account many variables, which are interrelated and interdependent. This multivariate aspect of management suggests that there is no simple cause and effect relationship. To ensure the survival and growth of an organization, management must continually adjust and adapt it to the changing environment.
2. Every system is a part of a supra system (environment).
3. Organization is an open system and it interacts with its environment. It is also a dynamic system as the equilibrium in it is always changing. An organization operates in a dynamic environment, which cannot be predicted with certainty. Therefore, it is probabilistic.
4. An organization is a system consisting of many interrelated and interdependent parts or subsystems. These elements are arranged orderly according to some schemes such that the whole is more than the sum of the parts. For example, if an organization is taken as a system, production, sales, finance and other departments are its subsystems.
5. As a system, an organization draws inputs (energy, information, materials, etc) from its environment. It transforms these inputs and returns the output back into the environment in the form of goods and services.

1.8 FUNCTIONS OF MANAGERS

The manager of the modern day times performs a complex task of unifying the labour and other resources so as to achieve the overall organizational goals. In this process, he has to deal with his superiors and subordinates and also with the factors affecting the external and the internal organizational environment. He has to make the best use of his position so that within the framework of managerial functions that he performs, he can so train his subordinates that organizational adaptability to environment increases and the organization is able to survive in this modern era of tough competition.

1.9 MANAGEMENT AND SOCIETY

Modern business is affected by all the society, *i.e* consumers, employees, shareholders, government, social welfare societies etc. and these different categories of people have various expectations from the business enterprises. Customers expect that they get good quality products at reasonable rates, employees expect to get handsome remuneration, shareholders expect to get adequate return on their investments, government expect that these business enterprises pay sufficient contribution to the state exchequer. In these circumstances it becomes the responsibility of the managers that while protecting the benefits of the owners of the business, they should keep in consideration the expectations of various sections of society as well.

1.10 SOCIAL RESPONSIBILITY OF MANAGERS

According to Henry Ford, "Mere money chasing is no business." Charles B. Mcoy is of the opinion that "business leadership is not restricted merely to the walls of the factory and a business leader cannot relieve himself of the responsibilities which do not have a direct effect on the profits of the business." Managers have social responsibility towards the following groups of society:

1. **Towards Employees:** Employees are the wealth of any business organization. If the employees are satisfied the business develops and if the employees are dissatisfied the development of business comes to a halt. Thus, managers should provide maximum satisfaction to the employees. Managers have the following responsibilities towards the employees:
   (*i*) To pay them fair remuneration
   (*ii*) To provide them security of job
   (*iii*) To respect their self-esteem
   (*iv*) To lay emphasis on labour-welfare activities
   (*v*) To provide them social security
   (*vi*) To give them opportunities to participate in management
   (*vii*) To solve the labour problems in a cordial manner
   (*viii*) To arrange for their training/education and development programme.
2. **Towards Community:** A manager himself is a social being. He utilizes the resources of the society while living in the society. Hence, managers have some responsibilities towards the society also these are:
   (*i*) To use the resources of society for the benefit of society
   (*ii*) To increase employment opportunities
   (*iii*) Not to pollute the environment
   (*iv*) To increase the standard of living of the society
   (*v*) To participate in social welfare by the establishment of charitable institutions, hospitals, educational institutions etc.
   (*vi*) To promote and play an important role in civic affairs
3. **Towards Self:** A business owes the manager the foremost responsibility towards itself. The manager must seek to achieve the stated objectives for which the organization is established. In other words, the foremost responsibility, of the manager is to fulfill the objectives of the organization by running it efficiently. Managers have the following responsibilities towards self:
   (*i*) To run business efficiently
   (*ii*) To enhance his managerial knowledge and skills
   (*iii*) To produce the goods and services regularly and distribute them judiciously
   (*iv*) To increase business potentials
   (*v*) To optimize the use of available resources
   (*vi*) To increase the reputation of the organization continuously

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4. **Towards Government:** Towards the government, a business owes the following responsibilities:
   (*i*) To abide by the rules laid down by the government
   (*ii*) To pay taxes honestly and timely
   (*iii*) To help the government in the economic development of the country
   (*iv*) Not to distort the government machinery for selfish motives
   (*v*) Not to receive government favors by adopting unfair means
5. **Towards Consumers:** Presently consumers rule the market. A consumer is regarded as the 'King'. A business owes its very survival and growth to its consumers. Thus, management should make every effort to keep its consumers satisfied. Management owes the following responsibilities towards its consumers:
   (*i*) To make available good quality products at reasonable rates.
   (*ii*) To make available the goods regularly according to the needs
   (*iii*) Not to resort to adulteration of goods
   (*iv*) To produce the goods in accordance with the needs of the consumers
   (*v*) To make the goods available in accordance with the convenience of the consumers
   (*vi*) To make provide good after sale services
   (*vii*) To solve the consumers problems
   (*viii*) Not to resort to false and misleading advertising
   (*ix*) To provide information regarding the use of the product to the consumers
   (*x*) To behave politely with the consumers
6. **Towards Owners:** Because of the separation of the management and the ownership, managers have significant responsibility towards the owners. Some of the vital responsibilities are:
   (*i*) To ensure safety of the capital invested in the business
   (*ii*) To utilize the capital in the achievement of the predetermined goals
   (*iii*) To give adequate returns on capital
   (*iv*) To provide true records and information
   (*v*) To expand the business of the organization
   (*vi*) To make the owners aware of the progress of the organization
7. **Towards the World:** Today business is multinational. The achievements of one nation affect the other nations of the world. The managers also have certain responsibilities towards the other nations like:
   (*i*) To abide by the rules of international market
   (*ii*) Not to indulge in unhealthy competition in the international market
   (*iii*) To provide help in the development of the backward countries
   (*iv*) To cooperate towards international peace

1.11 ETHICS IN MANAGING

Ethics is a belief as to whether a given action is right or wrong. The term 'Ethics' has three implications:

(*a*) Ethics is an individual concept. Only individuals, generally or as managers, have ethics; firms do not have ethics

(*b*) The ethical behaviour varies from person to person. What is ethical for one may be unethical for others

(c) Though depending on individual perception, ethics normally relates to behaviour that is within the confines of socially accepted norms

Management Ethics: 'Management Ethics' is a concept that closely related to the concept of social responsiveness of a firm. It is defined as "the discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation. "It is a standard of behaviour that guides individual managers in their works."

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"It is the set of moral principles that governs the actions of an individual or a group" Business ethics is the application of ethical principles to business relationships and activities.

When managers are engaged in assuming social responsibility, it is believed that they will do so in an ethical manner, that is, they know what is right and what is wrong.

Factors affecting ethical decisions: Five factors that affect ethical decisions have been identified by Robert J. Mocker.

(i) *Legal Concern:* Ethical concerns may overlap legal concerns. There can be business activities, which are not illegal but still unethical. Divulging trade secrets to competitors, using company's assets for personal use or receiving gifts for favouring business clients are examples of business practices which are not illegal but are unethical

(ii) *Governmental Regulations:* Government regulations simplify the ethical standards that are required to be followed by the managers. Unfair competition, unnecessary price cuts or curb on producing toxic products set guidelines for the managers to engage themselves in ethical behaviour

(iii) *Industry and Company Ethical Codes:* The values and practices being followed by other business enterprises in the industry simplify the ethical standards required to be followed by a particular company. Though no written code of ethics is available for business enterprises, it is presumed that they will follow a common practices in dealing with parties, internal and external to the organizations

(iv) *Social Pressures:* The ethical system assumes that different values and beliefs are held by each individual and group members of the society. If common values are held by the society members, it will help the managers in promoting their behaviour in a given direction. If the value systems are different, it will resist the managerial performance in a unified direction

(v) *Tension between Personal Standards and the Needs of the Organization:* Standards that managers follow as organizational members are different from those that they follow as members of the society. As members of the organization, managers aim at maximizing company's profits and as member of the society they want a part of the company's profits to be spent for social welfare. Change in the perception of ethical values of the same individual makes the managers awareness of social responsiveness a difficult task

Guidelines for ethical behaviour: Though each individual or group has his own set of ethical values, a few guidelines have been prescribed by James O'Toole to be followed in this regard

(i) *Obey the Law:* Obeying the legal practices prevalent in a country is conforming to the ethical values

(ii) *Tell the Truth:* Disclosing the fair accounting results to the concerned parties and telling the truth is also an ethical behaviour on the part of managers

(iii) *Respect for People:* Management ethics requires managers to show respect towards whomsoever he comes in contact with

(iv) *The Golden Rule:* The golden business principle is "Treat others as you would want to be treated, will always result in ethical behaviour

(v) *Above all, Do no Harm:* Even if law does not prohibit the use of chemicals in producing certain products, managers must avoid using them if their use happens to be an environmental pollutant.

1.12 A BROAD OVERVIEW OF THE DIFFERENT FORMS OF BUSINESS ENTERPRISES IN INDIA

NOTES

The word "corporation" derives from *corpus*, the Latin word for body, or a "body of people". A group of people elected to govern a large town or city and provide public services. In other words, entities which carried on business and were the subjects of legal rights were found in ancient Rome, and the Maurya Empire in ancient India. In mediaeval Europe, churches became incorporated, as did local governments, such as the Pope and the City of London Corporation. The point was that the incorporation would survive longer than the lives of any particular member, existing in perpetuity. The alleged oldest commercial corporation in the world, the Stora Kopparberg mining community in Falun, Sweden, obtained a charter from King Magnus Eriksson in 1347. Many European nations chartered corporations to lead colonial ventures, such as the Dutch East India Company or the Hudson's Bay Company, and these corporations came to play a large part in the history of corporate colonialism.

Corporation as, "a collection of many individuals united into one body, under a special denomination, having perpetual succession under an artificial form, and vested, by policy of the law, with the capacity of acting, in several respects, as an individual, particularly of taking and granting property, of contracting obligations, and of suing and being sued, of enjoying privileges and immunities in common, and of exercising a variety of political rights, more or less extensive.

Types of Corporations

Most corporations are registered with the local jurisdiction as either a stock corporation or a non-stock corporation. Stock corporations sell stock to generate capital. A stock corporation is generally a for-profit corporation. A non-stock corporation does not have stockholders, but may have members who have voting rights in the corporation.

Some jurisdictions (Washington, D.C., for example) separate corporations into for-profit and non-profit, as opposed to dividing into stock and non-stock.

Profit and non-profit corporations

In modern economic systems, conventions of corporate governance commonly appear in a wide variety of business and non-profit activities. Though the laws governing these creatures of statute often differ, the courts often interpret provisions of the law that apply to profit-making enterprises in the same manner when applying principles to non-profit organizations — as the underlying structures of these two types of entity often resemble each other.

Closely held and public corporations

The institution most often referenced by the word "corporation" is a **public or publicly traded** corporation, the shares of which are traded on a public stock exchange (e.g., the New York Stock Exchange or Nasdaq in the United States) where shares of stock of corporations are bought and sold by and to the general public. Most of the largest businesses in the world are publicly traded corporations. However, the majority of corporations are said to be **closely held, privately held or close corporations,** meaning that no ready market exists for the trading of shares. Many such corporations are owned and managed by a small group of business people or companies, although the size of such a corporation can be as vast as the largest public corporations.

Mutual benefit corporation

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A mutual benefit non-profit corporation is a corporation formed in the United States solely for the benefit of its members. An example of a mutual benefit non-profit corporation is a golf club. Individuals pay to join the club, memberships may be bought and sold, and any property owned by the club is distributed to its members if the club dissolves. The club can decide, in its corporate by laws, how many members to have, and who can be a member? Generally, while it is a non-profit corporation, a mutual benefit corporation is not a charity. Because it is not a charity, a mutual benefit non-profit corporation cannot obtain 501(c)(3) status. If there is a dispute as to how a mutual benefit non-profit corporation is being operated, it is up to the members to resolve the dispute since the corporation exists to solely serve the needs of its membership and not the general public.

SUMMARY

- Management is the process by which managers create, direct, maintain and operate purposive organizations through systematic, coordinated, co-operative human effort.
- Management is indispensable for the successful functioning of every organization. It is all the more important in business enterprises.
- Modern business is affected by all the society, *i.e* consumers, employees, shareholders, government, social welfare societies etc. and these different categories of people have various expectations from the business enterprise.
- 'Management Ethics' is a concept that closely related to the concept of social responsiveness of a firm. It is defined as "the discipline dealing with what is good and bad, or right and wrong, or with moral duty and obligation."

REVIEW QUESTIONS

1. What do you mean by Management ? Describe whether management is a science or an art.
2. Describe the Nature and Purpose of Management.
3. Describe system approach to operational management.
4. What are the Functions of a Manager?
5. Explain about social responsibility of managers.
6. Discuss about broad overview of the different forms of business Enterprises in India.

Unit—2
Nature and Purpose of Planning

NOTES

STRUCTURE

2.1 OBJECTIVE

After going through this unit you will be able to:
- Know about planning, its types and steps in planning
- Know about objectives, MBO process, and its concept
- Explain about strategic Planning process, different Matrix analysis and forecasting
- Describe about Decision-making process.

2.2 INTRODUCTION

Planning is an integral part of our daily activities. It is the process of determining future course of action to achieve the organizational goals.

Objectives of any organization are defined as end result to be sought and accomplished. Objectives are essential to organization, as without purpose there is no need for the organization, we will learn more about objective in this unit later.

NOTES

MBO is an overall philosophy of management that concentrates on measurable goals and end results.

Forecasting is an integral part of planning process, specially, strategic planning which is long range in nature.

2.3 PLANNING

Planning is an integral part of our daily activities. Hardly any day passes when do not plan one thing or another. Even simple tasks like going to college in the early morning, to cinema hall in the evening, meeting friends in the party at night require planning. Depending upon the amount of work involved we may keep our plans stored in memory, in diary or in computer. Since the activities of an organization are usually large and wide in scope, planning there is much more systematic and organized.

Planning is preparedness for future to meet it in the best possible manner and involves deciding in advance what to do, when to do and how to do?.

A firm decides what it will do in future; launching new products or not, reducing prices or not, increasing salaries of employees at par with competitors or not etc. Then it decides whether the product should be launched in one month or in six months, prices should be increased before budget or after budget, salaries should be increased this year or next year. The timing of plan is very important; any plan before or after appropriate time can-not yield good results. It also decides modalities of plans regarding implementation. It involves decisions on people performing work, budget. etc.

2.4 TYPES OF PLANS

There can be various types of plans depending upon the basis i.e., selected to define the plan. On the basis of levels in the management hierarchy the plans can be strategic and operational. A typical business organization is considered to have three levels in hierarchy *i.e* lower, middle and top. At the top level decisions regarding growth of firm are taken and plans at this level are called strategic plans. At the lower level day-to-day activities are performed and plans provide for this only. Such plans are called operational plans. At the middle-level supervisory functions are performed and strategic and operational plans both are used at this level. Both these types of plans are complementary in nature. Operational plans help in achievement of strategic plans and vice versa. Similarly plans can be prepared for functional areas like finance, marketing, production and personnel and accordingly plans can be called financial, marketing, production and personnel plans. Plans can also be classified based on duration for which plans are prepared. Such plans can be long-term plans, medium term plans and short- term plans. Plans up to one year duration are usually termed short term, for one to three years are called medium term and for more than three years considered as long term.

However this classification is overlapping in nature. Same plan can be strategic, long term and financial in nature.

Process of Planning—a Rational Approach to Goal Achievement

To prepare a good plan it is necessary to give due importance to certain prerequisites that make or mar a plan. Without these even a good plan is not going to succeed. These preconditions are support of top management, commitment of people assigned to the task of implementation, flexibility in plans etc. Once the company has assured that these conditions are taken care of, the following process to prepare the plan will ensure that all the important aspects are considered and nothing important is skipped.

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Steps in Planning

Analyzing the environment: Since planning is oriented to achieve the best results within the environmental constraints the first step is to assess the environment by going for SWOT analysis. SWOT is Strengths, Weaknesses, Opportunities and Threats analysis. Strengths and weaknesses lie with the company and opportunities and threats are present in the environment. A firm is required to know about these and find the best match of its resources with environment. E.g. A company may find that it is having surplus staff and feels it to be a weakness but its-people may be very talented and if it can use them for giving services to outsiders, a weakness is converted to strength.

The external business environment affects the plans of a firm to a large extent, along with internal environment of the firm. These are called planning premises that are assumptions about the environment in which plan is carried out. Forecasts about economy, industry and firm fall in this category, these are available through economy and industry surveys and market researches carried by companies. E.g. A firm may appoint additional distributors for its products hoping that its demand will pick fast because its demand comes from rural areas and government has predicted bumper crop in view of predictions of good rainfall. But if rainfall is not up to expectations it will affect agricultural production and subsequently will disturb firm's plans of greater demand. Internal environment of the firm can be equally important premise that affects realization of its goals. E.g. If a firm reorganizes its work in the hope that newer technologies will be used to carry on the job and it will help in meeting its objectives easily. But fails to invest required money in the technology for some unavoidable reasons not only its reorganization efforts will go waste but goals also will seem far.

Setting objectives: Objectives are targets that a firm intends to achieve in a given time period with given resources in the specified environment. E.g. A firm can say that it will increase its sales by 20 per cent in next financial year if economy grows at present rate, competitors do not make any serious move and it invests 2,00,000 rupees. These objectives have many preconditions yet provide a guideline to a firm to make directed efforts. Objectives can be quantitative and qualitative. Quantitative objectives are concrete in nature and are mathematically defined like 5 percent more market share, 20 per cent more profits etc. Qualitative objectives are not defined mathematically but are very important for the success of an organization. These objectives can be image of the firm, good quality of manpower, goodwill with supplier's etc. An organization sets for itself a fair combination of both types of objectives to achieve a balanced growth.

Develop alternate action paths to achieve the targets: Actions needed to be taken to achieve the targets have to be specified properly. Same objectives can be achieved in a number of ways. These alternate plans help a firm to take the best possible action. E.g. If the firm wants that its human resources should be best in the industry then it has to spell out what it is doing to improve its people. Whether it wants to get best people from the industry or it wants to train its own people or use a combination of both. All the inputs that the firm intends to put and related modalities have to specified to finest details that makes comparison of various options easy and leaves no doubts at the implementation stage. If the firm wants to have training program for its employees than, the time, duration, contents of the training have to be decided. If it wants to get best people from the industry than it should know how it would go about it and how much it will cost.

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Selecting the most suitable action path: Selected path is the route that the company finds most appropriate for itself in view of its strengths and weaknesses. It needs not to be best option. E.g. The firm may find that getting people from other companies will help it in quickly improving the quality of its workforce but it may be so expensive that firm may not spare the required resources for it. So it settles for second best option of training its people and that becomes its plan.

Though the planning process-ends as soon as the plan is prepared but the difficulties that plans may encounter at the time of implementation have to be paid due attention at this stage to make plans more practical and effective. A plan may be very good but if it ignores ground realities it may not yield desired results.

A thoroughly prepared plan provides a very effective tool to control its subsequent activities of organizing, directing and control.

2.5 DEFINING OBJECTIVES

The terms 'objective' and 'goal' indicate an end result to be sought and accomplished. Goals and objectives both have value orientations and indicate desired conditions considered necessary to improve the overall performance of the organization. Three widely quoted definitions on objectives are given below.

- Objectives are goals established to guide the efforts of the company and each of its components.
- An organization goal is a desired state of affairs, which the organization attempts to realize.
- Objectives indicate the 'end point of a management programme'.

Nature of Organizational Objectives

Just like any other management function, objectives have certain basic features. Generally speaking, enterprise objectives are visible and understood by all. They provide undeniable evidence of how well the man with the gun has performed. When objectives are defined and set, it is hard to plead ignorance, forgetfulness and misunderstanding. Apart from these simple descriptions, enterprise objectives have the following features:

1. **Objectives Form a Hierarchy**

   In many organizations objectives are structured in a hierarchy of importance. There are objectives within objectives. They all require painstaking definition and close analysis if they are to be useful separately and profitable as a whole. The hierarchy of objectives is a graded series in which organization's goals are supported by each succeeding managerial level down to the level of the individual. The objectives of each unit contribute to the objectives of the next higher unit. Each operation has a simple objective which must fit in and add to the final objective. Hence no work should be undertaken unless it contributes to the overall goal. Usually the hierarchy or objectives in an organization is described through means-ends chain. Understanding the means ends chain helps us to see how broad goals are translated into operational objectives. In the organization the relationship between means and ends in hierarchical goals established at one level require certain means for their accomplishment. These means then become the sub-goals for the next level, and more specific operational objectives are developed as we move down the hierarchy.

2. **Objectives Form a Network**

   Objectives interlock in a network fashion. They are inter-related and inter-dependent. The concept of network of objectives implies that once objectives are established for every department and every individual in an organization; these subsidiary objectives should contribute to meet the basic objectives of the total organization. If the various objectives in an organization do not support one another, people may pursue goals that may be good for their own function but may be detrimental to the company as a whole. Managers have to trade off among the conflicting objectives and see that the components of the network fit one another. Because, as rightly pointed out by Koontz et al., "It is bad enough when goals do not support and interlock with one another. It may be catastrophic when they interfere with one another."

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3. **Multiplicity of Objectives**

   Organizations pursue multifarious objectives. At every level in the hierarchy, goals are likely to be multiple. For example, the marketing division may have the objective of sale and distribution of products. This objective can be broken down into a group of objectives for the product, advertising, research, promotion managers. The advertising manager's goals may include: designing product messages carefully, create a favourable image of the product in the market, etc. Similar goals can be set for other marketing managers. To describe the single, specific goal of an organization is to say very little about it. It turns out that there are several goals involved. This may be due to the fact that the enterprise has to meet internal as well as external challenges effectively. Internal problems may hover around profitability, survival, growth, and so on. External problems may be posed by government, society, stockholders, customers, etc. In order to meet the conflicting demands from various internal and external groups, organizations generally pursue multiple objectives. Moreover, no single objective would place the organization on a path of prosperity and progress in the long run. According to Drucker, "To emphasize profit, for instance, misdirects managers to the point where they may endanger the survival of the business. To obtain profit today they tend to undermine the future." Where several goals are involved, maximizing one goal would usually be at the cost of another. Managers have to see that various goals exist is harmony and for this purpose they must assign a definite priority of 1, 2 or 3 depending on the importance of each objective. Such assignment of priorities helps to keep a perspective, especially when there are many goals for one position.

4. **Long and Short-Range Objectives**

   Organizational objectives are usually related to time. Long-range objectives extending over five or more years are the ultimate or 'dream' objectives for the organization. They are abstractions of the entire hierarchy of objectives of the organization. For example, planning in India has got objectives like eradication of poverty, checking population growth through birth control etc., which reflect certain 'ideals' the government wishes to accomplish in the long run. Short-range objectives (one year goals) and medium-range objectives (two to four-year period goals), reflect immediate, attainable goals. The short-range and medium-range objectives are the means for achieving long term goals and the long term goals supply a frame work within which the lower level goals are designed. Thus, all these goals reinforce each other in such a way that the total result is greater than the sum of the effects taken individually. That is why goal setting is called a 'synergistic process'. In order to remain viable, every organization needs to set goals in all three time periods.

Importance of Objectives

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Objectives are essential to organizations. Organizations produce market economic products and services, universities provide teaching and research, governments provide welfare and security and so on. Organizations are attainment instruments. Without some purpose, there is no need for the organization. All organizations are goal seeking, that is, they exist for the purpose of achieving some goals efficiently and effectively. Objectives affect the size, shape, and design of the organization, and they are important in motivating and directing personnel. Objectives serve the following functions:

1. **Legitimacy**

   Objectives describe the purpose of the organization so that people know what a stand is for and will accept its existence and continuance. Thus, Ford 'sells American Transportation', Chrysler 'sells know-how' and Godrej 'sells quality products'. Objectives help to legitimize the presence of organization in its environment. Now the organization can emphasize its uniqueness and identity.

2. **Direction**

   Objectives provide guidelines for organizational efforts. They keep attention focused on common purposes. Once objectives are formulated, they become the polar star by which the voyage is navigated. Every activity is directed toward the objectives, every individual contributes to meet the goals. 'Without seeing the target, a manager would be like a blindfolded archer - expending useless effort and creating havoc.'

3. **Co-ordination**

   Objectives keep activities on the right track. They make behavior in organizations more rational, more coordinated and thus more effective', because everyone knows the accepted goals to work toward. In setting effective goals managers help members at all levels of the organization to understand how they can 'best achieve their own goals by directing their behavior towards the goals of the organization.'

4. **Benchmarks for Success**

   Objectives serve as performance standards against which actual performance may be checked. They provide a benchmark for assessment. They help in the control of human effort of human effort in an organization.

5. **Motivation**

   Goals are motivators. The setting of a goal that is both specific and challenging leads to an increase in performance because it makes it clear to the individual what he is supposed to do. He can compare how well he is doing now versus how well he has done in the past and in some instances how well he is performing in comparison to others. According to Latham and Yuki goal specificity enables the workers to determine how to translate effort into successful performance by choosing an appropriate action plan. Suppose a publisher sets a goal of securing orders worth Rs. 5,000 in 6 months for a salesman and announces bonus for meeting this specification. This half yearly goal is a motivational tool that influences the salesman's behavior. Having a definite figure to shoot for is much more likely to stimulate his effort than instructions to 'sell as much as you can'.

   Psychologists preach the significance of setting goals in our private lives as well. You set the goal of cleaning your scooter on a Sunday morning. Despite the drudgery, you feel a sense of accomplishment a fulfilling your objective.

Criteria of a Good Objective

A good objective must be specific. Specificity is a highly desirable quality. Specificity provides direction towards which efforts could be channelised. A company's objective which reads "to achieve a common condition of employment for all employees, to at least present staff conditions, by 31st December, 1995," is clearly undesirable as it lacks specificity.

