MANAGEMENT PRINCIPLES(MBA104)

Introduction **(Module-1)**

What is Management?

To put it in laymen terms, management is what managers do. One of the most significant human activities is managing resources- men, material, machines and money. Managing became an inevitable task, once people started working in groups. ***Organizations are needed by individuals, because they achieve things that people, as individuals cannot***. Also, they are a source of careers. Management is critical to the effective operation of any organization, as it ensures the coordination of individuals in groups. Managers are the people who make things happen in our society.Management is the art of getting things done through people. The task of managers has been rising in importance, with increasing global competition and changes in technology, international affairs, business practices, and social responsibility of organizations.

Some of the **definitions of Management** are as follows:

- "Management is coordinating work activities so that they are completed efficiently and effectively with and through other people."
- Management can be defined as a dynamic process that helps to get things done, through and with the efforts of people in an organisation. It is a creative endeavour

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There are two aspects to it: - **Efficiency & Effectiveness**

Efficiency – Doing things right

Efficiency – Doing the right things

For a practical example, consider the differences between activity effectiveness and activity efficiency among the sales representatives of a company. Every sales team has daily, weekly, monthly and quarterly goals that, when achieved, are representative of the effectiveness of their roles. If your reps are tasked with making 70 calls each day, and they easily hit their numbers, they are effective at their jobs. Some might even go above and beyond and make 80 or 90 calls each day. But whatif those dials are producing few connects and even fewer deals? That's where activity efficiency ratios come in. For a sales manager, having reports that track how many calls lead to connects, how many connects lead to demos and how many demos lead to deals can be an incredibly powerful indicator of which of your reps are not only effective at their jobs but efficient in performing them.

WHY DO WE STUDY MANAGEMENT?

Universality of Management:

The fact that management is needed in

- all types and sizes of organizations – small or large
- at all organizational levels – Bottom to top
- in all organizational areas — Manufacturing, HR, Accounting, Information Systems etc
- in organizations in all countries around the globe – profit or non-profit

Reality of Work: Once you graduate and start your career, you either manage or bemanaged.

Is Management Science or Art?

Management is an Art - To manage effectively, one must have not only the necessary abilities to lead but also a set of critical skills acquired through time, experience, and practice.The art of managing is a personal creative attribute of the manager, which is more often than not, enriched by education, training, experience.

The art of managing involves the conception of a vision of an orderly whole created from chaotic parts and the communication and achievement of this vision.Managing is the “art of arts” because it organizes and uses human talent.

Elements of art in management

- **Practical Knowledge -** Art requires practical knowledge, learning of theory is not sufficient. Art applies theory to the field. Art teaches the practical application of theoretical principles.For example-Learning how sing does not make you a musician; one must know all composition and be able to use them. Similarly, A person may have a degree that says he knows what a manager does but it doesn’t know how to apply management knowledge in real-life situations he will not be regarded as manager.

- **Personal Skill -** A manager will not depend on his theoretical knowledge or solution alone. he or she must have some qualities that make him or her unique.

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- **Creativity -** An Artist's work is not limited to his practical knowledge. He thinks outside the box and creates things extraordinary. Management is also creative like any other art. Management is all about finding a new way to be well different from others.

- **Perfection through practice -** Every artist becomes better through item and practice. they learn from their mistakes. Similarly, managers become more expert as he spends more time in management thought.

- **Goal-Oriented -** Art is result-oriented. Management works are also a goal or result-oriented. Management takes steps for the attainment of the goal.

Management is a Science - Science is obtaining information about a particular object by a systematic pattern of observation, study, practice, experiments, and investigation. The management process also follows the same pattern. Gathering data and facts, analyzing them and making a decision based on analysis, are the basic functions of the management. Management follows a systematic method to find a possible solution for a problem. The science underlying managing is indeed inexact or a soft science at best. It is not as "Science" as physical sciences such as chemistry or biology which deal with non-human entities.

The inclusion of the human element in managing makes this discipline not only complex but also debatable as pure science. Human behaviour is unpredictable; people think, act or react differently under identical circumstances. And so, management can never become as pure science. However, the study of the scientific foundations of management practice can improve one's management skills. Managers who attempt to manage without management science have to trust their intuition or luck at their peril rather than their expertise or skill. Thus, they have to turn for meaningful guidance to the accumulated knowledge of managing.

Elements of Science in Managing

The essence of science is the application of the scientific method to the developmentof knowledge that proceeds through the stages discussed below:

- **Concepts -** The scientific approach requires a clear "concepts" of mental images of anything formed by generalization from particulars. Managing has concepts to deal with situations.

- **Methods and principles -** "Scientific method" involves the determination of facts through observation. This leads to the development of "principles" which have value in predicting what will happen in similar circumstances. Similarly, management requires observation and sets standards or principles according to it.

- **Theories -** Any branch of science has theories. A 'theory" is a systematic grouping of interdependent concepts and principles that give a framework to, or ties together, a significant area of knowledge. Management studies over the years developed many proved theories for making management more realistic or scientific.

- **Organized knowledge -** Science is organized knowledge. If we compare,management at the present day is a distinct field of organized knowledge. Concepts, methods, principles, theories, etc. are now the core of management.

- **Practice -** The theories of managing are the results of practice, and the role of such theories is to provide a systematic grouping of interdependent concepts and principles that furnish a framework to, or ties together significant pertinent management knowledge.

Science teaches us to know while art teaches us to do. To be successful, managers have to know and do things effectively and efficiently. This requires a unique combination of both science and art of managing in them.

It may, however, be said that the art of managing begins where the science ofmanaging stops. Since the science of managing is imperfect, the manager must turn to the artistic managerial ability to perform a job satisfactorily. Thus, it may be said that managing in practice is an art but the body of knowledge, methods, principles, etc. underlying the practice is science. Even some people might have a different opinion regarding this matter. But as a matter of fact, the art and science of managing are not so much conflicting as complementary.

Characteristics of Management

1. **Management is an organized activities:** People work as a team to achieve the goal of the organisation with the support of management professionals
2. **Management is aligned with organizational objectives:** Organisational objectives which need to be achieved are the basic considerations forevery management practice
3. **Management optimizes constraining resources:** With the helpof management optimize the outcome with limited resources
4. **Management works with and through people:** Organisation usesknowledge and abilities of human force to manage its different affairs
5. **Management is a science as well as an art:** A systemized body of knowledge consisting principles and techniques along with scope wide application.
6. **Management is decision making:** Managers are mostly decision makers based on the data and analysis learnt from management
7. **Management is universal:** The principles and techniques of management is applicable to all areas for all organisations.
8. **Management is intangible:** It can not be seen but the presence can be felt everywhere in the form of result.
9. **Management is an interdisciplinary approach:** It embedded knowledgeand concepts from various discipline of social sciences, statistics, research and applied sciences.
10. **Management is a social process:** It has to manage, direct and regulate efforts of human resources to achieve desired results for the benefit of society.
11. **Management is dynamic:** Principle of management is flexible according to changing environment of the organisations.

12. **Management principles are relative and not absolute:** The principles of management applied are subject to relativity of the organisation'sbehaviour and goals tobe achieved.

13. **Management is a profession:** Managing things like men, materials, capital, machine, technology, market within existing theory and philosophy of management.

14. **Management is a strategic function:** Strategic functions based on effectiveness of planning and mobilisation of resources.

Nature of management

It is a set of activities directed at an organization's resources (human, financial, physical and organizational) with the aim to achieve organizational goals in an efficient and effective manner.It is a group activity with multidimensional approach, goal directed planning of action, dynamic and continuous process with appropriate operational strategies.

1. **Universal Process** - Wherever there is human activity, there is management. Without efficient management, the objectives of the company cannot be achieved.

2. **Factor of Production** - Qualified and efficient managers are essential to the utilization of labour and capital.

3. **Goal-Oriented** - The most important goal of all management activities is to accomplish the objectives of an enterprise. The goals should be realistic and attainable. The success of management is measured by the extent to which the established goals one achieved. Thus, management is purposeful.

4. **Supreme in Thought and Action** - Managers set realizable objectives and then mastermind action on all fronts to accomplish them. For this, they require full support form middle and lower levels of management.

5. **Group Activity** - All human and physical resources should be efficiently coordinated to attain maximum levels of combined productivity. Without coordination, no work would accomplish and there would be chaos and retention.

6. **Dynamic Function** - Management should be equipped to face the changes in the business environment brought about by economic, social, political, technological or human factors. They must be adequate training so that they can enable them to perform well even in critical situations.

7. **Social Science** - All individuals that a manager deals with, have different levels of sensitivity, understanding, and dynamism.

8. **Important Organ of Society** - Society influences managerial action and managerial actions influence society. Its manager's responsibility that they should also contribute towards the society by organizing charity functions, sports competitions, a donation to NGO's, etc.

9. **System of Authority** - Well-defined lines of command, the delegation of suitable authority and responsibility at all levels of decision making. This is necessary so that each individual should what is expected from him and to whom he needs to report.

10. **Profession** - Managers need to possess managerial knowledge and training and have to conform to a recognized code of conduct and remain conscious of their social and human obligations.

11. **Process** – The management process comprises a series of actions or operations conducted towards an end.

Scope of Management

It is very difficult to precisely state the scope of management. However, management includes the following aspects: -

Subject-matter of Management - Management is considered as a continuing activity made up of basic management functions like planning, organizing, staffing, directing and controlling. These components form the subject-matter of management.

Functional Areas of Management - Management covers the following functional areas: -

- ***Financial Management:*** Financial management includes forecasting, cost control, management accounting, budgetary control, statistical control, financial planning etc.
- ***Human Resource Management:*** Personnel / Human Resource Management covers the various aspects relating to the employees of the organisation such as recruitment, training, transfers, promotions, retirement, terminations, remuneration, labour welfare and social security, industrial relations etc.
- ***Marketing Management:*** Marketing management deals with marketing of goods, sales promotion, advertisement and publicity, channels of distribution, market research etc.
- ***Production Management:*** Production Management includes production planning, quality control and inspection, production techniques etc.
- ***Material Management:*** Material management includes purchase of materials, issue of materials, storage of materials, maintenance of records, materials controletc.
- ***Purchasing Management:*** Purchasing management includes inviting tenders for raw materials, placing orders, entering into contracts etc.
- ***Maintenance Management:*** Maintenance Management relates to the proper care and maintenance of the buildings, plant and machinery etc.
- ***Office Management:*** Office management is concerned with office layout, office staffing and equipment of the office.

Management is an Inter-Disciplinary Approach

Though management is regarded as a separate discipline, for the correct application of the management principles, study of commerce, economics, sociology, psychology, and mathematics is very essential. The science of management draws ideas and concepts from a number of disciplines making it a multi-disciplinary subject.

Principles of Management

The principles of management are of universal application. These principles are applicable to any group activity undertaken for the achievement of some common goals.

Management is an Agent of Change

The techniques of management can be improved by proper research and development.

The Essentials of Management

The essentials of management include scientific method, human relations and quantitative techniques.

Objectives of management:

Towards the Organization: Indicates the prime objective of management. Thevarious objectives of management towards the organization are as follows:

- generating sound profit to provide a fair return on capital invested in business
- Getting maximum output with minimum efforts and resources
- Combining various resources, such as capital, labor, and materials in the bestpossible way, so that various costs are reduced
- Utilizing the factors of production in such a manner that all the wastages and damages are reduced up to the minimal level
- Ensuring the survival and solvency of the organization
- Growing and expanding the organization
- Improving the goodwill of the organization

Towards the Workforce: Involves the objectives of management towards the individuals who work in the organization. Management ensures smooth and coordinated functioning of the organization through its workforce. In return the management provides benefits to the workforce in terms of good working condition, fair, and equitable wage system. The various objectives of management towards the workforce or employees are as follows:

- Providing fair remuneration in exchange of services rendered by employees

- Developing employees through continuous training and development programs
- Taking the participation of employees in the management and prosperity of the organization
- Developing a sense of job security in the mind of employees
- Coordinating and motivating employees to perform their level best
- Sustaining good working conditions

Towards the Society: Management of an organization is accountable not only toward the organization and its employees, but also toward the society and the people living in that society. Management, by generating employment opportunities, ensures better living standards for people in the society. Management makes and implements uniform policies of employment opportunities and wages to be given to people. In this way, management aims at improving the society and its people wherein it operates. The various objectives of management towards the society are as follows:

- Providing goods and services at reasonable prices
- Conserving environment and natural resources
- Dealing fairly with suppliers, dealers, and competitors
- Preserving ethical values of the society

Purpose/need of management

- **Achievement of Goals:** An organization can be successful if it is continuously striving to achieve its goals and objectives. This can be possible if the employees of an organization are motivated to work toward the accomplishment of organizational goals and objectives. Managers lead the employees in an inspiring way to work harder for the achievement of individual and organizational goals. They create the spirit of teamwork and coordination in the employees. They motivate individuals to contribute optimally towards the achievement of goals. Apart from this, managers draw out the hidden potential of human resource into constructive endeavor.

- **Optimum Utilization of Resources:** Helps an organization to make the best possible use of limited and scarce resources. Management makes use of expert guidance, skills, and knowledge for minimizing any wastage. Management ensures that employees know their jobs well and apply most efficient methods of working. Management even seeks to provide training and instructions to employees, so that they can make the best utilization of available resources.

- **Cost Minimization:** Results from cost saving and profit maximization techniques applied by the management. Managers attempt to reduce the cost by taking measures of waste minimization and output maximization. Management ensures that day-to-day operations in the organization take place in such a manner that all wastage and extravagance are avoided. In this way, management enables the organization to produce goods and services at the lowest possible cost per unit.

- **Survival and Growth:** Implies that an organization needs effective management to cope with dynamic business environment and adapt changes in the market. The management assesses the existing business environment and forecasts risks and opportunities in future. This prepares the organization to minimize the risks and maximize the chances of exploiting opportunities.

- **Employment Generation:** Results from the expansion of business, which is decided and implemented by the top management of an organization. When an organization expands its size or operation, it creates innumerous job opportunities for people. This helps people to earn their livelihood by working in the organization. Management attempts to create an environment that the working employees drive maximum job satisfaction. In this way, management generates employment andsatisfies the economic and social needs of employees.

- **Development of the Nation:** Implies that management of any organisation aims at making an efficient use of its resources, such as labor, capital, and land to generate profit. In this way, management by producing wealth increases the national income of the country. Moreover, the management helps to improve the living standards of people by proving them jobs,

Management Process/ Managerial Functions

The management process involves setting the goals and objectives of an organization and taking steps to accomplish those goals and objectives. In other words, the management process is concerned with the desired results by coordinating and making the optimum utilization of resources. The process of management refers to the way in which management functions are carried out or executed. The process is a systematic and sequential way of performing different activities and functions. Management process is a set of interrelated activities that are carried out together in a particular order for the purpose of attaining predefined organizational goals and objectives. The management process involves five basic steps.

Planning: Refers to the first and foremast step of the management process. It involves determining the goals and objectives that an organization aspires to achieve within a given time period, developing alternatives, and selecting the best course of action among the available alternatives to accomplish the set objectives. Thus, planning is a forward looking function.

By anticipating the future destination of an organization, planning provides direction and guidelines to managers to perform different organizational activities. In the planning phase managers determine in advance where to go, how to go, what to be done and by whom to be done. In addition, they attempt to forecast the problems that may arise in the future and the ways to deal with them. The planning function involves the following activities:

- Visualizing the future position of the organization
- Determining objectives
- Selecting the best future course of action

- Formulating policies, programs, budgets, and schedules "
- Establishing procedures and standards of performance
- Forecasting the future problems and developing means to cope with them
- Comparing the past activities of an organization with present activities

An efficient planning function helps an organization to achieve its organizational objectives effectively. Being a managerial function, planning should intend to create maximum utility out of minimum possible resources.

Organising: It can be defined as arranging the work processes, authority, and resources and employees in the right order, so that all organizational activities can take place in a defined and orderly manner. Proper arrangement ensures timely attainment of objectives and minimization of work chaos or miscommunication. Organizing defines various relationships in an organization, such as authority- responsibility and inter-departmental relationships. It Is because of these structural arrangements and relationships, the future plans of an organization are developed and carried out. Similar to planning organizing is also an ongoing activity that changes with any change brought about in any function an organization.

Organizing function may also be defined as a process of Integrating, balancing, unifying, and coordinating activities of employees and different organizational departments for accomplishing predetermined objectives. The organizing function involves the following activities:

- Determining and explaining the activities required to achieve plannedobjectives
- Grouping the activities among different departments
- Assigning activities to individuals at specific positions
- Delegating the authority to individuals for carrying out activities
- Explaining the roles and responsibilities to individuals
- laying down horizontal and vertical authority relationships throughout the organization

Staffing: It involves employing the right number of people at the right place with rightskills and abilities. It also involves the training and development of the people, so that organizational goals and objectives can be achieved successfully. According to Harold Koontz and Cyril O'Donnell, "The managerial function of staffing involves manning the organizational structure through proper and effective selection,appraisal, and development of personnel to fill the roles deigned in the structure." Thus, the staffing function includes the following:

- Determining human resource requirements of the organization
- Recruiting individuals with required skills and competencies
- Providing placement and orientation to individuals
- Providing training and development programs to individuals
- Evaluating the performance of individuals
- Transferring, promoting, terminating, and laying off individuals

Directing: Constitutes one of the important steps of the management process. It involves **leading, motivating, communicating** and guiding the employees to work toward the accomplishment of organizational goals and objectives. In other words, directing refers to a process in which the managers instruct, guide, and supervise the performance of employees to achieve predetermined goals. Communication and coordination are two important elements of the directing function, Communication refers to verbal or non-Verbal interaction between the managers and subordinates. On the other hand, coordination is defined as an act of enabling different individualsto work together for a common goal.

The directing function involves the following activities:

- Helping and guiding(leading) subordinates to achieve organizational objectives
- Ordering and instructing(communicating) subordinates regarding the workassigned to them
- Educating subordinates regarding the methods of performing work efficiently
- Supervising the work being performed by subordinates
- Motivating subordinates to give their best

Controlling: It plays a crucial role without which the whole management process is incomplete. It can be defined as a function through which the actual and desired output is measured. If the actual output differs from the desired output, the deviations are minimized or altogether removed. There are basically two types of control mechanisms, namely, proactive and reactive or preventive and curative. The former type of mechanism tries to predict future hurdles and solve them there and then; whereas the later tries to rectify the damage done to prevent any similar loss In the future.

An Integral activity in the controlling function is feedback. Without appropriate and valid feedback, no control measures can be successfully implemented. Feedback about a particular plan can help in identifying areas of improvement.

The controlling function involves the following activities:

- Bringing actual results nearer to the desired results
- Improving the performance level of all activities being performed
- Regulating the use of all the resources for achieving planned goals
- Regulating working behavior of employees for maintaining orders anddiscipline
- Checking distortions and deviations taking place in the system to make it morecost effective

If in the controlling step, there is a huge gap in the actual and desired performance, the whole management process is revised.

The management of an organization involves ***planning, organizing, staffing, directing and controlling*** the work of organization members to achieve pre-set tasks. These functions are effective tools in the hands of managers to achieve the organization's planned objectives. While these functions form the basis of the managerial process, several other elements such as environment- economic, technological, social, political and ethical factors contribute to an understanding of how managers actually operate. For Eg. Managerial roles and management skills are important factors in determining organizational performance.

Levels of Management

Managing is an essential activity at all organizational levels. There are three basic ***levels: (1) top management, (2) Middle management, (3) supervisory management***. Depending on the level, there is a variation in the emphasis that is placed on planning, organizing, leading and controlling. The top-level managers spend more time on planning and organizing than do lower level managers. In contrast, leading is substantially more important for first-line supervisors than for managers at top levels.

Levels and types of managers

The various types of managers on the basis of organizational levels are explained as follows:

- **Top Managers:** Refer to managers who are placed at the top positions in the organizational hierarchy. Top managers refer to a group of individuals who are responsible for the whole management process of an organization. They hold ultimate power and authority for taking any decisions in the interest of the organization. The top managers of an organization are also responsible for setting organizational goals and objectives and scanning internal and external businessenvironment.

- **Middle Managers:** Refer to managers working between top and bottom level in an organization. These managers directly report to the top management. These managers are responsible for monitoring the performance of first line managers, also called supervisors. The middle managers, also develop and implement activities as well as allocate resources for the successful; accomplishment of organizational goals and activities.

- **Lower Managers/ supervisors:** Refer to the managers who are placed at the lowest level in the organizational; hierarchy. They are also known as first-line managers or simply line-managers. These managers j are involved in the day-to-day activities of an organization and directly report to middle level; managers. These managers are also responsible for coordinating activities, guiding employees and overseeing their performance.

Another classification of managers is based on the scope of activities performed by them. These two categories of managers are explained as follows:

- **Functional Manager:** Refers to a manager, who is responsible for a particular function of the organization. For example, marketing manager is responsible for all activities carried out in the marketing department. Functional managers are considered to be middle level managers because they have to manage the entire gamut of activities taking place under one organizational function.

- **General Manager:** Refers to managers, who are responsible for all the activities being carried out in all organizational functions. A general manager supervises the complete organization, a subsidiary, branch, or specific business unit. A general manager is also known as a divisional manager.

Developing Managerial Skills

The roles and responsibilities of a manager require certain skill sets to perform in an efficient manner. According to a research carried out by Robert L. Kats, there are three main types of skills that ever manager must either possess or develop to carry out the management function.

The ***managerial skills*** that are required also vary with organizational levels. Amanager's job is varied and critical and hence requires certain skills such as –

i. ***Technical***- Knowledge of and proficiency in activities involving method,processes, and procedures
ii. ***Human***- Ability to work well with other people both individually and in group
iii. ***Conceptual***- Ability to think and conceptualize abstract situations
iv. ***Design***- Ability to solve problems in ways that will benefit the enterprise

Each of the three main skills, namely technical, conceptual, and human, is required atall the three levels management (top, middle, and bottom). However technical skills are most required at lower level of manager where the know-how possessed by the manager can be used by him/her to guide his team or staff, the other hand, conceptual skills are most required at the top managerial level as the managers at the top level are responsible for handling a complex business environment, which canbe difficult to manage without abstract reasoning and logic.

Let us study some of these skills in more detail:

i) **Technical Skills of Management -** Technical skills are related to knowledge and capabilities to perform field specific specialized tasks in order to coordinate work, resolve problems, communicate effectively and to understand the big picture in view of the front-line work that are performed.In brief it includes-

- Communication skill: Both verbal and non verbalcommunication
- Coordination skill: Both intra and inter organisationalcoordination
- Problem solving skill: Skill to address the conflicts/disputes inorganisation
- Front-line work understanding skill: Skill s about matters relating tofront line workof theorganisation
- Specialised task performing skill: Area specific and subject specificskill

ii) **Interpersonal Skills -** Interpersonal skills are the behaviours and tactics a manager uses to interact with others effectively. In the organisational settings interpersonal skills refer to a manager's ability to work well with other employees and employer which ranges from communication and listening to attitude and development.Interpersonal skills of manager are

- Skill of managingrelationship
- Listening skills: Listening to employees andemployer
- Communication skills: Both verbal and non verbalskills
- Decision making skills: Deciding on the best suitable alternativeissues
- Learning skill: Skills to learn from best practices by employees andothers

iii) **General Business Skills -** General business skills are relatedtothe skills ofbusinessmanagersin determining success by its bottomlines.General business skillsof manager are:

- Business development skill: Skills to run, manage and control businessunits
- Motivation skill: Skill to motivate people in and around businessunits
- Communication skills: Both verbal and non verbalskills
- Decision making skills: Deciding on the best alternativewayout
- Negotiation skills: Negotiating with both backward and forward linkedhuman
- Problem solving skill: Skills to address the problems or challenges ofbusiness
- Marketing skill: Skills for both promotional and result orientedinitiatives
- Delegationandtimemanagementskills:Skilltoprocureandsupply products/servicesas per need anddemand
- Leadership skill: Skill to lead the business units at its desiredgoal

Managerial Roles

A manager has to simultaneously carry out different activities under different situations and hence has to play several roles for the organization. Henry Mintzberg divided ***managerial roles*** into,

1. **Interpersonal roles:** Three interpersonal roles help the manager keep theorganisation running smoothly.
   - Figurehead: Representing the organization in formal matters, serving as asymbol of the organization.
   - Liaison: Interacting with peers and people outside the organization; developing external links.
   - Leader: Activities concerned with subordinates; motivating, staffing, communicating and directing.
2. **Informational roles:** Mintzberg mentioned that receiving and communicating information are perhaps the most important aspects of a manager's job. In orderto make the right decisions, managers need information from various sources.
   - Monitor: Receiving and collecting information; utilizing the channels through which information comes;

- Disseminator: Transmitting information within the organization.

3. **Decisional roles:** There are four decision roles that the manager adopts.
    - Entrepreneur: Introducing change; initiating projects to improve the organization.
    - Disturbance Handler: Taking charge when the organization is threatened.
    - Resource Allocator: Deciding where the organization will spend its efforts andwhat resources will be expended.
    - Negotiator: Involving the organization with other organizations.

Qualities of a Good Manager

A debated issue is whether managers are born or made? The answer lies in the fact that some people are by birth gifted with the managerial skills, but some develop these skills overtime and prove to be successful managers. It is not necessary that everyone who has developed managerial skills, practices them well. Managers have to continually update and sharpen their skills as per the need of the organizational environment. Good managers need to understand their employees, organizational culture, and business environment. Along with the required intelligence quotient, they must have the optimum relationship quotient and emotional quotient. Even though managerial skill set is not exhaustive, certain skills are required by any manager i.e. Managerial Skills, Communication skills, Time management skills, Decision-making skills, Problem-solving skills, motivational skills, Delegation skills, Visionary skills, Self-awareness etc.

The qualities of a good manager are discussed as follows:

- **Qualification**: Refers to the fact that a manager must have both general education and specific education in business administration. A sound education helps managers in formulating policies, making decisions, communicating, andunderstanding different business matters effectively, v i: is clear that a manager should be well educated and have practical knowledge of various aspects of business.

- **Leadership**: Refer to an ability of a manger to influence employees to work in the desired manner. A manager should lead employees in such a manner, so that their maximum potential should be brought about. The success of the management process depends on the team spirit. The contribution of every individual of an organization is important to achieve the set goals. Thus, the quality of leadership enables managers to work in cooperation with other team members.

- **Personality**: Involves sound health, attitude, and behavior of a manager. Managers should be pleasing personality, so that employees are encouraged to perform efficiently and obey the orders issued by their managers.

- **Scientific Approach**: Helps managers in making fair and unbiased decisions. Managers take decisions regarding planning, organizing, and selecting employees. All these decisions require logical considerations instead of emotions. Moreover, the decisions regarding methods technique of production should be most appropriate keeping in consideration real situations; the available resources of the business. Thus, the scientific approach of the managers enables them to take most suitable decisions.

- **Self-confidence**: Refers to the quality of managers that enable them to be confident about decisions. A manager should take any decision after a careful study and scientific analysis of the situation. The scientific approach of decision-making makes mangers confident to stick to their decisions and do not alter their decisions frequently.

- **Honesty:** Implies that a manager must be honest and possess good moral character, so he/she can positively influence the subordinates to follow the same traits.

- **Technical Proficiency**: Involves the technical knowledge of managers to understand the systems, procedures, and the methodology used in the organization for the production process. Additionally, they require technical skills to understand, communicate, and lead the technical staff of their organizations. However, managers need not to have deep technical knowledge, but a working knowledge is required to coordinate, monitor, and manage the technical aspects of business.

- **Humanitarian Approach**: Enables managers to treat their subordinates on the humanitarian ground, rather than treating them on utilitarian ground. A manager must respect the emotional and psychological needs of employees. Humanitarian approach makes a manager not to be unkind while dealing with employees. The quality of human touch brings the manager nearer to employees, which, in turn, helps in bringing about the maximum potential of employees.

The ***goal of all managers is to create a surplus and increase productivity***. The productivity of an organization is measured in terms of ***effectiveness*** (achieving objectives) and ***efficiency*** (using the least amount of resources). As Peter Drucker puts it, efficiency means "doing things right", effectiveness means, "doing the right things". Although efficiency is important, effectiveness is critical. Effectiveness is the key to the success of an organization.

Organizations have profound effects on our lives, our standard of living, and our future. Because organizations, endure in time, they help us connect our pasts, present and futures. How well organization's achieve their goals depends on managerial performance- the manager's effectiveness and efficiency.

Evolution of Management Science:

One of the best ways to learn is to study the past. Most managers today accept the importance of history and theory. A thorough knowledge of the kinds of practices that led to success or failure can be an effective tool in managing today's increasingly complex organizations. Today's manager benefits from the time-honored practice of combining management experience and management theory into a body of successful management practice.

Like most modern disciplines, the contemporary management thought rests on history of management, which is enriched by many significant contributions from earlier theorists and practitioners. A theory is simply a conceptual framework for organizing knowledge and providing a blueprint for various courses of action. Hence, an awareness and understanding of important historical developments are important to contemporary managers.

Preclassical contributors and their pioneering Ideas:

The Industrial Revolution provided an impetus for developing various management theories and principles. ***Pre classical theorists*** like Robert Owen, Charles Babbage, Andrew Ore and Charles Dupin, and Henry R. Towne made some initial contributions that eventually led to the identification of management as an important field of enquiry. This led to the emergence of three major viewpoints: classical, neo-classical and modern.

Pre-Classical thinkers :

Contributors	**Ideas**
Robert Owen	Advocated concern for welfare of workers
Charles Babbage	Built the first practical mechanical calculator, predicted the specialization of mental work, suggested profit sharing
Andrew Ore and Charles Dupin	Advocated significance of management education
Henry R. Towne	Emphasized the significance of business skills in running a business

Classical Approach to Management

The classical management viewpoint had two major branches:

i) ***Scientific management*** emphasized the scientific study of work methodsin order to improve worker efficiency.

ii) ***Administrative theory*** explored principles that could be used by managers to coordinate the internal activities of organizations.

Scientific Management:

The historical development of scientific management began with the brainwork of Frederick W. Taylor during 1880s and 1890s from the doorstep of manufacturing industries.Frederick Taylor is often called the "father of scientific management." Taylor believed that organizations should study tasks and develop precise procedure.Scientific management is a classical approach that emphasizes the scientific study of work methods to improve efficiency of workers. Among all the contributors to this school of thought, the contribution of Taylor is thought to be the most important.Scientific management focused on the productivity of individuals, the classical administrative approach concentrates on the total organization. The emphasis is on the development of managerial principles rather than work methods.

Scientific management was established as a theory of management which analyzed and synthesized workflows in organizations/industries.Main objective of the management is improving economic efficiency, especially labour productivity by analysing workflow process.

The themes of scientific management include, analysis, synthesis, logical explanation, rationality, work ethics, efficiency and elimination of waste, standardisation of best practices.The classical scientific school owes its roots to several major contributors, including Frederick Taylor, Henry Gantt, and Frank and Lillian Gilbreth.

The general components of scientific management are as follows:

i) Determining the best way to do each job: Manager sets the best way out and encourages employee's determination to dothat.

ii) Selecting the 'first class men' to do each job: Efficiency of theemployee Is the ultimate target for maintaining workflow.

iii) Paying per piece: Analysing workflow and paying for the bestpractices.

iv) Duties of management: Managers need to be ensured his/herduties

There are three main areas of scientific management practice which include-

- **Task Performance :** Related to hiring right workers for each job, train them to maintain efficiency and monitoring their performance by themanagement
- **Supervision:** Related to use of scientific method to study work and determine the most efficient way to perform specific tasks, monitor and provide instructions.
- **Motivation:** Taylor gave thrust on finding the most efficient way of performing any job, workers were motivated only by money. That is the reason of his theory is referred to as the money as a motivatortheory

A) Contributions of Frederick W. Taylor

- He is known as the "Father of Scientific Management.
- His book "Principles of Scientific Management" was published in 1911 and is widely followed by managers.
- He advocated the use of a scientific method to determine the "one best way" for a job to be done.
- While working at Midvale and later at Bethlehem Steel Corporation, Taylor observed that there was no cooperation between management and the workers. Workers were ill-equipped and inadequately trained which led to inefficiency and wastage. Taylor, through observations and experiments aimed to find a better way and hence proposed the "Principles of Scientific Management". This has four principles which are as follows:

1) Develop a scientific method for each element of a person's work by breaking down the elements of each job by fixing a standard.

2) Scientifically select and then train, teach and develop the worker.
3) Total cooperation of management with the workers to ensure that all work is done in accordance with the principles of the scientific management that has been developed.
4) Division of work almost equally among the management and the workers. The management should take over all work for which it is better fitted than the workers.

B) Contributions of Frank & Lillian Gilbreth

- Prominent followers of Taylor, Frank Gilbreth (a construction contractor) and & Lillian Gilbreth (a psychologist) gave up their careers to study scientific management.
- They conducted a study to eliminate wasteful hand and body motions.
- They are famous for their experiments in bricklaying. By carefully analyzing a bricklayer's job, he reduced the no. of motions in laying bricks from 18 to 5. Using this technique, a bricklayer could be more productive and less fatigued at the end of the day.
- They used motion pictures for studying he hand and body motions. This helped to identify wasted motions and eliminate them.
- He identified 17 basic hand movements which they called "**The Therbligs**".

Advantages of Scientific Theory of Management

- There is a harmonic relationship between owners and workers in the organization /industries which lead increasingefficiency.
- Selection of employees in a scientific way and training them help to promote better workforce with betterefficiency.
- There isanopportunitiesofscientifictrainingandorientation for employees which help to enhance knowledge, skills andcompetency.
- Higher wages paid to those having higherproductivities.

- Scientific methods and techniques in better working condition helps to eliminate waste/fatigue.

Criticism of Scientific Management Approach:

- Here only their basic need of earning money is taken into consideration not theirhigher needs.
- Concentrates too much power in the hands of the managers.
- It has made division of employees as efficient and non-efficientcategories. Toorigid and does not take into consideration the Social context of work.
- It gives thrust on specialization and repetition of work to increase productivitieswhich create monotony and restrictinnovation.
- It neglects human factor as it encourages work for money than work as human resources.
- There is limited chance to creativity among employees as they are guided by managers and resulting to frustrations.

Administrative Theory:

A) Contributions of Henry Fayol

- One of the pioneering thinkers of general management, Fayol concentrated more on the activities of all managers.
- He was the managing director of a large French coal mining firm. He described the practice of management as something distinct from accounting, finance, production, distribution and other typical business functions.
- He believed management to be fundamental to all organizations and listed out 14 Principles of Management which are important for the effective management of the organization.
- These are as follows :
    1. **Division of work** — There should be specialization allowing the individual to gain expertise. This will lead to gain in productivity and efficiency.

2. **Authority**–Managers must be able to issue orders which gives them authority.
3. **Discipline** — Employees need to obey and follow the rules and regulations of the organization.
4. **Unity of Command** – Every employee should receive orders from one superior.
5. **Unity of Direction** — The organization should have a single plan of action to guide managers and workers.
6. **Subordination of individual interests to the general interest** – The goals of the organization should take precedence over an individual employee or a group of employees' aims and objectives.
7. **Remuneration**–Employees must be paid a fair wage for their services.
8. **Centralization** — The degree to which power and authority is concentrated at the upper level and how much subordinates are involved in decision making.
9. **Scalar Chain** — The line of authority extending from the top management to the lowest ranks is the scalar chain.
10. **Order**–People and materials should be at the right place at the right time.
11. **Equity**–Mangers should be kind and fair to their subordinates.
12. **Stability of tenure** – There is a need for employees to be in their jobsfor a sufficient time as they need to know their jobs and do them well.
13. **Initiative**–Employees should have the freedom to propose and executetheir own ideas, thereby strengthening the organization.
14. **Esprit de Corps** — Team spirit should be promoted which will lead to harmony and unity.

- Fayol divided the industrial activities into 6 categories which are as follows :
    1. Technical (Production)
    2. Commercial (Buying & Selling)
    3. Financial (Optimum Use of Resources)
    4. Accounting (Including Statistics)
    5. Security (Protection of person & property)

6. Managerial (Planning, Organizing, Staffing, Directing &Controlling)

B) Contributions of Max Weber

- Max Weber, a German social historian advocated the principles of **“Bureaucratic Management”**.
- His study tries to give an insight on how an organization should operate.
- **Bureaucracy** - A form of organization characterized by division of labour, a clearly defined hierarchy, detailed rules & regulations, and interpersonal relationships.
- This has the following characteristics -
  1. **Formal Selection** — People are selected for the jobs based on technical qualifications.
  2. **Division of Labour** — Jobs to be broken down into simple, routine andwell-defined tasks.
  3. **Formal Rules & Regulations** – There should be a system of written rulesand standard operating procedures.
  4. **Impersonality** – Uniform applications of rules and controls, not according topersonalities
  5. **Hierarchical structure**–Positions organized in a hierarchy with a clearchain of command. There are 3 types of authority —
     a) Traditional authority based on ancestry, gender, birth, order etc
     b) Charismatic authority based on charismatic leadership
     c) Rational Legal authority based on established laws and rules
  6. **Career Orientation** — Managers are career professionals, not owners ofunits they manage

Neo - classical Approach to Management

The ***Neo-Classical or behavioral viewpoint*** emerged, primarily as a result of theHawthorne studies. Mary Parker Follet, Douglas McGregor and Chris Argyris were the major contributors to this school. They emphasized the human element, which was ignored by classical theorists. They formulated theories of behavior in organizations that could be used to provide practical guidelines for managers.

A) Contributions of Mary F. Follet

- Organizations could be viewed from perspective of individual and groupbehaviour
- More people-centric approach towards management
- Proposed that organizations should be based on group ethics

B) Contributions of Douglas McGregor

- He was a social scientist and a professor in management in MIT.
- In his boo "Human Side of Enterprise" he described 2 theories namely - **Theory X and Theory Y.**
- Theory X was based on traditional assumptions and Theory Y wasbased on realistic assumptions of human behavior.

Theory X	Theory Y
➢ Most ppl dislike work & try to avoid it if possible. ➢ Most ppl is not ambitious, they avoid responsibility and prefer to be directed. ➢ Most ppl must be coerced and threatened with punishment before they work. ➢ They are selfish and have no concern for organizational objectives.	➢ Ppl work as naturally as they play or rest. ➢ Ppl are self — directed and self-controlled. ➢ Ppl are committed to organization's objectives when they are rewarded. ➢ Average person can learn to seek responsibility. ➢ Ppl are being capable of being innovative in solving organizational problems. ➢ Ppl are wise, but their potentials are often under-utilised.

C) Contributions of Rensis Likert

- He was a social psychologist who compared the management styles of high- producing managers and low-producing managers.
- The low-producing managers exercised control through authority. The jobs under their control, were therefore, highly organized and the standards, performance goals and targets were clearly set out.
- The high-producing managers were employee centered. Their main attention was on building effective work group with high performance goals. They found that better results could be achieved by using different motivational techniques.
- 4 systems of leadership styles –
    1. System 1 – **Exploitative Autocrat** (No confidence on subordinate)
    2. System 2 – **Benevolent Autocrat** (Some confidence on subordinate)
    3. System 3 – **Participative** (Substantial confidence on subordinate)
    4. System 4 – **Democratic** (Full confidence on subordinate)

Modern Approach to Management

This includes the quantitative school, the systems approach, and contingency viewpoint.

