# BUSINESS STUDIES

## PART I

## PRINCIPLES AND FUNCTIONS OF MANAGEMENT

*Textbook for Class XII*

12113

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**OFFICES OF THE PUBLICATION DIVISION, NCERT**

NCERT Campus
Sri Aurobindo Marg
**New Delhi 110 016** **Phone : 011-26562708**

108, 100 Feet Road
Hosdakere Halli Extension
Banashankari III Stage
**Bengaluru 560 085** **Phone : 080-26725740**

Navjivan Trust Building
P.O.Navjivan
**Ahmedabad 380 014** **Phone : 079-27541446**

CWC Campus
Opp. Dhankal Bus Stop
Panihati
**Kolkata 700 114** **Phone : 033-25530454**

CWC Complex
Maligaon
**Guwahati 781 021** **Phone :0361-2674869**

**Publication Team**

Head, Publication Division : *Anup Kumar Rajput*
Chief Production Officer : *Arun Chitkara*
Chief Business Manager : *Vipin Dewan*
Chief Editor (In charge) : *Bijnan Sutar*
Assistant Editor : *Vijay Kumar*
Production Assistant : *Sunil Kumar*

***Cover***
*Shweta Rao*
***Layout and Illustrations***
*Ashwani Tyagi*

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# Foreword

The National Curriculum Framework (NCF), 2005, recommends that children's life at school must be linked to their life outside the school. This principle marks a departure from the legacy of bookish learning which continues to shape our system and causes a gap between the school, home and community. The syllabi and textbooks developed on the basis of NCF signify an attempt to implement this basic idea. They also attempt to discourage rote learning and the maintenance of sharp boundaries between different subject areas. We hope these measures will take us significantly further in the direction of a child-centred system of education outlined in the National Policy on Education (1986).

The success of this effort depends on the steps that school principals and teachers will take to encourage children to reflect on their own learning and to pursue imaginative activities and questions. We must recognise that, given space, time and freedom, children generate new knowledge by engaging with the information passed on to them by adults. Treating the prescribed textbook as the sole basis of examination is one of the key reasons why other resources and sites of learning are ignored. Inculcating creativity and initiative is possible if we perceive and treat children as participants in learning, not as receivers of a fixed body of knowledge.

These aims imply considerable change in school routines and mode of functioning. Flexibility in the daily time-table is as necessary as rigour in implementing the annual calendar so that the required number of teaching days are actually devoted to teaching. The methods used for teaching and evaluation will also determine how effective this textbook proves for making children's life at school a happy experience, rather than a source of stress or boredom. Syllabus designers have tried to address the problem of curricular burden by restructuring and reorienting knowledge at different stages with greater consideration for child psychology and the time available for teaching. The textbook attempts to enhance this endeavour by giving higher priority and space to opportunities for contemplation and wondering, discussion in small groups, and activities requiring hands-on experience.

The National Council of Educational Research and Training (NCERT) appreciates the hard work done by the textbook development committee

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responsible for this book. We wish to thank the Chairperson of the advisory group in Social Sciences Professor Hari Vasudevan and the Chief Advisor for this book, Professor D.P.S. Verma *(Retd.)* Delhi School of Economics, University of Delhi and Dr. G.L. Tayal, Reader, Ramjas College, University of Delhi for guiding the work of this committee. Several teachers contributed to the development of this textbook; we are grateful to their principals for making this possible. We are indebted to the institutions and organisations which have generously permitted us to draw upon their resources, material and personnel. We are especially grateful to the members of the National Monitoring Committee, appointed by the Department of Secondary and Higher Education, Ministry of Human Resource Development under the Chairpersonship of Professor Mrinal Miri and Professor G.P. Deshpande, for their valuable time and contribution. As an organisation committed to the systemic reform and continuous improvement in the quality of its products, NCERT welcomes comments and suggestions which will enable us to undertake further revision and refinement.

*Director*
National Council of Educational
Research and Training

New Delhi
*20 November 2006*

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## Rationalisation of Content in the Textbooks

In view of the COVID-19 pandemic, it is imperative to reduce content load on students. The National Education Policy 2020, also emphasises reducing the content load and providing opportunities for experiential learning with creative mindset. In this background, the NCERT has undertaken the exercise to rationalise the textbooks across all classes. Learning Outcomes already developed by the NCERT across classes have been taken into consideration in this exercise.

**Contents of the textbooks have been rationalised in view of the following:**

- Overlapping with similar content included in other subject areas in the same class
- Similar content included in the lower or higher class in the same subject
- Difficulty level
- Content, which is easily accessible to students without much interventions from teachers and can be learned by children through self-learning or peer-learning
- Content, which is irrelevant in the present context

This present edition, is a reformatted version after carrying out the changes given above.

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# Textbook Development Committee

**Chairperson, Advisory Committee for Textbooks in Social Sciences at Senior Secondary Level**

Hari Vasudevan, *Professor*, Department of History, University of Calcutta, Kolkata

**Chief Advisor**

D.P.S. Verma, *Retired Professor,* Department of Commerce, Delhi School of Economics, University of Delhi, Delhi.

**Advisor**

G.L. Tayal, *Reader*, Ramjas College, University of Delhi, Delhi.

**Members**

Anand Saxena, *Reader,* Deen Dayal Upadhyaya College, University of Delhi.

Davinder K. Vaid, *Professor*, Department of Education in Social Sciences and Humanities, NCERT, New Delhi.

M.M. Goyal, *Reader,* PG DAV College, University of Delhi.

Narsimha Murthy, *Principal,* University Post-Graduate College, Subedari, Anam Konda, Distt. Warangal, Andhra Pradesh.

Pooja Dasani, *PGT (Commerce)* Convent of Jesus and Mary, Gol Dakkhana, New Delhi.

R.B. Solanki, *Principal,* B.R. Ambedkar College, University of Delhi.

Ruchi Kakkar, *Lecturer,* Acharya Narendra Dev College, University of Delhi.

Shruti Bodh Aggarwal, *Vice-Principal,* Rajkiya Pratibha Vikas Vidyalaya, Kishanganj, Delhi.

Sumati Verma, *Reader,* Sri Aurobindo College, University of Delhi.

Y.V. Reddy, *Reader,* Department of Commerce, Goa University, Goa.

**Member Coordinator**

Minoo Nandrajog, *Reader,* Department of Education in Social Sciences and Humanities, NCERT, New Delhi.

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## Note to the Teacher

As you read through this textbook, you will develop an understanding of the environment in which a business operates. The textbook discusses emerging modes of business in the context of entrepreneurship development, ethics in business and corporate social responsibility, small scale industries, intellectual property rights, goods and services tax, and many other contemporary issues in the conduct of internal and internal business scenarios. Due emphasis is laid on entrepreneurship and innovation in unorganised sector along with content from corporate world. This will enable the learners observant of their immediate surroundings and business environment.

You will find additional reading material, interactive activities, stories of innovation and entrepreneurship, etc., as enrichment material for self learning. You will find newer e-resources under embedded QR codes (accessed via *e-pathshala app*) at various intervals.

The textbook is updated in the light of The Companies Act 2013, and the content is modified in accordance to new provisions of the Act 2013 in respective chapters.

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## Acknowledgements

The National Council of Educational Research and Training acknowledges the valuable contributions of the *Textbook Development Commitee,* which took considerable pain in the development and review of manuscript as well.

Thanks are due to Savita Sinha *Professor* and *Head*, Department of Education in Social Science for her guidance and constant support at every stage of the textbook development process. The textbook has been reworked and updated at appropriate point of time in the context of recent development in business scenario and the Companies Act 2013. The contribution of practicing teachers of Business Studies is also duly acknowledged for developing e-resourses for QR Codes.

The contribution of APC Office, Administration, Publication Division, and Secretariat of NCERT are also duly acknowledged for bringing out the updated textbook of Business Studies.

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# THE CONSTITUTION OF INDIA

## PREAMBLE

**WE, THE PEOPLE OF INDIA,** having solemnly resolved to constitute India into a [1]**[SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC]** and to secure to all its citizens :

**JUSTICE,** social, economic and political;

**LIBERTY** of thought, expression, belief, faith and worship;

**EQUALITY** of status and of opportunity; and to promote among them all

**FRATERNITY** assuring the dignity of the individual and the [2][unity and integrity of the Nation];

**IN OUR CONSTITUENT ASSEMBLY** this twenty-sixth day of November, 1949 do **HEREBY ADOPT, ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.**

---

1. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Sovereign Democratic Republic" (w.e.f. 3.1.1977)
2. Subs. by the Constitution (Forty-second Amendment) Act, 1976, Sec.2, for "Unity of the Nation" (w.e.f. 3.1.1977)

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# NATURE AND SIGNIFICANCE OF MANAGEMENT

1
CHAPTER

## Management at Tata Steel

Founded in 1868, by Jamsetji Nusserwanji ,Tata the Tata Group is a global business conglomerate operating in over 100 countries across 5 continents. His strong sense of values and spirit of innovation and entrepreneurship are a legacy that continues to guide Tata companies till date. He had four goals in life: setting up an iron and steel company, a world-class learning institution, a unique hotel and a hydro-electric plant. Only the hotel became a reality during his lifetime, with the inauguration of the Taj Mahal Hotel at Colaba waterfront in Mumbai on 3 December 1903 at the cost of 11 million (worth 11 billion in 2015 prices). At that time it was the only hotel in India to have electricity.

He believed that satisfied workers create satisfied workers and in lieu to this principle he paid all his workers gratuity, provident fund well before it was made mandatory. His management skills were clearly evident when minute details were chalked in planning and building the entire city of Jamshedpur. The values and principles that have governed the business for a century are enshrined in the Tata Code of Conduct (TCOC).

From an early foray into steel and automobiles, to staying abreast of the latest technologies, the Tata Group today has 29 publicly-listed Tata enterprises, which include Tata Steel, Tata Motors, Tata Consultancy Services, Tata Power, Tata Chemicals, Tata Global Beverages, Tata Teleservices, Titan, Tata Communications and Indian Hotels. The group has a combined market capitalisation of around $103.51bn (2016-17).

Tata has a strong sense of social responsibility. They balance economic prosperity, environmental responsibility and social benefits for the community. In India, they are a partner in progress with Odisha, and believe in taking its stakeholders forward in its journey of growth. Tata Steel Thailand is one of the first 30 companies that joined UNICEF in Child Friendly Business in "The Children Sustainability Forum" to make a commitment in protecting children's rights. Tata Steel Europe's Community Partnership Programme- 'Future Generations', with sub-themes of education, environment, health and Well-being works across

**LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Describe the characteristics of management and its importance in an organisation;
- Explain the nature of management as an art, science and profession;
- Explain the functions of management; and
- Appreciate the nature and importance of coordination.

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the UK, assisting job and wealth creation by supporting small and medium businesses with finance and business premises.

They also play a constructive role in addressing climate change – both by reducing carbon footprint, and by creating high performance steels that lead to fuel-efficient vehicles and energy-efficient buildings. Their Environmental Management Systems meet the ISO 14001 standards at all of their main manufacturing sites.

Shaped by a lineage of sound and straightforward business principles, the Tata Group is built on a foundation of trust and transparency. Building such huge enterprises, sustaining and running them profitably are possible only through effective and efficient management and co-ordination at all levels.

*Source: www.tatasteel.com; Accessed June, 2018*

## INTRODUCTION

The above case is an example of a successful organisation which is amongst the top companies in India. It has risen to the top because of its quality of management. Management is required in all kinds of organisations—those manufacturing handlooms, trading in consumer goods or providing hairstyling services and even in non-business organisations. Let us take another example.

Smita Rai is a 38-year old entrepreneur who grew up in a rural district called Namchi, South Sikkim. She was very good in art and craft particularly, Wax moulds. She loved to make candles, often she make into toys and small pieces of art with wax and used it as a gift for her friends and relatuves. She was loved and appreciated for these. Smita was never happy with the conditions of the women in her district as most were poor and jobless, so she planned to do something to solve their problems because she knew that imparting skills for livelihood is needed but she had no idea of how to implement her idea.

In August 2012, she met Abishek Lama, the Branch Manager of NEDFI, Namchi Branch, a financial corporation which support local people with skills development programs and also channelize them into revenue generating activities. Smita got interested. "I love making candles, then, why not convert my hobby into a venture and involve these rural women also", she thought. This led to the establishment of Namchi Designer Candles with the help of NEDFI, some financial institutions and support from different stakeholders in various dimensions.

Since then, the women have never looked back, despite challenges. The

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women also faced a lot of harassment but they could overcome all those troubles.

Namchi Designer Candles has 100 per cent women as employees and they also produce varieties of candles. During Diwali, they produce customized candles meant for the occasion. These Diwali themed candle has been a success in Sikkim as its demand increases on a yearly basis.

Namchi Designer Candles has been receiving numerous awards such as North East Women Entrepreneur of the year 2015-2016 for Sikkim and Sreemanta Shankar Mission of Guwahati on 26th April 2018 at New Delhi.

A typical day in Smita's life consists of a series of interrelated and continuous functions. She has to plan a special festive collection for Diwali. This means organising more funds and recruiting more workers. She also has to regularly communicate with her suppliers to ensure that deadlines regarding delivery of goods are met. In the course of the day, she meets customers for a general feedback and any suggestions that they may have.

Smita is managing Namchi Designer Candles. So is the Principal managing your school. They all manage organisations. Schools, hospitals, shops and large corporations are all organisations with diverse goals that are aimed at achieving something. No matter what the organisation is or what its goals might be, they all have something in common-management and managers.

You have observed that Smita's work as a manager consists of a series of different activities or functions aimed at achieving the goals of the organisation. These interconnected and interdependent functions are part of management. Successful organisations do not achieve their goals by chance but by following a deliberate process called 'management'.

**Definitions of Management**

"Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims."

Harold Koontz and Heinz Weihrich

"Management is defined as t he process of planning, organising, actuating and controlling an organisation's operations in order to achieve coordination of the human and material resources essential in the effective and efficient attainment of objectives."

Robert L. Trewelly and M. Gene Newport

"Management is the process of working with and through others to effectively achieve organisational objectives by efficiently using limited resources in the changing environment."

Kreitner

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Management is essential for all organisations big or small, profit or non-profit, services or manufacturing. Management is necessary so that individuals make their best contribution towards group objectives.

Management consists of a series of interrelated functions that are performed by all managers. Later in this chapter you will understand that although both of them are managers, they function at different levels in the organisation. The time spent by managers in different functions however is different. Managers at the top level spend more time in planning and organising than managers at lower levels of the organisation.

## Concept

Management is a very popular term and has been used extensively for all types of activities and mainly for taking charge of different activities in any enterprise. As you have seen from the above example and case study that management is an activity which is necessary wherever there is a group of people working in an organisation. People in organisations are performing diverse tasks but they are all working towards the same goal. Management aims at guiding their efforts towards achieving a common objective — a goal. Thus, management has to see that tasks are completed and goals are achieved (i.e., effectiveness) with the least amount of resources at a minimum cost (i.e., efficiency).

Management, has therefore, been defined as a process of getting things done with the aim of achieving goals effectively and efficiently. We need to analyse this definition. There are certain terms which require elaboration. These are (a) process, (b) effectively, and (c) efficiently.

Process in the definition means the primary functions or activities that management performs to get things done. These functions are planning, organising, staffing, directing and controlling which we will discuss later in the chapter and the book.

Being effective or doing work effectively basically means finishing the given task. Effectiveness in management is concerned with doing the right task, completing activities and achieving goals. In other words, it is concerned with the end result.

But it is not enough to just complete the tasks. There is another aspect also, i.e., being efficient or as we say doing work efficiently.

Efficiency means doing the task correctly and with minimum cost. There is a kind of cost-benefit analysis involved and the relationship between inputs and outputs. If by using less resources (i.e., the inputs) more benefits are derived (i.e., the outputs) then efficiency has increased. Efficiency is also increased when for the same benefit or outputs, fewer resources are used and less costs are incurred. Input resources are money, materials, equipment and

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persons required to do a particular task. Obviously, management is concerned with the efficient use of these resources, because they reduce costs and ultimately lead to higher profits.

### *Effectiveness versus Efficiency*

These two terms are different but they are interrelated. For management, it is important to be both effective and efficient. Effectiveness and efficiency are two sides of the same coin. But these two aspects need to be balanced and management at times, has to compromise with efficiency. For example, it is easier to be effective and ignore efficiency i.e., complete the given task but at a high cost. Suppose, a company's target production is 5000 units in a year. To achieve this target the manager has to operate on double shifts due to power failure most of the time. The manager is able to produce 5000 units but at a higher production cost. In this case, the manager was effective but not so efficient, since for the same output, more inputs (labour cost, electricity costs) were used.

At times, a business may concentrate more on producing goods with fewer resources i.e., cutting down cost but not achieving the target production. Consequently, the goods do not reach the market and hence the demand for them declines and competitors enter the market. This is a case of being efficient but not effective since the goods did not reach the market.

Therefore, it is important for management to achieve goals (effectiveness) with minimum resources i.e., as efficiently as possible while maintaining a balance between effectiveness and efficiency. Usually high efficiency is associated with high effectiveness which is the aim of all managers. But undue emphasis on high efficiency without being effective is also not desirable. Poor management is due to both inefficiency and ineffectiveness.

## Characteristics of Management

After going through some of the definitions we find some elements that may be called the basic characteristics of management:

(i) **Management is a goal-oriented process:** An organisation has a set of basic goals which are the basic reason for its existence. These should be simple and clearly stated. Different organisations have different goals. For example, the goal of a retail store may be to increase sales, but the goal of The Spastics Society of India is to impart education to children with special needs. Management unites the efforts of different individuals in the organisation towards achieving these goals.

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### The Management Mantra from GE

Jack Welch was appointed CEO of GE in 1981. At that time the firm had a market capitalisation of $13 billion. In 2000 when he stepped down the firm's turnover had increased multifold to $500 billion. What was the secret of Welch's success? He has laid down the following pointers for managers to be successful:

- ***Create a vision and then ignite your organisation to make this vision a reality.*** Get people so passionate about what they are doing that they cannot wait to execute this plan. Have great energy, competitive spirit and the ability to spark excitement and achieve results. Search for leaders who have the same qualities.
- ***Focus on strategic issues.*** Your job is to understand the vital issues within each of your businesses. Recognise the talent needed to win in those markets.
- ***Focus on the main issue .*** Your job is to see the big picture. Don't manage every detail. Don't get caught up in the minute details, but instead inspire others to execute some of your vision. Surround yourself with great people and trust them to do their job and contribute their best to the organisation.
- ***Involve everyone and welcome great ideas from everywhere.*** Anyone can be a leader, just so long as they contribute, and the most meaningful way for anyone to contribute is to come up with a good idea. Business is all about getting the best ideas from everyone. New ideas are the lifeblood of the organisation, the fuel that makes it run. "The hero is the person with a new idea." There is simply nothing more important to an organisation than expressing ideas and creating a vision.
- ***Lead by example.*** To spark others to perform, you must lead by example. Jack Welch's mastery of the four E's of leadership – Energy, Energise, Edge, and Execution – was always in evidence. "He had great energy, sparked others, had incredible competitive spirit, and had a record of execution that was second to none. This is a key of the Welch phenomenon. Had he been lacking in any of the traits he espoused, he would not have commanded such acclaim."

*Source: www.ge.co.in*

(ii) **Management is all pervasive:** The activities involved in managing an enterprise are common to all organisations whether economic, social or political. A petrol pump needs to be managed as much as a hospital or a school. What managers do in India, the USA, Germany or Japan is the same. How they do it may be quite different. This difference is due to the differences in culture, tradition and history.

(iii) **Management is multidimensional:** Management is a complex activity that has three main dimensions. These are:

(a) *Management of work:* All organisations exist for the performance of some work. In a factory, a product is manufactured, in a garment store a customer's need is satisfied and in a hospital a patient is treated. Management translates this work in terms

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of goals to be achieved and assigns the means to achieve it. This is done in terms of problems to be solved, decisions to be made, plans to be established, budgets to be prepared, responsibilities to be assigned and authority to be delegated.

(b) *Management of people:* Human resources or people are an organisation's greatest asset. Despite all developments in technology "getting work done through people" is still a major task for the manager. Managing people has two dimensions (i) it implies dealing with employees as individuals with diverse needs and behavior; (ii) it also means dealing with individuals as a group of people. The task of management is to make people work towards achieving the organisation's goals, by making their strengths effective and their weaknesses irrelevant.

(c) *Management of operations:* No matter what the organisation, it has some basic product or service to provide in order to survive. This requires a production process which entails

*Together Everyone Achieves More as a TEAM*

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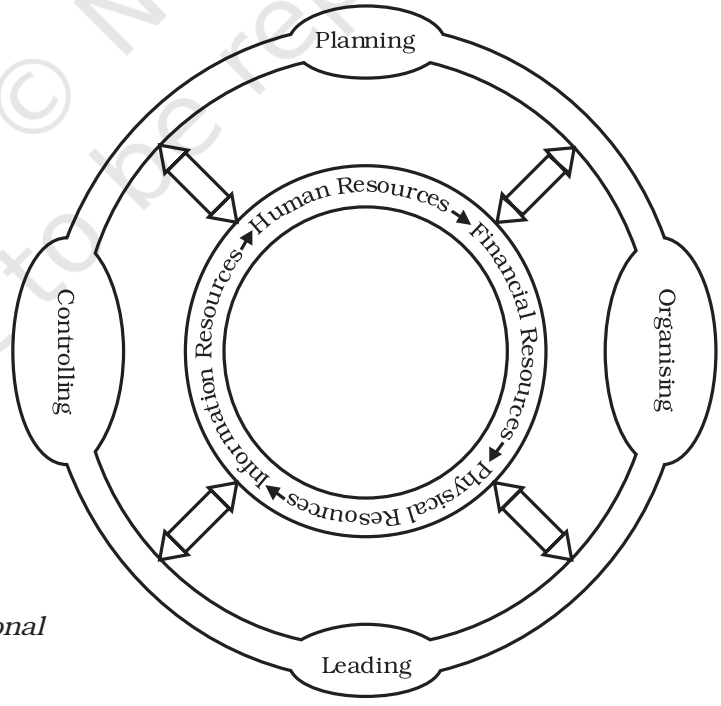
the flow of input material and the technology for transforming this input into the desired output for consumption. This is interlinked with both the management of work and the management of people.

(iv) **Management is a continuous process:** The process of management is a series of continuous, composite, but separate functions (planning, organising, directing, staffing and controlling). These functions are simultaneously performed by all managers all the time. You may have observed that Smita at Namchi Designer Candles performs several different tasks in a single day. Some days she may spend more time in planning a future exhibition and on another day, she may spend time in sorting out an employee's problem. The task of a manager consists of an ongoing series of functions.

(v) **Management is a group activity:** An organisation is a collection of diverse individuals with different needs. Every member of the group has a different purpose for joining the organisation but as members of the organisation they work towards fulfilling the common organisational goal. This requires team work and coordination of individual effort in a common direction.




*Management – a multidimensional activity*

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At the same time management should enable all its members to grow and develop as needs and opportunities change.

(vi) **Management is a dynamic function:** Management is a dynamic function and has to adapt itself to the changing environment. An organisation interacts with its external environment which consists of various social, economic and political factors. In order to be successful, an organisation must change itself and its goals according to the needs of the environment. You probably know that McDonalds, the fast food giant made major changes in its menu to be able to survive in the Indian market.

(vii) **Management is an intangible force:** Management is an intangible force that cannot be seen but its presence can be felt in the way the organisation functions. The effect of management is noticeable in an organisation where targets are met according to plans, employees are happy and satisfied, and there is orderliness instead of chaos.

## Objectives of Management

Management seeks to achieve certain objectives which are the desired result of any activity. They must be derived from the basic purpose of the business. In any organisation there are different objectives and management has to achieve all objectives in an effective and efficient manner. Objectives can be classified into organisational objectives, social objectives and personal or individual objectives.

(i) **Organisational Objectives:** Management is responsible for setting and achieving objectives for the organisation. It has to achieve a variety of objectives in all areas considering the interest of all stakeholders including, shareholders, employees, customers and the government. The main objective of any organisation should be to utilise human and material resources to the maximum possible advantage, i.e., to fulfill the economic objectives of a business. These are survival, profit and growth.

*Survival:* The basic objectives of any business is survival. Management must strive to ensure the survival of the organisation. In order to survive, an organisation must earn enough revenues to cover costs.

*Profit:* Mere survival is not enough for business. Management has to ensure that the organisation makes a profit. Profit provides a vital incentive for the continued successful operation of the enterprise. Profit is essential for covering costs and risks of the business.

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*Growth:* A business needs to add to its prospects in the long run, for this it is important for the business to grow. To remain in the industry, management must exploit fully the growth potential of the organisation. Growth of a business can be measured in terms of sales volume increase in the number of employees, the number of products or the increase in capital investment, etc. There can be other indicators of growth.

(ii) **Social objectives:** It involves the creation of benefit for society. As a part of society, every organisation whether it is business or non-business, has a social obligation to fulfill. This

**ITC – Empowering Rural India**

A quiet digital revolution is reshaping the lives of farmers in remote Indian villages. In these villages, farmers grow soyabeans, wheat and coffee in small plots of land, as they have done for thousands of years. A typical village has no reliable electricity and has antiquated telephone lines. The farmers are largely illiterate and have never seen a computer. But farmers in these villages are conducting e-business through an initiative called E-Choupal, created by ITC, one of India's largest consumer product and agribusiness companies.

ITC's E-Chaupal initiative is a fine example of a business organisation fulfilling corporate social responsibility. The basic aim of the programme is to provide farmers in rural India with the opportunity to make use of a direct marketing channel eliminating multiple intermediation and wasteful handling and unnecessary transaction costs. It is the single-largest information technology-based intervention by a corporate entity in rural India, transforming the Indian farmer into a progressive knowledge-seeking citizen, enriching him with knowledge and elevating him to a new order of empowerment.

E-Choupal delivers real-time information and customised knowledge to improve the farmer's decision-making ability, thereby better aligning farm output to market demands; securing better quality, productivity and improved price discovery. Given the low levels of literacy in the rural sector, the role of the Choupal Sanchalak, the lead farmer of the village, in facilitating physical interface between the computer terminal and the farmers is central to the project. E-Choupal Smart Cards enable farmer identification to provide customised information on the E-Choupal website. Online transactions are captured to reward farmers for volume and value of usage.

The E-Chaupal initiative has found its way into the Harvard Business School as a leading case study illustarating the use of modern technology by a leading business house for the benefit of the rural poor.

*Source: Mohanbir Sawhney, McCormick Tribune Professor of Technology, Kellogg School of Management, USA.*

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refers to consistently creating economic value for various constituents of society. This includes using environmental friendly methods of production, giving employment opportunities to the underpreviledged sections of society and providing basic amenities like schools and healthcare, etc., for community. The box given below illustrates how a company can fulfill its social responsibility.

(iii) **Personnel objectives:** Organisations are made up of people who have different personalities, backgrounds, experiences and objectives. They all become part of the organisation to satisfy their diverse needs. These vary from financial needs such as competitive salaries and perks, social needs such as peer recognition and higher level needs such as personal growth and development. Management has to reconcile personal goals with organisational objectives for harmony in the organisation.

## Importance of Management

Having understood that management is a universal activity that is integral to any organisation we now examine some of the reasons that have made management so important:

(i) **Management helps in achieving group goals:** Management is required not for itself but for achieving the goals of the organisation. The task of a manager is to give a common direction to the individual effort in achieving the overall goal of the organisation.

(ii) **Management increases efficiency:** The aim of a manager is to reduce costs and increase productivity through better planning, organising, directing, staffing and controlling the activities of the organisation.

(iii) **Management creates a dynamic organisation:** All organisations have to function in an environment which is constantly changing. It is generally seen that individuals in an organisation resist change as it often means moving from a familiar, secure environment into a newer and more challenging one. Management helps people adapt to these changes so that the organisation is able to maintain its competitive edge.

(iv) **Management helps in achieving personal objectives:** A manager motivates and leads his team in such a manner that individual members are able to achieve personal goals while contributing to the overall organisational objective. Through motivation and leadership the management helps individuals to develop team spirit, cooperation and commitment to group success.

(v) **Management helps in the development of society:** An orga-

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nisation has multiple objectives to serve the purpose of the different groups that constitute it. In the process of fulfilling all these, management helps in the development of the organisation and through that it helps in the development of society. It helps to provide good quality products and services, creates employment opportunities, adopts new techno-logy for the greater good of the people and leads the path towards growth and development.

## Nature of Management

Management is as old as civilisation. Although modern organisations are of recent origin, organised activity has existed since the time of the ancient civilisations. In fact, organisations may be considered the distinguishing feature that separated civilised society from uncivilised ones. The earliest management practices were a set of rules and regulations that grew out of the experiences of governmental and commercial activities. The development of trade and commerce gradually led to the development of management principles and practices.

The term 'management' today has several different connotations that highlight the different aspects of its nature. The study of management has evolved over a period of time along with the modern organisations; based both on the experience and practice of managers and a set of theoretical relationships. Over a period of time, it has grown into a dynamic subject with its own special characteristics. However, one question that needs to be addressed pertaining to the nature of management is whether it is a science or an art or both? In order to answer this let us examine the features of both science and art to see how far management fulfills them.

## Management as an Art

What is art? Art is the skillful and personal application of existing knowledge to achieve desired results. It can be acquired through study, observation and experience. Since art is concerned with personal application of knowledge some kind of ingenuity and creativity is required to practice the basic principles learnt. The basic features of an art are as follows:

(i) **Existence of theoretical knowledge:** Art presupposes the existence of certain theoretical knowledge. Experts in their respective areas have derived certain basic principles which are applicable to a particular form of art. For example, literature on dancing, public speaking, acting or music is widely recognised.

(ii) **Personalised application:** The use of this basic knowledge varies from individual to individual. Art, therefore, is a very person-

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alised concept. For example, two dancers, two speakers, two actors, or two writers will always differ in demonstrating their art.

(iii) **Based on practice and creativity:** All art is practical. Art involves the creative practice of existing theoretical knowledge. We know that all music is based on seven basic notes. However, what makes the composition of a musician unique or different is his use of these notes in a creative manner that is entirely his own interpretation.

Management can be said to be an art since it satisfies the following criteria:

(i) A successful manager practices the art of management in the day-to-day job of managing an enterprise based on study, observation and experience. There is a lot of literature available in various areas of management like marketing, finance and human resources which the manager has to specialise in. There is existence of theoretical knowledge.

(ii) There are various theories of management, as propounded by many management thinkers, which prescribe certain universal principles. A manager applies these scientific methods and body of knowledge to a given situation, an issue or a problem, in his own unique manner. A good manager works through a combination of practice, creativity, imagination, initiative and innovation. A manager achieves perfection after long practice. Students of management also apply these principles differently depending on how creative they are.

(iii) A manager applies this acquired knowledge in a personalised and skillful manner in the light of the realities of a given situation. He is involved in the activities of the organisation, studies critical situations and formulates his own theories for use in a given situation. This gives rise to different styles of management

The best managers are committed and dedicated individuals; highly trained and educated, with personal qualities such as ambition, self-motivation, creativity and imagination, a desire for development of the self and the organisation they belong to. All management practices are based on the same set of principles; what distinguishes a successful manager from a less successful one is the ability to put these principles into practice.

## Management as a Science

Science is a systematised body of knowledge that explains certain general truths or the operation of general laws. The basic features of science are as follows:

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## Some Interesting Cross-disciplinary Perspectives

**Anthropology** – Anthropology is the study of societies, which helps us learn about human beings and their activities. Anthropologists' work on cultures and environments, for instance, has helped managers to better understand differences in fundamental values, attitudes, and behavior between people in different countries and within different organisations.