Secondly, an objective must be time-bound. "To reduce the selling expenses by 5% in the domestic market by 30th November, 1995", is clearly specific and time-bound objective. But to formulate an objective such as "to apply work study techniques to methods of working so that 70% of direct employees are achieving 100% performance" is of little use as it does not specify the time limit.

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Thirdly, an objective should be as measurable and quantifiable as possible. This may not always be possible, but an attempt should be made to formulate the objective in measurable terms. Clearly, an objective like "to improve return on investment on new product lines" cannot be said to be a good objective.

The other criteria of a good objective are feasibility, rationality and consistency.

Evolving Concepts Management by Objectives (MBO)

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MBO is difficult to define, for organizations use it in different ways and for different reasons. In broad terms, it may be stated that MBO is an overall philosophy of management that concentrates on measurable goals and end results. It provides a systematic and rational approach to management and helps prevent management by crisis. MBO is based on the assumptions that people perform better when they know what is expected of them and can relate their personal goals to organizational objectives. It also assumes that people are interested in the goal-setting process and in evaluating their performances against the target. In the words of Odirone, MBO is a 'process' whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him, and use these measures as guides for operating the unit and assessing the contribution of each of its members.'

Process of MBO

The exact meaning of MBO (and its application) varies from organization to organization. In some, MBO is nothing more than a catchy slogan from the latest management jargon. MBO is dismissed as a joke, a gimmick for justifying the existence of personnel departments, a fad that will go away and a paper-shuffling hassle that won't stop. In other organizations, MBO represents an overall philosophy of management, a way of thinking that concentrates on achieving results. It is treated as a multifaceted tool for improving managerial as well as organizational performance. In order to understand the reasons for this diversity, it is necessary to look into the process of MBO.

1. **Goal Setting**

   Any MBO programme must start with the absolute and enthusiastic support of top management. It must be consistent with the philosophy of management. The long term goals of the organization must be outlined initially, like: What is the basic purpose of the organization? What business are we in and why? What are the long term prospects in other areas? After these long term goals are established, management must be concerned with determining specific objectives to be achieved within a given time capsule.

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2. **Action Plan**

   The action plan is the means by which an objective is achieved. The action plan gives direction and ensures unity of purpose to organizational activities. It will wet out in detail exactly what is to be done, how the subordinate will proceed, what step will be taken and what activities will be engaged in as the subordinate progresses. It provides a specific answer to the question: 'What is to be done?' Questions like who is responsible for each activity, what resources are needed, what the time requirements are - are also answered.

3. **Appraising Performance (Final Review)**

   This is that last phase of the MBO programme. In this step the actual results are measured against predetermined standards. Mutually agreed on objectives provide a basis for reviewing the progress. While appraising the performance of subordinates, the manager should sit with the subordinates and find out the problems encountered while accomplishing the goals. The subordinate, as in the periodic sessions, should not be criticized for failure to make sufficient progress; the atmosphere should not be hostile or threatening. A give-and-take atmosphere should prevail and the appraisal should be based on mutual trust and confidence between managers and subordinates. In actual practice this type of give-and-take session is extremely difficult to achieve and rarely reaches its potential value, unless managers are gifted with necessary interpersonal skills. Often, appraisal takes place for the purpose of determining rewards and punishments;' judging the personal worth of subordinates and not the job performance. As a result, appraisal sessions become awkward and uncomfortable to the participants and intensify the pressure on subordinates while giving them a limited choice of objectives. Insecure subordinates may come to 'dread' the sessions and they may not feel free to communicate honestly and openly without fear of retaliation.

Benefits of MBO

Management by objectives moulds the planning, organizing, directing and controlling activities in a number of ways:

1. As objectives provide the basic foundation of planning, the programme of action is thoroughly tuned to the set of objectives. Instead of going through planning as a work or as a mental exercise in thinking, planning for performance can be made to prevail through a system of management by objectives.
2. Delegation and decentralization in the sphere of organizing become effective and fruitful only when the subordinates are trained and allowed to work under a system of management by objectives.
3. By clarifying the sense of direction and allowing subordinates to operate under greater freedom, management by objectives results in motivating managers to do the best possible work rather than enough to get by with the situation.
4. Management by objectives leads to the adoption of managerial self-control. Managerial self-control has been found from experience to be associated with higher performance goals and broader vision.
5. Management by objective has ushered an era of improved managing in the business world. It provides a practical means of allowing wider participation in goal setting and of accomplishing goals of the enterprise in a better way.

Weakness of MBO

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

1. **Time and cost.** MBO is not as simple as it looks to be. It is a process which requires large amount of the scarcest resource in the organization time of the senior managers. This is particularly so at the initial stages, when MBO is seen as something over and above the normal work. Sometimes managers get frustrated and feel overburdened. Further, MBO generates paper work because large numbers of forms are to be designed and put into practice. Therefore, there is a problem of communication overload. However, such problems are transitory and emerge only at the initial stages. Once MBO becomes a part of the organizational life, these problems disappear.

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2. **Failure to Teach MBO Philosophy.** MBO is a philosophy of managing an organization in a new way. However, managers fail to understand and appreciate this new approach. They have a number of doubts about MBO like what purpose is served by MBO, how the performance is to be appraised, and how organization will benefit. MBO demands rigorous analysis as an integral element of the management process but the organization may not be used to rigour. Frequently both the base data and the expertise for analysis are not available. If corrective action is not taken early, the objectives become imprecise, control information may not be available and one would not know if something was achieved. This is done on a systematic basis and managers seldom appreciate this. They take MBO as another tool for control. Moreover, their old way of thinking puts difficulty in introducing MBO because they may not appreciate the full view of MBO.
3. **Problems in Objective Setting.** MBO requires verifiable objectives against which performance can be measured. However, setting of such objectives is difficult at least in some areas. Objectives are more in the form of statement rather than in quantitative form. Of course, some objectives can be quantified and can be broken in terms of time period but others lack this characteristic, for example, objectives of staff activities. In such cases, there is absence of basis for further course of action.
4. **Emphasis on Short-term Objectives.** Sometimes, in order to be more precise, there is a tendency to emphasize on short-term objectives usually for a year or even less. No doubt, this may help in performance appraisal but there is always a danger in emphasizing short-term objectives at the cost of long-term objectives. Sometimes, an organization's short-term and long-term objectives may be incompatible because of certain specific problems.

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5. **Inflexibility.** MBO represents the danger of inflexibility in the organisation, particularly when the objectives need to be changed. In a dynamic environment, a particular objective may not be valid for ever. In the context of revised objectives, change premises, or modified policies, it is useless to follow the old objectives. However, many managers often hesitate to change objectives during a period of time. Thus inflexibility created by applying MBO may cause harm than what it may contribute.
6. **Frustration.** Sometimes MBO creates frustration among managers. This frustration may be because to two reasons. First, as experience shows, many organisations could not implement MBO properly, resulting into utter chaos. In this case, the organization is not able even to work with its old system. Second, introduction to MBO tends to arouse high expectations for rapid change, particularly among the young and junior managers. They begin to see the vision of a new world for their organization in terms of growth, profitability, and for themselves in terms of career advancement. If the rate of change is slower than expected due to any reason, managers begin to feel frustration and even disenchantment with MBO.

Inspite of these obstacles and problems in MBO, it continues to be a way of managing the organization. In fact many of the problems and weaknesses of MBO can be overcome by implementing it properly.

MBO—Limitations and Specifications

Limitations. But management by objectives is fraught with certain difficulties in actual practice.

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First, subordinate managers are to be trained and coached for working under a philosophy of management by objectives.

Secondly, managers are to be provided with proper guidelines for goal-setting on their part by way of disseminating the planning premises and of imparting a knowledge of the network of company objectives and policies.

Thirdly, the possibility of setting easy goals by managers in quantitative terms only without caring for their qualitative aspects is to be guarded against.

Fourthly, the tendency to overlook long-run objectives and to put emphasis on short-run objectives is to be checked on the part of managers.

Fifthly, as changes in top-level objectives call for a corresponding change in lower-level objectives, inflexibility in objectives may be introduced by the failure to revise lower-level objectives, an inflexibility in objectives.

Finally, unless the entire pattern and style of managing are suitably adjusted to it, the system may degenerate into a management gimmick. As a matter of fact, the success of MBO programmes in industrial enterprises is as low as 20 to 40 per cent.

Prerequisites for Installing MBO Programme

MBO is a philosophy, rather than a mere technique. As such, its installation requires a basic change in the organizational culture and environment. Many of the organizations could not use MBO successfully because of the lack of appreciation of this fact. Many of the organizations are designed so as to undermine the MBO Philosophy. This is because they could not create the proper environment required for the adoption of MBO. Below are stated some of the prerequisites and problems contained therein for installing the MBO programme:

1. **Purpose of MBO:** MBO is a means rather than an end. It has to achieve certain things in the organization; it has to solve some problems. Thus, the organization should be very clear about the purpose for which it is being implemented. As already discussed, Howell has suggested a three stage evaluation of MBO : management appraisal and development, improvement of the productivity and profitability, and long-range planning. Thus, an organization facing serious competition in both, in its product and factor markets and in the grip of secular decline, will tend to use MBO primarily for immediate improvements in productivity and profitability. On the other hand, an economically affluent organization might contemplate using MBO to change its management style so that it conforms to a more advanced and germane model of man-in-the-organization. In both these cause, the details and emphases of the system will vary. Thus, if the purpose of MBO is not precisely defined and particular techniques in MBO suitable to the purpose are not emphasized, there is every possibility that MBO does not produce the results as anticipated.
2. **Top Management Support:** The presence or absence of top management support is a critical factor in determining the degree to which an MBO programme will be successful. Many studies on MBO suggest that out of the several factors determining the success or failure of MBO, no single factor had

greater correlation than the subordinate's perception of superior's attitude towards MBO. Thus subordinates who can see their superiors as having a positive approach towards MBO are themselves also like to show a positive attitude. MBO is a way of managing on a day-to-day basis rather than an exercise of writing objectives once a year. The manager has a responsibility of:

(*i*) personally discussing with each subordinate the objectives that were set;

(*ii*) evaluating progress made in achieving these objectives; and

(*iii*) assisting and supporting the subordinate by removing obstacles that hinder his work accomplishment.

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Mere verbal or printed commitment is not enough. Vigorous involvement amongst the top management is essential and this must be seen and perceived as such throughout the organization. In short, an MBO programme is not an end in itself, rather a means to an end. Management support for using objectives to plan and to control, working on a continuous basis, increases the probability of success of a programme.

3. **Training for MBO:** Another critical factor in implementing MBO is the existence of some type of training programme for people who will be operating under it. Systematic training is required in the organization for disseminating the concepts and philosophy underlying MBO. The training should start with the concepts, philosophy, and need for MBO. If people in the organization are not clear about the reasons for which MBO is being undertaken, they will fear and may show their resistance because people tend to show fear to what they do not understand. This fear can lead to suspicion and mistrust which, in turn, undermines people's enthusiasm which is very important during the initial stages of MBO. One consultant on MBO has remarked that 'the importance of orientation and training should not be overlooked. I think it is important when you move into a programme like this, if you are starting from scratch, that people understand why and how your are developing the programme. Sometimes there is a certain amount of fear involved when a programme of this kind is involved.'
4. **Participation:** Success with MBO required a commitment on the part of each individual involved in this type of system. Their commitment, in turn, is a function of their identification with and participation in the system. The subordinate should not perceive that MBO is another technique being used by his superior to control his performance. Such undesirable perception may be avoided by encouraging the subordinate to play an active role in the preliminary phases leading to the actual writing of the objectives. Subordinate's role should include:

(*i*) the identification of important areas of accountability of his job;

(*ii*) the determination of mutually agreeable performance measures; and

(*iii*) the identification of this present performance level.

However, the areas and scope for participation may vary in their relative emphasis according to the functional areas or hierarchical level to which an individual belongs. There cannot be a standard set of participation and each organization may make its own diagnosis about the extent and type of participation it desires under given conditions. In this context, Newport observes : 'A change to participative management involves the establishment of a situation in which people are active rather than passive, responsible rather than irresponsible, and basically more independent than dependent. Yet our heritage is one for the most part of a belief in the necessity for highly structured organizational arrangements. To change such management ideologies adopted from generation to generation is a time consuming process.

In evaluating whether participation will work or not, following questions should be asked:

(i) Has the type of participation required been carefully thought out?

(ii) Does higher management really mean to share certain managerial prerogatives that supposedly go with their rank?

(iii) Is participation perceived as a trap by subordinates?

(iv) Have subordinates the right skills and knowledge in order to shed their defences, and participate meaningfully?

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5. **Feedback for Self direction and Self control:** One of the strong points in MBO system is that within this system a man can direct and control his own performance. For such a purpose, a man, who has performance objectives and knows how well he is achieving them, should know 'where he stands' and 'where he is going' so that he can make necessary adjustments to achieve the desired results on his own. As such feedback is necessary. Feedback is an essential ingredient in sustained learning and improvement in situations. By feedback, here, is not meant merely the regular supply of control information to each manager. The interpersonal aspect of feedback is equally important. Feedback under MBO should take two forms. First, the individual should get periodic reports on where he stands on an overall performance basis. This is required specially when the subordinate requires help from the superior. Second, feedback is necessary in the form of periodic counseling and appraisal interview. The superior helps to evaluate progress, to identify problems, and to offer planning suggestions.

6. **Other Factors:** Besides the above major considerations, there are several other factors that influence the success of MBO. To the extent those responsible for implementation are aware of the various problems, they can make provisions in advance to overcome these. These are as follows :

   (i) *Implementing MBO at Lower Levels.* If the full benefits of MBO are to be realized, it must be carried all the way down to the first line of the organization. There is a tendency for active participation in objective setting itself and for periodic feedback and review to diminish, the further down the management leader the programme gets. It such a tendency prevails, to that extent, the utility of MBO will be effective.

   (ii) *MBO and Salary Decision.* One of the most elusive aspects of MBO is to tie the organization's compensation system with the MBO programme. Though this problem does not arise at initial level, later on, this becomes a crucial issue. This is because rewards and penalties are among the accepted ways of exercising organizational authority over its members. There are various problems to the organizational remuneration with MBO. First, there is the problem of equating the degree of difficulty to the achievement of various objectives in various functional areas. Second if, the monetary differences between the superior and the average performer is not perceived being significant, the superior performer will lose enthusiasm to continue his outstanding performance. At the same time, minimum increases for average performers can also be discouraging. They may be doing their best work, and getting only a minimum increase may be perceived as punishment. However, such an opportunity may not exist in the organization. Third, some argue that to link MBO with reward - penalty systems would amount to bringing in the piece rate system from the shop floor to the manager's office. Thus, linking MBO with reward and penalty is really a difficult problem. One way to overcome this problem is that rewards and penalties may be thought of in qualitative terms also, instead of the usual monetary alternatives.

   (iii) *Conflicting Objectives.* One of the outcomes of MBO programme is that to a degree it builds a competitive climate. This is because MBO generates commitments. But it is often found in practice that over-commitment leads to competitive rivalry with respect to claims on the scarce resources of the organization. This may be dangerous if it exceeds the limits. The accomplishment of result in organizations largely requires interdepartmental co-operation and integration of efforts. The persons responsible for introducing MBO must be certain that competing objectives are not set. Some educational effort is needed to enable managers to adopt an overall approach to performance objectives. At the same time, MBO programme itself should not encourage sub-optimizing efforts in the short run. Intergroup and intra-group performance reviews at regular intervals should reveal the human dynamics of such sub-optimal behavior.

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MBO in Indian Organizations

In India, there is very limited experience of MBO. In fact very few organizations have applied MBO and very few of them have shared their experience with others. MBO came to India initially through the multinational companies operating in India. At the initial stage, overseas corporate offices of multinationals provided expertise to the Indian associate companies. It was in 1969 that MBO made a systematic entry through a management institution: Administrative Staff College of India, Hyderabad, organized top management seminar on MBO in which heads of many organizations participated. Many of them appreciated the role of MBO as a system of management and applied it in their organizations.

2.6 NATURE AND PURPOSE OF STRATEGIC PLANNING PROCESS

Steve Bostic, head of the American Photo Group was able to increase his annual sales from 78 million dollars to 1,49,000 million dollars. When asked about this success, he attributed it to his vision about future, clear identification of goals and well design a Plans to achieve those goals. Planning, no doubt, is the heart of success of an organisation. All organizations have always aimed at successful use of limited resource! so that they can fulfil their mission of producing goods at low costs, high quality and selling them to consumers at the right price, also at the same time maximizing their profits. In the modern era, organisations are not just confined to the task of optimizing the use of their internal resources, they are also required to adapt themselves to the changing environment. Whatever the goals on paper, howsoever effective the planning, *i* the entire exercise could be futile if the circumstances or the environmental factor within which the organisations operate, change. The vision about future, the farsightedness; forecasting and predicts, thus, must be focused on to make planning effective and enable the organisation to survive in the ever-changing dynamic environment.

General Wood puts it, "a company may overcome the inefficient use of internal resources if its basic strategy is effective, but it is not likely to overcome the ill effects.

choosing the wrong strategies, even if its operators are extremely efficient", In the word! of *Peter Drucker*, "It is increasingly important that managers should be first concern a with being effective and then with being efficient. Effective means doing the right things; efficient means doing things right."

Strategic alternatives revolve around the question of whether to continue or change the business the enterprise is currently in or improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector. There are four grand strategic alternatives: Stability, Expansion, retrenchment and any combination of these. These strategic alternatives are termed as grand strategies.

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2.7 TOWS MATRIX

TOWS Analysis is a variant of the classic business tool, SWOT Analysis. TOWS and SWOT are acronyms for different arrangements of the words Strengths, Weaknesses, Opportunities and Threats.

By analyzing the *external environment* (threats and opportunities), and your *internal environment* (weaknesses and strengths), you can use these techniques to think about the strategy of your whole organization, a department or a team. You can also use them to think about a process, a marketing campaign, or even your own skills and experience.

Strengths	Weaknesses
Opportunities	Threats

Identifying Strategic Options

SWOT or TOWS analysis helps you get a better understanding of the strategic choices that you face. (Remember that "strategy" is the art of determining how you'll "win" in business and life.) It helps you ask, and answer the following questions: How do you:

- Make the most of your strengths?
- Circumvent your weaknesses?
- Capitalize on your opportunities? and
- Manage your threats?

A next step of analysis, usually associated with the externally focused TOWS Matrix, helps you think about the options that you could pursue. To do this you match external opportunities and threats with your internal strengths and weaknesses, as illustrated in the matrix below:

TOWS Strategic Alternatives Matrix

	External Opportunities (O) 1. 2. 3. 4.	**External Threats (T)** 1. 2. 3. 4.
Internal Strengths(S) 1. 2. 3. 4.	**SO** *"Maxi-Maxi" Strategy* Strategies that **use strengths to maximize opportunities.**	**ST** *"Maxi-Mini" Strategy* Strategies that **use strengths to minimize threats.**
Internal Weaknesses (W) 1. 2. 3. 4.	**WO** *"Mini-Maxi" Strategy* Strategies that **minimize weaknesses** by **taking advantage of opportunities.**	**WT** *"Mini-Mini" Strategy* Strategies that **minimize weaknesses** and **avoid threats.**

This helps you identify strategic alternatives that address the following additional questions:

- Strengths and Opportunities (SO)—How can you use your strengths to take advantage of the opportunities?
- Strengths and Threats (ST)—How can you take advantage of your strengths to avoid real and potential threats?
- Weaknesses and Opportunities (WO)—How can you use your opportunities to overcome the weaknesses you are experiencing?
- Weaknesses and Threats (WT)—How can you minimize your weaknesses and avoid threats?

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The **TOWS Matrix**, proposed by *Heinz Weihrich*, has a wider scope and has different emphases than the ones described above. It does not replace either the Business Portfolio Matrix, The GE Business Screen, or other matrixes, but it is proposed as a conceptual framework for a systematic analysis that facilities matching the external threats and opportunities with the internal weaknesses and strengths of the organization.

The TOWS Matrix indicates four conceptually distinct alternative strategies, tactics and actions. The process of strategy formulation and the **TOWS** analysis is shown in *Figure 4-16* in which '**T**' stands for threats, '**O**' for opportunities, '**W**' for weaknesses and '**S**' for strengths.

This process includes seven steps:

- **Step 1,** deals with some basic questions pertaining to the internal and external environments (the kind of business, geographic domain, competitive situation, top management orientation).
- **Step 2,** concerns primarily the present situation in respect external environment factors (social, political, demographic, product technology, market and competition).
- **Step 3,** deals with future situation in respect to the external environment (forecast, predictions and assessment of the future).
- **Step 4,** concerns activities to develop alternatives.
- **Step 5,** deals wit activities necessary to develop strategies, tactics and more specific actions in order to achieve the enterprise's purpose and overall objectives.
- **Step 6,** concerns consistency of these decisions with the other steps in the strategy formulation process.
- **Step 7,** deals with prepare contingency plans.) Ans

2.8 THE PORTFOLIO MATRIX (BCG MODEL)

Corporate portfolio analysis is defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or business in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in multi-product and multi-business firms. They may also be used in less diversified firms, if these consist of a main business and other minor complementary interests. For instance, a diversified company may decide to divert resources from its cash-rich business to the more prospective ones, which hold the promise of a faster growth so that the company can achieve its corporate level objectives in an optimal manner

BCG Matrix

The Boston Consulting Group matrix, provides a graphic representation for an organization to examine the different businesses in its portfolio on the basis of their relative market shares and industry growth rates. As shown in the following figure, business could be classified on the B.C.G matrix as either low or high according to their industry growth rate and relative market share. The vertical axis represents the relative market share, which is the ratio of a company's sales to the sales of the industry's largest competitor or market leader. The low and high market shares are separated by a vertical line set at 1.0. This means that a company would have a relative market share of less than 1.0 if it does not have the largest share. A relative market share of more than 1.0 would occur for companies that are the largest sellers in their various industries. Still, in order to get the maximum benefits out of the experience curve, the B.C.G matrix indicates that it is necessary to be the market leader. The four cells of the B.C.G matrix have been termed as stars, cash cows, question mark (or problem children), and dogs. Each of these cells represents a particular type of business.

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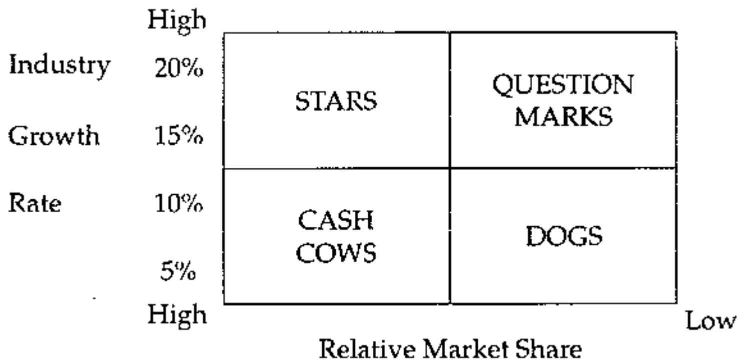

Relative Market Share

Stars

Stars are high-growth-high-market share business, which may or may not be self-sufficient in terms of cash flow. This cell corresponds closely to the growth phase of the product life cycle. A company generally pursues an expansion strategy to establish a strong competitive position with regard to a star business. For instance, petrochemicals, electronics and telecommunications, fast foods, ceramic tiles, among others are some of the industries, which have a very high growth rate.

Cash cows

As the term indicates, cash cows are business which generate large amounts of cash but their rate of growth is slow. In terms of P.L.C these are generally mature businesses which are reaping the benefits of the experience curve. The cash generation exceeds the reinvestment that could profitably be made into 'cash flows'. These businesses can adopt mainly stability strategies. Where long-term prospects are exceptionally bright limited expansion could be adopted. Scooters for Bajaj Auto, toothpaste for Colgate, decorative paints for Asian Paints are some of the cash flows in the contemporary Indian market.

Question marks

Businesses with the high industry growth but low market share for a company are 'question marks' or 'problem children'. They require large amounts of dictates that the company obtaining an early lead can expect cost advantages and market leadership and can successfully create entry barriers. No single set of strategies can be recommended here. If the company feels that it can obtain a dominant market share, it may select expansion strategies, otherwise retrenchment may be a more realistic alternative. 'Question marks', therefore, may become 'stars' if enough investment is made or they may become 'dogs' if ignored. Holiday resorts, light commercial vehicles, home improvement products are a few of the examples.

Dogs

Those businesses which are related to slow-growth industries and where a company has a low relative market share are termed as 'dogs'. They neither generate nor require large amounts of cash. In terms of P.L.C, the 'dogs' are usually products in late maturity or a declining stage. The experience curve for the company shows that it faces cost disadvantages owing to a low market share. The only possibility for the company could be to gain market share at the expense of rival firms, a possibility that is remote owing to the high costs involved. So retrenchment strategies are normally suggested. Cotton textiles, jute, shipping, leasing, photocopiers are some of the products and services that have become 'dogs' for quite a few companies.

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2.9 THE THREE GENERIC COMPETITIVE PORTER'S GENERIC STRATEGIES

Business strategies are the courses of action adopted by a firm for each of its businesses separately to serve identified customer groups and provide value to the customer by a satisfaction of their needs. In the process, the firm uses its competencies to gain, sustain and enhance its strategic advantage.

Michael E. Porter is credited with extensive pioneering work in the area of business strategies or competitive strategies. The dynamic factors that determines the choice of competitive strategy according to Porter, are two, namely the industry structure and the positioning of a firm in the industry. Industry structure is dependent on the five forces operating in the marketplace. Positioning is based on competitive advantage and the competitive scope.

Competitive advantage is derived from the two approaches of lower cost and differentiation. Competitive scope could be a broad target or a narrow target. When competitive advantages and competitive scope are juxtaposed what results is a matrix. Porter uses this matrix to suggest, that there could be basically three types of competitive strategies.