A. Quantitative approach to management: Refers to an approach based on scientific management which is also known as management science approach. Quantitative approach was developed during 1950s. The approach provides systematic and scientific analysis and solutions to the problems faced by management. Quantitative approach to management stresses on using mathematical and statistical tools, such as linear programming, simulation, probability, queuing theory, and game theory for solving complex managerial problems. These quantitative tools help modern managers to take accurate decisions. These quantitative tools of decision making are called operations research tools. Quantitative approach also involves using Computer Aided Technology (CAD) in various functional areas, such as production, finance, costing, transportation and storage.The ***quantitative viewpoint*** focuses on the use of mathematical tools to support managerial decision-making.

In today's world the quantitative approach contributes directly to management decision making in the areas of planning and control. For instance, when managers make budgeting, scheduling, quality control, and similar decisions, they typically rely on quantitative techniques. The use of software programs has made the use of quantitative techniques somewhat user friendly.

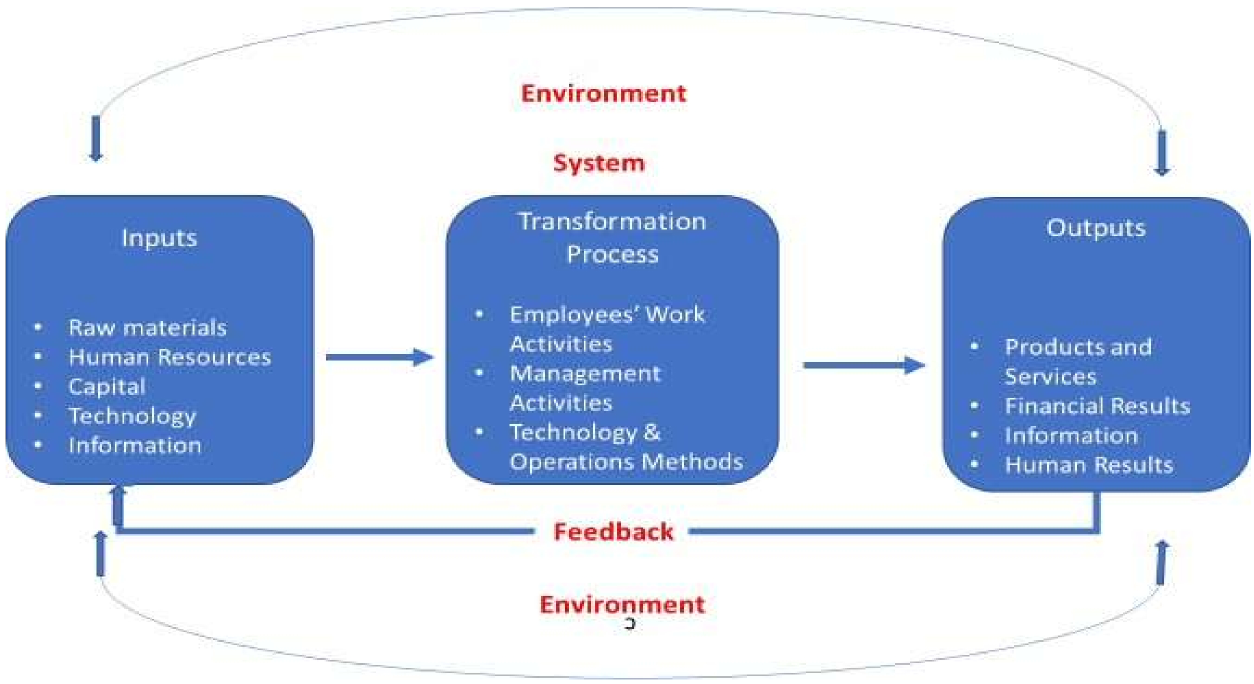
B. **Systems approach to management:** Views an organization as a complete system that is unified and comprises many interconnected parts. According to this approach, the functioning of a particular department affects all other departments of an organization. The concepts of general systems theory have been incorporated in the language of management. The ***systems theory*** looks at organizations as a set of interrelated parts. One of the main contributors, **Chester Bernard**, an engineer at New Jersey Telephone company wrote in his book "The Functions of Management" that all organizations operate as cooperative systems. Each system interacts with the environment. He opined that different parts of the organization acts as subsystems. Systems approach combines classical approach(Structures and processes) with behavioural approach(Social and psychological factors) and looks at the whole organization and its interaction with the environment.

A list of concepts that are found in the management dictionary are given as follows.

• **Subsystems**: Refer to sub-entities or sub-parts that together form a whole system when interlinked and connected.

•**Synergy**: Refer to a situation in which the resultant combined effort is greater than the sum of efforts made individually.

•**Open and Closed Systems**: Refer to two contrary systems that co-exist in every organization, An open system means a system that allows free exchange of information between external and internal environment of an organization. On the other hand, a closed system is the one in which exchange of Information is limited to the internal organizational environment.



• **Flow**: Refers to the process in which raw inputs enter a system, get processed, and exit in the form of final output. The raw material can also be considered as raw data and the final output can he regarded as analyzed information.

•**Feedback**: Refers to a control mechanism in which the information is given to the right people, so that it can be checked and corrected, if required.

•**Systems Boundary**: Refers to an extent to which an organization operates. This boundary separates the organization from its environment. In an open environment, the system boundary is flexible while in a closed system it is rigid.

C. **Contingency approach to management**: Refers to an approach that was developed by managers, consultants, and researchers who practiced the management theories in real life. Contingency approach is also known as the situational approach because the practitioners of the contingency approach found that management practices and principles that worked in one situation were not feasible or applicable in other situations. According to this approach, managers are supposed to identify which technique would be best applicable in which situation, at a given time, under definite circumstances. An example can help in understanding the contingency approach more clearly. When the rate of productivity in a publishing organization needs to be increased, a classical theorist may advise a work-simplification scheme. A behavioral scientist on the contrary would try to create psychologically motivating circumstances and may advice a scheme of job relation or job enrichment. A behavioral scientist may also conduct a root cause analysis of the problem or situational analysis and try to design a method or technique that work best in that particular situation. A standardized method would be developed that can be applicable to similar problems.The ***contingency theory*** says that appropriate managerial actions depend on the particular parameters of a given situation. It encourages applicability of management principles and techniques in appropriate situations. It believes that thereis no one best way of designing an organization and its structure. This approach suggests that managers should first diagnose the situation properly and then consider the principles of other approaches to find out the best possible solution.

Major Innovative Contributions of Major Viewpoints

Viewpoints	**Innovative Contributions**
Classical	Highlights the need for a scientific approach to management. Points out that work methods often can be improved through study. Identifies the important principles that are useful in running organizations effectively. Emphasizes the potential importance of pay as a motivator.

Behavioral	Spotlights the managerial importance of such factors as communication, group dynamics, motivation and leadership. Articulates practical applications of behavioral roles. Draws on the findings of a number of Disciplines such as management, psychology, sociology, anthropology and economics. Highlights the importance of organization members as active human resources rather than as passive tools.
Quantitative	Provides quantitative aids to decision-making. Develops quantitative tools to assist in providing products and services. Pioneers new computer-based information systems for management.
Contemporary (Systems and Contingency Theory)	Emphasizes that organizations can be visualized as systems ofinterrelated parts. Points out the potential importance of the environment and feedback to organizational success. Argues that there is no one best way to manage and identifies the circumstances and contingencies that influence which particular approach will be effective in a given situation.

Limitations

Viewpoints	**Limitations**
Classical	Can only be applied to stable work environments.Too much importance of economic nature of man Applies universal management principles to every work situations, without recognizing the uniqueness of some work environments.
Behavioral	Theories are over simplistic and do not really capture the greatcomplexity of human behavior and group dynamics. Many theories have not been applied to practical environment. Research conducted has found inconclusive evidence of the relationshipsbetween motivation, performance and job satisfaction.

Quantitative	Management science technologies still fail to compensate for the human aspects of the business enterprise.

Recent trends followed in Management

A. Peter F. Drucker

Peter F. Drucker is considered as the “Father of Modern Management.” He has written many books chief among them being “The Practice of Management”. Drucker’s primary contribution is not a single idea but rather an entire body of work that has been proved right practically over time. He introduced the idea of decentralization which is the basis of virtually every large organization in today’s world. He was the first to assert that workers should be treated as assets, not as liabilities to be eliminated. He originated the view of the corporation as a human community built on trust and respect and not just a profit-making machine. Drucker is hailed as a genius who had pioneered several modern management concepts in the field of innovation, creativity, problem-solving, organizational design, MBO etc. His chief contributions include the following :

1. Nature of Management

- Management is a dynamic, life giving element in an organization.
- It is a distinct discipline and a social function.
- Managers should be creative and innovative to produce results.

2. Management Functions

There are three basic functions of a manager which he must perform to enablethe institution to make its contribution for:

(i) the specific purpose and mission of the institution

(ii) making work productive and the worker achieving and

(iii) managing social impacts and social responsibilities.

3. Organization Structure

- There are 3 basic characteristics of an effective organization:

  (i) Enterprise should be organized for performance;

  (ii) It should contain the least possible number of managerial levels;

  (iii) It must make possible the training and testing of tomorrow's top managers—responsibility to a manager while still he is young.

- He has identified three basic aspects in organizing

i. **Activity Analysis** - Identifying theright activities

ii. **Decision Analysis** - Analysing theimpact & qualityof a decision

iii. **Relation Analysis** – Understandingthe structure

4. Decentralization

Drucker advocated the concept of federalism. Federalism refers to centralized control in decentralized structure. Decentralized structure goes far beyond the delegation of authority. It creates a new constitution and new ordering principle. He wanted managers to create autonomous, self-contained, independent product division withina large organization. He has emphasized the close links between the decisions adopted by the top management on the one hand and by the autonomous unit on the other.

5. Management by Objectives (MBO)

Management by Objectives (MBO) is a strategic approach to enhance theperformance of an organization. It is a process where the goals of the organization are defined and conveyed by the management to the members of the organization with the intention to achieve each objective. MBO includes method of planning, setting standards, performance appraisal, and motivation.

- According to Drucker, MBO is not only a technique of management but it is a philosophy of managing.
- He emphasized the importance of participatively set goals that are tangible,verifiable and measurable.
- The focus should be on what must be accomplished (goals) rather than how itshould be accomplished. (methods)

6. Organizational Changes

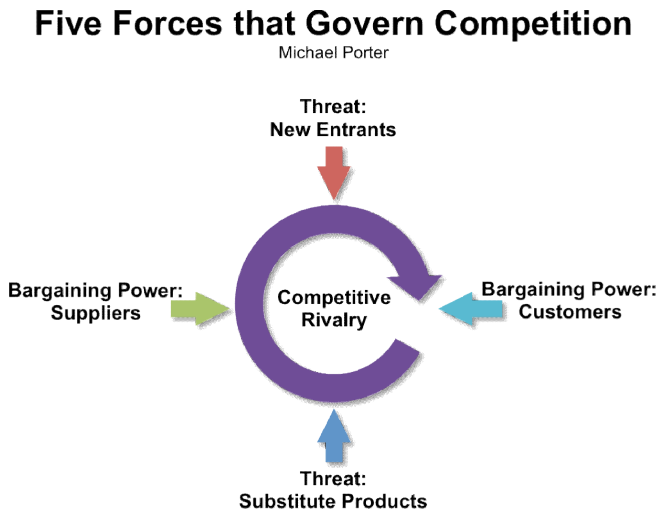
Organizations need to be dynamic to absorb the rapid changes in the environment. Managers need to be fully prepared for all future challenges by updating their skills,knowledge and competencies.

B. Michael Porter

Also known as the **Father of Modern Business Strategy**, he was a major contributor to Strategic Management Theory. Some of his prominent theories are as follows:

1) **Competitive Strategy**– The Five Force Theory is used to understand whether new products and services are potentially profitable. Corporations sit in a competitive environment, which creates five forces which are :

- Supplier Power
- Buyer Power
- Competitive Rivalry
- Threat of substitution
- Threat of new entry



Porter's current view is that a company must aim to use these forces to re-cast the rules of its industry, in its own favour.

Competitive Advantage — Michael Porter defined the two ways in which an organization can achieve competitive advantage over its rivals: cost advantage and differentiation advantage. Cost advantage is when a business provides the same products and services as its competitors, albeit at a lesser cost. Differentiation advantage is when a business provides better products and services as its competitors. In Porter's view, strategic management should be concerned with building and sustaining competitive advantage.

The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

1. Cost Leadership

In cost leadership, a firm sets out to become the low-cost producer in its industry. Thesources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low-cost producer must find and exploit all sources of cost advantage. if a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

Eg. — For example, China uses cost leadership by exporting low-cost products at a reasonable quality level. China can do this because its standard of living is lower, meaning it can pay its workers less.

2. Differentiation

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price.

E.g - India started as a cost leader but is moving toward differentiation. It provides skilled, technical, English-speaking workers at a reasonable wage.

3. Focus

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others.*The focus strategy has two variants.*

(a) In cost focus a firm seeks a cost advantage in its target segment. Focus means the company's leaders understand and service their target market better than anyone else. They either use cost leadership or differentiation to do that. The key to a successful focus strategy is to choose a very specific target market. Often it's a tiny niche that larger companies don't serve. For example, the niche market in which Japan specializes in with its electronics products.

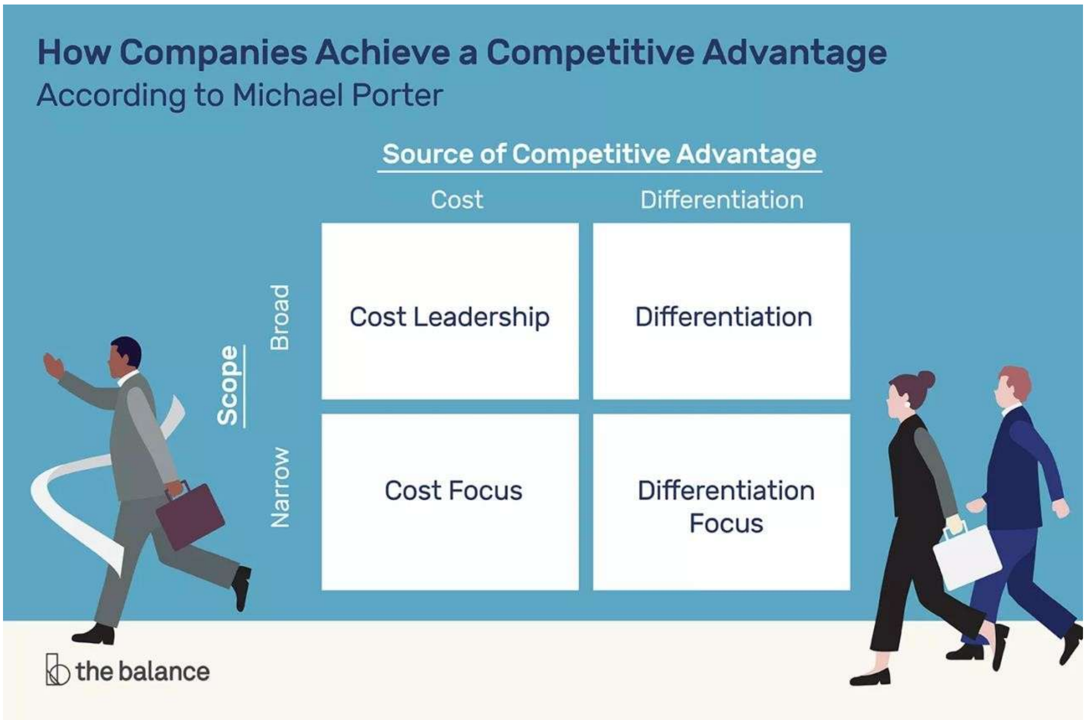
(b) In differentiation focus a firm seeks differentiation in its target segment. For example, community banks use a focus strategy to gain sustainable competitive advantage. They target local small businesses or high net worth individuals. Their target audience enjoys the personal touch that big banks may not be able to give, and customers are willing to pay a little more in fees for this service. These banks are using a differentiation form of the focus strategy.

Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

Sources of Competitive Advantage, and the Three Competitive Strategies

Porter argued that there are two sources of competitive advantage:

1. **Cost** – being able to sell the same products or services at a lower price thanyour competitors, whilst maintaining profit margins
2. **Differentiation** — being able to offer products and services which your customers want, but that your competitors cannot (yet) offer



This leads him to his four competitive strategies:

1. ***Cost leadership*** – Build the capability to produce at a lower cost than anyoneelse
2. ***Differentiation*** – Find a new product or service, or enhance what you offer tomake it different
3. ***Niche focus*** – Find a profitable niche, and dominate it
4. ***Diversification***- Spreads a corporation's risk. This maybe through product development, or business acquisition.

Recently, we see competitors dominating their market with a fifth strategy, based ona third source of competitive advantage: deep loyalty.

For example, how does Apple dominate? Not by offering cheaper products, certainly. Although their supply chain efficiencies mean that their margins are exceptional.And, some would argue, not by differentiation. Whilst they often lead for a short time here, their rivals also innovate, and certainly catch up quickly. Is there much a Mac can do that a PC cannot? Is there much an iPhone can do that a Samsung cannot?And a company with as many and varied customers as Apple cannot truly be said to serve a niche.No, the source of Apple's current dominance is largely the loyalty of its customer base, built on historic innovation, differentiation in multiple niches, and a reputation for excellence.

2) **Competitive Advantage of Nations**–In "The Competitive Advantage of Nations", Porter fully articulated a line of thinking that placed national conditions at the heart of corporate success.

Michael Porter's **Diamond Model (also known as the Theory of National Competitive Advantage of Industries)** is a diamond-shaped framework that focuses on explaining **why certain industries within a particular nation are competitive internationally**, whereas others might not. And why is it that certain companies in certain countries are capable of consistent innovation, whereas others might not? Porter argues that any company's ability to compete in the international arena is based mainly on an interrelated set of location advantages that certain industries in different nations possess, namely: **Firm Strategy, Structure and Rivalry**; **Factor Conditions**; **Demand Conditions**; and **Related and Supporting Industries**. If these conditions are favourable, it forces domestic companies to continuously innovate and upgrade. The competitiveness that will result from this, is helpful and even necessary when going internationally and battling the world's largest competitors. This article will explain the four main components and include two components that are often included in this model: the role of the Government and Chance. Together they form the **national environment** in which companies are born and learn how to compete.

i) *Firm Strategy, Structure and Rivalry*

The national context in which companies operate largely determines how companies are created, organized and managed: it affects their strategy and how they structure themselves. Moreover, **domestic rivalry is instrumental to international competitiveness, since it forces companies to develop unique and sustainable strengths and capabilities.** The more intense domestic rivalry is, the more companies are being pushed to innovate and improve in order to maintain their competitive advantage. In the end, this will only help companies when entering the international arena. A good example for this is the Japanese automobile industry with intense rivalry between players such as Nissan, Honda, Toyota, Suzuki, Mitsubishi and Subaru. Because of their own fierce domestic competition, they have become able to more easily compete in foreign markets as well.

ii) *Factor Conditions*

Factor conditions in a certain country refer to the natural, capital and human resources available. Some countries are for example very rich in natural resources such as oil for example (Saudi Arabia). This explains why Saudi Arabia is one of the largest exporters of oil worldwide. With human resources, we mean **created factor conditions** such as a skilled labour force, good infrastructure and a scientific knowledge base. Porter argues that especially these 'created' factor conditions are

important opposed to 'natural' factor conditions that are already present. It is important that these *created* factor conditions are continuously upgraded through the development of skills and the creation of new knowledge. **Competitive advantage results from the presence of world-class institutions that first create specialized factors and then continually work to upgrade them.** Nations thus succeed in industries where they are particularly good at *factor creation*.

iii) *Demand Conditions*

The home demand largely affects how favourable industries within a certain nation are. A larger market means more challenges, but also creates opportunities to grow and become better as a company. **The presence of sophisticated demand conditions from local customers also pushes companies to grow, innovate and improve quality.** Striving to satisfy a demanding domestic market propels companies to scale new heights and possibly gain early insights into the future needs of customers across borders. Nations thus gain competitive advantage in industries where the local customers give companies a clearer or earlier picture of emerging buyer needs, and where demanding customers pressure companies to innovate faster and achieve more sustainable competitive advantages than their foreign rivals.

iv) *Related and Supporting Industries*

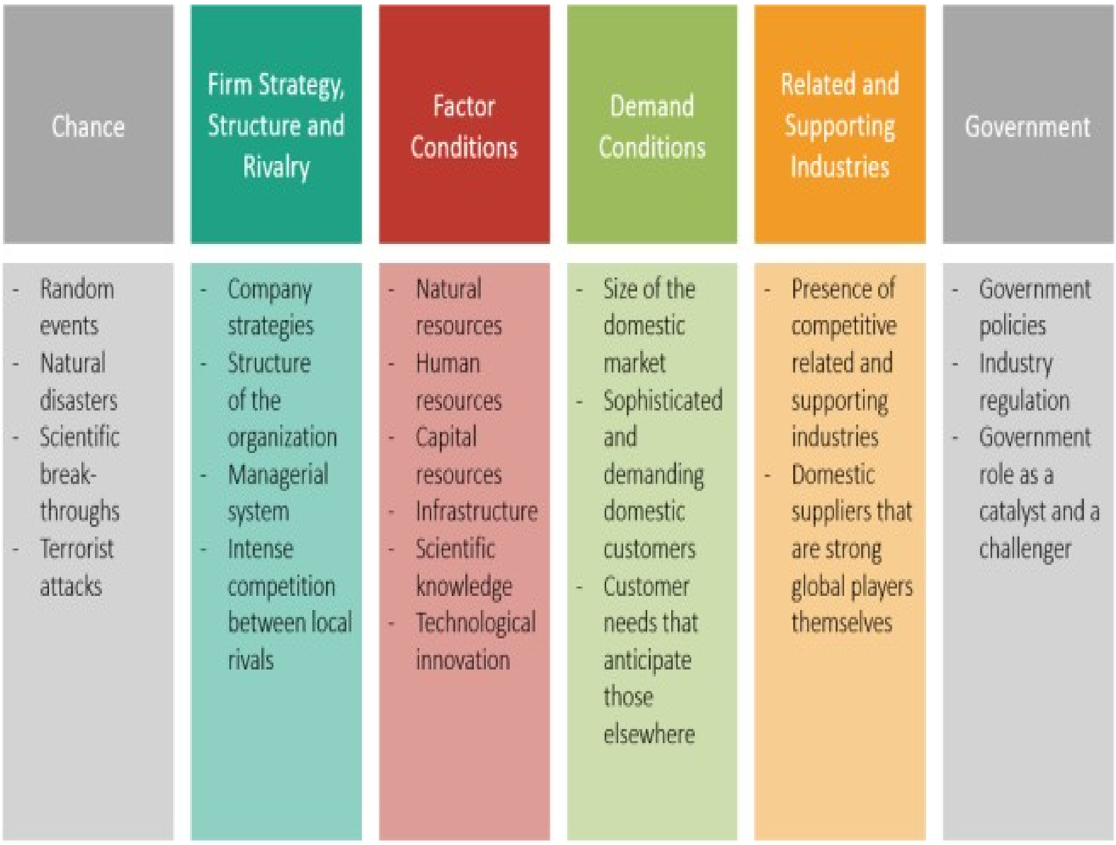
The presence of related and supporting industries provides the foundation on which the focal industry can excel. Companies are often dependent on alliances and partnerships with other companies in order to create additional value for customers and become more competitive. **Especially suppliers are crucial to enhancing innovation through more efficient and higher-quality inputs, timely feedback and short lines of communication.** A nation's companies benefit most when these suppliers themselves are, in fact, global competitors. It can often take years (or even decades) of hard work and investments to create strong related and supporting industries that assist domestic companies to become globally competitive. However, once these factors are in place, the entire region or nation can often benefit from its presence. We can for example see this in Silicon Valley, where all kinds of tech- giants and tech-start-ups are clustered in order to share ideas and stimulate innovation.

v) *Government*

The role of the government in Porter's Diamond Model is described as both '*acatalyst and challenger*'. Porter doesn't believe in a free market where the government leaves everything in the economy up to 'the invisible hand'. However, Porter doesn't see the government as an *essential* helper and supporter of industries either. Governments cannot create competitive industries; only companies can do that. Rather, **governments should encourage and push companies to raise their aspirations and move to even higher levels of competitiveness.** This can be done by stimulating early demand for advanced products (demand factors); focusing on specialized factor creations such as infrastructure, the education system and the health sector (factor conditions); promoting domestic rivalry by enforcing anti-trust laws; and encouraging change. The government can thus assist the development of the four aforementioned factors in the way that should benefit the industries in a certain country.

vi) *Chance*

Even though Porter originally didn't write anything about *chance* or *luck* in his papers, the role of chance is often included in the Diamond Model as the likelihood that external events such as war and natural disasters can negatively affect or benefit a country or industry. However, it also includes random events such as where and when fundamental scientific breakthroughs occur. These events are beyond the control of the government or individual companies. For instance, the heightened border security, resulting from the September 11 terrorist attacks on the US undermined import traffic volumes from Mexico, which has had a large impact on Mexican exporters. **The discontinuities created by chance may lead to advantages for some and disadvantages for other companies.** Some firms may gain competitive positions, while others may lose. While these factors cannot be changed, they should at least be monitored so you can make decisions as necessary to adapt to changing market conditions.



Value Chain Analysis

The value chain also known as Porter's Value Chain Analysis is a business management concept that was developed by Michael Porter. In his book *Competitive Advantage* (1985), Michael Porter explains that a value chain is a collection of activities that are performed by a company to create value for its customers. **Value Creation** creates added value which leads to competitive advantage. Ultimately, added value also creates a higher profitability for an organization. Porter divided corporate activities into Primary Activities and Secondary Activities.

Primary Activities - Primary activities have an immediate effect on the production, maintenance, sales and support of the products or services to be supplied. These activities consist of the following elements:

i) **Inbound Logistics** - These are all processes that are involved in the receiving, storing, and internal distribution of the raw materials or basic ingredients of a product or service. The relationship with the suppliers is essential to the creation of value in this matter.

ii) **Production** - These are all the activities (for example production floor or production line) that convert inputs of products or services into semi-finished or finished products. Operational systems are the guiding principle for the creation of value.

iii) **Outbound logistics** - These are all activities that are related to delivering the products and services to the customer. These include, for instance, storage, distribution (systems) and transport.

iv) **Marketing and Sales**- These are all processes related to putting the products and services in the markets including managing and generating customer relationships. The guiding principles are setting oneself apart from the competition and creating advantages for the customer.

v) **Service** - This includes all activities that maintain the value of the products or service to customers as soon as a relationship has developed based on the procurement of services and products. The Service Profit Chain Model is an alternative model, specific designed for service management and organizational growth.

Support activities

Support activities within the Porter's Value Chain Analysis assist the primary activities and they form the basis of any organization. In the figure dotted lines represent linkages between a support activity and a primary activity. A support activity such as human resource management for example is of importance within the primary activity production but also supports other activities such as service and outbound logistics.

i) **Firm infrastructure** - This concerns the support activities within the organization that enable the organization to maintain its daily operations. Line management, administrative handling, financial management are examples of activities that create value for the organization.

ii) **Human resource management** - This includes the support activities in which the development of the workforce within an organization is the key element. Examples of activities are recruiting staff, training and coaching of staff and compensating and retaining staff.

iii) **Technology development** - These activities relate to the development of the products and services of the organization, both internally and externally. Examples are IT, technological innovations and improvements and the development of new products based on new technologies. These activities create value using innovation and optimization.

iv) **Procurement** - These are all the support activities related to procurement to service the customer from the organization. Examples of activities are entering into and managing relationships with suppliers, negotiating to arrive at the best prices, making product purchase agreements with suppliers and outsourcing agreements. Organizations use primary and support activities as building blocks to create valuableproducts, services and distinctiveness.

Consequently, the Value Chain Analysis makes clear where the sources of value and loss amounts can be found in an organization.

C. Contribution of C.K.Prahalad

His contribution to strategic management is immense. He coined many terms which have become common parlance and developed into concepts later. Some of his significant contributions are as follows :

i. Strategic Intent, Stretch and Leverage

Strategic Intent

- It refers to the purpose for what organizations strive for.
- Organizations must define "what they want to do" and "why they want to do."
- This "why they want to do" underlines the end of the end result and in managementit is known as strategic intent.
- Strategic intent has a hierarchy – Vision, Mission, Goals & Objectives

Definition: Strategic Intent can be understood as the philosophical base of the strategic management process. It implies the purpose, which an organization endeavor of achieving. It is a statement, that provides a perspective of the means, which will lead the organization, reach the vision in the long run.

1. **Vision**: Vision implies the blueprint of the company's future position. It describes where the organization wants to land. It is the dream of the business and inspiration, base for the planning process. It depicts the company's aspirations for the business and provides a peep of what the organization would like to become in future. Every single component of the organization is required to follow its vision.
2. **Mission**: Mission delineates the firm's business, its goals and ways to reach the goals. It explains the reason for the existence of the business. It is designed to help potential shareholders and investors understand the purpose of the company. A mission statement helps to identify, 'what business the company undertakes.' It defines the present capabilities, activities, customer focus and business makeup.
3. **Business Definition**: It seeks to explain the business undertaken by the firm, with respect to customer needs, target audience, and alternative technologies. With the help of business definition, one can ascertain the strategic business choices. The corporate restructuring also depends upon the business definition.

4. **Business Model**: Business model, as the name implies is a strategy for the effectiveoperation of the business, ascertaining sources of income, desired customer base, and financing details. Rival firms, operating in the same industry relies on the different business model due to their strategic choice.

5. **Goals and Objectives**: These are the base of measurement. Goals are the end results, that the organization attempts to achieve. On the other hand, objectives are time- based measurable actions, which help in the accomplishment of goals. These are the end results which are to be attained with the help of an overall plan, over the particular period.

The vision, mission, business definition, and business model explain the philosophy of business, but the goals and objectives are established with the purpose of achieving them.

Strategic Intent is extremely important for the future growth and success of the enterprise, irrespective of its size and nature.

Strategic Stretch

- To achieve Strategic Intent, we need tostretch.
- Understanding stretch: Now we need to understand the gap between aspirationsand available resource (i.e. stretch).
- It is the gap between resources and aspirations.

Strategic Leverage

- Use of quality and competitive advantages within the value chain through theexercise of power or influence to achieve missions and objectives.
- Scope of leveraging – Human Capital or core competencies

ii. Core Competence–This is the specialized knowledge / competency that an organization has which is difficult to imitate. According to this model, strategic objectives should not focus on fighting off competition but on creating a new competitive space.

A **core competency** is a concept in management theory introduced by C. K. Prahalad and Gary Hamel. It can be defined as "a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace" and therefore are the foundation of companies' competitiveness. This is the specialized knowledge / competency that an organization has which is difficult to imitate. According to this model, strategic objectives should not focus on fighting off competition but on creating a new competitive space. A core competency results from a specific set of skills or production techniques that deliver additional value to the customer. These enable an organization to access a wide variety of markets.

Core competencies lead to the development of core products, which can further be used to build many other products for end users. Core competencies are developed through the process of continuous improvements over the period of time rather than a single large change. To succeed in an emerging global market, it is more important and required to build core competencies rather than to do vertical integration.

The three tests that can help companies identify their core competencies:

i. A core competence should give the company access to many markets, not just one.
ii. A core competence should add value to the company's end product or service.
iii. A core competence must not be easy for competition to replicate.

Examples of Core Competencies

Amazon Core Competencies

Jeff Bezos founded Amazon with a vision to create “the earth's most customer-centriccompany,” and he succeeded.How?

- By offering the customers extra value through the company’s impressive distribution infrastructure, organization of logistics, and commitment to the highest standards of service.
- Amazon’s business model is much more complex. The brand has established high global equity and market capitalization, as well as created an internationalnetwork of affiliates to expand its market reach.
- The company’s most crucial core competence is its flexibility in reconfiguring and reapplying resources, as well as a strong culture of innovation that led to developing its artificial intelligence capabilities.

This unique mixture of core competencies gives Amazon a huge competitiveadvantage.

Tesla Core Competencies

Tesla’s mission is to “accelerate the world's transition to sustainable energy.”Such an ambitious mission proposes huge value to the entire humanity.In fact, the company aspires to contribute to eliminating some of the biggest challenges of the modern world, such as climate change or reliance on fossil fuels.Tesla wants to achieve this by being a highly innovative technology company and a visionary car maker.

- Tesla’s core competencies consist of cutting-edge manufacturing processes, state-of-the-art electric powertrains, battery packs, and self-driving technology, all of which are extremely difficult to imitate by competitors.
- The company’s organization and leadership encourage innovation, so Tesla has been taking advantage of other opportunities in the energy sector.

- Thanks to an inimitable set of core competencies, Tesla left the other automakers far behind in terms of the quality and user experience offered by its vehicles.

Apple Core Competencies

Apple has built its strong position by constant questioning and effectively changing the status quo of technology over the past several decades.Let's just mention that it's largely thanks to Apple that computers aren't just business machines, that we have smartphones, and that music is distributed in a digital form.But how does Apple set itself apart from the competition?Here are Apple's core competencies:

- For one thing, it managed to establish itself as a widely recognizable premium brand. In addition, it built an ecosystem of complementary products and services, as well as designed and set up its systems with rapid innovation in mind.
- Not to mention it has access to a constant flow of information about its users that helps the company plan and carry out its business strategy.
- All these core competencies give Apple a huge advantage and are hard (if not impossible) to imitate.

Here's a list of common core competencies:

- Consistently high quality – Sony, Google products
- Incomparable value – Whatsapp, Uber
- Ceaseless innovation - Apple
- Clever, successful marketing – Coca cola, Nike
- Great customer service – Amazon, Netflix
- Formidable size and buying power – McDonald's, Standard Oil

iii. Exploring the Bottom of Pyramid (BoP)

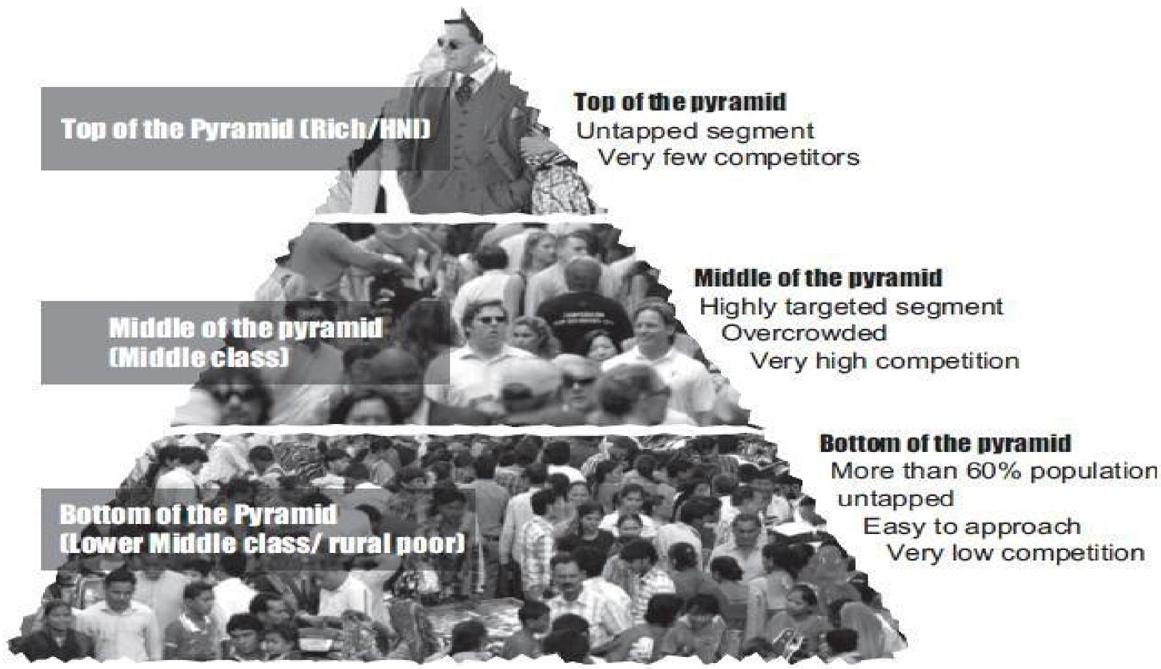
The concept 'Bottom of the Pyramid' was first used by US President Franklin D Roosevelt in 1932, while talking about the poor people who are often forgotten because they live at the bottom of the economic pyramid. Bottom of the pyramid, also called the base of the pyramid, is a phrase in economics that refers to the poorest two-thirds of the economic human pyramid. CK Prahalad popularised the idea of this demographic segment as a profitable consumer base in his 2004 book 'The Fortune at the Bottom of the Pyramid' co-authored by Stuart Hart. Prahalad has some useful insights about consumer needs in poor societies and opportunities for the private sector to serve important public purposes while enhancing its own bottom line.

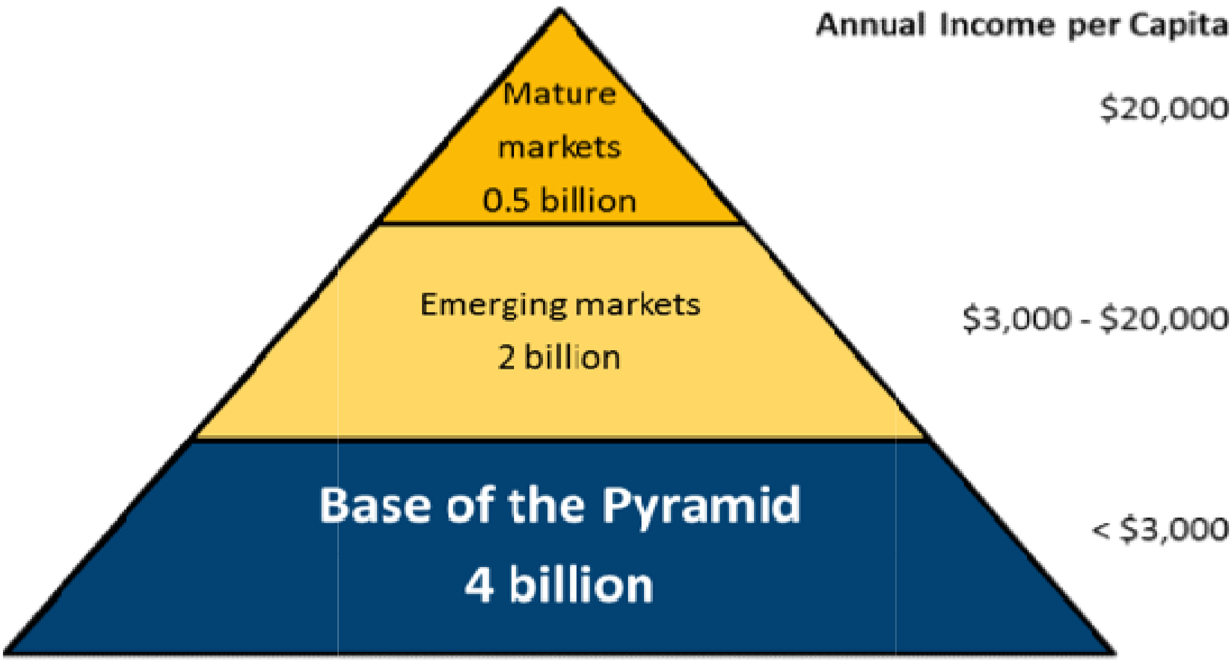
The four consumer tiers are:

i) At the top of the pyramid are 75-100 million affluent consumers. These are cosmopolitan groups composed of middle- and upper-income people in developed countries, and rich elites from the developing world (they are tier one).

ii) At the middle of the pyramid, in tiers two and three, are poor customers in developed nations and the rising middle classes in developing countries—they have been and are the target market for MNCs for whom strategies are made.

iii) At the bottom of the pyramid, tier four consists of 4 billion people earning $2 or less per day.