**Economics** – Economics is concerned with the allocation and distribution of scarce resources. It provides us with an understanding of the changing economy as well as the role of competition and free markets in a global context. An understanding of free trade and protectionist policies is absolutely essential to any manager operating in the global marketplace, and these topics are addressed by economists.

**Philosophy** – Philosophy courses inquire into the nature of things, particularly values and ethics. Ethics are standards that govern human conduct. These ethics have shaped today's organisations by providing a basis for legitimate authority, linking rewards to performance, and justifying the existence of business and the corporate form.

**Political Science** – Political science is the study of the behavior of individuals and groups within a political environment. Management is affected by a nation's form of government – by whether it allows its citizens to hold property, by its citizens' ability to engage in and enforce contracts, and by the appeal mechanisms available to redress grievances. A nation's stand on property, contracts, and justice, in turn, shapes the type, form, and policies of its organisations.

**Psychology** – Psychology is the science that seeks to measure, explain, and sometimes change the behaviour of humans and other animals. Today's managers confront both a diverse customer base and a diverse set of employees. Psychologists' efforts to understand gender and cultural diversity provide managers with a better perception of the needs of their changing customer and employee populations. Psychology courses are also relevant to managers in terms of gaining a better understanding of motivation, leadership, trust, employee selection, performance appraisals, and training techniques.

**Sociology** – Sociology is the study of people in relation to their fellow human beings. What are some of the sociological issues that have relevance to managers? Here are a few. How are societal changes such as globalisation, increasing cultural diversity, changing gender roles, and varying forms of family life affecting organisational practices? What are the implications of schooling practices and education trends on future employees' skills and abilities? Answers to questions such as these have a major effect on how managers operate their businesses.

*Source: Fundamentals of Management*
*Stephen P. Robbins*
*David A. DeCenzo*

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(i) **Systematised body of knowledge:** Science is a systematic body of knowledge. Its principles are based on a cause and effect relationship. For example, the phenomenon of an apple falling from a tree towards the ground is explained by the law of gravity.

(ii) **Principles based on experimentation:** Scientific principles are first developed through observation and then tested through repeated experimentation under controlled conditions.

(iii) **Universal validity:** Scientific principles have universal validity and application.

Based on the above features, we can say that management has some characteristics of science.

(i) Management has a systematised body of knowledge. It has its own theory and principles that have developed over a period of time, but it also draws on other disciplines such as Economics, Sociology, Psychology and Mathematics. Like all other organised activity, management has its own vocabulary of terms and concepts. For example, all of us discuss sports like cricket and soccer using a common vocabulary. The players also use these terms to communicate with each other. Similarly managers need to communicate with one another with the help of a common vocabulary for a better understanding of their work situation.

(ii) The principles of management have evolved over a period of time based on repeated experimentation and observation in different types of organisations. However, since management deals with human beings and human behaviour, the outcomes of these experiments are not capable of being accurately predicted or replicated. Therefore, management can be called an inexact science. Despite these limitations, management scholars have been able to identify general principles of management. For example, scientific management principles by F.W. Taylor and Functional Management principles by Henri Fayol which you will study in the next chapter.

(iii) Since the principles of management are not as exact as the principles of science, their application and use is not universal. They have to be modified according to a given situation. However, they provide managers with certain standardised techniques that can be used in different situations. These principles are also used for training and development of managers.

You must have understood from the foregoing discussion that management has features of both art and

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science. The practice of management is an art. However, managers can work better if their practice is based on the principles of management. These principles constitute the science of management. Management as an art and a science are therefore not mutually exclusive, but complement each other.

## Management as a Profession

You have understood so far that all forms of organised activity need to be managed. You would also have observed that organisations look for individuals with specific qualifications and experience to manage them. It has also been observed that there has been an increase in the corporate form of business on the one hand and increasing emphasis on managed business concerns. Does this imply that management is a profession? To answer this question let us examine the salient features of a profession and see whether management satisfies them.

A profession has the following characteristics:

(i) **Well-defined body of knowledge**: All professions are based on a well-defined body of knowledge that can be acquired through instruction.

(ii) **Restricted entry:** The entry to a profession is restricted through an examination or through acquiring an educational degree. For example, to become a chartered accountant in India a candidate has to clear a specified examination conducted by the Institute of Chartered Accountants of India.

(iii) **Professional association:** All professions are affiliated to a professional association which regulates entry, grants certificate of practice and formulates and enforces a code of conduct. To be able to practice in India lawyers have to become members of the Bar Council which regulates and controls their activities.

(iv) **Ethical code of conduct:** All professions are bound by a code of conduct which guides the behaviour of its members. All doctors, for example, take the oath of ethical practice at the time they enter the profession.

(v) **Service motive:** The basic motive of a profession is to serve their client's interests by rendering dedicated and committed service. The task of a lawyer is to ensure that his client gets justice.

Management does not meet the exact criteria of a profession. However, it does have some of the features of a profession:

(i) All over the world there is marked growth in management as a discipline. It is based on a systematic body of knowledge comprising well-defined

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principles based on a variety of business situations. This knowledge can be acquired at different colleges and professional institutes and through a number of books and journals. The subject of management is taught at different institutions. Some of these have been set up with the specific purpose of providing management education such as the Indian Institutes of Management (IIMs) in India. Entry to different institutes is usually through an examination.

(ii) There is no restriction on anyone being designated or appointed as manager in any business enterprise. Anyone can be called a manager irrespective of the educational qualifications possessed.

Unlike professions such as medicine or law which require a practicing doctor or lawyer to possess valid degrees, nowhere in the world is it mandatory for a manager to possess any such specific degree. But professional knowledge and training is considered to be a desirable qualification, since there is greater demand for those who possess degrees or diplomas from reputed institutions. Therefore, as such the second criterion has not been strictly met.

(iii) There are several associations of practising managers in India, like the AIMA (All India Management Association) that has laid down a code of conduct to regulate the activities of their members. There is, however, no compulsion for managers to be members of such an association nor does it have any statutory backing.

(iv) The basic purpose of management is to help the organisation achieve its stated goal. This may be profit maximisation for a business enterprise and service for a hospital. However, profit maximisation as the objective of management does not hold true and is fast changing. Therefore, if an organisation has a good management team that is efficient and effective it automatically serves society by providing good quality products at reasonable prices.

## Levels of Management

Management is a universal term used for certain functions performed by individuals in an enterprise who are bound together in a hierarchy of relationships. Every individual in the hierarchy is responsible for successful completion of a particular task. To be able to fulfill that responsibility he is assigned a certain amount of authority or the right to take a decision. This authority-responsibility relationship binds individuals as superiors and subordinates and gives rise to different levels in an organisation. Generally speaking there are three levels in the hierarchy of an organisation.

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(i) **Top Management:** They consist of the senior-most executives of the organisation by whatever name they are called. They are usually referred to as the chairman, the chief executive officer, chief operating officer, president and vice-president. Top management is a team consisting of managers from different functional levels, heading finance, marketing etc. For example chief finance officer, vice president (marketing). Their basic task is to integrate diverse elements and coordinate the activities of different departments according to the overall objectives of the organisation. These top level managers are responsible for the welfare and survival of the organisation. They analyse the business environment and its implications for the survival of the firm. They formulate overall organisational goals and strategies for their achievement. They are responsible for all the activities of the business and for its impact on society. The job of the top manager is complex and stressful, demanding long hours and commitment to the organisation.

(ii) **Middle Management:** is the link between top and lower level managers. They are subordinate to top managers and superior to the first line managers. They are usually known as division heads, for example production manager. Middle management is responsible for implementing and controlling plans and strategies developed by top management. At the same time they are responsible for all the activities of first line managers. Their main task is to carry out the plans formulated by the top managers. For this they need to: (i) interpret the policies framed by top management, (ii) ensure that their department has the necessary personnel, (iii) assign necessary duties and responsibilities to them, (iv) motivate them to achieve desired objectives, and (v) co-operate with other departments for smooth functioning of the

*"You don't learn management from books alone..."*

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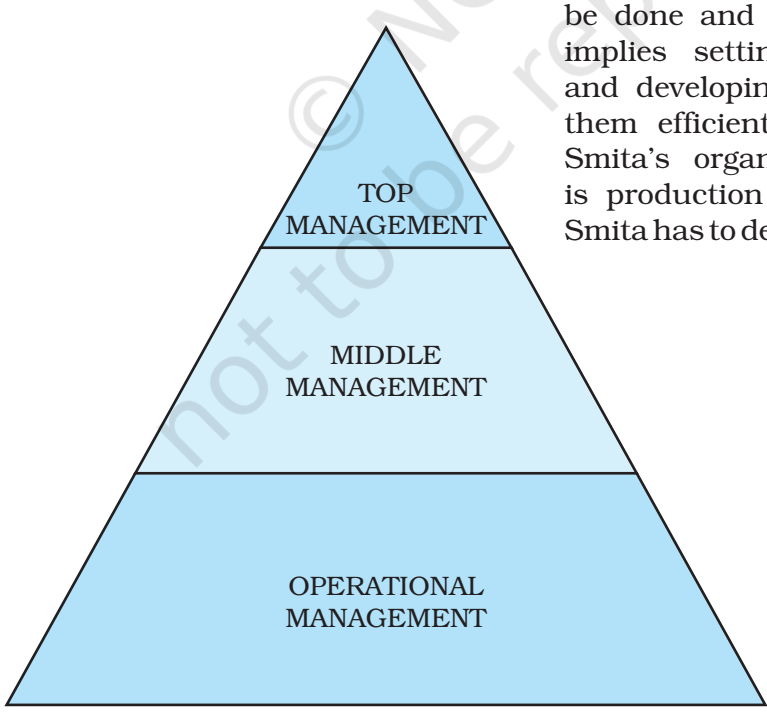
organisation. At the same time they are responsible for all the activities of first line managers.

(iii) **Supervisory or Operational Management:** Foremen and supervisors comprise the lower level in the hierarchy of the organisation. Supervisors directly oversee the efforts of the workforce. Their authority and responsibility is limited according to the plans drawn by the top management. Supervisory management plays a very important role in the organisation since they interact with the actual work force and pass on instructions of the middle management to the workers. Through their efforts quality of output is maintained, wastage of materials is minimised and safety standards are maintained. The quality of workmanship and the quantity of output depends on the hard work, discipline and loyalty of the workers.

## Functions of Management

Management is described as the process of planning, organising, directing and controlling the efforts of organisational members and of using organisational resources to achieve specific goals.

***Planning*** is the function of determining in advance what is to be done and who is to do it. This implies setting goals in advance and developing a way of achieving them efficiently and effectively. In Smita's organisation the objective is production and sale of candles. Smita has to decide quantities, variety




*Managerial Levels*

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and colour and then allocate resources for their purchase from different suppliers. Planning cannot prevent problems, but it can predict them and prepare contingency plans to deal with them if and when they occur.

***Organising*** is the management function of assigning duties, grouping tasks, establishing authority and allocating resources required to carry out a specific plan. Once a specific plan has been established for the accomplishment of an organisational goal, the organising function examines the activities and resources required to implement the plan. It determines what activities and resources are required. It decides who will do a particular task, where it will be done, and when it will be done. Organising involves the grouping of the required tasks into manageable departments or work units and the establishment of authority and reporting relationships within the organisational hierarchy. Proper organisational techniques help in the accomplishment of work and promote both the efficiency of operations and the effectiveness of results. Different kinds of business require different structures according to the nature of work. You will read more about this in a later chapter.

***Staffing*** simply stated, is finding the right people for the right job. A very important aspect of management is to make sure that the right people with the right qualifications are available at the right places and times to accomplish the goals of the organisation. This is also known as the human resource function and it involves activities such as recruitment, selection, placement and training of personnel. Infosys Technologies which develops software needs systems analysts and programmers.

***Directing*** involves leading, influencing and motivating employees to perform the tasks assigned to them. This requires establishing an atmosphere that encourages employees to do their best. Motivation and leadership are two key components of direction. Directing also involves communicating effectively as well as supervising employees at work. Motivating workers means simply creating an environment that makes them want to work. Leadership is influencing others to do what the leader wants them to do. A good manager directs through praise and criticism in such a way that it brings out the best in the employee.

***Controlling*** is the management function of monitoring organisational performance towards the attainment of organisational goals. The task of controlling involves establishing standards of performance, measuring current performance, comparing this with established standards and

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taking corrective action where any deviation is found. Here management must determine what activities and outputs are critical to success, how and where they can be measured and who should have the authority to take corrective action.

The various functions of a manager are usually discussed in the order given above, suggesting that a manager first plans, then organises, puts staff in position, then directs, and finally controls. In reality, managers are rarely able to carry out these functions in isolation. The activities of a manager are interrelated and it is often difficult to pinpoint where one ended and the other began.

## Coordination — The Essence of Management

You have understood by now that a manager has to perform five interrelated functions in the process of managing an organisation which is a system made up of different interlinked and interdependent subsystems. A manager has to link these diverse groups towards the achievement of a common goal. The process by which a manager synchronises the activities of different departments is known as coordination.

Coordination is the force that binds all the other functions of management. It is the common thread that runs through all activities such as purchase, production, sales, and finance to ensure continuity in the working of the organisation. Coordination is sometimes considered a separate function of management. It is however, the essence of management, for achieving harmony among individual efforts towards the accomplishment of group goals. Each managerial function is an exercise contributing individually to coordination. Coordination is implicit and inherent in all functions of an organisation.

The process of coordinating the activities of an organisation begins at the planning stage itself. Top management plans for the entire organisation. According to these plans the organisational structure is developed and staffed. In order to ensure that these plans are executed according to plans directing is required. Any discrepancies between actual and realised activities are then taken care of at the stage of controlling. It is through the process of coordination that a manager ensures the orderly arrangement of individual and group efforts to ensure unity of action in the realisation of common objectives. Coordination therefore involves synchronisation of the different actions or efforts of the various units of an organisation. This provides the requisite amount, quality, timing and sequence of efforts which ensures that planned objectives are achieved with a minimum of conflict.

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## Characteristics of Coordination

The definitions given above highlight the following features of coordination:

(i) **Coordination integrates group efforts:** Coordination unifies unrelated or diverse interests into purposeful work activity. It gives a common focus to group effort to ensure that performance is as it was planned and scheduled.

(ii) **Coordination ensures unity of action:** The purpose of coordination is to secure unity of action in the realisation of a common purpose. It acts as the binding force between departments and ensures that all action is aimed at achieving the goals of the organisation. At Namchi Designer Candles, the production and sales department have to coordinate their work, so that production takes place according to the demand in the market.

*In the absence of coordination what results is chaos*

(iii) **Coordination is a continuous process:** Coordination is not a one-time function but a continuous process. It begins at the planning stage and continues till controlling. Smita plans her dewali collection in the month of June itself. She has to then ensure that there is adequate workforce and continuously monitor whether production is proceeding according to plans. Her marketing department also has to be briefed in time to prepare their promotional and advertising campaigns.

(iv) **Coordination is an all pervasive function:** Coordination is required at all levels of management due to the interdependent nature of activities of various departments. It integrates the efforts of different departments and different levels. The purchase, production and sales departmental efforts have to be coordinated by Smita for achieving organisational objectives harmoniously. The purchase department is responsible for procuring fabric. This then becomes the basis of the activities of the production department

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and finally sales can take place. If fabric purchased is of an inferior quality or is not according to the specifications of the production department, further sales will also decline. In the absence of coordination there is overlapping and chaos instead of harmony and integration of activities.

(v) **Coordination is the responsibility of all managers:** Coordination is the function of every manager in the organisation. Top level managers need to coordinate with their subordinates to ensure that the overall policies for the organisation are duly carried out. Middle level management coordinates with both the top level and first line managers. Operational level management coordinates the activities of its workers to ensure that work proceeds according to plans.

(vi) **Coordination is a deliberate function:** A manager has to coordinate the efforts of different people in a conscious and deliberate manner. Even where members of a department willingly cooperate and work, coordination gives a direction to that willing spirit. Cooperation in the absence of coordination may lead to wasted effort and coordination without cooperation may lead to dissatisfaction among employees.

Coordination, therefore, is not a separate function of management, but its very essence. For an organisation to effectively and efficiently achieve its objectives coordination is required. Like a thread in a garland, coordination is a part of all management functions.

## Importance of Coordination

Coordination is important as it integrates the efforts of individuals, departments and specialists. The primary reason for coordination is that departments and individuals in the organisation are interdependent,

**Definitions of Coordination**

Coordination is balancing and keeping together the team by ensuring suitable allocation of tasks to the various members and seeing that the tasks are performed with harmony among the members themselves. *E.F.L. Brech*

Coordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of action in the pursuit of common purpose. *McFarland*

Coordination is the orderly synchronising of efforts of subordinates to provide proper amount, timing and quality of execution so that their united efforts lead to the stated objectives, namely, the common purpose of the enterprise. *Theo Haimann*

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i.e. they depend on each other for information and resources to perform their respective activities. Thus, managers need to reconcile differences in approach, timing, effort or interest. At the same time, there is a need to harmonise individual goals and organisational goals.

(i) **Growth in size:** As organisations grow in size, the number of people employed by the organisation also increases. At times, it may become difficult to integrate their efforts and activities. All individuals differ in their habits of work, background, approaches to situations and relationships with others. It becomes necessary to ensure that all individuals work towards the common goals of the organisation. But employees may have their own individual goals also. Therefore, for organisational efficiency, it is important to harmonise individual goals and organisational goals through coordination.

(ii) **Functional differentiation:** Functions of an organisation are divided into departments, divisions

### 'DABBAWALLAS' – Excellence through Coordination

The Dabbawallas of Mumbai is the story of a SIX SIGMA business enterprise. The success of the business lies in the complex yet well coordinated exercise that is carried out on the streets of Mumbai day after day. What is the secret behind the efficiency with which their business is conducted?

The story of the dabbawallas begins in the kitchens of Mumbai. After they step out of their door, someone begins the time-consuming process of preparing the worker a fresh, home-cooked lunch. What happens next for demonstrates the coordination of the dabbawallas system. The first dabbawalla picks up the tiffin from home and takes it to the nearest railway station.The second dabbawalla sorts out the dabbas at the railway station according to destination and puts them in the luggage carriage. The third one travels with the dabbas to the railway stations nearest to the destinations. The fourth one picks up dabbas from the railway station and drops them off at the offices.

By mid-morning, thousands of dabbawallas are bicycling through the streets of Mumbai, ensuring a hot home cooked lunch for their customers. The whole tiffin distribution requires negligible technology. The dabbawallas rely on low capital and use cycles, wooden carriages and local trains to achieve their target.There are several groups that work independently and network with each other to achieve their goal.

Each area is divided into several small distribution sectors and each sector is handled by a particular person. This person understands the address in that locality very well. Also, this perfection comes with practice. Many new employees work for months under the guidance of their seniors.

Punctuality and time management are on top of the agenda for dabbawallas. Whatever be the circumstances, the dabbawallas never get delayed even by a few minutes.

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and sections. In an organisation there may be separate departments of finance, production, marketing or human resources. All these departments may have their own objectives, policies and their own style of working. For example, the marketing department's objective may be to increase sales by 10 per cent by offering discounts. But, the finance department may not approve of such discounts as it means loss of revenue. These kinds of conflict arise in organisations because each unit/ department is performing activities in isolation from others and barriers between departments are becoming more rigid.

However, all departments and individuals are interdependent and they have to depend on each other for information to perform their activities. The activity of each department needs to be focused on attainment of common organisational goals. The process of linking the activities of various departments is accomplished by coordination.

(iii) **Specialisation:** Modern organisations are characterised by a high degree of specialisation. Specialisation arises out of the complexities of modern technology and the diversity of tasks to be performed. Organisations, therefore,

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**Management in the Twenty-first Century**

Even as you read this chapter, the organisation and its management are changing. As boundaries between cultures and nations get blurred and new communication technology makes it possible to think of the world as a 'global village', the scope of international and intercultural relationships is rapidly expanding. The modern organisation is a global organisation that has to be managed in a global perspective. What does this imply?

A global manager today is one who possesses what can be termed as 'hard' types of skills as well as 'softer' types of skills. Managers who understand analysis, strategy, engineering, and technology are still going to be needed, but extremely critical to global success are people who understand how teams work, how organisations work, how people are motivated.

A manager who really understands different cultures should be able to work in a West European, non-English speaking country, then move to a developing country like Malaysia or Kenya, and then be transferred to an office based in New York, USA, and be almost immediately productive in all three places.

It can thus be understood that the role of a global manager has evolved in much the same way that the global industry and economy have evolved. It has changed from being a single dimensional role in a defined business context, to being a multi-faceted role that calls for a diverse combination of technical skills, soft management and people skills, and the ability to imbibe and learn different cultural experiences.

need to employ a number of specialists. Specialists usually think that they only are qualified to evaluate, judge and decide according to their professional criteria. They do not take advice or suggestions from others in matters pertaining to their area of specialisation. This often leads to conflict amongst different specialists as well as others in the organisation. Therefore, some coordination is required by an independent person to reconcile the differences in approach, interest or opinion of the specialists.

## Management in the Twenty-first Century

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### Key Terms

Management | Process | Efficiency | Effectiveness | Art | Science | Profession | Planning | Organising | Staffing | Directing | Controlling | Coordination

### Summary

**Concept**

Management is the process of planning, organising, staffing, directing and controlling the enterprise resources efficiently and effectively for achieving the goals of the organisation. Effectiveness in management is concerned with doing the right task, completing activities and achieving goals. Efficiency means doing the task correctly and with minimum cost.

**Characteristics**

The key features of management are: (i) goal oriented process (ii) all pervasive (iii) multidimensional (iv) continuous process (v) group activity (vi) dynamic function (vii) tangible force.

**Objectives**

Management fulfills three basic objectives: organisational, social and personal.

**Importance**
Management is important because it helps in achieving group goals, increases efficiency, creates a dynamic organisation, helps achieve personal objectives and contributes to the development of society.

**Nature**
Management is a combination of an organised body of knowledge (science) and its skillful application (art). Although it does not satisfy all the requirements of a profession, it is to a large extent professional in character.

**Levels**
Management is considered a three-tier activity. The top management focuses on determination of objectives and policies, middle management attempts to achieve these objectives through the effort of other managers and supervisory or operational management directly oversees the efforts of the workforce.

**Functions**
All managers perform the following interrelated functions: Planning, Organising, Staffing, Directing and Controlling.

**Coordination**
Coordination is the essence of management. It is the process of achieving unity of action among interdependent activities and departments of an organisation.

## Exercises

**Very Short Answer Type:**

1. What is meant by management?
2. Name any two important characteristics of management.
3. Identify and state the force that binds all the other functions of management.
4. List any two indicators of growth of an organisation.
5. Indian Railways has launched a new broad gauge solar power train which is going to be a path breaking leap towards making trains greener and more environment friendly. The solar power DEMU (Diesel Electric Multiple Unit) has 6 trailer coaches and is expected to save about 21,000 liters of diesel and ensure a cost saving of Rs 12, 00,000 per year. Name the objectives of management achieved by Indian Railways in the above case.

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**Short Answer Type:**

1. Ritu is the manager of the northern division of a large corporate house. At what level does she work in the organisation? What are her basic functions?
2. State the basic features of management as a profession.
3. Why is management considered to be a multi-dimensional concept?
4. Company X is facing a lot of problems these days. It manufactures white goods like washing machines, microwave ovens, refrigerators and air conditioners. The company's margins are under pressure and the profits and market share are declining. The production department blames marketing for not meeting sales targets and marketing blames production department for producing goods, which are not of good quality meeting customers' expectations. The finance department blames both production and marketing for declining return on investment and bad marketing. State the quality of management that the company is lacking? What quality of management do you think the company is lacking? Explain briefly. What steps should the company management take to bring the company back on track?
5. Coordination is the essence of management. Do you agree? Give reasons.
6. Ashita and Lakshita are employees working in Dazzling enterprises dealing in costume jewellery. The firm secured an urgent order for 1,000 bracelets that were to be delivered within 4 days. They were assigned the responsibility of producing 500 bracelets each at a cost of Rs 100 per bracelet. Ashita was able to produce the required number within the stipulated time at the cost of Rs 55,000 whereas, Lakshita was able to produce only 450 units at a cost of Rs 90 per unit. State whether Ashita and Lakshita are efficient and effective. Give reasons to justify your answer.

**Long Answer Type:**

1. Management is considered to be both an art and science. Explain.
2. Do you think management has the characteristics of a full-fledged profession?

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3. "A successful enterprise has to achieve its goals effectively and efficiently." Explain.
4. Management is a series of continuous interrelated functions. Comment.
5. A company wants to modify its existing product in the market due to decreasing sales. You can imagine any product about which you are familiar. What decisions/steps should each level of management take to give effect to this decision?
6. A firm plans in advance and has a sound organisation structure with efficient supervisory staff and control system but on several occasion it finds that plans are not being adhered to. It leads to confusion and duplication of work. Advise remedy.

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# PRINCIPLES OF MANAGEMENT

# 2 CHAPTER

**Guiding Principles of Toyota Motor Corporation**

Toyota follows certain well-defined business principles guiding its functioning. These are:

1. Honour the language and spirit of law of every nation and undertake open and fair corporate activities to be a good corporate citizen around the world.
2. Respect the culture and customs of every nation and contribute to economic and social development through corporate activities in local communities.
3. To provide clean and safe products and to enhance the quality of life everywhere.
4. Create and develop advanced technologies and provide outstanding products and services that fulfil the needs of customers worldwide.
5. Foster a corporate culture that enhances individual creativity and teamwork value, while honouring mutual trust and respect between management and labour.
6. Pursue growth and harmony with global community through innovative management.
7. Work with business partners in research and creativity to achieve stable, long-term growth and mutual benefits and be open to new partnerships. These principles, will guide the company in its global vision 2010. This global vision envisages continuous innovations in future, use of environment friendly technologies, respecting and working with different sections of society and establishing an interactive relationship with society.

*http://www.toyotaglobal.com/company/history of toyota/75years/data/conditions/philosophy/guiding principles.html/*

**LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- State the meaning, nature and significance of principles of management;
- Explain Taylor's principles and techniques of Scientific Management; and
- Explain Fayol's principles of management.

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It is clear from the foregoing case that managerial pursuits at Toyota Motor Corporation are driven by principles that serve as broad guidelines for stating the vision as well as the ways to achieve it. Similarly, many other business enterprises have followed various principles in their working

over a period of time. A number of management thinkers, and writers have also studied principles of management from time-to-time. In fact, there is a long history of management thought. Management principles have evolved and are in the continuous process of evolution. (see box.)

You can see that the evolution of management thought has been very fascinating. In this chapter we will study the contributions of Fredrick Winslow Taylor and Henri Fayol who as you have read are associated with the classical management theory. Both of them contributed immensely towards the study of management as a discipline. Whereas F.W. Taylor was an American mechanical engineer, Henri Fayol was a French mining engineer. Taylor gave the concept

**Evolution of Management Principles**

In tracing the history of management, one comes across various schools of thought that have outlined principles to guide management practices. These schools of thought may be divided into 6 distinctive phases: 1. Early Perspectives; 2. Classical Management Theory; 3. Neo Classical Theory — Human Relations Approach; 4. Behavioural Science Approach — Organisational Humanism; 5. Management Science/Operational Research; 6. Modern Management.

EARLY PERSPECTIVES

The first known management ideas were recorded in 3000-4000 B.C. One Pyramid built by Egyptian ruler Cheops required work to be done by 100,000 men for over twenty years in 2900 B.C. It covered 13 acres of land and measured 481 meters in height. The stone slabs had to be moved thousands of kilometres of distance. As folklore goes, even the sound of a hammer was not heard in the villages in the vicinity of the site of these pyramids. Such monumental work could not be completed without adherence to principles of sound management.

CLASSICAL MANAGEMENT THEORY

Rational economic view, scientific management, administrative principles, and bureaucratic organisation characterise this phase. While the rational economic view assumed that people are motivated by economic gains primarily; scientific management of F.W. Taylor and others emphasised one best way of production etc; administrative theorists personified by Henri Fayol etc looked at the best way to combine jobs and people into an efficient organisation; bureaucratic organisation theorists led by Max Weber looked at ways to eliminate managerial inconsistencies due to abuse of power which contributed to ineffectiveness. This was the era of the industrial revolution and factory system of production. Large scale production would not have been possible without adherence to the principles governing organising production based on division of labour and specialisation, relationship between man and the machine, managing people and so on.

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NEO CLASSICAL THEORY — HUMAN RELATIONS APPROACH

This school of thought developed between 1920s to 1950s felt that employees simply do not respond rationally to rules, chains of authority and economic incentives alone but are also guided by social needs, drives and attitudes. Hawthorne Studies at GEC etc., were conducted then. It was quite natural that in the early phases of the industrial revolution, the emphasis was on development of techniques and technology. The attention to the human factor was the salient aspect of this school of thought. This attention was to serve as a precursor to the development of behavioural sciences.

BEHAVIOURAL SCIENCE APPROACH — ORGANISATIONAL HUMANISM

Organisational behaviourists like Chris Argyris; Douglas McGregor, Abraham Maslow and Fredrick Herzberg used the knowledge of psychology, sociology and anthropology to develop this approach. The underlying philosophy of organisational humanism is that individuals need to use all of their capacities and creative skills at work as well as at home.

MANAGEMENT SCIENCE/OPERATIONAL RESEARCH

It emphasises research on operations and use of quantitative techniques to aid managers to take decisions.

MODERN MANAGEMENT

It sees modern organisations as complex systems and underlies contingency approach and use of modern techniques to solve organisational and human problems.

*Source: Adapted from Internet modern history source book on www.fordham.edu*

of 'Scientific Management' whereas Fayol emphasised 'Administrative Principles'.

But before we go into the details of their contributions let us study the meaning of the principles of management.

## Principles of Management: The Concept

A managerial principle is a broad and general guideline for decision-making and behaviour. For example while deciding about promotion of an employee one manager may consider seniority, whereas the other may follow the principle of merit.

One may distinguish principles of management from those of pure science. Management principles are not as rigid as principles of pure science. They deal with human behaviour and, thus, are to be applied creatively given the demands of the situation. Human behaviour is never static and so also technology, which affects business. Hence all the principles have to keep pace with these changes. For example, in the absence of Information and

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Communications Technology (ICT), a manager could oversee only a small work force that too within a narrow geographical space. The advent of ICT has expanded the capability of the managers to preside over large business empires spread across the globe. Infosys headquarters in Bangalore boast of the Asia's largest flat screen in their conference room from where their managers can interact with their employees and customers in all parts of the world.

In developing an understanding of the meaning of principles of management, it is also useful to know what these are not. The principles of management should be distinguished from techniques of management. Techniques are procedures or methods, which involve a series of steps to be taken to accomplish desired goals. Principles are guidelines to take decisions or actions while practicing techniques. Likewise, principles should also be understood as being distinct from values. Values are something, which are acceptable or desirable. They have moral connotations. Principles are basic truths or guidelines for behaviour. Values are general rules for behaviour of individuals in society formed through common practice whereas principles of management are formed after research in work situations, which are technical in nature. However, while practicing principles of management values cannot be neglected, as businesses have to fulfil social and ethical responsibilities towards society.