Competitive Scope	Broad target	Cost Leadership	Differentiation
	Narrow target	Focused cost leadership	Focused differentiation
		Low-Cost Products/Services	Differentiated Products/Services
		Competitive	Advantage

According to Porter, business strategies are of three types:

A. **Cost Leadership Business Strategy:**

When the competitive advantage of a firm lies in a lower cost of products or services relative to what the competitors have to offer, it is termed as cost leadership. The firm outperforms its competitors by offering products or services at a lower cost than they can. Customers prefer a lower cost product particularly if it offers the same utility to them as the comparable products available in the market have to offer. When all firms offer products at a comparable price, then the cost leader firm earns a higher profit owing to the low cost of its products.

Cost leadership offers a margin of flexibility to the firm to lower price if the competition becomes stiff and yet earn more or less the same level of profit.

B. **Differentiation Business Strategy:**

When the competitive advantage of a firm lies in special features incorporated into the product/service, which are demanded by the customers who are willing to pay for those, then the strategy adopted is the differentiation business strategy. The firm outperforms its competitors who are not able or willing to offer the special features that it can and does. Customers prefer a differentiated product/service when it offers them a utility that they value and are willing to pay more for getting such utility. A differentiated product/service stands apart in the market and is distinguishable by the customers for its special features and attributes.

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C. **Focus Business Strategy:**

Focus business strategies essentially rely on either cost leadership or differentiation but cater to a narrow segment of the total market. The more commonly used bases for identifying customer groups are the demographic characteristics (age, gender, income, occupations etc.) geographic segmentation (rural/urban or Northern India/Southern India) or life-style (traditional modern).

2.10 MAJOR TYPES OF STRATEGIES

A. **Stability Strategies:**

It to attempt made by an organization at incremental improvement of functional performance. Small and medium sized firms. Stability strategies can be useful in the short run when such firms are satisfied with their current performance.

Stability strategy is adopted because:

(*i*) It is less risky, involves fewer changes and people feel comfortable with things as they are.

(*ii*) The environment faced is relatively stable.

(*iii*) Expansion may be perceived as being threatening.

(*iv*) Consolidation is sought through stabilizing after a period of rapid expansion.

Example

- A packaged-tea company providers a special service to its institutional buyers, a part from its consumer sales through market intermediaries, in order to encourage bulk buying and thus improve its marketing efficiency.

B. **Expansion Strategies:**

It is followed when and organization aims at high growth by substantially broadening the scope of one or more of its business it terms of their respective customer groups, customer functions and alternative technologies-singly or jointly-in order improve its overall performance.

Expansion strategy is adopted because:

(*i*) It may become imperative when environment demands increase in pace of activity.

(*ii*) Psychologically, strategists may feel more satisfied with the prospects of growth from expansion: chief executives may take pride in presiding over organizations perceived to be growth oriented.

(*iii*) Increasing size may lead to more control over the market vis–a-vis competitors.

(*iv*) Advantages from the experience curve and scale of operations may accrue.

Example

- A chocolate manufacturer expands its customer groups to include middle aged and old persons among its existing customers comprising of children and adolescents.
- A printing firm changes from the traditional letterpress printing to desk- top publishing in order to increase its production and efficiency.

C. **Retrenchment Strategy:**

It is followed when and organization substantially reduces the scope of its activity. This is done through and attempts to find out the problem areas and diagnose the cause of the problems. Next, steps are taken to solve the problem.

Retrenchment strategy is adopted because

(*i*) The management no longer wishes to remain in business either partly or wholly due to continuous losses and in viability.

(*ii*) The environment faced is threatening.

(*iii*) Stability can be ensured by reallocation of resources from unprofitable to profitable business.

Example

- A pharmaceutical firm pulls out from retail selling to concentrate on institutional selling in order to reduce the size of its sales force and increase marketing efficiency.
- A corporate hospital decides to focus only on specialty treatment and realize higher revenues by reducing its commitment general cases, which are typically less profitable to deal with.
- A training institution attempts to serve a large clientele through the distance learning system and to discard its face- to face interaction methodology or training in order to reduce its expenses and use the existing facilities and personnel more efficiently.

D. **Combination Strategy:**

These are a mixture of stability, expansion and retrenchment strategies applied either simultaneously (at the same time in different businesses) or sequentially (at different times in the same business)

Combination strategy is adopted because:

(*i*) The organization is large and faces a complex environment:

(*ii*) The organization is composed of different businesses, each of which lies in a different industry requiring a different response.

Example

- A pints company augments its offering of decorative paints to provide a wider variety to its customers (stability) and expands its product range to include industrial and automotive paints (expansion). Simultaneously, it decides to close down the division, which undertakes large-scale painting contract jobs (retrenchment).

2.11 PREMISING AND FORECASTING

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

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

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

Neter and Wasserman have defined forecasting as :

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

Features of Forecasting

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

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

Elements of the Forecasting Process

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

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

1. **Prepare the groundwork:** The group work preparation requires a thorough study, investigation, and analysis of the company, its products, its market share, its organizational structure and the industry. The investigation will involve the past performance of all these factors, their growth over a period of time and the extent of their inter-relationships and inter-dependence. The aim is to build a foundation on which future estimates can be based.
2. **Establishing future business:** The future expectancy of the business can be reasonably computed from the past data as well as the input from the key executives of the organization, sales personnel and other specialists. This forecast is developed with the participation of the key personnel and is officially communicated to all. Thus all these people assume responsibility for meeting these forecasts and accountability for any deviations from this forecast.
3. **Comparing actual with estimated results:** The forecast estimates over the future years provide benchmarks against which the actual growth and results can be measured and compared. If there are significant variations between the

two, one way or another, the reasons for such deviations can be investigated and analyzed.

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

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

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2.12 PLANNING AND FORECASTING

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

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

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

Advantages of Forecasting

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

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

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8. The uncertainty of future events can be identified and overcomes by an effective forecasting. Therefore, it will lead to success in organization.

Limitations of Forecasting

The following limitations of forecasting are listed below:

1. **Basis of forecasting:** The most serious limitations of forecasting arises out of the basis used for making forecasts. Top executives should always bear in mind that that bases of forecasting are assumptions, approximations, and average conditions. Management may become so concerned with the mechanism of the forecasting system that it fails to question its logic. This critical examination is not to discourage attempts at forecasting, but to sound caution about the practice of forecasting and its inherent limitations.
2. **Reliability of past data:** The forecasting is made on the basis of past data and the current events. Although past events / data are analyzed as a guide to the future, a question is raised as to the accuracy as well as the usefulness of these recorded events.
3. **Time and cost factor:** Time and cost factor is also an important aspect of forecasting. They suggest the degree to which an organization will go for formal forecasting. The information and data required for forecast may be in highly disorganized form; some may be in qualitative form. The collection of information and conversion of qualitative data into quantitative ones involves lot of time and money. Therefore, managers have to trade off between the cost involved in forecasting and resultant benefits. So forecasting should be made by eliminating above limitations.

Types of Forecast

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

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

1. **Demand forecast:** Demand or sales forecasts are fundamental to a company's planning and control decisions. They give the expected level of demand for the company's products or services through some future periods.
2. **Economic forecast:** Economic forecasts involve such matters as future state of the economy; inflation rates etc, and have a profound influence on the success of future business activities.
3. **Technological forecast:** Technological forecasts usually focus on the rate of technological progress or the nature of technological developments in areas related to the business and technology.

2.13 FORECASTING TECHNIQUES

Forecasting technique can be classified into two major categories.

(*i*) Qualitative forecasting technique.
(*ii*) Quantitative forecasting technique.

1. **Qualitative Techniques**
   (*i*) Jury or Executive opinion (Dolphi Technique)
   (*ii*) Sales force estimates.
   (*iii*) Customer expectations.

(*i*) **Jury or executive opinion:** The jury of expert opinion sometimes referred to as the Dolphi technique; involves soliciting opinions or estimates from a panel of "experts" who are knowledgeable about the variable being forecasted. In addition to being useful in the creation of a sales or demand forecast this approach is used to predict future technological developments. This method is fast less expensive and does not depend upon any elaborate statistics and brings in specialized viewpoints.

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

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

2. **Quantitative Techniques**

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

(*i*) Time series analysis.

(*ii*) Economic models.

(*iii*) Regression analysis.

(*i*) **Time series analysis:** Time series analysis involves decomposition of historical series into its various components, viz., trend, seasonal variations, cyclical variations and random variations. Time series analysis uses index numbers but it is different from barometric technique. In barometric technique, the future is predicted from the indicating series, which serve barometers of economic change. In time series analysis, the future is taken as some sort of an extension of the past. When the various components of a time series are separated, the variations of a particular phenomenon, the subject under study stay say price, can be known over the period of time and projection can be made about future. A trend can be known over the period of time, which may be true for future also. However, time series analysis should be used as a basis for forecasting when data are available for a long period of time and tendencies disclosed by the trend and seasonal factors are fairly clear and stable.

(*ii*) **Economic models:** Utilize a system of interdependent regression equations that relate certain economic indicators of the firm's sales, profits etc. Data center or external economic factors and internal business factors inter-

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preted with statistical methods. Often companies use the results of national or regional econometric models as a major portion of a corporate econometric model. While such models are useful in forecasting, their major use tends to be in answering "what if"? Questions. These models allow management to investigate and in major segments of the company's business on the performance and sales of the company.

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

2.14 DECISION MAKING

Decision-making is an integral part of every manager's job. Decision-making has a wide-range, covering matters from selection of the venue for holding a meeting, to significant issues such as, assignment of resources, hiring and firing of personnel, rate of dividend, merger, etc. In the words of John MacDonald, "The business executive is by profession a decision-maker. Uncertainty is his opponent, overcoming it is his mission. Whether the outcome is a consequence of luck of wisdom, the moment of decision-making is without doubt the most creative event in the life of the executive."

Decision-making is not the monopoly of top management alone, though it is true that decisions made at this level are of far-reaching importance for the organization as a whole. In fact, managers at all levels are engaged in decision-making of one kind or another, the significance of their decisions differing in proportion to the duties assigned and authority delegated to them.

Definitions

George R. Terry: "Decision-making is the selecting of an alternative, from two or more alternatives, to determine an opinion or a course of action."

Andrew Szilagyi: "Decision-making is a process involving information, choice of alternative actions, implementation, and evaluation that is directed to the achievement of certain stated goals."

Henry Sisk and 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."

2.15 EVALUATING THE IMPORTANCE OF DECISION-MAKING

Decision-making is an indispensable component of the management process. It permeates all management and covers every part of an enterprise. In fact whatever a *manager does, he does through decision-making only; the end products of manager's* work are decisions and actions. For example, a manager has to decide (*i*) what are the long term objectives of the organization, how to achieve these objectives, what strategies, policies, procedures to be adopted (planning); (*ii*) how the jobs should be structured, what type of structure, how to match jobs with individuals (organizing); (*iii*) how to motivate people to peak performance, which leadership style should be used, how to *integrate effort and resolve conflicts (leading); (iv) what activities should be controlled,* how to control them, (controlling). Thus, decision-making is a central and important part of the process of managing. The importance of decision-making in management is such that H.A. Simon called management as decision-making. It is small wonder that Simon viewed decision-making as if it were synonymous with the term 'managing'.

Managers are essentially decision makers. Almost managers do everything involves decision-making. Decision-making is the substance of a manager's job. In fact, decision-making is a universal requirement for all human beings. Each of us makes decisions every day in our lives. What college to attend, which job to choose, whom to marry, where to invest and so on. Surgeons, for example, make life-and-death decisions, engineers make decisions on constructing projects, gamblers are concerned with taking risky decisions, and computer technologists may be concerned with highly complex decisions involving crores of rupees. Thus whether right or wrong, individuals as members in different organizations take decisions. Collectively the decisions of these members give 'form and direction to the work an organization does'. Some writers equate decision-making with planning. In fact, *Koontz* and *O'Donnell* viewed 'decision-making as the core of planning', implying that is not at the core of organizing or controlling. However, instead of taking extreme positions it would be better to view decision-making as a pervasive function of managers aimed at achieving goals. According to *Glueck* there are two important reasons for learning about decision-making: (*i*) Managers spend a great deal of time making decisions. In order to improve managerial skills it is necessary to know how to make effective decisions. (*ii*) Managers are evaluated on the basis of the number and importance of the decisions made. To be effective, managers should learn the art of making better decisions.

2.16 FACTORS INVOLVED IN DECISION-MAKING

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

Tangible Factors

Among the tangible factors relevant to decision-making the important ones are (*a*) sales; (*b*) cost; (*c*) purchases; (*d*) production; (*e*) inventory; (*f*) financial; (*g*) personnel and (*h*) logistics.

The effect of any decision on one or more of the tangible factors can be measured and therefore it is easy to consider the pros and cons of every decision. Decisions based on these factors are likely to be more rational and free from bias and feelings of the decision-maker.

Intangible Factors

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

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

2.17 TYPES OF DECISIONS

Though managers are constantly called upon to make decisions and all managerial decisions are important in their own ways, some decisions have a limited scope while others involve the entire organization in a significant manner. For better understanding of the managerial decisions, we may classify them as follows:

1. **Personal and organizational decisions.** This classification was first mooted by Chester Barnard. Accordingly, personal decisions are concerned with the managers as individuals rather than the organizations. As against this,

organizational decisions are made by the managers in their official capacities and within the constraints set by their formal authority. Since personal decisions are based on subjective evaluation of the managers, these can neither be delegated nor there any interference or influencing from the top. But organizational decisions may be, and often are delegated to subordinates.

In order to avoid bias in decision-making, which may be harmful both to the organization and the decision-maker, a clear distinction between personal and organizational decisions has constantly to be maintained, though it is often a difficult task.

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2. **Strategic and operational decisions.** Strategic decisions, which are often table for their novelty and complexity and involve uncontrollable factors such as actions of competitors or the state of the economy, are invariably made by the top management. Increasing the rate of dividend, expansion of business, etc.. are the examples of strategic decisions.

   Operational decisions are concerned with day-to-day operations of the enterprise. They do not involve much discretion or independent judgment on the part of managers, as the parameters within which the decisions have to be made, are often clearly defined.
3. **Structured and unstructured decisions.** Structured decisions are those which are made within the limits set by the policies, procedures, tradition or custom. They do not require creativity or independent judgment on the part of the manager. As against this, unstructured decisions have neither any existing policies or procedures, nor any tradition or custom as their basis. For this reason, they call for a great deal of imagination and independent judgment, and hence are often within the purview of the top management only.
4. **Crisis and research decisions.** Crisis decisions are those which are made to meet unanticipated situations which do not allow much scope for extensive investigation and analysis of the factors relevant to them. They have to be made instantaneously under pressure of circumstances.

   As against this, research decisions are those which are made after a thorough analysis of pros and cons without any pressure.
5. **Initiative or forced decisions.** Initiative decisions are the hall-mark of aggressive managers who search for or create situations calling for decision-making by them. Most of such decisions may not be needed in many cases. As against this, forced decisions are those where the managers have no alternative but to make decisions, either under orders from their superiors or due to pressured persuasion by subordinates.
6. **Problem and opportunity decisions.** Problem decisions are concerned with resolving problem situations which have arisen as anticipated, or otherwise. On the other hand, opportunity decisions pertain to taking advantage of an opportunity for increased profits, growth, etc. The frequency of opportunity decisions will depend on how far the manager is prepared to take risks and his skill for recognition of an opportunity.

2.18 LIMITATIONS IN DECISION-MAKING

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

Incomplete Information

This is a major problem for every manager. Lack of information leaves a manager adrift in a sea of uncertainty. Not only this, most decisions involve too many complex variables for one person to be able to examine all of them fully.

Un-supporting Environment

The environment - physical and organizational - that prevails in an enterprise affects both the nature of decisions and their implementation. If there is all round goodwill and trust and if the employees are properly motivated, the manager is encouraged to take decisions with confidence. On the other hand, under the opposite circumstances he avoids decision-making.

Non-Acceptance by Subordinates

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If subordinates have a stake in the decision or are likely to be strongly affected by it, acceptance will probably be necessary for effective implementation. On the other hand, subordinates may not really care what decision is reached. In such situations, acceptance is not an issue. Democratic leadership style which encourages subordinates to suggest, criticise, make recommendations or decide upon policies or projects is an effective device for gaining their acceptance and commitment.

Ineffective Communication

Another important problem in decision-making is the ineffective communication of a decision. This makes implementation difficult. The manager should, therefore, take care to communicate all decisions to the employees in clear, precise and simple language.

Incorrect Timing

In decision-making, the problem is not merely of taking a correct decision. It is also of selecting an appropriate time for taking the decision. If the decision is correct but the time is inopportune, it will not serve any purpose. For example, if the manager wants to decide about introducing a new product in the market, he should take the decision at a correct time. Otherwise, he may lose the market to his competitors.

2.19 SYSTEMS APPROACH AND DECISION MAKING

Decision-making is an arduous task. A successful and correct decision is gratifying to the decision maker but he also experiences frustration when he faces ill-structured and uncertain situations and when his decision fails to achieve the decision objectives. Yet, managers must make decisions as it is their most important responsibility to their organization. They cannot afford to display an attitude of "sailing around the world without landing", and "talking about a subject without getting it". The success of an executive depends on his ability to make the right decision at the right time and to pursue its effective implementation. The following guidelines are offered as an aid to effective decision-making.

1. **Define the Goals:** The decision maker should define the goals that he seeks to achieve by making a decision. The goal of a decision is derived from his objectives which in turn are a part of the total organizational objectives. Thus, the goal of a decision should be compatible with and contribute to larger goals.
2. **Ensure that the Decision Contributes to the Goal:** Once the goal has been determined, it becomes the criterion for making the decisions, as well as for evaluating its results. Often, an executive seeks to achieve not one but more than one goals through a decision. For example, the goal of a marketing decision may be not only to increase the sales volume but also increase the profit margin. These goals may not always be compatible. It requires the decision maker to balance the conflicting goals in such a manner that he can achieve all the goals simultaneously.

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3. **Adopt a Diagnostic Approach:** A decision maker has to be a diagnostician in many ways. He has to identify and define the problem. Further, he has to diagnose what and how much information is relevant to the problem being attacked, and where he will get it. Development and evaluation of alternative also require diagnostic abilities. He also has to diagnose the surrounding situation comprising the internal and external environmental forces. Thus, effectiveness in decision making significantly depends on an executive's diagnostic abilities.
4. **Involve Subordinates in Decision Making Process:** Involvement of subordinates in decision making process serves many purposes. It improves the quality of the decision, particularly if the decision maker does not possess all the special abilities required for making a particular decision. It is more likely to happen than not, as every decision has several aspects such as administrators, technical, human relations and financial aspects. The most important stage at which subordinates' participation can enhance the decision quality is the stage of development and evaluation of alternative solutions to problems. Their participation can bring not only new insights to the problem. but also elicit their commitment to implement the decision. Those who participate in making a decision tend to become ego involved in it, and thereby committed to its successful implementation.
5. **Ensure successful implementation of the Decision:** Event he best decision will not yield satisfactory results unless it is implemented effectively. Successful implementation of a decision significantly depends on the extent of understanding of the decision and its implications, and motivation of the subordinates who have to carry it. An executive can enhance his effectiveness in both these directions by promoting upward communication. He should also be able to know when and what kind of guidance is needed by them, and be willing to extend it to those who need it. He can be more effective if he successfully welds his subordinates into a team with himself as the team leader.
6. **Evaluate the Results:** The purpose of a decision is to accomplish some goal which will not be attained without it. The results of the decision should, therefore, be evaluated in terms of its predetermined goals.
7. **Be Flexible:** The decision maker should adopt a flexible approach not only in making the decision but also after the decision has been put into implementation. If it is not yielding the desired results, he should modify, discard, or replace it with another decision which may produce better results.

2.20 DECISION-MAKING : THE QUANTITATIVE WAY

Introduction

The administration of a modern business enterprise has become an enormously complex exercise. There has been an increasing tendency to turn to quantitative techniques and models as a potential means for solving many of the problems that arise in such an enterprise. Management in action is decision-making. We consider decision-making in business to be a process whereby management, when confronted by a problem, selects a specific course of action or solution from a set of possible courses of actions. Since there is generally some uncertainty about the future, we cannot be sure of the consequences of a decision made. The process of making decisions in a business has the same essential characteristics as problem-solving behaviour in general.

Business Decisions

The business manager wants to choose the course of action that is most effective in attaining the goals of the organisation. In judging the effectiveness of different possible decisions, we must use some measuring unit. The most commonly used measure in making decisions is the amount of profit in monetary terms but for our purpose here, we will take only a few of these:

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1. Decisions under certainty or uncertainty.
2. Decisions made for one time-period only or a sequence of inter-related decisions over several time-periods.
3. Decisions where the opponent is nature (a family planning, a picnic) or a thinking opponent (setting the price of a product after considering the actions of the competitors).

The following general process of solution is adopted for all types of decision situations:

1. *Establish the criteria that will be utilized.* One of the criteria may be maximization of profit. In a capital budgeting decision, we choose the project with the highest pay off.
2. *Select a set of alternatives for consideration.*
3. *Determine* the model which will be used and the values of the parameter of the process, e.g., we may decide that the algebraic expression of the model of total expenses is:

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

   The parameters are "a" and "b" and their values would have to be determined in order to use the model.
4. *Determine that alternative* which optimizes or falls in line with the criterion that has been chosen in item 1 above.

Abstraction

Real life problems are very complicated in nature. In empirical situation, there is a large number of inherent "facts," Moreover, every potential course of action triggers off a chain reactions - of course an effect and interaction - and there is no end to this process. Consider the problem of erection of a factory building. Much time is spent on gathering factual information about the project, e.g., the exact location, the physical features of the building; a minute study of the climatic conditions of the potential sites and their bearing on most of the construction; the raising of finance and the cost of finance raised. By far the most important decision is in respect of the alternative uses to which these funds can be put in the present and future periods. If the manager as a decision-maker prefers to collect all the facts before he acts, it follows that he will never act. It is to be appreciated that it is beyond the comprehension of human mind to consider every aspect and dimension of an empirical problem. Some characteristics of the problem must be ignored if at all a decision is to be made. In other words, it is for the decision-maker to abstract from the empirical situation those factors which he considers to be the most relevant to the problem he faces. In this way, abstraction initiates the solution of many a human problem.

Model Building

Once the selection of the critical factors or variables has been made by the decision-maker, the next step is to have their combination in a logical manner so as to form a counter-path or model of the empirical situation; ideally, it strips a natural phenomenon of its complexity. It, therefore, duplicates the essential behavior of the natural phenomenon with a few variables, simply related. The more the simplicity of the model, the better it is for the decision-maker, provided the model serves as a reasonably reliable counter-path of the empirical order.

The advantages of a simple model are :

1. It economizes on time as well as on thought.
2. It is within the reach of comprehension and ability of the decision-maker
3. If occasion arises, the model can be modified quickly and effectively.

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The aim of the decision-maker in constructing a model is to approximate reality as far as possible. In other words, a model is a de facto approximation of reality. Replication of reality seems to be a lofty aim and meeting it would consume an infinite length of time. Besides, such an elaborate model would be beyond the reach of human comprehension. Therefore, the manager as a decision-maker wants the simplest possible model that predicts outcomes reasonably well and consistent with effective action on his part.

Solutions

Having constructed the model, it is possible to draw certain conclusions about its behavior by means of a logical analysis. The decision-maker bases his action or solution on these conclusions. The effectiveness of a model depends upon the logical analysis used in drawing conclusions and the abstraction of critical variables from our example. The decision-maker may decide that an interest rate of 12% matches the annual opportunity cost of money for his firm. He can make his decisions on the construction of the factory premises by calculating the present value of the cash flows and would not have to consider the alternative uses of which his funds can be put to in detail.

Errors

Generally, there are two possible types of errors in decision-making to start with. He can err in applying logic to the process of reasoning from premises to conclusions to solutions. The concern may be able to obtain funds at the cost of 12% but management may have decided not to raise any new capital. The premise that one can use the interest rate to represent an opportunity cost is valid, but the conclusion that the use of interest rate applies to all investments is erroneous.

Secondly, there may be a mistake in selecting the variables or the variables selected are not adequate for the construction of the model in our example. The decision-maker has taken into account the time value of money but has ignored the risk element that is associated with the use of money. It is not possible to eliminate errors of this type altogether because it would amount to a consideration of all conceivable pertinent variables and would preclude decisive action. Abstraction does violate reality to some extent but it is a necessary condition for problem-solving. This is one reason why decision-making carries with it the possibility of errors.

Model-Building Techniques

There are several ways of representing the models. Common place repetitive problems as those of eating, walking and opening doors are a matter of thinking in the mind of the decision-maker in an informal and intuitive manner. Such problems are resolved without the aid of a formal model. If the problem is somewhat more complex or unusual, we spend more time on it. It is possible to express to the extent of selecting the important elements of the problem and proceeding to examine and experiment with them. The nature of variables determines the technique of describing and relating selected variables. If the variables are amenable to a quantitative representation, then there are strong reasons for selecting a mathematical representation of the model. Mathematics has a theoretical rigour of its own, and so it ensures a certain orderly procedure on the part of the investigator. It demands specificity in respect of the variables that have been abstracted and the relationships assume to be existing amongst them. For example, it is more difficult to make implicit assumptions in a mathematical model than in a literary model. Secondly, mathematics is a potent tool for relating variables and for deriving logical conclusions from the given premises. Mathematics facilitates the solution of problems of bewildering complexities and also facilitates the decision-making process where quantitative analysis is applicable.

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In the recent past, especially since World War II, a host of business problems have been quantified with some degree of success, leading to a general approach which has been designated as operations research. Undoubtedly, the quantitative representation of business problems is much older than operations research, considering the practice of accountancy. However, recently, the use of quantitative techniques has covered all the areas of modern business.