The extreme inequity of wealth distribution is a paradox; it has reinforced a view that the poor cannot participate in global market economy, even though they constitutethe majority. Tier four represents a multi-trillion dollar market. According to World Bank's projections, the population at the bottom of the pyramid could swell to more than 6 billion people over the next 40 years, because the bulk of the world's population growth occurs there.At the bottom of the pyramid, the market is full of opportunities. The tier four market is wide open for technological innovation. The challenge is to recognise and accept the uniqueness of these markets and develop strategies to fulfil their needs. One comes to the conclusion that pragmatic strategies need be devised in tune with the aspirations of the consumer. In the bottom of the pyramid market, many companies are adopting their own models in serving these segments.

BoP in India

In India, two-thirds of the billion-plus people represents rural population.

- 45% of all soft drinks are sold in the rural market;

- 50% of all motorcycles are sold in rural areas;
- 60% of all cigarettes are consumed by rural consumers;
- 55% of FMCG products are sold in the rural market (pencils, pens, notebooks);
- 50% of the national income is from rural areas;
- 41 million Kisan Credit Cards have been issued as against 22 million credit-cum-debit cards in urban areas.
- Also, 50% of LIC policies are sold to rural areas

Few marketers are cynical about the poor class of consumers by ignoring their potential of buying power. For these poor consumers, buying luxury products such as a house or installing running water is a luxury. But it doesn't mean they can't buy anything. They buy comfort items like TV, gas stoves, domestic electrical appliances. These are no more considered luxury.

Margin versus volume: Traditional business in developed countries is mostly based on high gross margins. The low buying power of the bottom of the pyramid consumers makes this approach inappropriate. Companies need to develop a tight and effective lean management to optimise supply chain. Cost-savings management becomes a key to performance and success in these huge low-cost markets.

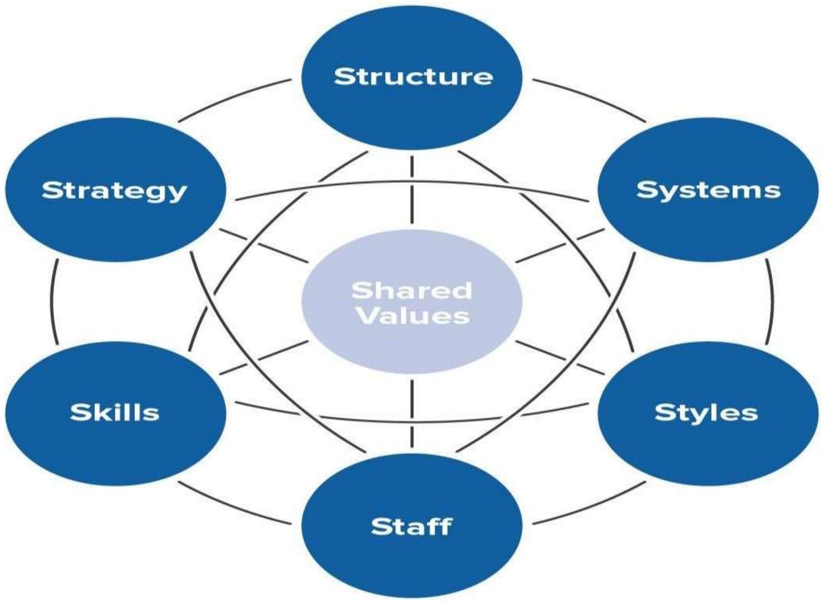
Some MNCs have explored opportunities at the bottom of the pyramid. Perhaps HUL has understood it better than others. Their marketing strategy is smart—offering brands with multiple price and packaging options has worked wonders. The maker of Axe, Dove, Knorr and Lipton believes in selling small packs of its products in markets such as Spain, Greece and the US. In Spain, for instance, Unilever sells Surf detergent in packs offering five washes, and offers mashed potatoes and mayonnaise in small packages in Greece. It has also launched a low-cost brand of tea and oliveoil for the European markets.In India, the bottom of the pyramid customers go for low-price sachets of shampoos, toothpastes, fairness creams and hair oil. Much of what Unilever is replicating in the developed world has been initiated in India.HUL sells power brands such as Close-Up, Pepsodent, Sunsilk, Pond's, Vaseline, Brooke Bond Taj Mahal and Bru to increase product penetration at the bottom of the pyramid. Lifebuoy soap in rural markets is referred to as the 'laal sabun' since it's red in colour, and ‘Colgate kiyakya’ is synonymous to brushing teeth.A relatively small player, CavinKare from south India, is credited and has a huge role to play in ushering the sachet revolution as a strategy for low-end buyers. Other companies like Parle, PepsiCo and Dabur started selling products in smaller packs and hence proving the saying “big things come in small packages.” Smaller SKUs (stock keeping units) contribute to over 40% of sales in the fast moving consumer goods category. Thus, MNCs in India are credited for frugal innovation—low-cost products and services.

McKinsey 7S Model

Consultants **Tom Peters and Robert Waterman**, authors of the management bestseller "In Search of Excellence," conceived of the McKinsey 7S Model at consulting firm McKinsey & Co. in the early 1980s. They identified 7 internal elements of an organization that need to align for it to be successful. The 7S Model specifies 7 factors that are classified as “hard” and “soft” elements. Hard elements are easily identified and influence by the management, while the soft elements are fuzzier, more intangible and influenced by corporate culture.

The McKinsey 7-S Model is applicable in a wide variety of situations where it's useful to understand how the various parts of an organization work together. It can be used as a tool to make decisions on future corporate strategy.

The framework can also be used to examine the likely effects of future changes in the organization or to align departments and processes during a merger or acquisition. Elements of the McKinsey Model 7s can also be used with individual teams or projects.



Let's look at each of the elements individually:

• **Strategy:** this is your organization's plan for building and maintaining a competitive advantage over its competitors.

• **Structure**: this how your company is organized (that is, how departments and teams are structured, including who reports to whom).

• **Systems**: the daily activities and procedures that staff use to get the job done.

• **Shared values**: these are the core values of the organization, as shown in its corporate culture and general work ethic. They were called "superordinate goals" when the model was first developed.

• **Style**: the style of leadership adopted.

• **Staff**: the employees and their general capabilities.

• **Skills**: the actual skills and competencies of the organization's employees.

Placing shared values in the center of the model emphasizes that these values are central to the development of all the other critical elements.The model states that the seven elements need to balance and reinforce each other for an organization to perform well.

Using the McKinsey 7-S Model

You can use it to identify which elements you need to realign to improve performance, or to maintain alignment and performance during other changes. These changes could include restructuring, new processes, an organizational merger, new systems, and change of leadership. We can follow these steps:

1. Start with your shared values: are they consistent with your structure, strategy, and systems? If not, what needs to change?
2. Then look at the hard elements. How well does each one support the others? Identify where changes need to be made.
3. Next, look at the soft elements. Do they support the desired hard elements?Do they support one another? If not, what needs to change?
4. As you adjust and align the elements, you'll need to use an iterative (and often time-consuming) process of making adjustments, and then re-analyzing how that impacts other elements and their alignment. The end result of betterperformance will be worth it.

MANAGEMENT PRINCIPLES (MBA104)

Organization (Module-2)

"**Organization** is the process of identifying and grouping work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives."

"The arrangement by which tasks are assigned to men and women so that their individual efforts contribute effectively to some more or less clearly defined purpose for which they have been brought together."

Organizing is an important managerial function. If managerial planning focuses on deciding what to do, organizing focuses on how to do it. Thus, after a manager has set goals and developed a workable plan, the next managerial function is to organize people and groups to carry out the plan.

There are two concepts of organisation: 1. Static concept2. Dynamic concept

1. Static Concept:

Under static concept the term 'organisation' is used as a structure, an entity or a network of specified relationship. In this sense, organisation is a group of people bound together in a formal relationship to achieve common objectives. It lays emphasis on position and not on individuals.

2. Dynamic Concept:

Under dynamic concept, the term 'organisation' is used as a process of an on-going activity. In this sense, organisation is a process of organising work, people and the systems. It is concerned with the process of determining activities which may be necessary for achieving an objective and arranging them in suitable groups so as to be assigned to individuals. It considers organisation as an open adoptive system and not as a closed system. Dynamic concept lays emphasis on individuals and considersorganisation as a continuous process.

Organizational Structure- The way in which an organization's activities are divided, organized and coordinated is known as Organizational structure.

Organizational Design - The determination of the organizational structure that is most appropriate for the strategy, people, technology, and tasks of the organization is known as Organizational design.

Organizing - Organizing is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives. By this definition, ***organizing is a management function of assigning duties, grouping tasks, delegating authority and responsibility, and allocating resources to carry out a specific plan in an efficient manner***. In essence, organizing is grouping of activities and resources in a logical fashion.

Effective organizing provides numerous organizational benefits. The division andcoordination of work activities and resource allocation can be divided into two categories - the closed and open systems concepts. Closed systems are sets of interacting elements operating without any exchange with the environment in which it exists. Open systems are set of elements that interact with each other and the environment and whose structure evolves over time as a result of interaction. Today due to the increasing complexity of markets, variability of products, increasing no. of branches, and changes in technology, all require more adaptive organizations.

*The function of organising is to arrange, direct, coordinate, and control the activities of an enterprise. In other words, organising is the function through which management directs, coordinates, and controls business operations.Organising involves the establishment of a sound organization structure so that work is carried out as planned. The purpose of organising is for people to coordinate with each other and to work for the achievement of organizational goals.*The managerial function of organising may be called as the 'process of organising'. When the objectives have been set and policies framed, the necessary infrastructure of organization has to be built up. The concentration goes to activities and functions. These form 'the building blocks' of the organisational structure.

Organizing essentially consists of establishing a division of labor. The managers divide the work among individuals and group of individuals. And then they coordinate the activities of such individuals and groups to extract the best outcome. Organizing also involves delegating responsibility to the employees along with the authority to successfully accomplish these tasks and responsibilities. One major aspect of organizing is delegating the correct amounts of responsibilities and authority. Now, as one of the most important functions of management, organizing follows a meticulous process.

Process of Organizing

A. Fundamentals to be considered-

- Structure must reflect objectives and plansas activities are derived from them.
- Must reflect the authority available to the management of the organization
- Must reflect its environment

- Must help the individuals in gaining their objectives efficiently in a changing environment
- The grouping activities and authority relationships must consider theirlimitations and customs

B. Steps in organizing

The following are the steps in the process of organizing:

1] Identifying the Work - The obvious first step in the process of organizing is to identify the work that has to be done by the organization. This is the ground level fromwhich we will begin. So the manager needs to identify the work and the tasks to be done to achieve the goals of the organization.Identification of the work helps avoid miscommunication, overlapping of responsibilities and wastage of time and effort.

2] Grouping of Work - For the sake of a smooth flow of work and smooth functioning ofthe organization, similar tasks and activities should be grouped together. Hence we create departments within the company and divisions within each department. Such an organization makes the functioning of the company way more systematic.Depending on the size of the organization and the volume of work, an organization can have several department and divisions. And every department has a manager representing them at the top-level of the management.In smaller organizations sometimes these departments are clubbed together under one manager.

3] Establish Hierarchy - The next step in the process of organizing is to establish the reporting relationships for all the individual employees of the company. So, a manager establishes the vertical and horizontal relationships of the company.This enables the evaluation and control over the performances of all the employees in a timely manner. So if rectifications need to be made, they can be made immediately.

4] Delegation of Authority - Authority is basically the right an individual has to act according to his wishes and extract obedience from the others. So, when a manager isassigned certain duties and responsibilities, he must also be delegated authority to carry out such duties effectively.If we only assign the duties, but no authority he will not be able to perform the tasks and activities that are necessary. So we must always assign authority and clearly specify the boundaries of the duties and the authority which has been delegated.

5] Coordination - Finally, the manager must ensure that all activities carried out by various employees and groups are well coordinated. Otherwise, it may lead to conflicts between employees, duplication of work and wastage of time and efforts. He must ensure all the departments are carrying out their specialized tasks and there is harmonyin these activities. The ultimate aim is to ensure that the goal of the organization is fulfilled.

C. Prerequisites for effective organizing

- Span of management, levels are clearly determined.
- Factors determining the basic framework of departmentation, along with their strengths and weaknesses are taken into consideration.
- Authority and responsibility relationships are understood.
- Degree of delegation should be taken into account.
- The way a manager implements the organization. Theory in actual practiceneeds to be considered.

Every organization has some goals and objectives and one of the important factors that affect these goals and objects is the organizational structure. The efficiency with which an organization accomplishes its goals and objectives is to a great extent, dependent on the structure it adopts.

Benefits of organizing

- Individuals have a clear picture of the tasks he is expected to accomplish.
- Supports planning by establishing appropriate authority structure along with responsibility.
- Supports decision-making and control by creating channels of communication.
- Duplication of efforts, misuse of resources and conflicts are avoided due to division of labour.
- Through coordinating mechanisms, harmonious relationships are established.

- Focused task efforts that are logically and efficiently related to a commonlyshared goal is produced.

Organization Structure

Organizational structure defines the manner in which the roles, power, authority, and responsibilities are assigned and governed, and depicts how information flows between the different levels of hierarchy in an organization.

The structure an organization designs depends greatly on its objectives and the strategy it adopts in achieving those objectives.

An **organizational chart** is the visual representation of this vertical structure. It is therefore very important for an organization to take utmost care while creating the organizational structure. The structure should clearly determine the reporting relationships and the flow of authority as this will support good communication — resulting in efficient and effective work process flow.

Common Organization Structures

Managements need to seriously consider how they wish to structure the organization. Some of the critical factors that need to be considered are −

- The size of the organization
- Nature of the business
- The objectives and the business strategy to achieve them
- The organization environment

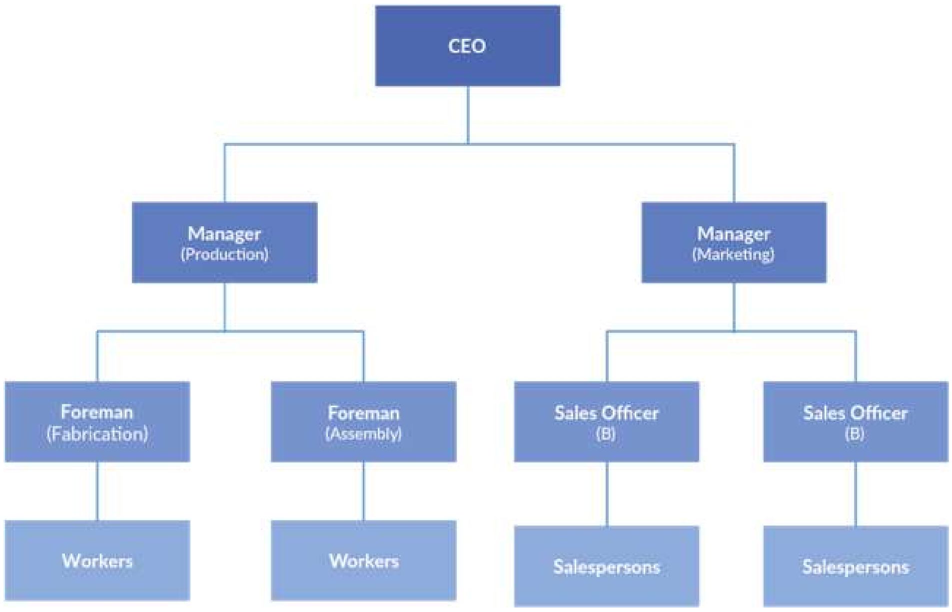
Usually organizations start their ventures with a simple structure which is not elaborate. It is a flat structure and high on centralization. The levels are less and it is low on formalization and specialization. It is highly flexible and inexpensive. But with growth in business the business structure needs to be modified. Some of the important forms of organization structures are as follows :

1) Line Organization

2) Functional Organization
3) Line & Staff Organization
4) Divisional Organization
5) Matrix Organization
6) Project Organization
7) Network Organization
8) Virtual Organization
9) Learning Organization
10)Boundaryless Organization

1) Line Organization

Also known as military type of organization structure. It is the simplest and oldest form of organizational structure. There is a clear line of command from top to bottom. There is a flow of authority from top to bottom.Each person is in charge of the people below him.Each subordinate receives instructions from his immediate superior and is answerable to him only. The structure is more centralized with lessno. of levels.



Merits of line organization:

- **Simplicity** - There is a direct flow of authority and responsibility which makes it easily understandable to employees. They know exactly from whom to receive orders and to who they are answerable.
- **Prompt decisions –** As most decision are taken at the upper level managers, it is less time consuming.
- **Discipline–**Unity of command and unity of direction principles help to develop strict discipline in the subordinates' work performance.
- **Effective communication –** The chain of communication is clear so decisions are communicated clearly.
- **Cost effective –** Less staff specialists are appointed so it is quite economical in comparison to other organizational structure.
- **Easier supervision and control–**Supervision and control can be more effective as there is more close contact between manager and his subordinates.
- **Fixed responsibility–**Since there is clarity of roles, there is no scope ofambiguity.
- **All round development of managers–**Here the manager performs more comprehensive functions, which leads to overall development of the manager.

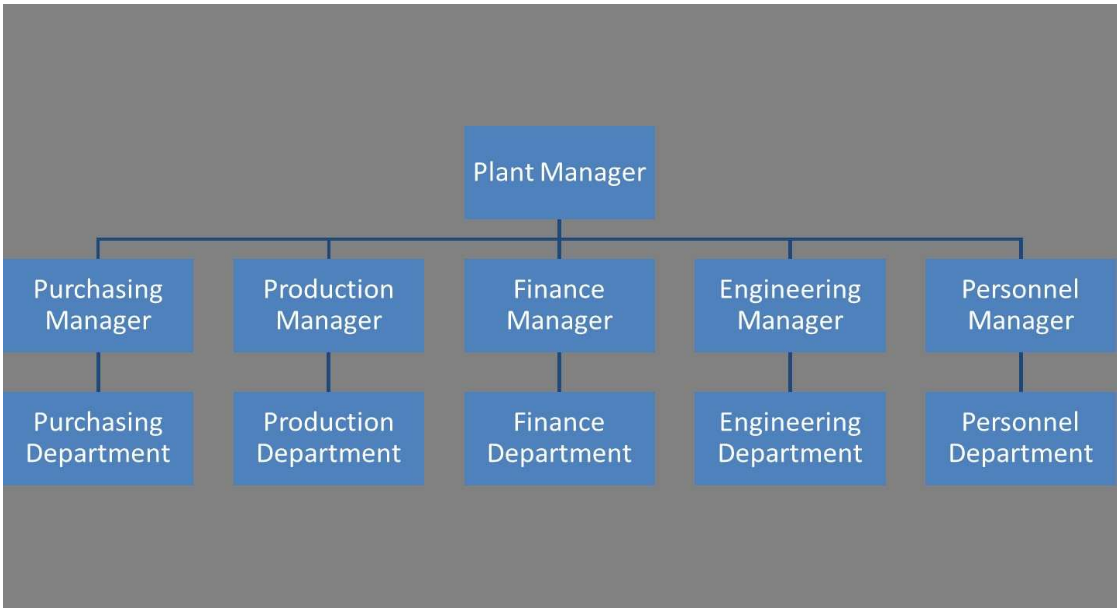
Demerits of line organization:

- **Excess work–**Some managers have a lot of diversified duties to perform. Most of their time is consumed in dealing with different operations due to which they fail to give due attention to planning for the future.
- **Absence of specialisation–** Functional specialisation in missing in this structure as these managers have a wide range of responsibilities.
- **Complexity of coordination–**Since individual departments run as autonomous units independent of each other, overall coordination becomes difficult.
- **Autocratic Leadership –** Since power is centralized, there is a tendency for autocracy to set in. So wrong decisions will lead to disastrous results.

- **Instability** – There is a lot of dependence on senior managers so in case one of them leaves then there is a gap which leads to disturbance in the smooth flow in the operations.
- **No scope of training for subordinates**–Less scope for training of subordinates as they merely implement the decisions of the line managers.

2) Functional Organization

It is widely followed by medium and large business houses. The concept was introduced by F.W.Taylor. It is based on the principle of specialization and separation of planning from execution.A portion of authority of managers is given to functional experts. Work is divided according to functions and a specialist is put in charge of each function.The worker is accountable to different functional specialists in their respective areas of specialization.



Merits of Functional Organization :

- **Expert knowledge of specialists** – Every functional manager is an expert and has specialized knowledge in his area. Workers benefit from such expertise for better performance and efficiency.

- **Higher standard of effectiveness and supervision –** An executive performs a specific function only so he can concentrate on that and can effectively supervise his subordinates.
- **Scope for functional improvement –** The supervisor or subordinate has to perform a specific function which allows his to be thorough and improve in his own functional area.
- **Mass production possible –** The functional organization follows the principle of specialization and standardization. This helps in mass scale production.
- **Easy to expand, growth & development possible –** The whole structure becomes such that it facilitates expansion. So, growth and development becomes easier.

Demerits of Functional Organization:

- **Violation of principle of Unity of Command –** The presence of cross relationships among employees creates ambiguity as to who the worker willreceive instructions from. It leads to issues in accountability.
- **Overlapping of authority and divided responsibility–**When there is no clearchain of command and a person receives command from several heads and isaccountable to them, it leads to overlapping of authority and division of responsibility.
- **Difficult to maintain discipline -** In these circumstances, it is difficult to maintain discipline.
- **Absence of coordination -** This structure is complex leading to divisionsand sub-divisions of functions. There may be absence of coordination.
- **Conflicts–**A number of functional specialists having authority over the same group may cause disagreements between the workers and the superiors.
- **Costly-** Costly affair as extra is spent of clerical level (there is lot of clericalwork) and salaries of expert staff.
- **Unsuitable for non- manufacturing concerns–** It was developed for manufacturing undertakings and is not suitable for banks, insurance companies, hospitals etc.

- **Delay in decision making –** Opinion of a no. of functional heads is takenwhich results in delay in decision making.

Line Manager

- A generalist
- Directs others
- Delegates authority
- Trains subordinates
- Exerts control
- Has veto power
- Makes operating decisions
- Bears final responsibility

Staff Manager

- Has special expertise
- Provides ideas
- Solves special problems
- Makes plans
- Serves authority
- Assists others
- Investigates in detail about problems.

3) Line & Staff Organization

The line & staff organization is midway between line and functional organization. There are 2 types of officers — line and staff officers.**Line managers** have line authority and are directly concerned with the accomplishment of organizational goal.**Staff officers** are intended to provide expertise, advice and support to the line managers.Line authority is formal and created by the organizational hierarchy.Staff authority may be of two types — authority to advise and functional authority.

Authority flows from top to bottom through the line managers.Unity of command along with specialized staff expertise.

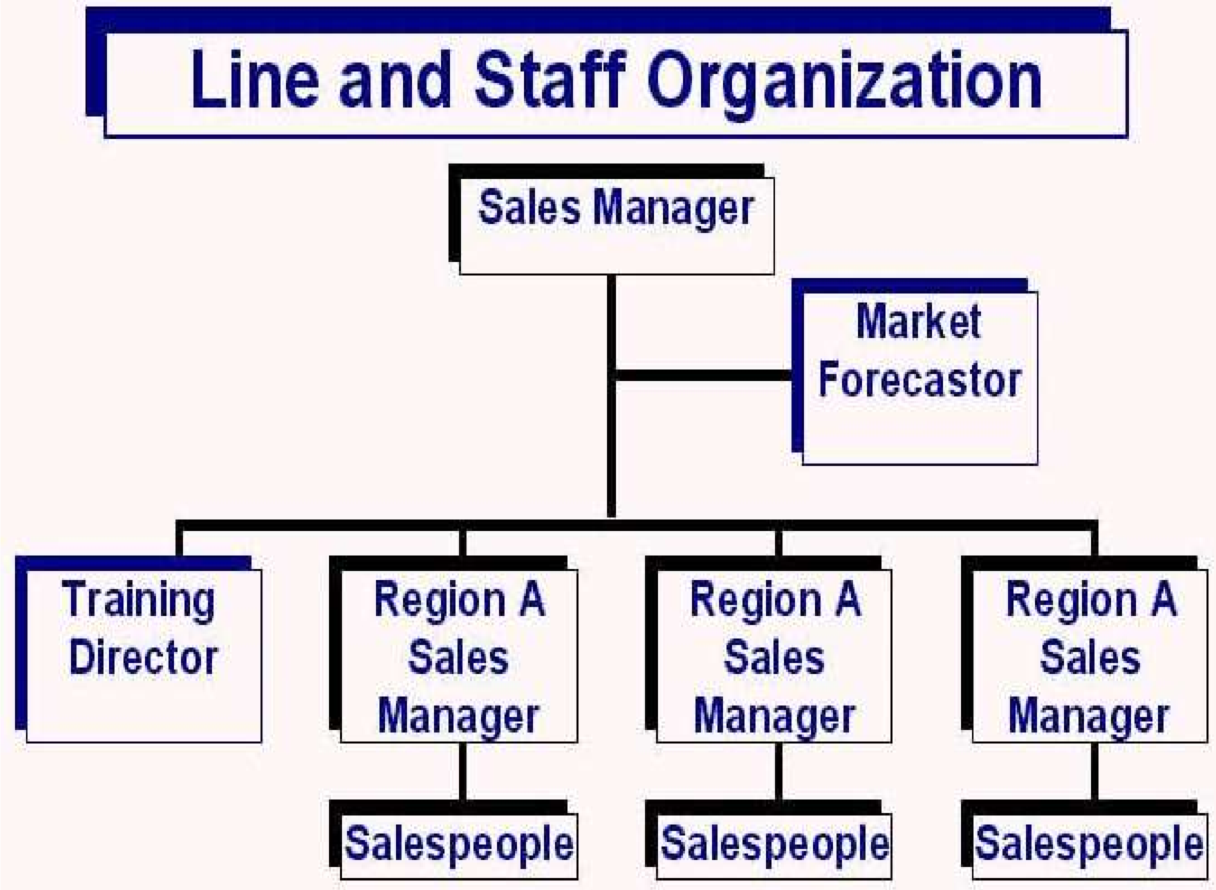
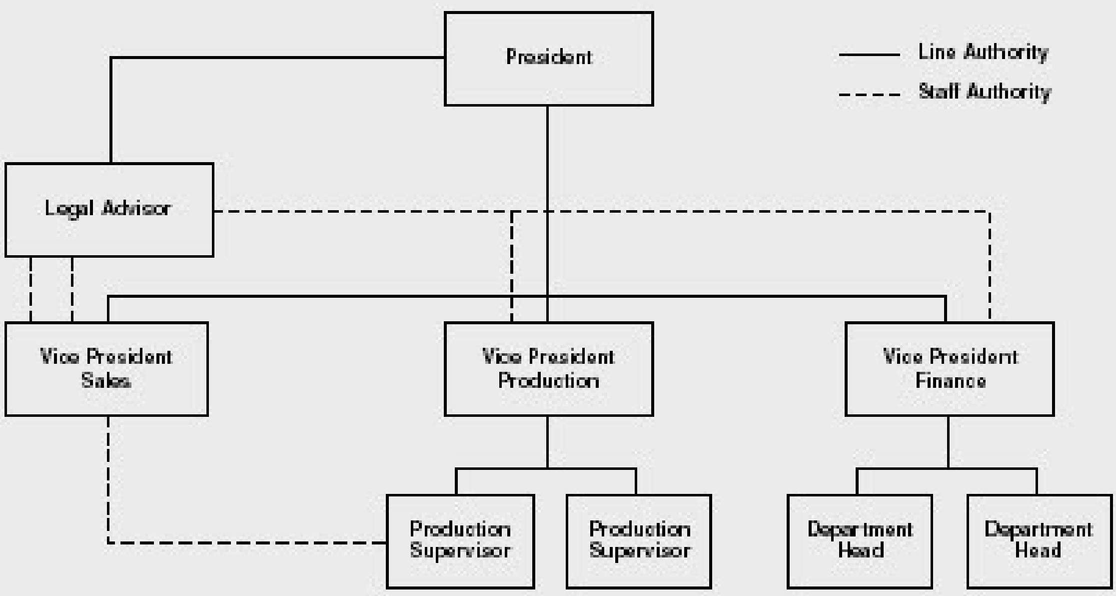


Figure 1
Line-and-Staff Organization



Merits of Line & Staff Organization:

- **Planned specialization –** The line & staff organization combines 2 types of functions — routine & creative. The creative function helps in finding creative solution to problems and are carried out by staff officers. The routine function takes care of the execution of work and is managed by line managers.
- **Reduction of burden –** Some areas like training, PR, Departmental planning are taken care by staff people thereby decreasing the load of the line managers.
- **Better decision-making – T**he staff officers with their expert knowledge guide the managers in problem solving and effective decision making.
- **Improved synchronization –** Since decision making is supported by expertise in the required areas it helps in synchronising the decisions.
- **Training & Development –** The presence of staff managers forms the basis of training and development of line executives in specialised areas.

Demerits of Line & Staff Organization:

- **Conflict of interests –** In many occasions line and staff may differ in opinion leading to conflict.
- **Confusion in employees –** The presence of two authorities at the same time creates a lot of confusion among the employees. This leads to misunderstanding and can create obstruction in the way of smooth functioning of the organization.
- **Overdependence on the staff experts –** The line managers get in the habit of depending on the staff experts for advice at all points in time even for minor, routine affairs. This reduces the control on line subordinates which may lead to problems in discipline.
- **Supposition of authority–**Since the authority is vested with the line executives, staff members feel that it is biased.
- **Indifferent staff officer in the absence of authority –** At the end it is the line managers who are accountable for the success of the failure so no accountability of staff officers who tend to be indifferent.

Line managers' viewpoint

- The staff officers encroach on their authority and try to impose their ideas.
- Staff officers are more theoretical and less practical.
- Staff officers have no direct accountability.
- Staff officers take credit for the success of any decisions and blame line subordinates for any failure.

Staff Officers' viewpoint

- Line managers generally ignore the good advice of staff officers.
- Line subordinates lack vision and usually resist new ideas.
- Due to the limited authority on line subordinates, they face difficulty in implementing their ideas by line subordinates.

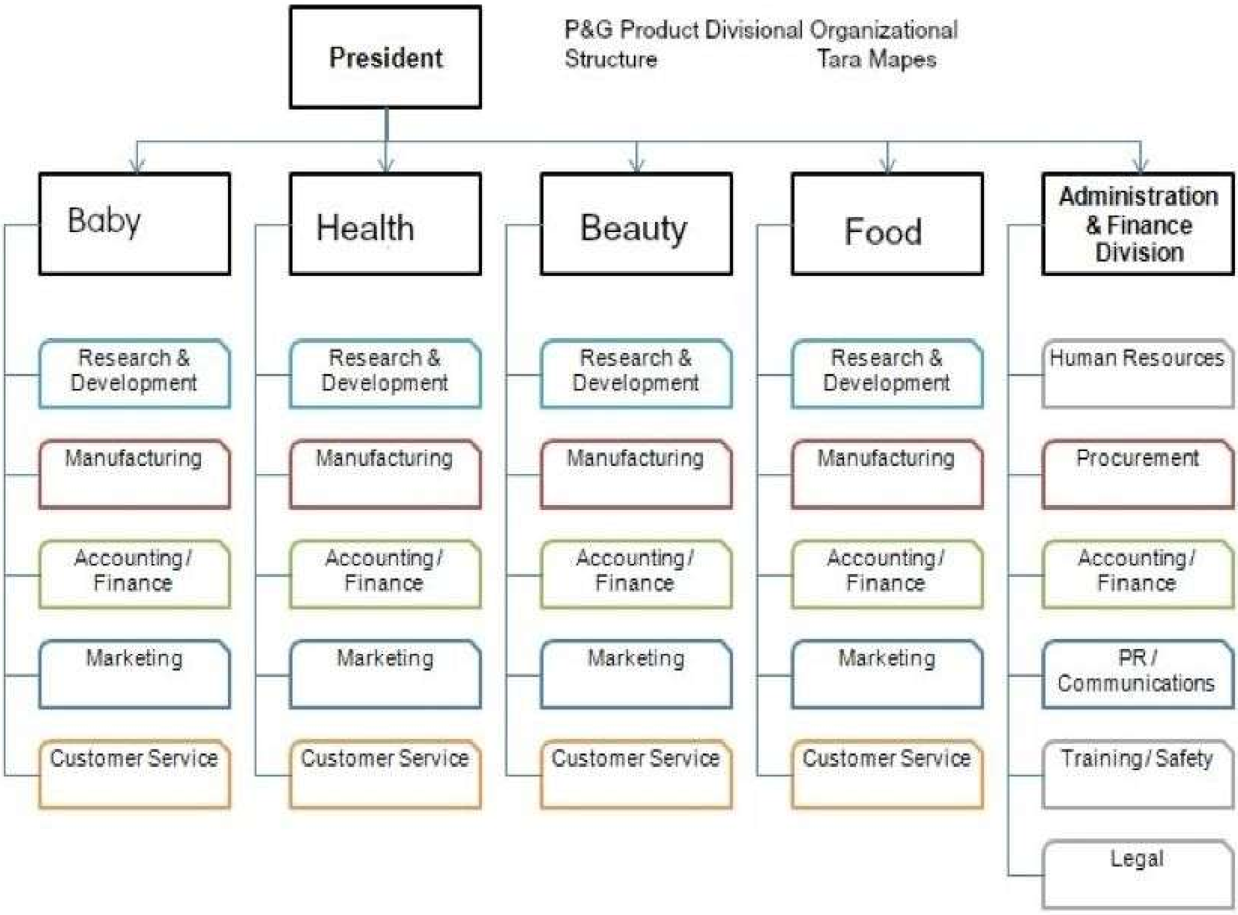
Improving the Line & Staff Relationship

- There should be clear demarcation between the line authority and the staff authority.
- Staff officers should be properly trained not only to give advice but also convince the line managers to consider their advice.
- Some amount of functional authority should be delegated to staff.
- Staff should understand the problem in implementation of decisions and cooperate with line people.

4) DivisionalOrganization

In this structure, the organization is divided into independent business divisions, where the division has the capability and assets to carry out independent operations.It is a set of autonomous units coordinated by a central head office.Each divisional manager has the operational authority for planning and decision making.They are free to exercise their authority but within the overall guidelines of the head office.Each division is characterized by division of labour, high formalization and centralization of authority.Every division has its own sub-divisions or Strategic Business Units (SBU) which focuses on a certain market, segment of customers or products. This is applicable for organizations which serve diverse customer segments.

Ex- PepsiCo, Gap



Merits of Divisional Organization:

- The divisional structure puts more emphasis on product and customers for generation of revenue.
- There is greater managerial motivation and sense of competition.
- There is shift in decision making towards the lower levels of managementwhich helps in enhancing the capabilities of the organization.
- Poor performance of one division doesn't affect other divisions as they are independent.

- By adopting this structure, the organization can respond rapidly andadequately to the changing market needs.
- The head office can focus on strategic planning and decision making as it is relieved from day to day operations.

Demerits of Divisional Organization:

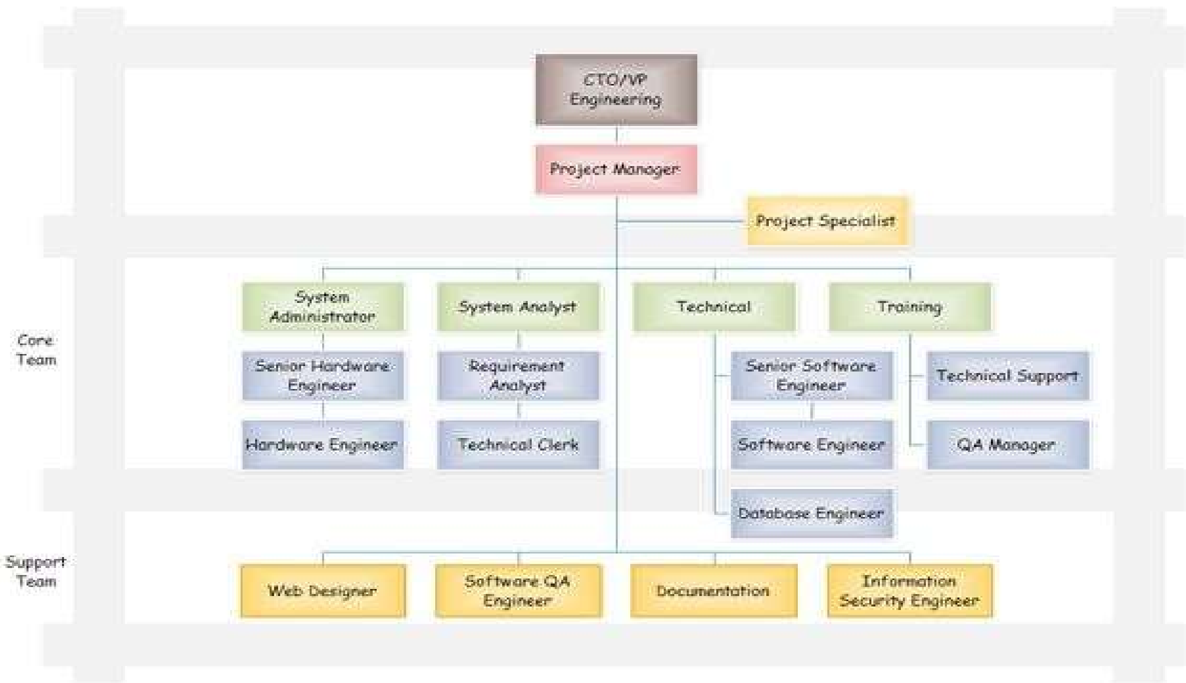
- Each division can have departments for marketing, accounting, manufacturing etc leading to duplication of and this increases cost in maintaining different divisions.
- At times the goal of division overrides the goals of the organization.
- There is lack of functional / technical expertise in divisions.
- Control on each division and coordination among the various divisions is a challenge.

5) Project Organization

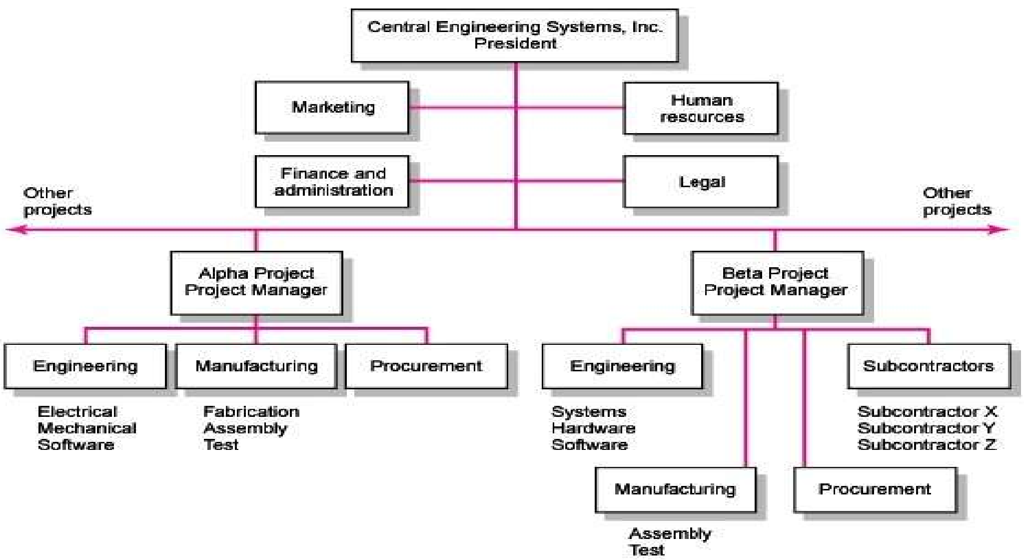
The idea of project organization revolves around assembling an expert panel for working on and accomplishing a specific project.There are various horizontal organizational divisions for accomplishing long-run projects.The team for each project varies in size. Each project team has a manager who is responsible for monitoring the activities of team members with the assistance of various experts from inside or outside the firm. It is used in organizations like aerospace, aircraft production, building and construction, management consultancies.A project team is temporary in nature and as the project finishes the experts are assigned tosome other projects.