## Nature of Principles of Management

By nature is meant qualities and characteristics of anything. Principles are general propositions, which are applicable when certain conditions are present. These have been developed on the basis of observation and experimentation as well as personal experiences of the managers. Depending upon how they are derived and how effective they are in explaining and predicting managerial behaviour, they contribute towards the development of management both as a science and as an art. Derivation of these principles may be said to be a matter of science and their creative application may be regarded as an art. These principles lend credibility of a learnable and teachable discipline to the practice of management. As such, ascent to managerial position may not be a matter of birth, but a matter of requisite qualifications. Clearly, management principles have gained importance with increasing professionalisation of management.

These principles are guidelines to action. They denote a cause and effect relationship. While functions of management viz., Planning, Organising, Staffing, Directing and Controlling are the actions to be

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taken while practising management, Principles help managers to take decisions while performing these functions. The following points summarise the nature of principles of management.

(i) **Universal applicability:** The principles of management are intended to apply to all types of organisations, business as well as non-business, small as well large, public sector as well as private sector, manufacturing as well as the services sectors. However, the extent of their applicability would vary with the nature of the organisation, business activity, scale of operations and the like. For example, for greater productivity, work should be divided into small tasks and each employee should be trained to perform his/her specialised job. This principle is applicable to a government office where there is a diary/despatch clerk whose job is to receive and send mail or documents, a data entry operator whose task is to input data on the computer, a peon and an officer etc. This principle is also applicable to a limited company where there are separate departments like Production, Finance, Marketing and Research and Development etc. Extent of division of work, however, may vary from case to case.

(ii) **General guidelines:** The principles are guidelines to action but do not provide readymade, straitjacket solutions to all managerial problems. This is so because real business situations are very complex and dynamic and are a result of many factors. However, the importance of principles cannot be underestimated because even a small guideline helps to solve a given problem. For example, in dealing with a situation of conflict between two departments, a manager may emphasise the primacy of the overall goals of the organisation.

(iii) **Formed by practice and experimentation:** The principles of management are formed by experience and collective wisdom of managers as well as experimentation. For example, it is a matter of common experience that discipline is indispensable for accomplishing any purpose. This principle finds mention in management theory. On the other hand, in order to remedy the problem of fatigue of workers in the factory, an experiment may be conducted to see the effect of improvement of physical conditions to reduce stress.

(iv) **Flexibile:** The principles of management are not rigid prescriptions, which have to be followed absolutely. They are flexible and can be modified by the manager when the situation

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so demands. They give the manager enough discretion to do so. For example, the degree of concentration of authority (centralisation) or its dispersal (decentralisation) will depend upon the situations and circumstances of each enterprise. Moreover individual principles are like different tools serving different purposes, the manager has to decide which tool to use under what circumstances.

(v) **Mainly behavioural:** Management principles aim at influencing behaviour of human beings. Therefore, principles of management are mainly behavioural in nature. It is not that these principles do not pertain to things and phenomenon at all, it is just a matter of emphasis. Moreover, principles enable a better understanding of the relationship between human and material resources in accomplishing organisational purposes. For example, while planning the layout of a factory, orderliness would require that workflows are matched by flow of materials and movement of men.

(vi) **Cause and effect relationships:** The principles of management are intended to establish relationship between cause and effect so that they can be used in similar situations in a large number of cases. As such, they tell us if a particular principle was applied in a particular situation, what would be its likely effect. The principles of management are less than perfect since they mainly apply to human behaviour. In real life, situations are not identical. So, accurate cause and effect relationships may be difficult to establish. However,principles of management assist managers in establishing these relationships to some extent and are therefore useful. In situations of emergencies, it is desirable that someone takes charge and others just follow. But in situations requiring cross-functional expertise, such as setting up of a new factory, more participative approach to decision-making would be advisable.

(vii) **Contingent:** The application of principles of management is contingent or dependent upon the prevailing situation at a particular point of time. The application of principles has to be changed as per requirements. For example, employees deserve fair and just remuneration. But what is just and fair is determined by multiple factors. They include contribution of the employee, paying capacity of the employer and also prevailing

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wage rate for the occupation under consideration.

Having described the inherent qualities and characteristics of management principles, it should be easy for you to appreciate the significance of these principles in managerial decision-making. But before that you can read the following case study of 'Kiran Mazumdar Shaw' a highly successful Indian businesswoman and CEO of 'Biocon' in the accompanying box. You should be able to see how she was able to transform a little known sector of biotechnology into a very profitable company and earn titles which any one would dream of.

From the foregoing story it is clear that success of Biocon due to the efforts of Dr. Kiran Mazumdar Shaw was not a mere chance. It was a sincere effort, which involved application of qualities, which are

The story of Dr. Kiran Mazumdar Shaw is very inspiring. She foresaw the tremendous potential of bio technology when no one dared to think about it. She started her own company Biocon India in her garage with a meagre capital of ₹ 10,000 in collaboration with Biocon Bio Chemical's Limited of Ireland.

The Company is a pioneer in bringing the benefit of high quality, yet affordable, novel biologics and biosimilars to patients in India and other emerging markets. Today, it is India's largest and fully-integrated biopharmaceutical company that develops, manufactures and supplies advanced, life-saving biopharmaceuticals for diabetes, cancer and autoimmune conditions at price points that make them affordable and thus accessible.

As an innovation-led organization focused on providing affordable access, we have leveraged our inherent strengths in advanced science to develop, manufacture and deliver a rich portfolio of Small Molecules APIs & Formulations and Complex Biologics - both Novels and Biosimilars – including Monoclonal Antibodies (MAbs), rh-insulin and Insulin Analogs.

The company's global scale capacities for manufacturing high quality, affordable biologics have positioned the company as the world's fourth largest insulins producer, enabling us to address the growing needs of diabetes patients across the globe. As one of the leading oncology companies in India, the company has brought safe, efficacious and affordable medicines for cancer to cater to the needs of patients, caregivers and medical practitioners in the country.

*http://biocon.com/https://www.biocon.com/biocon_aboutus_people_bod.asp*

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a part of management principles directly or indirectly. Now you can see the significance of these principles.

## Significance of Principles of Management

The principles of management derive their significance from their utility. They provide useful insights to managerial behaviour and influence managerial practices. Managers may apply these principles to fulfil their tasks and responsibilities. Principles guide managers in taking and implementing decisions. It may be appreciated that everything worthwhile is governed by an underlying principle. The quest of the management theorists has been and should be to unearth the underlying principles with a view to using these under repetitive circumstances as a matter of management habit. The significance of principles of management can be discussed in terms of the following points:

(i) **Providing managers with useful insights into reality:** The principles of management provide the managers with useful insights into real world situations. Adherence to these principles will add to their knowledge, ability and understanding of managerial situations and circumstances. It will also enable managers to learn from past mistakes and conserve time by solving recurring problems quickly. As such management principles increase managerial efficiency. For example, a manager can leave routine decision-making to his subordinates and deal with exceptional situations which require her/his expertise by following the principles of delegation.

(ii) **Optimum utilisation of resources and effective administration:** Resources both human and material available with the company are limited. They have to be put to optimum use. By optimum use we mean that the resources should be put to use in such a manner that they should give maximum benefit with minimum cost. Principles equip the managers to foresee the cause and effect relationships of their decisions and actions. As such the wastages associated with a trial-and-error approach can be overcome. Effective administration necessitates impersonalisation of managerial conduct so that managerial power is used with due discretion. Principles of management limit the boundary of managerial discretion so that their decisions may be free from personal prejudices and biases. For example, in deciding the annual budgets for different departments, rather than personal preferences,

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managerial discretion is bounded by the principle of contribution to organisational objectives.

(iii) **Scientific decisions:** Decisions must be based on facts, thoughtful and justifiable in terms of the intended purposes. They must be timely, realistic and subject to measurement and evaluation. Management principles help in thoughtful decision-making. They emphasise logic rather than blind faith. Management decisions taken on the basis of principles are free from bias and prejudice. They are based on the objective assessment of the situation.

(iv) **Meeting changing environment requirements:** Although the principles are in the nature of general guidelines but they are modified and as such help managers to meet changing requirements of the environment. You have already studied that management principles are flexible to adapt to dynamic business environment. For example, management principles emphasise division of work and specialisation. In modern times this principle has been extended to the entire business whereby companies are specialising in their core competency and divesting non-core businesses. In this context, one may cite the decision of Hindustan Lever Limited in divesting non-core businesses of chemicals and seeds. Some companies are outsourcing their non-core activities like share-transfer management and advertising to outside agencies. So much so, that even core processes such as R&D, manufacturing and marketing are being outsourced today. Haven't you heard of proliferation of 'Business Process Outsourcing' (BPO) and 'Knowledge Process Outsourcing' (KPO)?

(v) **Fulfilling social responsibility:** The increased awareness of the public, forces businesses especially limited companies to fulfill their social responsibilities. Management theory and management principles have also evolved in response to these demands. Moreover, the interpretation of the principles also assumes newer and contemporary meanings with the change in time. So, if one were to talk of 'equity' today, it does not apply to wages alone. Value to the customer, care for the environment, dealings with business associates would all come under the purview of this principle. As an application of this principle, we find that Public Sector Undertakings have developed entire townships as, for example, BHEL has developed Ranipur in Hardwar

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(Uttaranchal). One may also cite the story of Shri Mahila Griha Udyog Lijjat Papad as can be seen in the accompanying box on page 41.

(vi) **Management training, education and research:** Principles of management are at the core of management theory. As such these are used as a basis for management training, education and research. You must be aware that entrance to management institutes is preceded by management aptitude tests. Do you think that these tests could have been developed without an understanding of management principles and how they may be applied in different situations? These principles provide basic groundwork for the development of management as a discipline. Professional courses such as MBA (Master of Business Administration), BBA (Bachelor of Business Administration) also teach these principles as part of their curriculum at the beginner's level.

These principles enable refinement of management practices as well by facilitating the development of new management techniques. Thus, we see that techniques like Operations Research (OR), cost accounting, 'Just in Time', 'Kanban' and 'Kaizen' have developed due to further research on these principles.

In conclusion it can be said that understanding the meaning, nature and significance of principles of management will help us to appreciate their applicability in real life situations.

As stated at the beginning of the chapter, management principles have undergone a long history of evolution. And, they continue to evolve. What follows is a description of the management principles pertaining to the classical school; more precisely, those propounded by F.W. Taylor and Henri Fayol.

## Taylor's Scientific Management

Scientific management refers to an important stream of one of the earlier

**Test Your Understanding**

1. Do you think innovativeness evident from the examples of Toyota and Kiran Mazumdar Shaw can be linked to the nature of management principles?
2. To what aspects of the significance of management principles would you attribute the endeavours of BHEL and Shri Mahila Griha Udyog Lijjat Papad?

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### Shri Mahila Griha Udyog Lijjat Papad- Combining business with social responsibility (An organization of the women, by the women and for the women)

The story of Shri Mahila Griha Udyog lijjat Papad is very inspiring for would-be managers. It shows how an organisation can combine business with social responsibility and make its stakeholders self-reliant. The stakeholders are various women who, numbering over 45,000, are given the task of making lijjat papads, which are famous for their quality throughout the world. The organisation started with a modest loan of Rs 80 and is now worth around Rs 650 crores. Its exports exceed Rs 60 crores. Their exports are made through Merchant Exporters to countries like UK, USA, Middle East Countries, Thailand, Singapore, Hongkong, Holland, Japan, Australia and other Countries.

One of the main reasons for their success can be attributed to their core values to which they have stuck to since its inception in 1959. It has shown how it is possible to combine Gandhian values with business. Shri Mahila Griha Udyog Lijjat Papad is a synthesis of three different concepts (core values) namely:

1. The concept of business
2. The concept of family
3. The concept of devotion

All these concepts are uniformly followed in this institution. As a result of this synthesis, a peculiar Lijjat way of thinking has developed therein.

Besides the concept of business, the institution along with all its member sisters has adopted the concept of mutual family affection, concern and trust. All the affairs of the institution are dealt with in a manner similar to that of a family carrying out its own daily household chores. But the most important concept adopted by the institution is the concept of devotion. For the member-sisters, employees and well-wishers, the institution is never merely a place to earn one's livelihood — it is a place of worship to devote one's energy not for his or her own benefits but for the benefit of all. Lijjat' provides scholarships to the children of the papad roller sister members who pass out in 10th and 12th standard every year so as to enable the Lady Members to encourage their children for education.

*Source: Adapted from http/www.lijjat.com*

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schools of thought of management referred to as the 'Classical' school. The other two streams belonging to the classical school are Fayol's Administrative Theory and Max Weber's Bureaucracy. We will not be describing bureaucracy here. A discussion of Fayol's principles, however, will follow the discussion of scientific management.

Fredrick Winslow Taylor (March 20,1856 – March 21, 1915) was an American mechanical engineer who sought to improve industrial efficiency. In 1874, he became an apprentice mechanist, learning factory conditions at the grass roots level. He earned a degree in mechanical engineering. He was one of the intellectual leaders of the efficiency movement and was highly influential in reshaping the factory system of production. You must appreciate that he belonged to the era of the industrial revolution characterised by mass production.

**Fredrick Winslow Taylor –**
**Founder of Scientific Management Movement**

LIFE TIME: March 20,1856 to March 21, 1915
PROFESSION: American mechanical engineer
EDUCATION: Degree in Mechanical Engineering from Stevens Institute of Technology in 1883.
POSITIONS HELD—
1. Apprentice Machinist in 1874.
2. Executive at Midville Steel Company in 1884.
3. At Bethlehem Iron Company in 1898, which later became Bethlehem Steel Company.
4. Professor at 'Tuck School of Business' founded in 1900.
5. President of 'American Society of Mechanical Engineers' from 1906 to 1907.

WRITINGS: 1. 'The Principles of Scientific Management' series of articles published in 'The American Magazine'
During march-may 1911, later published in book form.
1. 'Concrete, Plain and Reinforced' in 1906.
2. 'Notes on Belting' in 1893
3. 'On the Art of Cutting Metals' December 1906.
4. 'A Piece Rate System' in June 1895.
5. 'The making of a putting green' a series of articles published in 1915.
6. 'Not for the genius but for the average man' published in 'The American Magazine' in March 1918.

*Adapted from www.wikipedia.org and www.stevens.edu/library*

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You must also appreciate that every new development takes some time to be perfected. Taylor's contribution must be seen in the light of the efforts made to perfect the factory system of production.

Taylor thought that by scientifically analysing work, it would be possible to find 'one best way' to do it. He is most remembered for his time and motion studies. He would break a job into its component parts and measure each to the second.

Taylor believed that contemporary management was amateurish and should be studied as a discipline. He also wanted that workers should cooperate with the management and thus there would be no need of trade unions. The best results would come from the partnership between a trained and qualified management and a cooperative and innovative workforce. Each side needed the other.

He is known for coinage of the term 'Scientific Management' in his article 'The Principles of Scientific Management' published in 1911. After being fired from Bethlehem Steel Company he wrote a book 'Shop floor' which sold well. He was selected to be the president of the American Society of Mechanical Engineers (ASME) from 1906 to 1907. He was a professor at Tuck School of Business at Dartmouth College founded in 1900.

In 1884 he became an executive at Midvale Steel Company by demonstrating his leadership abilities. He instructed his fellow workers to work in phases. He joined the Bethlehem Iron Company in 1898, which later became Bethlehem Steel Company. He was originally employed to introduce piece rate wage system. After setting up the wage system, he was given authority and more responsibilities in the company. Using his newfound resources he increased the staff and made Bethlehem a show place for inventive work. Unfortunately, the company was sold to another group and he was discharged.

In 1910 his health started to fall. He died in 1915 due to pneumonia. A synoptic view of his contribution can be had from the accompanying box on the next page.

## Principles of Scientific Management

In the earlier days of the Industrial Revolution, in the absence of an established theory of factory organisation, factory owners or managers relied on personal judgment in attending to the problems they confronted in the course of managing their work. This is what is referred to as 'rule of thumb'. Managing factories by rule of thumb enabled them to handle the situations as they arose but suffered from the limitation of a trial and error approach. For their experiences to be emulated, it was important to know what works and why does it work. For this, there was

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## Taylor's Contribution to Scientific Management

The following extracts are taken from Taylor's testimony before the U.S. House of Representatives Special Committee in 1912 and also from his most important work "THE PRINCIPLES OF SCIENTIFIC MANAGEMENT" published in 1911.

"Scientific management requires first, a careful investigation of each of the many modifications of the same implement, developed under rule of thumb; and second, after time and motion study has been made of the speed attainable with each of these implements, that the good points of several of them shall be unified in a single standard implementation, which will enable the workman to work faster and with greater ease than he could before. This one implement, then is adopted as standard in place of the many different kinds before in use and it remains standard for all workmen to use until superseded by an implement which has been shown, through motion and time study, to be still better." (Scientific management, page 119)

The main elements of the Scientific Management are: (page 129-130 sci-mgt) "Time Studies"

Functional or specialised supervision
Standardisation of tools and implements
Standardisation of work methods
Separate Planning function
Management by exception principle
The use of 'slide-rules and similar time-saving devices'
Instruction cards for workmen
Task allocation and large bonus for successful performance
The use of the 'differential rate'
Mnemonic systems for classifying products and implements
A routing system
A modern costing system etc. etc.

Taylor called these elements "merely the elements or details of the mechanisms of management" He saw them as extensions of the four principles of management. (Page 130, scientific management)

1. The development of a true science.
2. The scientific selection of the workman.
3. The scientific education and development of the workman.
4. Intimate and friendly cooperation between the management and the employees.

*Adapted from Taylorism (F.W. Taylor & Scientific Management) at http://www.quality.org/TQM-MSI/taylor.html*

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a need to follow an approach that was based on the method of science-defining a problem, developing alternative solutions, anticipating consequences, measuring progress and drawing conclusions.

In this scenario, Taylor emerged as the 'Father of Scientific Management'. He proposed scientific management as opposed to rule of thumb. He broke up human activity into small parts and found out how it could be done effectively, in less time and with increased productivity. It implies conducting business activities according to standardised tools, methods and trained personnel in order to increase the output, improve its quality and reduce costs and wastes.

In the words of Taylor, "Scientific management means knowing exactly what you want men to do and seeing that they do it in the best and cheapest way. The Bethlehem Steel company where Taylor himself worked achieved three-fold increase in productivity by application of scientific management principles. Therefore, it would be in order to discuss these principles.

(i) **Science not Rule of Thumb:** Taylor pioneered the introduction of the method of scientific inquiry into the domain of management practice. We have already referred to the limitations of the rule of thumb approach of management. As different managers would follow their indigenous rules of thumb, it is but a statement of the obvious that all would not be equally effective. Taylor believed that there was only one best method to maximise efficiency. This method can be developed through study and analysis. The method so developed should substitute 'Rule of Thumb' throughout the organisation. Scientific method involved investigation of traditional methods through work-study, unifying the best practices and developing a standard method, which would be followed throughout the organisation. According to Taylor, even a small production activity like loading pigs of iron into boxcars can be scientifically planned and managed. This can result in tremendous saving of human energy as well as wastage of time and materials. The more sophisticated the processes, greater would be the savings.

In the present context, the use of Internet has brought about dramatic improvements in internal efficiencies and customer satisfaction.

(ii) **Harmony, Not Discord:** Factory system of production implied that managers served as a link between the owners and the workers. Since as managers they had the mandate to 'get work done' from the workers, it should not be

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difficult for you to appreciate that there always existed the possibility of a kind of class-conflict, the mangers versus workers. Taylor recognised that this conflict helped none, the workers, the managers or the factory owners. He emphasised that there should be complete harmony between the management and workers. Both should realise that each one is important. To achieve this state, Taylor called for complete mental revolution on the part of both management and workers. It means that management and workers should transform their thinking. In such a situation even trade unions will not think of going on strike etc.

Management should share the gains of the company, if any, with the workers. At the same time workers should work hard and

*Sharing of gains between management and workers leading to complete harmony*

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be willing to embrace change for the good of the company. Both should be part of the family. According to Taylor, 'Scientific management has for its foundation the firm conviction that the true interests of the two are one and the same; that prosperity for the employer cannot exist for a long time unless it is accompanied by prosperity for the employees and vice versa'.

Japanese work culture is a classic example of such a situation. In Japanese companies, paternalistic style of management is in practice. There is complete openness between the management and workers. If at all workers go to strike they wear a black badge but work more than normal working hours to gain the sympathy of the management.

(iii) **Cooperation, Not Individualism:** There should be complete cooperation between the labour and the management instead of individualism. This principle is an extension of principle of 'Harmony not discord'. Competition should be replaced by cooperation. Both should realise that they need each other.

For this, management should not close its ears to any constructive suggestions made by the employees. They should be rewarded for their suggestions which results in substantial reduction in costs. They should be part of management and, if any important decisions are taken, workers should be taken into confidence.

At the same time workers should desist from going on strike and making unreasonable demands on the management. In fact when there will be open communication system and goodwill there will be no need for even a trade union. Paternalistic style of management, whereby the employer takes care of the needs of employees, would prevail as in the case of Japanese companies.

According to Taylor, there should be an almost equal division of work and responsibility between workers and management. All the day long the management should work almost side by side with the workers helping, encouraging and smoothing the way for them.

(iv) **Development of Each and Every Person to His or Her Greatest Efficiency and Prosperity:** Industrial efficiency depends to a large extent on personnel competencies. As such, scientific management also stood for worker development. Worker training was essential also to learn the 'best method' developed as a consequence of

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the scientific approach. Taylor was of the view that the concern for efficiency could be built in right from the process of employee selection. Each person should be scientifically selected. Then work assigned should suit her/his physical, mental and intellectual capabilities. To increase efficiency, they should be given the required training. Efficient employees would produce more and earn more. This will ensure their greatest efficiency and prosperity for both company and workers.

From the foregoing discussion it is clear that Taylor was an ardent supporter of use of scientific method of production in business.

## Techniques of Scientific Management

Let us now discuss techniques as specified by him. These are based on the various experiments he conducted during his career.

## Functional Foremanship

In the factory system, the foreman represents the managerial figure with whom the workers are in face-to-face contact on a daily basis. In the first chapter of the book, you have seen that the foreman is the lowest ranking manager and the highest ranking worker. He is the pivot around whom revolves the entire production planning, implementation and control. Thus, Taylor concentrated on improving the performance of this role in the factory set-up. In fact, he identified a list of qualities of a good foreman/supervisor and found that no single person could fit them all. This prompted him to suggest functional foremanship through eight persons.

Taylor advocated separation of planning and execution functions. This concept was extended to the lowest level of the shop floor. It was known as functional foremanship. Under the factory manager there was a planning incharge and a production incharge. Under planning incharge four personnel namely instruction card clerk, route clerk, time and cost clerk and a disciplinarian worked. These four personnel would draft instructions for the workers, specify the route of production, prepare time and cost sheet and ensure discipline respectively.

Under Production incharge, personnel who would work were speed boss, gang boss, repair boss, and inspector. These respectively were responsible for timely and accurate completion of job, keeping machines and tools etc., ready for operation by workers, ensure proper working condition of machines and tools and check the quality of work.

Functional foremanship is an extension of the principle of division of work and specialisation to the shop floor. Each worker will have to

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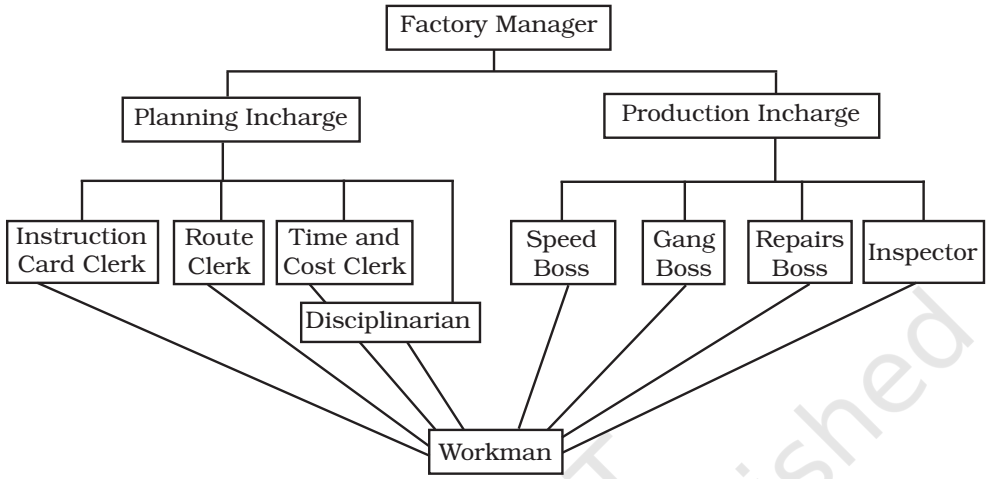


take orders from these eight foremen in the related process or function of production. Foremen should have intelligence, education, tact, grit, judgment, special knowledge, manual dexterity, and energy, honesty and good health. Since all these qualities could not be found in a single person so Taylor proposed eight specialists. Each specialist is to be assigned work according to her/his qualities. For example, those with technical mastery, intelligence and grit may be given planning work. Those with energy and good health may be assigned execution work.

## Standardisation and Simplification of Work

Taylor was an ardent supporter of standardisation. According to him scientific method should be used to analyse methods of production prevalent under the rule of thumb. The best practices can be kept and further refined to develop a standard which should be followed throughout the organisation. This can be done through work-study techniques which include time study, motion study, fatigue study and method study, and which are discussed further in this chapter. It may be pointed out that even the contemporary techniques of business process including reengineering, kaizen (continuous improvement) and benchmarking are aimed at standardising the work.

Standardisation refers to the process of setting standards for every business activity; it can be standardisation of process, raw material, time, product, machinery, methods or working conditions. These standards are the benchmarks, which must be adhered to during production. The objectives of standardisation are:

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(i) To reduce a given line or product to fixed types, sizes and characteristics.
(ii) To establish interchange ability of manufactured parts and products.
(iii) To establish standards of excellence and quality in materials.
(iv) To establish standards of performance of men and machines.

Simplification aims at eliminating superfluous varieties, sizes and dimensions while standardisation implies devising new varieties instead of the existing ones. Simplification aims at eliminating unnecessary diversity of products. It results in savings of cost of labour, machines and tools. It implies reduced inventories, fuller utilisation of equipment and increasing turnover.

Most large companies like Nokia, Toyota and Microsoft, etc. have successfully implemented standardisation and simplification. This is evident from their large share in their respective markets.

## Method Study

The objective of method study is to find out one best way of doing the job. There are various methods of doing the job. To determine the best way there are several parameters. Right from procurement of raw materials till the final product is delivered to the customer every activity is part of method study. Taylor devised the concept of assembly line by using method study. Ford Motor Company used this concept very successfully. Even now auto companies are using it.

The objective of the whole exercise is to minimise the cost of production and maximise the quality and satisfaction of the customer. For this purpose many techniques like process charts and operations research etc are used.

For designing a car, the assembly line production would entail deciding the sequence of operations, place for men, machines and raw materials etc. All this is part of method study.

## Motion Study

Motion study refers to the study of movements like lifting, putting objects, sitting and changing positions, etc., which are undertaken while doing a typical job. Unnecessary movements are sought to be eliminated so that it takes less time to complete the job efficiently. For example, Taylor and his associate Frank Gailberth were able to reduce motions in brick layering from 18 to just 5. Taylor demonstrated that productivity increased to about four times by this process.

On close examination of body motions, for example, it is possible to find out:

(i) Motions which are productive
(ii) Motions which are incidental (e.g., going to stores)
(iii) Motions which are unproductive.

Taylor used stopwatches and various symbols and colours to identify different motions. Through motion

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studies, Taylor was able to design suitable equipment and tools to educate workers on their use. The results achieved by him were truly remarkable.

## Time Study

It determines the standard time taken to perform a well-defined job. Time measuring devices are used for each element of task. The standard time is fixed for the whole of the task by taking several readings. The method of time study will depend upon volume and frequency of the task, the cycle time of the operation and time measurement costs. The objective of time study is to determine the number of workers to be employed; frame suitable incentive schemes and determine labour costs.

For example, on the basis of several observations it is determined that standard time taken by the worker to make one cardboard box is 20 minutes. So in one hour she/he will make 3 boxes. Assuming that a worker has to put in 8 hours of work in a shift and deducting one hour for rest and lunch, it is determined that in 7 hours a worker makes 21 boxes @ 3 boxes per hour. Now this is the standard task a worker has to do. Wages can be decided accordingly.

## Fatigue Study

A person is bound to feel tired physically and mentally if she/he does not rest while working. The rest intervals will help one to regain stamina and work again with the same capacity. This will result in increased productivity. Fatigue study seeks to determine the amount and frequency of rest intervals in completing a task. For example, normally in a plant, work takes place in three shifts of eight hours each. Even in a single shift a worker has to be given some rest interval to take her/his lunch etc. If the work involves heavy manual labour then small pauses have to be frequently given to the worker so that she/he can recharge her/his energy level for optimum contribution.

There can be many causes for fatigue like long working hours, doing unsuitable work, having uncordial relations with the boss or bad working conditions etc. Such hindrances in good performance should be removed.

## Differential Piece Wage System

Taylor was a strong advocate of piece wage system. He wanted to differentiate between efficient and inefficient workers. The standard time and other parameters should be determined on the basis of the work-study discussed above. The workers can then be classified as efficient or inefficient on the basis of these standards. He wanted to reward efficient workers. So he introduced different rate of wage payment for

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those who performed above standard and for those who performed below standard. For example, it is determined that standard output per worker per day is 10 units and those who made standard or more than standard will get Rs. 50 per unit and those below will get Rs. 40 per unit. Now an efficient worker making 11 units will get 11Ł50= Rs. 550 per day whereas a worker who makes 9 units will get 9 Ł40 = Rs. 360 per day.

According to Taylor, the difference of Rs. 190 should be enough for the inefficient worker to be motivated to perform better. From his own experience, Taylor gives the example of a worker named Schmidt who was able to earn 60% more wages from $1.15 to $1.85 on increasing pig iron loading from 12.5 tons per man per day to 47 tons per man per day in box cars at Bethlehem Steel works by following scientific management techniques.

It is important to have a relook at the techniques of scientific management as comprising a unified whole of Taylor's prescription of efficiency. Search for efficiency requires the search for one best method and the chosen method must lead to the determination of a fair day's work. There must be a compensation system that differentiates those who are able to accomplish/exceed the fair day's work. This differential system must be based on the premise that efficiency is the result of the joint efforts of the managers and the workers. Thus, rather than quarrelling over the share in the resultant surplus, the workers and managers should work in harmony for maximising the output rather than restricting it. Clearly the sum and substance of Taylor's ideas lies not in the disjointed description of principles and techniques of scientific management, but in the change of the mindset, which he referred to as **mental revolution**. Mental revolution involves a change in the attitude of workers and management towards one another from competition to cooperation. Both should realise that they require one another. Both should aim to increase the size of surplus. This would eliminate the need for any agitation. Management should share a part of surplus with workers. Workers should also contribute their might so that the company makes profits. This attitude will be good for both of them and also for the company. In the long run only worker's well-being will ensure prosperity of the business.

Now, having studied the elements, principles and techniques of scientific management we can consider the practical applications of the same at the time of F.W. Taylor and in the present.

We can also examine the present status of scientific management. Today, many new techniques have been developed as a sequel to scientific management. Operations research was developed in the second World War to optimise the deployment of war material. Similarly assembly line was

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also discovered by F.W. Taylor, which was used very successfully by Ford motor company for manufacturing 'Model T' car for the masses. This concept is much used now. The latest development in scientific management is 'LEAN MANUFACTURING'. Now a days robotics and computers are being used in production and other business activities. This is part of scientific management of these activities. It has increased productivity levels. The techniques of operation research have also been developed and are being used as a result of scientific management. The box below gives meanings of some terms used in modern manufacturing.