A word of caution is necessary for those businessmen who are found to employ quantitative techniques for business decisions. The conclusion derived from a mathematical model contains some degree of error because of the abstraction process. It is a matter of judgment as to when to modify the conclusion in view of the magnitude of error. Operations research supplements business judgment; it does not supplant it. Moreover, there are many business problems which cannot be given a quantitative representation and so they require the use of qualitative models and solutions. Within the constraints mentioned here, quantitative analysis can become an extremely productive technique for managerial decision-making. Problems which would perplex the initiation of the most experienced executives may, on some occasions, be resolved with relative ease.

SUMMARY

- Planning is an integral part of our daily activities. Hardly any day passes when do not plan one thing or another.
- Planning is preparedness for future to meet it in the best possible manner and involves deciding in advance what to do, when to do and how to do?.
- Objectives are goals established to guide the efforts of the company and each of its components.
- MBO is a 'process' whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him.
- Corporate portfolio analysis is defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or business in a firm's portfolio.
- Business forecasting refers to a systematic analysis of past and present conditions with the aim of drawing inferences about the future course of events.
- Decision-making is the selecting of an alternative, from two or more alternatives, to determine an opinion or a course of action.
- There are two kinds of factors to be considered in decision-making in favor of any alternative. These may be classified as (*a*) tangible and (*b*) intangible factors.

REVIEW QUESTIONS

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1. What is Planning ? What are the steps involved in it ?
2. Define objectives and explain its importance.
3. What do you mean by Management By Objectives (MBO) ?
4. Discuss the benefits and difficulties for MBO.
5. Explain TOWS matrix.
6. Discuss Portfolio matrix.
7. Give the three Generic Competitive strategies by Porter
8. What is forecasting ? Explain its features
9. What are the elements of forecasting process ?
10. What are advantages of forecasting ?
11. Write down the limitations of forecasting.
12. Define 'decision-making' and discuss its importance.
13. Discuss tangible and intangible factors relevant to decision making.

Unit—3
Nature and Purpose of Organizing

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STRUCTURE

3.1 OBJECTIVE

After going through this unit you will be able to :

- Describe about formal and informal organizations
- Explain about organizational division, organization level, span of management
- Understand functional organisation and matrix organisation and its structures.
- Know about authority and power, delegation of authority and Decentralization.

3.2 INTRODUCTION

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

DEFINITIONS

LOUIS A. ALLEN : *Organization is a mechanism or structure that enables living things to work effectively together. The evolution of all forms of life and of human society demonstrates the need for organization.*

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

BARNARD : *Organization is a system of consciously coordinated activities or forces of two or more persons.*

MOONEY and RAILEY : *Organization is the form of every human association for the attainment of a common purpose.*

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

KOONTZ and O'DONNELL : *Organization is the establishment of authority and relationships with provision for coordination between them, both vertically and horizontally in the enterprise structure.*

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

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

3.3 FORMAL AND INFORMAL ORGANIZATIONS

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

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

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

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

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

3.4 ORGANIZATIONAL DIVISION

Once the necessary plans and objectives are formulated, the organizational process can be started. Every type of activity has to be grouped into workable units of similar activities. All the work has to be classified, employees identified and an arrangement made for the assignment of work to the employees. *Terry* states that organization is the establishment of effective behavioral relationships among selected work places so that their groups can work together efficiently.

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

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

Importance

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

1. **Encourages specialization.** Specialization is the direct result of organization, which helps in increasing the productivity and efficiency.
2. **Eliminates the problem of duplicating and overlapping.** Proper and clear division and delegation of authority and responsibility avoid duplication and overlapping.
3. **Brings order and cohesiveness.** Determining a clear line of authority will bring in order in the concern. Everything in its place and a place for everything can be introduced by organizing the concern.

4. **Improves administration.** Administrative policies and day-to-day operation of the enterprise will become effective and functional with proper organization.
5. **Stimulates creative thinking.** A good organization provides maximum opportunity for creative people to develop their ideas for the benefit of the concern. It also provides the ways and means of doing things in a better way.
6. **Facilitates effective communication.** With the clear definition of authority, an organization can develop the most efficient channels of communication.

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7. **Helps in providing a balanced emphasis on various activities.** Organization, by clearly defining the importance of activities through divisions, departmentation, etc. gives more priority for urgent and important problems. Routine problems can be decided at the lower or middle level. Managing change, managing crisis, managing credibility become easy through proper organization.
8. **Helps to build up and expand the enterprise.** An organized enterprise can build up a team of executives and workers who can develop much faster. Organized team effort helps in expanding the firm. Today, every organization is expanding the firm. Today, every organization is expanding smoothly into unimaginably large-sized units because of organized effort.
9. **Helps in the smooth delegation of authority.** When executives delegate authority downwards, that can get the things done smoothly. It also helps in fixing responsibility for task. A good organization clearly defines the authority, responsibility and relationship.

3.5 SOME CLASSICAL PRINCIPLES OF GOOD MANAGEMENT

Before we would close this chapter, we would record some classical principles of organization designing and operations which bear repetition even in today's context.

Ten Commandments of Good Organization—American Management Association (AMA)

The Ten Commandments were formulated by the AMA as sound principles of a good organization. These are summarized (and adapted) below:

1. Well-defined responsibilities for each management level.
2. Matching responsibility with authority.
3. No change in the assignment of a level (authority and responsibility) without prior consultation.
4. Each one should take orders from only one (unity of command).
5. No by-passing of levels in issuing executive orders.
6. Chasten subordinates privately; not in the presence of his colleagues or juniors.
7. Attend to all conflicts among levels concerning authority and responsibility.
8. Orders concerning advancement, wages and discipline to be approved by the executive immediately superior to the one directly responsible.
9. No executive or employee should be a critic of his own boss.
10. An executive whose work is subject to inspection should be helped to enable him to appraise independently the quality of his own work.

Unwicks' Ten Principles of Organization

Ten principles of organization were propounded by the noted management scientist, Lyndall F. Urwick. These are adapted and reproduced here:

1. **Principle of the objective:** Every organization and every part of it must be an expression of the purpose of the undertaking concerned or it is meaningless and therefore redundant.
2. **Principle of specialization:** The activities of every member of any organized group should be confined, as far as possible, to the performance of a single function.
3. **Principle of coordination:** The purpose of organizing per se, as distinguished from the purpose of the undertaking, is to facilitate coordination, unity of effort.
4. **Principle of authority:** In every organized group, the supreme authority must rest somewhere. There should be a clear line of authority from the supreme authority to every individual in the group.
5. **Principle of responsibility:** The responsibility of the superior for the acts of his subordinate is absolute.
6. **Principle of definition:** The content of each position - the duties involved, the authority and responsibility contemplated, and the relationships with other positions should be clearly defined in writing and published to all concerned.
7. **Principle of correspondence:** In every position, the responsibility and the authority should correspond.
8. **The span of control:** No person should supervise more than five, or at the most six, direct subordinates whose work interlocks.
9. **Principle of balance:** It is essential that the various units of an organization should be kept in balance.
10. **Principle of continuity:** Reorganization is a continuous process; in every undertaking specific provision should be made for it.

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3.6 THE DEPARTMENT: ORGANIZATION LEVELS

A simple method of doing job is to break it in smaller units such that each unit is manageable and is assigned to a different person having necessary skills to perform that task. For example, if you invite your two or three friends for dinner then you may decide to arrange food, decoration etc. by yourself but if there is a party for two hundred people then work is divided and assigned to event organizer, decorator, caterer etc. Similarly an organization has a large number of functions to perform so work can be divided as accounting, marketing, HRD etc. Marketing can further be broken into order taking, meeting orders, marketing research, customer handling etc. It makes handling of even a very complex task manageable.

Departmentalization

For division of work some basis has to be used to differentiate. Marketing functions can be divided based on functions as illustrated above or marketing units can be created dealing with different geographical areas, customers or products. How the work is divided becomes the subject matter of departmentalization? A firm has to select a basis for differentiation that is most advantageous for it. The different basis of departmentalization give five major types of organization structures viz Functional, Geographical, Product, Market and Matrix.

Functional Organization (Differentiation by Function)

The grouping of activities according to functions performed is the most basic add commonly used structure. It is a very suitable option for a small firm but as the size grows it fails to provide good results. A typical functional organization structure of a manufacturing concern can be shown like this: This structure aims to make use of specialized labor and resources, it also makes supervision easy. But this makes fixing accountability very difficult because if a product fails than specialists from research, promotion and customer handling keep shifting blame on each other.

Product Structure (Differentiation by Product)

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A firm selling large number of products may find that functional structure is no longer effective. It may be noted that its marketing department is paying more attention to its products at the cost of others. In this case it is important to fix separate responsibility for different products so that all get desired efforts. A typical product structure is like this:

The head of a product or a category of products is fully accountable for his department activities. Here the job can be easily coordinated and specialized services can be provided to the customers. The disadvantage of his structure is the requirement for more managerial manpower that can be very expensive. Another problem is that in the absence of a strong leader coordinating various product groups becomes difficult.

Market Structure (Differentiation by Type of Customers)

Similar to product structure another important grouping is on the basis of consumers if a firm is serving different categories of customers that need specialized services. For example a firm manufacturing clothing items for adults and children can not have the same marketing manager because of their different requirements. This structure is very useful if the market is competitive but like product structure can be expensive for want of additional managers. The organization chart shows a typical market structure.

Geographical Structure Differentiation by Location

These days firms are big and geographically diversified with their operations in a large number of countries. Managing these by having product and market type arrangements with head offices in one country becomes very difficult. Dividing work on the basis of geographical location provides more suitable arrangement. Many organizations like Indian Railways, Armed forces and Food Corporation of India use this type of structure.

In such organization management becomes more concerned about ground realities and local resources can be used more effectively. However, it too needs a large number of trained professionals to head its distant offices and can be expensive.

Matrix Organization (Differentiation Based on Product and Junction)

This is the structure with dual authority over employees and is a combination of product and functional structure is attempts to combine benefits of both the eliminating their drawbacks. Global companies have this type of structure where country managers and product managers exist simultaneously. Employees report to product managers for product related issues and to country—managers for other matters. The success of this structure lies on the clarity in authority lines of two managers towards same employees. In case of ambiguity the expected benefits from this type of organization might be lost.

3.7 SPAN OF MANAGEMENT

This concept in management has been borrowed from psychological concept of span of attention that proposes the limited attention of a person at a time. Similarly a manager can not effectively control a large number of subordinates. There is a limitation whether he can handle 5 or 50 persons at a time and this depends on a large number of factors. If a manager is given a large number of persons to manage, he is called broad span and if less subordinates are put under him then he is called narrow span. The difficulty here is regarding the number that can be called optimum as there is no ideal span and no formula to find it and every organization has to derive its own right number considering a lot of factors. As these factors change, the suitable span of management also changes. The decision about span of management affects the organization structure too. Broader spans make a structure tall and narrower spans create flat structures. A tall structure has many levels between highest and lowest levels that may have the disadvantages of communication barriers, slow decision making etc. While a flat structure has few levels between top and bottom but it results in decreasing attention to job if span is beyond optimum limits.

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Factors Determining an Effective Span

Span of management is affected by factors like nature of work, skills of employees, degree of decentralization in the firm, age of organization, communication systems etc. Any managerial approach or practice that increases the contact between managers and their subordinates will lesson the time available to the managers leading to narrower span for effective management.

Line and staff: In an organization divisions are termed line and staff based on their positions in the authority lines. Those divisions that are directly responsible for achievement of organizational objectives are called line departments, and the departments that indirectly contribute for firm's objectives are termed as staff *department. Staff departments function as advisory*, that give suggestions in their areas but these suggestions are not binding on the firm that may decide to implement or not to implement those based on a number of managerial criteria.

For example, manufacturing, finance, marketing are line departments in organizations while the research may be a staff department. The different positions of line and staff do not indicate their relative importance because both are equally important for growth of a firm. It is only an arrangement to facilitate management. This line and staff status of a department can change with time and with changing environment. The information systems department that used to be only a small unit as staff in many firms has grown to become foil- fledged line department.

3.8 HIERARCHY : THE STRUCTURE OF ORGANIZATION

Hierarchy is a system in organizations where people are arranged in a ladder like structure such as people with more power are-placed at the top and those having lesser powers are at lower levels. The different steps of this ladder are linked through authority and communication systems. The different levels in the hierarchy can be shown as:

The organization is viewed as pyramid with a narrow top and heavy bottom because contains maximum people at the bottom and minimum at the top. A is at the top hierarchy and B-B*, C-C*, D-D*, E-E*, F-F* at the tower levels in the hierarchy. These positions can be related either through direct line *i.e.* F communicating to A through D, C, B in order to communicate to F* or ladder can be linked to provide for the approach between F and F*. Besides such arrangement, management has to decide about status difference between different levels.

In any hierarchy three organizational levels— top, middle and lower are identified. These are linked through authority, communication and administrative systems.

3.9 MEANING OF AUTHORITY

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

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

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Characteristics of Authority

The following characteristics of authority deserved special notice:

1. **Basis of getting things done.** Authority provides the basis of getting things done in the organisation. It refers to the right to affect the behavior of others in the organisation with a view to performing certain activities to accomplish the defined objectives.
2. **Legitimacy.** Authority is accepted as it has certain legitimacy about it, that is to say, it implies a right to secure performance from others. Such right may be legal or format, or it may be supported by tradition, customer accepted standards of authenticity. The right of a manager to affect the behavior of his subordinates is given to him by virtue of his position or office of the said organisation.
3. **Decision-making.** It is a pre-requisite of authority. The manager can command his subordinates to abstain from acting in a particular manner only when he has made decisions as regards the course of activities to be performed by him.
4. **Subjectivity in implementation.** Though authority has an element of objectivity about it, its exercise is significantly influenced by subjective factors, such as the personality of the manager who is empowered to use it, as also of the subordinate or group of subordinates with reference to whom it is to be exercised.

3.10 DISTINCTION BETWEEN AUTHORITY AND POWER

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

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

1. Authority is legitimized by certain rules, regulations, laws, and practices. In the case of power, there is no such legitimization.
2. Authority is institutional and originates because of structural relationships. Power emerges because of personal factors and varies with the individuals. In the management of an organisation, authority is the central element of formal organisation and systematic communication. Power reflects the political realities within the organisation and relates to the subtler, more informal patterns of action and interaction that occur.
3. Authority exists in the context of organizational relationship, mostly in superior-subordinate relationships either direct or otherwise. Power relationship may exist between any two persons and organizational relationships may not be necessary.

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

3.11 MEANING OF DELEGATION

A8 (3)

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

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

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

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

3.12 ART OF DELEGATION

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

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

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

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

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

3.13 CENTRALIZATION

AP(3)

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

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

zation to cut down costs, maintain inventories at an optimum level, utilize resources effectively and instantaneously. Centralization of decision-making ensures prompt action necessary to meet the emergencies.

3.14 DECENTRALIZATION

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

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

3.15 TYPES OF DECENTRALIZATION

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

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

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

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

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

3.16 CONCEPT OF LINE AND STAFF

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

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

Thus the organizational objectives are the basic determinant of line and staff functions and with the change in the objectives, line and staff functions may change. Thus what may be line function in one organization may be staff function in another. For example, personnel function in an employment agency is line but it is staff in manufacturing organization. In a manufacturing organization whose basic objective is to produce and sell goods, production and marketing are line functions and others such as finance, personnel, legal etc. are staff functions. Further, within a department, there may be line and staff functions, for example, in marketing selling may be line function but market research is staff function. A person performing staff function is called staff manager or simply staff.

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

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

3.17 LINE AND STAFF RELATIONSHIPS

Line authority is the authority that a superior exercises over his immediate subordinate. This forms a chain of authority from top to bottom. People exercising such authority are known as line managers. Staff managers are those who assist the line managers (in an *advisory capacity*) in discharging their duties efficiently. While production, marketing, finance and personnel are commonly considered as line departments, R & D and Public relations departments are considered as staff departments. The line and staff managers, while working together, *form a definite relationship with each other which is called as* the line and staff relationship. In the case of a simple and a small organization, the line managers do not need the assistance to perform the organizational functions and the need for staff, therefore, is not felt but as the organizations grow in size and complexity, the line managers need the staff assistance quite often for making important organisational decisions. The staff officials provide advisory and auxiliary services to the line managers. The staff managers possess expert knowledge in areas such as accounting, R&D and costing in the production, marketing, finance and personnel departments. The staff managers do not have authority over line managers though they have authority over people of their own staff departments. This relationship between line and staff largely affects the overall operational efficiency of the organization, measured in terms of profit maximization or wealth maximization. The staff can provide varied services to the line managers; they can help line managers in carrying out the managerial functions of planning through controlling, framing and implementing *various policies and procedures*, advising them on legal, financial and other administrative matters, etc. The need for staff managers to assist the line managers cannot, thus, be overlooked.

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3.18 EVALUATION

Merits

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

Demerits

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

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Summary

- Organization is the task of mobilizing resources. It is a structure involving a large number of people engaging themselves in a multiplicity of tasks, a systematic and rational relationship with authority and responsibility between individuals and groups.
- Organization is the form of every human association for the attainment of a common purpose.
- An organization may be formal or informal. In most organizations, formal groups will function as it is essential to execute specific tasks of the concerned formal organization.
- Organization is the backbone of the management; it helps the enterprise in its progress and prosperity.
- Span of management is affected by factors like nature of work, skills of employees, degree of decentralization in the firm, age of organization, communication systems etc.
- Authority may be defined as "the power to make decisions which guide the actions of another. It is relationship between two individuals - one superior and the other subordinate.
- Sometimes two terms 'authority and power' are used interchangeably because of their common objective of influencing the behavior of people on whom these are exercised.
- To delegate means to entrust authority to a deputy so as to enable him to accomplish the task assigned to him.
- Centralization is the systematic and consistent reservation of authority at central points within the organization.
- Decentralization is the systematic effort to delegate to the lowest levels all authority except that which can be exercised at central points. It is the pushing down of authority and power of decision-making to the lower levels of organization.
- Line functions are those which have direct responsibility for accomplishing the objectives of the enterprise and staff refers to those elements of the organization that help the line to work most effectively in accomplishing the primary objectives of the enterprise.
- Line authority is the authority that a superior exercises over his immediate subordinate. This forms a chain of authority from top to bottom.

Review Questions

1. Define Organization and its importance.
2. Describe formal and informal organizations.
3. What is departmentation ? State its need and significance.
4. What are different bases of departmentation ?
5. What do you mean by span management ?
6. What are the factors to be considered to determine span of management ?
7. What is authority ? Why do people accept authority ?
8. Distinguish between power and authority.
9. Describe delegation of authority.
10. Define 'centralization'. Distinguish between centralization and decentralization.

BLOCK—1

FUNCTIONAL METHODOLOGY

Unit—1

Human Resource Management and Selection

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STRUCTURE

1.1 OBJECTIVE

After going through this unit you will be able to :

- Learn about staffing
- Discuss about system approach to HRM
- Know about purpose and uses of appraisal and choosing the appraisal criteria
- Learn about management development Process and Training

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1.2 INTRODUCTION TO HUMAN RESOURCE MANAGEMENT

An organization requires management of many inputs like man, money, material etc. HRM (Human Resource Management) concerns with managing men or people. Getting people in the firm, obtaining their commitment, constantly motivating them is most crucial for the success of a firm. Sometimes it becomes an important factor that distinguishes between a successful and an unsuccessful firm. HRM can be understood as the process of acquisition (getting people), development (preparing them), motivation (activating them) and maintenance (keeping them) of human resources. Acquisition function starts with deciding with type and number of people required by the firm in future. It ensures that right kind and number of people are available in the organization at right time and at right place. It begins with job analysis for manpower planning. The forecast of supply and demand of people is followed by recruitment, selection and socialization of employees. Recruitment is used to discover potential employees to build a pool of these applicants, selection entails choosing those who are suitable for the organization and through socialization of selected people is familiarized and exposed to firm's way of doing work. The development function aims at imparting proper skills, attitudes and abilities to firm's manpower. It involves training as well as development. It is very important activity for the firm to get best output from employees. Motivation function recognizes the different needs of individuals fulfilled through work. Some work for money, others for job satisfaction or to satiate their needs for cognition. A number of systems are used to motivate individuals and groups working in the firm. Leadership, working styles, performance appraisal, compensation, and grievance redressal are a few systems used to stimulate, performance. Maintenance function slightly differs from motivation and provides for basic conditions necessary to carry on work and not to stimulate performance.

The American Society of Training and Development has explained HRM by giving model that shows in nine areas:

1. Training and Development
2. Organization and Development
3. Organization/Job Design
4. Human Resource Planning.
5. Selection and Staffing
6. Personnel Research and Information Systems
7. Compensation/Benefits
8. Employee Assistance
9. Union/Labour Relations

These nine areas are closely inter-linked and affect the efficiency of human resources. A manager uses various areas of HRM in judicious combination to get best output of its people.

While all the functions of HRM are equally important, this lesson covers manpower planning, recruitment and training in detail.

1.3 STAFFING

In simple words, staffing is the processing of obtaining and maintaining capable and competent people to fill all the positions from top management to operative level. This includes securing, recruiting, selecting, training, appraising and maintaining the individuals in organizations. Let us pull the views of management scholars on the

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definition of staffing:

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

1.4 RESPONSIBILITY FOR STAFFING

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

1.5 HUMAN RESOURCE PLANNING SYSTEM APPROACH TO HRM

Human Resource Planning is deciding the requirements of people in organizations for specific time period under specific conditions. It takes care of type, and number of people as, when and where needed. HRP is deduced from organizational planning that specifies the time period and conditions for which manpower is required. For example, A firm decides to open an additional channel between business and easterners from June 2000 through internet This general plan of company will decide its HRP as to arrange for people with training in internet marketing before June 2000.

The number and qualifications of human, resources will depend upon the scale of operations through new channel. The HRP can only be as good as general plans of the firm. Any ambiguity in general plans will spoil the HRP too.

Process of HRP

HRP is a long range and strategic decision and myopic outlook. It often creates a situation of poor, short, or excess manpower. The purpose of HRP is to assess where organization is heading, what will the demand supply situation of people and try to match this demand and supply in the interest of the firm. It involves:

1. Assessing current Human Resources
2. Implications of Future Demand
3. Implications of Future Supply
4. Matching Demand and Supply

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Assessing current human resources

This includes preparing inventory of workers and skills available with the firm and job analysis. Human resource inventory contains list of names, the qualifications and week experiences, salary level, skills, capabilities etc. This helps an organization to prepare its training inputs and recruitment functions. Job analysis defines the jobs in an organization and the behaviors required on the jobs. For example the jobs of group leader to a firm (network management software development) requires knowledge of windows NT/ UML/VCH-+/CORBA and that of Group leader (System engineering) requires knowledge of Windows NT/GDMO/ASN. Job analysis explains the difference between these jobs whether these should be at the same or different in the hierarchy and what should be the gap between the two. Human resource inventory and job analysis tells an organization where it stands in terms of availability and supply of manpower.

Implications of future demand

The projection of future demand depends upon firm's growth plans. These plans should be available to manpower planners so that they can know what are going to be its growth areas in future. These help in estimating in which area and how much manpower will be required. The projection is to be made well in advance to give time to HRM department to hire and train necessary people. Since people can not be acquired at a very short notice so demand needs to be forecasted one year or six months in advance or some firm's may even start early.

Implications of future supply

The organization is required to project supply position of manpower in the future. A lean supply position means longer lead time between demand and supply must be maintained while in case of good supply even a shorter can serve the purpose. The supplies of labour are affected by both the internal and external factors. Internal factors are new recruits, promotions, transfers, leaves, layoffs, illness, retirements and deaths. Some of these an easy to predict while not omen. External factors are availability of trained manpower from institutes, preferences of people for a particular type of jobs. For example our armed forces are experiencing shortage of bands in its officers cadre because more people are attracted by jobs in private sectors. Impact of both these factors must be considered to accurately predict the supply position in the desired area.

Supply and demand

This brings together the forecast of future demand and supply. It will identify shortages and excess in quantity and quality. If the firm finds that shortages that exist in a particular area, efforts can be started to meet it by transferring, training, recruiting people. Otherwise the no availability of right people can affect the functioning and objectives of organization.

To carry on the above process of HRP job analysis, recruitment and training are used as essential inputs. A detailed discussion of essential further highlight the HRP.

1.6 POSITION REQUIREMENTS AND JOB DESIGN

Job-Analysis

It is a systematic analysis within a job to define duties, responsibilities and accountabilities of the job. This involves recording every aspect of a job with the help of thorough data collection. Different methods are used to collect data and each has its positive and negative aspects. A combination of these can be used to arrive at a better judgement about job.

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1. **Observation method:** Employees on job or their films are watched by job analyst to get first hand information. This method shows its limitations while observing managerial work that follows no fixed procedure. If workers come to know of being observed they may not feel comfortable. So before collecting data by this method its limitations must be considered.
2. **Individual Interview method:** The individuals are interviewed extensively, and the results are combined to give job analysis. This method provides good results but is expensive and time consuming.
3. **Group Interview method:** Here people are interviewed together. It gives better information as more details can be recalled in the group. But if the group is influenced by its dynamics wrong information may be given.
4. **Structured questionnaire method:** Here questionnaire is given and incumbents check or rate the items in it. This provides uniform information that can be easily grouped but does not give chance of any additional feedback.
5. **Technical conference method:** Supervisors with expert and extensive knowledge of job are called together who provide all information. This method ignores the workers point of view.
6. **Diary method:** This involves recording of activities on work by the employees. It may continue for long before right amount of information is collected. It involves active participation of workers and it is time consuming.

Purpose of Job Analysis

Information collected through job analysis is used to develop job descriptions and specifications and to conduct job evaluations.

These in turn help managers in recruitment, selection, training, performance appraisal, compensation management etc.

Job descriptions: It is the written description of a job detailing what is done, how and why? It is very important source of information for recruitment and to guide an incumbent on job regarding his duties.

It usually includes the title of job, duties and responsibilities on the job and authority of job holder.

Job specification: It states the acceptable **qualifications** the potential employee must possess to carry on a job effectively. It is specified in terms of knowledge, skills, attitude and abilities and is a list of personal characteristics. For example an organization may demand degree of BCA for a job along with age, experience etc. for the-job of computer professional.