Ex – American Airline, Royal Bank of Scotland

Project Team Development



Project Organizational Structure



Merits of Project Organization:

- It allows undivided attention and concentration on complicated projects.
- Timelines can be catered to without disrupting the routine activities of other divisions.
- This structure allows the organization to adopt a logical approach and horizontal flow as each project has a clear beginning and end points, with definite results.
- Motivates creative ideas and innovation by allowing team members to work with subject experts.
- It is suitable for frequently changing conditions such as those seen in the case of constructors, accounting firms, advertisement agencies and consultancies.

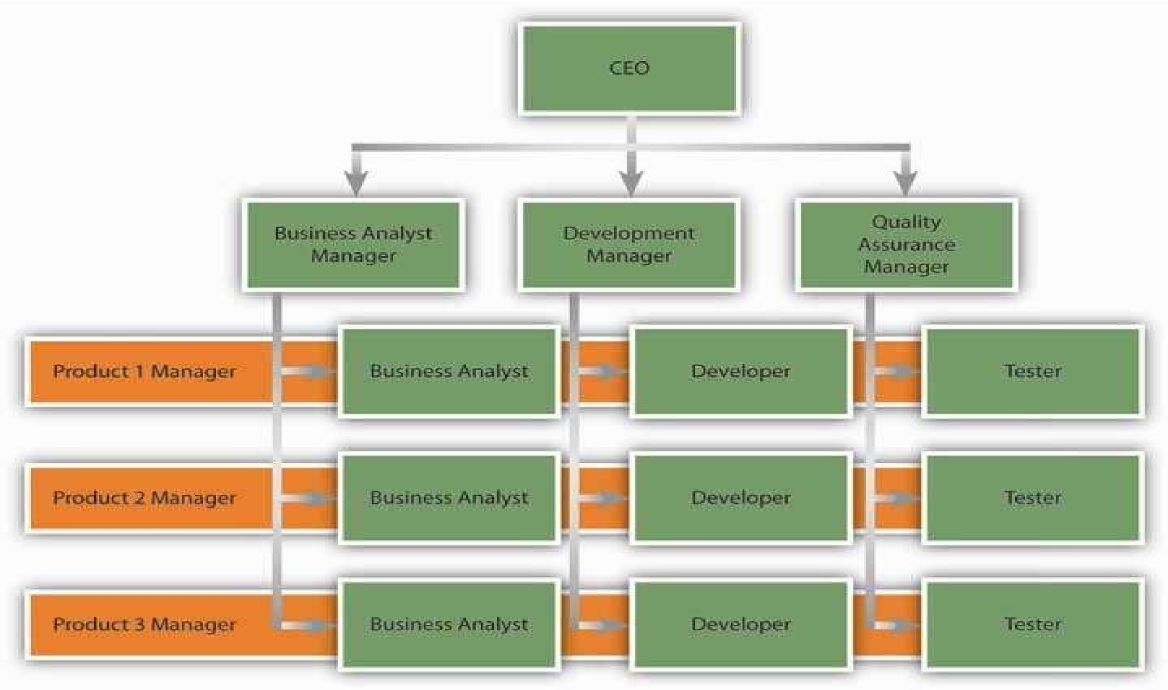
Demerits of Project Organization:

- In the absence of properly described procedures, roles, proper channels of communication a lot of ambiguity exists.
- The responsibility for the results of the project lies with the manager of the project. This is a type of restricted authority for the project managers as he hasto depend on others for funding, HR and other issues.
- Since the project structure is created separately, the employees feel insecure about their positions. There may be conflict in job roles and wastage of available resources.

6) Matrix Organization

This is also known as "**grid**". The matrix structure is very popular these days as it tries to meet the needs evolving from increasing size and complications of the organization which requires more flexibility. It is a combination of vertical and horizontal authority. The employees are accountable to two heads — the functionalhead and the project manager. It has multiple command structure. It doesn't followunity of command. There is dual chain of command.Project manager exercises hisauthority over the project employees to achieve project goals. Departmental manager exercises authority over project employees for overall performance basing on which he recommends promotion, increment etc.

Ex – Citibank, Shell, Texas Instruments



Merits of Matrix Organization:

- Amalgamation of technical expertise with focus on organizational objectives.
- Proper planning and control.
- Adaptable to environmental changes.
- Flexible approach.
- Produces an environment of effective motivation and proper communication.

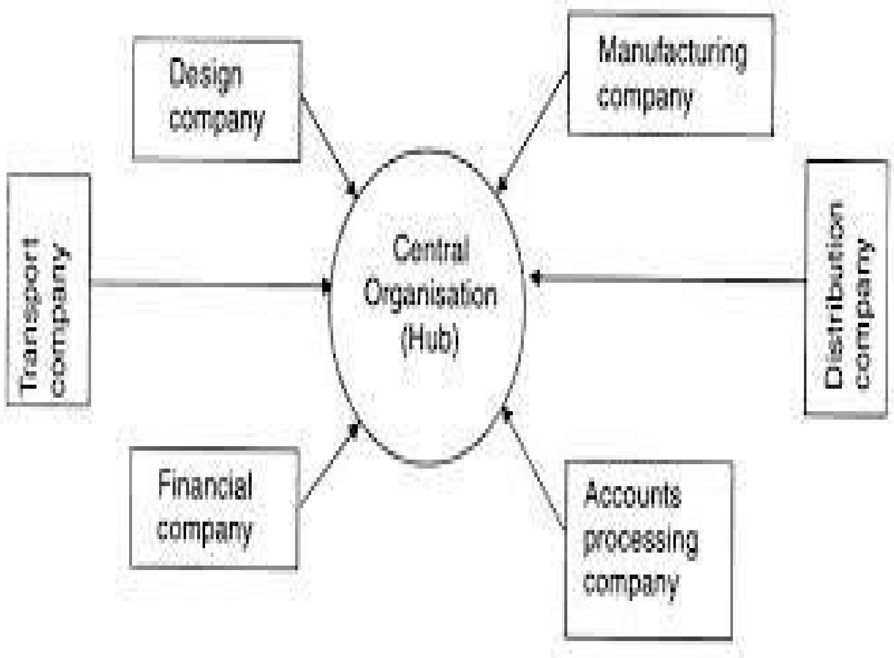
Demerits of Matrix Organization:

- Since there is no unity of command it creates ambiguity in the lines ofauthority.
- Employees work under dual command so there are chances of struggle for authority among functional and project executives.
- This dual structure often leads to stress.
- Joint decision making leads to delays.

7) **Network Organization**

This type of organizational structure is slowly gaining popularity due to its high flexibility and low cost of operation. It is a small centralized structure which depends upon other organizations for production, distribution and marketing functions on a contract basis.The core of network orgn is a small group of executives who coordinate various activities through computer networking. Managers in this type of organization spend most of their time in coordination and control of various external activities.This kind of structure is seen mostly in toy mfg, software firms etc.

Examples – Nike, eSPIRIT, Emerson, Modicare, Amway



Merits of Network Organization:

- The controlling and coordination is more effective aa there are lesser no. of employees.
- There is high individual participation.

- This kind of structure helps the organization to cross geographical boundaries easily.
- The network partners can be replaced if not up to standard.
- Network structure can easily compete on a global scale as they can draw resources from the various parts of the globe to offer best quality at competitive prices.
- This organization is highly flexible and adaptable to changing needs.

Demerits of Network Organization:

- There is limited control on the activities outsourced to independent contractors.
- An employee's commitment to the organization may be low as there is a lackof cohesive corporate culture.
- There is high uncertainty as all functions are not under direct managementcontrol.

8) Virtual Organization

It is similar to a network organization requiring sharing of technology and skill. But the level of inter-dependency is much higher. It is a business without walls. In this structure a temporary network of independent companies, suppliers, customers and rivals linked by information technology come together to share skills, costs and to access one another's markets.The goal is to deliver highest quality product in the lowest time possible in a timely manner. Here each sharing company contributes its core competence so there is high level of trust and participation. There are no external and internal boundaries as all partners work together seamlessly.

Ex- Corning (Glass and Ceramic manufacturer), Sun Microsystems, Sony

9) Learning Organization

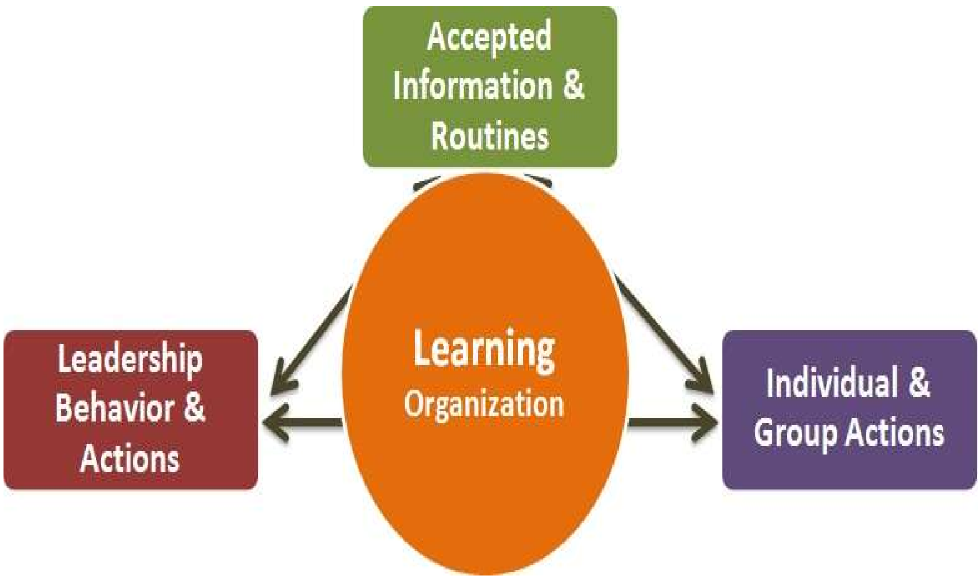
This type of company has the capacity to improve its performance through past experience. This company facilitates learning of its employees and constantly transforms itself.The main emphasis in learning orgn is on problem solving. Each employee looks for problems and ways to solve them.The process of learning is monitored systematically to achieve sustainable competitive advantage.For example, employees try to find out the needs of the customers and unique waysof meeting them.

Examples – Yahoo, CTS, Mindtree, IBM

Distinctive features of Learning Organizations:

- **Shared Leadership**–Here the principle of leadership is based on control of subordinates by building relationships.There is a shared vision.

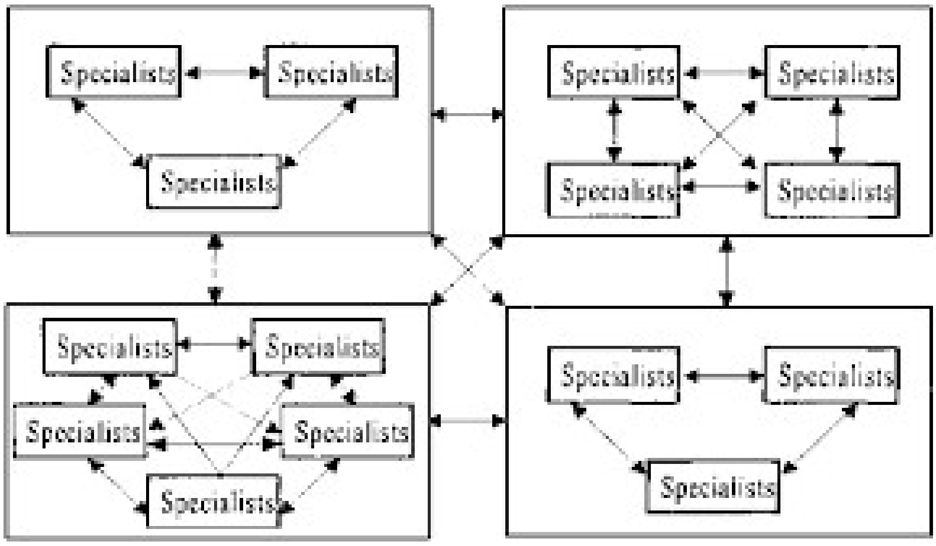
- **Strong and adoptive culture for innovation** - Innovation is a key part of the culture so risk taking, improvement and change is a constant process.
- **Participative strategy** - Strategies are formulated at different levels hence more participative in nature.
- **Team based structure** – This structure comprises of teams which are self – directed. The free flow of ideas is encouraged through teamwork. Autonomy and exchange of ideas helps in innovation.
- **Intensive use of information** - Information is vital to these organizations as learning organizations are full of information required to identify the needs and solve the problem.
- **Empowerment of employees** - Employees are given power, freedom and knowledge required to take decisions. As employees are the primary source of strength, this organization provides good salary, working condition and opportunity for personal development.



10) BoundarylessOrganization

It is a contemporary approach to organizational design.The company is not defined by horizontal, vertical or external boundaries. This concept was first developed by Jack Welch. He wanted to eliminate all vertical and horizontal boundaries. They have no clear chain of command and no fixed span.Departments are replaced by cross-functional teams and cross-hierarchical teams.Organization is flat and more flexible in nature.

Examples - Apple



Types of organizations (Some more concepts)

Bureaucratic Organization: These perform routine-driven operations and specializedtasks. A bureaucratic organization follows a set of formal rules and regulations and centralized decision-making process. In addition, the strength of the bureaucratic organization lies in the fact that it has the ability to perform standardized activities in ahighly efficient manner.

Democratic Organization: It emphasizes upon open relationships and reporting authorities. This organization supports complete freedom and high level of initiatives and innovation. In the democratic organization, the decision-making process is a decentralized process, which implies that employees are involved in the decision- making. In addition, the democratic organization neither focuses on specialization to perform various tasks nor follows any formal rules and regulations. The span of control in the democratic organization Is not very formal and to keep the workflow smooth. In such an organization, specialization and departmentalization do not exist.

Participative Organization: Lies somewhere between democratic and bureaucratic setup as it takes the middle route and positive features of both. In a participative organization, decision making power is neither completely centralized nor decentralized rather it follows participative decision-making process. The participativeorganization practices specialization but not very rigidly. In addition, it is more flexible than bureaucratic organization but less flexible than the democratic organization.

Pyramid Organization: Contains various levels of management. In the pyramidorganization, the decision-making process is highly centralized; therefore, takes time. The pyramid organization follows a hierarchical structure containing top-level middle- level and low-level management. Major decisions are made by top-level managers and passed on to employees down in the hierarchy Therefore, each person at each level works to satisfy some person or the supervisor one level above. There is little concern for the people's needs in the pyramid organization.

Simple Organization: Itconstitutes the features, such as existence of low degree of specialization, presence of wide span of control, centralization of authority in a single person, and formalization. This type of organization is also known as the flat structured organization and usually contains two or three vertical levels accompanied by expanded horizontal levels. In other words, it is like a flat, wide based pyramid- Examples of simple organizations are small-sized businesses, small partnership firms, or single owner enterprises.

Formal & Informal Organizations

Formal organization

A group of people working together cooperatively, under authority towards goals that mutually benefit the participants and the orgn. It is a system of well-defined jobs,each bearing a definite measure of authority, responsibility and accountability.

Characteristics:

1. **Defined Interrelationship** – In this organization there is a clear definition of mutual relationship. Everybody knows their authority and responsibilities and who is reporting to whom.
2. **Based on Rules & Procedures** — Rules and procedures are pre- determined in the formal organization. The objectives are laid down andachieved.
3. **Based on division of work** – Work is divided and the inter departmental connections are clarified.
4. **Has its own norms or rules for social behavior** – The code of conduct is laid down and expected to be followed.
5. **Creates authority** — This is one of the most significant criterions of an organization without which an organization cannot exist.
6. **Bureaucracy** — This refers to the arrangement of the organization designed to carry out its day to day business. It is represented by a hierarchy of officials who are assigned different responsibilities and provided with different statuses and roles.

Merits of Formal Organization

- Since the authority and responsibility are fixed it is easier to fix accountability.
- It is possible to observe the principles of unity of command in presence ofscalar chain of authority.
- Under the formal organization, it is easy to set goals and achieve thembecause there is optimum utilization men an material.
- All the people work by observing rules and remain confined within the domainof the authority.

Demerits of Formal Organization

- Due to the rigid nature, working in a formal structure can often lead to job dissatisfaction and demotivation.
- The formality of the structure kills the creativity and innovation of employees inthe organization.
- In formal organizations, everything goes through the system which leads toleads to delay.

Informal organization

A network of personal and social relations not established or required by the formal organization,but arising spontaneously as people associate with one another.The informal organization may or may not support the formal goals and objectives. Hence it is the manager's responsibility to recognize informal relationships and integrate both the forms to achieve desired goals.

Characteristics:

1) **Creation** - It emerges on its own in a natural manner as a result of social interactions among people.
2) **Participative** - Employees participate in decision making and involvement oriented.
3) **Structure** – It doesnot have a clear and well-defined structure because it is a complex network of social relations among the members.
4) **Authority** -The authority in an informal organization is personal and is given by group members.
5) **Degree of flexibility** – It is more flexible as it is evolved by mutual consent ofgroup members.
6) **Use of Grapevine**–It makes more use of informal channels of communication (popularly called grapevine). This is a faster means of communication but at times could also be responsible for baseless rumours.
7) **Chain of Command** – It may or may not follow chain of command.
8) **Leadership** — Informal leaders are chosen. He may be of the same level as his team members.

Merits of Informal Organization

To Employees

- Sense of belongingness
- Scope for innovation and originality
- Clear channels of communication
- Less authoritative

To Employers

- Effective communication
- Better relationship between superior and subordinates
- Less supervision

Demerits of Informal Organization

- Role conflicts may arise — Group objectives van become bigger than organization's objectives
- More loyalty towards group than organization

Difference between Formal and Informal Organization

Basis	Formal communication	Informal communication
1.Nature	Authoritarian in nature	Democratic and friendly in nature
2.Official recognition	Since it follows official rules, it has official recognition.	It is not officially recognized channel of communication.
3.Secrecy	Official secrecy is maintained in formal communication system.	It is occurred by open discussion, so official secrecy is not maintained.
4.Delegation of authority	It facilitates delegation of authority.	It has no roles in delegating authority.
5. Rumor	No scope of creating and spreading rumor.	Greater scope of creating and spreading rumor.
6.Distortion	No chance of distortion of message.	Here message are distorted frequently.
7.Discipline	It helps to maintain discipline in the organization.	It may create indiscipline in the organization.
8.Cost	It is expensive and requires more cost.	It is less expensive and requires no or low cost.
9.Time	It is time consuming.	It is less time consuming.
10. Relationship	Little scope to build up labor management relationship.	Higher scope to build up labor management relationship.
11.Flexibility	Not or less flexible.	Highly flexible.
12.Permanent documents	Formal communication is done by written documents and it documents an official record.	Generally, informal communication is occurred verbally and it has no document.
13.Information flow	Formation can flow only upward and downward direction.	Information can flows freely to all direction.
14.Obligation	It is obligatory to follow every employee.	It is not obligatory to follow.

Organizational Design

The determination of the organizational structure that is most appropriate for the strategy, people, technology, and tasks of the organization is known as Organizational design.

Objectives of OD:

i. To facilitate information gathering so that managers can take efficientdecisions.
ii. To achieve coordination among all involved.

Basic Issues in Organizing / Basic Elements in Organizational Design

A. Work Specialization
B. Departmentation / Departmentalization
C. Chain of Command
D. Span of Control
E. Centralization & Decentralization
F. Formalization

A. Work Specialization

- It is the degree to which tasks in an organization are divided into separatejobs.
- It is also known as Division of Labour.
- It is based on the principle that employees can work more efficiently if they are allowed to specialize.
- Work specialization creates efficiency and productivity.
- However, it can also result in boredom, fatigue, stress, low productivity, poorquality and increased absenteeism.

- If a specialized person leaves a company it is difficult to replace himimmediately.
- Companies are enlarging jobs to provide greater challenges and creatingteams so that employees can rotate jobs.

B. Departmentation

- It is the basis by which jobs are grouped together.
- The various tasks and activities of an organization are divided into smaller, manageable components to facilitate efficient achievement of objectives.
- The basic need for departmentation is to make the size of each departmentalunit manageable and secure the advantages of specialization.

Need for Departmentation

- *Advantages of Specialisation: Departmentation enables an enterprise to avail of the benefits of specialisation. When every department looks after one major function, the enterprise is developed and efficiency of operations is increased.*
- *Feeling of Autonomy: Normally departments are created in the enterprise with certain degree of autonomy and freedom. The manager in charge of a department can take independent decisions within the overall framework of theorganisation. The feeling of autonomy provides job satisfaction and motivation which lead to higher efficiency of operations.*
- *Expansion: One manager can supervise and direct only a few subordinates. Grouping of activities and personnel into departmentation makes it possible forthe enterprise to expand and grow.*
- *Fixation of Responsibility: Departmentation enables each person to know the specific role he is to play in the total organisation. The responsibility for results can be defined more clearly, precisely and accurately and an individual can beheld accountable for the performance of his responsibility.*
- *Upliftment of Managerial Skill:Departmentation helps in the development of managerial skill. Development is possible due to two factors. Firstly, the managers focus their attention on some specific problems which provide them*

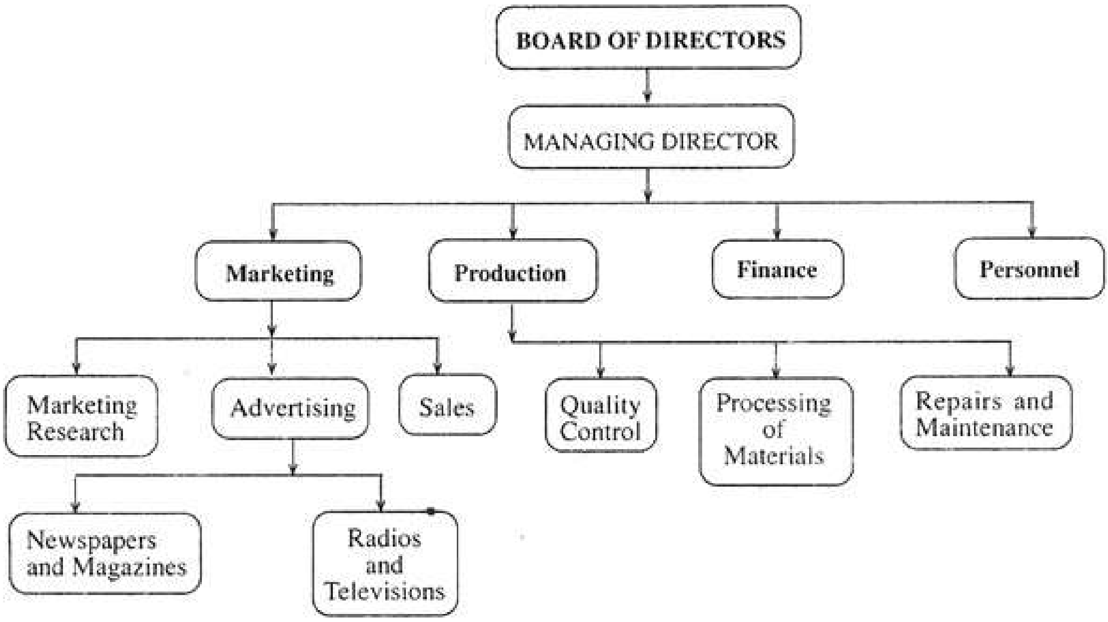
effective on-the-job training. Secondly, managerial need for further training can be identified easily because the managers' role is prescribed and training can provide them opportunity to work better in their area of specialisation.

- *Facility in Appraisal: Appraisal of managerial performance becomes easier when specific tasks are assigned to departmental personnel. Managerial performance can be measured when the areas of activities are specified and the standards of performance are fixed. Departmentation provides help in boththese areas.*

- *Administrative Control: Departmentation is a means of dividing the large and complex organisation into small administrative units. Grouping of activities andpersonnel into manageable units facilitates administrative control. Standards ofperformance for each and every department can be precisely determined.*

Types of Departmentation

1. **Departmentation by Function -** This is the most popular basis of departmentation. The enterprise may be divided into departments on the basis of functions like production, purchasing, sales, financing, personnel etc. If necessary, a major function may be divided into sub-functions. For example, the activities in the production department may be classified into quality control, processing of materials, and repairs and maintenance.



Merits of Departmentation by Function

- It ensures the performance of all activities necessary for achieving the organizational objectives.
- It provides occupational specialization which makes optimum utilization ofman-power.
- It facilitates delegation of authority.
- It enables the top managers to exercise effective control over a limited numberof functions.
- It eliminates duplication of activities.
- It simplifies training because the managers are to be experts only in a narrowrange of skills.

Demerits of Departmentation by Function

- There may be conflicts between departments.
- The scope for management development is limited.

- There is too much emphasis on specialization.

- There may be difficulties in coordinating the activities of different departments.
- There may be inflexibility and complexity of operations.

2. **Departmentation by Product -** Multi-product organizations with wider markets prefer to group activities based on products or product classes. Hereeach unit has the capacity of designing, producing and marketing its own product. Product departmentation is useful when the expansion, diversification, manufacturing and marketing characteristics of each product are primarily significant. The product manager has the sole responsibility of the product.

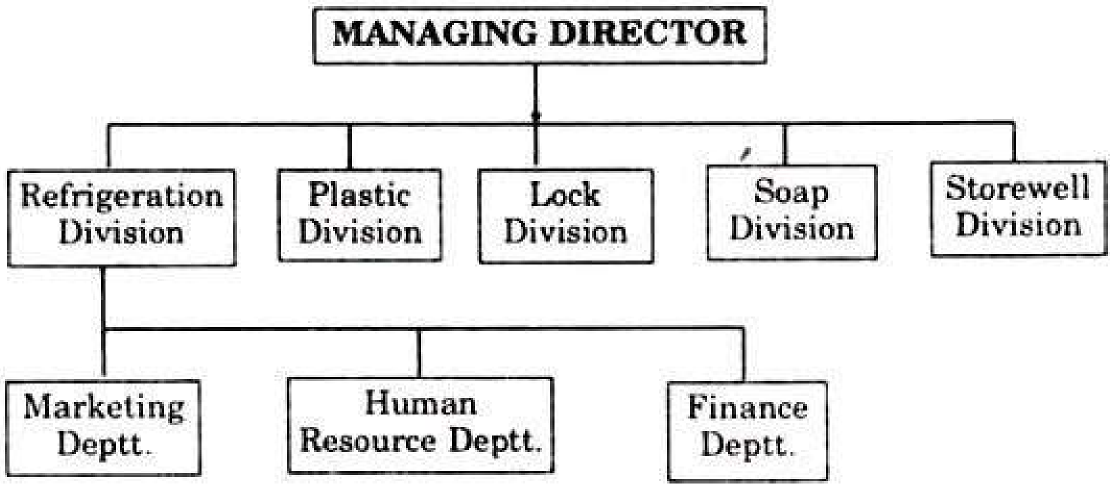


Fig. 6.7. Departmentation or geographic by product.

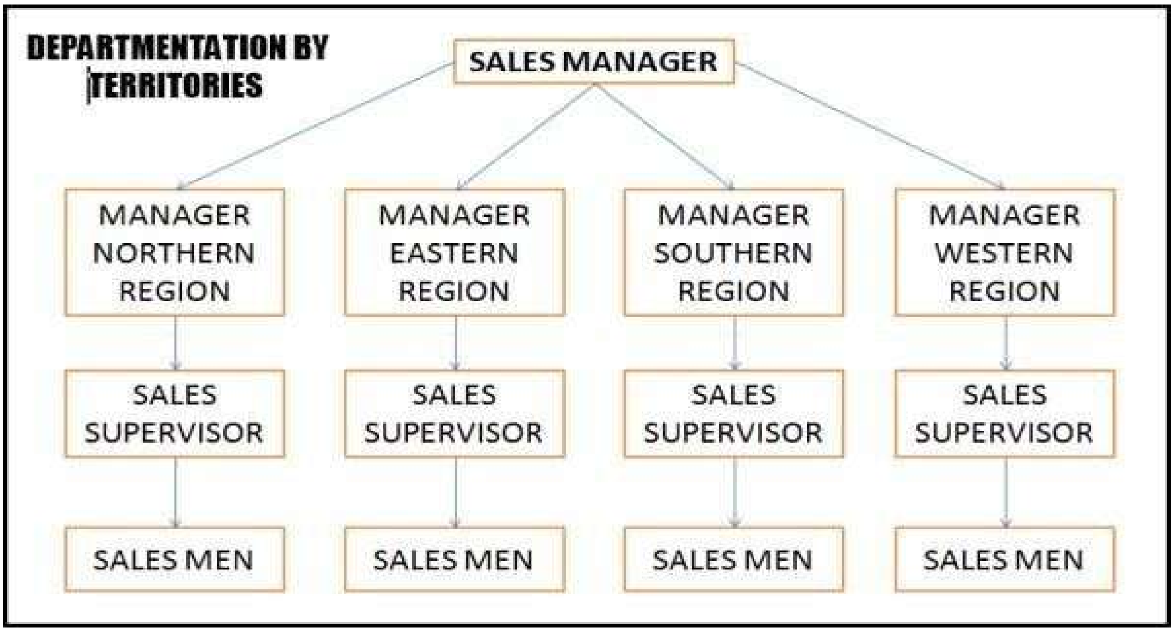
Merits of Departmentation by Product

- It allows specialization in particular products and services.
- Marketing strategy becomes more pragmatic.
- It allows faster change in product line.
- Responsibilities are clearly defined for each product line.
- It helps to get closer to customers for satisfying their demands.
- Diversification and expansion is given more attention. Facilitates decentralization

Demerits of Departmentation by Product

- It increases management cost. Service functions are duplicated both at the topand at the operating levels of management.
- Proper coordination of activities across the product line is not ensured.
- It may encourage conflicts in resources allocation across product lines.
- It confines personnel to their own product lines.

3. **Departmentation by Territory -** Territorial or geographical departmentation is specially useful to large-scale enterprises whose activities are widely dispersed. Banks, insurance companies, transport companies, distributionagencies etc. are some examples of such enterprises. All the activities of agiven area of operations are grouped into zones, branches, divisions etc. Allfunctions involving customers within a particular area are put under onemanager. The market is divided into sales territories and a territory manager isput in charge of each territory.



Merits of Departmentation by Territory

- As things needed for production and distribution are available at one place, itsaves time and cost.

- Local market knowledge helps in better problem solving.
- Efficient and flexible span of control.

Demerits of Departmentation by Territory

- Extensive rules & regulations are required to coordinate various locations.
- It minimises the control of headquarters.
- It causes repetition of activities.

4. **Departmentation by Process / Activity–**This type of departmentation is usually used in product oriented industries. Here production of goods takes place in different stages, where each deptt is allocated for different stages of the process. Output of one deptt becomes the input for another deptt.

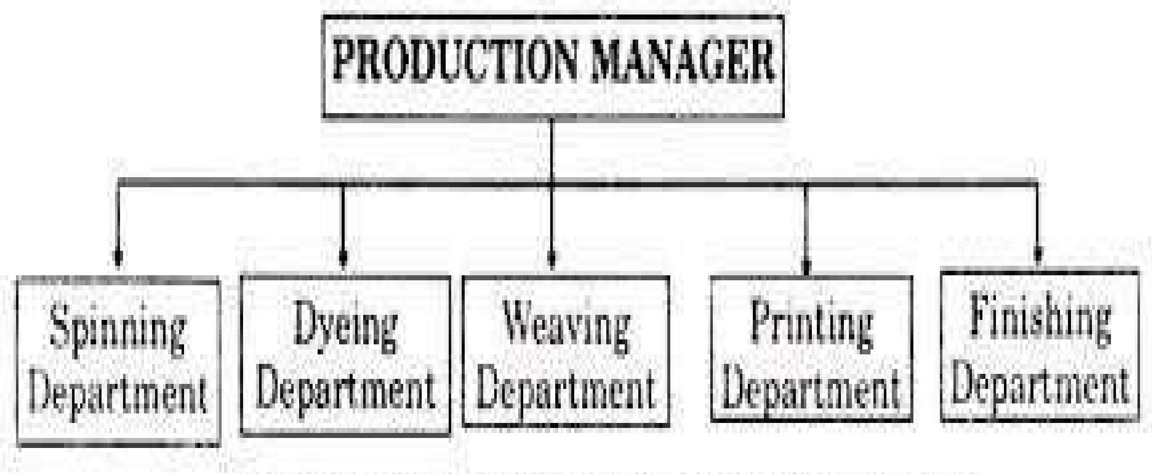


Fig. 6.10. Departmentation by process (Textile mill)

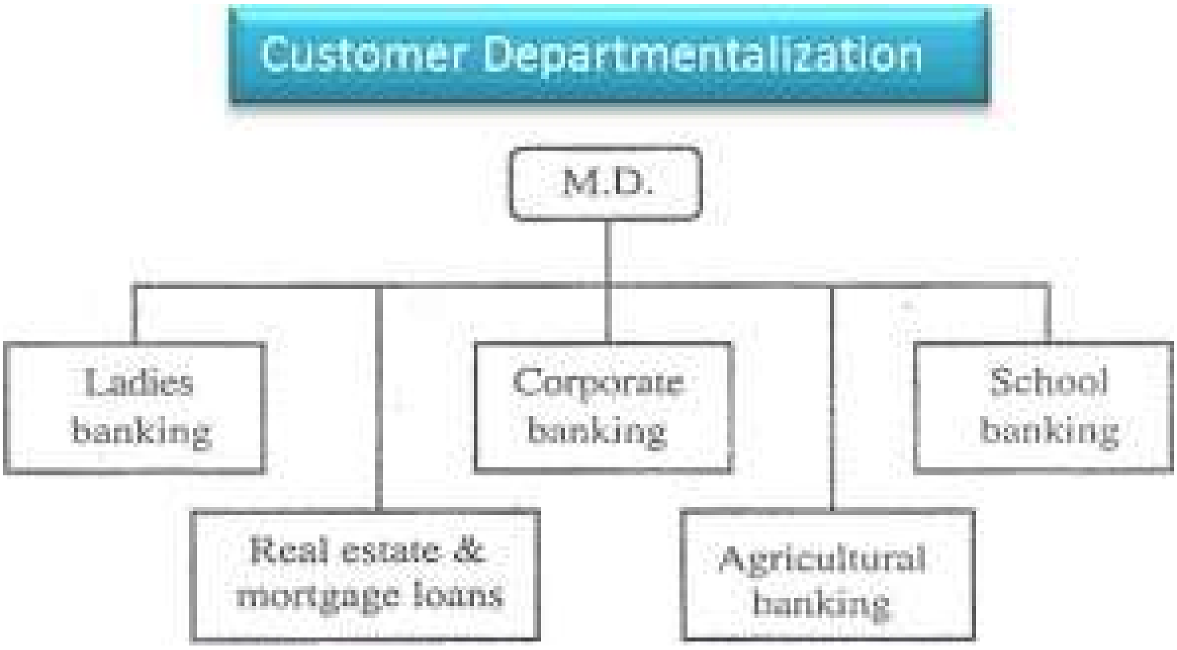
Merits of Departmentation by Process / Activity

- Better coordination among various deptts by grouping the activities which areessential for the completion of each stage.
- Facilitates effective utilization of specilaized equipment.
- Heads of each process deptt are held accountable for the performances oftheir respective departments.

Demerits of Departmentation by Process / Activity

- Failure in one process dept. can hamper the functioning one another deptt.
- No concentration on organizational goals.
- No responsibility of profit making.
- Repetition of general machinery and wastage of resources.

5. **Departmentation by Customer or Service –** This is done when focus is on customer requirements. Suitable for organizations which serve diverse customer groups. To give individual attention to different buyers in the market, marketing activities are often split into several parts.



Merits of Departmentation by Customer or Service

- Customers' need and problems are easily met by specialists.
- Organization gains an in depth knowledge about various customer segments.

Demerits of Departmentation by Customer or Service

- Coordination among various departments becomes a tedious process.

- It may encourage conflict in resource allocation among divisions.
- Employees may be pressurized by particular customer segments for privileges.

C. Chain of Command

The continuous line of authority that extends from the upper organizational levels tothe lowest levels and clarifies who reports to whom.
There are 3 inter-related concepts which need to understood here –

a) **Authority-** The rights inherent in a managerial position to tell ppl what to doand to expect them to do it.

b) **Delegation -** The process to transfer authority from manager to hissubordinate in the organizational hierarchy.

c) **Responsibility -** The obligation to perform any assigned duties.

The chain of command is an unbroken line of authority that links all persons in anorganization and defines who reports to whom. This has 2 underlying principles :

a) **Unity of Command** – This principle states that an employee should have one and only one supervisor to whom he or she is directly responsible.

b) **Scalar Principle** — Each position in the organization structure is liked from the top to bottom. There is a clear line of flow of authority from the higher level to all the lower levels. Each subordinate must know who has delegated authority to him and to whom he is accountable.

D. Span of Control

It is also known as span of management. It describes the no. of subordinates whoreport to a manager or the no. of subordinates a superior can effectively supervise, direct and control. The Span of control is narrow at higher levels and its is wider at lower levels. Depending upon the no. of subordinates that are put under a single manager, the span of control is classified into :

i) Narrow Span of Control -

- Small no. of subordinates report to a single manager.
- Leads to taller organizational structure with many hierarchical levels.

Advantages–

- Possibility of closer supervision
- Monitoring of performance is easier
- Facilitates faster communication
- More scope of promotions and higher job titles

Disadvantages–

- More levels of management leads to higher chances of filtering, distortion anddelay in communication.
- Unnecessary interference by supervisors.
- Higher operational costs with increased overheads.

ii) Wide Span of Control

- A large no. of subordinates report to a single manager
- Relatively flat organizational structure with fewer hierarchical levels.

Advantages –

- Lesser overheads
- Superiors are forced to delegate as more no. of employees under them.
- Faster communication with lesser dsitortion

Disadvantages –

- Required highly competent managers and subordinates.
- Overload on superiors
- Danger if loss of command

Wide span means fewer levels of authority and Narrow span means many levels of authority. The principle of span of management presupposes departmentation and delegation of authority.