## Fayol's Principles of Management

In the development of classical school of management thought, Fayol's administrative theory provides an important link. While Taylor succeeded in revolutionising the working of factory shop-floor in terms of devising the best method, fair day's work, differential piece-rate system and functional foremanship; Henri Fayol explained what amounts to a managers work and what principles should be followed in doing this work. If workers' efficiency mattered in the factory system, so does the managerial efficiency. Fayol's contribution must

**Applications of Scientific Management by Taylor and his Contemporaries**

1. Taylor found out the optimum-shovelling load of 21 pounds per shovel per worker through a series of experiments in work-study at Bethlehem Steel Company. The implementation saved the company $ 75000 to $80000 per year.
2. Pig iron handling per person per day was increased from 12.5 tons to 47 tons. This also resulted in the wages increase to labourers by 60% but also savings to the company on account of less number of labourers from 500 to 140.
3. He had published a paper "The Art of cutting metals" which turned it into a science.
4. He designed a Piece Rate Wage System including incentives for Bethlehem Steel Company.
5. Taylor's associate Frank Gilbreth applied scientific management to the art of 'brick layering' and through motion study was able to eliminate certain motions which were considered by the brick layers to be necessary (reduced motions from 18 to 5), designed simple apparatus like adjustable scaffold and its packets to hold the bricks and finally also taught brick layers to use both the hands at the same time. This is a classic example of application of Scientific Management to the simple art of brick layering.

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be interpreted in terms of the impact that his writings had and continue to have improvement in managerial efficiencies.

Henri Fayol (1841-1925) was a French management theorist whose theories concerning scientific organisation of labour were widely influential in the beginning of twentieth century. He graduated from the mining academy of St. Etienne in 1860 in mining engineering. The

### Glossary of Some Terms of Modern Production/Scientific Management

1. Just In Time Manufacturing: It is an inventory management strategy to improve return on investment by reducing in process inventory and its associated costs. The system is implemented by the use of visual signals or KANBAN, which tells whether the replenishment is required at any level of production process, or not.
2. Lean Manufacturing: It is a management philosophy focusing on reduction of seven wastes of overproduction, waiting time, transportation, processing, motion, inventory and scrap in any type of manufacturing process or any type of business. By eliminating waste, quality is improved, production time is reduced and cost is reduced.
3. Kaizen: It is a Japanese word, which means 'change for better' or 'improvement'. It is an approach to improvement of productivity through application of works of American experts such as F.W. Taylor by Japanese after World War II. The goals of kaizen include elimination of waste (which is defined as those activities which add cost but not value to the product or service), just in time delivery, production load levelling of amount and types, standardised work, paced moving lines, right sized equipment and others. A closer Japanese use of the word means 'to take apart and put it in a better way'. What is taken apart is usually a process, system, product or service. It is a daily activity which humanizes the workplace, eliminates hard work both physical and mental, teaches people how to do rapid experiments using scientific method and how to learn to see and eliminate waste in business processes.
4. Six Sigma: It is a data driven approach that can help any organisation-whatever sector or field it might be operating in, to bring down inefficiencies and save time and money by reducing 'quality variations'. It has a strong customer oriented approach that relies on data to create more efficient processes or refine existing processes. There should not be more than 3-4 defects per million opportunities according to prescribed norms. It can be applied to any process but needs unstilted organisational support.

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19 year old engineer started at the mining company 'Compagnie de commentary-Fourchambean-Decazeville, ultimately acting as its managing director from 1888 to 1918.

His theories deal with organisation of production in the context of a competitive enterprise that has to control its production costs. Fayol was the first to identify four functions of management – Planning, Organising, Directing and Controlling although his version was a bit different – Plan, Organise, Command, Coordinate and Control. According to Fayol, all activities of an industrial undertaking could be divided into: Technical; Commercial; Financial; Security; Accounting and Managerial. He also suggested that qualities a manager must possess should be — Physical, Moral, Education, Knowledge and experience. He believed that the number of management principles that might help to improve an organisation's operation is potentially limitless.

Based largely on his own experience, he developed his concept of administration. The 14 principles of management propounded by him were discussed in detail in his book published in 1917, 'Administration industrielle et generale'. It was published in English as 'General and Industrial Management' in 1949 and is widely considered a foundational work in classical management theory. For his contribution he is also known as the 'Father of General Management'

The 14 principles of management given by him are:

(i) **Division of Work:** Work is divided into small tasks/ jobs. A trained specialist who is competent is required to perform each job. Thus, division of work leads to specialisation. According to Fayol, "The intent of division of work is to produce more and better work for the same effort. Specialisation is the most efficient way to use human effort."

In business work can be performed more efficiently if it is divided into specialised tasks; each performed by a specialist or trained employee. This results in efficient and effective output. Thus, in a company we have separate departments for finance, marketing, production and human resource development etc. All of them have specialised persons. Collectively they achieve production and sales targets of the company. Fayol applies this principle of division of work to all kinds of work – technical as well as

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**Henri Fayol**

1. Life Time: 1841 TO 1925
2. Profession: Mining Engineer and Management Theorist (French national)
3. Education: Graduated from Mining Academy at St. Entinne. in 1880.
4. Positions Held: Founded the mining company 'Cmpagnie de Commentry- Fourchambeau-Decazeville' and became its Managing Director in 1888 and remained till 1918.
5. Writings: Administration industrielle et générale. It was published in English as General and Industrial Management in 1949 and is widely considered *a foundational work in classical management theory.*
6. Contributions: Mainly 14 Management Principles, which are referred to as administrative in nature in that they have Top-Down approach concerning top management and other manager's conduct.

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managerial. You can observe this principle at work in any organisation like hospital or even a government office.

(ii) **Authority and Responsibility:** According to Fayol, "Authority is the right to give orders and obtain obedience, and responsibility is the corollary of authority. The two types of authority are official authority, which is the authority to command, and personal authority which is the authority of the individual manager."

Authority is both formal and informal. Managers require authority commensurate with their responsibility. There should be a balance between authority and responsibility. An organisation should build safeguards against abuse of managerial power. At the same time a manager should have necessary authority to carry out his responsibility. For example, a sales manager has to negotiate a deal with a buyer. She finds that if she can offer credit period of 60 days she is likely to clinch the deal which is supposed to fetch the company net margin of say

₹ 50 crores. Now the company gives power to the manager to offer a credit period of only 40 days. This shows that there is an imbalance in authority and responsibility. In this case the manager should be granted authority of offering credit period of 60 days in the interest of the company. Similarly, in this example this manager should not be given a power to offer a credit period of say 100 days because it is not required. A manager should have the right to punish a subordinate for wilfully not obeying a legitimate order but only after sufficient opportunity has been given to a subordinate for presenting her/his case.

(iii) **Discipline:** Discipline is the obedience to organisational rules and employment agreement which are necessary for the working of the organisation. According to Fayol, discipline requires good superiors at all levels, clear and fair agreements and judicious application of penalties.

Suppose management and labour union have entered into an agreement whereby workers have agreed to put in extra hours without any additional payment to revive the company out of loss. In return the management has promised to increase wages of the workers when this mission is accomplished. Here discipline when applied would mean that the workers and management both honour their commitments without any prejudice towards one another.

(iv) **Unity of Command:** According to Fayol there should be one and only one boss for every individual employee. If an employee gets orders from two superiors at the same time the principle of unity of command is violated. The principle of unity of command states that each participant in a formal organisation should receive orders from and be responsible to only one superior. Fayol gave a lot of importance to this principle. He felt that if this principle is violated "authority is undermined, discipline is in jeopardy, order disturbed and stability threatened". The principle resembles military organisation. Dual subordination should be avoided. This is to prevent confusion regarding tasks to be done. Suppose a sales person is asked to clinch a deal with a buyer and is allowed to give 10% discount by the marketing manager. But finance department tells her/him not to offer more than 5% discount. Now there is no unity of command. This can be avoided if there is coordination between various departments.

(v) **Unity of Direction:** All the units of an organisation should be moving towards the same objectives through coordinated

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and focussed efforts. Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination. For example, if a company is manufacturing motorcycles as well as cars then it should have two separate divisions for both of them. Each division should have its own incharge, plans and execution resources. On no account should the working of two divisions overlap. Now let us differentiate between the two principles of unity of command and unity of direction.

(vi) **Subordination of Individual Interest to General Interest:** The interests of an organisation should take priority over the interests of any one individual employee according to Fayol. Every worker has some individual interest for working in a company. The company has got its own objectives. For example, the company would want to get maximum output from its employees at a competitive cost (salary). On the other hand, an employee may want to get maximum salary while working the least. In another situation an individual employee may demand some concession, which is not admissible to any other employee like working for less time.

In all the situations the interests of the group/company will supersede the interest of any one individual. This is so because larger interests of the workers and stakeholders are more important than the interest of any one person. For example, interests of various stakeholders, i.e., owners, shareholders, creditors, debtors, financers, tax authorities, customers and the society at large cannot be sacrificed for

**Difference between Unity of Command and Unity of Direction**

| Basis | Unity of Command | Unity of Direction |
|---|---|---|
| 1. Meaning | One subordinate should receive orders from and should be responsible to only one superior. | Each group of activities having same objective must have one head and one plan. |
| 2. Aim | It prevents dual subordination. | It prevents overlapping of activities. |
| 3. Implications | It affects an individual employee. | It affects the entire organisation. |

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one individual or a small group of individuals who want to exert pressure on the company. A manager can ensure this by her/his exemplary behaviour. For example, she/he should not fall into temptation of misusing her/his powers for individual/ family benefit at the cost of larger general interest of the workers/ company. This will raise her/his stature in the eyes of the workers and at the same time ensure same behaviour by them.

(vii) **Remuneration of Employees:** The overall pay and compensation should be fair to both employees and the organisation. The employees should be paid fair wages, which should give them at least a reasonable standard of living. At the same time it should be within the paying capacity of the company. In other words, remuneration should be just and equitable. This will ensure congenial atmosphere and good relations between workers and management. Consequently, the working of the company would be smooth.

(viii) **Centralisation and Decentralisation:** The concentration of decision-making authority is called centralisation whereas its dispersal among more than one person is known as decentralisation. According to Fayol, "There is a need to balance subordinate involvement through decentralisation with managers' retention of final authority through centralisation." The degree of centralisation will depend upon the circumstances in which the company is working. In general large organisations have more decentralisation than small organisations. For example, panchayats in our country have been given more powers to decide and spend funds granted to them by the government for the welfare of villages. This is decentralisation at the national level.

(ix) **Scalar Chain:** An organisation consists of superiors and subordinates. The formal lines of authority from highest to lowest ranks are known as scalar chain.

According to Fayol, "Organisations should have a chain of authority and communication that runs from top to bottom and should be followed by managers and the subordinates."

Let us consider a situation where there is one head 'A' who has two lines of authority under her/ him. One line consists of B-C-D-E-F. Another line of authority under 'A' is L-M-N-O-P. If 'E' has to communicate with 'O' who is at the same level of authority then she/he has to traverse the route E-D-C-B-A-L-M-N-O. This is due to the principle of scalar

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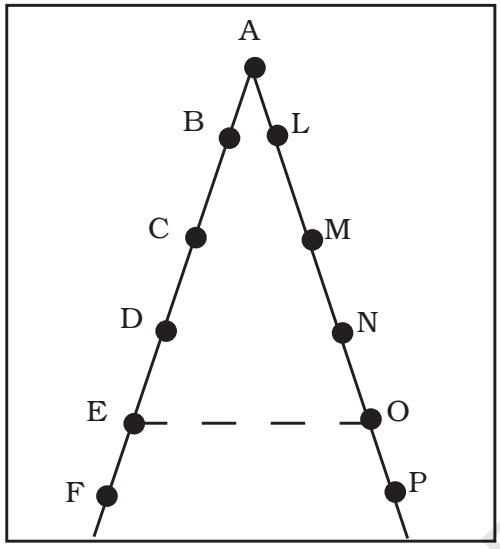


*Fayol's Scalar Chain*

chain being followed in this situation. According to Fayol, this chain should not be violated in the normal course of formal communication. However, if there is an emergency then 'E' can directly contact 'O' through 'Gang Plank' as shown in the diagram. This is a shorter route and has been provided so that communication is not delayed. In practice you find that a worker cannot directly contact the CEO of the company. If at all she/he has to, then all the formal levels i.e., foreman, superintendent, manager, director etc have to know about the matter. However, in an emergency it can be possible that a worker can contact CEO directly.

(x) **Order:** According to Fayol, "People and materials must be in suitable places at appropriate time for maximum efficiency." The principle of order states that 'A place for everything (everyone) and everything (everyone) in its (her/his) place'. Essentially it means orderliness. If there is a fixed place for everything and it is present there, then there will be no hindrance in the activities of business/ factory. This will lead to increased productivity and efficiency.

(xi) **Equity:** Good sense and experience are needed to ensure fairness to all employees, who should be treated as fairly as possible," according to Fayol. This principle emphasises kindliness and justice in the behaviour of managers towards workers. This will ensure loyalty and devotion. Fayol does not rule out use of force sometimes. Rather he says that lazy personnel should be dealt with sternly to send the message that everyone is equal in the eyes of the management. There should be no discrimination against anyone on account of sex, religion, language, caste, belief or nationality etc. In practice we can observe that now a days in multinational corporations people of various nationalities work together in a

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discrimination free environment. Equal opportunities are available for everyone in such companies to rise.

(xii) **Stability of Personnel:** "Employee turnover should be minimised to maintain organisational efficiency", according to Fayol. Personnel should be selected and appointed after due and rigorous procedure. But once selected they should be kept at their post/ position for a minimum fixed tenure. They should have stability of tenure. They should be given reasonable time to show results. Any adhocism in this regard will create instability/insecurity among employees. They would tend to leave the organisation. Recruitment, selection and training cost will be high. So stability in tenure of personnel is good for the business.

*Employee suggestion system: Encourage initiative among trainee managers*

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## Fayol: Then and Now

Now let us see what Fayol's principles means in the contemporary business situations especially service based and high tech economies like USA. Carl A. Rodrigues of Mont Clair State University, Upper Montclair, New Jersey, USA has come out with the following conclusions in his paper "Fayol's 14 Principles of Management. Then and Now- A Framework For Managing Today's Organisations Effectively" published in Journal "Management Decision" 39/10(2001) PP 880-889.

| | Name of Principle | THEN | NOW |
|---|---|---|---|
| 1. | Division of Work | Specialisation in workers Job design | Generalisation in workers' Job design |
| 2. | Authority & Responsibility | Managers are empowered | Employees are empowered |
| 3. | Discipline | Formalised Controls | Informal, Peer pressure controls |
| 4. | Unity of Command | Subordinates report to only one boss | Subordinates report to multiple bosses |
| 5. | Unity of Direction | Functions have only one plan and one boss | Functions have multiple plans and multiple bosses |
| 6. | Subordination of individual interest to common good | Employees are committed to the organisation | Organisation is committed to the employees and vice versa |
| 7. | Remuneration of personnel | Reasonable Pay reward system | Performance based reward system |
| 8. | Centralisation | Trickle down decision making | Task relevant ad hoc decision making |
| 9. | Scalar Chain | Hierarchical, formalised communication channel | Less formalised, flatter communication structure. |
| 10. | Order | Internal information system for control purposes | Internal information system for coordination purposes. |
| 11. | Equity | Commitment obtained through kindness | Commitment obtained through a sense of ownership |
| 12. | Stability of tenure of personnel | Train employees and encourage them to remain | On-going employee training and development |
| 13. | Initiative | Managers conceive and implement new ideas | Workers conceive and implement new ideas |
| 14. | Espirit de corps | Maintaining high morale among employees is imperative | Maintaining high morale among employees is desirable. |

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(xiii) **Initative:** Workers should be encouraged to develop and carry out their plans for improvements according to Fayol. Initiative means taking the first step with self-motivation. It is thinking out and executing the plan. It is one of the traits of an intelligent person. Initiative should be encouraged. But it does not mean going against the established practices of the company for the sake of being different. A good company should have an employee suggestion system whereby initiative/suggestions which result in substantial cost/time reduction should be rewarded.

(xiv) **Esprit De Corps:** Management should promote a team spirit of unity and harmony among employees, according to Fayol. Management should promote teamwork especially in large organisations because otherwise objectives would be difficult to realise. It will also result in a loss of coordination. A manager should replace 'I' with 'We' in all his conversations with workers to foster team spirit. This will give rise to a spirit of mutual trust and belongingness among team members. It will also minimise the need for using penalties.

From the foregoing discussion it is clear that Fayol's 14 principles of management are widely applicable to managerial problems and have cast a profound impact on management thinking today. But with the change of environment in which business is done, the interpretation of these principles has changed. For example, authority and responsibility meant empowering of managers but now it means empowerment of employees because of flat organisational structures that are gaining ground. We are now in a position to understand the current connotations of Fayol's principles discussed in the accompanying box.

## Fayol Versus Taylor — A Comparison

We are now in a position to compare the contributions of both Fayol and Taylor. Both of them have contributed immensely to the knowledge of management, which has formed a basis for further practice by managers. It must be pointed out that their contributions are complementary to each other. We can make out the following points of difference between their contributions.

You may also like to have some knowledge of contributions of Indians to the growth of management knowledge which can be seen in the accompanying box item.

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| Sl. No. | Basis of difference | Henri Fayol | F. W. Taylor |
|---|---|---|---|
| 1. | Perspective | Top level of management | Shop floor level of a factory |
| 2. | Unity of Command | Staunch Proponent | Did not feel that it is important as under functional foremanship a worker received orders from eight specialists. |
| 3. | Applicability | Applicable universally | Applicable to specialised situations |
| 4. | Basis of formation | Personal experience | Observations and experimentation |
| 5. | Focus | Improving overall administration | Increasing Productivity |
| 6. | Personality | Practitioner | Scientist |
| 7. | Expression | General Theory of Administration | Scientific Management |

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**Key Terms**

Functional Foremanship | Standardisation of Work

Time Study | Motion Study | Fatigue Study | Method Study

Differential Piece Wage System | Mental Revolution

Unity of Command | Unity of Direction

Scalar Chain Gang Plank | Espirit De Corps

## Summary

**Meaning**

Principles of management are general guidelines, which can be used for conduct in work places under certain situations. They help managers to take and implement decisions.

**Nature**

The nature of management principles can be discussed under the heads- formed by practice; general guidelines; universal; flexible; behavioural; contingent; and cause and effect relationship

**Significance**

Proper understanding of significance of management principles is essential to make sound decisions by managers. The significance can be discussed under the following heads- Increase in efficiency; Optimum utilisation of resources; Scientific decision making; Adaptation to changing environment; Fulfilling social responsibilities; Proper research and development; Training managers; and Effective administration.

**Scientific Management**

Taylor's principles of scientific management are — Science, not the rule of thumb; Harmony not discord; Cooperation not individualism; Maximum not restricted output; Development of each person to her/his greatest efficiency and prosperity. The techniques of scientific management as per Taylor were — Functional foremanship; Standardisation and simplification of work; Fatigue Study; Method Study; Time Study; Motion Study; and Differential Wage System. We can also point out differences between the contributions of Taylor and Fayol but essentially they were complementary in nature.

**Fayol's Principles of Management**

According to Fayol, the functions of management are to plan, to organise, to command, to coordinate and to control. The activities of an industrial undertaking could be divided into; Technical; Commercial; Financial; Security; Accounting and Managerial. He also suggested that managers should have the following qualities- Physical; Moral; Education; Knowledge; and Experience. Fayol listed 14 principles of management — Division of work; Authority and responsibility; Discipline; Unity of command; Unity of direction; Subordination of individual interest to general interest; Remuneration of Personnel; Centralisation and decentralisation; Scalar Chain; Order; Equity; Stability in the tenure of Personnel; Initiative; and Espirit De corps.

We can also point out differences between the contributions of Taylor and Fayol but essentially they were complementary in nature.

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## Exercises

**Very Short Answer Type:**

1. What makes principles of management flexible?
2. State the main objective of time study.
3. Name the principle that is an extension of the 'harmony, not discord'.
4. State any two causes of fatigue that may create hindrance in the employee's performance.
5. SanakLal and Gagan started their career in Wales Limited (a printing press) after going through a rigorous recruitment process. Since they had no prior work experience, the firm decided to give them one year to prove themselves. Name the principle of management followed by Wales Limited.
6. Which technique is used by Taylor for distinguishing efficient and inefficient workers?

**Short Answer Type:**

1. How is the Principle of 'Unity of Command' useful to management? Explain briefly.
2. Define scientific management. State any three of its principles.
3. If an organisation does not provide the right place for physical and human resources in an organisation, which principle is violated? What are the consequences of it?
4. Explain any four points regarding significance of principles of management.
5. Explain the principle of 'Scalar Chain' and gang plank.
6. A production manager at top level in a reputed corporate, Mr. Rathore holds the responsibility for ordering raw material for the firm. While deciding on the supplier for the financial year 2017-18, he gave the order to his cousin at a higher price per unit instead of the firm's usual supplier who was willing to lower the rates for the order. Which principle of management was violated by Mr. Rathore? What are the positive impacts of following the above identified principle?

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**Long Answer Type/ Essay Type:**

1. Explain the Principles of Scientific management given by Taylor.
2. Explain the following Principles of management given by Fayol with examples:
   a. Unity of direction
   b. Equity
   c. Espirit de corps
   d. Order
   e. Centralisation and decentralisation
   f. Initiative
2. Explain the technique of 'Functional Foremanship' and the concept of 'Mental Revolution' as enunciated by Taylor.
3. Discuss the following techniques of Scientific Work Study:
   a. Time Study
   b. Motion Study
   c. Fatigue Study
   d. Method Study
   e. Simplification and standardisation of work
4. Discuss the differences between the contributions of Taylor and Fayol.
5. Discuss the relevance of Taylor and Fayol's contribution in the contemporary business environment.
6. 'Bhasin' limited was engaged in the business of food processing and selling its products under a popular brand. Lately the business was expanding due to good quality and reasonable prices. Also with more people working the market for processed food was increasing. New players were also coming to cash in on the new trend. In order to keep its market share in the short run the company directed its existing workforce to work overtime. But this resulted in many problems. Due to increased pressure of work the efficiency of the workers declined. Sometimes the subordinates had to work for more than one superior resulting in declining efficiency. The divisions that were previously working on one product were also made to work on two or more products.

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This resulted in a lot of overlapping and wastage. The workers were becoming indisciplined. The spirit of teamwork, which had characterized the company, previously was beginning to wane. Workers were feeling cheated and initiative was declining. The quality of the products was beginning to decline and market share was on the verge of decrease. Actually the company had implemented changes without creating the required infrastructure.

a. Identify the Principles of Management (out of 14 given by Henry Fayol) that were being violated by the company.

b. Explain these principles in brief.

c. What steps should the company management take in relation to the above principles to restore the company to its past glory?

7. (Further information related to the above question 6) The management of company Bhasin Limited now realised its folly. In order to rectify the situation it appointed a management consultant -Mukti Consultants - to recommend a restructure plan to bring the company back on the rails. Mukti Consultants undertook a study of the production process at the plant of the company Bhasin Limited and recommended the following changes —

- The company should introduce scientific management with regard to production.
- Production Planning including routing, scheduling, dispatching and feedback should be implemented.
- In order to separate planning from operational management 'Functional foremanship' should be introduced.
- 'Work study' should be undertaken to optimise the use of resources.
- 'Standardisation' of all activities should be implemented to increase efficiency and accountability.
- To motivate the workers 'Differential Piece Rate System' should be implemented.

(The above changes should be introduced apart from the steps recommended as an answer to Part c - case problem 6 above.)

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It was expected that the changes will bring about a radical transformation in the working of the company and it will regain its pristine glory.

a. Do you think that introduction of scientific management as recommended by M consultants will result in intended outcome?

b. What precautions should the company undertake to implement the changes?

c. Give your answer with regard to each technique separately as enunciated in points 1 through 6 in the case problem.

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# 3 CHAPTER

# BUSINESS ENVIRONMENT

**How a Rickshaw Puller became an entrepreneur**

On what seemed like a regular day at work Dharamveer Kamboj, a rickshaw puller, was riding through the streets of Delhi when he met with a terrible accident. This was an event that would change his life forever. Knowing that he wouldn't be able to go back to his work, he made the decision of returning to his native village in the Yamunanagar district of Haryana to begin life anew. Being a school dropout with no technical training of any kind further restricted his scope in terms of employment.

The desire to do something out of the ordinary kept stirring in his heart time and again. He was on the lookout for the right inspiration and opportunity. Such an opportunity crossed his path during one of his visits to the outskirts of Jaipur, Ajmer and Pushkar regions of Rajasthan, where he observed a number of women self help groups at work. A common sight was women in the process of making gooseberry laddoos. While this process appeared to be rather simple, the grating of gooseberries on slabs of stone manually with hands was an excruciatingly painful exercise. There were machines available that could process the gooseberrys but none of them proved to be cost effective. The industry was so small in scale and the owners so modest in means that it was impossible for them to buy machines and put them in use. Dharamveer Kamboj began to think of ways of making fruit and vegetable processing machines not only affordable, but also free of accidental health hazards. Observing that cutting, grating, juicing and pulverizing involved similar techniques made him come up with the idea of a multipurpose processing machine that could work equally well for all of these tasks. There was however a big hurdle in the way of Dharamveer. His limited education would prove his task to be an uphill battle. He however was not deterred. He knew problems would come his way, but to challenge and overcome them was his motto in life. *"Sangharsh hi sabse badi kaamyaabi hai. Agar badhna hai toh peeche mud kar nahin dekhna hai."*

**LEARNING OBJECTIVES**

After studying this chapter you will be able to:

- Explain the meaning of business environment;
- Discuss the importance of business environment;
- Describe the various elements of business environment; and
- Examine the economic environment in India and the impact of Government policies on business and industry.

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This is the truism that Dharamveer Singh Kamboj has always lived by and was able to somehow convince him and obtain a funding of ₹ 25,000 for his project. He began work immediately. The first prototype of his machine was ready in March 2005. An unexpected problem of overheating however cropped up. Even after Dharamveer's constant trials for the elimination of this problem, the issue still persisted in the second prototype. But the thought of giving up never crossed Dharamveer's mind. In his third prototype, he had successfully solved the problem of overheating at last. This prototype was bought by GIAN North and sent to Kenya on a pilot basis. Based on the feedback, GIAN asked him to modify it further incorporating provisions that would make it portable, including the incorporation of foldable legs. In the fourth machine he also incorporated a sieve to manage the flow of juice from the machine during the extraction process. The machine that Dharamveer developed is unique in a way that it has the capacity to process a wide variety of products without damaging the seed of the fruit or vegetable.

*Source: The National Innovation Foundation (NIF) – India (nif.org.in)*

The above example shows how a machine invented by Dharamveer Kamboj made life easier for women workers in unorganised sector. This innovation resulted in a positive impact on food processing business i.e., social, economic and technological in addition to enhancing quality of life.

## Meaning of Business Environment

The term 'business environment' means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance. As one writer has put it– "Just take the universe, subtract from it the subset that represents the organisation, and the remainder is environment". Thus, the economic, social, political, technological and other forces which operate outside a business enterprise are part of its environment. So also, the individual consumers or competing enterprises as well as the governments, consumer groups, competitors, courts, media and other institutions working outside an enterprise constitute its environment. The important point is that these individuals, institutions and forces are likely to influence the performance of a business enterprise although they happen to exist outside its boundaries. For example, changes in government's economic

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policies, rapid technological developments, political uncertainty, changes in fashions and tastes of consumers and increased competition in the market — all influence the working of a business enterprise in important ways. Increase in taxes by government can make things expensive to buy. Technological improvements may render existing products obsolete. Political uncertainty may create fear in the minds of investors. Changes in fashions and tastes of consumers may shift demand in the market from existing products to new ones. Increased competition in the market may reduce profit margins of firms.

On the basis of the foregoing discussion, it can be said business environment, has the following features:

(i) **Totality of external forces:** Business environment is the sum total of all things external to business firms and, as such, is aggregative in nature.

(ii) **Specific and general forces:** Business environment includes both specific and general forces. Specific forces (such as investors, customers, competitors and suppliers) affect individual enterprises directly and immediately in their day-to-day working. General forces (such as social, political, legal and technological conditions) have impact on all business enterprises and thus may affect an individual firm only indirectly.

(iii) **Inter-relatedness:** Different elements or parts of business environment are closely interrelated. For example, increased life expectancy of people and increased awareness for health care have increased the demand for many health products and services like soft drinks, fat-free cooking oil, and health resorts. New health products and services have, in turn, changed people's life styles.

(iv) **Dynamic nature:** Business environment is dynamic in that it keeps on changing whether in terms of technological improvement, shifts in consumer preferences or entry of new competition in the market.

(v) **Uncertainty:** Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently as in the case of information technology or fashion industries.

(vi) **Complexity:** Since business environment consists of numerous interrelated and dynamic conditions or forces which arise from different sources, it becomes difficult to comprehend at once what exactly constitutes a given environment. In other words, environment is a complex phenomenon that is relatively easier to understand in parts but difficult to grasp in its

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totality. For example, it may be difficult to know the extent of the relative impact of the social, economic, political, technological or legal factors on change in demand of a product in the market.

(vii) **Relativity:** Business environment is a relative concept since it differs from country to country and even region to region. Political conditions in the USA, for instance, differ from those in China or Pakistan. Similarly, demand for sarees may be fairly high in India whereas it may be almost non-existent in France.

## Importance of Business Environment

Just like human beings, business enterprises do not exist in isolation. Each business firm is not an island unto itself; it exists, survives and grows within the context of the element and forces of its environment. While an individual firm is able to do little to change or control these forces, it has no alternative to responding or adapting according to them. A good understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firms. The importance of business environment and its understanding by managers can be appreciated if we consider the following facts:

(i) **It enables the firm to identify opportunities and getting the first mover advantage:** Opportunities refer to the positive external trends or changes that will help a firm to improve its performance. Environment provides numerous opportunities for business success. Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors. For example, Maruti Udyog became the leader in the small car market because it was the first to recognise the need for small cars in an environment of rising petroleum prices and a large middle class population in India.

(ii) **It helps the firm to identify threats and early warning signals:** Threats refer to the external environment trends and changes that will hinder a firm's performance. Besides opportunities, environment happens to be the source of many threats. Environmental awareness can help managers to identify various threats on time and serve as an early warning signal. For example, if an Indian firm finds that a foreign multinational is entering the Indian market with new substitutes, it should act as a warning signal. On the basis of this information, the Indian firms can prepare themselves to meet the threat by adopting such

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measures as improving the quality of the product, reducing cost of the production, engaging in aggressive advertising, and so on.

(iii) **It helps in tapping useful resources:** Environment is a source of various resources for running a business. To engage in any type of activity, a business enterprise assembles various resources called inputs like finance, machines, raw materials, power and water, labour, etc., from its environment including financiers, government and suppliers. They decide to provide these resources with their own expectations to get something in return from the enterprise. The business enterprise supplies the environment with its outputs such as goods and services for customers, payment of taxes to government, return on financial investment to investors and so on. Because the enterprise depends on the environment as a source of inputs or resources and as an outlet for outputs, it only makes sense that the enterprise designs policies that allow it to get the resources that it needs so that it can convert those resources into outputs that the environment desires. This can be done better by understanding what the environment has to offer.