It gives the relative value of each job in the organization. All the jobs requiring similar skills, education and efforts are placed together. It is an important part of compensation plan that helps in deciding the difference in the pay package of jobs. Job analysis data is used to evaluate job.

The different components of job analysis indicate that it permeates most of the organization activities and if it is not done properly all the human resource functions will be affected.

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1.7 RECRUITMENT MATCHING QUALIFICATIONS WITH POSITION REQUIREMENTS

It is a process that brings together those who are looking for the jobs and those have vacant positions. It helps in creating a pool of potential candidates for actual or anticipated vacancies. An ideal recruitment will attract a large number of qualified people and not the unqualified ones. A good response from unqualified candidates adds processing costs and reflects upon effectiveness of recruitment process. Recruitment is affected by a number of factors like—image of the firm, employment conditions in the market, pay package offered etc.

Sources of Recruitment

Recruitment can be made from inside the firm and from external sources. Both can be equally depending upon the requirement and availability. Certain sources are more effective filling particular type of jobs.

Internal Sources

A firm can rely upon its existing employees to 'fill positions by moving them through transfers and promotions. Transfers help in filling the vacancies of the same level and promotions of higher levels. It is a common practice with the firms to publicize any new openings through in house magazines, notices, circulars etc. so that interested candidates may bid for these. The advantages of using the internal pool are :

(*a*) It builds morale of the employees by offering them higher positions.
(*b*) It encourages employees to learn additional skills and add to their knowledge.
(*c*) It motivates them to work hard as their performance is considered for promotion.
(*d*) It increases the probability of good selection as more information about employees is available.
(*e*) It is less costly than outside recruitment.
(*f*) Induction is not difficult.
(*g*) It can help planning training to be imparted to potential candidates.

Along with these advantages there are disadvantages too. There might be better candidates available outside that are ignored in using internal sources. Moreovern, it is very important to bring fresh blood in the organization to get over set mentality and to provide fresh ideas.

External Sources

To invite the candidates from outside the firm a number of publicity methods can be used. Each method has its own pros and cons and depending upon the number and type of vacancies appropriate method may be chosen. Some of these are:

Advertisement

When an organization has to communicate to the public that a vacancy exists advertisements are one of the most popular methods. However, where the message is placed depends on the type of vacancy. The search for higher level executives where skills are in short supply may demand advertisement in a national daily with wide circulation or in a business magazine. On the other hand for local level positions advertisements in local papers or journals provides good response. Response to an advertisement depends upon a factor like image of the firm and a prestigious firm may get very large number of applications. To avoid such responses asked through post-bag or consultant. Many good people may not apply here being unsure about potential employer. The cost of this method tends to be on higher side and should be weighed against benefits of getting good recruits.

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Employee referrals/recommendations

Recommendations from current employees can be a good source. An employee will rarely refer an unsuitable candidate as his own reputation may be at stake. An employee gives more accurate description of job to the candidate than one conveyed through advertisements or consultants. This method has the risk of promoting nepotism when employees refer their friends and relatives than really competent people. These people may not be best on job but car be loyal to the firm. This source can provide acceptable level of people for lower and middle levels.

Employment agencies

Employment agencies can be public or private that act as brokers to bring both the parties together and charge commission for it. These save the organizations from the trouble of looking for suitable candidates.

Public Agencies are run by the governments and are called 'employment exchanges in the country. A candidate can get here registered and is informed whenever a suitable vacancy comes or interview is fixed. These are very useful as for government vacancies this channel is considered. But private firms may not seek its help for their positions.

Private agencies or placement consultants are the efforts of individual entrepreneurs who charge good fee but make efforts to find jobs for the candidates. These can be general purpose agencies helping in all types or levels of jobs or specific ones dealing with a particular sector like computers or Information Technology. Many private firms take- the help of these 'agencies. Some of these agencies take the task of arranging people for higher level challenging jobs and are called head hunting firms. These approach the top level executives and try to convince them to change jobs.

Campuses

Educational institutes offer fresh candidates where prospective employers can go and interview candidates. These are very good sources for entry-level positions. The employers can select a school or college depending upon its requirement and the cost that institute may charge to permit interviews. In India, it is a common source to recruit engineers, management, tourism and computer professionals.

Casual/unsolicited applications

Walk-ins that reach an organization through letter phone or personally can be source of future manpower. Their resumes are taker, and a data base is maintained. Whenever a vacancy arises a call is made to suitable applicant. This is a cheaper method as potential employees come themselves however reputed firm is likely to set more response. The drawback of this is that candidates may place applications in a number of firms and do not give any information to these firms when find a job and may not respond when to a call.

A firm may decide to use ail the sources of recruitment at different points of time for different types of vacancies. An effort is also made to strike a balance between internal and external sources so that the advantages of both can be had. Whatever policy a firm may adopt towards recruitment, every possible effort should be made to make it effective as subsequent process of selection can not be better than this.

1.8 SELECTION

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

Selection Process

A selection process involves a number of steps. The basic idea is to solicit maximum possible information about the candidates to ascertain their suitability for employment. Since the type of information required for various positions may vary. It is possible that selection process may have different steps for various positions. For example, more information is required for the selection of managerial personnel as compared to workers. Similarly, various steps of selection process may be different for various organisations because their selection practices may differ. For example, some organisations conduct selection tests of various types while others may not use these. However, a standard selection process has the following steps; screening application forms, selection tests, interview, checking of references, physical examination, approval by appropriate authority and placement. Below is a discussion of the various steps:

Screening of applications

Prospective employees have to fill up some sort of application forms. These forms have variety of information about the applicants like their personal bio-data, achievements, experience, etc. Such information is used to screen the applicants who are found to be qualified for the consideration of employment. The information may also be used to keep permanent records of those persons who are selected. Based on the screening of applications, only those candidates are called for further process of selection who are found to be meeting the job standards of the organisation. When the number of applicants meeting the job standards far exceeds the actual requirements, the organisations decides a suitable number of candidates who will be called for further selection process.

Selection tests

Many organisations hold different kinds of selection tests to known more about the candidates or to reject the candidates who can not be called for interview etc. Selection tests normally supplement the information provided in the application forms. Such forms may contain factual information about candidates. Selection tests may give information about their aptitude, interest, personality, etc. which can not be known by application forms. Types of tests and principles of testing have been discussed in detail in this part of the chapter.

Interview

Selection tests are normally followed by personal interview of the candidates. The basic ideal here is to find out overall suitability of candidates for the jobs. It also provides opportunity to give relevant information about the organisation to the candidates. In many cases, interview or preliminary nature can be conducted before the selection tests. For example, in the case of campus selection, preliminary interview is held for short listing the candidates for further process of selection.

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Checking of references

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

Physical examination

Physical examination is carried out to ascertain the physical standard and fitness of prospective employees. The practice of physical examination various a great deal both in terms of coverage and timing. While many organisations do not carry physical examinations at all, others carry on a very comprehensive basis. Some organisations only have general check up of applicants to find the major physical problems which may come in the way of effective discharge of duties. In the context of timing also, some organisations, locate the physical examination near the end of the selection process, other place it relatively early in the process. This letter course is generally followed when there is high demand for physical fitness.

Approval by appropriate authority

On the basis of the above steps, suitable candidates are recommended for selection by the selection committee or personnel department. Though such a committee or personnel department may have authority to select the candidates finally, often it has staff authority to recommend the candidates for selection to the appropriate authority. Organisations may designate the various authorities for approval of final selection candidates for different categories of candidates. Thus for top-level managers, board of directors may be approving authority. In university, it may be syndicate/executive committee. When the approval is received, the candidates are informed about their selection and asked to report for duty to specified persons.

Placement

After all the formalities are completed, the candidates are placed on their jobs initially on probation basis. The probation period may range from three months to two years. During this period, they are observed keenly, and when they complete this period successfully, they become the permanent employees of the organization.

Selection Tests

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

'Psychological tests are essentially an objective of standardised measure of a sample of behaviour.

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

Types of Tests

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

Achievement, intelligence, personality, aptitude, and interest.

Achievement test

It is also called performance test or trade test. Achievement is concerned with what one has accomplished. When candidates claim that they have done certain things and know these, the achievement test may be conducted to measure how well the candidates know these. A candidate's knowledge may be measured through his answers to certain questions or his performance at a practical test. For example, a typing test may measure the typing performance of a typist in terms of speed, accuracy, and efficiency. Performance test may be administered for selecting employees at operative level as well as at junior management level.

Intelligence test

Intelligence test tries to measure the level of intelligence of a candidate. This test generally includes verbal comprehension, word fluency, memory, inductive reasoning, number facility, speed of perception, spatial visualisation, etc. The score on the test are usually expressed numerically as intelligent Quotient (IQ) which can be calculated as follows:

$$IQ = \frac{\text{Mental age}}{\text{Actual age}} \times 100$$

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

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

Personality test

The personality test is administered to predict performance success for jobs that require dealing with people, or jobs that are essentially supervisory or managerial in character. Dimensions of personality such as interpersonal competence, dominance - submission, extroversion- introversion, self-confidence, leadership ability, patience, and ambition can be measured through personality tests. Personality test is essential to be employed by the organisation. Among the most widely used personality test is Thematic Evaluation of Management Potential (TEMP).

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Aptitude test

Aptitude test is used for measuring human performance characteristics related to the possible development of proficiency on specific jobs. These basic characteristics can be thought of as aptitudes. As such, aptitude test measures the latent or potential characteristics to do something provided proper environment and training are provided to the individuals. This test is more valid when the applicants have no experience or very little experience along the lines of the jobs. Specific tests have been developed for jobs that required clerical, mechanical, spatial relationships, and manual dexterity abilities and skills. However, aptitude lest does not measure motivation. Since on the job motivations is found to be more important than aptitude for the job, aptitude test is supplemented by interest tests.

Interest test

Interest test is designed to discover a person's area of interest, and to identify the kind of jobs that will satisfy him. It is assumed that a person who is interested in a job can do much better than the person who is not interested. Interest test generally measures interest in outdoor activities, mechanical, computational, scientific, persuasive, artistic, literary, musical, clerical, social services, etc.

The above discussion shows that different tests are used for different purpose. Each of them has the usefulness and limitations in specified areas. Therefore, a combination of tests should be for selection purpose. Moreover, these tests should be released with the nature of posts to be filled up.

1.9 INTERVIEW

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

There can be several types of interviews—preliminary interview, stress interview, patterned interview, and depth interview.

(*i*) **Preliminary interview:** It is held to find out whether the candidate is required to be interviewed in more details.

(*ii*) **Stress interview** is directed to create situations of stress to find out whether the applicant can perform well in a condition of stress.

(*iii*) **Patterned interview** is structured and questions asked are decided in advance. This is done to maintain uniformity in different boards of interviewers.

(*iv*) **Depth interview,** also known as non-directive interview, covers the complete life history of the applicant and includes such areas as the candidate's work experience, academic qualification, health, interests, hobbies, etc. This method is informal, conversational with freedom of expression to the candidate.

1.10 TRAINING

The process of selection follows recruitment that entails choosing the most suitable candidates for the vacant positions through screening process. This screening may involve written tests, aptitude tests, interviews, physical tests etc. The candidates thus selected may still not be put directly on the job. They need to be trained in firm's working methods and this training is imparted with the help of proper training and development programmes. Training can be defined as the learning experience to bring relatively permanent change in the employee behavior to improve his or her ability to perform on the job. It involves changing skills, knowledge, attitudes, and social behavior. The training programme of a firm generally follows ACMEE approach that stands for Aim, Contents, Methods, Execution and evaluation. Deciding aim of the training is the first step that explains the need or purpose of training. It can be to impart new skills to old managers or teaching organization processes to new incumbents. From aim, contents of training are derived. For example a list of organizational processes to be taught to the employees might be prepared. A number of training methods are available and the choice of-right method is very important to make learning effective. With plan of training in place its proper execution is very important that demands appropriate ambience to keep the morale of trainers and trainees high. The feedback about the training programme will 'help in judging its performance against aims and can also act as a input for subsequent training.

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Determining Training Needs

The need for training can be felt to meet existing problems like falling productivity, poor performance etc. It can be more proactive too when it is planned to meet future requirements. Identifying training needs exactly is very important as it can not be a substitute for any other HRD problem. If employees are not putting their best being unhappy with pay package, training will not improve their productivity. Once the firm is convinced that training can help it than aim of training is decided to ensure that both management and employees know what is expected from their training effort.

1.11 TRAINING METHODS: INTERNAL AND EXTERNAL TRAINING

The training methods can be classified either as on-the-job or off-the-job training.

On-The Job Training

It makes the employees learn by doing in actual working situation. It is a very useful method for jobs where learning by watching and doing is possible and that can not be simulated for classroom learning. This method has a few drawbacks also. Learners may disturb the other people on job or may make errors. But if the cost of organizing alternate training, is very high and the cost of any damage by trainees is minimal, it can be used as benefits outweigh costs. Popular on-the-job training methods involve understudy, assignments (apprenticeship) and job rotation.

Apprenticeship programs : People seeking to enter skilled trades like electricians, plumbers are required to undergo practical training before they are given their certificates or diplomas by technical institutes. Mere a trainee is put under a master craftsman for a long time when he learns and understands the complex job knowledge and skills.

Job-rotation : It involves lateral transfers that enable employees to work at different jobs. It gives an insight into interdependency of jobs. New employees in the firm are often exposed to this training to help them develop holistic perspective of their job.

Off-The Job Training

When training is imparted away from work environment it is called off-the-job. A number of techniques such classroom lectures, films, demonstrations, case studies are used.

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Classroom lectures/conferences : This is suitable for conveying specific information-rules, programmes, methods etc. This entails providing structured information to group and can be accompanied by use of audio-visual techniques to make presentation interesting. The problem of this method is lack of interactive approach and one way communication that may not make learning effective. However, if feedback can be constantly obtained this drawback' can be taken care of. This methods efficacy heavily depends upon lecturer's ability to involve learners.

Film : These can be used to demonstrate technical skills not presentable through other methods. These can also be used along with lectures to clarify the points highlighted by films.

Simulation Exercises

A training activity that places trainee in an environment similar to actual working conditions can be called simulation. These are very useful for learning interpersonal and problem solving skills. Case exercises, computer modeling; experimental exercises, *vestibule training* all are simulation exercises.

Experimental exercises

Here learners are given exercises to work upon. A situation regarding interpersonal skills can be given and the learner tries to come up with solution. After the exercise is over the trainer explains theoretical concepts and the behavior of the members during exercise.

Computer modeling

It simulates a number of job dimensions and avoids the risks or costs of real life learning. It is widely used for training pilots in airlines and to train astronauts. It is a complex method of imparting training.

Vestibule training

Employees learn on the same equipments that they might be using at the work place. But being away from work the pressure of job is reduced. It gives full training experience and minimizes the problem of transferring learning to the job.

Programmed Instruction

Here programmed texts or manuals are prepared that trainee is supposed to learn and respond.

All these methods of training emphasize routine and programmed behaviors that improve employees' performance when put on the job. However managers can not be trained in the same way whose work is non-routine in nature, they require different type of training and different methods of learning are effective in their case. The training for managers has-greater intellectual input in control to workers who are given more of vocational input, their training is called management development.

The different training programs can be comparatively shown in table 1.

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TABLE 1 *Comparison of Training Methods*

Method	Feedback to learner	Practice in training	Transfer of learning	Estimated and per trainee
Apprentice	Yes	Yes	High	Mod-high
Programs				
Classroom	Varies	No	Low	Low
Training				
Films	No	No	Low	Low
Simulation				
Cases	Some	No	Low	Moderate
Experimental	Yes	Yes	Moderate	Low
Exercise				
Computer	Yes	Yes	Mod-high	High
Modeling				
Vestibule	Yes	Yes	High	Mod-High
Training				
Programmed	Yes	No	Moderate	Moderate
Instruction				

1.12 MANAGEMENT DEVELOPMENT APPROACHES TO MANAGER DEVELOPMENT

It is a future oriented education program that attempts to enhance capability to understand and interpret knowledge. This tries to develop manager than making him to be simply fit on the present job. Management development is becoming more important with increasing complexities of business that can be handled without good managerial skills.

1.13 METHODS FOR MANAGEMENT DEVELOPMENT PROCESSES

On the Job Development

The development of a manager can take place on the job with the help of various techniques like coaching, understudy, job rotation and committee assignments:

Coaching : A manager is guided by another manager and learns by doing. This method has the advantages of rapid feedback and high interaction. The main drawback is the tendency of manager acting as coach to impart his managerial style to juniors that may be in need of change with new circumstances. Another problem is heavy reliance on the coaching abilities of the manager who may be very good manager but not the good teacher.

Understudy assignments : 'The learner is placed in the manager's shoes when manager is going on leave and trainee performs the job as he would as a manager. This provides opportunity for the short period to get the complete fee of job. This technique can be made effective by making managers responsible for the performance of underline who in turn will be 'motivated to prepare trainees for under assignments. While the risk of making errors by learners remains but this can be minimized by waiting for crucial decisions till managers return.

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Job rotation : This can be an excellent method of giving general training to potential managers by making them work on different jobs in horizontal and vertical positions. It provides a good training who are transferred from one position to another. It also helps in understanding the intricacies of inter-relationships of activities. Its drawback is that it can demotivate those who are looking for specialization and specific activities. It can be expensive because of low productivity when managers are shifted from' one position to another.

Committee assignments : A trainee manager is put in a committee that is given assignments. Manager learns to take decisions by watching other members and in their guidance.

Off-The-Job Development

A large number of techniques are'available but sensitivity training, transactional analysis, lectures and simulation exercises are particularly important.

Sensitivity training : This is used to change behavior through group process. Managers are brought together in an unstructured group interaction in a free and open environment. Participants openly express their ideas, opinions and attitudes. It increases their ability to comparative with others, improved listening skills, increases tolerance for individual differences, greater openness and improved conflict resolution skills. The side effect of this method is that some individuals may not accept their appraisal of behavior by others. There is also the problem of transfer of new behavior or the job.

Transactional analysis : It helps managers understand each other better and assist them in altering their responses so as to produce more effective results. The theory of TA is that there are three ego states of a personality—parent, child and adult. It makes the participant understand how behavior is dominated by different ego states and much of interpersonal conflict can be understood through it. This revelation about behaviors can be very useful for managers for improving their relations.

Lectures : These help managers to develop their conceptual and analytical skills. These can be conducted in-house or outside programs can be used.

Simulation exercises : Case studies, role-plays and decision games are commonly used exercises. Cases represent the real problems that managers never, faced. Trainees study cases, analyze, discuss and suggest solutions. These can be very effective to sharpen decision making and *judgmental* abilities. Decision games are played on computer and help learners to know the implications of their decisions on ether parts of organization. Role-playing is acting out the management problems. It allows participants to react to one other as manage their behavior is shown to them through recorded video tapes. Afterwards the trainees attempt to improve their behavior.

All the simulation techniques replicate real behavior but the pressure of real time is missing. Like training, for management development too many methods can be used at different points of time depending upon nature of learning to be given.

1.14 ORGANISATION CONFLICTS

Conflict in some form and degree is part and parcel of virtually every part of human life and hence, organizations are not free of it. Conflict may be regarded as the disagreement of hostility between individuals or groups in the organization. It may even mean rivalry or competition or may be viewed as the perception of disagreement in the individuals. The parties involved may not be aware of any basis of conflict and may not develop hostile relationship. Conflict can bring out both the positive and negative consequences. The positive consequences may be as follows:

(*a*) Conflicts provide opportunities to individuals and groups to think again and take a more concrete view of the situation

(*b*) These lead to innovation as conflicting situations always present threats to the working. In order to overcome this threat, the individuals and groups have to find out new ways of working.

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(*c*) Conflicts bring cohesiveness in groups. This happens more in the case of inter-group conflicts.

(*d*) Conflicts provide challenging work environment as these develop high degree of competition.

(*e*) As conflicts develop among various individuals and groups, these indicate the shortcomings in the existing system of organization functioning and management attention can be drawn for overcoming such shortcomings.

(*f*) Conflicts may be used as a device to overcome many frustrations and tensions. People may express their frustration and tension by means of conflicts. Thus they are relived from utter tension

Conflicts can be managed and resolved in the following ways:

Establishment of Common Goals

Often differences in goals generate conflict in organization, particulary intergroup conflict and conflict between individual and organisation. Thus, if common goals are established, much conflicts can be avoided. Goal differences can be avoided by establishing mutually agreed goals.

The basic strategy in this case may be to find out goals upon which groups and individuals can agree. Conflict can also be minimized by adopting appropriate incentive and reward systems. It has been observed that goal differentiation can be reduced through the use of incentives designed to activities that benefit the larger system, as against those that concentrate on the interest of subunits. However, while taking such an action, it should be ensured that the incentive system so adopted is capable of motivating people for better performance.

Another method of reducing conflict arising out of goal differentiation is the reference of super ordinate goal is a common goal that appeals to all the parties involved and cannot be achieved by the resources of a single party separately. In the case of reference to super ordinate goal, conflicting parties may be brought together and they can sink their differences for the time being.

Structural Rearrangement

In many cases, structural rearrangement in some part or major part of the organisation can reduce dysfunctional conflicts, particularly when the conflicts are taking place because of such factors. Some structural arrangements are helpful in reducing the amount of conflicts. Following structural arrangements help in reducing conflicts in the organization.

(*a*) **Reduction in interdependence** : The potential for conflict is very great in situations where two or more departments have to work in an interdependent manner and share scarce resources. Therefore, conflict may be minimized by reducing interdependence among departments. In organizational situations such interdependence cannot be avoided altogether because various departments are created to achieve organizational objectives. However, interdependence can be lessened by creating various units on the basis of self-contained resources and units using similar resources should be put together.

(b) **Exchange of personnel :** A better way to minimize conflict among interdependent units is to exchange personnel of these units for specified period of time, specially if personnel of one unit can be fitted well in another unit. An exchange of people is very similar to role reversal which is aimed at greater understanding between people of various units by forcing them to present and defend other's position. When people understand the difficulties and problems of other units, they become more considerate about these and chances of conflict are lesser.

(c) **Creation of special integrators :** To solve problems of conflict, organization may create provisions for the appointment of special integrators. These integrators can resolve problems arising out of interdependent relationship between two or more units. While appointing such integrators care should be taken that these are well acceptable to interdependent units. Normally, they are more effective when they are viewed as high in influence and mediators in conflicting situation. Similarly they will work better if they have perception that they will be rewarded according to the total performance of groups they are integrating

(d) **Reference to superior's authority :** The organization should keep provisions for referring conflict upward for its resolution particularity when the conflict cannot be solved at the levels of parties involved to the conflict. Since the superior has authority to dictate both the parties, he can succeed in bringing the conflicting parties together. However, this method should not be adopted quite frequently because it will resolve the particular conflict in question but may not be suitable for minimizing the occurrence of conflict in the organization

Conflict Resolution Actions

Conflict-resolution actions are curative methods to overcome the problems of conflict. While the various measures discussed above help in minimizing the occurrence of conflict, they do no guarantee the complete absence of conflict. Therefore whenever conflict arises in the organisation should be resolved amicably so that its negative effect is reduced. There may be several types of conflict resolution actions.

(a) **Problem solving :** The problem solving technique is considered to be the most positive technique available for conflict resolution because it emphasizes the attaining of the common interests of both conflicting parties. In mutual problem solving process, the conflicting parties must come tighter with the responsibilities of solving the mutual problem that faces rather than merely finding a way to accommodate their different perspectives.

(b) **Avoidance :** Another method of overcoming conflict is its avoidance, that is parties to the conflict may either withdraw from the conflict or conceal the incompatibility.

(c) **Smoothing :** It is the process of playing down differences that exist between individual of groups while emphasizing common interests. Differences are suppressed and similarities are accentuated in this process.

(d) **Compromise :** It is a well accepted technique for resolving conflict, yielding neither a definite loser nor a distinct winner. Such a compromise may be achieved either through the intervention of third party, the process is commonly known as mediation, or without the intervention of the external parties, the method is known as bargaining.

(e) **Confrontation :** It may be used for organization development and increasing organization effectiveness. Parties are left to confrontation to settle the conflict themselves.

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1.15 ORGANIZATIONAL DEVELOPMENT (OD)

Organizational development refers to a wide range of strategies for organizational improvement. It can be defined as a technique for bring change in the entire aspect of the organization, rather than focusing attention on individuals, so that change is easily absorbed. It has following characteristics :

(*a*) It is an educational strategy for bringing planned change.

(*b*) It is related to real problems of the organization

(*c*) Laboratory training methods based on experienced behavior are primarily used to bring change.

(*d*) Change agent applying OD technique for change is external to the forms of consultants.

(*e*) There is close working relationship between change agents and the people who are being changed. The relationships involve mutual trust, joint goals and means and mutual influence.

(*f*) The change agents share a social philosophy about human value. They are humanists seeking to get a humanistic philosophy in organization.

There are two major factors, which have caused the use of OD as a technique for planned change. There are as follows :

(*i*) Training for change does not work properly only through reward structure on the job, unless there is a proper change in the environment of organization in which people work. The old structures of the organization do not support training adequately, and trained people even fail to bring the desired change. This required a change in the organization environment so that it supports training. This is the basic objective of OD.

(*ii*) In the dynamic environment, the change is extremely rapid. This required a highly receptive and effective organization so that changes are implemented and absorbed to help organization survive and prosper. OD tries to make organisation receptive and effective because it tries to free up communication tightness by increasing the amount trust and candor of communication. It seeks to build problem-solving capacity by improving group dynamics and problem confrontation.

Besides, the two above factor necessitating the origin of OD, it brings some other factors like emphasis on rationality and objectivity, focus on shared authority, creation of social organization emphasis on long range planning and strategy, taking advantage of organizational conflicts and more widely dispersed improvement.