Need for Span of control

- Better supervision and control
- Increases efficiency and team spirit
- Leads to good coordination and supervision
- Develops discipline
- Superiors can concentrate on other work

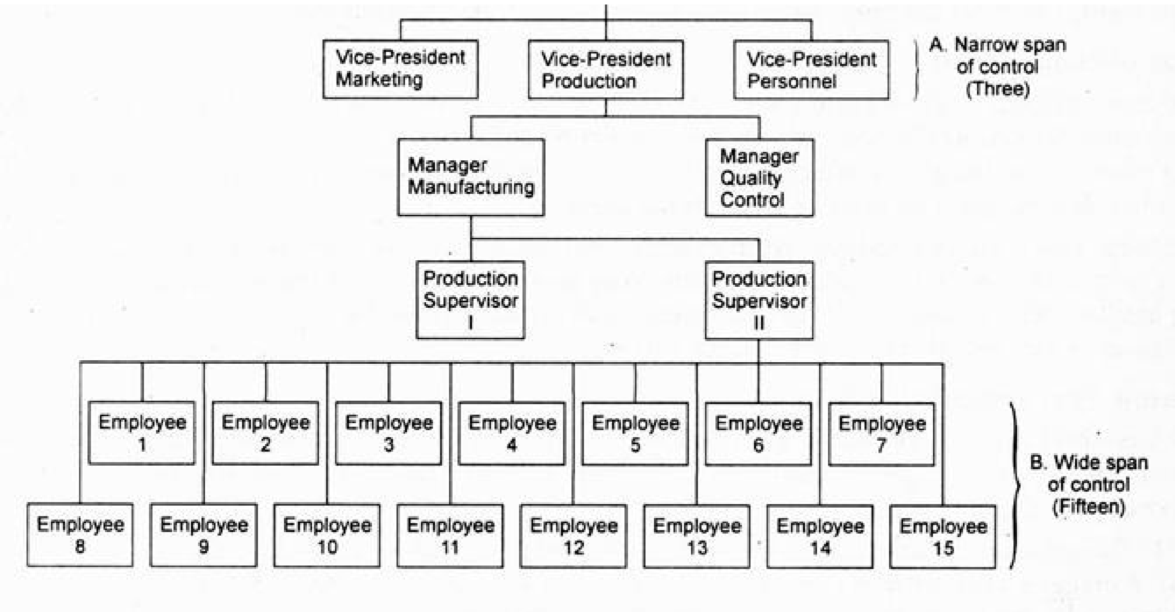


Fig.9.8 : Narrow and wide spans of control

E. Centralization & Decentralization

Centralization - The degree to which decision making is concentrated at a singlepoint in an organization.

Advantages of Centralization

- Common vision which leads to focus and coordination.
- Quicker decision making since handful of people are involved.
- Minimised conflict

- Ease in control of operations.

Disadvantages of Centralization

- Lack of creativity
- Communication gap
- Inflexibility
- Misinterpretation of orders

Decentralization - The degree to which lower — level employees provide input oractually make decisions.

Advantages of Decentralization

- Reduced workload on top management.
- Development of personnel.
- Ease in performance appraisal

Disadvantages of Decentralization

- Dependence on Personnel
- Not used in small organizations
- Ineffective in emergencies
- Requires information
- Tedious to monitor and control

F. Formalization

It is the degree to which jobs within the organization are standardized and the extentto which employee behaviour is guided by rules and procedures.

High Formalization

- Explicit job descriptions
- Numerous organizational rules
- Clearly defined processes
- Consistent & uniform output

Low Formalization

- Job behaviours are relatively unstructured
- Lesser organizational rules
- More freedom in how they work
- Output may not be consistent

Delegation

It is a process to transfer authority from manager to his subordinate in the organization hierarchy.Delegation helps in completing the work in time, reduces the workload of managers, and motivates and develops subordinates.When the work is assigned or delegated, adequate authority should be given with it.

Types of Delegation

A) **General or Specific Delegation**

i) Specific Delegation - Specific functions are assigned to particular persons.

ii) General Delegation – The subordinate is granted authority to perform all the functions in his department or division.

B) **Written or Unwritten Delegation**

i) Written Delegation – It is made by written orders, instructions, etc.

ii) Unwritten Delegation — The authority is delegated on the basis of custom orculture and is usually implied.

C) **Formal or Informal Delegation**

i)Formal Delegation – When authority is delegated as per the organizational rule.

ii)Informal Delegation — This take place when an individual or a group agrees towork under an informal leader.

D) **Downward, Upward and Sideward Delegation**

i) Downward Delegation – Superior assigns duties and delegates authorities to his immediate superiors.

ii) Upward Delegation — Passing along to superiors what the employees do notwant to do.

iii) Sideward Delegation – As subordinate assigns some of his duties and tasks to another subordinate.

Process of Delegation

a) **Determination of Results Expected –**The results expected from each position have to be identified properly. Authority should be delegated to a position according to the result expected from the position.

b) **Assignment of Duties –** Duties can either be in the form of activities or results. The duties need to be assigned accordingly.

c) **Authorisation for Action –**This involves the granting of permission to take action like making use of resources and other actions necessary to get thework done.

d) **Creation of Obligation –** A subordinate should feel that he is responsible for the total activities assigned to him.

Advantages of Delegation

- Reduces workload on managers
- Forms the basis of the superior – subordinate relationship
- Improves managerial effectiveness
- Develops managers

Disadvantages of Delegation

From a Superior's point of view

- Lack of confidence in subordinate
- Fear of Competition
- Love of authority
- Maintaining a tight control / perfectionism

From a Subordinate's point of view

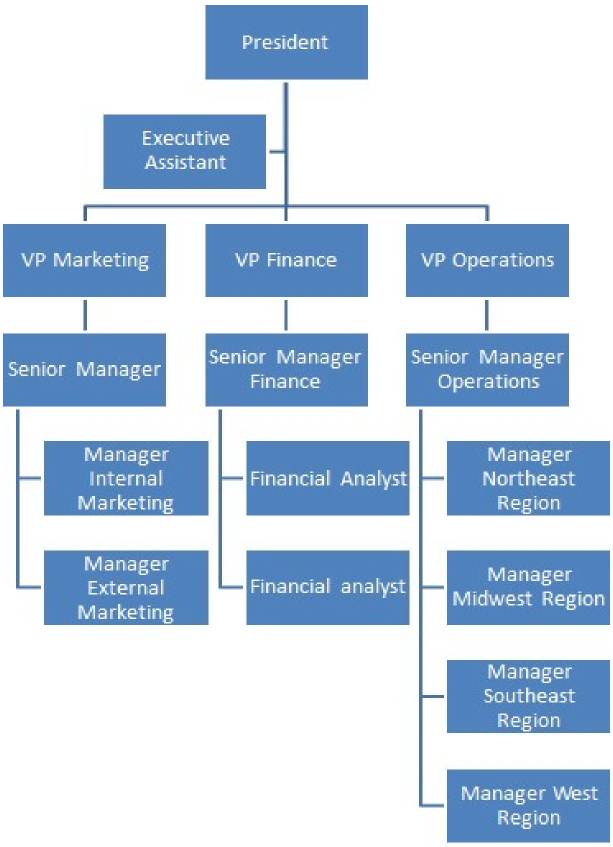
- Dependence on the superior for decisions
- Fear of criticism
- Lack of self –confidence
- Lack of positive incentives

Organizational Chart - Organization chart is a graphical representation of variouslines of authority and major functions with their respective relationships.

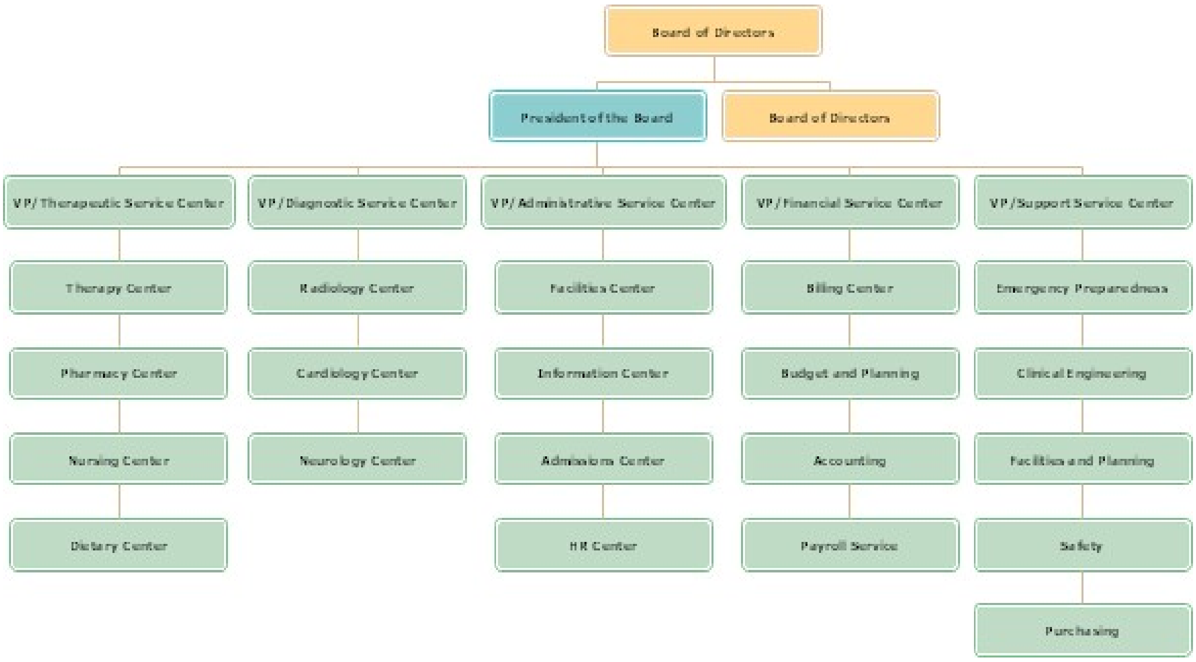
Features :

1) It is a diagrammatical presentation.
2) It shows the line of authority and responsibility among various positions.
3) It shows only the formal relationship and not the informal relationship.
4) It helps each employee in the organization to understand his position in the organization.

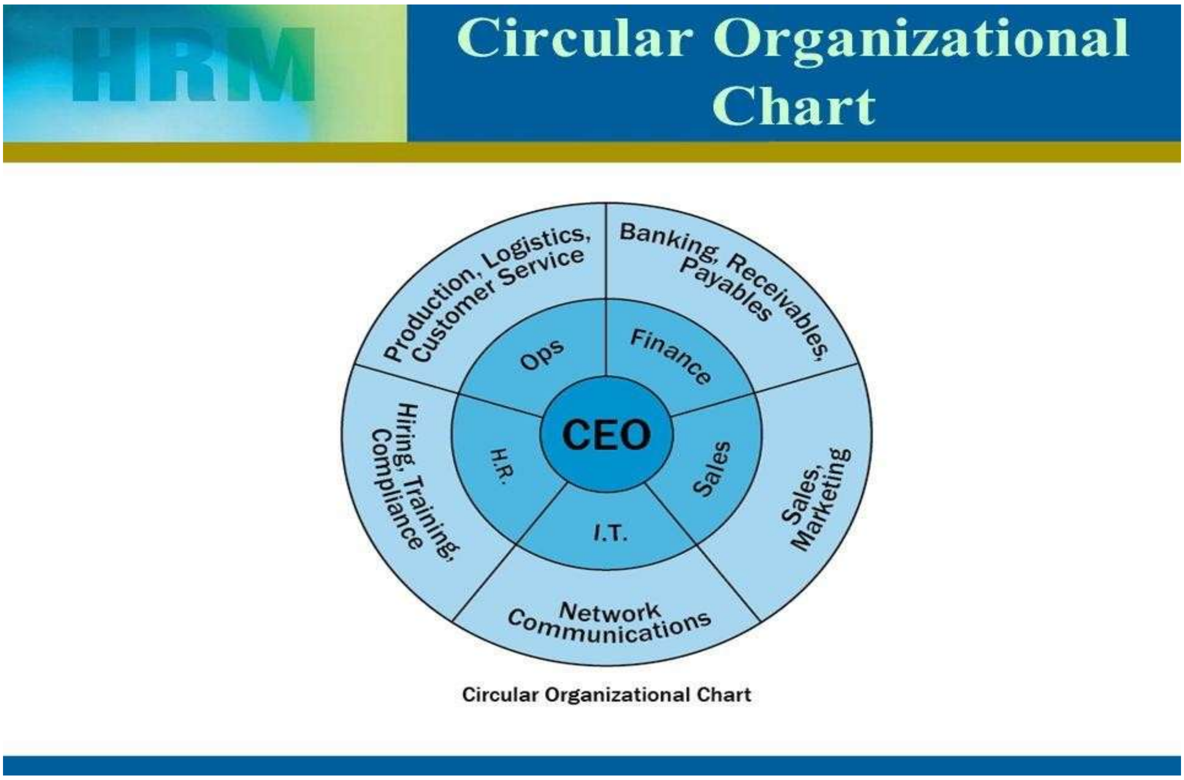
Vertical Chart - Highest position is shown at top. Other positions in the hierarchy areshown vertically. Positions in the same hierarchical level are shown horizontally.



Horizontal Chart - Positions are shown from left to right — the highest level in the far left and the lowest level in the far right. The organization levels are shown in verticallyand the flow of authority is shown from left to right.



Circular Chart- Top most position is presented at the centre of the circle. Functionsand positions of the structure are clustered around the circle.



Circular Organizational Chart

Organizational Manual

It contains information relating to organization's goals, authority and responsibility of different positions, standard practices and procedures, and descriptions of different jobs.It is usually kept in a book form for reference of employees of the organization.

An organization manual usually contains the following information –

i. Nature & objectives of the orgn
ii. Location of the orgn
iii. Policies of management
iv. Job description
v. Organization procedures, methods, rules & regulations

Organizational Culture

Organizational culture is the set of values that states what an organization stands for, how it operates and what it considers important. It takes time to percolate and is based on the beliefs of the founders.As organizational culture evolves, various symbols, stories, heroes, slogans and ceremonies also come into being. These, then, serve to maintain and perpetuate the culture through subsequent generations of employees.

Importance of Organizational Culture

- Communicates information about the overall acceptable / unacceptable behaviour
- Gives employees a sense of identity & shared pattern of feelings
- Facilitates generation of commitment to larger organizational interest
- Serves as a control mechanism for shaping the employees' behaviour.

Nature / Characteristics of Organizational Culture

- **Prescriptive –** It defines the kind of attitude that is socially acceptable.
- **Socially shared –** Culture is linked to societal norms and thereby is shared by people socially.
- **Smoothens Communication –** It gives a platform to people for communication among people who belong to the same culture.
- **Learned –** Culture is not inborn. It is something that is gradually attained and learned.
- **Subjective –** People born in different cultures have different thought processes. The ideas acceptable in one culture might not be acceptable in another.
- **Long – Term–**It is a long term process passed from one generation to another.
- **Growing –** Each generation adds some value to the culture. Hence culture widens itself and keeps growing with time.

- **Dynamic –** Culture can change with time and moulds itself to circumstances and hence its dynamic.

Elements of Organizational Culture

There are visible as well as invisible elements in an organizational culture.

- **Visible elements** − These elements are seen by the outer world. Example, dress code, activities, setup, etc. Artefacts are the tangible things that represent a culture.
- **Invisible elements** − These inner elements of the group cannot be seen by people outside the group or firm. Example, values, norms, assumptions, etc.

Now let us discuss some other elements of organizational culture. They are −

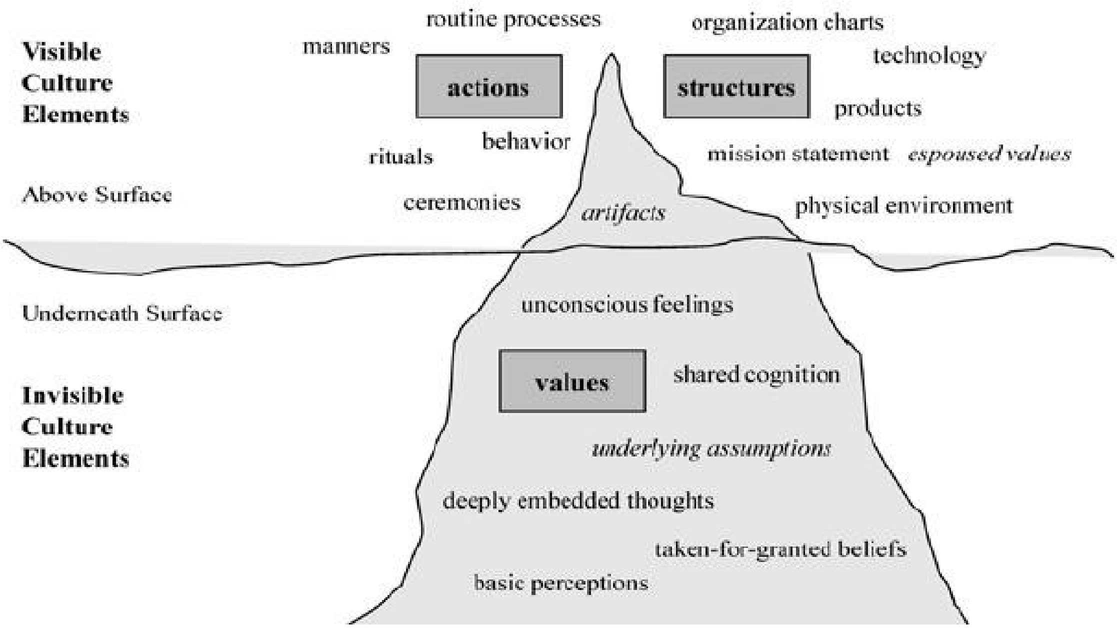
- **Stories** –These are narratives based on facts and are shared by employees. They are passed from older employees to newer ones about the organization's founders, stories of successes, relocation of employees, reduction of workforce etc. These also take the form of histories, myths, legends and jokes.
- **Rituals** − These refer to any practice or pattern of behaviour followed in a prescribed manner. The key values are reflected. The repetition of these activities helps employees learn the culture.
- **Symbol** − These are certain material objects, acts or events that represent something having a special meaning. These could be logos, layout of offices, architecture, executive perks
- **Language -** It is a written sign or gesture used to convey some special meaning within and organization.Examples is "Customer is king".
- **Value and Norms -** The idea over which a company is based or the thoughtof the firm is considered as its value and the condition to adopt them arecalled norms.
  - ✓ Value – Basic beliefs
  - ✓ Norms – Rules for behaviour of group members

- **Practice** − Discipline, daily routine or say the tight schedule everyone follows without any failure. These also include taboo and ceremonies.

  - ✓ Taboos – are culturally forbidden behaviour.
  - ✓ Ceremonies – are special events which commemorate corporatevalues

- **Assumptions** − It means we consider something to be true without any facts. Assumptions can be used as the standard of working, means the employees prepare themselves to remain above standard.

Iceberg Model



Mechanism to build Organizational Culture

- Effective communication between managers and subordinates.
- Handling of crisis effectively.

- Managers should act as role models both in formal and informal roles.
- Continuous link between rewards and punishment with the values and normsof the organization.
- Employees who value the organizational culture should move up the organizational levels.

Types of Organizational Culture

A. Mechanistic & Organic Cultures

Mechanistic culture is formed by formal rule and standard operating procedures. Everything needs to be defined clearly to the employees like their task, responsibility and concerned authorities. Communication process is carried according to the direction given by the organization. Accountability is one of the key factors of mechanistic culture.

Organic culture is defined as the essence of social values in an organization. Thus there exists a high degree of sociability with very few formal rules and regulations in the company. It has a systematic hierarchy of authority that leads towards free flow of communication. Some key elements of organic culture include authority, responsibility, accountability and direct flow towards the employee.

B. Authoritarian and Participative Culture

Authoritarian culture means power of one. In this culture, power remains with the top level management. All the decisions are made by the top management with no employee involvement in the decision making as well as goal shaping process. The authority demands obedience from the employee and warns them for punishment in case of mistake or irregularity. This type of culture is followed by military organization.

In participative culture, employees actively participate in the decision making and goal shaping process. As the name suggests, it believes in collaborative decision making. In this type of culture, employees are perfectionist, active and professional. Along with group decision making, group problem solving process is also seen here.

C. Subculture and Dominant Culture

In subculture, some members of the organization make and follow a culture but not all members. It is a part of organizational culture, thus we can see many subcultures in an organization. Every department in a company have their own culture that gets converted to a subculture. So, the strength and adaptability of an organizational culture is dependent on the success of subculture.

In dominant culture, majority of subculture combine to become a dominant culture. The success of dominant culture is dependent on the homogeneity of the subculture, that is, the mixture of different cultures. At the same point of time, some cold war between a dominant culture and a minor culture can also be seen.

D. Strong and Weak Culture

In a strong culture, the employees are loyal and have a feeling of belongingness towards the organization. They are proud of their company as well as of the work they do and they slave towards their goal with proper coordination and control. Perception and commitment are two aspects that are seen within the employees. In this culture, there is less employee turnover and high productivity.

In a weak culture, the employees hardly praise their organization. There is no loyalty towards the company. Thus, employee dissatisfaction and high labour turnover are two aspects of this culture.

E. Entrepreneurial and Market Culture

Entrepreneurial culture is a flexible and risk-taking culture. Here the employees show their innovativeness in thinking and are experimental in practice. Individual initiations make the goal easy to achieve. Employees are given freedom in their activity. The organization rewards the employees for better performance.

Market culture is based on achievement of goal. It is a highly target-oriented and completely profit-oriented culture. Here the relationship between the employees and the organization is to achieve the goal. The social relation among the workers is not motivating.

How to Create an Organizational Culture

An organizational culture is created with the combination of certain criteria that are mentioned below −

- The founder of the organization may partly set a culture.
- The environment within which the organization standards may influence its activities to set a culture.
- Sometimes interchange of culture in between different organizations create different new cultures.
- The members of the organization may set a culture that is flexible to adapt.
- New cultures are also created in an organization due to demand of time and situation.

The culture of an organizational can change due to composition of workforce, merger and acquisition, planned organizational change, and influence of other organizational culture.

Advantages of Organizational Culture

- Effective Control – Acts as a control mechanism to direct behavior.
- Normative order – Organization norms guide behavior of members.
- Strategy formulation and Implementation
- Performance and Satisfaction — Strong relationship between culture and performance and employee satisfaction.

Barriers to Organizational Culture

- Limits organization to changes as per environmental demands.
- Demands new employees to confirm to its values.
- Breakage of various business alliances (mergers and acquisitions)

Creating & Sustaining Organizational Culture

An organization's current customs, traditions and general way of doing things are largely due to what it has done before and the degree of success it has had with those endeavours.The original source of an organization's culture usually reflects the vision or mission of the organization's founders. Because the founders had the original idea, they also may have biases on how to carry out the idea. Their focus might be on aggressiveness or it might be on treating employees as family. The small size of most new organizations helps the founders instil their vision in all organizational members.

Organizational cultures can develop in a number of different ways, these steps are explained below:-

1. ***A single person (founder) has an idea for a new enterprise:*** Someorganizational cultures may be the direct, or at least, indirect, result of actions taken by the founders. The founders of an organization traditionally have a major impact on that organization's early culture. They have a vision of what the organization should be.
2. ***Founders' creation of a core group:*** The founder brings in one or more otherkey people and creates a core group that shares a common vision with the founder. The founder's only hire and keep employees who think and feel the way they do.
   These employees who form the core group believe that the idea is a good one, is worth the investment of time, money and energy.
3. ***Indoctrinate and Socialize:*** The founding core group begins to act in concert to create an organization by raising funds, obtaining patents, incorporating, locating land, building infrastructure and so on. The core group indoctrinate and socialize employees to their way of thinking and feeling.
4. ***Build a Common History:*** The founders' own behaviour acts as a role model that encourages employees to identify with them and thereby internalize their beliefs,

values, and assumptions. At this point, the founders' entire personalities becomeembedded in the culture of the organization.

Most of today's successful organizations follow the vision of their founders.

Sustaining a Culture

Once a culture is in place, there are practices within the organization that act to maintain it by giving employees a set of similar experiences. Sustaining a culture depends on three forces. These forces are explained below:

1. ***Selection:*** The goal of the selection process is to identify and hire individuals who could make the organization successful through their services.Therefore, candidates who believe in the values of the organizational have to be selected.
2. ***Top Management:*** Top management have an important role to play in sustaining the organization's culture. It is the top management who establish norms that filter down through the organization. It is through their conduct both implicit and explicit that shows what is desirable. They do this through pay raises, promotions and other rewards.
3. ***Socialization:*** Socialization is the process that adapts employees to the organization's culture. Organization wants to help new employees adapt to its culture. The adaptation is done through the process of "socialization".

Socialization is made up of three stages:

a. ***The Pre-arrival Stage:*** This stage encompasses all the learning that occurs before a new member joins the organization. The socialization process covers both the work to be done and the organization. It is the period of learning in the socialization process that occurs before a new employee joins the organization.

b. ***Encounter Stage:*** In this stage of the socialization process, the new employee sees what the organization is really like and confronts the possibility that expectations and reality may diverge. In expectations prove to have been more or less accurate, the encounter stage merely provides a reaffirmation of the perceptions gained during the pre-arrival stage. Those employees who fail to learn the essential or pivotal role behaviours risk being labelled as “rebels” and face the risk of expulsion. This further contributes to sustaining the culture.

c. ***Metamorphosis Stage:*** Metamorphosis stage is the stage in the socialization process in which a new employee changes and adjusts to the job, work group and organization. In this stage relatively long-lasting changes take place. The employee masters the skill required for his or her job, successfully performs his or her new roles, and makes the adjustments to his or her work group’s values and norms.

Cultural Diversity

Cultural diversity in a workplace means the organization employs workers from a wide array of backgrounds, including ethnicity, race, gender and religion. The knowledge of organizational behavior across different cultures helps in understanding the beliefs, attitudes, interpersonal relationships among workers, clients, suppliers and alliance partners from countries globally.

Multi-ethnic Workforce

A multiethnic or multicultural workforce is one that is made up of men and women from a variety of different cultural and racial backgrounds. Managing this diversity in such a way that the benefits are maximized and challenges are minimized is an important aspect in today’s business.

Advantages of Multi-ethnic Workforce

- **Different perspectives –** One gets to see a broad range of perspectives onissues and challenges.
- **Broader coverage –** Employees with diverse backgrounds can also providethe company broader coverage in a global marketplace.

- **Better ideas –** Homogeneous work groups often suffer from conventional ways of doing things. Diverse workgroups benefit from wider perspectives andgenerate better ideas.
- **Effective working relationships–**It has been observed that when people withdiverse backgrounds work together they form strong bonds which leads to effective working relationships.

Disadvantages of Multi-ethnic Workforce

- **Enhanced risk of discrimination –** There is a potential risk of discriminationagainst in a multiethnic workforce unless there is proper cultural awareness.
- **Challenges in internal communication –** Where there are language andcultural barriers, internal communication becomes a challenge.
- **Cultural stereotyping –** Ethnic, racial, gender and even professionalstereotyping cause misunderstandings and hostility in multicultural settings.
- **Factionalism –** Multicultural teams tend to break down into factions based onshared cultural values. These factions can become antagonistic to each other.
- **Infighting–**Once the internal cohesion of a group declines, there will beinfighting.

Understanding Cultural Diversity

Underlying the cultural diversity that exists among countries are fundamental differences in cultural values. The most extensive work on how cultural values influence various types of business and market behaviour has been done by **Geert Hofstede**. He found that the cultures of nations differed along 5 primary dimensions and that various business and consumer behaviour pattern can be linked to these dimensions. These dimensions are as follows :

1. Individualism Vs Collectivism

Individualism – It is the degree to which people in a country prefer to act as individuals.

Collectivism – It is characterized by a social framework in which people prefer to act as members of groups and expect others in groups of which they are part of to look after them and protect them.

2. Power Distance – It is a measure of the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally.A high power distance society accepts wide differences in power in organization and hence employees show a great deal of respect for those in authority. Here title, rank status carry a lot of weight. It is vice-versa for low power distance society.

3. Uncertainty Avoidance – It is the degree to which people tolerate risk and prefer structured over unstructured situations.People in low uncertainty avoidance societies are relatively comfortable with risks.

4. Quantity Vs Quality of Life

Quantity of Life –It is the degree to which values such as assertiveness, the acquisition of money and material goods, and competition prevail.

Quality of life – It is a national cultural attribute that emphasizes relationships and concern for others.

5. Long – term and Short – term Orientation – People in long-term orientation cultures look to the future and value thrift and persistence. A short term orientation values the past and present and emphasizes respect for tradition and fulfilling social obligations.

GLOBE Framework for Assessing Cultures

GLOBE – Global Leadership and Organizational Behaviour Effectiveness

This is a program which investigates cross- cultural leadership behaviours. This has 9 dimensions on which national cultures differ and they are an extension toHofstedes's framework. These are as follows :

1. Assertiveness
2. Future Orientation

3. Gender differentiation
4. Uncertainty Avoidance
5. Power Distance
6. Individualism Vs Collectivism
7. In – group collectivism
8. Performance Orientation
9. Humane Orientation

Examples of Cultural Diversity at Workplace

Neutral Vs Emotional

NEUTRAL - People within the neutral dimension act primarily from reason and logic and areguided to a lesser extent by their feelings. They do not easily show what they think or feel.

Examples of cultures with this dimension are: the Netherlands, Great Britain,Sweden, Finland and Germany.

EMOTIONAL - People within the emotional dimension want to be able to express their emotions spontaneously, even at work. In these cultures, expressing your emotion is generally accepted.

Examples of cultures with this dimension are: Italy, France, Spain, Latin America andPoland

Specific Vs Diffuse

SPECIFIC - People within the specific dimension believe that relationships don't have much influence on work goals and that people can work together without having a good relationship.It also means that you cannot force your employees to take their work home with them, or to join in activities that happen outside of work. Direct communication is also essential here and comes first, before maintaining relationships.

Examples of cultures with this dimension are: USA, Great Britain, Switzerland, Germany, Scandinavia, the Netherlands.

DIFFUSE - People who fall within the diffuse dimension believe that good relationships are crucial for doing business and achieving their goals. Their relationships don't change whether they interact with each other at work or socially. These people also spend their time with colleagues and customers outside of working hours.

Examples of cultures with this dimension are: Argentina, Spain, Russia, India, China.

Steps for Managing Cultural Diversity

- **Cultural Audit –** Managers need to audit their own cultural assumptions and those of their organization.
- **Briefing from cultural expert –** Briefings about culture, laws and regulations in an overseas setup needs to taken going ahead with different activities.
- **Check for cultural assumptions –** This needs to be done in goal setting, performance appraisal, performance pay and grievance procedures
- **Proper training on culture –** Cross-cultural training is highly essential in a culturally diverse workplace. It could be in the form of information sessions for shorter visits, Affective education in the form of roleplays and groups discussions where attitude change is required or in immersion techniques withmonths of intensive language and cultural training where employees are required to stay in another country for a longer period of time.

Guidelines for Managing Cultural Diversity

- **Integrating cultural knowledge –** Integration of cultural knowledge should bedone at all levels be it during trainings or policy changes.

- **Adaptation to diversity and valuing it –** It is important that all employees develop a respect for the values, behaviours, attitudes, practices etc of other cultures. Acceptance of these differences also matters.
- **Conducting cultural self assessment–** While dealing in a mutli-cultural environment, one needs to be aware of the one's own culture and what it means to other people of different culture.
- **Cross – cultural training–**It stresses on training either diverse groups of employees or training employees who work with other people of diverse cultures.

Knowledge Resources

Knowledge is a blend of experience, values, information and insight that forms a basis on which to build new experiences and information.Knowledge compensatesfor search time.

Knowledge Resources are also known as Knowledge Assets. KR / KA includes databases, documents, policies and procedures as well as previously unarticulated expertise and experience residing in individual workers. KR are entities where organizational knowledge is embedded and can be manipulated by an organizationin ways that yield value. Organizations have 3 kinds of resources — financial, human and material. Organizations are attempting to manage KR with a degree of systematic, deliberate or explicit effort devoted to managing the other 3 resources.

Components of Knowledge Resources

Knowledge can be stored, embedded or represented in an organization as any of the following 6 kinds of resources:

1. **Participant's Knowledge –** An organization's participants can be human resources and /or material resources. They include employees and computer systems. Participant's knowledge becomes organizational knowledge when it is applied by participants as they perform their roles.

2. **Culture**–An organization's values, principles, norms, unwritten rules, and procedures comprise its cultural – knowledge resource.
3. **Infrastructure** – It involves the roles that exist for participants to fill, relationships between these roles, and regulation that govern roles and their relationships.
4. **Knowledge Artifacts**–A knowledge artifact is an object that represents knowledge. Examples are products and services that an organization sells, patents, documents, recordings etc
5. **Purpose** – This KR reflects the reason for an organization's existence. It represents the organization's mission, vision, objectives and goals. Organizational strategies are formulated on the basis of this knowledge.
6. **Strategy**–The knowledge resource that drives an organization's major activities including its KM activities.

Organizing Knowledge Resource

It is useful to restate 3 long-standing principles associated with the organization ofknowledge.

- Knowledge needs to be organized for communities, which in turn means that all knowledge providers need to know their communities.
- In designing tools to support the organization of knowledge, community members' linguistic, semantic and cognitive frameworks must be the central consideration.
- Standards and standardization enhances interoperability between systems, which has benefits for both systems designers and organizers and the communities they serve.

Tools for Organizing Knowledge Resource

The tools for the organization of knowledge have been developed, designed andused in a wide range of different context.

- **Catalogues and Bibliographies –** These are created and used to list the documents in a collection or within a specified field.

  Catalogues –They are used to list the print and electronic documents within a library collection for purpose of inventory and access. Electronic catalogues are Online Public Access Catalogues(OPACs).

  Bibliographies –They typically focus on a specific field and seek to list the documents that have been published within that field in a defined time period.

- **Indexing and Abstracting Services –** These services are used by information managers to identify the documents that are required to meet a specific subject request and users search these databases for information ona given topic.
- **Publishers and Third Party Aggregators –** These offer access to electronic journals and e-books, and require mechanisms to support the searching of their database.
- **Records Management Systems–**These maintain an orderly collection of records or archive of the documents and transactions of the organization.
- **Knowledge Management Systems–**These are maintained and managed by knowledge professionals to support knowledge capture, knowledge creation, knowledge sharing, knowledge dissemination and knowledge access in relation to the organization.
- **E-Commerce –** Here services and books are sold through websites.
- **E-Government –** Government uses the web to enhance service delivery and encourage active participation in democracy.
- **Digital Libraries (DL) –** These are offer intellectual access to interpret, distribute, preserve the integrity and ensure the collection of digital works for benefit of specific communities.
- **Content Management Systems (CMS)–**These are widely used to manage the content of large websites and providing access to information resources.

KM Loop for Organizing Knowledge Resource

1. **Knowledge Creating–**This is an endless process which includes creating novel ideas, new paradigms and new processes. Libraries and deptt for documents are central resources for knowledge creating.
2. **Knowledge Organizing –** This refers to storing, recording, and preserving knowledge in formats and frames which lets other employees regain it. If you don't organize the available knowledge you will not be able to share it.
3. **Knowledge Sharing –** If the knowledge is not shared then it will be of no use at all. The effectiveness of the knowledge management cycle relies on the abilities of the people for knowledge sharing.
4. **Knowledge Applying–**This refers to application of knowledge shared, without any bias against the one who is the source of that knowledge. This is the blending of knowledge with action and its emergence in company's goods andservices.

Planning

The thinking process, which precedes any purposeful action, is known as planning.

It is the process of deciding in advance: ***what to do, how to do, when to do it and who does what.*** A process that involves defining the organization's goals, establishing an overall strategy for achieving those goals, and developing a comprehensive set of plans to integrate and coordinate organizational work.

Nature of Planning

1. **Goal-oriented –** Achieving re-determined goals is the aim. It is through planning that organizations seek to achieve their larger objectives and specific goals.
2. **It is a basic function** — It is the primary function of any organization from which all other functions flow.
3. **All pervasive** — Planning is needed at all levels of organizational hierarchy irrespective of the management levels, departments or divisions. Corporate level may draw long-terms plans whereas executive level managers may draw short term plans but its scope is there at all levels.
4. **Intellectual, continuous and integrated process**–It integrates all functions and is a continuous exercise. It is basically a mental or logical exercise. The prerequisites for planning are creativity, knowledge, judgement, imagination and foresightedness.
5. **Flexible process**– Planning is based on assumptions and forecasts so there has to be room to accommodate change.
6. **Offsets uncertainty and risk**–One of the purposes of planning is to offset risk and uncertainty in future.

7. **Forward looking and provides a sense of direction**– Planning isthe baseon which your future course of action is oriented.
8. **Continuous process**– It is a continuous process as the initial plan is subjectto modifications with reviews and feedback.

Elements or Components of Planning

1. Mission or Purpose

Mission is the organization's reason for existence. It describes the values and aspirations of an organization. A well defined mission is highly required for successfulplanning.

Mission Statement — It is a broad statement defining the organization's basic business scope and operations that distinguishes it from its competition.A mission statement usually answers these basic questions —

i. What business we are in
ii. Who we are
iii. What we are doing

2. Goals and Objectives

Objectives - They are the end results towards which the activities of the organization are directed. Objectives are of 2 types :–

i. Primary – Corporate objectives are framed for the organization as a whole.
ii. Secondary – They are departmental objectives.
iii. Objectives give a sense of direction, guide organizational plans, make effortsmore focussed and help us evaluate our progress.

Goals – They are of the following types :–

a) **Strategic Goals** — These are set by the top management and broadlydescribe where the organization wants to be in future.

b) **Tactical goals** – These are designed by major departments with the intention to achieve the strategic goals. Set by the middle management.

c) **Operational goals** — These are specific results expected from diff departments and work groups. Set by lower level managers.

3. Policies

It is a general guideline for management while making decisions and sets the limits within which such decisions must be made when similar situations occur repeatedly. They act as guidelines for taking administrative decisions. They help in the easy realization of the - objectives of business. Policies may be production policy, sales policy, financial policy, personnel policy etc. Policies should be clear and unambiguous.

Types of Policies

- **Formulated :** Manager formulates policy for governing his own and subordinates actions. Downward flow.
- **Appealed:** For exceptional problems, (which are not covered by existing policies) subordinates refer such cases to superiors. Have upward flow. Mostlyare incomplete. Frequent appeals call for revision of formulated policy.
- **Implied:** Customs, which have become accepted norms for subordinate behaviour. No written guidelines. Normally implied from the actions of managers at higher level.
- **Imposed:** Arise due to pressures external to the organization, which organization has to comply. Govt. policies, trade unions. Tend to restrict management direction.

Characteristics of a Good Policy

- Should be formulated keeping in mind the main objectives of the organization.
- Should be clear, unambiguous (to avoid misinterpretation).
- Permanent policies should be carefully planned & formulated.

- Consistency of policy formulation in all departments.
- May be in written form or interpreted behavior of top management.
- Flexible to accommodate changes.

Steps to implement policies

- Communicate all policies in writing through organization manual.
- Explain implications & interpret results.
- Discuss policies while making plans &programmes.
- Issue necessary instructions for observance.
- Periodically check implementation, review results, modify it necessary.
- Policy formulation should be realistic & implementation active.

4. Procedures and Methods

Procedure - A procedure prescribes a fixed way of acting in order to deal with a task. It is the mechanical part of policy implementation.Procedures mean definite steps in a chronological sequence within the area chalked out by the policies. Procedures should be stable as it provides continuity in action. It should be flexible and updated.

For example - Production procedure involves manufacturing and assembling of parts; sales procedure relates to advertising, offering quotations, securing and execution of orders; purchase procedure indicates inviting tenders, selecting quotations, placing orders, storing the goods in go-down and supplying them against requisition to different departments and personnel procedure is the recruitment, selection and placement of workers to different jobs.