(iv) **It helps in coping with rapid changes:** Today's business environment is getting increasingly dynamic where changes are taking place at a fast pace. It is not the fact of change itself that is so important as the pace of change. Turbulent market conditions, less brand loyalty, divisions and sub-divisions (fragmentation) of markets, more demanding customers, rapid changes in technology and intense global competition are just a few of the images used to describe today's business environment. All sizes and all types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, managers must understand and examine the environment and develop suitable courses of action.

(v) **It helps in assisting in planning and policy formulation:** Since environment is a source of both opportunities and threats for a business enterprise, its understanding and analysis can be the basis for deciding the future course of action (planning) or training guidelines for decision making (policy). For instance, entry of new players in the market, which means more competition may make an enterprise think afresh about how to deal with the situation.

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(vi) **It helps in improving performance:** The final reason for understanding business environment relates to whether or not it really makes a difference in the performance of an enterprise. The answer is that it does appear to make a difference. Many studies reveal that the future of an enterprise is closely bound up with what is happening in the environment. And, the enterprises that continuously monitor their environment and adopt suitable business practices are the ones which not only improve their present performance but also continue to succeed in the market for a longer period.

## Dimensions of Business Environment

Dimensions of, or the factors constituting the business environment include economic, social, technological, political and legal conditions which are considered relevant for decision-making and improving the performance of an enterprise. In contrast to the specific environment, these factors explain the general environment which mostly influences many enterprises at the same time. However, management of every enterprise can benefit from being aware of these dimensions instead of being disinterested in them. For instance, scientific research has discovered a technology that makes it possible to produce an energy efficient light bulb that lasts at least twenty times as long as a standard bulb. Senior managers in the lighting divisions at General Electric and Phillips recognised that this discovery had the potential to significantly affect their unit growth and profitability, So they have carefully followed the progress on this research and profitably used its findings. A brief discussion of the various factors constituting the general environment of business is given below:

(i) **Economic Environment:** Interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee are some of the economic factors that can affect management practices in a business enterprise. Short and long term interest rates significantly affect the demand for product and services. For example, in case of construction companies and automobile manufacturers, low longer-term rates are beneficial because they result in increased spending by consumers for buying homes and cars on borrowed money. Similarly, a rise in the disposable income of people due to increase in the gross domestic product of a country creates increasing demand for products. High inflation rates generally result in constraints on business enterprises as they increase

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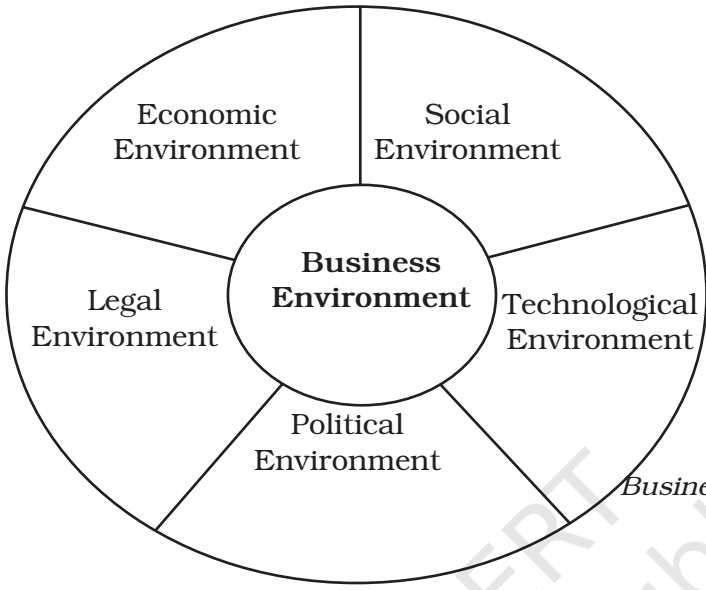


*Dimensions of Business Environment*

the various costs of business such as the purchase of raw materials or machinery and payment of wages and salaries to employees.

(ii) **Social Environment:** The social environment of business include the social forces like customs and traditions, values, social

**Components of Economic Environment**

- Existing structure of the economy in terms of relative role of private and public sectors.
- The rates of growth of GNP and per capita income at current and constant prices
- Rates of saving and investment
- Volume of imports and exports of different items
- Balance of payments and changes in foreign exchange reserves
- Agricultural and industrial production trends
- Expansion of transportation and communication facilities
- Money supply in the economy
- Public debt (internal and external)
- Planned outlay in private and public sectors

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trends, society's expectations from business, etc. Traditions define social practices that have lasted for decades or even centuries. For example, the celebration of Diwali, Eid, Christmas, and Guru Parv in India provides significant financial opportunities for greetings card companies, sweets or confectionery manufacturers, tailoring outlets and many other related business. Values refer to concepts that a society holds in high esteem. In India, individual freedom, social justice, equality of opportunity and national integration are examples of major values cherished by all of us. In business terms, these values translate into freedom of choice in the market, business's responsibility towards the society and non-discriminatory employment practices. Social trends present various opportunities and threats to business enterprises. For example, the health-and-fitness trend has become popular among large number of urban dwellers. This has created a demand for products like organic food, gyms, bottled (mineral) water and food supplements.

(iii) **Technological Environment:** Technological environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business. For example, recent technological, advances in computers and electronics have modified the ways in which companies advertise their products. It is common now to see computerised information kiosks, and World Wide Web multimedia pages highlighting the virtues of products. Similarly, retailers have direct links with suppliers who replenish stocks when needed. Manufacturers have flexible manufacturing systems. Airline companies have Internet and World Wide Web pages where customers can look for flight times, destinations and fares and book their tickets online. In addition, continuing innovations in different scientific and engineering fields such as lasers, robotics, biotechnology, food preservatives, medicine, telecommunication and synthetic fuels have provided numerous opportunities and threats for many different enterprises. Shifts in demand from vaccum tubes to transistors, from steam locomotives to dieseland electric engines, from fountain pens to ballpoint, from propeller airplanes to jets, and from typewriters to computer based word processors,

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have all been responsible and creating new business.

(iv) **Political Environment:** Political environment includes political conditions such as general stability and peace in the coun-try and specific attitudes that elected government representatives hold towards business. The significance of political conditions in business success lies in the predictability of business activities under stable political conditions. On the other hand, there may be uncertainty of business activities due to political unrest and threats to law and order. Political stability, thus, builds up confidence among business people to invest in the long term projects for the growth of the economy. Political instability can shake that confidence. Similarly, the attitudes of government officials towards business may have either positive or negative impact upon business.

(v) **Legal Environment:** Legal environment includes various legislations passed by the Government administrative orders issued by government authorities, court judgments as well as the decisions rendered by various commissions and agencies at every level of the government— centre, state or local. It is imperative for the management of every enterprise to obey the law

**Major Elements of Social Environment**

- Attitudes towards product innovations, lifestyles, occupational distribution and consumer preferences
- Concern with quality of life
- Life expectancy
- Expectations from the workforce
- Shifts in the presence of women in the workforce
- Birth and death rates
- Population shifts
- Educational system and literacy rates
- Consumption habits
- Composition of family

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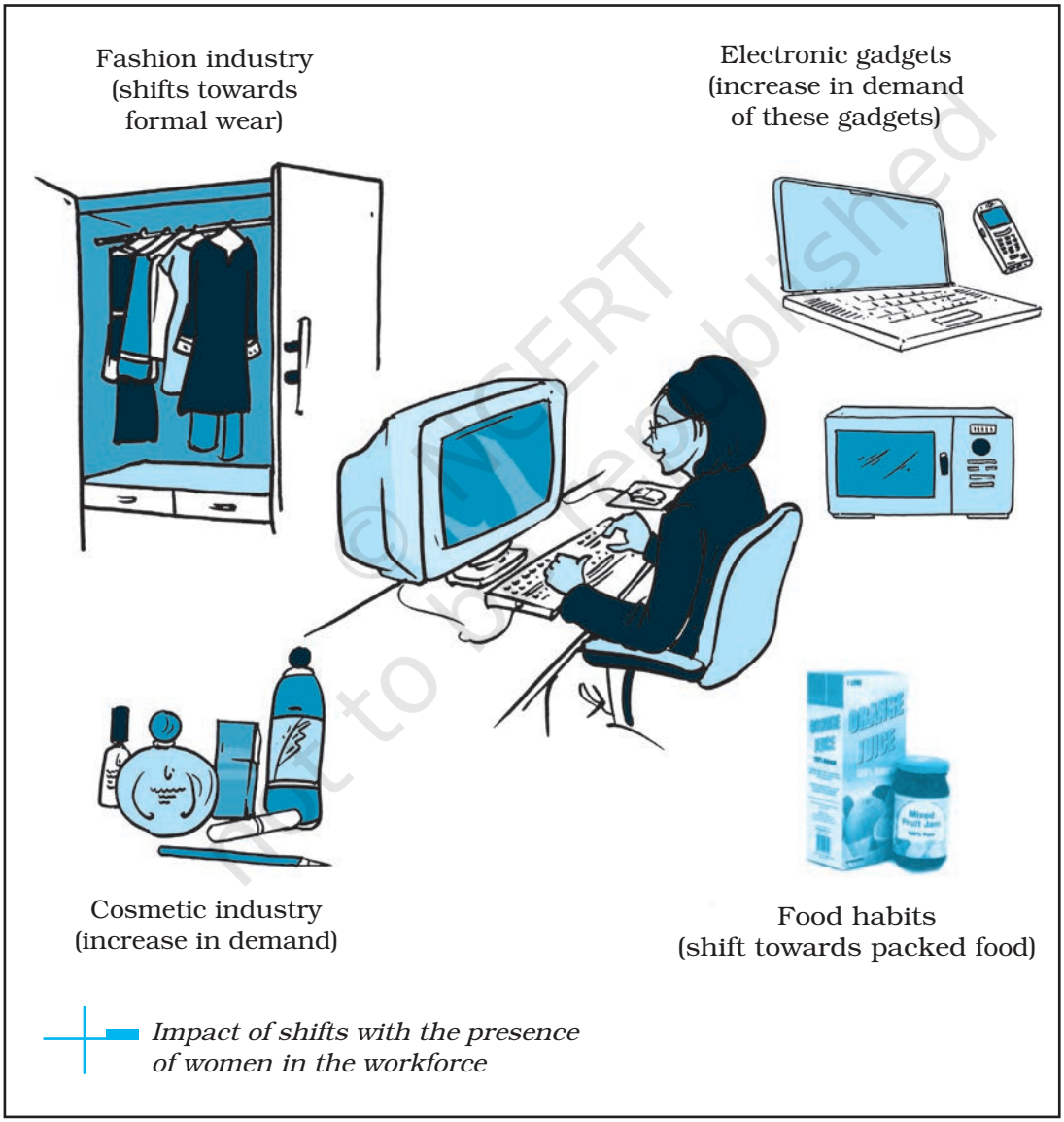
***Activity II***

*SOCIAL ENVIRONMENT*

Contact any ten families known to you. Find out the changes in their consumption habits over the last five years. Analyse the impact of these changes on the working of business enterprises.

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## INDIAN RAILWAY CATERING AND TOURISM CORPORATION LTD.

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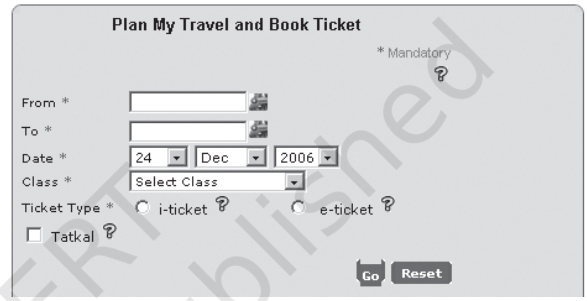
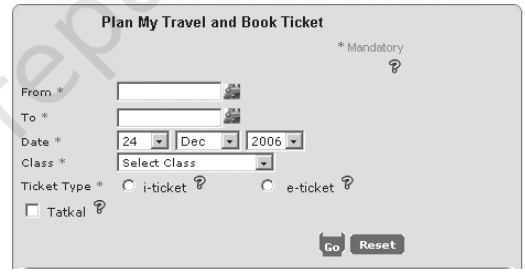
E-TICKET BOOKING ON THIS WEBSITE - A GUIDE

- Register as an individual. Registration is FREE.
- Login by entering your user name and password.
- The 'Plan my travel and Book tickets' page appears.
- Use 'HELP' option for any help required to book tickets.




- Fill in the details, by following the guidelines given below.



Because of technological advancement, it has become possible to book railway tickets through Internet from home, office etc..

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of the land. Therefore, an adequate knowledge of rules and regulations framed by the Government is a pre-requisite for better business performance. Non-compliance of laws can land the business enterprise into legal problems. In India, Constitutional Provisions; Companies Act 2013; Industries (Development and Regulations) Act 1951; Foreign Exchange Management Act and the Imports and Exports (Control) Act 1947; Factories Act, 1948; Trade Union Act; 1926; Workmen's Compensation Act, 1923; Industrial Disputes Act, 1947, Consumer Protection Act, 1986, Competition Act, 2002 and host of such other legal enactments as amended from time to time by the Parliament, is important for doing business. Impact of legal environment can be illustrated with the help of government regulations to protect consumer's interests. For example, the advertisement of alcoholic beverages is prohibited. Advertisements, including packets of cigarettes carry the statutory warning 'Cigarette smoking is injurious to health'. Similarly, advertisements of baby food must necessarily inform the potential buyer that mothers milk is the best. All these regulations are required to be followed by advertisers.

**Major Elements of the Political Environment**

- Prevailing political system
- The degree of politicisation of business and economic issues
- Dominant ideologies and values of major political parties
- The nature and profile of political leadership and thinking of political personalities
- The level of political morality
- Political institutions like the government and allied agencies
- Political ideology and practices of the ruling party
- The extent and nature of government intervention in business
- The nature of relationship of our country with foreign countries

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## Economic Environment in India

The economic environment in India consists of various macro-level factors related to the means of production and distribution of wealth which have an impact on business and industry. These include:

(a) Stage of economic development of the country.
(b) The economic structure in the form of mixed economy which recognises the role of both public and private sectors.
(c) Economic policies of the Government, including industrial, monetary and fiscal policies.
(d) Economic planning, including five year plans, annual budgets, and so on.
(e) Economic indices, like national income, distribution of income, rate and growth of GNP, per capita income, disposal personal income, rate of savings and investments, value of exports and imports, balance of payments, and so on.
(f) Infrastructural factors, such as, financial institutions, banks, modes of transportation communication facilities, and so on.

Business enterprises in India do realise the importance and impact of the economic environment on their working. Almost all annual company reports presented by their chairpersons devote considerable attention to the general economic environment prevailing in the country and an assessment of its impact on their companies.

The economic environment of business in India has been steadily changing mainly due to the government policies. At the time of Independence:

(a) The Indian economy was mainly agricultural and rural in character;
(b) About 70% of the working population was employed in agriculture;
(c) About 85% of the population was living in the villages;
(d) Production was carried out using irrational, low productivity technology;
(e) Communicable diseases were widespread, mortality rates were high. These was no good public health system.

In order to solve economic problems of our country, the government took several steps including control by the State of certain industries, central planning and reduced importance of the private sector. The main objectives of India's development plans were:

(a) Initiate rapid economic growth to raise the standard of living, reduce unemployment and poverty;
(b) Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries;
(c) Reduce inequalities of income and wealth;

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(d) Adopt a socialist pattern of development — based on equality and prevent exploitation of man by man.

In accordance with the economic planning, the government gave a lead role to the public sector for infrastructure industries whereas the private sector was broadly given the responsibility of developing consumer goods industry. At the same time, the government imposed several restrictions, regulations and controls on the working of private sector enterprises. India's experience with economic planning has delivered mixed results. In 1991 the economy faced a serious foreign exchange crisis, high government deficit and a rising trend of prices despite bumper crops.

As a part of economic reforms, the Government of India announced a new industrial policy in July 1991.

The broad features of this policy were as follows:

(a) The Government reduced the number of industries under compulsory licensing to six.
(b) Many of the industries reserved for the public sector under the earlier policy, were dereserved. The role of the public sector was limited only to four industries of strategic importance.
(c) Disinvestment was carried out in case of many public sector industrial enterprises.
(d) Policy towards foreign capital was liberalised. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.
(e) Automatic permission was now granted for technology agreements with foreign companies.
(f) Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

Appropriate measures were taken to remove obstacles in the way of growth and expansion of industrial units of large industrial houses. Small-scale sector was assured all help and accorded due recognition.

In essence, this policy has sought to liberate industry from the shackles of the licensing system (liberalisation), drastically reduce the role of the public sector (privatisation) and encourage foreign private participation in India's industrial development (globalisation).

**Liberalisation:** The economic reforms that were introduced were aimed at liberalising the Indian business and industry from all unnecessary controls and restrictions. They signalled the end of the licence-pemit-quota raj. Liberalisation of the Indian industry has taken place with respect to:

(i) abolishing licensing requirement in most of the industries except a short list,
(ii) freedom in deciding the scale of business activities i.e., no restrictions on expansion or contraction of business activities,
(iii) removal of restrictions on the movement of goods and services,
(iv) freedom in fixing the prices of goods services,

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**Crisis of June 1991**

Major elements of the crisis situation which led the Government of India to announce economic reform were:

- A serious fiscal crisis in which the fiscal deficit reached the level of 6.6 per cent of GDP in 1990-91.
- Heavy internal debt which rose to about 50 per cent of GDP with interest payments draining about 39 per cent of total revenue collections of the central government.
- Low GNP growth rate which fell to 1.4 per cent from the peak level of 10.5 per cent in 1988-89 (at 1980-81 prices).
- Low overall agricultural production, foodgrain production and industrial production showed negative growth rates of –2.8 per cent, –5.3 per cent and –0.1 per cent respectively.
- Soaring inflation rate based both on wholesale price index and consumer price index (for industrial workers) at 13-14 per cent.
- Shrinkage of foreign trade, imports (in $ terms) fell by 19.4 per cent and exports by 1.5 per cent.
- Depreciation of rupee by 26.7 per cent vis-à-vis US dollars.
- Fall of foreign exchange reserves to such a low level that they were barely adequate to meet the import requirements of a few weeks. Non-resident Indians (NRIs) were withdrawing their deposits at an alarmingly high rate.
- The confidence of the international financial institutions was badly shaken and in just over a year its creditworthiness rating fell from AAA to BB+ (put on credit watch).
- The country was on the verge of defaulting on international financial obligations and the situation warranted immediate policy action to save the situation. In May 1991, the Government had to lease 20 tones of gold out of its stock to the State Bank of India to enable it to sell the gold with repurchase option after six months. In addition, Reserve Bank of India was allowed to pledge 47 tones of gold to the Bank of England to raise a loan of $600 million.

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(v) reduction in tax rates and lifting of unnecessary controls over the economy,
(vi) simplifying procedures for imports and experts, and
(vii) making it easier to attract foreign capital and technology to India.

**Privatisation:** The new set of economic reforms aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector. This was a reversal of the development strategy pursued so far by Indian planners. To achieve this, the government redefined the

role of the public sector in the New Industrial Policy of 1991, adopted the policy of planned disinvestments of the public sector and decided to refer the loss making and sick enterprises to the Board of Industrial and Financial Reconstruction. The term disinvestments used here means transfer in the public sector enterprises to the private sector. It results in dilution of stake of the Government in the public enterprise. If there is dilution of Government ownership beyond 51 percent, it would result in transfer of ownership and management of the enterprise to the private sector.

**Globalisation:** Globalisation means the integration of the various economies of the world leading towards the emergence of a cohesive global economy. Till 1991, the Government of India had followed a policy of strictly regulating imports in value and volume terms. These regulations were with respect to (a) licensing of imports, (b) tariff restrictions and (c) quantitative restrictions. The new economic reforms aimed at trade liberalisation were directed towards import liberalisation, export promotion through rationalisation of the tariff structure and reforms with respect to foreign exchange so that the country does not remain isolated from the rest of the world. Globalisation involves an increased level of interaction and interdependence among the various nations of the global economy. Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to serve a customer in a distant geographical market. This has been made possible by the rapid advancement in technology and liberal trade policies by Governments. Through the policy of 1991, the government of India moved the country to this globalisation pattern.

**A Truly Globalised Economy**

A truly global economy implies a boundaryless world where there is:

(i) Free flow of goods and services across nations;
(ii) Free flow of capital across nations;
(iii) Free flow of information and technology;
(iv) Free movement of people across borders;
(v) A common acceptable mechanism for the settlement of disputes;
(vi) A global governance perspective.

***Activity 3***

*GLOBALISATION*

Make a list of five Indian companies which have global operations today. Find out the major products they sell and the countries where they operate.

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### Early Crisis Met : Reform Measures

Some of the early major steps taken to manage the economic crisis were the following:

- Fiscal correction aimed at reducing fiscal deficit by about Rs. 7,700 crore in 1991-92 (compared to 1990-91);
- Announcement of New Industry Policy in July 1991 seeking to deregulate the industry with the objective of promoting the growth of a more competitive and efficient industrial economy;
- Abolition of industrial licensing for all industrial projects except 18 industries of high strategic and environmental importance and with high import content. About 80 per cent of the industries were delicensed;
- Amendment of the MRTP Act to eliminate the need for prior approval of the Central Government by large companies for capacity expansion, diversification and merger and amalgamation.
- Nine areas in basic and core industries earlier reserved for the public sector were opened to the private sector;
- Limit of foreign equity holding raised from 40 per cent to 51 per cent in a wide range of priority industries;
- Foreign Investment Promotion Board (FIPB) established to negotiate proposals from large international firms and expedite clearances of the investment proposals;
- Rupee devaluation by 18 per cent during July 1-3, 1991 supported by a standby credit of $2.3 billion from the IMP over a 20 months period negotiated in October 1991;
- Negotiation of $500 million Structural Adjustment Loan from the World Bank in April 1992 and a loan totalling SDR 1.3 billion from the International Monetory Fund (IMF) between January-September 1991;
- Introduction of India Development Bond Scheme and Immunity Scheme for repatriation of funds held abroad in October 1991, under which more than $2 billion were mobilised during 1991-92;
- Bringing back of gold earlier pledged to the Bank of England and the Bank of Japan;
- Continuance of the measures of import control and credit squeeze;
- Administered licensing of imports replaced by freely tradeable import entitlements (called Eximscrips) linked to export earnings. The measure was expected to introduce self-balancing mechanism in India's foreign trade;
- Introduction of Liberalised Exchange Rate Management System (LERMS) under which a dual exchange rate system was established, one rate being effectively floated in the market; and
- Import licensing in most capital goods, raw materials, intermediates and components eliminated. Advance Licensing System considerably simplified.

The initial series of measures set the tone for the future economic reforms. Any of the measures taken above was continued to form a part of the ongoing reform process.

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**Demonetisation:** The Government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes, ₹500 ₹1,000, were 'demonetised' with immediate effect, ceasing to be legal tender except for a few specified purposes such as paying utility bills. This led to eighty six per cent of the money in circulation invalid. The people of India had to deposit the invalid currency in the banks which came along with the restrictions placed on cash withdrawals. In other words, restrictions were placed on the convertibility of domestic money and bank deposits.

The aim of demonetisation was to curb corruption, counterfeiting the use of high denomination notes for illegal activities; and especially the accumulation of 'black money' generated by income that has not been declared to the tax authorities.

***Features***

1. Demonetisation is viewed as a tax administration measure. Cash holdings arising from declared income was readily deposited in banks and exchanged for new notes. But those with black money had to declare their unaccounted wealth and pay taxes at a penalty rate.
2. Demonetisation is also interpreted as a shift on the part of the government indicating that tax evasion will no longer be tolerated or accepted.
3. Demonetisation also led to tax administration channelizing savings into the formal financial system. Though, much of the cash that has been deposited in the banking system is bound to be withdrawn but some of the new deposits schemes offered by the banks will continue to provide a base loans, at lower interest rates.
4. Another feature of demonetisation is to create a *less-cash* or *cash-lite* economy, i.e., channeling more savings through the formal financial system and improving tax compliance. Though there are arguments against this as digital transactions require use of cell phones for customers and Point-of-Sale (PoS) machines for merchants, which will only work if there is internet connectivity. On the contrary, these disadvantages are counterbalanced by an understanding that it helps people into the formal economy, thereby increasing financial saving and reducing tax evasion.

Digitalisation has broadly impact three sections of society: the poor, who are largely outside the digital economy; the less largely outside the digital economy; the less affluent, who are becoming part of the digital economy who have been covered under *Jan Dhan Accounts* and *Rupay cards*; and the affluent, who are fully conversant with digital transactions.

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## Impact of Demonetisation

| | | |
|---|---|---|
| 1. | Money/Interest rates | i. Decline in cash transactions<br>ii. Bank deposits increased<br>iii. Increase in financial savings |
| 2. | Private wealth | Declined since some high demonetised notes were not returned and real estate prices fell |
| 3. | Public sector wealth | No effect |
| 4. | Digitisation | Digital transactions amongst new users (RuPay/AEPS) increased |
| 5. | Real estate | Prices declined |
| 6. | Tax collection | Rise in income tax collection because of increased disclosure |

*Adapted from Economic Survey, 2016–17*

### Key Terms

Business environment | Opportunities | Threats | Economic Environment | Political environment | Social environment | Technological environment | Legal environment | Liberalisation | Privatisation | Globalisation

### Summary

**Meaning of business environment:** The term business environment means the totality of all individuals, institutions and other forces that are outside a business but that potentially affect its performance. Business environment can be characterised in terms of
(a) totality of external forces
(b) specific and general forces
(c) inter-relatedness
(d) dynamic nature
(e) uncertainty
(f) complexity
(g) relativity

**Importance of business environment:** Business environment and its understanding are important for (i) enabling the identification of opportunities and getting the first mover advantage, (ii) helping in the identification of threats and early warning signals, (iii) coping with the rapid changes, (v) assisting in planning and policy and (vi) improving the performance.

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**Elements of business environment:** Business environment consists of five important dimensions including economic, social, technological, political and legal.

**Economic environment** includes such factors as interest rates, inflation rates, changes in disposable income of people, stock market indexes and the value of rupee.

**Social environment** includes social forces like traditions, values, social trends, society's expectations of business, and so on.

**Technological environment** includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

**Political environment** includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold toward business.

**Legal environment** includes various legislations passed by the government, administrative orders issued by government authorities, court judgments as well as decisions rendered by various commissions and agencies at every level of the government—center, state or local.

**Economic environment in India:** The economic environment in India consists of various macro-level factors related to the means of production and distribution of wealth which have an impact on business and industry. The economic environment of business in India has been steadily changing since Independence mainly due to government policies. In order to solve economic problems of our country at the time of Independence, the government took several steps including control by the state of key industries, central planning and reduced importance of the private sector. These steps delivered mixed results until 1991 when Indian economy happened to face serious foreign exchange crisis, high government deficit and a rising trend of prices despite bumper crops.

**Liberalisation, privatisation and globalisation:** As a part of economic reforms, the Government of India announced a new industrial policy in July 1991 which sought to liberate the industry from the shackles of the licensing system (liberalisation), drastically reduce the role of the public sector (privatisation) and encourage foreign private participation in industrial development (globalisation).

**Impact of Government policy changes on business and industry:** The government policy of liberalisation, privatisation and globalisation has made a definite impact on the working of enterprises in business and industry in terms of

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(a) increasing competition
(b) more demanding customers
(c) rapidly changing technological environment
(d) necessity for change
(e) need for developing human resource
(f) market orientation
(g) loss of budgetary support to the public sector. In the new economic environment, the Indian enterprises have developed various strategies to meet the challenge of competition

## Exercises

**Very Short Answer Type:**

1. What is meant by business environment?
2. How does understanding of business environment help in improving performance of a business?
3. Give an example to show that a business firm operates within numerous inter related factors constituting the business environment.(Hint: example highlighting the inter relatedness of dimensions of business environment).
4. Krishna Furnishers Mart started its operations in the year 1954 and emerged as the market leader in the industry because of their original designs and efficiency in operations. They had a steady demand for their products but over the years, they found their market share declining because of new entrants in the field. The firm decided to review their operations and decided that in order to meet the competition, they need to study and analyze the market trends and then design and develop their products accordingly. List any two impacts of changes in business environment on Krishna Furnishers Mart's operations. (Hint: increase in competition and Market orientation).
5. Name any two Specific forces of business environment affecting business.

**Short Answer Type:**

1. Why it is important for business enterprises to understand their environment? Explain.
2. Explain the following terms:
   a. Liberalisation

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b. Privatization
c. Globalisation

3. National Digital Library of India (NDL India) is a pilot project initiated by the HRD ministry. It works towards developing a framework of virtual repository of learning resources with a single-window search facility. It provides support to all academic levels including researchers, life-long learners and differently-abled learners free of cost. State the dimensions of business environment highlighted above.
4. State the impact of demonetization on interest rates, private wealth and real estate.

**Long Answer Type:**

1. How would you characterize business environment? Explain with examples, the difference between general and specific environment.
2. How would you argue that the success of a businessenterprise is significantly influenced by its environment?
3. Explain, with examples, the various dimensions of businessenvironment.
4. The government of India announced Demonetization of ₹ 500 and ₹ 1,000 currency notes with effect from the midnight of November 8, 2016. As a result, the existing ₹ 500 and ₹ 1,000 currency notes ceased to be legal tender from that date. New currency notes of the denomination of ₹ 500 and ₹ 2,000 were issued by Reserve Bank of India after the announcement.

   This step resulted in a substantial increase in the awareness about and use of Point of Sale machines, e-wallets, digital cash and other modes of cashless transactions. Also, increased transparency in monetary transactions and disclosure led to a rise in government revenue in the form of tax collection.
   a. Enumerate the dimensions of business environment highlighted above.
   b. State the features of Demonetization.
5. What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry?
6. What are the essential features of:
   a. Liberalisation,
   b. Privatization and
   c. Globalisation?

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# 4

# Planning

CHAPTER

**Indian Oil Company Limited (IOCL) - Plans to *Energize* with *sustainability***

Indian Oil is India's largest commercial organisation. It is top ranked Indian company in the latest Fortune 'Global 500' listings (2017). Indian Oil's vision is driven by a group of dynamic leaders who have made it a name to reckon with. With over 34,000 strong work force, a Maharatna Company, Indian Oil has been helping to meet India's energy demands and reaching petroleum products to every part of India for over five decades. It plans to increase its business operations all around the world. The company plans to invest ₹ 20,000 crore in 2017-18 acquisitions and plans to expand overseas. The company always believed to be ahead of the demand. Last year too, IOC had invested close to ₹ 20,000 crore, including around ₹ 16,000 crore in various Indian projects and on acquisition for upstream in Russia.

It is noteworthy, between 2012-17, IOCL ended up investing around ₹ 75,000 crore against the targeted planned investment of around ₹ 56,200 crore. All investments have been in refinery expansion, upgradation of quality of refineries, building new pipelines, getting more aggressive in petrochemical projects, setting up new natural gas facilities etc. IOC is also looking at the overseas market. Recently it was decided to open an office in Bangladesh apart from talking to the Government of Bangladesh on many accounts, especially regarding LPG and natural gas where it is trying to take a linkage from IOC pipeline going up from Damra project and West Bengal border before finally connecting to the Bangladesh network. For Nepal, IOC plans to build a pipeline between Motihari terminal of IOCL, which is currently coming up, and their own facilities inside Nepal. The company has already signed a memorandum of understanding (MoU) with Bhutan and looking at newly opening markets such as Myanmar.

The company always feels that they have to keep their eyes open for new acquisitions. The company has got good reserves and were able to generate funds through internal accruals. But

**LEARNING OBJECTIVES**

After studying this chapter, you will be able to:

- State the meaning of planning;
- Describe the features and importance of planning;
- Explain the limitations of planning;
- Analyse the steps in the planning process; and
- Identity the different types of plans.