There are five steps in OD Programmes:

(*i*) Studying the managerial grid as a theoretical framework to understand behavior dynamics of organizations culture.

(*ii*) Study of the dynamics of the actual work team

(*iii*) Launching similar activities in different units engaging the top team.

(*iv*) Implementing tactics for transforming the organization into the above model.

(*v*) Measurement of changes

There may be other steps as follows:

(*i*) **Problem identification and diagnosis :** OD programmes lead to meet a certain objective in the organization because OD is a means and not and end in itself. The problem may be a gap between desired path of action and actual path of action that is the organization fails to meet its objectives on a long-term basis. OD programmes start with the identification of the problems in the organization.

(ii) **Planning strategy for change :** Attempts are made to transform diagnosis of the problem into a proper action plan involving the overall goals for change, determination of the basic approach for attaining these goals, and the sequence of detailed scheme for implementing the approach.

(iii) **Intervening in the system :** It refers to the planned programme activities during the course an OD programme. These planned activities bring certain changes in the system, which is the basic objective of OD. There may be various methods like, education and laboratory training process consultation, team development etc.

(iv) **Evaluation :** This step relates to evaluate the result of OD programmes so that suitable actions may be followed. There is urgent need for careful monitoring to get precise feedback regarding what is going on as soon as and OD programme starts. For this, the use of critique sessions, systematic appraisal of change efforts, and pre and post-training behavioral patterns are quite effective.

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1.16 ORGANISATION DEVELOPMENT TECHNIQUES

There are several techniques that are used in OD programmes depending on the individual requirement. These are:

(i) **Sensitivity training :** Sensitivity training is a method of changing behavior through unstructured group interaction. It seeks to help individuals towards better relations with others. The primary focus is on reducing interpersonal friction through developing better interaction among individuals.

(ii) **Transaction analysis :** Transactional analysis (TA) is another method to develop interpersonal communication and interaction. It aims at developing among individuals to analyze the ago sates involved in communication and interacting, development of positive values towards others, and interacting on the basis of mature personality.

(iii) **Process consultation :** Process consultation is the process in which the consultant works with individuals and groups to help them to learn about human and social processes and learn to solve problems that stem from process events. Process consultation is defined as "the set of activities on the parts of the consultant which help the client to perceive, understand and act upon the process events which occur in the client's environment." Process consultation concentrates on certain specific areas such as communication, functional roles of members, groups problem solving and decision-making, group norms and growth, leadership and authority, and intergroup cooperation and competition.

(iv) **Team development :** Team development is essentially an intervention used at group level. The basic objective of team development is to increase effectiveness of various formal groups in the organization. The essence of team development is to increase trust among members because people work better together when there is open and honest sharing about the problems and difficulties. As such, at the initial level, attempts are made to develop such an environment where mutual trust can be developed among the team members. Team development process consists of problems identification, examination of effect of differences in perception, giving and receiving feedback about adverse feelings of members to overcome these feeling, developing interactive skills personal contact with team members to solve difference, and follow-up actions to review what has been learned and what the next step I team development should be. These attempts bring cooperative and supportive feelings among members of the team. In order to bring these feelings on long–term basis, team exercises are undertaking continuously for long time.

(v) **Grid organization development :** Grid organization development is a comprehensive and systematic OD programme. The programme aims at individuals' groups and the organization as a whole. It utilizes considerable number of instruments enabling individuals and groups to assess their own strengths and weaknesses, focuses on skills, knowledge and processes necessary for effectiveness at the time levels of individual, group.intergroup, and the total organization. Normally, group organization development proceeds to change the various factors of the organization in the following sequence:

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(a) At the first stage, it curious aspects of managerial styles, problem-solving communication skills, etc.

(b) The focus is turned to develop teamwork by analyzing teamwork, traditions, and alike, skills relating to planning, objective setting, and problem solving in these areas are developed.

(c) At the intergroup level, attempt is made to move groups from conflict to co-operation by undertaking exercises relating to analysis of group relationship and building co-operative group behavior.

(d) At the total organization level, the focus shift to the total organization and to develop skills necessary to develop organization skills. Attempt is made to identify the characteristics of the ideal organization and members are trained to achieve excellence.

(e) Last stage involves critical evaluation and analysis of the various OD efforts made so that various efforts can be redesigned, if necessary.

1.17 PERFORMANCE APPRAISAL–AN INTRODUCTION

Performance appraisal or merit rating is one of the oldest and most universal practices of management. It refers to all the formal procedures used in working organizations to evaluate the personalities and contributions used potential of group members. Modern management makes somewhat less use of the term 'merit rating' than what was common in earlier periods. The approach resulted in an appraisal system in which the employee's merits like initiative, dependability, personality, etc. were compared with others and ranked or rated.

Purposes of Appraisal

Appraisal of employees serves several useful purposes:

1. It can serve as a basis for job change or promotion.
2. By identifying the strengths and weakness of an employee it serves as a guide for formulating a suitable training and development programme to improve his quality of performance in his present work.
3. It serves as a feedback to the employee.
4. It serves as an important incentive to all the employees.
5. The existence of a regular appraisal system tends to make the supervisors and executives more observant of their subordinates.
6. Performance appraisal often provides the rational foundation for the payment of piece-work wages, bonus, etc.,
7. Performance appraisal serves as means for evaluating the effectiveness of devices used for the selection and classification of workers.
8. Permanent performance appraisal records of employees help management to do planning without relying upon personal knowledge of supervisors who may be shifted.

Objectives of Performance Appraisal

Data relating to performance assessment of employees are recorded, stored, and used for several purposes. The main purposes of employee assessment are :

1. To effect promotions based on competence and performance.
2. To confirm the services of probationary period satisfactorily.
3. To assess the training and development needs of employees.
4. To decide upon a pay raise where regular pay scales have not been fixed.
5. To let the employees know where they stand in so far as their performance is concerned and to assist them with constructive criticism and guidance for the purpose of their development.
6. To improve communication.
7. Finally, performance appraisal can be used to determine whether Human Resource Programmes, such as selection, training, and transfers have been effective or not.

Ans(2.)

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1.18 APPRAISAL METHODS : CHOOSING THE APPRAISAL CRITERIA

Some of the important and popular individual appraisal methods are :

1. **Essay appraisal method :** This is the simplest. Here an essay written in regard to employees, strength, weakness, past performance, and suggestions for improvement. The method is qualitative and not quantitative. In this method it is difficult to compare with others.
2. **Critical incident method :** Here employees past performance, is critically examined by the rater. Here key behavior is identified which made a difference either doing that job effectively or not-effectively. Here specific behavior is under focus instead of assessing individual's attributes of personality or stating trait characteristics like "intelligent", "integrity" "courageous", etc., these words remain quite vague unless qualified to by actions or behaviors which are attributed to such traits.
3. **Checklist method :** Here a checklist of behavior descriptions is prearranged and each person is evaluated against such list. Rater merely record the list and a separate group can allocate weightages for each list and finally arrive at total points or marks obtained.
4. **Graphic rating scale method :** This is the most popular and oldest method. Here lists of relevant factors are listed along with degrees on 5-point or 10-point scale. Rater ticks marks against appropriate degree for each factor / attribute. At the end, these points are added.
5. **Forced choice method :** This is a special type of check list. Rater has to choose between two statements or more, all of which may be favorable or unfavorable. Appraiser's job is to select that statement which is most appropriate to describe the employee.
6. **Behaviorally anchored rating scales (BARS) :** These scales combine major advantages from critical method and graphic rating scale method. Here actual behavior of employee is rated rather than some vague personality or trait characteristics. Secondly each behavior pattern is rated on various degrees either on continuum or point scale (5-point or 10-point for example).
7. **Relative appraisal method :** Following are some of the relative appraisal methods. Here individuals are compared each others, on their performance. The popular methods are the following :

(a) Group order ranking method (b) Individual Ranking method
(c) Paired comparison method (d) MBO & Goal Setting Method

Uses of Performance Appraisal

1. It enables the management to make effective decisions and / or correct or modify their earlier decisions.
2. It helps to evaluate the existing plans, information system, job analysis, internal and external environmental factors influencing employee performance like relations with supervisors, working conditions, personal problems of the worker like family, financial and health. This evaluation suggests and results in improvement in plans, information system, and job analysis, creating the conducive work environment and controlling the controllable environmental variables.
3. It helps the employee to improve his performance and for his self-development.
4. Further it improves superior - subordinate relations through close interaction and proper understanding.

Despite these benefits, certain problems are associated with appraisal methods.

1.19 PERFORMANCE APPRAISAL : TRADITIONAL TRAIT APPRAISALS

Performance appraisal, also known as **employee appraisal**, is a method by which the job performance of an employee is evaluated (generally in terms of quality, quantity, cost and time). Performance appraisal is a part of career development. Performance appraisals are a regular review of employee performance within organizations.

Generally, the aims of a scheme are:

- Given feedback on performance to employees.
- Identify employee training needs.
- Document criteria used to allocate organizational rewards.
- Form a basis for personnel decision: salary increases, promotions, disciplinary actions, etc.
- Provide the opportunity for organizational diagnosis and development.
- Facilitate communication between employee and administrator.
- Validate selection techniques and human resource policies to meet federal Equal Employment Opportunity requirements.

A common approach to assessing performance is to use a numerical or scalar rating system where by managers are asked to score an individual against a number of objectives/attributes. In some companies, employees receive assessments from their manager, peers, subordinates and customers while also performing a self assessment. This is known as 360° appraisal.

The most popular methods that are being used as performance appraisal process are:

- Management by objectives (MBO)
- 360 degree appraisal
- Behavioral Observation Scale (BOS)
- Behaviorally Anchored Rating Scale (BARS)

Trait based systems, which rely on factors such as integrity and conscientiousness, are also commonly used by businesses. The scientific literature on the subject provides evidence that assessing employees on factors such as these should be avoided. The reasons for this are two-fold:

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1. Because trait based systems are by definition based on personality traits, they make it difficult for a manager to provide feedback that can cause positive change in employee performance. This is caused by the fact that personality dimensions are for the most part personality. For example, a person who lacks integrity may stop lying to a manager because they have been caught, but they still have low integrity and are likely to lie again when the threat of being caught is gone.
2. Trait based system, because they are vague, are more easily influenced by office politics, causing them to be less reliable as a source of information on an employee's true performance. The vagueness of these instrument allows mangers to fill them out based on who they want to/feel should get a raise, rather than basing scores on specific behaviors employees should/should not be engaging in. These systems are also more likely to leave a company open to discrimination claims because a manager can make biased decisions without having to back them up with specific behavioral information.

1.20 EMPLOYEES ORIENTATION AND TRAINING OF NEW EMPLOYEES

When we orient new hourly (non-exempt) employees, we provide a standard HR couple of hours on policies, procedures, company history, goals, culture, punching in and work rules. We given a company tour and hourly employees then train and cross-train on the job.

Managerial and salaried (exempt) employees participate in and orientation that is custom-designed for them. It includes the above information that is received by all employees. Additionally, their orientation may last one to two weeks and it enables them to meet the whole organization, their direct reports and more. They should leave this orientation with a clear picture of the organization, its challenges, its goals and their opportunity to assist with progress.

It is challenging to make sure salaried employees have the chance to do the orientation while also beginning their new job. Neither can be put on hold. My current new director spent the morning helping to write an RFP for a potential customer rather than attending his scheduled meetings. This is okay, but I don't want his orientation to get off rack. It provides fundamental information he needs to succeed in this organization.

From an HR perspective, this may not be ideal for making sure he gets the organization overview, but it is ideal for helping him integrate quickly into the working business of the company-and that's the point. Right ?

The best orientation I have ever known was instituted at Edgewood Tool and Manufacturing. Every manager who hired a new employee was required to write a 120 day orientation for the new employee. It involved one action a day. Actions included meeting the Director of Quality, calling on a customer and having lunch with the CEO. You can bet that new employee was thoroughly welcomed and integrated into the organization after 120 different orientation events.

1.21 FORMULATING CAREER STRATEGY

Career management is defined by Ball (1997) as:

1. **Making career choices and decisions** – the traditional focus of careers interventions. The changed nature of work means that individuals may now have to revisit this process more frequently than in the past.

2. **Managing the organizational career** – concerns the career management tasks of individuals within the **workplace**, such as decision-making, life-stage transitions, dealing with stress etc.
3. **Managing 'boundaryless' careers** – refers to skills needed by workers whose employment is beyond the boundaries of a single organisation, a workstyle common among, for example, artists and designers.
4. **Taking control of one's personal development** – as employers take less responsibility, employees need to take control of their own development in order to maintain and enhance their employability.

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Now that the job-for-life covenant between employer and employee has been superseded by an insecure and uncertain job market, career management has become a necessary survival skill rather than being an activity pursued by Ivy League alumni or people born with a silver spoon in the mouth. Job security is now based on knowledge, skills and added-value rather than length of service or loyalty to an employer. Career management is nothing more than a small investment of time, money and energy to protect the major source of revenue—one's job.

Career

Career is a term defined by the Oxford English Dictionary as an individual's course or progress through life (or a distinct portion of life)". It usually is considered to pertain to remunerative work (and sometimes also formal education).

A career is traditionally seen as a course of successive situations that make up a person's worklife. One can have a sporting career or a musical career without being a professional **athlete** or **musician**, but most frequently "career" in the 20th century referenced the series of jobs or positions by which one earned one's money. It tended to look only at the past.

As the idea of personal choice and self direction picks up in the 21st century, aided by the power of the Internet and the increased acceptance of people having multiple kinds of work, the idea of a career is shifting from a closed set of achievements, like a chronological résumé of past jobs, to a defined set of pursuits looking forward. In its broadest sense, career refers to an individual's work and life roles over their lifespan.

In the relatively static societies before modernism, many workers would often inherit or take up a single lifelong position (a place or role) in the **workforce**, and concept of an unfolding career had little or no meaning. With the spread during the enlightenment of the idea of progress and of the habits of individualist self-betterment, careers became possible, if not expected.

Career Assessments are tests that come in a variety of forms and rely on both the quantitative and qualitative methodologies. Career assessments can help individuals identify and better articulate their unique interests, values, and skills. Career counselors, executive coaches, career development centers, and outplacement companies often administer career assessments to help individuals focus their search on careers that closely match their unique personal profile.

Career counseling advisors assess people's interests, personality, values and skills, and also help them explore career options and research graduate and professional schools. Career counseling provides one-on-one or group professional assistance in exploration and decision making tasks related to choosing a major/occupation, transitioning into the world of work or further professional training. The field is vast and includes career placement, career planning, learning strategies and student development.

By the late 20th century a plethora of choices (especially in the range of potential professions) and more widespread education had allowed it to become fashionable to plan (or design) a career: in this respect the careers of the career counsellor and of the career advisor have grown up. It is also not uncommon for adults in the late 20th/early 21st centuries to have dual or multiple careers, either sequentially or concurrently. Thus, professional identities have become hyphenated or hybridized to reflect this shift in work ethic. Economist Richard Florida notes this trend generally and more specifically among the "creative class."

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Job interview

A job interview typically precedes the hiring decision, and is used to evaluate the candidate. Interviews are usually preceded by the evaluation of supplied résumés, selecting a small number of candidates who seem to be the most desirable (shortlisting). A company seeking to fill a single position will typically interview a handful of candidates - perhaps as many as ten if the level of application has been high. While job interviews are considered to be one of the most useful tools for evaluating potential employees, they also demand significant resources from the employer and have been demonstrated to be notoriously unreliable in identifying the optimal person for the job.

Multiple rounds of job interviews may be used where there are many candidates or the job is particularly challenging or desirable; earlier rounds may involve fewer staff from the employers and will typically be much shorter and less in-depth. A common initial interview form is the phone interview, a job interview conducted over the telephone. This is especially common when the candidates do not live near the employer and has the advantage of keeping costs low for both sides.

Once all candidates have had job interviews, the employer typically selects the most desirable candidate and begins the negotiation of a job offer.

Process

A typical job interview has a single candidate meeting with between one and three persons representing the employer; the potential supervisor of the employee is usually involved in the interview process. A larger *interview panel* will often have a specialized human resources worker. The meeting can be as short as 15 minutes; job interviews usually last less than two hours. The bulk of the job interview will be the interviewers asking the candidate questions about their history, personality, work style and other relevant factors to the job. The candidate will usually be given a chance to ask any questions at the end of the interview. Questions are strongly encouraged, not only do they allow the interviewee to acquire more information but they also demonstrate the candidate's strong interest in the position and company. A candidate should follow up the interview with a thank you letter expressing their appreciation for the opportunity of meeting with the company representative. The thank you letter ensures that the candidate will stay fresh in the interviewer's mind. The primary purpose of the job interview is to assess the candidate's suitability for the job, although the candidate will also be assessing the corporate culture and demands of the job on offer.

Lower paid and lower skilled positions tend to have much simpler job interviews than more prestigious positions; a lawyer's job interview will be much more demanding than that of a retail cashier. Most job interviews are formal; the larger the firm, the more formal and structured the interview will tend to be. Candidates generally dress slightly better than they would for work, with a being appropriate for a white-collar job interview.

Additionally, some professions have specific types of job interviews; for performing artists, this is an audition where the emphasis is placed on the performance ability of the candidate.

In many companies Assessment Days are increasingly being used, particularly for graduate positions, which may include analysis tasks, group activities, presentation exercises and psychometric testing.

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REWARDS AND MANAGING STRESS

Definition of Stress

The term "stress" is frequently used in everyday life. Hearing the word stress, makes us first think of something unpleasant, something menacing beyond our control. However, stress, a factor which has helped people to survive for millenia; today is now considered as enemy number one. To it one has even ascribed the causes of many accidents, diseases, early deaths, suicides, disatisfactions and tensions. In addition, it is difficult to calculate the losses it causes to the economy.

Sources of Stress

Work-related causes of stress

Work settings can be very stressful for employees. Some jobs and organizations expose individuals to high levels of stress, whereas others involve much less stress. In work settings various factors may cause employees stress such as type of job, role conflict, responsibility for other employees, conflict between work and private life.

Type of job. Some jobs, such as those of firefighter, senior executive and surgeon, expose workers to high levels of stress. Other jobs, such as those of accountant and actuary, are far less stressful. Surveys show that some jobs are much more stressful than others. They compare people in hundreds of occupations according to a variety of criteria, including overtime, quotas, deadlines, competitiveness, physical demands, environmental conditions, hazards encountered, initiative required, stamina required, win-loss situations, and working in the public eye. Among the 250 most stressful jobs are those of: president of the country, firefighter, senior executive, surgeon, air traffic controller, public relations executive, stockbroker, pilot, architect, lawyer, physician etc.

Conflict between work and private life. In a modern, technology-based and innovative society, as a rule, both spouses in families with children are employed. The result is a constant juggling of work and family resposibilities. Due to his/her doubts arising between the responsibility to work and family, the employee is susceptible to another widely recognized cause of stress called "role conflict". This conflict occurs as the consequence of incompatibility between the expectations of spouses and employers. Such conflicts between family and work can be lessened by high levels of social support in work settings.

Role conflict in work settings. Employees are more successful at work if they know what is expected of them and if their various roles in organizations are not in mutual conflict. Role conflict in work settings occurs when an individual has to take several different and unconsistant demands into account. If he/she meets one demand, it is impossible to fullfil another one as well.

Role ambiguity. Even if an employee can avoid the stress associated with role conflict, he/she still may encounter the stress associated with role ambiguity. This occurs when the individual experiences uncertainty with regard to actions he/she should undertake to meet the requirements of his or her job. For example, John has been promoted to a more demanding job. Since he is not sure what exactly is expected of him, he tries to obtain as much information as possible. So, John faced stress emanating from the role ambiguity when he accepted the new job.

Role overload. When the phrase "work-related stress" is mentioned, we usually think of employees working a lot and even more than they can handle. Such images relate to overload, which can take two different forms. Quantitative overload occurs when individuals are asked to do more work than they can complete in a specific period of time. In contrast, qualitative overload refers to employees' beliefs that they lack the required skills or abilities to perform a given job. Both types of overload are unpleasant and both can lead to high levels of stress.

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Responsibility for others. In general, people who are responsible for others, that is, people who must motivate, reward, punish and communicate with others, experience higher levels of stress and its accompanying physical symptoms than those who handle other organizational functions. Responsibility for others is a heavy burden that all executives and managers have to bear. They may feel somewhat happier if they can expect self-motivation of coworkers.

Organizational factors. The organisation in which employees carry out their work can also cause stress. Four characteristics thereof may be considered as stress inducers: 1. organizational level, 2. organizational complexity, 3. organizational changes and 4. organizational border roles.

Managers at the top organizational level have to cope with role conflict, resposibility for others, role ambiguity and role overload. They also have more time restrictions and thus can pay (too) little attention to each of their activities. Employees at the lower levels can be exposed to stress due to either the excessive or scanty load of the role. Or, they are faced with role conflict emanating from the controversial requirements of superiors as well from their lack of certain resources.

In regard to organisational complexity, many rules and demands as well as complex nets in large organizations can be stressful to employees. Role overload is quite often present in such work settings, too. Stress can be connected with organisational changes, as well. For example, a new information system is introduced into the organization. The employees may feel stress due to the necessary adaptation of their work to the new information system. The organisational border role can also be a source of stress in the organization. On the one hand the employees must consider the demands of their customers, while on the other hand they must simultaneously accomplish the requirements of their own organization.

Mobbing and workplace violence. Mobbing in the workplace constitutes a particular source of stress. It can be defined as repeated, improper treatment of employees and may threaten their health and safety. In 2001, the EU member countries carried out a survey which showed that 9 % (i.e. aproximately 12 million) employees were victims of harrassment at the work place in the year 2000. Workplace violence constitutes rude behaviour as well as physical or oral violence. Environments likely to be subject to such kind of violence are primarily service activities. The results of the above survey showed that 4 % of the active population were victims of physical violence, while many more were subject to threats, insults and other forms of psychological violence.

Physical work conditions. When the physical conditions of work are unsuitable or even dangerous, they may cause various diseases as well as act as stress factors. Such conditions of work include, for example, noise, vibrations, dust, extreme temperature, dangerous substances and light. In the EU, 25 million workers are exposed to excessive noise, 8 % of them are in contact with dangerous substances, 17 % of workers inhale dust, smog or humid air half their working day, 17 % of them are exposed to various vibrations, 12 % to high temperatures and 13 % to low temperatures, 20 % of workers carry or move heavy burdens, and 32 % of them work in fatiguing positions and/or positions inducing pain.

Managing Stress In Work Settings

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Strategies for managing stress

The purpose of strategies for managing factors that cause employees in organizations stress is the reduction or total elimination of stress from their work. Those strategies are:

- creating a favorable organisational climate,
- job enrichment,
- reducing conflict and precise definition of roles,
- planning and developing career
- effective leadership,
- developing communication capabilities,
- motivating employees,
- job satisfaction,
- mutual relations.

Creating a favorable organizational climate. In many organizations that have an unfavorable, infexible and impersonal climate it emanates to a large extent from the strictly formalized levels and relations between employees. Such a climate creates stress in work settings and reduces the effectiveness of employees. In those organizations, a strategy reducing the stress within employees should be accepted. This would be based on designing a more decentralized and employee-friendly structure and on participative business-decision making as well as on communication flow from lower to upper decision making levels.

Job enrichment. Work assignments in organizations are often designed without considering the motivational aspect and job satisfaction of employees. Such a state in structure and job content may cause stress among employees

Such a state in structure and job content may cause stress among employees. Therefore, bosses should also consider job enrichment when designing a particular job. This dimension refers to a great extent to the improvement of job content as well as its characteristics. The content factors include, for example, responsibility, independence, recognition, possibility of success, promotion and growth. The basic characteristics of the job include skill variety, task identity, task significance, autonomy and feedback. Jobs designed to consider the dimension of job enrichment constitute a less stressful factor for employees in work settings than those in which job enrichment is not taken into account in the process of job designing.

Reducing conflict and precise definition of roles. We have defined role conflict in work settings and the personal role of an employee in section 4 as two of the important stress factors. To what extent those two factors cause stress within employees depends primarily on managers and their capability for a precise delimitation of their subordinates' roles. For each job, the expectations regarding its implementation and what information as well as other resources the employees need to carry out their work efficiently should be determined by the following :

Planning and developing career. Strategy of planning and developing a career was mentioned as one of the strategies for reducing stress within employees in organizations. Managers usually do not show too keen an interest in the career of their subordinates who are, hence, left alone to decide about their careers. Such a situation can be compared with the state of students at a large university who may only use a computer if they want to obtain specific advice about their courses. A possible consequence of such a state may give rise to some doubt and stress in students.

Effective leadership. Nowadays the efficiency of organizations depends to a large extent on the bosses' capability to organise and lead their employees. Modern organizations require a different style of leadership and management, i.e. one that allows for creative and innovative work. People are no longer satisfied if they are treated as machines. Employees today are better educated, so their wishes must be considered. This brings about change. Organizational culture is getting more human and humane. In organizations we need managers who are able to stimulate human resources, motivate them and apply their capacities.

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Developing communication capabilities. Well developed communication improves work productivity, increases a sense of affiliation and makes the employees aware that their superiors appreciate their opinions. Workers need precise and accurate information in order to perform their work well. Close cooperation between coworkers depends primarily on first class information. The worker who is not acquainted with novelties in his/her field will feel lonely and abandoned, therefore s/he is not able to evaluate the work process or his/her own work properly. Feedback on the implemented work may also constitute a strong motivator.

Motivating employees. Work motivation can be defined as a force that influences the behavior of employees in the organization. The essence of work is the strongest motive to drive employees so we must stir up their interest in it. They must be shown that they are important to us, that we respect them, appreciate their work, and want them to learn, grow and develop their abilities. That is the best motivation we can give.