Method - It indicates the action and technique that must be followed to complete certain activities. Methods are work plans and involve one deptt and one person.

5. Programmes and Schedules

- A programme gives an exposition of the activities and sequence in which activities must be performed to achieve a particular objective.
- Programmes are precise plans of action followed in proper sequence in accordance with the objectives, policies and procedures.
- Programming involves dividing into steps the activities necessary to achieve the objectives, determining the sequence between different steps, fixing up performance responsibility for each step, determining the requirements of resources, time, finance etc. and assigning definite duties to each part.
- There are two popular techniques of programming : -

➢ Gantt Chart
➢ PERT (Programme Evaluation and Review Technique)

6. Rules and Regulations

A rule specifies necessary course of action in a particular situation. It acts as a guide and is essentially in the nature of a decision made by the management authority. This decision signifies that a definite action must be taken in respect of a specific situation. The rules prescribe a definite and rigid course of action to be followed in different business activities without any scope for deviation or discretion. Any deviation of rule entails penalty.

E.g. — A rule may be incorporated in respect of purchase procedure that all purchases must be made after inviting tenders. Similarly, in respect of sales procedure, rule may be enforced that all orders should be confirmed the very nextday.

7. Budget

Budget means an estimate of men, money, materials and equipment in numerical terms required for implementation of plans and programmes. Thus, planning and budgeting are inter-linked. Budget gives in financial terms the amount of funds needed to execute a plan. The expected results can be expressed in terms of man-hours, product units or financial terms. It also serves as a very important control device by measuring the performance in relation to the set goals. There may be several departmental budgets which are again integrated into the master budget.

- On the basis of functions - Functional budgets
- On the basis of financial activities - Capital and Revenue budgets
- On the basis of period - Long term and Short term budgets
- On the basis of flexibility - Fixed and Flexible budget.

8. Strategy

Strategies deal with the “how — to — do” aspect of planning. Strategies are the devices formulated and adopted from the competitive standpoint as well as from the point of view of the employees, customers, suppliers and government. Strategies thus may be internal and external. SWOT Analysis is carried out while formulating strategies.

- Strengths – area / aspects a company can build on.
- Weaknesses – deficiencies currently in skill, resources, process.
- Opportunities – available in the environment.
- Threats – developments which may have an adverse impact.

There are three levels of strategy:

Corporate level strategy - Tells you about “What business we are in”. This is external to the business and usually relates to acquisition, expansion, JV and diversification.

Business level strategy - Tells you about “How do we compete”. This is internal to the business and includes introduction of new product, changing and expanding the existing lines of products etc.

Functional level strategy - Tells us about “ how do we support the business level strategy”. This is internal to the business and pertains to all major departments. This includes advertising for a new product, marketing strategy for increasing sales bytargeting new customers etc.

Objectives of Planning

1. **Mitigation of Uncertainty** — By planning for contingencies and future situations, planning seeks to reduce the element of uncertainty.
2. **Cooperation and Coordination** — Planning also improves coordination amongst various units of an organization which leads to cooperation.
3. **Optimal utilization of Resources** — Planning helps in achieving effective utilization of resources by selecting the best possible alternative. This leads to economy in operations.
4. **Prepare for contingencies** – Planning helps to deals with contingencies like accidents, natural disasters, labour problems etc.
5. **Goal achievement** – Rational and logical planning helps to attain goals.
6. **Reducing Competition** — Planning helps face competition betterby developing strategies.

Types of Planning

The different types of planning based on their purpose and scope.

1. **Coverage of activities –** This is of 2 types:

i. **Corporate Planning** — This type of planning involves taking decisions related to the growth of the industry, organization, society, environment etc. Done by top- level managers. It is related to formulation of vision, mission and strategic plans for achieving organizational objectives.

ii. **Functional Planning** – This is done to satisfy the work-related requirements of various departments. Functional planning facilitates the managers in maintaining standardized managerial practices so that all departments work in unison.

2. **Importance of Contents / Breadth**

i. **Strategic Planning**– This is conducted for determining the future course of action for realising the long-term objectives. This focuses on the larger picture and outlines he framework within which operational plans and decisions are to be taken.

ii. **Tactical Planning**–It is undertaken for one business year. It is largely focussed on operations (production & selling). Tactical planning is short termin nature and deals with immediate operational issues.

iii. **Operational Planning**–It is related to extremely short term business strategies, annual budgets and implementation of operational plans.

3. **Time period involved**

i. **Long-term planning**–It is conducted to achieve long-term objectives. This could be for 3, 5 or 20 years depending on the nature of organizational goals. These are comprehensive plans which cover all departments and take into consideration theexternal environment.

ii. **Short-term planning** — The term is short — upto a year. It is undertaken to achieve short-term objectives and relates to functional areas like finance, production, marketing etc.

4. **Approach adopted**

i. **Proactive Planning** – They help to organization to predict future events and how they are likely ton affect the organization. It helps in anticipating risks and taking measures to minimise them.

ii. **Reactive Planning** –This planning is done as a reaction to a certain situation. These are usually prepared to take corrective action when problem arises.

5. **Degree of formalization**

i. **Formal Planning** – This is a scientific and logical approach to planning which is based on empirical data and realistic assessments and assumptions. Used in large businesses.

ii. **Informal Planning** — Small businesses rely on informal planning which is based on intuition, common sense and experience of the owner. Planning is short- term and unstructured.

6. **Specificity**

i. **Directional** — When uncertainty is high and management must maintain flexibility in order to respond to unexpected changes, *directional plans* may be preferable. Directional plans, on the other hand, identify general guidelines. They provide focus but do not lock managers into specific objectives or specific courses of action.

ii. **Specific** - have clearly defined objectives. Specific plans are not without drawbacks. They require clarity and a predictability that often does not exist.

7. **Frequency of use**

i. **Single-use** - A *single-use plan* is used to meet the need of a particular or unique situation.

ii. **Standing** -*Standing plans*, in contrast, are ongoing. They provide guidance for repeatedly performed actions in the organization

Models of Planning

1) Rational Model of Planning

This the first model of planning. It was proposed by Meyerson and Banfield. The essential steps are as follows :

i. Analyse the situation
ii. Establish goals
iii. Formulate possible course of action to achieve those goals
iv. Compare and evaluate the consequences of these actionsThe

order can be changed as required.

2) Advocacy Model of Planning

It was proposed by Davidoff. It is a pluralistic and inclusive planning theory where planners seek to represent the interests of various groups within society. Davidoff understood that not all stakeholders are equally represented and involved in the planning process thereby leaving the groups of lower socioeconomic status vulnerable to the interests of larger public institutions or private companies. Though the model broadened the scope of the planner's role, it did nothing concrete to change the ruling power structure.

3) (neo)Marxist Model of Planning

According to this theory developed by Manuel Castells postulated that planning was an instrument of :

i) Of rationalization and legitimization
ii) Of negotiation and meditation between the differing demands of the variousgroups of capital
iii) A regulator of valve for the pressure and protest of the governed classes

4) Model of Equity Planning

It was proposed by Krumholz.The model tries to re-distribute power, resources and the possibilities of participation away from the powerful and towards the disadvantaged and under-privileged.

5) Model of Social Learning and Communicative Action

It was proposed by John Forester. Planning is basically a communicative practice or activity. It is primarily concerned with asking questions and listening critically in order to learn collectively in the context of the dialogue.A deciding factor is the self-reflectivity of the planner who must scrutinize how he deploys his own power.By listening properly, it becomes apparent which alternatives are possible and how these in turn may be realized.

6) Liberalistic Model of Planning

Planning serves the purpose of supporting and expanding the freedom of action and the possibilities of self-realization available within the framework of the free market. It is more pragmatic and believes in deregulation instead of strict planningand regulation.

Planning in Learning Organizations

A) Traditional Approach to Planning

Here the planning done by top executives / consulting firms or central planning departments. It has a top- down approach. The goals are decided centrally and assigned to major divisions after due approval. The limitations are that planners may be out of touch with day-to-day realities and formal plans may inhibit flexibility.Formal plans limit creativity & learning.

B) Modern Approach to Planning

i. In this approach there is more involvement of employees. Planning managers are assigned to different departments so as to have more realistic plans. The guidelines followed are :

   a. Presence of a strong mission / purpose
   b. Deploy intelligent teams
   c. Set stretch goals for excellence
   d. Create an environment that encourages learning
   e. Design new roles for planning staff
   f. Embrace event driven planning

Guidelines for effective Planning in Learning Organizations

1) **Start with a strong mission** — A strong and compelling mission helps in increasing employee motivation and commitment. A core ideology with values and a sense of purpose that went beyond profit making was the key to great organizations.

2) **Deploy intelligent teams**–Managers need to make intelligent and informed choices about goals and plans. An intelligent team is a cross-functional group of managers and employees, usually led by a competitive intelligence professional, who work together to gain a deep understanding of a specific business issue.

3) **Set stretch goals for excellence** – Stretch goals are highly ambitious goals which are very clear, compelling and imaginative and they fuel progress. It tend to make people think in new ways.

4) **Create and environment that encourages learning** — Constant experimentation and questioning leads to creativity and learning.

5) **Design new roles for planning staff** - Planning specialists serve as facilitators and supporters. They are helpful in gathering data, performing statistical analysis and performing other specialized tasks. Their role changes as per situation.

6) **Embrace event – driven planning**–It is important to be able to change as per shifting demands of the environment. Long range planning needs tobe followed by event driven planning.

Types of Plans

They are of 2 types :

A) Standing or Repeated use plans

B) Single-Use or Operating Plans

A) Standing or Repeated use plans

Standing plans are made to be used time and again. These plans are formulated to guide managerial decisions and actions on problems which are recurring in nature. Standing plans are also called 'repeated use' plans because these provide guidelinesfor actions to be taken in future. These plans provide unity and uniformity of efforts in meeting repetitive situations arising at various levels of the enterprise. These plans provide ready guidelines for tackling situations of recurring nature. These plans not only help in co-ordination but in effective management also.

Standing plans include mission, objectives, policies, procedures, methods, rules and strategies.

1. **Mission or Purpose -**The mission or purpose identifies the basic function or task of an enterprise. Every organization has or should have a purpose so that its working becomes meaningful. An organization's purpose consists of a long term vision of what it seeks to do and the reasons why it exists. The organization's mission indicates exactly what activities the organization intends to engage in now and in future.**The basic questions to be answered by an organization are w**hat business we are in, what will our business be, who are our customers, what are our values and beliefs, what will be our utility to the society etc.

2. **Objectives or Goals-** Objectives or goals are the ends towards which every activity is aimed-they are the results to be achieved. Objectives are a prerequisite for planning. No planning is possible without setting up of objectives. While enterprise objectives are the basic plan of the firm, a department may also have its own objectives.

3. Strategies - A strategy is a comprehensive and integrated plan designed to assure that business objectives are accomplished. The long-term objectives of the enterprise are determined and requisite resources are allocated and deployed to achieve the desired results. They furnish a framework for guiding thinking and action.

4. **Policies-** Policies are general statements that provide guidance to management in the conduct of managerial operations. Policies define boundaries within which decisions can be made and decisions are directed towards the achievement of objectives. Policies also help in deciding issues before they become problems and making it unnecessary to analyze the same situation every time it comes up. Managers can delegate authority within the given parameters and can still retain control over what their subordinates do.

5. **Procedures & Methods -** Procedures are details of action or the guidelinesfor the achievement of business objectives. Procedures give details of how things are to be done. No room is left for judgment. These should help in implementation of policies. Procedures also determine the policy of responsibility and accountability.

Difference between procedures andpolicies - A procedure is a guide to action whereas a policy is a guide to thinking. Policies are guidelines for taking decisionsand procedures consist of various methods to accomplish each phase of work. Policies offer scope for interpretation in order to see that they fit in a particular situation whereas procedures are tailor-made and do not offer any scope for interpretation.

6. **Rules** -A rule is a plan that lays down a required course of action with regardto a situation. A rule is in the nature of a decision made by management regarding

what is to be done and what is not to be done in a particular situation. A rule is definite and rigid and allows no deviation or discretion to the subordinates. Rules prescribe the limits of acceptable behaviour of the members of the organization. Rules will enable managers to predict the behaviour of their subordinates, how will they act in a given situation. They channel the behaviour of workers in a desired direction. Workers sometimes resent rules for stifling their actions.

B.Single – Use or Operational Plans

These plans are made for handling non-recurring problems. Single-use plans are alsoreferred to as 'specific plans' since these are meant to solve a particular problem. These plans are formulated to handle non-repetitive and unique problem. These plans cannot be used again and again; these become obsolete after achieving their purpose. The examples of these plans are: programmes, budgeting, projects and contingency plans.

1. Programmes - A programme is a sequence of activities designed to implementpolicies and accomplish objectives. It is devised to meet a particular situation. Programme may be taken as a combination of policies, procedures, rules, budgets, task assignments, etc. developed for the specific purpose of carrying out a particular course of action. Separate programmes are prepared for accomplishing different tasks. The same programme may not be used for achieving other goals. It is a single use plan laid down for new and non-repetitive activities.

2. Budgeting - A budget is the monetary or/and quantitative expression of business plans and policies to be pursued in the future period of time. The term budgeting is used for preparing budgets and other procedures for planning, co- ordination and control of business enterprise.

3. **Projects –**This can be defined as a particular task related to the overall programme. These are terminated after the task is accomplished.

4. **Contingency Plans –** These are used when a company faces an anticipated future risk. These plans include what needs to be done to manage the risk.

Steps in Planning Process

1. Analyzing opportunities

An important part of the planning process is to be aware of the business opportunities in the firm's external environment as well as within the firm. Once such opportunities getrecognized the managers can recognize the actions that need to be taken to realize them. A realistic look must be taken at the prospect of these new opportunities and SWOT analysis should be done. E.g. - Say for example the government plans on promoting cottage industries in semi-urban areas. A firm can look to explore thisopportunity.

2. Establishing objectives

This is the second step where we establish the objectives for the whole organization and also individual departments. Organizational objectives provide a general direction, objectives of departments will be more planned and detailed.Objectives can be long term and short term as well. They indicate the end result the company wishes to achieve. So objectives will percolate down from the managers and will also guide and push the employees in the correct direction.

3. Determining planning premises

Planning is always done keeping the future in mind which is always uncertain. So in the function of management certain assumptions will have to be made. These assumptions are the premises. Such assumptions are made in the form of forecasts, existing plans, past policies, etc.These planning premises are also of two types — internal and external. External assumptions deal with factors such as political environment, social environment, the advancement of technology, competition, government policies, etc. Internal assumptions deal with policies, availability of resources, quality of management, etc.These assumptions being made should be uniform across the organization. All managers should be aware of these premises and should agree with them.

4. Identifying alternatives

The fourth step of the planning process is to identify the alternatives available to the managers. All of these alternative courses for achieving the objectives should be identified. There must be options available to the manager.Maybe he chooses an innovative alternative hoping for more efficient results. If he does not want to experiment he will stick to the more routine course of action. The problem with this step is not finding the alternatives but narrowing them down to a reasonable amount of choices so all of them can be thoroughly evaluated.

5. Evaluation of Alternatives

The next step of the planning process is to evaluate and closely examine each of the alternative plans. Every option will go through an examination where all the pros and cons will be weighed. The alternative plans need to be evaluated in light of the organizational objectives.

6. Selection of Alternatives

Finally, we reach the decision making stage of the planning process. Now the best and most feasible plan will be chosen to be implemented. The ideal plan is the most profitable one with the least amount of negative consequences and is also adaptable to dynamic situations.The choice is obviously based on scientific analysis and mathematical equations. But a manager's intuition and experience should also play a big part in this decision. Sometimes a few different aspects of different plans are combined to come up with the one ideal plan.

7. Implementation

Once you have chosen the plan to be implemented, managers will have to come up with one or more supporting plans. These secondary plans help with the implementation of the main plan. For example plans to hire more people, train personnel, expand the office etc are supporting plans for the main plan of launching a new product. So, all these secondary plans are in fact part of the main plan.

8. Review

And finally, we come to the last step of the planning process, implementation of the plan.This is when all the other functions of management come into play and the plan is put into action to achieve the objectives of the organization. The tools required for such implementation involve the types of plans- procedures, policies, budgets, rules, standards etc.

Importance of Planning

1. **Provides direction and purpose** — Planning provides a sense of direction and purpose to the organization. It provides the employees with answers regarding the direction of the organization, role of the managers, responsibilities of employees etc.

2. **Helps in selecting feasible alternatives**– Planning helps managers in anticipating and being prepared for the future business conditions. Managers are able to evaluate options, estimate consequences and exercise better judgement while selecting alternatives.

3. **Encourages rational & logical decision making** — Planning provides necessary inputs to decision makers to enable them to make rational decisions. Planning minimises the risk of failure and errors, provides necessary flexibility and infuses discipline in the decision-making process.

4. **Planning is a primary function** — Planning is the primary function from which all other functions originate. Organizational plans form a base for developing organizational structures and delegating authority. All elements of direction are exercised to ensure the proper execution of plans.

5. **Optimal allocation & utilization of resources** — It helps to optimally allocate and utilise resources in a planned way.

6. **Enhances efficiency** — Planning enhances efficiency by adopting the best alternative, ensuring optimal use of resources, minimising wastage and undertaking all activities after due diligence.

7. **Increases adaptability** — Proactive planning helps organizations to deal with business changes better. An organization is able to adapt according to changes in the business environment.

8. **Increases ability to anticipate** — Planning also enables the organizations to anticipate changes (internal or external) to take necessary preventive measures.

9. **Integration** – Planning is an unifying force as the activities of all departments are brought under one framework.

Limitations of Planning

1. **Inflexibility**–Once a plan is agreed upon, it is not easy to deviate from theselected course of action. The inflexibility of the plan acts as a barrier for employees.

2. **Misdirection** – At times the misdirection of individuals or a group of employeeswith vested interests can lead can undermine the overall goals.

3. **Time-taking exercise** — Planning involves collection of data, its analysis, forecasting and making assumptions. All these are time-taking exercises involving a lot of intellectual effort. This becomes impractical in emergencies.

4. **False sense of Security**– The existence of a plan induces a false sense of security amongst the employees that things will be taken care of. However, with changing situations this might not be true.

5. **Inaccurate Information** – Planning is based on data and assumptions which, ifthe y go wrong, can lead to ineffective plans.

6. Uncertainty — Planning also suffers from the uncertainty of change. Changing business environment limits the successful implementation of plans.

7. **Limits Internal Flexibility**–Planning outlines the framework within which the managers have to carry out their roles and functions. The primary constraints thatmake the organization inflexible are — Psychological inflexibility (resistance to

change, cultural prejudice), limitation set by policies & procedures and Capital investments.

8. **External Constraints** — There are several factors in the external environment that are essential for planning but over which planners have no control. These are political climate, trade unions and technology changes).

Planning Premises

Premises means assumptions. Planning premise are the assumptions providing a background against which estimated events affecting the planning will take place.Planning premises are certain basic assumptions on which the future plans are assumptions are close estimates reached after properly scanning the business environment. The three categories of planning premises are explained as follows:

i. Internal and External Premises
ii. Tangible and Intangible Premises
iii. Controllable and Non-controllable Premises

i. Internal and External Premises

Internal premises are those which exist within the business enterprise. This may include Resource abilities, Basic Policies, Rules & Procedures, Organization structure, Sales Forecast and Capital Investment.

External premises centre round the markets and derived from the external environment surrounding the business. Examples: Product market, money market, population growth, government policies, business cycles technological changes.

These are related to the external environment of the business. These are Political stability, Government Policies, Govt. approach towards business, Demographic Factors, Socio-cultural changes, Inflation or Price Rise, Technological Factors, Market Trend and Natural Calamities.

ii. Controllable and Incontrollable Premises

Controllable Factors – These are factors over which management has full control. Examples — Plant location, expansion programme, advertising policy, capital investment etc.

Uncontrollable or Non-controllable Factors — These are beyond the control of management. They upset the plans and require periodical revision of the plan in accordance with current developments.Examples - These refer to war, population trends, new inventions, natural calamities, business cycles, govt. policy, legislationetc

Semi-controllable premises – Management has partial control over these factors. Examples – Union management relations, firm's share in the market etc.

iii. Tangible and Intangible Premises

Tangible premises – Also known as quantitative premises, these can be expressed or measured in quantitative terms. Examples – Labour hours, units of production, no. of machines, capital investment, industry demand etc

Intangible premises — These cannot be measured quantitatively. Examples — Company reputation, employee motivation and morale, attitudes and philosophy, political stability etc.

Management by Objectives (MBO)

The term, MBO, was initially used by Peter Drucker in his book named as The Practice of Management in 1954. MBO is a process of setting discrete and specific goals for the entire organization. These goals are used as a basis for planning and managing organizational activities as well as assessing and rewarding contributions. The process of MBO uses a participative approach wherein the employee and his/herimmediate superior decide about the employee's future goals. This process also helps the employees to break the bigger goals into smaller, discrete, and time-bound goals, which seem easily achievable. The main job involves:

- Process of goal setting by both superior and subordinates.

- Performance of subordinates is evaluated by the goals he accompanies.
- Continuous in nature
- Ensures concentration of efforts towards organizational objectives.

Elements of MBO

- Managers are committed to set objectives along with subordinates.
- Top management determines the organizational strategy and sets thepreliminary goals.
- Each manager and subordinate has clearly defined job responsibilities &objectives.
- Greater participation of all ensures achievement of objectives.
- Once objectives are set, subordinates are free to use their own discretion in selecting the means to achieve.
- Managers and subordinates meet periodically to review the programs.

Process of MBO

The 6 steps of the MBO process are :

i. Define organizational goals
ii. Define employees' objectives
iii. Continuous monitoring performance and progress
iv. Performance evaluation
v. Providing feedback
vi. Performance appraisal

i. Define Organizational Goals - Goals are critical issues to organizational effectiveness, and they serve a number of purposes. Organizations can also have several different kinds of goals, all of which must be appropriately managed.A number of different kinds of managers must be involved in setting goals. The goals set by the superiors are preliminary, based on an analysis and judgment as to what can and what should be accomplished by the organization within a certain period.

ii. **Define Employees Objectives - After making sure that employees' managers have informed of general objectives, strategies and planning premises, the manager can then proceed to work with employees in setting their objectives. The manager asks what goals the employees believe they can accomplish in what time period, and with what resources. They willthen discuss some preliminary thoughts about what goals seem feasible for the company or department.**

iii. **Continuous Monitoring Performance and Progress - MBO process is not only essential for making line managers in business organizations more effective but also equally important for monitoring the performance and progress of employees.**

For monitoring performance and progress the followings are required :

- identifying ineffective programs by comparing performance with pre-established objectives,
- Applying MBO concepts for measuring individual and plans,
- Preparing long and short-range objectives and plans,
- Installing effective controls, and
- Designing a sound organizational structure with clear, responsibilities anddecision-making authority at the appropriate level.

iv. **Performance Evaluation - Under this MBO process, performance review is made by theparticipation of the concerned managers.**

v. **Providing Feedback - The ingrained ingredients in an MBO program are continuous feedback on performance and goals that allow individuals to monitor and correct their own actions.This continuous feedback is supplemented by periodic formal appraisal meetings in which superiors and subordinates can review progress toward goals, which lead to further feedback.**

vi. **Performance Appraisal - Performance appraisals are a regular review of employee performance within organizations. It is done at the last stage of the MBO process.**

Benefits /Significance of MBO

- Does not give scope to judgmental role of superior.
- Performance is evaluated not the performer.

- Standards are set in agreement of both at the beginning
- Leads to personal satisfaction, more agreement for organizational change,less tension and hostility.
- Review is aimed to assist the subordinate to improve.

Limitations of MBO

- Poor planning makes implementation difficult.
- Lack of proper training
- No follow up by the superior
- To introduce inflexibility in the organization
- Time consuming
- More paperwork

Making MBO effective

- It should start from top.
- Goals should be set by participation with the subordinates.
- Effective communication of goals to all levels need to done.
- Decentralization and adequate authority should be delegated.

Management by Exception (MBE)

The concept of Management by Exception (MBE) was given by F. W. Taylor. MBE is a management strategy in which managers will only step in when there are significantdeviations from planned outcomes. These can be either operational or financial outcomes.**“Manage by exception. Only require reporting when there is a deviation from the plan.”**The idea is that management should spend its valuable time and focus concentrating on more important items like tactical and strategic tasks.Priority and attention is given only to material topics where investigation and corrections are needed.

Features of MBE

- MBE is a systematic way to managing several interrelated elements.

- It is a system of warning the management when a situation is likely to go out ofcontrol and mgmt. intervention is required.
- The concept of MBE is deeply rooted in planning, division of work, delegationof authority and span of control.
- It is designed to conserve time and attention.

Steps in MBE

Management by exception consists of four steps:

- Setting the objectives and defining what the norm should be.
- Assessing performance to see whether performance is on track.
- Analyzing work or records to determine where performance deviates fromobjectives.
- Investigating and solving the exceptions to the norm.

Advantages of MBE

- It reduces the amount of financial and operational results that managementmust review, which is a more efficient use of their time.
- The report writer linked to the accounting system can be set to automaticallyprint reports at stated intervals that contain the predetermined exception levels, which is a minimally-invasive reporting approach.
- This method allows employees to follow their own approaches to achieving theresults mandated in the company's budget. Management will only step in if exception conditions exist.
- The company's auditors will make inquiries about large exceptions as part of their annual audit activities, so management should investigate these issues inadvance of the audit.

Disadvantages of MBE

- This concept is based on the existence of a budget against which actual results are compared. If the budget was not well formulated, there may be a large number of variances, many of which are irrelevant, and which will wastethe time of anyone investigating them.

- The concept requires the use of financial analysts who prepare variance summaries and present this information to management. Thus, an extra layer of corporate overhead is required to make the concept function properly. Also,an incompetent analyst might not recognize a potentially serious issue, and will not bring it to the attention of management.
- This concept is based on the command-and-control system, where conditions are monitored and decisions made by a central group of senior managers. Youcould instead have a decentralized organizational structure, where local managers can monitor conditions on a daily basis, and so do not need an exception reporting system.
- The concept assumes that only managers can correct variances. If a businesswere instead structured so that front line employees could deal with most variances as soon as they arise, there would be little need for management byexception.

Decision – Making

Decision is a choice whereby a person comes to a conclusion about given circumstances/ situation. It represents a course of behaviour or action about what one is expected to do or not to do. Decision- making may, therefore, be defined as a selection of one course of action from two or more alternative courses of action.Thus, it involves a choice-making activity and the choice determines our action or inaction.Decision-making is an indispensable part of life. In business undertakings, decisions are taken at every step. All managerial functions viz., planning, organizing, staffing, directing, coordinating and controlling are carried through decisions. Decision-making is thus the core of managerial activities in an organization.

Definition – "A decision can be defined as a course of action consciously chosen from available alternatives for the purpose of desired result."

Characteristics of Decision – Making

1. Rational Thinking - Decision — making is an intellectual process involves a logical approach to all situations.

2. Process - It is the process followed by deliberations and reasoning.

3. Selective - It is selective, i.e. it is the choice of the best course among alternatives.

4. Purposive – Decision – making has a purpose and that is to look for a solution oran end.

5. Positive - Although every decision is usually positive sometimes certain decisionsmay be negative and may just be a decision not to decide.

6. Commitment - Management is committed to every decision it takes for tworeasons:

(i) it promotes the stability of the concern and

(ii) every decision taken becomes a part of the expectations of the peopleinvolved in the organisation.

7. Evaluation - Decision-making involves evaluation in two ways –

(i) the executive must evaluate the alternatives, and

(ii) he should evaluate the results of the decisions taken by him.

Types of Decisions

1. Programmed and Non-programmed Decisions

Programmed decisions - They are concerned with the problems of repetitive nature or routine type matters.A standard procedure is followed for tackling such problems. These decisions are taken generally by lower level managers. Decisions of this type may pertain to e.g. purchase of raw material, granting leave to an employee and supply of goods and implements to the employees, etc.

Non-programmed decisions - They relate to difficult situations for which there is no easy solution. These matters are very important for the organisation. For example, opening of a new branch of the organisation or a large number of employees absenting from the organisation or introducing new product in the market, etc., are the decisions which are normally taken at the higher level.

2. Routine and Strategic Decisions

Routine decisions - They are related to the general functioning of the organisation. They do not require much evaluation and analysis and can be taken quickly. Ample powers are delegated to lower ranks to take these decisions within the broad policy structure of the organisation.

Strategic decisions - They are important which affect objectives, organisational goals and other important policy matters. These decisions usually involve huge investments or funds. These are non-repetitive in nature and are taken after careful analysis and evaluation of many alternatives. These decisions are taken at the higher level of management.

3. Tactical (Policy) and Operational Decisions

Policy (Tactical) decisions - These are decisions pertaining to various policy matters of the organisation. These are taken by the top management and have long term impact on the functioning of the concern. For example, decisions regarding location of plant, volume of production and channels of distribution (Tactical) policies, etc. are policy decisions.

Operating decisions - These relate to day-to-day functioning or operations of business. Middle and lower level managers take these decisions. E.g. - Decisions concerning payment of bonus to employees are a policy decision. On the other hand, if bonus is to be given to the employees, calculation of bonus in respect of each employee is an operating decision.

4. Organizational & Personal Decisions

Organisational decision - When an individual takes decision as an executive in the official capacity.

Personal decision - If decision is taken by the executive in the personal capacity (thereby affecting his personal life), it is known as personal decision.

- Sometimes these decisions may affect functioning of the organisation also.
- For example, if an executiveleaves the organisation, it may affect the organisation.
- The authority of taking organizational decisions may be delegated, whereaspersonal decisions cannot be delegated.

5. Major and Minor Decisions

Major Decision - Decisions involving high risk or investment / cost. Major decisions are taken by top management. E.g. - Purchase of new factory premises.

Minor Decision - Decisions involving low risk or low cost. Taken by low level / middlelevel managers. E.g - Purchase of office stationery

6. Individual and Group Decisions

Individual decision - When the decision is taken by a single individual, it is known as individual decision. Usually routine type decisions are taken by individuals within the broad policy framework of the organisation.

Group decisions - These are taken by group of individuals constituted in the form of a standing committee. Generally, very important and pertinent matters for the organisation are referred to this committee. The main aim in taking group decisions is the involvement of maximum number of individuals in the process of decision- making.

Some other types of decisions are as follows :

Irreversible Decisions: Refer to the decisions that are permanent in nature. Once these decisions are framed, they cannot be reversed. The effects of these decisions can be experienced after a longer period of time. These decisions are made when there is no other alternative.

Reversible Decisions: Refer to the decisions, which are not ultimate and compulsory. In fact, these decisions can be altered completely at any point of time according to the prevailing circumstances. For example, an organization can reduce or increase the price of its products according to market situations.

Delayed Decisions: Refer to the decisions, which can be put on hold until the decision makers consider that the accurate time has come. The delay may result into loss of a beneficial opportunity. However, such decisions are beneficial as an individual or organization gets sufficient time to accumulate information necessary for decision making and organize all the factors in a correct manner.

Quick Decisions: Enable an individual or organization to take maximum benefits out of the opportunity available at hand. However, only an efficient decision maker can formulate decisions that are immediate as well as accurate. The decision maker needs to take into consideration the long-term results of the decision before makingit.

Experimental Decisions: Refer to one of the diverse type of decision in which the ultimate decision cannot be made before evaluating its feasibility and effectiveness. For example, an organization conducts a market research before launching a new product in the market.

Trial and Error Decisions: Involve continuous tracking of definite course of action. If the consequence is beneficial it is followed further, if not, then a new course of action is implemented.

The trial and error process is sustained until the decision maker reaches at a course of action that influences him/her of success. This permits the decision maker to modify and adjust his/her plan until the ultimate obligation is reached.

Authoritative Decisions: Refers to the type of decision taken by the decision maker and followed by subordinates. The decision maker has all the data and knowledge necessary to take an instant decision. The authoritative decision can be effective if it is based on the experience and knowledge of the individual.

Facilitative Decisions: Refer to the type of decision that is made by a joint effort of the manage and his/her assistants. The assistants should have the proficiency and the information necess to make decisions. Such an approach could be helpful when the threat of incorrect decision is ver little. It is also an immense way of relating and motivating assistants in the functioning of organization.

Decision Making Process

1. Identify the decision / problem

To make a decision, you must first identify the problem you need to solve or the question you need to answer. Clearly define your decision. If you misidentify the problem to solve, or if the problem you've chosen is too broad, you'll knock the decision train off the track before it even leaves the station.If you need to achieve a specific goal from your decision, make it measurable and timely so you know for certain that you met the goal at the end of the process.

2. Gather relevant info / data

Once you have identified your decision, it's time to gather the information relevant to that choice. Do an internal assessment, seeing where your organization has succeeded and failed in areas related to your decision. Also, seek information from external sources, including studies, market research, and, in some cases, evaluation from paid consultants. You can easily become bogged down by too much information—facts and statistics that seem applicable to your situation might only complicate the process.

3. Identify the alternatives

With relevant information now at your fingertips, identify possible solutions to your problem. There is usually more than one option to consider when trying to meet a goal—for example, if your company is trying to gain more engagement on social media, your alternatives could include paid social advertisements, a change in your organic social media strategy, or a combination of the two.

4. Weigh the evidence

Once you have identified multiple alternatives, weigh the evidence for or against said alternatives. See what companies have done in the past to succeed in these areas, and take a good hard look at your own organization's wins and losses. Identify potential pitfalls for each of your alternatives, and weigh those against the possible rewards.

5. Choose among the alternatives

Here is the part of the decision-making process where you, you know, make the decision. Hopefully, you've identified and clarified what decision needs to be made, gathered all relevant information, and developed and considered the potential paths to take. You are perfectly prepared to choose.

6. Take action

Once you've made your decision, act on it! Develop a plan to make your decision tangible and achievable. Develop a project plan related to your decision, and then set the team loose on their tasks once the plan is in place.

7. Review your decision

After a predetermined amount of time—which you defined in step one of the decision-making process—take an honest look back at your decision. Did you solve the problem? Did you answer the question? Did you meet your goals?If so, take note of what worked for future reference. If not, learn from your mistakes as you begin the decision-making process again.

Decision Making Conditions

Everyday a manager has to make hundreds of decisions in the organization. There are different conditions in which decisions are made. Managers sometimes have an almost perfect understanding of conditions surrounding a decision, but in other situations they may have little information about those conditions. At the same time, the decision taken by the managers at present will also have an effect on future. For this purpose, the decision-making process involves the visualization of the conditions that may be present in future.

So, the decision maker must know the conditions under which decisions are to be made. Generally, the decision maker makes decision under the condition of certainty, risk and uncertainty. There are three conditions that managers may face as they make decisions. They are (1) Certainty, (2) Risk, and (3) Uncertainty.

Decision Making Under Certainty

A state of certainty exists only when the managers knows the available alternativesas well as the conditions and consequences of those actions. There is little ambiguity and relatively low possibility of making a bad decision.It assumes that manager has all the necessary information about the situation. Hence, decisions under certainty means a perfectly accurate decision will be made time after time. Ofcourse, decision making under certainty is rare.E.g. – Day-to-day routine business decisions

Decision Making Under Risk

A state of risk exists when the manager is aware of all the alternatives, but is unaware of their consequences. The decision under risk usually involves clear and precise goals and good information, but future outcomes of the alternatives are just not known to a degree of certainty. A risk situation requires the use of probability estimates.

There are 3 methods to estimate the probabilities:

i. **Priori Probability** — It is a method to draw inference from assumed conditions. For example when a dice is thrown, the probability of getting 6 is one-sixth. But when it is thrown several times, the outcome of each throw cannot be precisely predicted.

ii. **Empirical Probability** — It is based on experience tested over a period of time. For example, a Company Secretary convenes the AnnualGeneral Body Meeting. There are over a lakh shareholders but out of past experience he can predict thatonly 100 will come for it. So he makes necessary arrangements only for 100 people.

iii. **Subjective Probability** — It is based on the managers own judgement as here information is not sufficient. For example, in the above case of convening an AGM, if the company is new then the Company Secretary cannot predict the no. od attendees. He will have to depend on his intuition, experience and relevant experience before making arrangements.

Decision Making Under Uncertainty

In today's complex environment most significant decisions are made under a state of uncertainty where there is no awareness of all the alternatives and also the outcomes, even for the known alternatives.Such decisions require creativity and the willingness to take a chance in the face of such uncertainties.In such situations, managers do not even have enough information to calculate probabilities and degrees of risk. So, statistical analysis is of no use.Hence, managers need to make certain assumptions about the situation in order to provide a reasonable framework for decision making. Intuition, judgment, and experience always play major roles in the decision making process under conditions of uncertainty.The greater the amount of reliable information, the more likely the manager will make a good decision. Hence, manager should make sure that the right information is available at the right time.

Techniques for Decision – Making Under Uncertainty

1) Criterion of Optimism (Maximax and Minimax)
2) Criterion of Pessimism (Minimax or Maximin)
3) Minimax Regret Criteria
4) Equally Likely Decision (Laplace Criterion)
5) Criterion of Realism (Hurwicz Criterion)

Decision Tree

A **decision tree** is a graphical representation of possible solutions to a decision based on certain conditions. It's called a decision tree because it starts with a single box (or root), which then branches off into a number of solutions, just like a tree.

Decision trees are helpful, not only because they are graphics that help you 'see' what you are thinking, but also because making a decision tree requires a systematic, documented thought process. Often, the biggest limitation of our decision making is that we can only select from the known alternatives. Decision trees help formalize the brainstorming process so we can identify more potential solutions.

Decision Making Process

A Decision Tree Analysis is a scientific model and is often used in the decision making process of organizations.When making a decision, the management already envisages alternative ideas and solutions. By using a decision tree, the alternative solutions and possible choices are illustrated graphically as a result of which it becomes easier to make a well-informed choice. This graphic representation is characterized by a tree-like structure in which the problems in decision making canbe seen in the form of a flowchart, each with branches for alternative choices.

Representation of Decision Tree

There are several ways in which a decision tree can be represented. TheDecision Tree Analysis is commonly represented by lines, squares and circles.

- ***The squares represent decisions, the lines represent consequencesand the circles represent uncertain outcomes.***
- ***By keeping the lines as far apart as possible, there will be plenty ofspace to add new considerations and ideas.***
- ***The representation of the decision tree can be created in four steps:***

  i. ***Describe the decision that needs to be made in the square.***
  ii. ***Draw various lines from the square and write possible solutions on each of the lines.***
  iii. ***Put the outcome of the solution at the end of the line.***
  iv. ***Uncertain or unclear decisions are put in a circle.***
  v. ***When a solution leads to a new decision, the latter can be putin a new square.***
  vi. ***Each of the squares and circles are reviewed critically so that afinal choice can be made.***

Decision Tree Example

Suppose a commercial company wishes to increase its sales and theassociated profits in the next year.

The different alternatives or two choice for both increase of sales and profits:1- expansion of advertising expenditure and 2- expansion of sales activities. This creates two branches.

Two new choices arise from choice 1, namely 1-1 a new advertising agency and 1-2using the services of the existing advertising agency.

Choice 2 presents two follow-up choices in turn; 2-1-working with agents or 2-2-using its own sales force.

The branching continues.