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on a project basis IOC will certainly go into the market — both India and Overseas, depending on which is cheaper — to borrow money, if needed.

*Source: https://www.business-standard.com/article/companies/ioc-to-invest-around-rs-20-000-in-2017-18-plans-expansion-acquisitions-117051600438_1.html.*

## Introduction

You have just read about the plans of Indian Oil Company Limited (IOCL). Of course, these are broad statements given by the company and they have to be broken down into steps for implementation. This is an example of a company with a nation-wide reach striving to be one of the top companies in India. Further more, every organisation whether it is government-owned, a privately owned business or a company in the private sector requires planning. The government makes five year plans for the country, a small business has it's own plans, while other companies have big plans, sales plans, production plans. All of them have some plans.

All business firms would like to be successful, increase their sales and earn profits. All managers dream of these and strive to achieve their goals. But to turn these dreams into reality managers need to work hard in thinking about the future, in making business predictions and achieving targets. Dreams can be turned into reality only if business managers think in advance on what to do and how to do it. This is the essence of planning.

## Concept

Planning is deciding in advance what to do and how to do. It is one of the basic managerial functions. Before doing something, the manager must formulate an idea of how to work on a particular task. Thus, planning is closely connected with creativity and innovation. But the manager would first have to set objectives, only then will a manager know where he has to go. Planning seeks to bridge the gap between where we are and where we want to go. Planning is what managers at all levels do. It requires taking decisions since it involves making a choice from alternative courses of action.

Planning, thus, involves setting objectives and developing appropriate courses of action to achieve these objectives. Objectives provide direction for all managerial decisions and actions. Planning provides a rational approach for achieving predetermined objectives. All members, therefore,

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*Planning: Keeping the objective in view and being in action*

need to work towards achieving organisational goals. These goals set the targets which need to be achieved and against which actual performance is measured. Therefore, planning means setting objectives and targets and formulating an action plan to achieve them. It is concerned with both ends and means i.e., what is to be done and how it is to be done.

The plan that is developed has to have a given time frame but time is a limited resource. It needs to be utilised judiciously. If time factor is not taken into consideration, conditions in the environment may change and all business plans may go waste. Planning will be a futile exercise if it is not acted upon or implemented.

Do you think from the above we can formulate a comprehensive definition of planning? One of the ways to do so would be to define planning as setting objectives for a given time period, formulating various courses of action to achieve them, and then selecting the best possible alternative from among the various courses of action available.

## Importance of Planning

You must have seen in films and advertisements how executives draw up plans and make powerful presentations in boardrooms. Do those plans actually work? Does it improve efficiency? After all why should we plan? These are numerous questions to which we would like to find solutions. Planning is certainly important as it tells us where to go, it provides direction and reduces the risk of uncertainty by preparing forecasts. The major benefits of planning are given below:

(i) **Planning provides directions:** By stating in advance how work is to be done planning provides direction for action. Planning ensures that the goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. If goals are well defined, employees are aware of what the organisation has to do and what they must do to achieve those goals. Departments and

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individuals in the organisation are able to work in coordination. If there was no planning, employees would be working in different directions and the organisation would not be able to achieve its desired goals.

(ii) **Planning reduces the risks of uncertainty:** Planning is an activity which enables a manager to look ahead and anticipate changes. By deciding in advance the tasks to be performed, planning shows the way to deal with changes and uncertain events. Changes or events cannot be eliminated but they can be anticipated and managerial responses to them can be developed.

(iii) **Planning reduces overlapping and wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding. Since planning ensures clarity in thought and action, work is carried on smoothly without interruptions. Useless and redundant activities are minimised or eliminated. It is easier to detect inefficiencies and take corrective measures to deal with them.

(iv) **Planning promotes innovative ideas:** Since planning is the first function of management, new ideas can take the shape of concrete plans. It is the most challenging activity for the management as it guides all future actions leading to growth and prosperity of the business.

(v) **Planning facilitates decision making:** Planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposition. Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions.

(vi) **Planning establishes standards for controlling:** Planning involves setting of goals. The entire managerial process is concerned with accomplishing predetermined goals through planning, organising, staffing, directing and controlling. Planning provides the goals or standards against which actual performance is measured. By comparing actual performance with some standard, managers can know whether they have actually been able to attain the goals. If there is any deviation it can be corrected. Therefore, we can say that planning is a prerequisite for controlling. If there were no goals and standards, then finding deviations which are a

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part of controlling would not be possible. The nature of corrective action required depends upon the extent of deviations from the standard. Therefore, planning provides the basis of control.

## Features of Planning

In the example of Polaris, the company has plans of expansion. Their objective is to increase their capacity so that they can employ 800 more professionals. Their target time is six months. The objective of the current year has also been clearly stated which is to increase capacity by 1500-2000 more professionals. Since planning is the primary function of management they have set their objectives first. Thus, all businesses follow a set pattern of planning. You will be able to find some similarities in the features of planning and what you see in real life. Try and identify them.

The planning function of the management has certain special features. These features throw light on its nature and scope.

(i) **Planning focuses on achieving objectives:** Organisations are set up with a general purpose in view. Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals. Thus, planning is purposeful. Planning has no meaning unless it contributes to the achievement of predetermined organisational goals.

(ii) **Planning is a primary function of management:** Planning lays down the base for other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, planning precedes other functions. This is also referred to as the primacy of planning. The various functions of management are interrelated and equally important. However, planning provides the basis of all other functions.

(iii) **Planning is pervasive:** Planning is required at all levels of management as well as in all departments of the organisation. It is not an exclusive function of top management nor of any particular department. But the scope of planning differs at different levels and among different departments. For example, the top management undertakes planning for the organisation as a whole. Middle management does the departmental planning. At the lowest level, day-to-day operational planning is done by supervisors.

(iv) **Planning is continuous:** Plans are prepared for a specific period of time, may be for a month, a quarter, or a year. At the end

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of that period there is need for a new plan to be drawn on the basis of new requirements and future conditions. Hence, planning is a continuous process. Continuity of planning is related with the planning cycle. It means that a plan is framed, it is implemented, and is followed by another plan, and so on.

(v) **Planning is futuristic:** Planning essentially involves looking ahead and preparing for the future. The purpose of planning is to meet future events effectively to the best advantage of an organisation. It implies peeping into the future, analysing it and predicting it. Planning is, therefore, regarded as a forward looking function based on forecasting. Through forecasting, future events and conditions are anticipated and plans are drawn accordingly. Thus, for example, sales forecasting is the basis on which a business firm prepares its annual plan for production and sales.

(vi) **Planning involves decision making:** Planning essentially involves choice from among various alternatives and activities. If there is only one possible goal or a possible course of action, there is no need for planning because there is no choice. The need for planning arises only when alternatives are available. In actual practice, planning presupposes the existence of alternatives. Planning, thus, involves thorough examination and evaluation of each alternative and choosing the most appropriate one.

(vii) **Planning is a mental exercise:** Planning requires application of the mind involving foresight, intelligent imagination and sound judgement. It is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken. However, planning requires logical and systematic thinking rather than guess work or wishful thinking.

*Planning: the first step to management*

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In other words, thinking for planning must be orderly and based on the analysis of facts and forecasts.

## Limitations of Planning

We have seen how planning is essential for business organisations. It is difficult to manage operations without formal planning. It is important for an organisation to move towards achieving goals. But we have often seen in our daily lives also, that things do not always go according to plan. Unforeseen events and changes, rise in costs and prices, environmental changes, government interventions, legal regulations, all affect our business plans. Plans then need to be modified. If we cannot adhere to our plans, then why do we plan at all? This is what we need to analyse. The major limitations of planning are given below:

(i) **Planning leads to rigidity:** In an organisation, a well-defined plan is drawn up with specific goals to be achieved within a specific time frame. These plans then decide the future course of action and managers may not be in a position to change it. This kind of rigidity in plans may create difficulty. Managers need to be given some flexibility to be able to cope with the changed circumstances. Following a pre-decided plan, when circumstances have changed, may not turn out to be in the organisations interest.

(ii) **Planning may not work in a dynamic environment:** The business environment is dynamic, nothing is constant. The environment consists of a number of dimensions, economic, political, physical, legal and social dimensions. The organisation has to constantly adapt itself to changes. It becomes difficult to accurately assess future trends in the environment if economic policies are modified or political conditions in the country are not stable or there is a natural calamity. Competition in the market can also upset financial plans, sales targets may have to be revised and, accordingly, cash budgets also need to be modified since they are based on sales figures. Planning cannot foresee everything and thus, there may be obstacles to effective planning.

(iii) **Planning reduces creativity:** Planning is an activity which is done by the top management. Usually the rest of the members just implements these plans. As a consequence, middle management and other decision

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makers are neither allowed to deviate from plans nor are they permitted to act on their own. Thus, much of the initiative or creativity inherent in them also gets lost or reduced. Most of the time, employees do not even attempt to formulate plans. They only carry out orders. Thus, planning in a way reduces creativity since people tend to think along the same lines as others. There is nothing new or innovative.

(iv) **Planning involves huge costs:** When plans are drawn up huge costs are involved in their formulation. These may be in terms of time and money for example, checking accuracy of facts may involve lot of time. Detailed plans require scientific calculations to ascertain facts and figures. The costs incurred sometimes may not justify the benefits derived from the plans. There are a number of incidental costs as well, like expenses on boardroom meetings, discussions with professional experts and preliminary investigations to find out the viability of the plan.

(v) **Planning is a time-consuming process:** Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation.

(vi) **Planning does not guarantee success:** The success of an enterprise is possible only when plans are properly drawn up and implemented. Any plan needs to be translated into action or it becomes meaningless. Managers have a tendency to rely on previously tried and tested successful plans. It is not always true that just because a plan has worked before it will work again. Besides, there are so many other unknown factors to be considered. This kind of complacency and false sense of security may actually lead to failure instead of success. However, despite its limitations, planning is not a useless exercise. It is a tool to be used with caution. It provides a base for analysing future courses of action. But, it is not a solution to all problems.

## Planning Process

Planning, as we all know is deciding in advance what to do and how to do. It is a process of decision making. How do we go about making a plan? Since planning is an activity there are certain logical steps for every manager to follow.

(i) **Setting Objectives:** The first and foremost step is setting objectives. Every organisation

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must have certain objectives. Objectives may be set for the entire organisation and each department or unit within the organisation. Objectives or goals specify what the organisation wants to achieve. It could mean an increase in sales by 20% which could be objective of the entire organisation. How all departments would contribute to the organisational goals is the plan that is to be drawn up. Objectives should be stated clearly for all departments, units and employees. They give direction to all departments. Departments/ units then need to set their own objectives within the broad framework of the organisation's philosophy. Objectives have to percolate down to each unit and employees at all levels. At the same time, managers must contribute ideas and participate in the objective setting process. They must also understand how their actions contribute to achieving objectives. If the end result is clear it becomes easier to work towards the goal.

(ii) **Developing Premises:** Planning is concerned with the future which is uncertain and every planner is using conjecture about what might happen in future.

### Kinds of plans: Objective, Strategy and Policy of Mitticool

During the devastating earthquake of January 2001, Mansukhbhai incurred heavy loss and most of his goods were damaged. He distributed the leftover stock that was undamaged, to the quake affected masses of Kutch. This led to a photograph that was taken just after the earthquake and featured on the Sandesh Gujarati Daily in February 2001. It showed a broken water filter that was made by Mansukhbhai with a caption that said "The poor man's broken fridge".

At that time, he met the Gujarat Grass-roots Innovation Augmentation Network (GIAN), Ahmedabad, which supported Mansukhbhai further in his endeavours. Finally after an arduous quest and several tests of soil and fridge designs, he emerged with the innovative Mitticool fridge in 2005. After that he has innovated various products using clay.

- The company has stuck to its policy of keeping all its products at a lower rate which will be affordable for the poor people.
- Their future plans include starting a factory with the aid of the National Innovation Foundation at IIM Ahmedabad and making a MittiCool house. It will be a green (eco-friendly) house with clay that will have no electricity but only renewable energy to maintain a comfortable temperature inside."

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Therefore, the manager is required to make certain assumptions about the future. These assumptions are called premises. Assumptions are the base material upon which plans are to be drawn. The base material may be in the form of forecasts, existing plans or any past information about policies. The premises or assumptions must be the same for all and there should be total agreement on them. All managers involved in planning should be familiar with and use the same assumptions. For example, forecasting is important in developing premises as it is a technique of gathering information. Forecasts can be made about the demand for a particular product, policy change, interest rates, prices of capital goods, tax rates etc. Accurate forecasts, therefore become essential for successful plans.

(iii) **Identifying alternative courses of action:** Once objectives are set, assumptions are made. Then the next step would be to act upon them. There may be many ways to act and achieve objectives. All the alternative courses of action should be identified. The course of action which may be taken could be either routine or innovative. An innovative course may be adopted by involving more people and sharing their ideas. If the project is important, then more alternatives should be generated and thoroughly discussed amongst the members of the organisation.

(iv) **Evaluating alternative courses:** The next step is to weigh the pros and cons of each alternative. Each course will have many variables which have to be weighed against each other. The positive and negative aspects of each proposal need to be evaluated in the light of the objective to be achieved. In financial plans, for example, the risk-return trade-off is very common. The more risky the investment, the higher the returns it is likely to give. To evaluate such proposals detailed calculations of earnings, earnings per share, interest, taxes, dividends are made and decisions taken. Accurate forecasts in conditions of certainty/uncertainty then become vital assumptions for these proposals. Alternatives are evaluated in the light of their feasibility and consequences.

(v) **Selecting an alternative:** This is the real point of decision making. The best plan has to be adopted and implemented. The ideal plan, of course, would be the most feasible, profitable and with least negative consequences. Most plans may not always be subjected to a mathematical analysis. In such cases, subjectivity and the manager's experience, judgement and

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at times, intuition play an important part in selecting the most viable alternative. Sometimes, a combination of plans may be selected instead of one best course. The manager will have to apply permutations and combinations and select the best possible course of action.

(vi) **Implementing the plan:** This is the step where other managerial functions also come into the picture. The step is concerned with putting the plan into action, i.e., doing what is required. For example, if there is a plan to increase production then more labour, more machinery will be required. This step would also involve organising for labour and purchase of machinery.

(vii) **Follow-up action:** To see whether plans are being implemented and activities are performed according to schedule is also part of the planning process. Monitoring the plans is equally important to ensure that objectives are achieved.

## Types of Plans

### Single-use and standing plans

An organisation has to prepare a plan before making any decision related to business operation, or undertaking any project. Plans can be classified into several types depending on the use and the length of the planning period. Certain plans have a short-term horizon and help to achieve operational goals. These plans can be classified into single-use plans and standing plans.

**Single-use Plan:** A single-use plan is developed for a one-time event or project. Such a course of action is not likely to be repeated in future, i.e., they are for non-recurring situations. The duration of this plan may depend upon the type of the project. It may span a week or a month. A project may sometimes be of only one day, such as, organising an event or a seminar or conference. These plans include budgets, programmes and projects. They consist of details, including the names of employees who are responsible for doing the work and contributing to the single-use plan. For example, a programme may consist of identifying steps, procedures required for opening a new department to deal with other minor work. Projects are similar to programmes but differ in scope and complexity. A budget is a statement of expenses, revenue and income for a specified period.

**Standing Plan:** A standing plan is used for activities that occur regularly over a period of time. It is designed to ensure that internal operations of an organisation run smoothly. Such a plan greatly enhances efficiency in routine decision-making. It is usually developed once but is modified from time to time to meet business needs as required. Standing plans include policies, procedures, methods and rules.

Policies are general forms of standing plans that specifies the organisations

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response to a certain situation like the admission policy of an educational institution. Procedures describe steps to be followed in particular circumstances like the procedure for reporting progress in production. Methods provide the manner in which a task has to be performed. Rules are very clearly stated as to exactly what has to be done like reporting for work at a particular time.

Single-use and standing plans are part of the operational planning process.

There are other types of plans which usually are not classified as single-use or standing plans. A strategy, for example, is part of strategic planning or management. It is a general plan prepared by top management outlining resource allocation, priorities and takes into consideration the business environment and competition. Objectives are usually set by the top management and serve as a guide for overall planning. Each unit then formulates their own objectives keeping in view the overall organisational goals.

Based on what the plans seek to achieve, plans can be classified as Objectives, Strategy, Policy, Procedure, Method, Rule, Programme, Budget.

## Objectives

The first step in planning is setting objectives. Objectives, therefore, can be said to be the desired future position that the management would like to reach. Objectives are very basic to the organisation and they are defined as ends which the management seeks to achieve by its operations. Therefore, an objective simply stated is what you would like to achieve, i.e., the end result of activities. For example, an organisation may have an objective of increasing sales by 10% or earning a reasonable rate of return on investment, earn a 20% profit from business. They represent the end point of planning. All other managerial activities are also directed towards achieving these objectives. They are usually set by top management of the organisation and focus on broad, general issues. They define the future state of affairs which the organisation strives to realise. They serve as a guide for overall business planning. Different departments or units in the organisation may have their own objectives.

Objectives need to be expressed in specific terms i.e., they should be measurable in quantitative terms, in the form of a written statement of desired results to be achieved within a given time period.

## Strategy

A strategy provides the broad contours of an organisation's business. It will also refer to future decisions defining the organisations direction and scope in the long run. Thus, we can say a strategy is a comprehensive plan

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for accomplishing an organisation objectives. This comprehensive plan will include three dimensions, (i) determining long term objectives, (ii) adopting a particular course of action, and (iii) allocating resources necessary to achieve the objective.

Whenever a strategy is formulated, the business environment needs to be taken into consideration. The changes in the economic, political, social, legal and technological environment will affect an organisation's strategy. Strategies usually take the course of forming the organisation's identity in the business environment. Major strategic decisions will include decisions like whether the organisation will continue to be in the same line of business, or combine new lines of activity with the existing business or seek to acquire a dominant position in the same market. For example, a company's marketing strategy has to address certain questions i.e., who are the customers? what is the demand for the product? which channel of distribution to use? what is the pricing policy? and how do we advertise the product. These and many more issues need to be resolved while formulating a marketing strategy for any organisation.

## Policy

Policies are general statements that guide thinking or channelise energies towards a particular direction. Policies provide a basis for interpreting strategy which is usually stated in general terms. They are guides to managerial action and decisions in the implementation of strategy. For example, the company may have a recruitment policy, pricing policy within which objectives are set and decisions are made. If there is an established policy, it becomes easier to resolve problems or issues. As such, a policy is the general response to a particular problem or situation.

There are policies for all levels and departments in the organisation ranging from major company policies to minor policies. Major company policies are for all to know i.e., customers, clients, competitors etc., whereas minor polices are applicable to insiders and contain minute details of information vital to the employees of an organisation. But there has to be some basis for divulging information to others.

Policies define the broad parameters within which a manager may function. The manager may use his/her discretion to interpret and apply a policy. For example, the decisions taken under a Purchase Policy would be in the nature of manufacturing or buying decisions. Should a company make or buy its requirements of packages, transport services, printing of stationery, water and power supply and other items? How should vendors be selected for procuring supplies? How many suppliers should a company make purchases from? What is the criteria for choosing suppliers. All these

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queries would be addressed by the Purchase Policy.

## Procedure

Procedures are routine steps on how to carry out activities. They detail the exact manner in which any work is to be performed. They are specified in a chronological order. For example, there may be a procedure for requisitioning supplies before production. Procedures are specified steps to be followed in particular circumstances. They are generally meant for insiders to follow. The sequence of steps or actions to be taken are generally to enforce a policy and to attain pre-determined objectives. Policies and procedures are interlinked with each other. Procedures are steps to be carried out within a broad policy framework.

## Method

Methods provide the prescribed ways or manner in which a task has to be performed considering the objective. It deals with a task comprising one step of a procedure and specifies how this step is to be performed. The method may vary from task to task. Selection of proper method saves time, money and effort and increases efficiency. For imparting training to employees at various level from top management to supervisory, different methods can be adopted. For example for higher level management orientation programmes, lectures and seminars can be organised whereas at the supervisory level, on the job training methods and work-oriented methods are appropriate.

## Rule

Rules are specific statements that inform what is to be done. They do not allow for any flexibility or discretion. It reflects a managerial decision that a certain action must or must not be taken. They are usually the simplest type of plans because there is no compromise or change unless a policy decision is taken.

## Programme

Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action. Programmes will include the entire gamut of activities as well as the organisation's policy and how it will contribute to the overall business plan. The minutest details are worked out i.e., procedures, rules, budgets, within the broad policy framework.

## Budget

A budget is a statement of expected results expressed in numerical terms. It is a plan which quantifies future facts and figures. For example, a sales budget may forecast the sales

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of different products in each area for a particular month. A budget may also be prepared to show the number of workers required in the factory at peak production times.

Since budget represents all items in numbers, it becomes easier to compare actual figures with expected figures and take corrective action subsequently. Thus, a budget is also a control device from which deviations can be taken care of. But making a budget involves forecasting, therefore, it clearly comes under planning. It is a fundamental planning instrument in many organisations.

Let us take an example of Cash Budget. The cash budget is a basic tool in the management of cash. It is a device to help the management to plan and control the use of cash. It is a statement showing the estimated cash inflows and cash outflows over a given period. Cash inflows would generally come from cash sales and the cash outflows would generally be the costs and expenses associated with the operations of the business. The net cash position is determined by the cash budget i.e., inflows minus (–) outflows = surplus or deficiency.

The management has to hold adequate cash balances for various purposes. But at the same time, it should avoid excess balance of cash since it gives little or no return. The business has to assess and plan its need for cash with a degree of caution.

## Key Terms

Planning | Objectives | Goals | Decisions

Standards | Controlling | Premises | Assumptions

Alternatives | Strategy | Policy | Procedure

Rule | Programme | Budget

## Summary

**Planning**

Planning is deciding in advance what to do and how to do. It is one of the basic managerial functions.

Planning therefore involves setting objectives and developing an appropriate course of action to achieve these objectives.

**Importance of Planning**

Planning provides directions, reduces risks of uncertainty, reduces overlapping and wasteful activities, promotes innovative ideas, facilitates decision making, establishes standards for controlling.

**Features of Planning**

Planning focuses on achieving objectives; It is a primary function of management; Planning is pervasive, continuous, futuristic and involves decision making; It is a mental exercise.

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**Limitations of Planning**

Planning leads to rigidity; reduces creativity; involves huge costs; It is a time consuming process; Planning does not work in a dynamic environment; and does not guarantee success.

**Planning Process**

*Setting objectives:* Objectives may be set for the entire organisation and each department or unit within the organisation.

*Developing premises:* Planning is concerned with the future which is uncertain and every planner is using conjucture about what might happen in future.

*Identifying alternative courses of action:* Once objectives are set, assumptions are made. Then the next step would be to act upon them.

*Evaluating alternative courses:* The next step is to weigh the pros and cons of each alternative.

*Selecting an alternative:* This is the real point of decision making. The best plan has to be adopted and implemented.

*Implement the plan:* This is concerned with putting the plan into action.

*Follow-up action:* Monitoring the plans are equally important to ensure that objectives are achieved.

**Types of Plans**

*Objectives:* Objectives therefore can be said to be the desired future position that the management would like to reach.

*Strategy:* A strategy provides the broad contours of an organisation's business. It will also refer to future decisions defining the organisations direction and scope in the long run.

*Policy:* Policies are general statements that guide thinking or channelise energies towards a particular direction.

*Procedure:* Procedures are routine steps on how to carry out activities.

*Rule:* Rules are specific statements that tell what is to be done.

*Programme:* Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action.

*Budget:* A budget is a statement of expected results expressed in numerical terms. It is a plan which quantifies future facts and figures.

## Exercises

**Very Short Answer Type**

1. How does planning provide direction?
2. A company wants to increase its market share from the present 10% to 25% to have a dominant position in the

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market by the end of the next financial year. Ms Rajni, the sales manager has been asked to prepare a proposal that will outline the options available for achieving this objective. Her report included the following options - entering new markets, expanding the product range offered to customers, using sales promotion techniques such as giving rebates, discounts or increasing the budget for advertising activities. Which step of the planning process has been performed by Ms Rajni?

3. Why are rules considered to be plans?
4. Rama Stationery Mart has made a decision to make all the payments by e-transfers only. Identify the type of plan adopted by Rama Stationery Mart.
5. Can planning work in a changing environment? Give a reason to justify your answer.

**Short Answer Type**

1. What are the main aspects in the definition of planning?
2. If planning involves working out details for the future, why does it not ensure success?
3. What kind of strategic decisions are taken by business organisations?
4. Planning reduces creativity. Critically comment.(Hint: both the points - Planning promotes innovative ideas and planning reduces creativity – will be given).
5. In an attempt to cope with Reliance Jio's onslaught in 2018, market leader Bharti Airtel has refreshed its ₹ 149 prepaid plan to offer 2 GB of 3G/4G data per day, twice the amount it offered earlier. Name the type of plan is highlighted in the given example. ? State its three dimensions also.
6. State the type of plan and state whether they are Single use or Standing plan:
   a. A type of plan which serves as a controlling device as well.(budget)
   b. A plan based on research and analysis and is concerned with physical and technical tasks. (Method)

**Long Answer Type**

1. Why is it that organisations are not always able to accomplish all their objectives?

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2. What are the steps taken by management in the planning process?
3. An auto company C Ltd. is facing a problem of declining market share due to increased competition from other new and existing players in the market. Its competitors are introducing lower priced models for mass consumers who are price sensitive. C Ltd. realized that it needs to take steps immediately to improve its market standing in the future. For quality conscious consumers, C Limited plans to introduce new models with added features and new technological advancements. The company has formed a team with representatives from all the levels of management. This team will brainstorm and will determine the steps that will be adopted by the organisation for implementing the above strategy. Explain the features of Planning highlighted in the situation given below.(Hint: Planning is pervasive, Planning is futuristic and Planning is a mental exercise).

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on a project basis IOC will certainly go into the market — both India and Overseas, depending on which is cheaper — to borrow money, if needed.

*Source: https://www.business-standard.com/article/companies/ioc-to-invest-around-rs-20-000-in-2017-18-plans-expansion-acquisitions-117051600438_1.html.*

## Introduction

You have just read about the plans of Indian Oil Company Limited (IOCL). Of course, these are broad statements given by the company and they have to be broken down into steps for implementation. This is an example of a company with a nation-wide reach striving to be one of the top companies in India. Further more, every organisation whether it is government-owned, a privately owned business or a company in the private sector requires planning. The government makes five year plans for the country, a small business has it's own plans, while other companies have big plans, sales plans, production plans. All of them have some plans.

All business firms would like to be successful, increase their sales and earn profits. All managers dream of these and strive to achieve their goals. But to turn these dreams into reality managers need to work hard in thinking about the future, in making business predictions and achieving targets. Dreams can be turned into reality only if business managers think in advance on what to do and how to do it. This is the essence of planning.

## Concept

Planning is deciding in advance what to do and how to do. It is one of the basic managerial functions. Before doing something, the manager must formulate an idea of how to work on a particular task. Thus, planning is closely connected with creativity and innovation. But the manager would first have to set objectives, only then will a manager know where he has to go. Planning seeks to bridge the gap between where we are and where we want to go. Planning is what managers at all levels do. It requires taking decisions since it involves making a choice from alternative courses of action.

Planning, thus, involves setting objectives and developing appropriate courses of action to achieve these objectives. Objectives provide direction for all managerial decisions and actions. Planning provides a rational approach for achieving predetermined objectives. All members, therefore,

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*Planning: Keeping the objective in view and being in action*

need to work towards achieving organisational goals. These goals set the targets which need to be achieved and against which actual performance is measured. Therefore, planning means setting objectives and targets and formulating an action plan to achieve them. It is concerned with both ends and means i.e., what is to be done and how it is to be done.

The plan that is developed has to have a given time frame but time is a limited resource. It needs to be utilised judiciously. If time factor is not taken into consideration, conditions in the environment may change and all business plans may go waste. Planning will be a futile exercise if it is not acted upon or implemented.

Do you think from the above we can formulate a comprehensive definition of planning? One of the ways to do so would be to define planning as setting objectives for a given time period, formulating various courses of action to achieve them, and then selecting the best possible alternative from among the various courses of action available.

## Importance of Planning

You must have seen in films and advertisements how executives draw up plans and make powerful presentations in boardrooms. Do those plans actually work? Does it improve efficiency? After all why should we plan? These are numerous questions to which we would like to find solutions. Planning is certainly important as it tells us where to go, it provides direction and reduces the risk of uncertainty by preparing forecasts. The major benefits of planning are given below:

(i) **Planning provides directions:** By stating in advance how work is to be done planning provides direction for action. Planning ensures that the goals or objectives are clearly stated so that they act as a guide for deciding what action should be taken and in which direction. If goals are well defined, employees are aware of what the organisation has to do and what they must do to achieve those goals. Departments and

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individuals in the organisation are able to work in coordination. If there was no planning, employees would be working in different directions and the organisation would not be able to achieve its desired goals.

(ii) **Planning reduces the risks of uncertainty:** Planning is an activity which enables a manager to look ahead and anticipate changes. By deciding in advance the tasks to be performed, planning shows the way to deal with changes and uncertain events. Changes or events cannot be eliminated but they can be anticipated and managerial responses to them can be developed.

(iii) **Planning reduces overlapping and wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different divisions, departments and individuals. It helps in avoiding confusion and misunderstanding. Since planning ensures clarity in thought and action, work is carried on smoothly without interruptions. Useless and redundant activities are minimised or eliminated. It is easier to detect inefficiencies and take corrective measures to deal with them.

(iv) **Planning promotes innovative ideas:** Since planning is the first function of management, new ideas can take the shape of concrete plans. It is the most challenging activity for the management as it guides all future actions leading to growth and prosperity of the business.

(v) **Planning facilitates decision making:** Planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposition. Planning involves setting targets and predicting future conditions, thus helping in taking rational decisions.

(vi) **Planning establishes standards for controlling:** Planning involves setting of goals. The entire managerial process is concerned with accomplishing predetermined goals through planning, organising, staffing, directing and controlling. Planning provides the goals or standards against which actual performance is measured. By comparing actual performance with some standard, managers can know whether they have actually been able to attain the goals. If there is any deviation it can be corrected. Therefore, we can say that planning is a prerequisite for controlling. If there were no goals and standards, then finding deviations which are a

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part of controlling would not be possible. The nature of corrective action required depends upon the extent of deviations from the standard. Therefore, planning provides the basis of control.

## Features of Planning

In the example of Polaris, the company has plans of expansion. Their objective is to increase their capacity so that they can employ 800 more professionals. Their target time is six months. The objective of the current year has also been clearly stated which is to increase capacity by 1500-2000 more professionals. Since planning is the primary function of management they have set their objectives first. Thus, all businesses follow a set pattern of planning. You will be able to find some similarities in the features of planning and what you see in real life. Try and identify them.

The planning function of the management has certain special features. These features throw light on its nature and scope.

(i) **Planning focuses on achieving objectives:** Organisations are set up with a general purpose in view. Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals. Thus, planning is purposeful. Planning has no meaning unless it contributes to the achievement of predetermined organisational goals.

(ii) **Planning is a primary function of management:** Planning lays down the base for other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, planning precedes other functions. This is also referred to as the primacy of planning. The various functions of management are interrelated and equally important. However, planning provides the basis of all other functions.