Job satisfaction. Job satisfaction is not merely when the employees earn good salaries or have opportunities for promotion. It can also be influenced by internal factors like: work achievement, appreciation of work done, responsibility, good working conditions as well as external factors, such as: appropriate policy and management in the organization, adequate leadership and good mutual relations. Factors that may increase one's job satisfaction and reduce stress include: challenge, success, appreciation, rewards, appropriate level of responsibility, control over one's own work, work with pleasant people, loyalty to the organization, and clearly determined roles, aims and priorities.

Mutual relations. Mutual relations between coworkers and work groups are dimensions of our personal experiences of the organization. Good work relations reduce the impact of stress and diminish tension

Rewards

A **bounty** (from Latin *bonitās*, goodness) is a **payment** or reward often offered by a group as an incentive for the accomplishment of a task by someone usually not associated with the group. Bounties are most commonly issued for the capture or retrieval of a person or object. They are typically in the form of **money**. Two modern examples of bounties are the bounty placed for the capture of **Saddam Hussein** and his sons by the **United States** and **Microsoft**'s bounty for **computer virus** creators. Those who make a living by pursuing bounties are known as **bounty hunters**.

Reward System

The **reward system** is a collection of brain structures which attempts to regulate and control behavior by inducing pleasurable effects.

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Psychological Reward

A psychological reward is a process that **reinforces** behavior — something that, when offered, causes a behavior to increase in intensity. Reward is an operational concept for describing the positive value an individual ascribes to an object, behavioral act or an internal physical state. Primary rewards include those that are necessary for the survival of the species, such as food, water, and sex. Some people include shelter in primary reward. Secondary rewards derive their value from the primary reward and include **money**, pleasant touch, beautiful faces, **music** etc. The functions of rewards are based directly on the modification of **behavior** and indirectly on the sensory properties of rewards. For instance, **altruism** may induce a larger psychological reward, although it doesn't cause sensations. Rewards are generally considered more effective than Punishment in enforcing positive behavior.Rewards induce **learning**, approach behaviour and feelings of positive **emotions**

Summary

- Staffing is the processing of obtaining and maintaining capable and competent people to fill all positions from top management to operative level.
- Staffing is the whole personnel function of bringing in and training the staff and maintaining favorable conditions of work.
- Human Resource Planning is deciding the requirements of people in the organizations for specific time period under specified conditions.
- Selection is a deliberate effort of the organisation to select a fixed number of personnel from a large number of applications.
- A selection process involves a number of steps. The basic idea is to solicit maximum possible information about the candidates to ascertain their suitability for employment.
- Interview is selection technique that enables the interviewer to view the total individual and to appraise him and his behaviour.
- There can be several types of interviews–preliminary interview, stress interview, patterned interview, and depth interview.
- Conflict may be regarded as the disagreement of hostility between individuals or groups in the organization.
- Performance appraisal or merit rating is one of the oldest and most universal practices of management. It refers to all the formal procedures used in working organizations to evaluate the personalities and contributions used potential of group members.
- Performance appraisal also known as employees appraisal by which the job performance of an employee is evaluated.
- Career is a term defined as an individual's course or progress through life. It is usually considered to pertain to remunerative work.
- Stress is frequently used in everyday life. It makes us think of something unpleasant, menacing beyond our control.

REVIEW QUESTIONS

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1. Define Staffing.
2. Define Human Resource Planning (HRP).
3. What do you mean by selection for employment ? Outline a suitable selection process for a large business organization.
4. Discuss the major tests that are used in selection.
5. Discuss training methods in detail.
6. Discuss management development process.
7. What do you mean by Organizational Conflicts ?
8. What do you understand by organization development. Discuss the different techniques for development.
9. What is performance appraisal. Explain appraisal methods.
10. What do you mean by Traditional trait appraisals
11. Define formulating career strategy.
12. What are the strategies for managing stress?
13. What is reward?
14. Explain the sources of stress.

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Unit—2

Controlling the Basis Control Process

STRUCTURE

2.1 OBJECTIVE

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

- about controlling process, control as feedback and requirements for effective control
- about traditional control devices, detail of Information technologies in controlling etc.
- about control of overall performance, and process of developing excellent managers

2.2 INTRODUCTION

Controlling is the process to ensure that goals of the organization are being attained per its plans. It tells managers about effectiveness of their planning, organizing and directing.

Control in management is not a post-mortem exercise to give feedback rather it is continuous process of monitoring that signals of wrong moves during implementation itself. It can be compared with the steering wheel of a car that helps to bring car on the track as soon as it goes out. Control here remains a feed-forward process constantly guiding managing activities.

2.3 PROCESS OF CONTROL

Control starts from planning stage itself when goals are set because all performance is measured against these goals and any gap between the targets and performance is analyzed to know the causes that are kept in mind while setting targets and next year and during performance appraisal of employees.

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Establish Standards : Goals and objectives set up at the planning stage acts as yardsticks to measure performance later. These should be clear, measurable and bound by time Units to avoid any confusion later. Standards can be qualitative and quantitative. Qualitative standards like image of firm in the market, social responsibilities of firm, working ethics are very important these days. Quantitative standards can be regarding profitability, sales, market share, productivity etc. A firm usually goes for a balance between both types of objectives. At the time of setting standards methods have to be decided regarding measuring performance. This gives clarity to the employees and they know what behaviors are rewarding.

Measures Performance

This is to find out what is expected from the firm and what it is doing. The measurement can be a continuous process or it can be done at regular intervals. For example a firm may monitor pollution and humidity levels in the factory on the daily basis but may maintain the gap of fortnight to measure sales figures. Frequency of measurement depends upon requirement but the selected frequency should be able to give information well in time to enable management to take action at appropriate time.

Compare Performance Against Standards

If the two match it may be inferred that every thing is under control but if it often happens in the firm it needs to be analyzed occasionally. Sometimes the firm may be setting the targets at levels that are easily attainable. It makes the organization complacent and competitors may take advantage of the situation. But if the two do not match and performance is below or above target then it requires analysis. The performance can be below standards if these are set very high without considering various factors that hamper their attainment. It may also mean lack of desirable efforts by firm and needs administrative efforts to avoid such pitfalls in future. If performance exceeds targets it may be reason to be happy is because of strenuous work by people in the company. If it happens because of environmental factors like overall growth of economy then firm should not take credit for it and reality should be accepted. Such detailed analysis is very important to take proper corrective measures.

2.4 TYPES OF CONTROL

Control methods can be grouped into four categories: pre- Action controls, steering controls, Screening controls and post-action controls.

Pre-Action Controls

These are also called pre control and aim at preventing problems from occurring. These control the functions at the input stage. Budgets, schedules, plans,fall in this category that make provisions of funds, tune and other-resources to be devoted to action. A very simple example of such control can be use of essential safety measures on the shop floor of a factory to prevent any mishap.

Steering Controls Feed Forward Control

These are called feed-forward controls too and are used to check the performance during the process. As soon as the activities drift away from goals necessary measures are adopted. The reporting system of firm's management information system is one such control tool. For example if a firm's employees are unhappy and plan to go on strike. The repotting system will give this information in time to meet the situation.

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Screening Controls

These controls check the actions at processing stage. These make use of certain standards to permit continuation of activities and if the preconditions are not met checks are used. Use of bureaucratic control methods of policies and procedures is an example such controls. For example, if a person is to be promoted from assistant manager to manager rules may prescribe for five year work experiences in the lower position. All the people who do not fulfill the criteria are screened from the list of candidates to be promoted. Applying screening controls is easier as this requires reading the rules and procedures and does not allow for discretion.

Post-Action Controls

These are used at the output stage and measure the results of completed activity. Audits, reports of completed work fall in this category. Confidential reports of employees are an instance of such system. These control methods are use extensively because of ease of use but are not very effective if used alone. The biggest drawback of these controls is their inability to take corrective action before things go out of hand. An organization can use a balanced mix of different types of controls. But the nature of firm will determine to a greater extent what control systems are going to be effective and economic. Small firms may prefer personalized control where the top manager scrutinizes everything directly but it might' not be possible in the large companies that prefer bureaucratic systems. A manufacturing unit can use controls around its production and output that may not be appropriate for the firm that defines its objectives qualitatively. Such firm may believe in cultural and self- control. A firm has to devise its own system of control and varies from company to company.

2.5 CONTROL TECHNIQUES

Traditional Techniques of Controlling

1. *Budgeting (or Budgetary Control System)*
   (*a*) **Introductory observations :** A budget is both - a method of planning and an instrument (or device) for controlling. It is a plan in so far as the numerical expression of the standards of performance (i.e. anticipated results) is concerned. However, when the actual operational performance is judged against these standards; the budget assumes the role of a control technique. As such, a budget is properly called a budgetary control; the suffix 'control' usually being omitted.
   (*b*) **The concept of 'budget' :** A budget might be defined as the expression of a management plan into numerical terms (financial, quantitative or time); being a statement of anticipated results expected of the working of a particular aspect of organizational operational life, for a specific future period of time, say a month, a quarter, a half year, a year or so.

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(c) **Types of business budgets** : Some important types of business budgets are described below:

(*i*) **Sales Budget**

One most important aspect of the revenue budgets of business enterprises is the sales budget.

A sales budget is a statement of an expected volume of sales, flowing to a business enterprise over a specific future period of time.

(*ii*) **Production Budget**

An important budget concerning the operational life of a business enterprise is the production budget.

A production budget is a statement of anticipated production to be done by an industrial enterprise during a specific future period of time; in view of the resource availability for production purposes.

Production budget might be expressed in terms of -

Man-hours; where most of production work is done by manual labor.

or **Machine-hours** ; where production activities are mechanized.

(*iii*) ***Production-facilities budgets***

Based on the need and requirements of the overall production budget; budgets for various productions facilities are prepared - as branches of the production budget. Some of such ancillary budgets are as follows:

(*a*) ***Materials budgets*** i.e. a budget for direct material needed for the budgeted output.

(*b*) ***Labor budget*** *i.e.* a budget for direct labor needed for the budgeted output.

(*c*) ***Factory overheads budget*** *i.e.* a budget for factory overheads likely to be incurred, during the production process, to produce the targeted output.

(*d*) ***Administrative (or office) overheads budget*** *i.e.* a budget for office overheads likely to be incurred, during the handling of the targeted output, at the 'office-stage'; in the industrial enterprise.

(*e*) ***Selling and distribution overheads budget,*** *i.e.* a budget for selling and distribution overheads likely to be incurred, at 'the selling and delivery stage', during the budget period.

(*iv*) **Cash Budget**

A cash budget is an important branch of the overall Finance Budget. This budget assumes great significance in the operational life of any business enterprises; as cash is needed for various purposes, quite off and on.

A cash budget is a statement of anticipated cash receipts and cash disbursements; occurring during a specific future period of time - to find out the likely surplus or shortage of cash, during that period.

(*v*) **Capital Expenditure Budgets**

A major aspect of financial budgeting concerns with designing capital expenditure budgets, for items like plants, machines, equipments, furniture, etc.

(*vi*) **Balance-sheet budgets**

Balance-sheet budgets are statements of forecast of capital account, liabilities and assets.

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In fact, sources of changes in Balance Sheet items are the outcome of the functioning of budgetary control system, as a whole. Hence, Balance Sheet budgets prove the accuracy of all other budgets.

(*d*) **The Budget Organization :** For the best designing and functioning of the budgetary control systems, there is the need for a separate 'budget-organization'.

The 'budget-organization' implies the formulation of a Budget Committee extended into various sub-committees. The main task of the budget committee is to finalize and co-ordinate the planning and implementation of the budgetary control system.

The Budget Committee, headed by the Chief Executive, consists of various functional heads like the Production Manager, the Purchase Manager, the Finance Manager, the Marketing Manager, the Personnel Manager, the Engineer, the Accountant, the Cost Accountant and other functional experts. In this Budget Committee, there is a usually a provision for a 'budget-officer' who acts as the secretary of the committee; and makes preparations for arranging the meetings of the Budget Committee.

(*e*) **Advantages of the Budgetary Control System :** Some important advantages of the budgetary control system are as follows:

(*i*) *Expression of planning in definite terms*

Since budgets are a numerical expression of business plans; the budgetary control system - built around the concept of budgeting - expresses plans in definite terms. This way, it is easier for managers to communicate plans more precisely to subordinates and operators. Further, people understand plans in a better manner, and can easily take actions for the realization of plans.

(*ii*) *Comprehensive managerial technique*

Budgetary control system is a comprehensive managerial technique of managing an enterprise. It is both, a method of planning and an instrument of controlling. Planning and controlling are two extremes of budgetary control; and other managerial functions viz. organizing, staffing, direction naturally fit into the budgetary control structure at their appropriate places.

(*iii*) *Communication of jobs (or duties) though budgets*

The budgetary control system is the mouthpiece of management; as budgets convey to people what jobs are assigned to them or what role they are supposed to play, in the organizational life.

(*iv*) *Instrument of co-ordination*

Budgetary control system is an instrument of co-ordination. Through budgets, the functioning of functional departments, management levels and actions of individuals throughout the enterprise are all endeavored to be co-ordinated.

(*v*) *Profit-maximization attempted through cost-control*

Through emphasizing on cost minimization and expenditure control; the budgetary control system helps management to strive for the profit-maximization goals in a legitimate manner.

(*vi*) *Fixation of responsibility facilitated*

Budgetary control system judges the organizational operational efficiency; by locating the spots where weaknesses are occurring. Thus, responsibility for weaknesses or shortfalls in performance can be easily fixed through the budgetary control system.

(*f*) **Limitations of the Budgetary Control system :** Budgetary control system is a rose, full of thorns. Some significant limitations of this system can be stated as follows:

(*i*) *Not comprehensive*

Budgetary control system is a lop-sided managerial device; in as much as the qualitative aspects of managing cannot be fully and precisely made a part of it. In fact, despite intelligent quantification of qualitative aspects; the real intentions of these aspects cannot be incorporated into the budgetary control system.

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(*ii*) *Difficulty in setting rational standards*

Usually, while devising a budgetary control system, it is difficult to set rational standards of performance. Despite the adoption of the best scientific approaches to setting rational standards; prejudices, bias and personal opinions of managers enter the budgetary control system, through the back door.

(*iii*) *Danger of over-budgeting*

Regulating the organizational operational life through the budgetary control system, might carry a danger of over-budgeting i.e. too much emphasis on details of minor items and light emphasis on major heads, requiring strict-control.

(*iv*) *Lack of departmental co-operation and co-ordination*

There might be a lack of departmental co-operation and co-ordination, while designing and implementing the budgetary control system. In fact, some managers might not be willing to co-operate with one another into the making of the system; due to personal differences and conflicting approaches. As such, departmental co-ordination, which is the heart of the budgetary control system, might be unavailable or unobtainable, because of lack of co-operation among departmental managers. As a result, the budgetary control system becomes faulty or misleading, and a mere theoretical exercise in managing.

(*v*) *Umbrella for inefficiency*

Budgetary control system may become an umbrella for hiding organizational inefficiency; as many people might act within budgets - though remaining highly inefficient otherwise.

2. ***Non-Budgetary control techniques :*** Some of the non-budgetary control techniques are described below:

(*a*) **Direct personal observation and supervision :** Direct personal observation and supervision by a manager is, perhaps, the oldest techniques of controlling. In this technique, control is exercised by a manager through a face-to-face contact with employees; by directly observing their performance e.g. by taking rounds in the plant where workers are performing or in any other manner.

This technique of controlling has the obvious advantage that corrective action by the manager could be taken on the spot. Moreover, this technique of direct observation has psychological impact on workers; as they are motivated to work as per standards of performance due to the fear of the manager.

However, direct personal observation and supervision technique of controlling has certain disadvantages, like the following:

(*i*) It is a time-consuming technique. The manager is left with little time for attending to his official duties.

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(ii) Direct personal supervision cannot be exercised all the time over all the employees.

(iii) Due to this technique of controlling; there may be interference in the smooth flow of work of employees.

(iv) This technique has a negative impact on self-motivated and enlightened workers; and they often resist to it.

(b) **Written Reports.** Under this technique of controlling, each manager prepares written reports on the performance of his subordinates; and submits these to higher authorities. Lower management submits reports to middle management to top management and the top management (i.e. Board of Directors) to the body of members.

The written report method of controlling has a psychological impact on workers. In fact, the fear of likely adverse remarks in the report makes workers discharge their duties efficiently.

However, this technique of controlling has certain limitations, as described below:

(a) This technique carries an element of subjectivity, in that a manager may deliberately favor or disfavor particular employees while drafting reports.

(b) It is an imperfect technique of controlling, as the manager may not include all aspects of workers' performance, in his reports.

(c) Drafting of written reports is a time-consuming process.

(d) Some managers may not to competent enough to draft reports.

(c) **Statistical Reports and Analysis.** Under this technique of controlling, a special staff of specialists prepares statistical reports and presents them in form of tables, ratios, percentages, correlation analysis, graphs, charts, etc. to higher management levels. Such reports are prepared in areas like production, sales, quality, inventory etc and these reports usually become the basis of managerial decision-making and action.

(d) **Break-even analysis.** Break-even analysis is a technique of marginal costing. It is based on a classification of costs into fixed and variable categories. The key-concept in break-even analysis is that of contribution, defined as:

Contribution = Selling price per unit – Variable cost per unit

With the help of this concept of contribution the management is first interested in a full recovery of fixed costs. After recovering the fixed costs fully; the business enterprise reaches a point of break-even *i.e.* a point at which there is neither a profit nor losses. Break-Even-Point (*i.e.* B.E.P.) is calculated as follows:

Suppose fixed costs	= Rs. 1, 00,000
Selling price per unit	= Rs. 20
Variable cost per unit	= Rs. 12
∴ Contribution per unit	= Rs. 8 (*i.e.* 20 - 12)

$$\text{B.E.P.} = \frac{\text{Fixed costs}}{\text{Contributed per unit}} = \frac{1,00,000}{8}$$

$$= 12,500 \text{ units}$$

A B.E.P. of 12,500 units indicates that if that business produces and sells 12,500 units; it will recover fixed costs fully; and will have neither profits nor losses.

After reaching B.E.P., business can earn a profit of Rs. 8 per unit (*i.e.* equal to contribution per unit); on selling each additional unit. (as fixed costs have already been recovered).

The technique of break-even analysis is helpful in profit planning and controlling - by predicting behavior of fixed and variable costs.

(e) **Ratio analysis.** Ratio-analysis is a tool of Financial Accounting and Management Accounting. Under this technique, the financial analyst analyses financial statements (i.e. the Income Statement and the Position Statement) by computing appropriate ratios.

In fact, figures do not speak. Ratios make them speak. The useful and meaningful accounting data give important clues to management for decision-making purposes - speaking through the media of accounting ratios.

Accounting ratios are usually divided into the following categories:

- Liquidity ratios
- Solvency ratios
- Activity or performance ratios
- Profitability ratios

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Modern Techniques of Controlling

Some popular modern techniques of controlling are described below:

(i) ***Management audit***

Management audit is a modern technique of controlling in which the aim is to examine the efficiency of the management's philosophies, policies, techniques etc. in successfully running an enterprise.

It may be defined as follows:

Management audit is an independent, overall and scientifically critical examination of the entire management process - with a view to discovering quality of management; and judging its success and failures in running and managing an enterprise.

• *Conducting Management Audit*

Management audit may be conducted either by an internal agency in the form of Management Audit Cell (MAC); or by an external agency such as management consultants. A growing tendency in the U.S.A. in regard to conducting management audit is to have certified management auditors for this purpose; so that a more objective view of management's efficiency could be presented.

• *Point of Comment*

The scope of management audit is very wide. Management audit may cover areas like the following:

- an appraisal of managers
- economic functioning of the enterprise
- fulfillment of major social responsibilities
- functioning of the Board of Director
- soundness of organizational structure
- intensity of sales promotion efforts
- emphasis on research and development etc.

• *Evaluation of Management Audit*

Management audit, by identifying, deficiencies in management's principles and practices helps in effecting structural improvements in the entire managerial system. Moreover, the fact of conducting management audit makes management more alert and progressive in its approach.

However, the scope of management audit is ill-defined. There is a lack of well-defined principles and procedures for conducting management audit.

(ii) ***Internal audit (or operational audit)***

An effective modern technique of controlling is the internal audit, now coming to be called operational audit.

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The scope of internal audit is wider that external audit. It not only concerns with ensuring a true and fair recording of the accounting information; but also offers comments on various operational aspects of enterprise-life. Hence this is called operational audit.

Internal audit (or operational audit) may be defined as follows:

Internal audit is vouching and verification of accounting information by a staff of internal auditors; and is also concerned with examining the overall operational efficiency of the enterprise.

- *Point of comment*

In a way, internal audit also encompasses elements of management audit.

- *Scope of internal audit*

Internal audit, besides, including financial audit as the core aspect of it; includes consideration of the following:

- appraisal of financial controls
- compliance with policies and procedures
- efficiency in utilizing resources
- appraising quality of management performance etc.

- *Evaluation of internal audit*

Internal audit recommends improvements in the operational life of the enterprise, and provides managerial with a perennial supply of control information. It keep a moral check on all the members of the organization.

However, installation and operation of internal audit system is much costly and time-consuming. Moreover, internal audit people have a lop-sided approach to their work; in that they have a tendency to look at every aspect of business operations form the accounting point of view.

(*iii*) ***Social audit***

Social audit may be defined as follows:

Social audit is concerned with the measurement of social performance of an organization in contrast to it economic performance.

The concept of social audit was first developed by Howard R. Bowen in the U.S.A. in the fifties. The application of the concept of social audit may be attributed to an increasing awareness of social responsibilities by business enterprises.

Some time back, the Tata Iron and Steel Company Limited conducted a social audit in its organization; though the audit report was not made available to the general public.

(*iv*) ***Responsibility accounting***

Responsibility accounting is a technique of controlling borrowed from Management accounting.

It is a system of controlling, whereby, the performance of managers is judged by assessing how far they have achieved the targets set for their departments or sections; for whose performance they are responsible.

Responsibility accounting may be defined as follows:

Responsibility accounting consists in dividing a business organization into responsibility centres, whereby, a distinct manager is assigned responsibility for achieving the predetermined target for his centre; and his success is judged by his ability in controlling the 'controllable costs' of his centre.

- *Points of comment*

(*i*) Under responsibility accounting system, costs are assigned to responsibility centres; rather than to products.

(*ii*) Costs incurred by a responsibility centre are divided into two categories - controllable and uncontrollable. The head of the centre is directly responsible for the control label costs of his centre.

(*v*) ***Human Resource Accounting (HRA)***

Rensis Likert and D.E. Bowers have undertaken experiments in human resource accounting.

HRA might be defined as follows:

HRA is accounting for people in an organization; which involves a measurement of costs incurred by an enterprise to recruit, select, hire and train human assets and a measurement of the economic value of people to the enterprise.

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- *Point of comment*

Other techniques of controlling emphasize on profits, costs, performance etc; but ignore the value of the human asset which makes for all the difference in organizational performance.

- *Approach to measuring the value of human assets*

There are two approaches to measuring the value of human assets:

- Original costs of human assets i.e. costs incurred in acquiring, compensating and training people.
- Replacement costs i.e. the costs required to replace a specific person.

An individual's value to an organization is the present worth of the set of future services that he/she is expected to provide during the period of his/her stay in the organization.

- *Evaluation of HRA*

HRA helps management by providing valuable information for effective planning and managing human resources. With the help of measurement of costs of human assets, management can select persons with highest expected realizable value.

However, the biggest limitation of HRA is the basic problem involved in measuring the value of human assets - whether it should be based on original costs or replacement costs.

Many organizations, particularly, in the U.S.A. are following HRA.

(*v*) ***Management Information System (MIS)***

Management Information system (also known as MIS) is an integrated technique for gathering relevant information from whatever source it originates and transferring it into unusable form for the decision-makers in management. It is a system of communication primarily designed to keep all levels of organizational personnel abreast of the developments in the enterprise that affect them. MIS provides working tools for all the management personnel in order to take the best possible action at the right time with respect to the operations and functions of the enterprise for which they are largely responsible. The emphasis of MIS is on information for decision-making. MIS facilitates control from several angles:

1. MIS performs a useful triple service function to management. Actually MIS itself is a three stage process - data generation, data processing and information transmission. MIS enhances the management's ability to plan, measure and control performance, and taking necessary and corrective action.
2. Facilitates total performance. MIS provides more specialized and technical kind of information for the concerned managers. MIS provides multiple types of information for all management levels on a baffling variety of organizational matters.

3. Takes into account several critical dimensions. MIS takes into account–the real time requirements, frequency of requirement, accuracy requirement, data reduction requirement, storage requirement etc. MIS objectively determines what information is needed by whom, and with what frequency.
4. MIS reduces overload of information. MIS stresses the information that is most useful to the decision-maker. Any firm, large or small, that uses a formalized approach or electronic data processing system for its daily business has foundation of MIS. But normally, the larger the organization the more likely that MIS can be used by top management in establishing company policies and plans, monitoring the company performance and adapting the company strategies in response to changing circumstances.

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(*vi*) ***Network analysis techniques-PERT/CPM***

(*a*) **Introduction**

PERT (Programme Evaluation and Review Technique) was developed by the special project office of the U.S. Navy in 1958. Almost at the same time, engineers at the Du Pont Company U.S.A. developed CPM (Critical Path Method). Though there are some differences between PERT and CPM; yet both these techniques utilize the same principles.

(*b*) **Application in PERT/CPM**

Some of special areas for the application of PERT/CPM are given below :

(*i*) Building/construction projects
(*ii*) Ship building
(*iii*) Airport facilities building
(*iv*) Installation of computer systems
(*v*) Publication of books

(*c*) **Steps in PERT/CPM**

The application of PERT/CPM involves the following steps :

(*i*) **Identification of components :** The first step towards the application of PERT/CPM is an identification of all key activities or events necessary for the completion of the project.

The term activity may be defined as *an operation or a job to be carried out; which consumes time and resources. It is denoted by an arrow, in the network diagram.*

The term event may be defined as the beginning or completion of an activity. It is denoted by a circle in the network diagram.