The following alternatives from 1-1 are:

1-1-1 The budget will increase by 10% -> end result: sales up 6%, profits up 2% 1-1-2 The budget will increase by 5% -> end result: sales up 4%, profits up 1.5 %The alternatives that arise from 1.2:

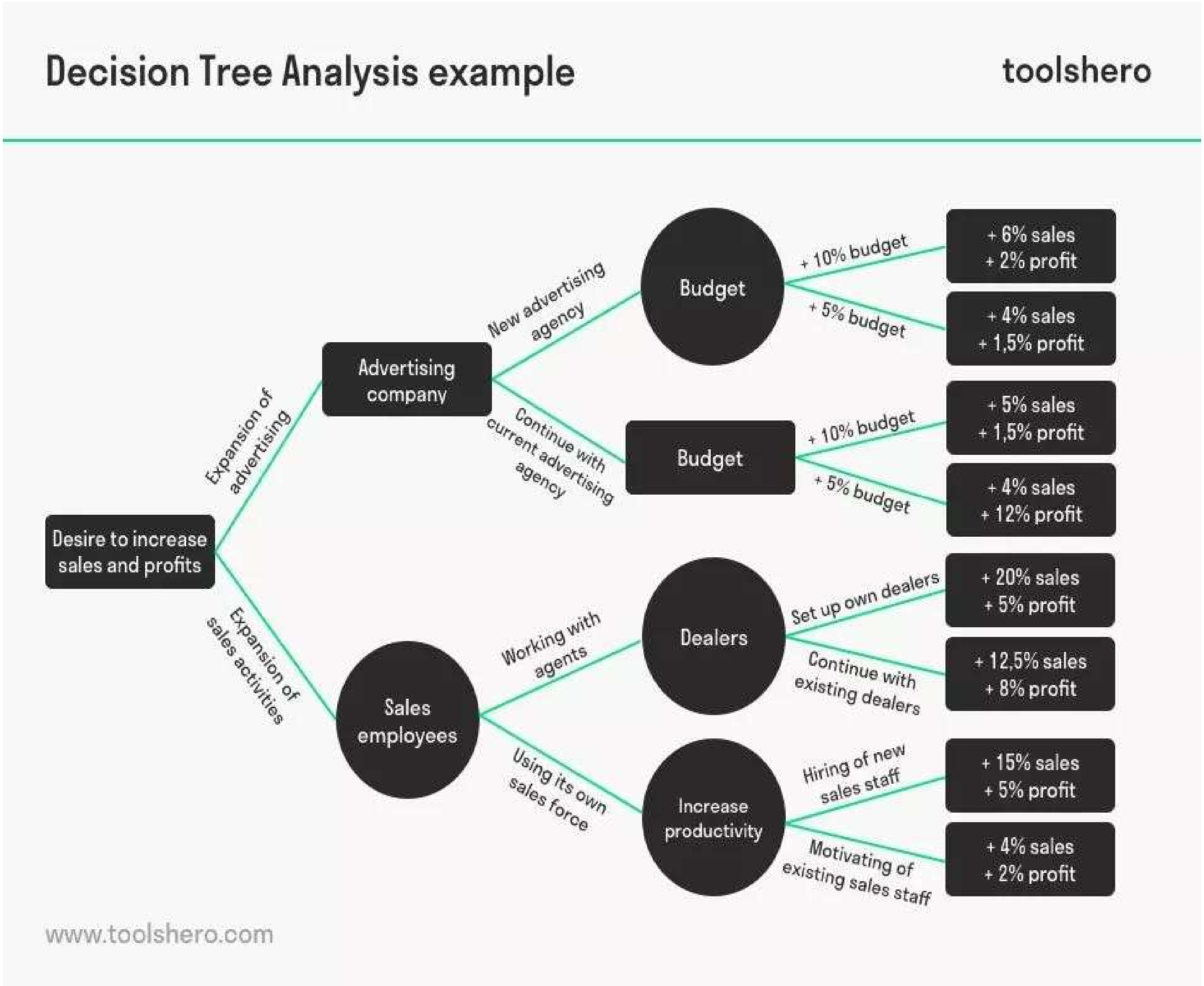
1-2-1 The budget increases by 10% -> end result: sales up 5%, profits up 2.5% 1-2-2 The budget increases by 5 % -> end result: a sales up 4%, profits up 12% From 2.1 possibly follows:

Set up with own dealers -> end result: sales up 20%, profits up 5%

Working with existing dealers -> end result: sales up 12.5%, profit up 8%From 2.2 possibly follows:

Hiring of new sales staff -> end result: sales up 15%, profits up 5%

Motivating of existing sales staff -> end result: sales up 4%, profits up 2%.



Decision Making Models

There are two major types of **models** - rational and non-rational.

- **Rational model -** Managers engage in rational decision processes. They possess and understand all information that is relevant to their decisions at the time they make them.

- **Non-rational models** – These models suggest that there are many limitations of information gathering and information-processing thereby making it difficult for managers to make optimal decisions.

a) **Rational Model**

This refers to a decision making model based on thinking/cognition. This model uses thought process to find out the best possible alternative for achieving outputs. It is helpful in making non-programmed decisions and ensures the decision maker that an appropriate decision for the prevalent problem can be developed by thinking in a rational and logical manner. High-quality decisions can be arrived at when a rational, sequential, intelligent, and logical approach is used. The approach follows a sequential and formal path of activities which includes:

a. Formulating a goal(s)
b. Identifying the criteria for making the decision
c. Identifying alternatives
d. Performing analysis
e. Making a final decision.

Assumptions of the Rational Decision Making Process

- People will make choices that maximize benefits and minimize any costs.
- The idea of rational choice is easy to see in economic theory.
- An individual has full and perfect information on which to base a choice.
- Measurable criteria exist for which data can be collected and analyzed.
- An individual has the cognitive ability, time, and resources to evaluate each alternative against the others.

Limitations of the Rational Decision Making Process

- It does not consider factors that cannot be quantified, such as ethical concernsor the value of altruism.
- It leaves out consideration of personal feelings, loyalties, or sense ofobligation.
- Its objectivity creates a bias toward the preference for facts, data and analysisover intuition or desires.

- It makes unrealistic assumptions in order to simplify possible choices andpredictions.

Bounded Rationality Model

Bounded rationality is the idea that an individual's ability to act rationally is constrained by the information they have, the cognitive limitations of their minds, and the finite amount of time and resources they have to make a decision. It was introduced by Herbert Simon. It was recommended as a substitute of mathematical modeling of decision making, as used in economics and associated disciplines. This model views decision making as an entirely rational process of determining an ideal choice given the information available.

b) Non-Rational Models of Decision-Making

Non-rational models of managerial decision-making suggest that it is difficult formanagers to make optimal decisions due to the limitations of information-gathering and processing. Within the non-rational framework, three major models of decision- making have been identified by researchers.These are:

i) Satisficing model

ii) Incremental model

iii) Garbage-can model.

i) Satisficing Model

Satisficing is a decision-making strategy that aims for a satisfactory or adequate result, rather than the optimal solution. Instead of putting maximum exertion toward attaining the ideal outcome, satisficing focuses on pragmatic effort when confronted with tasks.Satisficing is a decision-making process that strives for adequate rather than perfect results.Satisficing aims to be pragmatic and saves on costs or expenditures.The term "satisfice" was coined by American scientist and Noble- laureate Herbert Simon in 1956.Simon argues that instead of searching for the perfect or ideal decision, managers frequently settle for one that will adequately servetheir purpose. He contends that managers accept the first satisfactory decision they uncover, rather than searching till they find the best possible decision.

ii) Incremental Model

The incremental model states that managers put in the least possible effort — only enough to reduce the problem to a tolerable level.The manager here is concerned more with finding a short-term solution to the problem than making a decision that willfacilitate the attainment of goals in the long-term. The incremental model does not require managers to process a great deal of information in order to take a decision.

iii) Garbage – Can Model

The garbage-can approach to decision-making holds that managers behaverandomly while making non-programmed decisions.That is, decision outcomes are chance occurrences and depend on such factors as the participants involved in the decision-making process, the problems about which they happen to be concerned at the moment, the opportunities they happen to identify and their favorite solutions or the solutions they use the most to solve most problems.The garbage-can strategy is effective in the following situations:

- When the managers have no specific goal preferences,
- When the means of achieving goals are unclear, and
- When there are frequent changes in the participants involved indecision-making.

This approach can have serious consequences. The garbage- can approach is oftenused in the absence of strategic management.

Contingency Model

It refers to a decision-making model which is based on the approach that a single solution is not feasible for solving all problems. The contingency model is based on the contingency theory given by the Fiedier, Hersey, and Blanchard. According to this model, there is no universal way of decision making, it also emphasizes that micro and macro factors of an organization need to be considered while decision making. The contingency theory has been used in many other management areas besides decision making, such as leadership, organizational behavior, and mentoring.

Increasing Creativity in Decision-Making

Participation involves individuals or groups in the process.It can be formal or informal and entails physical, intellectual and emotional involvement. It has two extremes — no participation to full participation. The degree of participation depends on experience of the people involved and the nature of task.

Consultative participation – Managers ask for and receive involvement from group members but they maintain the right to take decisions.

Democratic participation — Total participation wherein group members take the decision.

Advantages and Disadvantages of Increasing Participation in Decision-Making

Advantages	Disadvantages
1. Broader perspective for decision making and analysis.	1. Time consuming – Wasted resources if used for programmed decisions.
2. More knowledge, facts, and alternative can be evaluated.	2. Compromise decisions may satisfy no one.
3. Discussion clarifies ambiguous problems and reduces uncertainty about alternatives.	3. Group think – Group norms may reduce dissent and opinion diversity.
4. Participation fosters member satisfaction and support for decision.	4. No clear focus for decision responsibility.

Creativity on Decision – Making

Creativity is a process of developing and generating new novel and unique ideas,opinions and systems to solve the problems and to take decision systematically.

Role of Creativity in decision making:

1. It helps to generate scientific way and modern approach to solve organizational problems.
2. It helps in innovation
3. It helps to collect more information and evaluate them.
4. It helps to allocate organizational resources properly.

Process of Creativity in Decision Making

The process of creativity consists of the following steps:

1. Problem finding or sensing / Recognition:

The entrepreneur faces a problem and selects to work on it. He feels curious to solve that problem. He thoroughly familiarizes himself with the problem, analyses its importance for the business and its relationship with other segments of the business.This helps in identification of the problem as close as possible to reality so that alternatives can be generated which analyse the problem and provide solutions in the right direction. Curiosity leads to development of ideas.

2. Preparation / Rationalization

Once the problem is identified, the decision-maker concentrates on the problem and starts working on it. He collects information, analyses how others are using it and formulates hypotheses to work on. Information may be collected on the basis of past experience, through experience of others and also through study of new researches and innovations done in that field. If he wants to introduce a new product in the market, he studies the consumer buying behaviour before converting that idea into reality.

3. Gestation or Incubation:

If, in the preparation stage, the decision-maker is not able to arrive at creative solution to the problem, he moves away from conscious deliberation to sub-conscious development of ideas. He moves away from the problem and engages in other routine activities while still thinking of the problem in his sub-conscious mind.He thinks over collected information and makes decisions in his sub-conscious mind. He appears to be idle but actually he is trying to correlate what runs in his sub-conscious mind with the happenings around. As lot of information and ideas are already stored in his mind, sub-consciously they are combined and related to each other and help in generation of new ideas important for solving the problem.

4. Insight or Illumination / Realization:

He thinks of all possible solutions at all times. He thinks of ideas while eating, walking or going to sleep. These ideas are put in writing so that he does not forget them in his conscious mind. In this process, there is flash of ideas in his mind.These ideas come and go at the speed of light, some of which are spontaneously rejected while others are accepted for further analysis. Sometimes, it results in ideas which the decision - maker may not have even thought of in his conscious mind.Social gatherings and meetings may also result in new ideas. Compaq computer company was found as a result of social encounters. Rough sketch of portable computer was drawn on a papernapkin by three friends over lunch which turned into setting up of Compaq computer company.

5. Verification and application / Validation

The entrepreneur proves by logic or experiment that the idea can solve the problem and, therefore, can be implemented. He tests the ideas empirically through mathematical models and experimentation. If it is feasible, he applies it to solve the problem. Verification is an essential step in the creativity process because an idea that cannot be implemented is of no use howsoever good it may be.

Decision-Making: Techniques

1. Marginal Analysis:

This technique is used in decision-making to figure out how much extra output will result if one more variable (e.g. raw material, machine, and worker) is added. In his book, 'Economics', Paul Samuelson defines marginal analysis as the extra output that will result by adding one extra unit of any input variable, other factors being held constant.Marginal analysis is particularly useful for evaluating alternatives in thedecision-making process.

2. Financial Analysis:

This decision-making tool is used to estimate the profitability of an investment, to calculate the payback period (the period taken for the cash benefits to account for theoriginal cost of an investment), and to analyze cash inflows and cash outflows.Investment alternatives can be evaluated by discounting the cash inflowsand cash outflows (discounting is the process of determining the present value of a future amount, assuming that the decision-maker has an opportunity to earn a certain return on his money).

3. Break-Even Analysis:

This tool enables a decision-maker to evaluate the available alternatives based on price, fixed cost and variable cost per unit. Break-even analysis is a measure bywhich the level of sales necessary to cover all fixed costs can be determined.Using this technique, the decision-maker can determine the break-even point for the company as a whole, or for any of its products. At the break-even point, total revenue equals total cost and the profit is nil.

4. Ratio Analysis:

It is an accounting tool for interpreting accounting information. Ratios define the relationship between two variables. The basic financial ratios compare costs and revenue for a particular period. The purpose of conducting a ratio analysis is to interpret financial statements to determine the strengths and weaknesses of a firm,as well as its historical performance and current financial condition.

5. Operations Research Techniques:

One of the most significant sets of tools available for decision-makers is operations research. An operation research (OR) involves the practical application of quantitativemethods in the process of decision-making. When using these techniques, the decision-maker makes use of scientific, logical or mathematical means to achieve realistic solutions to problems. Several OR techniques have been developed over the years.

***6.* Pareto Analysis**

Pareto Analysis is a statistical technique in decision-making used for the selection of a limited number of tasks that produce significant overall effect.It uses the Pareto Principle (also known as the 80/20 rule) the idea that by doing 20% of the work you can generate 80% of the benefit of doing the entire job. Take quality improvement, forexample, a vast majority of problems (80%) are produced by a few key causes

(20%). This technique is also called the vital few and the trivial many.In the late 1940s Romanian-born American engineer and management consultant, Joseph M. Juran suggested the principle and named it after Italian economist Vilfredo Pareto, who observed that 80% of income in Italy went to 20% of the population. Pareto latercarried out surveys in some other countries and found to his surprise that a similar distribution applied.We can apply the 80/20 rule to almost anything:

- 80% of customer complaints arise from 20% of your products and services.
- 80% of delays in the schedule result from 20% of the possible causes ofthe delays.
- 20% of your products and services account for 80% of your profit.
- 20% of your sales force produces 80% of your company revenues.
- 20% of a systems defects cause 80% of its problems.

Pareto Analysis helps in determining the problematic areas that require promptaction and also help in categorizing various alternatives.

7. Paired Comparison Analysis

It is helpful in framing a decision when accurate data is not available to solve aparticular problem.Instead of comparing a large no. of options, this approach believes in reducing alternatives into pairs and then selecting the best option.Useful in decisions regarding purchasing a new machine or adopting latest technology or venturing intonew markets.This helps in setting priorities in case there is a dispute regarding utilization of limited resources.

8. Linear Programming:

Linear programming is a quantitative technique used in decision-making. It involves making an optimum allocation of scarce or limited resources of an organization to achieve a particular objective. The word ‘linear’ implies that the relationship among different variables is proportionate.The term ‘programming’ implies developing a specific mathematical model to optimize outputs when the resources are scarce. In order to apply this technique, the situation must involve two or more activities competing for limited resources and all relationships in the situation must be linear.Some of the areas of managerial decision-making where linear programming technique can be applied are:

- Product mix decisions
- Determining the optimal scale of operations
- Inventory management problems
- Allocation of scarce resources under conditions of uncertaindemand
- Scheduling production facilities and maintenance.

9. Delphi Technique

The Delphi method is a process used to arrive at a group opinion or decision by surveying a panel of experts.Experts respond to several rounds of questionnaires, and the responses are aggregated and shared with the group after each round. The experts can adjust their answer each round, based on how they interpret the "group response" provided to them.The ultimate result is meant to be a true consensus of what the group thinks.

10. Brainstorming

Brainstorming is a group creativity technique by which efforts are made to find aconclusion for a specific problem by gathering a list of ideas spontaneously contributed by its members.In other words, brainstorming is a situation where a groupof people meet to generate new ideas and solutions around a specific domain of interest by removing inhibitions.People are able to think more freely and they suggest as many spontaneous new ideas as possible. All the ideas are noted down without criticism and after the brainstorming session the ideas are evaluated. The term was popularized by Alex F. Osborn. Some features of brainstorming are : Spontaneous thinking is enquired, consists of 8-10 people, runs for ½ - 1 hr, gives promising resultswhen problems are simple & well-defined. However, it is time consuming. It is used in the field of advertising

11. Nominal Group Technique

The nominal group technique is a variation of brainstorming where individuals come up with ideas on their own rather than as a group. Once different ideas are established, they are evaluated, ranked, and agreed upon collectively. The top- ranked ideas are selected as the output of this process. In general, the technique emphasizes individual creativity and group decision-making.Generally, the nominal group training is comprised of the following steps:

- First of all, the facilitator welcomes all the participants and then briefs about the problem requiring decision.
- The participants are given time to pen down their ideas that come to their minds in reference to the problem being discussed. During this period, each member writes his/her ideas silently without discussing anything with each other.
- Once all the members have written, their ideas are required to share them in front of all the group members. At this stage, the facilitator chalks down the ideas of each group member on the flip chart, thereby giving all the members equal opportunity to share what they feel.
- Once the key points are written on the chart, the members are asked to discuss the points which hey feel requires an explanation. Each member explains his/her mind to the other members and in the meanwhile, the facilitator tries to maintain the discussion as neutral as possible, thereby avoiding the criticism and judgement.
- Once all points are explained, the members are asked to give vote or rank various ideas by prioritizing these in relation to the basic problem, for whichthe meeting is held.

- If the group does not reach a consensus decision, then again the ranks are assigned to the recorded ideas and this process continues till the final decisionis arrived.

***12.* Synectics**

Synectics is a problem- solving methodology that stimulates thought processes of which the subject may be unaware.It is the fitting together of diverseelements.The objective is to generate innovative (strange) solutions. Here group members are of diverse background and training. The leader attempts to bring ideas by role-playing, metaphors, paradoxes (thought provoking exercises). The main idea is to stimulate creative thinking. Here evaluation of ideas is done time totime.This is suitable for technical & complex problems. Some other techniques of decision making are :

- *Grid Analysis / Decision Matrix Analysis / Pugh Matrix Analysis*
- *Force Field Analysis*
- *Cost –Benefit Analysis*
- *Linear Programming*
- *Game theory*
- *Simulation*
- *Decision Tree Importance*

of Decision - Making

- *Efficient Resources Utilization*
- *Facing Problems and Challenges*
- *Business Growth*
- *Achieving Organizational Goals*
- *Increases Efficiency*
- *Facilitates Innovation*
- *Motivates Employees*
- *Effective Management*

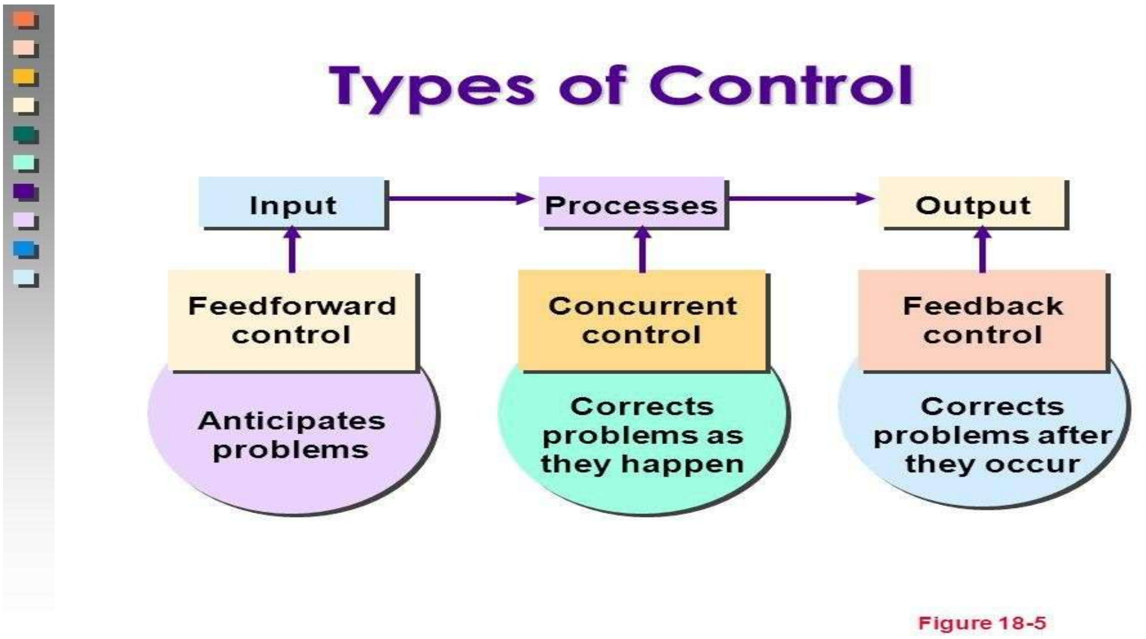
Controlling

Control is a primary goal-oriented function of management in an organization. It is a process of comparing the actual performance with the set standards of the company to ensure that activities are performed according to the plans and if not then taking corrective action.According to Brech, "Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs."According to Donnell, "Just asa navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course."

Characteristics of Controlling

- *Pervasive Function*
- *Shows the mistakes*
- *Continuous Process*
- *Exercised at all levels*
- *Optimum Utilization of Resources*
- *Evaluates Performance*
- *3 D process*
- *Related to planning*

Types of Controlling



Feed Forward Control

This type of control helps to foresee problem ahead of occurrence. Therefore, action can be taken before such a circumstance arises.Feed forward controls are future- directed — they attempt to detect and anticipate problems or deviations from the standards in advance of their occurrence (at various points throughout the processes). Feed forward controls thus anticipate problems and permit action to be taken before a problem actually arises.Feed forward control devices are of two broad categories: diagnostic and therapeutic.

- **Diagnostic controls** seek to determine what deviation is taking (or has taken)place.

E.g. - Sales manager who receives the monthly sales figures (showing sales quota results) is virtually working with a diagnostic control device. It will no doubt indicate deviations from the acceptable standard (i.e., what is wrong) but not why.

- **Therapeutic controls** tell us both what and why, and then proceed to take corrective action.

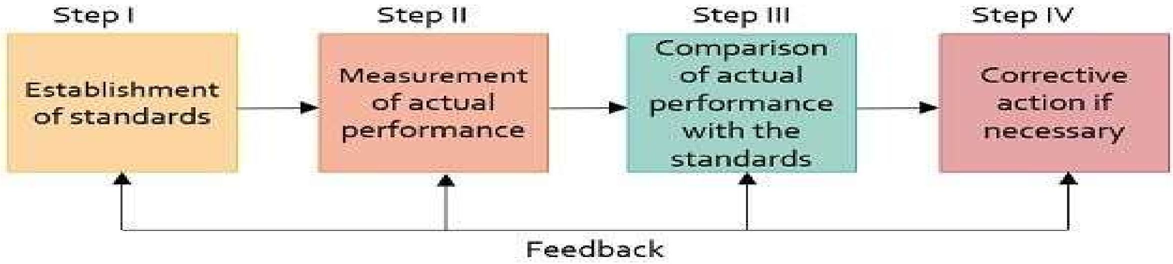
E.g. - A manager who conducts employee training using the coaching method. When, for instance, the trainee is performing the task, the manager observes him closely by standing on his side. The objective is to discover if any deviations from the intended processes take place. In case a deviation occurs, the manager observes it, diagnoses the reason for the incorrect technique, and corrects the deviation immediately (i.e., without any loss of time). Thus the control and correction take placeduring the process itself, not after a few days.

Concurrent Control

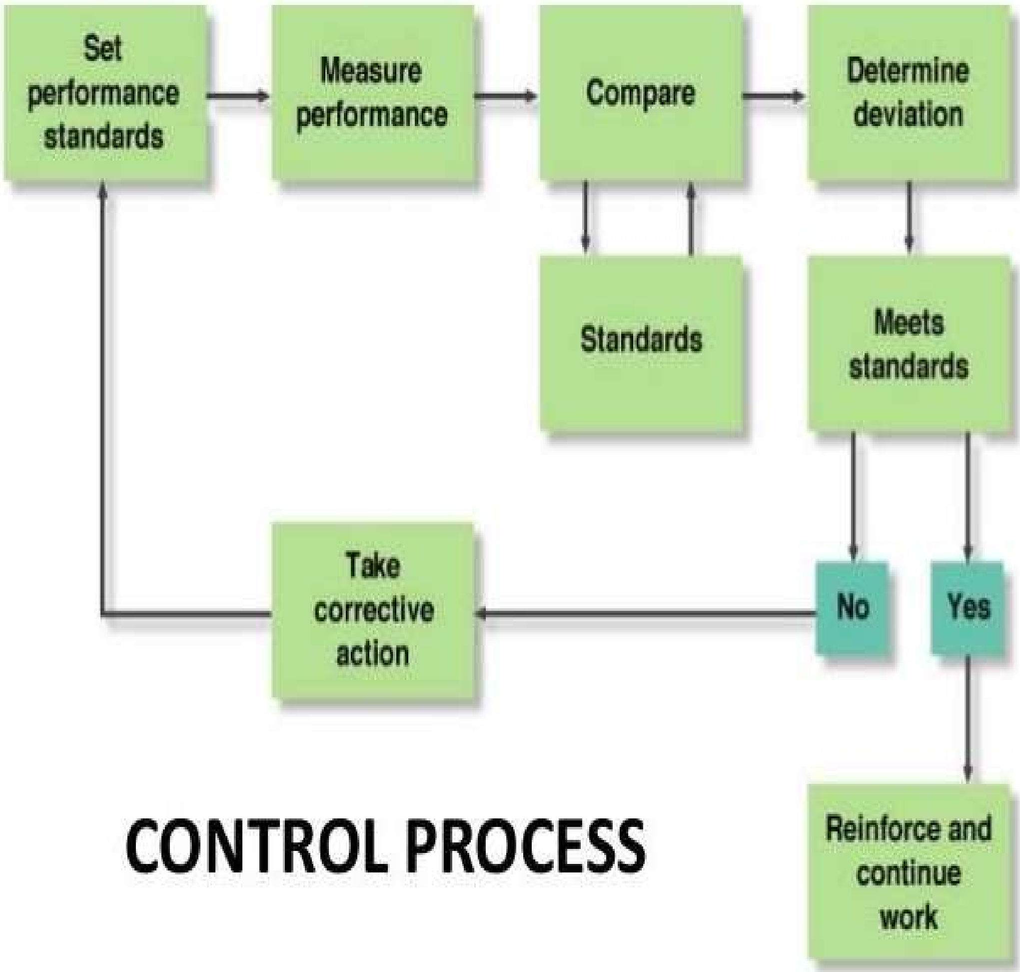
It is also called real-time control or steering control. It checks any problem and examines it to take action before any loss is incurred.It allows people to act on a process or activity while it is proceeding, not after it is proceeding, nor after it is completed.Corrections and adjustments can be made as and when the need a rises. Such controls focus on establishing conditions that will make it difficult or impossible for deviations from norms to occur.E.g. - The development by companies of job descriptions and job specifications. It may be recalled that job description identifies the job that has to be done, thus clarifying working relationships, responsibility areas, and authority relationships. It thus assists in preventing unnecessary duplication of effort (work) and potential organisational conflict.In a like manner job specification identifies the abilities, training, education and characteristics needed of an employee to do the work. It is control device inasmuch as it works to prevent a person who is totally unqualified and unfit from being selected for the job, thereby saving money andtime, and thus precluding potential poor performance.

Feedback Control

This process involves collecting information about a finished task, assessing that information and improvising the same type of tasks in the future.



Process of Controlling



Controlling as a management function involves following steps:

1. **Establishment of standards-** Standards are the plans or the targets whichhave to be achieved in the course of business function. They can also be

called as the criterions for judging the performance. Standards generally are classified into two-

a. **Measurable or tangible** - Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
b. **Non-measurable or intangible**- There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.

Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.

Benchmarking

Benchmarks are reference points that you use to compare your performance against the performance of others. These benchmarks can be comparing processes, products or operations, and the comparisons can be against other parts of the business, external companies (such as competitors) or industry best practices. Benchmarking is commonly used to compare customer satisfaction, costs and quality. The steps in Benchmarking:

i) Determine what to benchmark

ii) Identify the companies against which to benchmark your standards

iii) Collect data to determine other companies' performance standards

2. **Measurement of performance-** The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be

measured. Performance of a manager cannot be measured in quantities. Itcan be measured only by-

a. Attitude of the workers,
b. Their morale to work,
c. The development in the attitudes regarding the physical environment,and
d. Their communication with the superiors.

It is also sometimes done through various reports like weekly, monthly,quarterly, yearly reports.

3. **Comparison of actual and standard performance-** Comparison of actual performance with the planned targets is very important. Deviation can bedefined as the gap between actual performance and the planned targets. The manager has to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business. Minor deviations have to be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon consciously. Therefore it is said, " Ifa manager controls everything, he ends up controlling nothing." For example, if stationery charges increase by a minor 5 to 10%, it can be called as a minor deviation. On the other hand, if monthly production decreases continuously, it is called as major deviation.Once the deviation is identified, a manager has to think about various cause which has led to deviation. The causes can be-

   a. Erroneous planning,
   b. Co-ordination loosens,
   c. Implementation of plans is defective, and
   d. Supervision and communication is ineffective, etc.

Methods of Comparison and presentation of results

i. Narrative Method
ii. Tabulation Method
iii. Graphical Method of Comparison
iv. Mathematical representation

4. **Correcting Deviations / Taking Remedial Actions -** Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here-
    a. Taking corrective measures for deviations which have occurred; and
    b. After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.

Controlling Techniques

These are of 2 types :

a) *Traditional Techniques*
b) *Modern Techniques*

a) *Traditional Techniques – These are the following traditional techniques.*

1. Personal Observation:This is the most traditional technique of control. It helps a manager to collect first hand information about the performance of the employees. It also creates psychological pressure on the employees to improve their performance as they are aware that they are being observed personally by the manager. However, this technique is not to be effectively used in all kinds of jobs as it is very time consuming.

2. Statistical Reports: Statistical analysis in the form of percentages, ratios, averages etc. in different areas provides useful information regarding performance of an organisation to its managers. When such information is presented in the form of tables, graphs, charts etc., it facilitates comparison of performance with the standards laid and with previous years' performance.

3. **Budgeting &Budgetary Control:**Under this technique, different budgets are prepared for different operations in an organisation in advance. These budgets act as standards for comparing them with actual performance and taking necessary actions for attaining organisational goals.A budget can be defined as a quantitative statement of expected result, prepared for a future period of time. The budget should be flexible so that necessary changes, if need be, can be easily made later according to the requirements of the prevailing environment.

Types of Budgets:

(i) Sales Budget: Expected sales in terms of quantity as well as volume.

(ii) Production Budget: Expected production in the budgeted period.

(iii) Material Budget: Expected quantity and cost of material required for production.

(iv) Cash Budget: Expected inflow and outflow of cash for the budgeted period.

(v) Capital Budget: Estimated spending on fixed assets.

(vi) Research and Development Budget: Expected spending on research anddevelopment work.

Advantages of Budgetary Control:

The following are the main advantages of budgetary control:

1. Helps in Coordination: It helps in establishing coordination and interdependence among various departments. For example, purchase budget cannot be prepared without knowing quantity of materials required and that information comes in from production budget. Later in turn is based on sales budget.

2. Optimum Utilization of Resources: Budgeting ensures fuller utilization of resources by allocating the resources according to the needs of various departments.

3. Motivating Employees: Budgeting helps in motivating the employees to perform better as they know the standards against which their performance will be judged.

4. Helps in Attaining Targets: Budgeting ensures attainment of organisational goals by focusing on specific and time bound targets.

5. Facilitates Management by Exception: By stressing on the operations whichdeviate from budgeted standards, it facilitates management by exception in the organisation.

Limitations of Budgetary control:

Some of the defects of budgetary control are as follows:

1. Rigidity: Budgets are often too rigid &restrictive and supervisors are given little freedom in managing their resources. The budgets may either be changed too often or not at all, making it difficult for employees to meet performance level expected of them.

2. Lack of Action: Only preparing budgets cannot lead to success unless & until these are not put into action. There is a need to translate these budget figures into results.

3. Time consuming: Preparing different kind of budgets is not an easy thing as it involves a lot of time, money and efforts.

4. Estimate: Generally, Budgets are prepared on the basis of the price level prevailing at a particular time period but these estimates may become useless during subsequent inflation or depression in the market.

4. Control through Costing :It strives to minimise wastages and establishes predetermined costs. Costs of an organization can be controlled through the setting the standards and targets and comparing the actual performance against them. After comparison, if deviations are significant, then necessary corrective measures are taken.

5. *Production Planning &Control :Production planning helps to forsee the upcoming challenges and the probable corrective measures taken to eliminate them. It helps to produce goods as per the established standards. Production control helps in the production operations and ensures that production is moving in the right direction.*

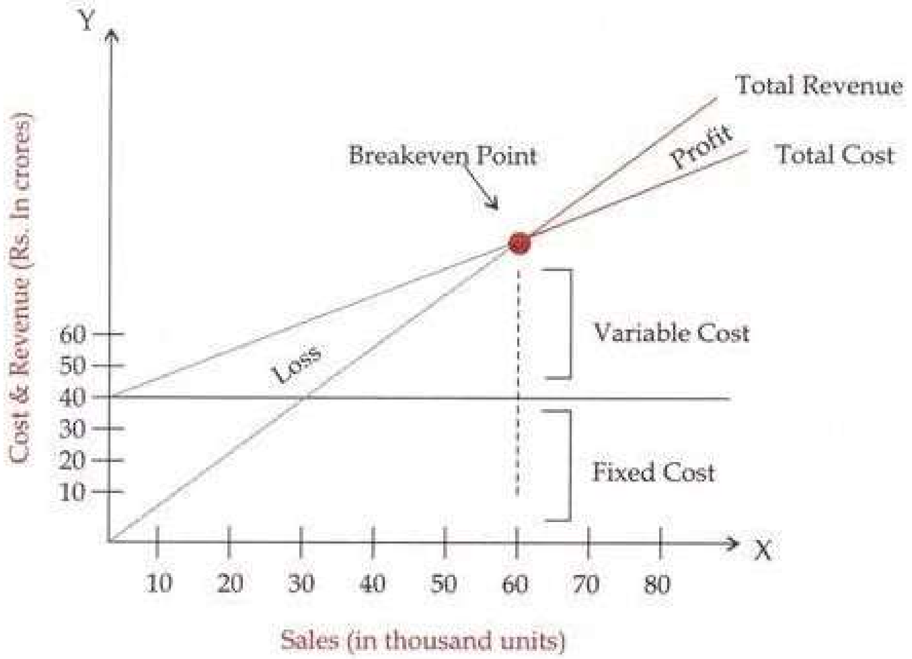
6. *Operational Audit or Internal Audit :This refers to the on-going process of evaluating the accounts and operations of a firm by its own internal experts. Feedback is provided across all processes which helps to analyse whether the set standards are being set or not.*

7. *Profit & Loss Control :This is one of the simplest and most widely used techniques. Departments / products are treated as cost centres. These are compared with each other in terms of sales, expenditure and gain.*

8. *External Audit Control :As per Companies Act, 1956 it is mandatory for joint-stock companies to conduct an audit of their financial status and accounts by a CA. This helps in ensuring the interests of the stakeholders and other parties. This also helps in checking any illegal practices.*

9. *Breakeven Analysis:The technique used by managers to study the relationship between sales volume, costs and profit is known as Breakeven Analysis. This technique helps the managers in estimating profits at different levels of activities. The following figure shows breakeven chart of a firm.The point at which the total revenue and total cost curves intersect is breakeven point. The figure shows that the firm will have the breakeven point at 60,000 units of output. At this point, there is neither profit nor loss. The firm starts earning profit beyond this point.*

Breakeven Point= Fixed Cost/ (Selling Price per unit- Variable cost per unit).



Break Even Chart

Through breakeven analysis, a firm can keep a check on its variable cost and can also determine the level of activity at which it can earn its profit target.

10. Financial Statement Analysis :The financial statements lie Profit & Loss statements, balance sheet, income statement etc are used for comparing the performance of an organization with others over a period of time. Different ratios are also used in this analysis.

b. Modern Techniques:

Modem techniques are those techniques which are very new in management world. These techniques provide various new aspects for controlling the activities of an organisation.

These techniques are as follows:

1. Return on Investment:

Return on investment is very useful technique for determining whether the capital invested in the business has been effectively used or not for generating reasonable amount of return.

Return on Investment= (Net Income / Total Investment) X 100 Net Income before or after tax can be used for calculating ROI. Total investment includes investment in fixed Assets as well as working capital.

It acts as an effective control device in measuring and comparing the performance of different departments. It also helps departmental managers to find out the problems which adversely affect ROI.

2. Critical Path Method (CPM) & Programme Evaluation & Review Technique (PERT) :These techniques are used to compute the total expected time needed to complete aproject & it can identify the bottleneck activities that have a critical effect on the project completion date. Such techniques are mainly used for the purpose of planning, scheduling and implementation of the time bound projects which include a no. of complicated, varied and inter-connected actions. Used in the fields of construction projects, aircraft manufacture, ship building etc.

3. Management Information System (MIS) :It is a computer based information systemwhich provides accurate, timely and up-to-date information to the managers for taking various managerial decisions. In MIS, raw data are collected from direct and indirect sources, after which data is classified, on which various analysis is performed to get information regarding the positive and negative positions of the business.

4. Management Audit System :Management Audit is a process of judging the overall performance of the management of an organisation. It inspects every step of management which includes planning, organizing, staffing, directing & controlling. It aims at reviewing the efficiency and effectiveness of management and improving its future performance. Its basic purpose is to identify the deficiencies in the performance of management functions. It also ensures updating of existing managerial policies.

5. Human Resource Accounting (HRA) :It refers to the identification and measurement of manpower. It involves measuring the costs incurred by an organization to recruit, select, hire, train and develop human assets and also involvesmeasuring the economic value of people in the organization.

6. Responsibility Accounting

Under this system of accounting, various sections, departments or divisions of an organisation are set up as ' Responsibility Centres'. Each centre has a head who is responsible for attaining the target of his centre.The various responsibility centres areas follows:

(i) Cost Centre: Cost centre, also known as expense centre, refers to a department of an organisation whose manager is held responsible for the cost incurred in the centre but not the revenues. For example, Production department of an organisation may be classified as Cost Centre.

(ii) Revenue Centre: A revenue centre refers to a department which is responsiblefor generating revenues. For example, marketing department.

(iii) Profit Centre: A profit centre refers to a department whose manager is responsible for both cost and revenues. For example, Repair and Maintenance department.

(iv) Investment Centre: An investment centre is responsible for profits as well as investments made in the form of assets. For judging the performance of investmentcentre, return on investment (ROI) is calculated and compared with similar data forprevious years for one's own centre as well as other similar enterprises. It is also compared with current data of competing enterprises.