(iii) **Planning is pervasive:** Planning is required at all levels of management as well as in all departments of the organisation. It is not an exclusive function of top management nor of any particular department. But the scope of planning differs at different levels and among different departments. For example, the top management undertakes planning for the organisation as a whole. Middle management does the departmental planning. At the lowest level, day-to-day operational planning is done by supervisors.

(iv) **Planning is continuous:** Plans are prepared for a specific period of time, may be for a month, a quarter, or a year. At the end

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of that period there is need for a new plan to be drawn on the basis of new requirements and future conditions. Hence, planning is a continuous process. Continuity of planning is related with the planning cycle. It means that a plan is framed, it is implemented, and is followed by another plan, and so on.

(v) **Planning is futuristic:** Planning essentially involves looking ahead and preparing for the future. The purpose of planning is to meet future events effectively to the best advantage of an organisation. It implies peeping into the future, analysing it and predicting it. Planning is, therefore, regarded as a forward looking function based on forecasting. Through forecasting, future events and conditions are anticipated and plans are drawn accordingly. Thus, for example, sales forecasting is the basis on which a business firm prepares its annual plan for production and sales.

(vi) **Planning involves decision making:** Planning essentially involves choice from among various alternatives and activities. If there is only one possible goal or a possible course of action, there is no need for planning because there is no choice. The need for planning arises only when alternatives are available. In actual practice, planning presupposes the existence of alternatives. Planning, thus, involves thorough examination and evaluation of each alternative and choosing the most appropriate one.

(vii) **Planning is a mental exercise:** Planning requires application of the mind involving foresight, intelligent imagination and sound judgement. It is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken. However, planning requires logical and systematic thinking rather than guess work or wishful thinking.

*Planning: the first step to management*

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In other words, thinking for planning must be orderly and based on the analysis of facts and forecasts.

## Limitations of Planning

We have seen how planning is essential for business organisations. It is difficult to manage operations without formal planning. It is important for an organisation to move towards achieving goals. But we have often seen in our daily lives also, that things do not always go according to plan. Unforeseen events and changes, rise in costs and prices, environmental changes, government interventions, legal regulations, all affect our business plans. Plans then need to be modified. If we cannot adhere to our plans, then why do we plan at all? This is what we need to analyse. The major limitations of planning are given below:

(i) **Planning leads to rigidity:** In an organisation, a well-defined plan is drawn up with specific goals to be achieved within a specific time frame. These plans then decide the future course of action and managers may not be in a position to change it. This kind of rigidity in plans may create difficulty. Managers need to be given some flexibility to be able to cope with the changed circumstances. Following a pre-decided plan, when circumstances have changed, may not turn out to be in the organisations interest.

(ii) **Planning may not work in a dynamic environment:** The business environment is dynamic, nothing is constant. The environment consists of a number of dimensions, economic, political, physical, legal and social dimensions. The organisation has to constantly adapt itself to changes. It becomes difficult to accurately assess future trends in the environment if economic policies are modified or political conditions in the country are not stable or there is a natural calamity. Competition in the market can also upset financial plans, sales targets may have to be revised and, accordingly, cash budgets also need to be modified since they are based on sales figures. Planning cannot foresee everything and thus, there may be obstacles to effective planning.

(iii) **Planning reduces creativity:** Planning is an activity which is done by the top management. Usually the rest of the members just implements these plans. As a consequence, middle management and other decision

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makers are neither allowed to deviate from plans nor are they permitted to act on their own. Thus, much of the initiative or creativity inherent in them also gets lost or reduced. Most of the time, employees do not even attempt to formulate plans. They only carry out orders. Thus, planning in a way reduces creativity since people tend to think along the same lines as others. There is nothing new or innovative.

(iv) **Planning involves huge costs:** When plans are drawn up huge costs are involved in their formulation. These may be in terms of time and money for example, checking accuracy of facts may involve lot of time. Detailed plans require scientific calculations to ascertain facts and figures. The costs incurred sometimes may not justify the benefits derived from the plans. There are a number of incidental costs as well, like expenses on boardroom meetings, discussions with professional experts and preliminary investigations to find out the viability of the plan.

(v) **Planning is a time-consuming process:** Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation.

(vi) **Planning does not guarantee success:** The success of an enterprise is possible only when plans are properly drawn up and implemented. Any plan needs to be translated into action or it becomes meaningless. Managers have a tendency to rely on previously tried and tested successful plans. It is not always true that just because a plan has worked before it will work again. Besides, there are so many other unknown factors to be considered. This kind of complacency and false sense of security may actually lead to failure instead of success. However, despite its limitations, planning is not a useless exercise. It is a tool to be used with caution. It provides a base for analysing future courses of action. But, it is not a solution to all problems.

## Planning Process

Planning, as we all know is deciding in advance what to do and how to do. It is a process of decision making. How do we go about making a plan? Since planning is an activity there are certain logical steps for every manager to follow.

(i) **Setting Objectives:** The first and foremost step is setting objectives. Every organisation

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must have certain objectives. Objectives may be set for the entire organisation and each department or unit within the organisation. Objectives or goals specify what the organisation wants to achieve. It could mean an increase in sales by 20% which could be objective of the entire organisation. How all departments would contribute to the organisational goals is the plan that is to be drawn up. Objectives should be stated clearly for all departments, units and employees. They give direction to all departments. Departments/ units then need to set their own objectives within the broad framework of the organisation's philosophy. Objectives have to percolate down to each unit and employees at all levels. At the same time, managers must contribute ideas and participate in the objective setting process. They must also understand how their actions contribute to achieving objectives. If the end result is clear it becomes easier to work towards the goal.

(ii) **Developing Premises:** Planning is concerned with the future which is uncertain and every planner is using conjecture about what might happen in future.

### Kinds of plans: Objective, Strategy and Policy of Mitticool

During the devastating earthquake of January 2001, Mansukhbhai incurred heavy loss and most of his goods were damaged. He distributed the leftover stock that was undamaged, to the quake affected masses of Kutch. This led to a photograph that was taken just after the earthquake and featured on the Sandesh Gujarati Daily in February 2001. It showed a broken water filter that was made by Mansukhbhai with a caption that said "The poor man's broken fridge".

At that time, he met the Gujarat Grass-roots Innovation Augmentation Network (GIAN), Ahmedabad, which supported Mansukhbhai further in his endeavours. Finally after an arduous quest and several tests of soil and fridge designs, he emerged with the innovative Mitticool fridge in 2005. After that he has innovated various products using clay.

- The company has stuck to its policy of keeping all its products at a lower rate which will be affordable for the poor people.
- Their future plans include starting a factory with the aid of the National Innovation Foundation at IIM Ahmedabad and making a MittiCool house. It will be a green (eco-friendly) house with clay that will have no electricity but only renewable energy to maintain a comfortable temperature inside."

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Therefore, the manager is required to make certain assumptions about the future. These assumptions are called premises. Assumptions are the base material upon which plans are to be drawn. The base material may be in the form of forecasts, existing plans or any past information about policies. The premises or assumptions must be the same for all and there should be total agreement on them. All managers involved in planning should be familiar with and use the same assumptions. For example, forecasting is important in developing premises as it is a technique of gathering information. Forecasts can be made about the demand for a particular product, policy change, interest rates, prices of capital goods, tax rates etc. Accurate forecasts, therefore become essential for successful plans.

(iii) **Identifying alternative courses of action:** Once objectives are set, assumptions are made. Then the next step would be to act upon them. There may be many ways to act and achieve objectives. All the alternative courses of action should be identified. The course of action which may be taken could be either routine or innovative. An innovative course may be adopted by involving more people and sharing their ideas. If the project is important, then more alternatives should be generated and thoroughly discussed amongst the members of the organisation.

(iv) **Evaluating alternative courses:** The next step is to weigh the pros and cons of each alternative. Each course will have many variables which have to be weighed against each other. The positive and negative aspects of each proposal need to be evaluated in the light of the objective to be achieved. In financial plans, for example, the risk-return trade-off is very common. The more risky the investment, the higher the returns it is likely to give. To evaluate such proposals detailed calculations of earnings, earnings per share, interest, taxes, dividends are made and decisions taken. Accurate forecasts in conditions of certainty/uncertainty then become vital assumptions for these proposals. Alternatives are evaluated in the light of their feasibility and consequences.

(v) **Selecting an alternative:** This is the real point of decision making. The best plan has to be adopted and implemented. The ideal plan, of course, would be the most feasible, profitable and with least negative consequences. Most plans may not always be subjected to a mathematical analysis. In such cases, subjectivity and the manager's experience, judgement and

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at times, intuition play an important part in selecting the most viable alternative. Sometimes, a combination of plans may be selected instead of one best course. The manager will have to apply permutations and combinations and select the best possible course of action.

(vi) **Implementing the plan:** This is the step where other managerial functions also come into the picture. The step is concerned with putting the plan into action, i.e., doing what is required. For example, if there is a plan to increase production then more labour, more machinery will be required. This step would also involve organising for labour and purchase of machinery.

(vii) **Follow-up action:** To see whether plans are being implemented and activities are performed according to schedule is also part of the planning process. Monitoring the plans is equally important to ensure that objectives are achieved.

## Types of Plans

### Single-use and standing plans

An organisation has to prepare a plan before making any decision related to business operation, or undertaking any project. Plans can be classified into several types depending on the use and the length of the planning period. Certain plans have a short-term horizon and help to achieve operational goals. These plans can be classified into single-use plans and standing plans.

**Single-use Plan:** A single-use plan is developed for a one-time event or project. Such a course of action is not likely to be repeated in future, i.e., they are for non-recurring situations. The duration of this plan may depend upon the type of the project. It may span a week or a month. A project may sometimes be of only one day, such as, organising an event or a seminar or conference. These plans include budgets, programmes and projects. They consist of details, including the names of employees who are responsible for doing the work and contributing to the single-use plan. For example, a programme may consist of identifying steps, procedures required for opening a new department to deal with other minor work. Projects are similar to programmes but differ in scope and complexity. A budget is a statement of expenses, revenue and income for a specified period.

**Standing Plan:** A standing plan is used for activities that occur regularly over a period of time. It is designed to ensure that internal operations of an organisation run smoothly. Such a plan greatly enhances efficiency in routine decision-making. It is usually developed once but is modified from time to time to meet business needs as required. Standing plans include policies, procedures, methods and rules.

Policies are general forms of standing plans that specifies the organisations

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response to a certain situation like the admission policy of an educational institution. Procedures describe steps to be followed in particular circumstances like the procedure for reporting progress in production. Methods provide the manner in which a task has to be performed. Rules are very clearly stated as to exactly what has to be done like reporting for work at a particular time.

Single-use and standing plans are part of the operational planning process.

There are other types of plans which usually are not classified as single-use or standing plans. A strategy, for example, is part of strategic planning or management. It is a general plan prepared by top management outlining resource allocation, priorities and takes into consideration the business environment and competition. Objectives are usually set by the top management and serve as a guide for overall planning. Each unit then formulates their own objectives keeping in view the overall organisational goals.

Based on what the plans seek to achieve, plans can be classified as Objectives, Strategy, Policy, Procedure, Method, Rule, Programme, Budget.

## Objectives

The first step in planning is setting objectives. Objectives, therefore, can be said to be the desired future position that the management would like to reach. Objectives are very basic to the organisation and they are defined as ends which the management seeks to achieve by its operations. Therefore, an objective simply stated is what you would like to achieve, i.e., the end result of activities. For example, an organisation may have an objective of increasing sales by 10% or earning a reasonable rate of return on investment, earn a 20% profit from business. They represent the end point of planning. All other managerial activities are also directed towards achieving these objectives. They are usually set by top management of the organisation and focus on broad, general issues. They define the future state of affairs which the organisation strives to realise. They serve as a guide for overall business planning. Different departments or units in the organisation may have their own objectives.

Objectives need to be expressed in specific terms i.e., they should be measurable in quantitative terms, in the form of a written statement of desired results to be achieved within a given time period.

## Strategy

A strategy provides the broad contours of an organisation's business. It will also refer to future decisions defining the organisations direction and scope in the long run. Thus, we can say a strategy is a comprehensive plan

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for accomplishing an organisation objectives. This comprehensive plan will include three dimensions, (i) determining long term objectives, (ii) adopting a particular course of action, and (iii) allocating resources necessary to achieve the objective.

Whenever a strategy is formulated, the business environment needs to be taken into consideration. The changes in the economic, political, social, legal and technological environment will affect an organisation's strategy. Strategies usually take the course of forming the organisation's identity in the business environment. Major strategic decisions will include decisions like whether the organisation will continue to be in the same line of business, or combine new lines of activity with the existing business or seek to acquire a dominant position in the same market. For example, a company's marketing strategy has to address certain questions i.e., who are the customers? what is the demand for the product? which channel of distribution to use? what is the pricing policy? and how do we advertise the product. These and many more issues need to be resolved while formulating a marketing strategy for any organisation.

## Policy

Policies are general statements that guide thinking or channelise energies towards a particular direction. Policies provide a basis for interpreting strategy which is usually stated in general terms. They are guides to managerial action and decisions in the implementation of strategy. For example, the company may have a recruitment policy, pricing policy within which objectives are set and decisions are made. If there is an established policy, it becomes easier to resolve problems or issues. As such, a policy is the general response to a particular problem or situation.

There are policies for all levels and departments in the organisation ranging from major company policies to minor policies. Major company policies are for all to know i.e., customers, clients, competitors etc., whereas minor polices are applicable to insiders and contain minute details of information vital to the employees of an organisation. But there has to be some basis for divulging information to others.

Policies define the broad parameters within which a manager may function. The manager may use his/her discretion to interpret and apply a policy. For example, the decisions taken under a Purchase Policy would be in the nature of manufacturing or buying decisions. Should a company make or buy its requirements of packages, transport services, printing of stationery, water and power supply and other items? How should vendors be selected for procuring supplies? How many suppliers should a company make purchases from? What is the criteria for choosing suppliers. All these

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queries would be addressed by the Purchase Policy.

## Procedure

Procedures are routine steps on how to carry out activities. They detail the exact manner in which any work is to be performed. They are specified in a chronological order. For example, there may be a procedure for requisitioning supplies before production. Procedures are specified steps to be followed in particular circumstances. They are generally meant for insiders to follow. The sequence of steps or actions to be taken are generally to enforce a policy and to attain pre-determined objectives. Policies and procedures are interlinked with each other. Procedures are steps to be carried out within a broad policy framework.

## Method

Methods provide the prescribed ways or manner in which a task has to be performed considering the objective. It deals with a task comprising one step of a procedure and specifies how this step is to be performed. The method may vary from task to task. Selection of proper method saves time, money and effort and increases efficiency. For imparting training to employees at various level from top management to supervisory, different methods can be adopted. For example for higher level management orientation programmes, lectures and seminars can be organised whereas at the supervisory level, on the job training methods and work-oriented methods are appropriate.

## Rule

Rules are specific statements that inform what is to be done. They do not allow for any flexibility or discretion. It reflects a managerial decision that a certain action must or must not be taken. They are usually the simplest type of plans because there is no compromise or change unless a policy decision is taken.

## Programme

Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action. Programmes will include the entire gamut of activities as well as the organisation's policy and how it will contribute to the overall business plan. The minutest details are worked out i.e., procedures, rules, budgets, within the broad policy framework.

## Budget

A budget is a statement of expected results expressed in numerical terms. It is a plan which quantifies future facts and figures. For example, a sales budget may forecast the sales

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of different products in each area for a particular month. A budget may also be prepared to show the number of workers required in the factory at peak production times.

Since budget represents all items in numbers, it becomes easier to compare actual figures with expected figures and take corrective action subsequently. Thus, a budget is also a control device from which deviations can be taken care of. But making a budget involves forecasting, therefore, it clearly comes under planning. It is a fundamental planning instrument in many organisations.

Let us take an example of Cash Budget. The cash budget is a basic tool in the management of cash. It is a device to help the management to plan and control the use of cash. It is a statement showing the estimated cash inflows and cash outflows over a given period. Cash inflows would generally come from cash sales and the cash outflows would generally be the costs and expenses associated with the operations of the business. The net cash position is determined by the cash budget i.e., inflows minus (–) outflows = surplus or deficiency.

The management has to hold adequate cash balances for various purposes. But at the same time, it should avoid excess balance of cash since it gives little or no return. The business has to assess and plan its need for cash with a degree of caution.

## Key Terms

Planning | Objectives | Goals | Decisions

Standards | Controlling | Premises | Assumptions

Alternatives | Strategy | Policy | Procedure

Rule | Programme | Budget

## Summary

**Planning**

Planning is deciding in advance what to do and how to do. It is one of the basic managerial functions.

Planning therefore involves setting objectives and developing an appropriate course of action to achieve these objectives.

**Importance of Planning**

Planning provides directions, reduces risks of uncertainty, reduces overlapping and wasteful activities, promotes innovative ideas, facilitates decision making, establishes standards for controlling.

**Features of Planning**

Planning focuses on achieving objectives; It is a primary function of management; Planning is pervasive, continuous, futuristic and involves decision making; It is a mental exercise.

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**Limitations of Planning**

Planning leads to rigidity; reduces creativity; involves huge costs; It is a time consuming process; Planning does not work in a dynamic environment; and does not guarantee success.

**Planning Process**

*Setting objectives:* Objectives may be set for the entire organisation and each department or unit within the organisation.

*Developing premises:* Planning is concerned with the future which is uncertain and every planner is using conjucture about what might happen in future.

*Identifying alternative courses of action:* Once objectives are set, assumptions are made. Then the next step would be to act upon them.

*Evaluating alternative courses:* The next step is to weigh the pros and cons of each alternative.

*Selecting an alternative:* This is the real point of decision making. The best plan has to be adopted and implemented.

*Implement the plan:* This is concerned with putting the plan into action.

*Follow-up action:* Monitoring the plans are equally important to ensure that objectives are achieved.

**Types of Plans**

*Objectives:* Objectives therefore can be said to be the desired future position that the management would like to reach.

*Strategy:* A strategy provides the broad contours of an organisation's business. It will also refer to future decisions defining the organisations direction and scope in the long run.

*Policy:* Policies are general statements that guide thinking or channelise energies towards a particular direction.

*Procedure:* Procedures are routine steps on how to carry out activities.

*Rule:* Rules are specific statements that tell what is to be done.

*Programme:* Programmes are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action.

*Budget:* A budget is a statement of expected results expressed in numerical terms. It is a plan which quantifies future facts and figures.

## Exercises

**Very Short Answer Type**

1. How does planning provide direction?
2. A company wants to increase its market share from the present 10% to 25% to have a dominant position in the

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market by the end of the next financial year. Ms Rajni, the sales manager has been asked to prepare a proposal that will outline the options available for achieving this objective. Her report included the following options - entering new markets, expanding the product range offered to customers, using sales promotion techniques such as giving rebates, discounts or increasing the budget for advertising activities. Which step of the planning process has been performed by Ms Rajni?

3. Why are rules considered to be plans?
4. Rama Stationery Mart has made a decision to make all the payments by e-transfers only. Identify the type of plan adopted by Rama Stationery Mart.
5. Can planning work in a changing environment? Give a reason to justify your answer.

**Short Answer Type**

1. What are the main aspects in the definition of planning?
2. If planning involves working out details for the future, why does it not ensure success?
3. What kind of strategic decisions are taken by business organisations?
4. Planning reduces creativity. Critically comment.(Hint: both the points - Planning promotes innovative ideas and planning reduces creativity – will be given).
5. In an attempt to cope with Reliance Jio's onslaught in 2018, market leader Bharti Airtel has refreshed its ₹ 149 prepaid plan to offer 2 GB of 3G/4G data per day, twice the amount it offered earlier. Name the type of plan is highlighted in the given example. ? State its three dimensions also.
6. State the type of plan and state whether they are Single use or Standing plan:
   a. A type of plan which serves as a controlling device as well.(budget)
   b. A plan based on research and analysis and is concerned with physical and technical tasks. (Method)

**Long Answer Type**

1. Why is it that organisations are not always able to accomplish all their objectives?

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2. What are the steps taken by management in the planning process?
3. An auto company C Ltd. is facing a problem of declining market share due to increased competition from other new and existing players in the market. Its competitors are introducing lower priced models for mass consumers who are price sensitive. C Ltd. realized that it needs to take steps immediately to improve its market standing in the future. For quality conscious consumers, C Limited plans to introduce new models with added features and new technological advancements. The company has formed a team with representatives from all the levels of management. This team will brainstorm and will determine the steps that will be adopted by the organisation for implementing the above strategy. Explain the features of Planning highlighted in the situation given below.(Hint: Planning is pervasive, Planning is futuristic and Planning is a mental exercise).

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# 5 CHAPTER

# ORGANISING

## Way To Go, Wipro!

It's not quite there yet, but the goal is certainly within reach. One of India's largest IT solutions providers, Wipro Technologies, is taking on the likes of IBM and Accenture in its effort to be included among the largest and most successful technology services companies in the world.

Restructuring Wipro was considered the most important step in becoming a global giant, driven by the goal towards improved customer-orientation.

During the past few months, Wipro separated itself into several subsidiaries by product line: telecommunications, engineering, financial services, etc. Each subsidiary brings in about $300 million in annual earnings and is self-sufficient with their own accounting books, personnel and administrative functions.

Wipro shifted from a centralised to decentralised management system. All responsibilities for growth lay with the management of each entity.

"We tried to de-layer the organisation and empower our business leaders with a much higher degree of growth responsibility," said Premji. "We removed an entire layer [of executives]".

*Adapted from an article by Heide B. Malhotra for Epoch Times Washington D.C.*

## LEARNING OBJECTIVES

After studying this chapter you should be able to:

- Explain the concept of organising;
- Explain the process of organising;
- Describe the importance of organising;
- Explain the meaning, advantages and disadvantages of functional organisation;
- Explain the meaning, advantages and disadvantages of divisional organisation;
- Explain the meaning, advantages and disadvantages of formal and informal organisation;
- Distinguish between formal and informal organisation;
- Explain the concept of delegation and decentralisation;
- Describe the importance of delegation and decentralisation; and
- Distinguish between delegation and decentralisation.

Once the plans have been laid down and objectives specified therein, the next step is to organise resources in a manner which leads to the accomplishment of objectives. A critical issue in accomplishing the goals specified in the planning process is structuring the work of an organisation to adapt to the dynamic business environment. The activities

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of an enterprise must be organised in such a manner that plans can be successfully implemented.

For planning to be fruitful a number of considerations like resources that will be needed, optimum utilisation of the same translation of work into attainable tasks, empowering the workforce to accomplish these tasks etc., need to be understood and dealt with properly.

It is evident from the way Wipro has moved towards reaching for it's goal of becoming a globally successful technology company, that organising plays a significant role in implementation of plans.

What has Wipro done to become a contending force among other global giants? Are there lessons to be learnt from Wipro's approach?

Wipro organised itself in a manner that allowed customer orientation to dominate over other goals and diversified on the basis of product lines. It also modified the relationships within the management hierarchy to suit the goals.

The management function of organising ensures that efforts are directed towards the attainment of goals laid down in the planning function in such a manner that resources are used optimally and people are able to work collectively and effectively for a common purpose. Thus, it is in the context of effective management that the organisation function earns due importance. It is a means for translating plans into action.

The organising function leads to the creation of an organisational structure which includes the designing of roles to be filled by suitably skilled people and defining the inter relationship between these roles so that ambiguity in performance of duties can be eliminated. Not only is this important for productive cooperation between the personnel but also for clarification of extent of authority, as well as responsibility for results and logical grouping of activities.

## Meaning

Let us take an example to understand how organising takes place. Have you ever paid attention to how, the school fete which you enjoy so much, actually takes place? What goes on behind the scene to make it the desired reality you want? The whole activity is divided into task groups each dealing with a specific area like the food committee, the decoration committee, the ticketing committee and so on. These are under the overall supervision of the official in charge of the event. Coordinating relationships are established among the various groups to enable smooth interaction and clarity about each group's contribution towards the event. All the above activities are a part of the organising function.

Organising essentially implies a process which coordinates human efforts, assembles resources and integrates both into a unified whole

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to be utilised for achieving specified objectives.

Organising can be defined as a process that initiates implementation of plans by clarifying jobs and working relationships and effectively deploying resources for attainment of identified and desired results (goals).

## Steps in the Process of Organising

Organising involves a series of steps that need to be taken in order to achieve the desired goal. Let us try and understand how organising is carried out with the help of an example.

Suppose twelve students work for the school library in the summer vacations. One afternoon they are told to unload a shipment of new releases, stock the bookshelves, and then dispose of all waste (packaging, paper etc). If all the students decide to do it in their own way, it will result in mass confusion. However, if one student supervises the work by grouping students, dividing the work, assigning each group their quota and developing reporting relationships among them, the job will be done faster and in a better manner.

From the above description, the following steps emerge in the process of organising:

(i) **Identification and division of work:** The first step in the process of organising involves identifying and dividing the work that has to be done in accordance with previously determined plans. The work is divided into manageable activities so that duplication can be avoided and the burden of work can be shared among the employees.

(ii) **Departmentalisation:** Once work has been divided into small and manageable activities then those activities which are similar in nature are grouped together. Such sets facilitate specialisation. This grouping process is

**Definition of Organising**

Organising 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.

*Louis Allen*

Organising is the process of defining and grouping the activities of the enterprise and establishing authority relationships among them.

*Theo Haimman*

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**Think About It**

Your school must have various societies for extra-curricular activities like the dramatics society, the quiz club, the economics society, the debating society and so on. Observe and list the way they have organised their activities using division of labour, chain of communication and the levels they have adopted for reporting on work. How far is this similar to the process you have read about?

called departmentalisation. Departments can be created using several criteria as a basis. Examples of some of the most popularly used basis are territory (north, south, west, etc.) and products (appliances, clothes, cosmetics etc).

(iii) **Assignment of duties:** It is necessary to define the work of different job positions and accordingly allocate work to various employees. Once departments have been formed, each of them is placed under the charge of an individual. Jobs are then allocated to the members of each department in accordance to their skills and competencies. It is essential for effective performance that a proper match is made between the nature of a job and the ability of an individual. The work must be assigned to those who are best fitted to perform it well.

(iv) **Establishing authority and reporting relationships:** Merely allocating work is not enough. Each individual should also know who he has to take orders from and to whom he is accountable. The establishment of such clear relationships helps to create a hierarchal structure and helps in coordination amongst various departments.

## Importance of Organising

Performance of the organising function can pave the way for a smooth transition of the enterprise in accordance with the dynamic business environment. The significance of the organising function mainly arises from the fact that it helps in the survival and growth of an enterprise and equips it to meet various challenges. In order for any business enterprise to perform tasks and successfully meet goals, the organising function must be properly performed. The following points highlight the crucial role that organising plays in any business enterprise:

(i) **Benefits of specialisation:** Organising leads to a systematic allocation of jobs amongst the work force. This reduces the workload as well as enhances productivity because of the specific workers performing a

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specific job on a regular basis. Repetitive performance of a particular task allows a worker to gain experience in that area and leads to specialisation.

(ii) **Clarity in working relationships:** The establishment of working relationships clarifies lines of communication and specifies who is to report to whom. This removes ambiguity in transfer of information and instructions. It helps in creating a hierarchical order thereby enabling the fixation of responsibility and specification of the extent of authority to be exercised by an individual.

(iii) **Optimum utilisation of resources:** Organising leads to the proper usage of all material, financial and human resources. The proper assignment of jobs avoids overlapping of work and also makes possible the best use of resources. Avoidance of duplication of work helps in preventing confusion and minimising the wastage of resources and efforts.

(iv) **Adaptation to change:** The process of organising allows a business enterprise to accommodate changes in the business environment. It allows the organisation structure to be suitably modified and the revision of inter-relationships amongst managerial levels to pave the way for a smooth transition. It also provides much needed stability to the enterprise as it can then continue to survive and grow inspite of changes.

(v) **Effective administration:** Organising provides a clear description of jobs and related duties. This helps to avoid confusion and duplication. Clarity in working relationships enables proper execution of work. Management of an enterprise thereby becomes easy and this brings effectiveness in administration.

(vi) **Development of personnel:** Organising stimulates creativity amongst the managers. Effective delegation allows the managers to reduce their workload by assigning routine jobs to their subordinates. The reduction in workload by delegation is not just necessary because of limited capacity of an individual but also allows the manager to develop new methods and ways of performing tasks. It gives them the time to explore areas for growth and the opportunity to innovate thereby strengthening the company's competitive position. Delegation also develops in the subordinate the ability to deal effectively with challenges and helps them to realise their full potential.

(vii) **Expansion and growth:** Organising helps in the growth and diversification of an enterprise

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**Think About It**

Organising leads to specialisation in work. A pitfall of this is that repetitive performance of the same job may lead to monotony, stress, boredom and absenteeism. What can managers do to improve the scenario?

by enabling it to deviate from existing norms and taking up new challenges.

It allows a business enterprise to add more job positions, departments and even diversify their product lines. New geographical territories can be added to current areas of operation and this will help to increase customer base, sales and profit.

Thus, organising is a process by which the manager brings order out of chaos, removes conflict among people over work or responsibility sharing and creates an environment suitable for teamwork.

## Organisation Structure

Organisation structure is the outcome of the organising process. An effective structure will result in increased profitability of the enterprise. The need for an adequate organisation structure is felt by an enterprise whenever it grows in size or complexity. It is only those enterprises which do not focus on growth that can maintain a particular structure for a long period of time. However, it is important to understand that such stagnancy may prove to be detrimental to an enterprise as those companies which do not change at all will close down or cease to grow.

As an organisation grows, coordination becomes difficult due to the emergence of new functions and increase in structural hierarchies. Thus, for an organisation to function smoothly and face environmental changes, it becomes necessary to pay attention to its structure.

Peter Drucker emphasises on the importance of having an appropriate organisation structure when he says, "organisation structure is an indispensable means; and the wrong structure will seriously impair business performance and even destroy it."

The organisation structure can be defined as the framework within which managerial and operating tasks are performed. It specifies the relationships between people, work and resources. It allows correlation and coordination among human, physical and financial resources and this enables a business enterprise to accomplish desired goals. The organisation structure of a firm is shown in an organisation chart.

The span of management, to a large extent gives shape to the

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organisational structure. Span of management refers to the number of subordinates that can be effectively managed by a superior. This determines the levels of management in the structure.

A proper organisation structure is essential to ensure a smooth flow of communication and better control over the operations of a business enterprise.

An organisation structure provides the framework which enables the enterprise to function as an integrated unit by regulating and coordinating the responsibilities of individuals and departments. Let us try and understand this through an example.

*For example:* Sunita opened her own travel agency. The success of her travel agency depends on a harmonious relationship between the customer and the employees of the travel agency. In order to achieve this objective she has divided the entire work of the agency into three subheads based on the functions namely operations, sales and administration. Operations include travel counsellor, reservation and ticketing and customer care. Sales include the Accounts executive. Administration includes Book Keeper, Cashier and utility personnel. This division of work on the basis of functions has resulted into an organisational structure specifying the line of authority and responsibility.