(*ii*) **Sequencing of activities and events :** A network diagram is prepared to show the sequence of activities and events. It has a beginning and a terminal point for the project. It also depicts a number of paths of activities from the beginning to the completion of the project. For sake of convenience, each event is given a serial number.

(*iii*) **Determination of estimated time :** For completion of the project during the contract period; it is essential to determine the expected time required to complete each activity.

Under PERT, three time estimates for the completion of each activity are made

- Optimistic or the shortest time
- Pessimistic or the longest time
- Normal or most likely time

(*iv*) **Determination of the critical path :** At this stage, it is required to identify the sequence of those activities whose completion is critical for the timely completion of the project. Once the critical path is known; the management will be in a position to deploy resources more fruitfully; to spot troubles early and apply controls where these are most essential.

- *Point of comment*

There must be no delay in the completion of activities which lie on the critical path; otherwise the entire project will be delayed.

(*v*) **Modification in the initial plan :** The initial plan may be modified by resequencing some activities that lie along the critical path. When this is possible, it will result in a shorter time for the completion of the project.

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(*d*) **Distinction between PERT and CPM**

Though basic principles involved in PERT and CPM are the same; yet some differences between the two may be expressed as follows:

(*i*) PERT is event oriented; whereas CPM is activity oriented.

(*ii*) In CPM it is assumed that the duration of every activity is constant; and hence only one time estimate is given for each set of activities. On the other hand, PERT allows for uncertainty in the duration of activities; and hence three time estimates optimistic (or the shortest time), pessimistic (or the longest time) and normal (or the most likely time) are given.

(*iii*) CPM requires some previous work experience for the completion of each activity; which is not necessary in PERT.

(*iv*) CPM is used where cost is the main consideration; while PERT is used where time is the main consideration.

(*e*) **Evaluation of PERT/CPM**

Merits

Following are the main advantages of PERT/CPM

(*i*) PERT/CPM provides an analytical approach to the achievement of project objectives which are defined clearly. It thus facilities better utilization of time, efforts and capital.

(*ii*) It identifies most critical elements and pays more attention on these. It, thus, facilitates 'control by exception' and increases effectiveness in handling projects.

(*iii*) PERT/CPM brings all the components of a project together in the flow chart and permits simultaneous performance of different parts of the project.

(*iv*) PERT/CPM forces managers to analyze all possibilities and uncertainties. It, thus, helps to minimize time and cost overruns.

(*v*) It provides a kind of feed forward control; because delay in one activity affects all succeeding activities. Management can take action in advance, by effecting modifications of future activities.

Limitations

Major limitations of PERT/CPM are as follows:

(*i*) *It is not possible to accurately estimate time and cost involved in various* activities of a project. Errors in estimation can make PERT/CPM erratic and unreliable.

(*ii*) PERT/CPM is time-consuming and expensive. As such, small firms cannot afford to take advantage of these techniques.

(*iii*) PERT/CPM cannot be applied with regard to assembly line operations, in *which scheduling of operations is more guided by the speed of machines.*

(iv) PERT/CPM lays stress on time and cost control; overlooking other aspects of the project like quality and design of the project.

(vii) *Self-control*

People often resist to externally imposed control. The best controlling system is *that in which people have opportunity for exercising self-control.*

Situation creating conditions for exercising self-control.

Some of the situations providing opportunities for self-control may be:

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1. **Management By Objectives (MBO) :** Under MBO, there is a great possibility that people will exercise self-control; *because they have their own hand* in setting objectives for themselves; and are more likely to be committed to those objectives.
2. **Delegation of Authority :** Successful delegation of authority requires attitudes of *mutual trust and confidence between the superior and the subordinates.* A superior may not like to impose controls on a responsible and competent subordinate; and may allow him to exercise self-control - as a measure to motivate him.
3. **Assignment of Challenging Work :** *When some challenging nature of work* is assigned to an individual; the job itself creates situations in which only self-control could be exercised by the individual on himself.
4. **Highly Dedicated Employees :** In case of highly dedicated employees, there is *not much need to impose controls over them; as they could be assumed* to be self-starters. They may be left to exercising self-control.

• *Points of comment*

1. Even in situations of externally imposed controls; there is provision for exercising self control. In fact, minute-to-minute *control by a manager over* subordinates' performance is never possible.
2. People must not be left entirely to exercising self-control. There must be an ideal mix of externally imposed controls and self-controlling philosophy.

2.6 INFORMATION TECHNOLOGY

The systems model of management shows that communication is needed for carrying out the managerial functions and for linking the organization with its external environment. The management information system (MIS) provides the communication link that makes managing possible.

The term *management information system* has been used differently by various authors. It is defined here as *a formal system of gathering, integrating, comparing, analyzing and dispersing information internal and external to the enterprise in a timely, effective, and efficient manner.*

The management information system has to be tailored to specific needs and may include routine information, such as monthly reports, information that points out exceptions, especially at critical points, and information necessary to predict the future. The guidelines for designing a management information system are similar to those for designing systems and procedures and other control systems. Since they have been discussed elsewhere, they need not be elaborated here.

Electronic equipment permits fast and economical processing of huge amounts of data. The computer, with proper programming, process data toward logical conclusions, *classify them, and make them readily available for a manager's use.* In fact, data do not become information until they are processed into a usable form that informs.

Expanding Basic Data

The focus of attention on management information, coupled with its improved processing, has led to the reduction of long-known limitations. Managers have recognized for years that traditional accounting information, aimed at the calculation of profits, has been of limited value for control. Yet in many companies this has been virtually the only regularly collected and analyzed type of data. Managers need all kinds of non accounting information about the external environment, such as social, economic, political and technical developments. In addition, managers need non accounting information on internal operations. The information should be qualitative as well as quantitative.

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While not nearly enough progress has been made in meeting these requirements, the computer, plus operations research, has led to an enormous expansion of available managerial information. One sees this especially in relation to data on marketing, competition, production and distribution, product cost, technological change and development, labor productivity, and goal accomplishment.

Information Indigestion

Managers who have experienced the impact of better and faster data processing are justly concerned with the danger of "information indigestion". With their appetite for figures, the data originators and processors are turning out material at an almost frightening rate. Managers are complaining that they are being buried under printouts, reports, projections and forecasts which they do not have time to read or cannot understand or which do not fill their particular needs.

Intelligence Services

An attempt at solving the information overload is the establishment of intelligence services and the development of a new profession of intelligence experts. The service would be provided by specialists who know (or find out) what information managers need and who know how to digest and interpret such information for managerial use. Some companies have established organizational units under such names as "administrative services" or "management analyses and services" for making information understandable and useful.

2.7 THE USE OF COMPUTERS IN HANDLING INFORMATION

The computer can store, retrieve and process information. Often a distinction is made between kinds of computers. The mainframe is a full-scale computer, often costing millions of dollars, that is capable of handling huge amounts of data. Some of these "supercomputers" are used for engineering, simulation, and the manipulation of large data bases. The minicomputer has less memory and is smaller than the mainframe. This kind of computer is often connected with peripheral equipment. The microcomputer is even smaller and may be a desk computer, home computer, personal computer, portable computer, or small computer for a business system. Increasingly, however, minicomputers are used by large organizations either as stand-alone computers or as parts of a network.

But the distinction between the various classes of computers is disappearing. With the introduction of the new microcomputers based on the 80386 microproessor. These computers have become very powerful. However, the full utilization of the hardware (the computers) depends on a considerable degree on the lagging development of the software programs.

Among the many business applications of the computer are material requirements planning, manufacturing resource planning, computer-aided control of manufacturing machinery, project costing, inventory control and purchasing. The computer also aids design and engineering, an application which made the U.S. space program possible. Then there are the many uses in processing financial information such as accounts receivable and accounts payable, payroll, capital budgeting and financial planning.

The Impact of Computers on Managers at Different Organizational Levels

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Information needs differ at various organizational levels. Therefore, the impact of computers will also be different.

At the supervisory level activities are usually highly programmable and repetitive. Consequently, the use of computers is widespread at this level. Scheduling, daily planning, and controlling of the operation are just a few examples.

Middle-level managers, such as department heads or plant managers, are usually responsible for *administration and coordination. But much of the information* important to them is now also available to top management if the company has a comprehensive information system. For this reason, some people think that the need for middle-level managers will be reduced by the computer. Others predict that their roles may be expanded and changed.

Top-level managers are responsible for the strategy and overall policy of the organization. In addition to determining the general direction of the company, they are *responsible for the appropriate interaction between the enterprise and its environment.* Clearly, the tasks of CEOs are not easily programmable. Yet top managers can use the computer to retrieve information from a data base that facilitates the application of decision models. This enables the company to make timely responses to changes in the external environment. Still, the use of the computer will probably affect the jobs of top managers less severely than it will affect the jobs of those at lower levels.

The Application and Impacts of Microcomputers

The personal computer (PC) is becoming increasingly appealing to managers because it is flexible and relatively inexpensive and can be used more quickly than the mainframe computer. Its applications include the following:

Persons at several workstations can communicate with each other as well as access other computers. Moreover, workstations can be connected to costly hardware that may be underutilized by a single user. For example, several users can share laser printers or *tape backup units that ensure saving of the data files. There are many other applications* of computer networks, such as electronic mail and the gathering and disseminating of industry data future trends. Although computer networking is still in its infancy, new technological developments are rapidly changing the system of information handling.

2.8 INTRODUCTORY OBSERVATIONS

From the viewpoint of approach to controlling; controlling techniques are of two broad types–direct control and preventive control. Direct control may again be partial or overall, as depicted below:

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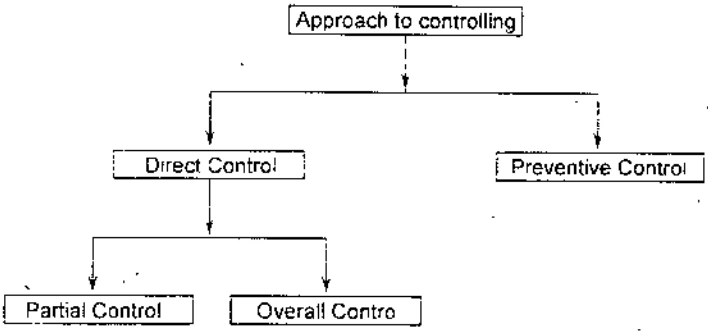

Direct controls are based on feedback, by measuring deviations from standards analyzing the causes of deviations and taking the necessary corrective steps to bring performance on the right track.

Direct controls may be partial in nature, designed for specific things like policies, wages/salaries, cash, cost, capital expenditure etc.

Overall controls are designed to measure the success of organization as a whole, against organizational objectives.

Preventive controls are based on the philosophy of preventing undesirable deviations from occurring, by developing and maintaining a highly qualified managerial staff.

2.9 AN OVERVIEW OF OVERALL DIRECT CONTROL TECHNIQUES

Some popular techniques of overall direct control are described below:

(*a*) **Budget Summaries and Reports**

A budget summary is a resume (short account) of all individual budgets and reflects company's plans in terms of sales volume, costs, profits, utilization of capital etc. It shows to the top management as to how well the company, as a whole, is successful in achieving its objectives.

Budget summaries provide an effective means for overall control, in situations of decentralized authority. Top management has a convenient means of finding out where the deviations are occurring and can take appropriate corrective action.

Budget summaries and reports are a useful means of overall control, subject to the following considerations:

(*i*) Total budgets must be an accurate and reasonably complete portrayal of the company's plans.

(*ii*) Managers must ensure that comparisons of budgeted performance and actual performance show the real nature of deviations. For example, an increase in some expenditure head above the budget figure, may be due to some external factor, beyond the control of the manager.

(*iii*) While comparing budgeted performance and actual performance, attention must be paid to important variations. Minor discrepancies should receive little attention.

(*iv*) Many-a-times, managers must forget the budget and take special action to meet unexpected events; because budgets are servants of managers and not their masters.

(*b*) **Profit and Loss Control**

Profit and Loss or the Income Statement for an enterprise as a whole serves important control purposes; because it is useful in determining revenues and related expired costs during a given period; which account for success or failure of a business.

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Many companies use profit and loss technique for division/departmental control. In fact, when the purpose of the entire business is to make a profit; each department must contribute to this purpose.

How is Profit and Loss Control Exercised?

In profit and loss control, each major department details, its revenues and expenses; including a proportionate share of the company overheads and calculates its profit/loss periodically.

However, profit and loss control is not practicable for small departments; as the paper-work involved in building up profit and loss statements for smaller departments tends to be too heavy. Further, profit and loss control is not applied to control staff and service departments.

Limitations of Profit and Loss Control

Some of the limitations of profit and loss control may be stated to be as following:

(*i*) **The is a lot of paper work involved** *for recording intra-company transfer* of costs and revenues. Whether intra-company transfers to be made at costs or at a figure above costs; require careful decision and appropriate and accurate recording.

(*ii*) **Profit and loss control is inadequate** for overall control purposes, till it is coupled with a good budgetary control system.

(*iii*) When profit and loss control is carried very far in the organization; departments may come to compete with each other; which phenomenon may be dangerous for enterprise co-ordination.

(*c*) **Return On Investment (ROI)**

ROI is one of the most successfully used overall control techniques; which measure the success of a company by the ratio of earnings to investment of capital. This approach has been an important part of the control system of the Du-Pont Company, USA, since 1919.

ROI is computed according to the following formula:

$$\text{ROI} = \frac{\text{Profits before interest, tax and dividends}}{\text{Capital employed}} \times 100$$

Where, capital employed refers to the total long-term investment in a company. (We may also take average capital employed *i.e*, capital employed in the beginning + capital employed at the end ÷ 2)

Capital employed is calculated as the summation of fixed assets + net working capital (*i.e.* current assets-current liabilities).

Point of Comment

With the help of ROI, a company can compare its present performance with its past performances; and can also compare itself with other companies having similar investment and being similarly situated.

Evaluation of ROI

Merits:

(*i*) **ROI gives an overall assessment of business functioning.** It guides management in increasing profits through a better utilization of capital invested. It, in fact, focuses managerial attention on the central objective of the business i.e. making best profits possible on capital available.

(*ii*) **ROI is effective; where authority is decentralized.** When departmental managers are furnished with a guide to efficiency that applies to the company as a whole; they develop a keener sense of responsibility for their departments and top management can easily hold subordinate managers responsible.

Limitations

Some limitations of ROI are as follows:

(*i*) **There is a problem of valuation of assets.** If assets are jointly used or costs are common, what method of allocation between departments should be used? Should a manager be charged with assets at their original costs or their replacement costs or their depreciated values? Setting up of a ROI system as control device is not an easy task.

(*ii*) **ROI preoccupies with financial factors;** and overlooks environmental factors such as social and technological. Qualitative factors which are scarce (like competent managers, good employee morale, good public relations) and equally significant or rather more significant than capital employed are totally neglected in ROI calculation.

(*iii*) **There is no standard ROI** available for inter-firm and intra-firm comparison purposes.

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2.10 ASSUMPTION UNDERLYING DIRECT CONTROL SYSTEM

Some of the assumptions of direct control system, which are often criticized, are described below:

(*i*) **Assumption that performance can be measured :** Once major assumption underlying direct control system is that performance can be measured. Factors like inputs, output, cost, price, time etc. can be measured. However, there are factors which vitally affect an organization's success but which are qualitative in nature and cannot be measured e.g. potential of managers to develop, effectiveness of research, creativity of manpower, soundness of managerial decisions etc. Hence, direct controls are lop sided in nature.

(*ii*) **Assumption that personal responsibility exists for deviations :** Sometimes this assumption is valid; sometimes it fails. For example, no manager is responsible for undesirable deviations caused by uncertainties of external environment e.g. increase in interest rates, scarcity of a particular fuel, obsolescence of existing technology etc.

(*iii*) **Assumption that cost of investigation in terms of time, efforts, money etc. is justified :** It takes time and efforts to undertake an analysis of deviations. In direct control system which is based on feedback analysis; recalling facts may be difficult as time has passed. In most of the cases, the cost of investigation into causes of deviations may exceed the benefit, likely to arise, from the controlling exercise.

(*iv*) **Assumption that mistakes can be discovered in time :** Discovery of deviations from plan may often come too late for effective corrective action. Much information for control purposes depends on historical data - which are available to managers quite late; and then managers take time to interpret the data. As such, true control can be applied only to future actions; not current actions.

(*v*) **Assumption that the person responsible will take corrective steps :** Fixing responsibility for deviations may not lead to corrective action; when the manager involved is one of hight-ups in the organization. Subordinate manager dare not ask their superiors to correct themselves; to whom they report for their own performance.

2.11 PRINCIPLE OF PREVENTIVE CONTROL SYSTEM

The basic philosophy of preventive control system is that best way to correct deviations is not to let these take place at all.

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The basic tool of preventive control system is to develop better managers; who will look at managing and managerial problems from a wider and intelligent perspective; so that undesirable deviations caused by poor management are eliminated. Highly qualified managers will make fewer mistakes; thus reducing (but certainly not eliminating) the need for direct controls.

The principle of preventive control, thus, is that the higher the quality and caliber of managers; the lesser will be the need for direct controls.

Point of Comment

Under preventive control system, the responsibility for negative deviations can be fixed, by applying fundamentals of management i.e. whether managers act in accordance with established principles, in carrying out their functions.

2.12 ASSUMPTIONS UNDERLYING PREVENTIVE CONTROL SYSTEM

Following one the basic assumptions underlying preventive control system:

(*i*) **Assumption that qualified managers makes a minimum of errors :** It appeals to logic that more qualified the managers are the lesser is the probability that they will make mistakes. In fact, qualified managers are likely to make a minimum of errors. However, while evaluating the quality of the decisions made by a manager; emphasis must be laid so much not on the quantity of errors, but on the quality of errors. A manager could be wrong in only 2% of the decisions made by him; but the quality of wrongness may be such as to seriously endanger the survival of the company.

(*ii*) **Assumption that management fundamentals can be used to measure performance :** Application of managerial concepts, principles, theory, techniques (i.e. *fundamentals of management*) is much dependent on the state of knowledge concerning managing, possessed by a manager. Fundamentals of management are useful and can be applied in measuring managerial performance i.e. while analyzing negative deviations, it could be discovered whether the manager applied the established principles, techniques, etc. of management in the right way and with the right perspective.

(*iii*) **Assumption that the application of management fundamentals can be evaluated :** This assumption is different from the preceding one in that here we are interested in the measurement of the skill with which managers apply management fundamentals to their five functions of planning, organizing, staffing, directing and controlling. For instance, in a scheme of MBO, the ability to set and achieve verifiable objectives reveals some measure of a manager's performance. Such performance (as revealed e.g. by MBO programmes) is a reflection on the knowledge and skill of a manager and his competence to occupy the particular managerial position.

2.13 ADVANTAGES OF PREVENTIVE CONTROL

A preventive approach to controlling, offers the following advantages to an organization.

(*i*) **A basis for managerial training/development :** An evaluation of manager, under the philosophy of preventive control is likely to uncover deficiencies in managers. On the basis of the results of managerial evaluation and appraisal, top management can design programmes of managerial training/development to overcome those deficiencies.

(*ii*) **Encouragement of Self-Control :** Preventive control system encourages what may be called 'control by self-control'. This is so because managers know that their mistakes will be uncovered in their evaluation process; and owning responsibility for mistakes in their hearts, will start making voluntary corrections. In fact, a feeling of self-control turns managers into more responsible personalities.

(*iii*) **Managerial Burden Lightened :** Preventive control lightens managerial burden caused due to efforts in correcting deviations, as a result of direct controls. Preventive control, as the name implies prevents deviations from occurring and much saves managerial time and efforts; which, otherwise, would have been wasted in correcting deviations had those occurred.

(*iv*) **Better Superior-Subordinate Relationships :** Under preventive control system, subordinate managers know what is expected of them, understand the nature of managing; and feel a close relationship between performance and measurement. Intelligent superior managers will reciprocate this feeling by recognizing what they are expected to evaluate in subordinates and develop techniques for doing so. Anyway, superior-subordinate relationships are likely to improve under the philosophy of preventive control.

2.14 DEVELOPING EXCELLENT MANAGERS–THE KEY TO PREVENTIVE CONTROL

The key to preventive control lies in developing excellent managers; whose behavior, actions and direction to subordinates will minimize the chances of the occurrence of deviations.

Discussion about developing excellent managers could be analyzed into two categories:

(*a*) Efforts required on the part of managers themselves; and

(*b*) Efforts required on the part of the organization.

Let us describe the major factor towards developing excellent managers comprised in both these categories.

(*a*) **Efforts required on the part of managers themselves :** Efforts required on the part of managers themselves towards developing excellent managers may be as follows:

(*i*) *Willingness to Learn*

Managers should not base too much of their/learning on experience; and they must be aware of the dangers of experience as events or programmes of the past may not work in future - entirely different from the past conditions. Mangers must be willing to learn new concepts, principles, theories and techniques of management to avoid what is called managerial obsolescence. In fact, there is no end to new learning in management discipline; which is growing at a very fast pace.

(*ii*) *Planning for Innovations and Inventions*

The idea here is two-fold-planning of innovations, and planning for inventions.

1. **Planning for innovation :** Managers are required to be innovative. New product ideas, new processes of production or new marketing ideas do not just occur, by chance or luck. Managers must constantly keep themselves involved in creative thinking; which will not only help them to comeout with innovations for the enterprise but also help themselves in turning into excellent management personalities.
2. **Planning for inventions :** Managers must try to develop more managerial inventions. Some historical managerial inventions have been :

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the Gantt chart, variable budgeting technique, PERT/CPM etc. Managers can give rise to inventions; if they take interest in management research and devote their time, efforts, creativity and skill towards planning for better and better managerial techniques.

(iii) *Tailoring Information*

Managers usually worry over the inadequacy of data on which they are forced to act. There is then a need for tailoring information i.e. obtaining the right information, in the right form and at the right time, for which managers must have their own designs. Information design must not be confused with the clerical work of information gathering and summarizing.

(*b*) **Efforts required on the part of the organization :** Efforts required on the part of the organization towards developing excellent managers may be:

(*i*) *Acceleration of Management Development Programmes*

To avoid managerial obsolescence, it is necessary that the organization must design and implement schemes of managerial development; so as to transmit new knowledge and tools in the field of management in a simple and useful way to practicing managers.

Sending managers to attend seminars and conferences may be a useful means of managerial development in this context. Making available latest books and articles on new management knowledge to managers and motivating them to digest the same, is, yet another way to bring manager up-to-date on specific areas of new knowledge and techniques of management.

(*ii*) *Measuring managerial performance and rewarding it*

As a measure to motivate managers to develop into excellent personalities; the organization must design schemes for measuring managerial performance and rewarding those managers who successfully accomplish their targets. Schemes of MBO, delegation of authority for challenging works etc. are some of the means, at the disposal of organization, in this context.

(*iii*) *Need for management research and development*

There is a great need to conduct more research into developing new tools and techniques of management. The level of research in the field of management is rather low; particularly because management research is complex and controlled laboratory experimentation is not possible. Further management research is expensive. However, organization must provide all facilities, funds and motivation to researchers. Perfection of analysis to include all kinds of variables in a research project must not be insisted on; as small contributions by researchers may provide building blocks for great researches, subsequently.

(*iv*) *Need for intellectual leadership*

There is a need not just for technically sound leadership; but intellectual leadership (based on imagination, foresight, human skills, conceptual skills etc.) to drive the vehicle of a productive organization towards its mission and goals. The enterprise top management must help create in environment in the enterprise which may be instrumental in developing intellectual leadership in managers. Intellectual leaders will help develop intellectual followers (i.e. subordinates); and a time may come when the entire organization will be full of intellectuals, in all walks of organizational life.

SUMMARY

- Controlling is the process to ensure that goals of the organization are being attained per its plans.' It tells managers about effectiveness of their planning, organizing and directing.

- Control methods can be grouped into four categories: pre-action controls, steering controls, Screening controls and post-action controls.
- Management audit is a modern technique of controlling in which the aim is to examine the efficiency of the management's philosophies, policies, techniques etc. in successfully running an enterprise.
- Management Information system (also known as MIS) is an integrated technique for gathering relevant information from whatever source it originates and transferring it into unusable form for the decision-makers in management.
- The computer can store, retrieve and process information. Often a distinction is made between kinds of computers. The mainframe is a full-scale computer, often costing millions of dollars, that is capable of handling huge amounts of data.
- Among the many business applications of the computer are material requirements planning, manufacturing resource planning, computer-aided control of manufacturing machinery, project costing, inventory control and purchasing.
- Persons at several workstations can communicate with each other as well as access other computers. Moreover, workstations can be connected to costly hardware that may be underutilized by a single user.
- A budget summary is a resume (short account) of all individual budgets and reflects company's plans in terms of–sales volume, costs, profits, utilization of capital etc.
- Profit and Loss or the Income Statement for an enterprise as a whole serves important control purposes; because it is useful in determining revenues and related expired costs during a given period; which account for success or failure of a business.

Review Questions

1. Define control. Explain the importance of control in a modern business enterprise.
2. What is meant by a control process? Discuss its basic elements.
3. *"Despite the emergence of many modern techniques of controlling, the budgetary control system maintains its unique place in the world of controlling."* In the light of this observation, give an overview of the process, merits and limitations of the budgetary control system.
4. Give an account of some popular non-budgetary control techniques, with special reference to break-even analysis and ratio analysis.
5. What is management audit? How is it conducted? How does it differ from interval audit?
6. What are the challenges created by I.T. in controlling ?
7. Explain the role of computers in handling the information.
8. What is the difference between direct control and preventive control? Which is better? Give an overview of popular overall direct control measures.
9. Compare the assumptions underlying direct control and preventive control systems.
10. What is the principle of preventive control? What are its advantages for the organization?
11. "The key to preventive control lies in developing excellent manager." In the light of this observation, suggest guidelines for developing excellent managers.
12. Write notes on:
    (*a*) ROI
    (*b*) Management Fundamentals
    (*c*) Self-control.