7. Quality Control :It leads to the reduction of wastage, lowering of expenditure, strengthens the reputation of product, and helps in raising sales & marketing. This is done at 2 distinct stages

- ***i)*** *Controlling the operation during the procedure is carried- out by statistical control*
- ***ii)*** *Examining the raw materials, work-in-progress, and final products is carried –out by inspection control*

8. Total Quality Management (TQM) :It is a concept which is based on the notion of responsibility towards quality maintenance throughout the firm. The primary objective of TQM is the active participation of the production staff to quest for quality and to inculcate the attitude of constant improvement in them.

Importance of Controlling

1. *Aids in achieving organizational goals*
2. *Optimum utilization of resources*
3. *Ensures discipline & order*
4. *Improves coordination*
5. *Helps in better planning*
6. *Makes employees accountable*
7. *Motivates employees*
8. *Facilitates delegation*

Factors affecting Control Effectiveness

1. *Size of the organization– Control systems should vary according to soze of organizations. A smaller organization relies on informal and more personal control devices. Large organizations will have more complex systems of controlling.*
2. *Position in the organization's hierarchy– When no. of employees are higher, direct supervision is not possible. It will have to be complemented by highly formalised and impersonal feedforward and feedback controls. People in higher positions need multiple set of control criteria.*
3. *Degree of decentralization – More decentralization leads to requirement of more feedback from the employees.*
4. *Organizational culture – If the organizational culture is one of trust, autonomy and openness then we find more informal self-control. In a culture where there is fear and distrust, externally imposed and formal control systems need to be set up.*
5. *Importance of an activity–If the error can be highly damaging to the organization then extensive controls are likely to be implemented even if costs are high. If the error is likely to be minimal then the control system need not beelaborate.*

Making Control Effective

1. *Feedback–Feedback should be able to trace out the past actions and provide necessary information to the management for making effective decisions.*
2. *Objectivity – Control should be objective, fair and unbiased.*
3. *Suitable & appropriate – The control mechanism should be suitable to the organization and its structure.*
4. *Prompt reporting of deviation– Any deviation from the standard should be promptly brought to the notice of the managers.*
5. *Futuristic – Control should be able to anticipate situations in the future and nothe needful.*

6. *Direct Attention to deviations – Controlling systems should pay attention to all the deviations so that corrective measures can be taken immediately and damages minimized.*
7. *Comprehensible and easily understood – It should be simple to understand and comply.*
8. *Should encompass remedy and solutions – Control systems should disclose the reasons for failure, people responsible for the failure and recommend solutions to the problems.*
9. *Guidance & Motivation – Control system should be able to motivate and guide employees so that performance deviations can eb prevented.*
10. *Enforceable & economical–It is be cost effective and easily understood by managers.*
11. *Focussed on functions & factors- All functions like marketing, production, finance etc should come under the controlling system.*
12. *Selective Control- Key decision areas should be identified and control should be applied there so that the focus is on selective aspects.*
13. *Flexibility – Control systems should be flexible enough to adjust to alterationsin the dynamic external environment.*

Co-ordination

It is "the process of integrating the objectives and activities of the separate units (departments or functional areas) of an organization in order to achieve organizational goals efficiently."Coordination is "integration of the activities of individuals and units into a concerted effort that works towards a common aim." — Pearce and Robinson. Co-ordination maintains unity of action amongst individuals and departments. Absence of co-ordination will result in sub-optimal attainment of goals. Co-ordination harmonizes and balances conflicting opinions of individuals and departments, promotes group effort and directs their movement in a unified direction

— the organizational goal. For example, if production department does not coordinate its activities with the sales department, production may be more or less than the required sales.

Features of Co-ordination

Coordination has the following features:

1. Group effort - Coordination integrates the efforts of individuals and departments to make them work as a group. The group works to maximise group goals as well as organisational goals. It ensures that individuals work as a group to promote their individual and organisational goals.

2. Unity of action - Every individual and department has his own perspective or way of achieving the organisational goals. Coordination ensures unity of action amongst individual and departmental activities. It ensures that activities of each individual, group and department are headed towards the common goal. All activities should be performed within the framework of policies, procedures etc.

3. Common goal - Each individual and department strives to maximise its goal. Maximisation of departmental goals at the cost of organisational goals can be harmful for the organisation. Coordination maintains balance amongst individual, departmental and organisational goals. It ensures that resources and tasks are assigned to individuals and departments in a manner that working of one department promotes the working of other departments.

All individuals, groups and departments should have a common purpose, that is, achieve the organisational goals. Sales department, for example, may want to increase expenditure on advertisement to increase sales. Finance department, however, may not release funds for advertisement to control financial costs. Coordination harmonizes conflicting departmental goals towards a common goal, thatis, goal of the organisation.

4. Continuous process - Coordination is not a one-time attempt to integrate the individual goals. It is a continuous process that keeps going as long as the organisation survives.

5. Managerial responsibility - Co-ordination is the responsibility of every manager at every level for every operative function (production, finance, personnel and sales). All managers continuously coordinate the efforts of people of their respective departments.

6. Essence of management - Coordination is not a separate function of management. It is required for every managerial function. Managers coordinate human and non-human resources, internal and external organisational environment, while carrying out the managerial functions of planning, organising, staffing, directing and controlling. Coordination is, thus, the 'essence of management.'

7. Synthesis of efforts - Coordination integrates and synthesizes the efforts of people of all departments at all levels towards common organisational goals. It also synthesizes the organisational resources (physical, human and financial) to collectively contribute to organisational goals.

8. Necessary obligation - Coordination is not something that managers may or may not strive for. All managers (also non-managers) must direct their efforts towards a common goal, considering this as their necessary obligation. It is an inevitable area ofmanagement.

9. Deliberate effort - Coordination is not a spontaneous effort of managers. Managers make deliberate efforts to coordinate the departmental activities.

Essence of management

a. **Co-ordination through Planning -** Planning facilitates co-ordination by integrating the various plans through mutual discussion, exchange of ideas.
   e.g. - co-ordination between finance budget and purchases budget.
b. **Co-ordination through Organizing -** Mooney considers co-ordination as the very essence of organizing. In fact, when a manager groups and assigns various activities to subordinates, and when he creates department's co- ordination uppermost in his mind.
c. **Co-ordination through Staffing -** A manager should bear in mind that the right no. of personnel in various positions with right type of education and skillsare taken which will ensure right men on the right job.
d. **Co-ordination through Directing -** The purpose of giving orders, instructions & guidance to the subordinates is served only when there is a harmony between superiors & subordinates.

e. **Co-ordination through Controlling -** Manager ensures that there should be co-ordination between actual performance & standard performance to achieve organizational goals.

Principles of Coordination

Mary Parker Follet laid down the following principles for effective coordination.

1. **Principle of Early Stage –** Coordination done at planning stage through participation in decision making.
2. **Principle of Continuity –** Coordination has to be treated as a continuous process done on a regular basis.
3. **Principle of Direct Contact** - Direct contact among people whose activitiesare to be coordinated needs to be done for effective coordination.
4. **Principle of Reciprocal Relations**– It exists between two or more parties in which each party affects the functioning of the other. Effective coordination amongst them helps in a positive effect.
5. **Principle of Effective Communication** – Effective communication between departments, employees managers and subordinates is a prerequisite for effective coordination.
6. **Principle of Mutual Respect-** Coordination will be successful only when there is mutual respect throughout the organization across levels.
7. **Principle of Clarity of Objectives –** Coordination Clear objectives need to setwhich had to be communicated properly for coordination to be successful.

Types of Coordination

Coordination can be categorised into 2 main categories :

I) Internal Coordination– This aims at achieving harmony amongst various units within the organization. This has 3 forms :

a) Vertical Coordination –Coordination within the hierarchy in an organization. Managers entrusting work to subordinates and subordinates reporting back to managers.

b) Horizontal Coordination- This refers to coordination between employees at the same levels in an organization.

c) Diagonal Coordination – There are certain centralized services which everyone in the organization needs. People from any department or level can reach out for these services leading to diagonal Coordination. E.g – Canteen services, library services.

II) External Coordination - There are several external factors that influence and affect an organization. Coordination amongst these factors is highly essential. These factors may be market, competition, labour maket, transport services, governmental agencies, technology etc.

Methods for achieving Effective Coordination

1. *Effective Observation Method– This requires close and purposeful monitoring of the activities performed by the employees. Here the supervisor plays the role of a mentor and facilitator.*
2. *Sound Planning - Sound planning and proper implementation leads to successful coordination.*
3. *Effective Communication – Communication is the key to establish coordination. It is a two way process which ensures continuous flow of data.*
4. *Coordinator or Contact Officer or Liaison Officer –A special official is at times designated to ensure effective coordination amongst various departments and employees. He is also responsible for external coordination.*
5. *Open Discussion and Deliberation Method – This method calls for open and unrestricted communication for handling misunderstanding and grievances so that an atmosphere of coordination can be created.*
6. *Effective Motivation -Motivation is used as a tool for encouraging effective coordination and team work.*
7. *Leadership and Supervision – Leadership provides direction, motivation and inspiration to employees. Good leadership and supervision skills leads to bettercoordination.*

8. Healthy Work Climate – A healthy internal environment leads to mutual trust andrespect which in turns facilitates coordination.
9. Suitable Organization Structure – A well formulated organizational structure inwhich the positions and hierarchy is clearly defined helps in maintaining coordination.

Importance/Need for Coordination:

The need for coordination arises because individuals and departments have different goals. They depend on each other for resources and information. Managers continuously coordinate their activities to ensure that all individuals and departments use organisational resources and information for successful attainment of organisational goals.

- **Harmony of goals–** In an organization everyone tries to achieve the goals in his / her own way. This at times leads to conflict and inefficiency. Hence, Coordination is required to bring unity and harmony in organizational goals.
- **Total accomplishment–**Coordination helps in increasing the overall effectiveness of the entire organization by eliminating duplication of efforts.
- **Economy & Efficiency-** Coordination helps in maintaining economy in labour, time and equipment by eliminating duplication of efforts.
- **Good personnel relations–**Coordination forms the basis of many healthy relationships within the organization which gives job satisfaction and minimises conflict between line and staff personnel.
- **Handling Complexity –** The level of complexity is huge in larger organizationswhere people have to perform different, multiple and challenging tasks. Efficient coordination is highly essential in these cases.
- **Adapting to external environment** - Modern businesses operate in a fluyid and dynamic environment which requires constant reaction and adjustment This is possible only when there is better coordination inside the organizationto combine its strengths and competencies so as to exploit business opportunities and avoid threats.

Limitations in Achieving Coordination

There are some limitations also in achieving effective coordination.Some of these arediscussed below:

1. Increased specialisation - Though specialisation helps to increase organisational productivity, it also creates the problem of coordination. Higher the degree of specialisation, therefore, more difficult it is to coordinate the activities.

2. High interdependence amongst units- Higher the degree of dependence of one unit on the other, greater is the need for coordination and more difficult it is to coordinate. Achieving coordination of units/activities with reciprocal interdependence is more complex than for activities with pooled interdependence.

3. Different approach towards the same problem:
If different departments look at the same problem in different ways, there will be problem of coordinating their activities.Since each department has different perception about the way organisational profits can be increased, top managers findit difficult to coordinate conflicting opinions of different functional heads.

4. Uncertainty about future- Howsoever skilled and competent may the managers be in coordinating the activities of different units, changes in environmental factors can make coordination difficult. Unprecedented changes can result in failure of plans making coordination difficult. Internal uncertainties like strikes and lockouts also make coordination difficult.

5. Lack of skill - Even in certain situations, where work flows smoothly, coordination becomes a problem if managers do not have the knowledge, skill and competence to coordinate. Coordination makes use of behavioural skills in dealing with people. Managers with autocratic style of leading can face problems in coordinating the efforts of their work force.

6. Informal groups- Informal groups which are strongly bonded by forces of culture, social values and ethics can affect the ability of highly skilled managers to coordinate organisational activities.

Organizational Change

It is an alternation in structure, technology or people. It is both the process in which an organization changes its structure, strategies, operational methods, technologies, or organizational culture to affect change within the organization and the effects of these changes on the organization. Organizational change can be continuous or occur for distinct periods of time.

Nature of Organizational Change

- Affects existing equilibrium
- Influences entire organization
- Ongoing Process
- Perceptual and Behavioural
- Affects individual in multiple roles
- Natural phenomenon

Goals of Organizational Change

- Survival & Growth
- Organizational Development
- Modifying Behavioural Patterns

Planning for Organizational Change

1. **Identifying the Problem –** Problem could be of any types likepoor quality of output, low productivity, delay in production etc. The first step is to identify and be aware of the change.

2. **Recognising the cause of the problem –**The next step is to recognise and identify the cause of the problem. This could be associated with the technology or marketing strategy or production.
3. **Implementing the Change –**It is important to take on board all the stakeholders who would be involved or affected by the change before implementing it. This helps in minimising resistance.
4. **Motivating for Change –** Employees need to be motivated about the change. This can take place by informing them about the benefits of the change, ensuring their participation in the process of change and rewarding employees who actively participate in bringing about the change.
5. **Supporting the Change** — Stakeholders and management full support for the change is compulsory. All efforts have to be made to sensitize the employees, through training and education etc to support the change.
6. **Evaluating the Change** — The entire change process must be evaluated as to whether it has brought about the expected outcomes or not. There should be a detailed, scientific and fair evaluation so that corrective actions can be taken if there is any gap.

Factors affecting Organizational Change

There are external and internal factors affecting change. They are :

External Factors

Technology — Upgradation of existing or obsolete technology is the most common type of organizational change.

Marketing Conditions — Changes in the market conditions which is dynamicnecessitates change within the organization.

Social Changes — Social changes propelled by widening of education, social media, internet etc has fundamentally affected the market in terms of types ofproducts and services required.

Change in Policies and Laws — Changes in the policies and laws by the government (labour law, import & export law, tax laws etc) has a great bearing on the business

Political Forces – The political parties and their agenda also affects business.

Globalization– Our economy has opened up to the global market by embracing foreign products and services thereby changing the business environment.

Workforce Diversity — The presence of women, people from different educational backgrounds, races, and age profiles makes it necessary to make suitable changes in the working of the organization and its policies.

Changing Economic Conditions – Changing economic conditions like inflation, recession etc greatly affect the health of the business.

Internal Factors

Changes in Managerial Personnel — Whenever there is a change in the management, there is likely to be a corresponding change in the philosophy and style of working of the organization which might affect the organization's design, structure, control etc.

Changes in Operative Personnel — The changing profile of the working personnel leads to changes in the expectations, working conditions, rights and privileges etc.

Deficiencies in existing structure — If there are any deficiencies in the existing structure in terms of poor inter-departmental coordination or unfair work distribution etc these need to addressed and necessary changes made.

Changes in employee expectations — The expectation of better educated employees are higher than the traditional employees who are more interested on a work-life balance, flexible work schedules, better HR policies etc.

Changes in work climate – The internal environment of an organizational often leads to change. Work dissatisfaction, fear of lay-off, discontentment affects the productivity as discontented workers will be unproductive.

Types of Organizational Change

Huge changes occur occasionally but small changes are an ongoing process. The types of organizational change can be classified on the basis of:

A) Degree of Change

This refers to how much change is carried out. This is of 2 types :-

i) Radical Change – When organizations make major adjustments to the way they do their business, this calls for a huge change called radical change. Examples are adopting a new organizational structure, mergers and acquisitions etc. This is infrequent. These kind of changes affects everyone in the organization in some way or the other.

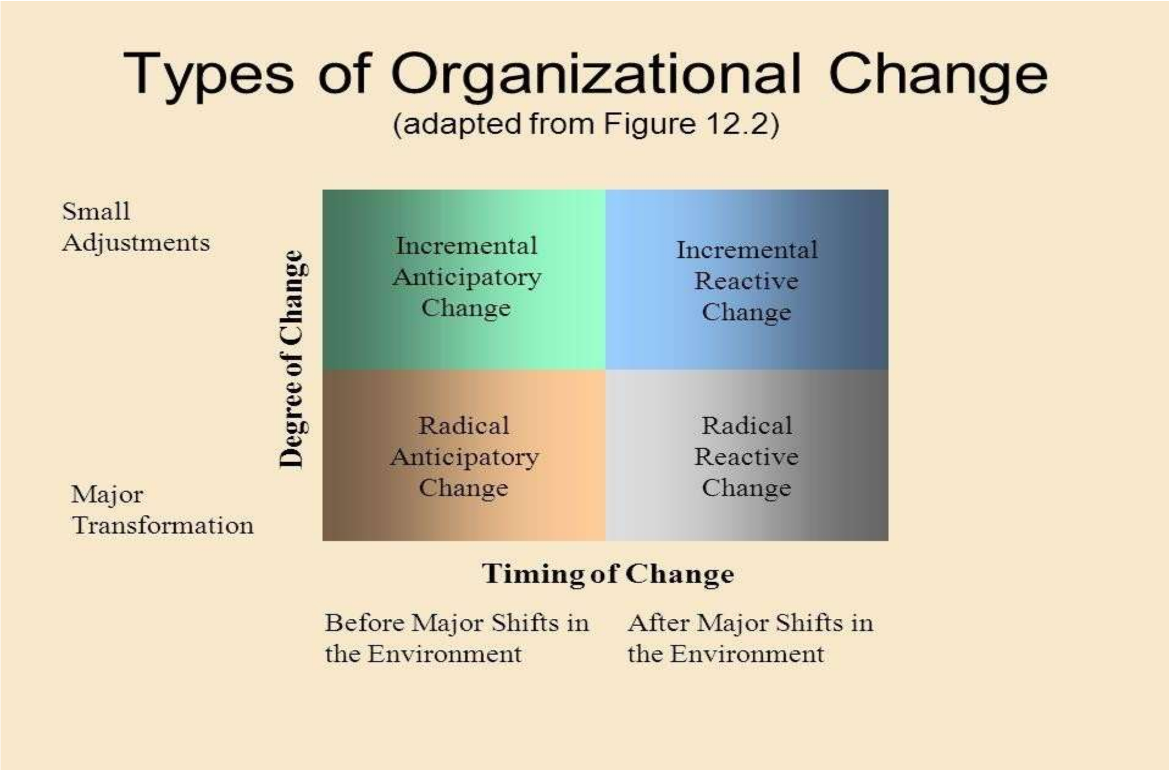
ii) Incremental Change – This is an ongoing process of evolution over a period of time. Small adjustments are made on a routine basis over a period of time.

B) Timing of Change

The on the basis of the timing of change, organizational change can be of 2 types :

i) Reactive Change – This happens when an organization if forced to change in response to an unanticipated event either internally or externally. Examples are new strategic moves by competitors, technological changes etc.

ii) Anticipatory Change – There are some events which are predictable and managers can foresee the changes that will be required to balance the effects of the events. They start making changes in anticipation of the events. This happens when you have forward thinking and visionary leaders. This way all types of changes can be planned, communicated and implemented effectively.



Implementing Organizational Change

1. Planning Phase

It is the essence of managing change. This involves drawing the road map for implementing the change. It involves the following phases :

1. **Phasing** – Changes have to be made (phased out) in a certain time frame and in certain space.
2. **Processes** — What processes are to be used for bringing about the change. They include training, redeployment, new recruitments, implementation, diagnosis.
3. **Strategies** — Thoughtfully drawn strategies taking into consideration many factors like existing conditions, geographic location, socio-economic background etc.

2. Monitoring Phase

This phase involves ensuring that what has been planned is implemented properly. Changes are measured and outcomes are evaluated in terms of timelines, quantity and quality.

1. **Implementation Team / Core Team** — A dedicated taskforce or committeeneeds to be set-up.
2. **Facilitation and Flexibility** – Proper facilitation and mentoring is required. An atmosphere of minimal control and maximum support and improvisation is required.
3. **Review and Feedback** – This needs to be done regularly.
4. **Distribution of Information** – This includes sharing of instructions, directions and guidelines w.r.t the implementation process.

3. Action Phase

The real implementation of change happens in this phase. Monitoring is required herealso so that corrective action can be taken.

4. Adaption Phase

The change process needs to be accommodative, flexible and adaptative as and when required. An efficient programme should be able to incorporate changes as andwhen required.

5. Support Phase

The management has to provide all necessary support and facilitation to enable effective implementation. Some aspects of such support are as follows :

1. **Training** – It is an integral part of any change process. Necessary training to all stakeholders is essential.

2. **Resources** — Management has to pool in all human, financial and material resources.
3. **Top Management's Commitment** – This is compulsory.
4. **Linkages for Support** – Internal resources and external agencies are pooledin to bring about the change.

Reaction to Change

There can be 3 possible reactions to changes:

1. Resistance – People resist a change when they think it is going to affect them unfavourably.

2. Indifference – Sometimes, people do not react to change either positively or negatively. This usually happens when they have little information regarding the change.

3. Acceptance- If people perceive that the change is going to affect them favourably then they accept it and plan for it or adopt it.

Resistance to Change

This can be defined as behaviours that are acted out by change recipients in order to slow down or terminate an intended organizational change.

Reasons for resistance to change can be at the following three levels:

A) Individual Resistance
B) Organizational Resistance
C) Group Resistance

A) Individual Resistance – This resistance is offered by an individual for variousreasons like:

i) Habit
ii) Security
iii) Economic Factors – Fear of loss of income
iv) Fear of Uncertainty

v) Selective Information Processing — When people selectively filter out information and imagine things which are not there.

B) Organizational Resistance – Every organization has its own way of doingthings. Reasons for organizational resistance can be any of the following:

i) Power and Conflict — Changes in an organization may affect the power equations which might lead to conflict.

ii) Differences in Functional Orientation — Different departments in the organization tend to see things differently.

iii) Mechanistic Structure – These are characterised by centralized decision-making, standardized rules and regulations, hierarchies etc.

iv) Organizational Culture – Any change that seeks to bring about a changein the culture will be resisted by people.

C) Group Resistance – All individuals working in an organization are part of a group. Each group has its own interests and therefore resistance can be dueto:

i) Group Norms – Groups tend to have their own internal cultures or norms.When the group feels that a change seeks to threaten these norms, thereis resistance.

ii) Group Cohesiveness — Cohesiveness denotes the degree of belongingness as well as commitment of the members to their group. This grows over a period of time. These groups are less likely to adapt to new situations.

iii) Groupthink - Group think is an erratic and distorted decision-making process which happens when groups take decisions based on selective information.

Overcoming Resistance to Change

- Clear Definition of Vision and goals
- Employees' participation in change process
- Interview employees to know their feelings
- Effective delegation

- Rising levels of expectations
- Employees’ commitment
- Expansion of Communication channels
- Firmness, commitment and flexibility
- Positive attitude
- Rewarding employees

Change Management

Change management is a systematic approach to dealing with the transition or transformation of an organization's goals, processes or technologies. The purpose of change management is to implement strategies for effecting change, controlling change and helping people to adapt to change. Such strategies include having a structured procedure for requesting a change, as well as mechanisms for responding to requests and following them up.

Kurt Lewin’s Force Field Theory of Change

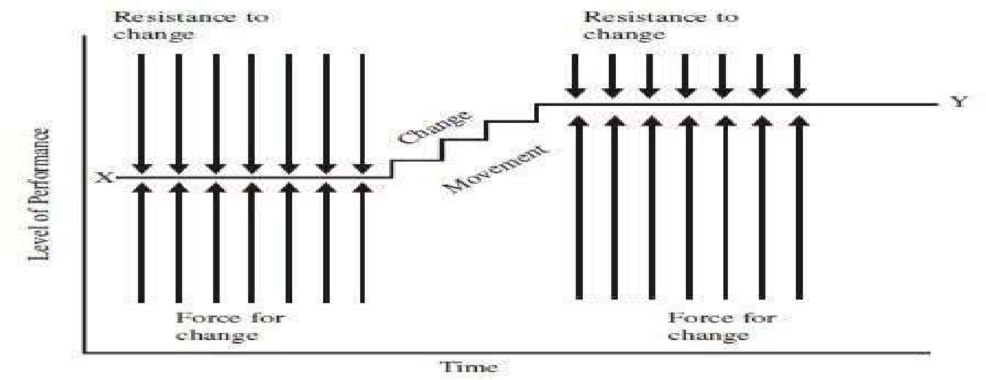
Kurt Lewin's force field analysis change model was designed to weigh the driving and restraining forces that affect change in organizations. The 'force field' can be described as two opposite forces working for and against change. In this lesson, we'lllearn how to analyze the force field.Lewin's Force Field Model is an important contribution to the theory of change management - the part of strategic management that tries to ensure that a business responds to the environment in which it operates.

Points to be noted :-

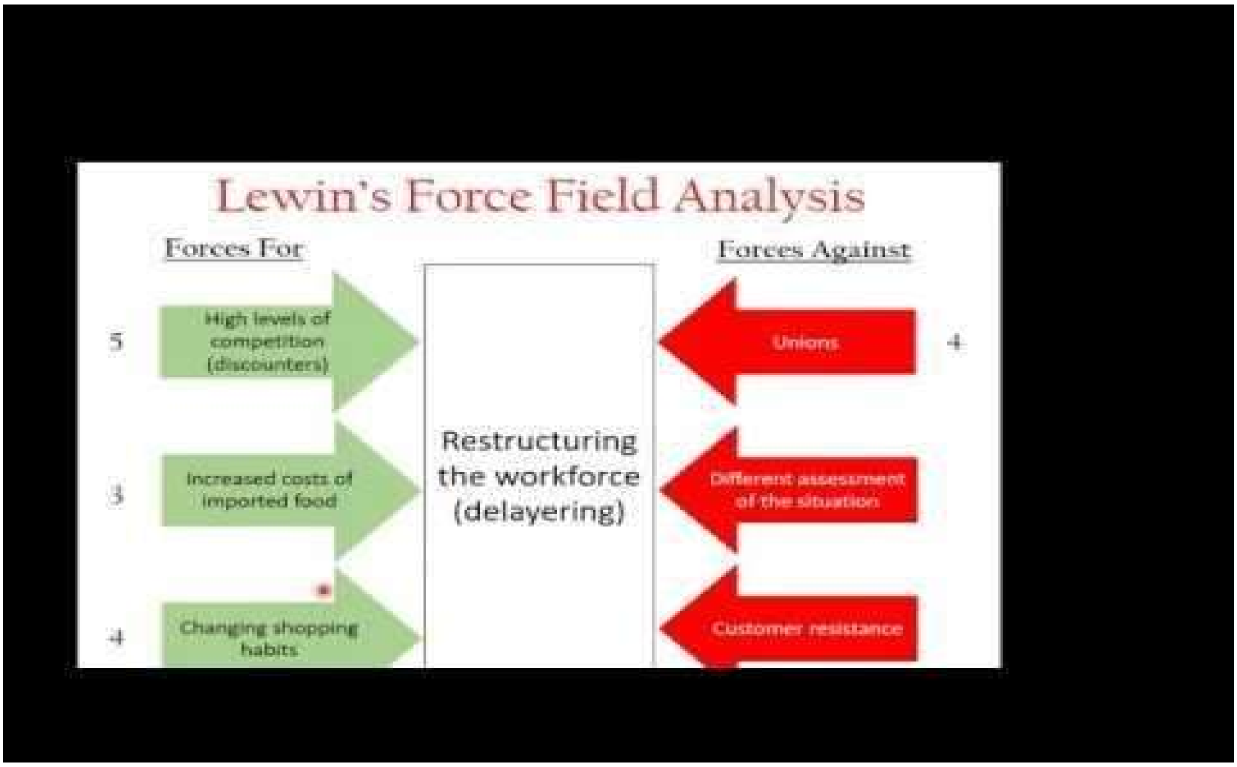
- ➢ Change is the result of dissatisfaction with present strategies (performance,failure to meet objectives etc).
- ➢ Change doesn't happen by itself - it is essential to develop a **vision** for a betteralternative.
- ➢ Management have to develop strategies to **implement change.**

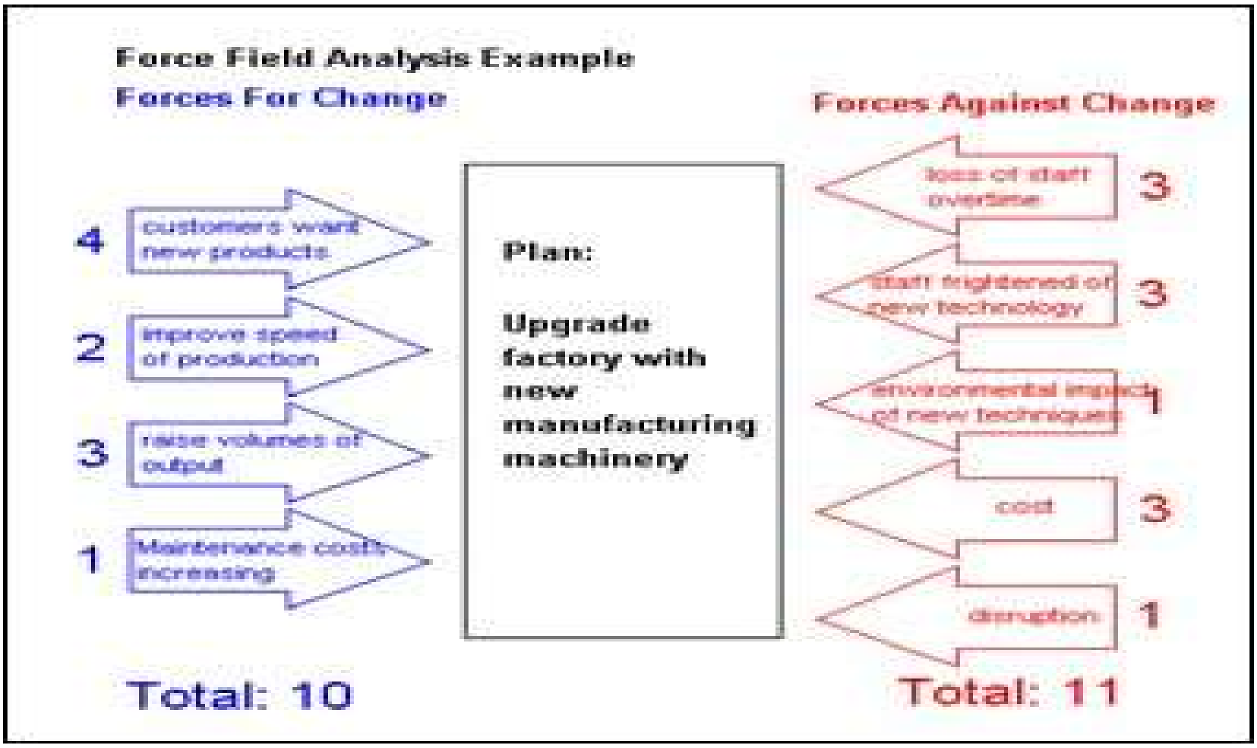
➢ There will be **resistance** to change - it is inevitable, but not impossible to overcome.

In Lewin's model there are forces **driving change** and forces **restraining it**. Wherethere is equilibrium between the two sets of forces there will be no change. In order for change to occur the **driving force must exceed the restraining force.**



Examples


Lewin's Force Field Analysis
Forces For
Forces Against
5
High levels of competition (discounters)
Unions
4
Restructuring the workforce (delayering)
3
Increased costs of imported food
Different assessment of the situation
4
Changing shopping habits
Customer resistance



Lewin's 3 Step / Stage Model

Kurt Lewin developed a change model involving three steps : unfreezing, changing and refreezing. The model represents a very simple and practical model for understanding the change process. The process of change entails creating the perception that a change is needed, then moving toward the new, desired level of behavior and finally, solidifying that new behavior as the norm. The model is still widely used and serves as the basis for many modern change models.

Stage 1 - Unfreezing:

- This is the first stage of transition and one of the most critical stages in the entire process of change management.
- It involves improving the readiness as well as the willingness of people to change by fostering a realization for moving from the existing comfort zone to a transformed situation.

- It involves making people aware of the need for change and improving their motivation for accepting the new ways of working for better results.
- During this stage, effective communication plays a vital role in getting the desired support and involvement of the people in the change process.

Stage 2 - Change:

- This stage can also be regarded as the stage of Transition or the stage ofactual implementation of change.
- It involves the acceptance of the new ways of doing things.
- This is the stage in which the people are unfrozen, and the actual change is implemented.
- During this stage, careful planning, effective communication and encouragingthe involvement of individuals for endorsing the change is necessary.
- It is believed that this stage of transition is not that easy due to theuncertainties or people are fearful of the consequences of adopt

Stage 3 - Refreezing:

- During this stage, the people move from the stage of transition (change) to a much more stable state which we can regard as the state of equilibrium.
- The stage of Refreezing is the ultimate stage in which people accept or internalize the new ways of working or change, accept it as a part of their life and establish new relationships.
- For strengthening and reinforcing the new behaviour or changes in the way of working, the employees should be rewarded, recognized and provided positive reinforcements, supporting policies or structures can help in reinforcing the transformed ways of working.

Change Agent

A change agent is a person who manages the change activities.

Role of a Change Agent

1. To bring about change in the structure of an organization.

2. To involve himself/herself in job redesign, as it is an essential requirement oftoday's employee.

3. To bring about a change in authority relations (ie.) shifting of employees by way ofjob rotation, job enrichment etc.

4. To implement the improved revisions of the tools and equipment used by the employees.

5. To entertain the employees to undergo the training process in order to make the employees get adapt to the change process.

6. To bring about modifications in the work place.

7. Lastly, he must play the role of mentor or counselor in order to change the mindsetof the employees and encourage them to go in for a change.

The following roles are played by change agents :

1. **Trainer –** Needs to be trainer and educator so that he can educate people on the necessity of the change through presentations, lectures, group discussions, role plays etc.
2. **Researcher-** A change agent might have to carry out research to gather relevant information prior to and during the change process.
3. **Catalyst –** Change agents sense the hidden problems and use various methods to help bring about them change in a smooth and quick fashion.
4. **Solution Provider-** In many cases, the change agenst act as the technical expert to provide solutions to problems so that changes can be brought in properly.

5. **Resource Linker –** The change agent brings people together as well as other resources like money, skills, specialized knowledge techniques, ideas etc.
6. **Stabiliser-** The change agent play an important role after the change hasbeen adopted to bring in stability.

Importance of Managing Change

Benefits of Change Management for the Organization:

- Change is a planned and managed process. The benefits of the change areknown before implementation and serve as motivators and assessment of progress
- The organization can respond faster to customer demands
- Helps to align existing resources within the organization
- Change can be implemented without negatively effecting the day to day running of business
- Organizational effectiveness and efficiency is maintained or even improved by acknowledging the concerns of staff
- The time needed to implement change is reduced
- The possibility of unsuccessful change is reduced
- Employee performance increases when staff feel supported and understandthe change process
- Change management provides a way to anticipate challenges and respond tothese efficiently
- An effective change management process lowers the risk associated withchange
- Managed costs of change: change management helps to contain costs associated with the change
- Creates an opportunity for the development of "best practices", leadership development, and team development

Benefits of Change Management for Individuals:

- Effective change management supports a smooth transition from the old to thenew while maintaining morale, productivity, and even company image
- Provides management and staff support for concerns regarding changes
- An efficient change management process creates the correct perception of thechange for staff and public
- Helps to plan efficient communication strategies
- Managed change can minimize resistance to change
- Improves morale, productivity and quality of work
- Improves cooperation, collaboration and communication
- A carefully planned approach to change reduces stress and anxiety and encourages people to stay loyal to the organization
- Increased employee acceptance of the change
- Personal loss/gain to individuals is acknowledged and addressed
- Change management reduces disruptive aspects and emphasises positive opportunities in the change process

Challenges in Change Management

Perceptual Barriers – This happens when people analyse the situations andevaluate options on their own.

1. Stereotypes in Analysis – People see what they expect to see.
2. Problem Recognition – Difficulties to identify and analyse the actual problem.
3. Too narrow scope of the problem – Problems are approached with a one-sidedview that focuses on particular aspects only.
4. Info overload – Difficulties to distinguish between relevant data and availabledata.
5. Misjudgements – People are not able to judge the information properly.

Emotional Barriers

1. Risk Aversion – Fear of making mistakes.

2. Lack of processing ability – Solving complex problems is a challenge and not everyone can process information.
3. Preference to evaluate existing ideas — It is easier to reject newer ideas by preferring older ones.
4. Not taking time for thinking — People actually do not spend quality time on thinking and evaluating the situation.

Cultural Barriers

1. Taboos — Some issues might be considered as taboos in an organization,hence it will be difficult to approach it.
2. Lack of imagination
3. Lack of creativity
4. Reasons & Intuitions
5. Tradition & Change

Environmental Barriers

1. Lack of support – Change will always mean moving out of their comfort zonesso there will be people who will resist it.
2. Lack of ability to accept criticism -
3. Lack of listening capacity
4. Use of wrong terminology
5. Sticking to strategies
6. Lack of complete & correct info

Technological Change (TC)

- A technological change is an increase in the efficiency of a product or processthat results in an increase in output, without an increase in input.
- In other words, someone invents or improves a product or process, which isthen used to get a bigger reward for the same amount of work.

- The telephone is an example of a product that has undergone a technologicalchange. It has undergone many different changes over the years that have made it more efficient. Processes or products, such as the telephone, move through technological change in three stages:
    - **Invention** - the creation of a new product or process
    - **Innovation** - the application of the invention for the first time
    - **Diffusion** - how fast others begin to adopt the innovation

Techniques for encouraging Technology Change

a) **Switching Structure –** The organization creates an organic structure whennew ideas need to be initiated.

b) **Creative Departments –** In many organization the initiation of innovation is handled by a separate department for innovation or R&D etc.

c) **Venture Teams –** This is a technique to give a free rein to creativity within organizations. These teams are often given a new location and facilituies andoperate like a company within the organization.

d) **Corporate Entrepreneurship –** It promotes the entrepreneurial spirit to release the creativity of the employees.

IT and Communication Devices

The various kinds of IT and Communication devices used today are :

- Video conferencing
- Telephone Conferencing
- Electronic Mail (E-mail)
- Facsimile (Fax)
- Social Media
- Electronic Reading devices - Kindle
- Smart Phones
- Laptops
- Wireless Communication

- Cloud Computing
- RFID

Benefits of using IT devices

1. **Accessibility** – Communication has become more convenient. Usage of internet, emails, website etc has made dissemination of information very easyand accessible.
2. **Mass communication –** Sharing information with a large no. of people ismuch more convenient now.
3. **Market expansion**– By using internet, companies are now able to tap marketsand overcome geographical barriers which was not possible earlier. And that too in a cost-effective manner.
4. **Extremely interactive** – All these means of communication are highly interactive allowing a two-way communication.
5. **Application in social media**– Companies are now active on Facebook, Twitter, Instagram and other networking sites to facilitate the growth in theirbusiness.
6. **Security**– Technology is used to protect data and proprietary information leading to competitive advantages.

Problems of using IT devices

1. **Impersonal Perception** – AT times it leads to the perception that there is no human element involved and everything is through electronic communication. at times this might leads to confusion and disorientation.
2. **Security Issues**–Using business technology in communication also leads to security issues as data can be hacked and misutilised.
3. **Equipment expense –** All these communication requires extra equipment like modems, servers, PCs, laptops etc which need to be purchased.
4. **Difficulty in training employees –** Organizations may face problems in training older employees who are not comfortable with the digital environment. Training themto uses these interfaces might be a challenge.