## Types of Organisation Structures

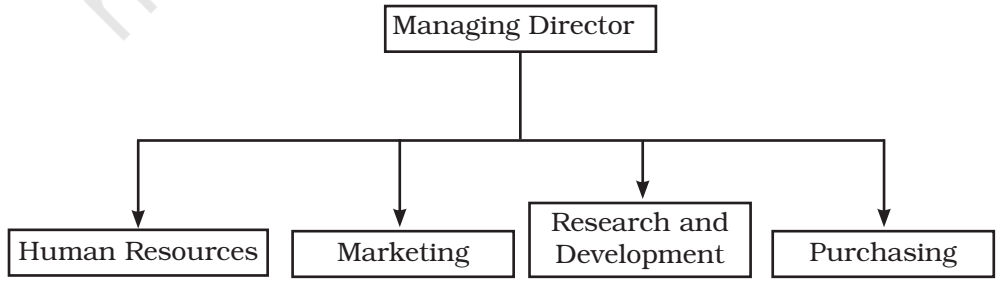
The type of structure adopted by an organisation will vary with the nature and types of activities performed by an organsation. The organisational structure can be classified under two categories which are as follows:

(i) Functional structure and
(ii) Divisional structure

### Functional structure

Grouping of jobs of similar nature under functional and organising these major functions as separate

*Functional Structure*

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departments creates a functional structure. All departments report to a coordinating head. For example, in a manufacturing concern division of work into key functions will include production, purchase, marketing, accounts and personnel. These departments may be further divided into sections. Thus, a functional structure is an organisational design that groups similar or related jobs together.

***Advantages:*** The functional structure has many advantages to offer. Important among them are as follows:

(a) A functional structure leads to occupational specialisation since emphasis is placed on specific functions. This promotes efficiency in utilisation of manpower as employees perform similar tasks within a department and are able to improve performance.

(b) It promotes control and coordination within a department because of similarity in the tasks being performed.

(c) It helps in increasing managerial and operational efficiency and this results in increased profit.

(d) It leads to minimal duplication of effort which results in economies of scale and this lowers cost.

(e) It makes training of employees easier as the focus is only on a limited range of skills.

(f) It ensures that different functions get due attention.

***Disadvantages:*** The functional structure has certain disadvantages which an organisation must take into consideration before it adopts it. Some of them are as follows:

(a) A functional structure places less emphasis on overall enterprise objectives than the objectives pursued by a functional head. Such practices may lead to functional empires wherein the importance of a particular function may be overemphasised. Pursuing departmental interests at the cost of organisational interests can also hinder the interaction between two or more departments.

(b) It may lead to problems in coordination as information has to be exchanged across functionally differentiated departments.

(c) A conflict of interests may arise when the interests of two or more departments are not compatible. For example, the sales department insisting on a customer friendly design may cause difficulties in production. Such dissension can prove to be harmful in terms of fulfillment of organisational interest. Inter-departmental conflicts can also arise in the absence of clear separation of responsibility.

(d) It may lead to inflexibility as people with same skills and knowledge base may develop a narrow perspective and thus,

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**Think About It**

Read newspapers regularly and try to identify the structures various business organisations being mentioned in the news have adopted. Have their structures led to improved and desired results in any way?

have difficulty in appreciating by other point of view. Functional heads do not get training for top management positions because they are unable to gather experience in diverse areas.

***Suitability:*** It is most suitable when the size of the organisation is large, has a diversified activities and operations require a high degree of specialisation.

## Divisional Structure

Many large organisations with diversified activities have reorganised themselves away from the simpler and basic functional structure towards a divisional structure which is more suited to their activities. This is particularly true of those enterprises which have more than one category of products to offer. This is because although every organisation performs a set of homogenous functions, as it diversifies into varied product categories, the need for a more evolved structural design is felt to cope with the emerging complexity.

In a divisional structure, the organisation structure comprises of separate business units or divisions. Each unit has a divisional manager responsible for performance and who has authority over the unit. Generally, manpower is grouped on the basis of different products manufactured. Each division is multifunctional because within each division functions like production, marketing, finance, purchase, etc., are performed together to achieve a common goal. Each division is self-contained as it develops expertise in all functions related to a product line.

In other words, within each division, the functional structure tends to be adopted. However, functions may vary across divisions in accordance with a particular product line. Further, each division works as a profit center where the divisional head is responsible for the profit or loss of his division. For example, a large company may have divisions like cosmetics, clothing, etc.

***Advantages:*** The divisional structure offers many benefits. Prominent among these are as follows:

(a) Product specialisation helps in the development of varied skills in a divisional head and this prepares

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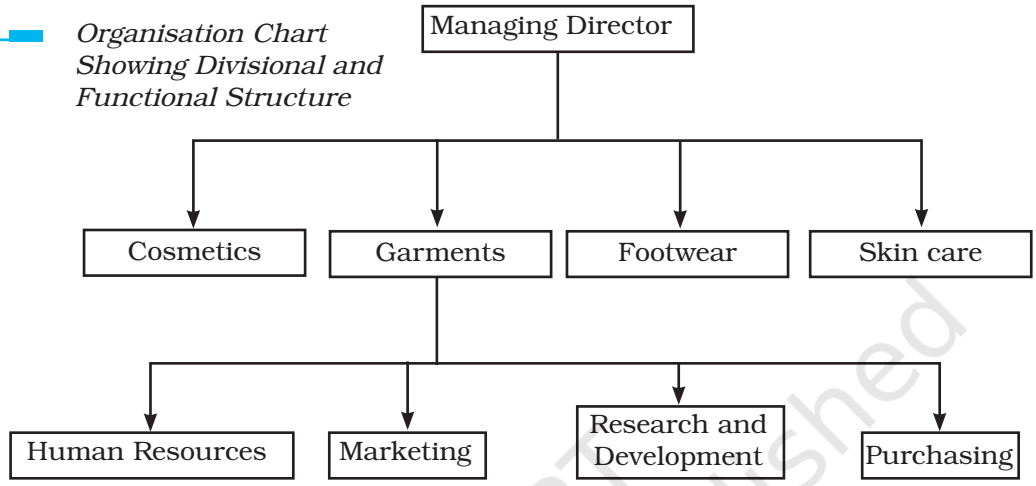
*Organisation Chart Showing Divisional and Functional Structure*




him for higher positions. This is because he gains experience in all functions related to a particular product.

(b) Divisional heads are accountable for profits, as revenues and costs related to different departments can be easily identified and assigned to them. This provides a proper basis for performance measurement. It also helps in fixation of responsibility in cases of poor performance of the division and appropriate remedial action can be taken.

(c) It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making.

(d) It facilitates expansion and growth as new divisions can be added without interrupting the existing operations by merely adding another divisional head and staff for the new product line.

***Disadvantages:*** The divisional structure has certain disadvantages. Some of them are as follows:

(a) Conflict may arise among different divisions with reference to allocation of funds and further a particular division may seek to maximise its profits at the cost of other divisions.

(b) It may lead to increase in costs since there may be a duplication of activities across products. Providing each division with separate set of similar functions increases expenditure.

(c) It provides managers with the authority to supervise all activities related to a particular division. In course of time, such a manager

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**Comparative view: Functional and Divisional Structure**

| Basis | Functional Structure | Divisional Structure |
|---|---|---|
| Formation | Formation is based on functions | Formation is based on product lines and is supported by functions. |
| Specialisation | Functional specialisation. | Product specialisation. |
| Responsibility | Difficult to fix on a department. | Easy to fix responsiblity for performance. |
| Managerial Development | Difficult, as each functional manager has to report to the top management. | Easier, autonomy as well as the chance to perform multiple functions helps in managerial development. |
| Cost | Functions are not duplicated hence economical | Duplication of resources in various departments, hence costly. |
| Coordination | Difficult for a multi-product company. | Easy, because all functions related to a particular product are integrated in one department. |

may gain power and in a bid to assert his independence may ignore organisational interests.

***Suitability:*** Divisional structure is suitable for those business enterprises where a large variety of products are manufactured using different productive resources. When an organisation grows and needs to add more employees, create more departments and introduce new levels of management, it will decide to adopt a divisional structure. Table 1 provides a comparison of functional and divisional structure to provide further clarity on the topic.

Thus, it can be said that business operates in a dynamic environment and those enterprises which fail to adapt to change are unable to survive. Hence, management must continuously review its plans and objectives and accordingly the organisation structure of the enterprise should also be subjected to periodic review to determine if modification is required. An organisation structure, at all times should contribute towards the achievement of the enterprise's objectives and should provide scope for initiative so that contribution of personnel can be maximum and effective.

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## Organisation Chart of ONGC




*Adapted from www.ongc.com/archives I*

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### Structural Transformation at ONGC

Since its inception, ONGC has been instrumental in transforming the country's limited upstream sector into a large viable playing field, with its activities spread throughout India and significantly in overseas territories.

The 1990s had begun on a grim note for ONGC. It took almost a decade for the Corporation to sort things out in most uncertain of times.

Among many problems, the Corporation was also suffering from the organisational atrophy. In order to survive ONGC sought help from Mc Kinsey.

Mc Kinsey's mandate was to evolve an organisational structure that was far more responsive to its business needs than that based on business groups. The ONGC system run by functional heads often meant delays exceeding a year in matters requiring urgent decisions on fields. Also, since responsibilities were shared at production platforms between different business groups, the system degenerated into wrangling over responsibilities. Similarly, group loyalties often took precedence over the requirements of tasks. But, most importantly, it was found that the performance evaluation criteria based on business group yardstick were completely at loggerheads with requirements on fields. Mc Kinsey recommended an asset-based approach with clearly-defined responsibilities in its presentation titled 'Organisation Transformation Project'

Though Mc Kinsey recommendations were broadly accepted, coordination issues concerning commonly-shared services needed to be sorted out.

Finally, the first control over all service personnel working with asset teams was vested in asset managers, on grounds that being responsible for the performance of their strategic business units they must rightfully exercise control over all personnel working with them. Even procurement powers were devolved. Finally, a new structure made up of 14 assets and 11 centralised services was rolled out .

### Do It Yourself

You have seen the structure of ONGC as an illustration in this text. Browse the websites of other business organisations and study their organisational chart. Try to identify the structure they are using.

## Formal and Informal Organisation

In all organisations, employees are guided by rules and procedures. To enable smooth functioning of the enterprise, job description and rules and procedures related to work processes have to be laid down. This is done through the formal organisation.

Formal organisation refers to the organisation structure which is designed by the management to accomplish a particular task. It specifies clearly the boundaries of authority and responsibility and

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there is a systematic coordination among the various activities to achieve organisational goals.

The structure in a formal organisation can be functional or divisional. The formal organisation can be better understood by a study of its features which are as follows:

(a) It specifies the relationships among various job positions and the nature of their inter-relationship. This clarifies who has to report to whom.
(b) It is a means to achieve the objectives specified in the plans, as it lays down rules and procedures essential for their achievement.
(c) Efforts of various departments are coordinated, interlinked and integrated through the formal organisation.
(d) It is deliberately designed by the top management to facilitate the smooth functioning of the organisation.
(e) It places more emphasis on work to be performed than interpersonal relationships among the employees.

***Advantages:*** Formal organisation offers many advantages. Some of the important ones are:

(a) It is easier to fix responsibility since mutual relationships are clearly defined.
(b) There is no ambiguity in the role that each member has to play as duties are specified. This also helps in avoiding duplication of effort.
(c) Unity of command is maintained through an established chain of command.
(d) It leads to effective accomplishment of goals by providing a framework for the operations to be performed and ensuring that each employee knows the role he has to play.
(e) It provides stability to the organisation. This is because behaviour of employees can be fairly predicted since there are specific rules to guide them.

***Limitations:*** The formal organisation suffers from the following limitations:

(a) The formal communication may lead to procedural delays as the established chain of command has

**Formal Organisation**

The formal organisation is a system of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability.

*Louis Allen*

Formal organisation is a system of consciously coordinated activities of two or more persons toward a common objective.

*Chester Barnand*

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to be followed which increases the time taken for decision making.

(b) Poor organisation practices may not provide adequate recognition to creative talent, since it does not allow any deviations from rigidly laid down polices.

(c) It is difficult to understand all human relationships in an enterprise as it places more emphasis on structure and work. Hence, the formal organisation does not provide a complete picture of how an organisation works.

## Informal Organisation

Interaction among people at work gives rise to a 'network of social relationships among employees' called the informal organisation.

Informal organisation emerges from within the formal organisation when people interact beyond their officially defined roles. When people have frequent contacts they cannot be forced into a rigid formal structure. Rather, based on their interaction and friendship they tend to form groups which show conformity in terms of interest. Examples of such groups formed with common interest may be those who take part in cricket matches on Sundays, meet in the cafeteria for coffee, are interested in dramatics, etc. Informal organisation has no written rules, is fluid in form and scope and does not have fixed lines of communication. The Table in the next page compares informal organisation with the formal organisation to provide better understanding of both types.

Informal organisation can be better understood with the help of the following features:

(a) An informal organisation originates from within the formal organisation as a result of personal interaction among employees.

(b) The standards of behaviour evolve from group norms rather than officially laid down rules and regulations.

(c) Independent channels of communication without specified direction of flow of information are developed by group members.

(d) It emerges spontaneously and is not deliberately created by the management.

(e) It has no definite strucure or form because it is a complex network of social relationships among members.

**Informal Organisation**

An informal organisation is an aggregate of interpersonal relationships without any conscious purpose but which may contribute to joint results.

*Chester Barnand*

Informal organisation is a network of personal and social relations not established or required by the formal organisation but arising spontaneously as people associate with one another.

*Keith Davis*

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***Advantages:*** The informal organisation offers many benefits. Important among them are given below:

(a) Prescribed lines of communication are not followed. Thus, the informal organisation leads to faster spread of information as well as quick feedback.

(b) It helps to fulfill the social needs of the members and allows them to find like minded people. This enhances their job satisfaction since it gives them a sense of belongingness in the organisation.

(c) It contributes towards fulfillment of organisational objectives by compensating for inadequacies in the formal organisation. For example, employees reactions towards plans and policies can be tested through the informal network.

***Disadvantages:*** The informal organisation has certain disadvantages. Some of them are as follows:

(a) When an informal organisation spreads rumours, it becomes a destructive force and goes against the interest of the formal organisation.

(b) The management may not be successful in implementing changes if the informal organisation opposes them. Such resistance to change may delay or restrict growth.

**Formal and informal organisation: A Comparative view**

| Basis | Formal organisation | Informal organisation |
|---|---|---|
| Meaning | Structure of authority relationships created by the management | Network of social relationships arising out of interaction among employees |
| Origin | Arises as a result of company rules and policies | Arises as a result of social interaction |
| Authority | Arises by virtue of position in management | Arises out of personal qualities |
| Behavior | It is directed by rules | There is no set behaviour pattern |
| Flow of Communication | Communication takes place through the scalar chain | Flow of communication is not through a planned route. It can take place in any direction |
| Nature | Rigid | Flexible |
| Leadership | Managers are leaders. | Leaders may or may not be managers. They are chosen by the group. |

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(c) It pressurises members to conform to group expectations. This can be harmful to the organisation if the norms set by the group are against organisational interests.

Informal organisation cannot be altogether eliminated. Thus, it would be in the best interest of the organisation if the existence of such groups is recognised and the roles that their members play are identified. The knowledge of such groups can be used to gather their support and consequently lead to improved organisational performance. Such groups can also provide useful communication channels. Instead of confronting them, the management should skillfully take advantage of both the formal and informal organisation so that work continues smoothly.

## DELEGATION

A manager, no matter how capable he is, cannot manage to do every task on his own. The volume of work makes it impractical for him to handle it all by himself. As a consequence, if he desires to meet the organisational goals, focus on objectives and ensure that all work is accomplished, he must delegate authority.

Delegation refers to the downward transfer of authority from a superior to a subordinate. It is a pre-requisite to the efficient functioning of an organisation because it enables a manager to use his time on high priority activities. It also satisfies the subordinate's need for recognition and provides them with opportunities to develop and exercise initiative.

Delegation helps a manager to extend his area of operations as without it, his activities would be restricted to only what he himself can do. However, delegation does not mean abdication. The manager shall still be accountable for the performance of the assigned tasks. Moreover, the authority granted to a subordinate can be taken back and redelegated to another person. Thus, irrespective of the extent of delegated authority ,the manager shall still be accountable to the same extent as before delegation.

**Delegation**

Delegation is the process a manager follows in dividing the work assigned to him so that he performs that part which only he because of his unique organisational placement, can perform effectively and so that he can get others to help with what remains.

*Louis Allen*

Delegation of authority merely means the granting of authority to subordinates to operate within prescribed limits.

*Theo Haimman*

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## Elements of Delegation

According to Louis Allen, delegation is the entrustment of responsibility and authority to another and the creation of accountability for performance.

A detailed analysis of Louis Allen's definition brings to light the following essential elements of delegation:

(i) ***Authority:*** Authority refers to the right of an individual to command his subordinates and to take action within the scope of his position. The concept of authority arises from the established scalar chain which links the various job positions and levels of an organisation. Authority also refers to the right to take decisions inherent in a managerial position to tell people what to do and expect them to do it.

In the formal organisation authority originates by virtue of an individual's position and the extent of authority is highest at the top management levels and reduces successively as we go down the corporate ladder. Thus, authority flows from top to bottom,

*No delegation leads to delays in decision-making*

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*Creation of accountability for performance*

i.e., the superior has authority over the subordinate.

Authority relationships helps to maintain order in the organisation by giving the managers the right to exact obedience and give directions to the workforce under them.

Authority determines the superior subordinate relationship wherein the superior communicates his decision to the subordinate, expecting compliance from him and the subordinate executes the decision as per the guidelines of the superior. The extent to which a superior can exact compliance also depends on the personality of the superior.

It must be noted that authority is restricted by laws and the rules and regulation of the organisation, which limit its scope. However, as we go higher up in the management hierarchy, the scope of authority increases.

(ii) ***Responsibility:*** Responsibility is the obligation of a subor-dinate to properly perform the assigned duty. It arises from a superior–subordinate relationship because the subor-dinate is bound to perform the duty assigned to him by his superior. Thus, responsibility flows upwards, i.e., a subordinate will always be responsible to his superior.

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An important consideration to be kept in view with respect to both authority and responsibility is that when an employee is given responsibility for a job he must also be given the degree of authority necessary to carry it out. Thus, for effective delegation the authority granted must be commensurate with the assigned responsibility. If authority granted is more than responsibility, it may lead to misuse of authority, and if responsibility assigned is more than authority it may make a person ineffective.

(iii) ***Accountability:*** Delegation of authority, undoubtedly empowers an employee to act for his superior but the superior would still be accountable for the outcome:

Accountability implies being answerable for the final outcome. Once authority has been delegated and responsibility accepted, one cannot deny accountability. It cannot be delegated and flows upwards, i.e., a subordinate will be accountable to a superior for satisfactory performance of work. It indicates that the manager has to ensure the proper discharge of duties by his subordinates. It is generally enforced through regular feedback on the extent of work accomplished. The subordinate will be expected to explain the consequences of his actions or omissions.

In conclusion, it can be stated that while authority is delegated, responsibility is assumed, accountability is imposed. Responsibility is derived from authority and accountability is derived from responsibility.

## Importance of Delegation

Delegation ensures that the subordinates perform tasks on behalf of the manager thereby reducing his workload and providing him with more time to concentrate on important

**Overview of the elements of delegation**

| Basis | Authority | Responsibility | Accountability |
|---|---|---|---|
| Meaning | Right to command. | Obligation to perform an assigned task. | Answerability for outcome of the assigned task. |
| Delegation | Can be delegated. | Cannot be entirely delegated. | Cannot be delegated at all. |
| Origin | Arises from formal position . | Arises from delegated authority. | Arises from responsibility. |
| Flow | Flows downward from superior to subordinate. | Flows upward from subordinate to superior. | Flows upward from subordinate to superior |

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matters. Effective delegation leads to the following benefits:

(i) **Effective management:** By empowering the employees, the managers are able to function more efficiently as they get more time to concentrate on important matters. Freedom from doing routine work provides them with opportunities to excel in new areas.

(ii) **Employee development:** As a result of delegation, employees get more opportunitiecs to utilise their talent and this may give rise to latent abilities in them. It allows them to develop those skills which will enable them to perform complex tasks and assume those responsibilities which will improve their career prospects. It makes them better leaders and decision makers. Thus, delegation helps by preparing better future managers. Delegation empowers the employees by providing them with the chance to use their skills, gain experience and develop themselves for higher positions.

(iii) **Motivation of employees:** Delegation helps in developing the talents of the employees. It also has psychological benefits. When a superior entrusts a subordinate with a task, it is not merely the sharing of work but involves trust on the superior's part and commitment on the part of the subordinate. Responsibility for work builds the self-esteem of an employee and improves his confidence. He feels encouraged and tries to improve his performance further.

(iv) **Facilitation of growth:** Delegation helps in the expansion of an organisation by providing a ready workforce to take up leading positions in new ventures. Trained and experienced employees are able to play significant roles in the launch of new projects by replicating the work ethos they have absorbed from existing units, in the newly set up branches.

(v) **Basis of management hierarchy:** Delegation of authority establishes superior-subordinate relationships, which are the basis of hierarchy of management. It is the degree and flow of authority which determines who has to report to whom. The extent of delegated authority also decides the power that each job position enjoys in the organisation.

(vi) **Better coordination:** The elements of delegation, namely authority, responsibility and accountability help to define the powers, duties and answerability related to the various positions in an organisation. This helps to avoid overlapping of duties and duplication of effort as it gives a clear picture of the work being

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done at various levels. Such clarity in reporting relationships help in developing and maintaining effective coordination amongst the departments, levels and functions of management.

Thus, delegation is a key element in effective organising.

## DECENTRALISATION

In many organisations the top management plays an active role in taking all decisions while there are others in which this power is given to even the lower levels of management. Those organisations in which decision making authority lies with the top management are termed as centralised organisations whereas those in which such authority is shared with lower levels are decentralised organisations.

Decentralisation explains the manner in which decision making responsibilities are divided among hierarchical levels. Put simply, decentralisation refers to delegation of authority throughout all the levels of the organisation. Decision making authority is shared with lower levels and is consequently placed nearest to the points of action. In other words decision making authority is pushed down the chain of command.

When decisions taken by the lower levels are numerous as well as important an organisation can be regarded as greatly decentralised.

### Centralisation and Decentralisation

Centralisation and decentralisation are relative terms, as seen from the existing status of various business enterprises.

An organisation is centralised when decision-making authority is retained by higher management levels whereas it is decentralised when such authority is delegated.

Complete centralisation would imply concentration of all decision making functions at the apex of the management hierarchy. Such a scenario would obviate the need for a management hierarchy. On the other hand, complete decentralisation

**Decentralisation**

Decentralisation refers to systematic effort to delegate to the lowest level all authority except that which can be exercised at central points.

*Louis Allen*

Everything which goes to increase the importance of a subordinate's role is decentralisation, everything that goes to reduce it is centralisation.

*Henri Fayol*

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would imply the delegation of all decision making functions to the lower level of the hierarchy and this would obviate the need for higher managerial positions. Both the scenarios are unrealistic.

An organisation can never be completely centralised or decentralised. As it grows in size and complexity , there is a tendency to move towards decentralised decision making. This is because in large organisations those employees who are directly and closely involved with certain operations tend to have more knowledge about them than the top management which may only be indirectly associated with individual operations.

Hence, there is a need for a balance between these co-existing forces. Thus, it can be said that every organisation will be characterised by both centralisation and decentralisation.

## IMPORTANCE

Decentralisation is much more than a mere transfer of authority to the lower levels of management hierarchy. It is a philosophy that implies selective dispersal of authority because it propagates the belief that people are competent, capable and resourceful. They can assume the responsibility for the effective implementation of their decisions. Thus this philosophy recognises the decision maker's need for autonomy. The management, however, needs to carefully select those decisions which will be pushed down to lower levels and those that will be retained for higher levels. Table 4 provides a comparative look between delegation and decentralisation.

Decentralisation is a fundamental step and its importance can be understood from the following points:

(i) **Develops initiative among subordinates:** Decentralisation helps to promote self-reliance and confidence amongst the subordinates. This is because when lower managerial levels are given freedom to take their own decisions they learn to depend on their own judgment. It also keeps them in a state wherein they are constantly challenged and have to develop solutions for the various problems they encounter. A decentralisation policy helps to identify those executives who have the necessary potential to become dynamic leaders.

(ii) **Develops managerial talent for the future:** Formal training plays an important part in equipping subordinates with skills that help them rise in the organisation but equally important is the experience gained by handling assignments independently. Decentralisation gives them a chance to prove their abilities and creates a reservoir of qualified manpower

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who can be considered to fill up more challenging positions through promotions. It also helps to identify those who may not be successful in assuming greater responsibility. Thus, it is a means of management education as well as an opportunity for trained manpower to use its talent in real life situations.

(iii) **Quick decision making:** The management hierarchy can be looked upon as a chain of communication. In centralised organisation because every decision is taken by the top management the flow of information is slow as it has to traverse many levels. Response also takes time. This reduces the speed of decision making and makes it difficult for an enterprise to adapt to dynamic operating conditions. In a decentralised organisation, however ,since decisions are taken at levels which are nearest to the points of action and there is no requirement for approval from many levels, the process is much faster. There are also less chances of information getting distorted because it doesn't have to go through long channels.

(iv) **Relief to top management:** Decentralisation diminishes the amount of direct supervision exercised by a superior over the activities of a subordinate because they are given the freedom to act and decide albeit within the limits set by the superior. Also, personal supervision is generally replaced by other forms of control such as return on investment etc. Decentralisation also leaves the top management with more time which they can devote to important policy decisions rather than occupying their time with both policy as well as operational decisions. In fact decentralisation is greatest when checking required on decisions taken by lower levels of management is least.

(v) **Facilitates growth:** Decentralisation awards greater autonomy to the lower levels of management as well as divisional or departmental heads. This allows them to function in a manner best suited to their department and fosters a sense of competition amongst the departments. Consequently, with each department doing its best in a bid to outdo the other, the productivity levels increase and the organisation is able to generate more returns which can be used for expansion purposes.

(vi) **Better control:** Decentralisation makes it possible to evaluate performance at each level and the departments can be individually

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held accountable for their results. The extent of achievement of organisational objectives as well as the contribution of each department in meeting the overall objectives can be ascertained. Feedback from all levels helps to analyse variances and improve operations. In decentralisation, one of the challenges is the accountability of performance. In response to this challenge, better control systems are being evolved such as the balance score card and management information system. Decentralisation compels the management to innovative performance measurement systems.

As a conclusion, it must be noted that in spite of its benefits decentralisation should be applied with caution as it can lead to organisational disintegration if the departments start to operate on their own guidelines which may be contrary to the interest of the organisation. Decentralisation must always be balanced with centralisation in areas of major policy decisions.

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**Decentralisation : A Strength**

The McNeil name has been associated with the manufacturing and sale of pharmaceutical products since 1879, when Robert McNeil opened his first retail drug outlet in Pennsylvania. Growing as a producer of prescription pharmaceuticals, McNeil Laboratories, Inc. was incorporated in the U.S. in 1933, and became a member of the Johnson & Johnson family of companies in 1959. Mcneil Consumer Healthcare began operations in Canada in an existing administrative Johnson & Johnson facility in Guelph, Ontario in 1980.

McNeil Consumer Healthcare (nonprescription pharmaceutical products) in Guelph, Ontario is member of the Johnson & Johnson family of companies in Canada.

An important difference between Johnson & Johnson and most other companies — is the concept of decentralised management. Instead of operating as one large multi-billion dollar corporation, Johnson & Johnson is operated as 190 smaller companies, each focused on a specific medical or product franchise and/or geographic area, with each affiliate generating multiple options for growth. Through decentralisation we combine the advantages of being big with the agility and focus of smaller firms. Decentralisation enables each company to sty close to its customer, maintain short lines of communication with customers and employees, and accelerate the development of talent. The Johnson & Johnson - Merck Consumer Pharmaceuticals company also operates from our Woodlawn Road facility in Guelph.

*http://www.mcneilcanada.com/eng/eco07pgl.shtm*

**Think About It**

If you were a manager, would you decentralise, knowing that it would mean dispersal of decision making authority?

## Delegation and Decentralisation: A Comparative view

| Basis | Delegation | Decentralisation |
|---|---|---|
| Nature | Delegation is a compulsory act because no individual can perform all tasks on his own. | Decentralisation is an optional policy decision. It is done at the discretion of the top management. |
| Freedom of action | More control by superiors hence less freedom to take own decisions. | Less control over executives hence greater freedom of action. |
| Status | It is a process followed to share tasks. | It is the result of the policy decision of the top management. |
| Scope | It has narrow scope as it is limited to superior and his immediate subordinate. | It has wide scope as it implies extension of delegation to the lowest level of management. |
| Purpose | To lessen the burden of the manager. | To increase the role of the subordinates in the organisation by giving them more autonomy. |

**Key Terms**

Organising | Organisational structure
Departmentalisation | Delegation | Authority
Responsibility | Accountability | Functional structure
Divisional structure | Formal organisation
Informal organisation | Span of management
Centralisation | Decentralisation

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## Summary

**Organising** is the process of defining and grouping activities and establishing authority relationships among them.

Process: the process of organising consists of the following steps:

(a) Identification and division of work
(b) Departmentalisation
(c) Assignment of Duties
(d) Establishing reporting relationships

Importance: Organising is considered important because it leads to division of work, clarity in reporting relationships, optimum utilization of resources, growth, better administration and greater creativity.

**Organisational structure** is the framework within which managerial and operating tasks are performed. It can be functional or divisional.

**Span of management** is the number of subordinates under a superior.

**Functional structure** groups activities on the basis of functions. The advantages of such a structure are specialisation, better control, managerial efficiency and ease in training employees. The disadvantages are functional empires, conflict of interest, inflexibility, and restriction in managerial development.

**Divisional structure** groups activities on the basis of products. The advantages are integration, product specialisation, greater accountability, flexibility, better coordination and more initiative. The disadvantages are departmental conflicts, costly process, ignoring of organisational interests, increase in requirements of general managers.

**Formal organisation** is designed by the management to achieve organisational goals. Its advantages are fixation of responsibility, clarity of roles, unity of command and effective accomplishment of goals. Its disadvantages are procedural delays, inadequate recognition of creativity, limited in scope.

**Informal organisation** arises out of interaction amongst people at work. Its advantages are speed, fulfillment of social needs, fills inadequacies of formal structure. Its disadvantages are: disruptive force, resistance to change and priority to group interests.

**Delegation** is the transfer of authority from superior to subordinate. It has three elements: Authority, Responsibility and Accountability.

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Importance of delegation is that it helps in effective management, employee development, motivation, growth and coordination.
**Decentralisation** is delegation of authority throughout the organisation.
Importance of decentralisation is that it helps in development of managerial talent, quick decision making reducing burden on top management, development of initiative, growth and better control.

## Exercises

**Very Short Answer Type:**

1. Identify the network of social relationships which arises spontaneously due to interaction at work.
2. What does the term 'Span of management' refer to?
3. State any two circumstances under which the functional structure will prove to be an appropriate choice.
4. Draw a diagram depicting a functional structure.
5. company has its registered office in Delhi, manufacturing unit at Gurgaon and marketing and sales department at Faridabad. The company manufactures the consumer products. Which type of organisational structure should it adopt to achieve its target?

**Short Answer Type:**

1. What are the steps in the process of organising?
2. Discuss the elements of delegation.
3. How does informal organisation support the formal organisation?
4. Can a large sized organisation be totally centralised of decentralised? Give your opinion.
5. Decentralisation is extending delegation to the lowest level. Comment.
6. Neha runs a factory wherein she manufactures shoes. The business has been doing well and she intends to expand by diversifying into leather bags as well as western formal wear thereby making her company a complete provider of corporate wear. This will enable her to market her business unit as the one stop for working women. Which type of structure would you recommend for her expanded organisation and why?

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7. The production manager asked the foreman to achieve a target production of 200 units per day, but he doesn't give him the authority to requisition tools and materials from the stores department. Can the production manager blame the foreman if he is not able to achieve the desired target? Give reasons.

**Long Answer Type**

1. Why delegation is considered essential for effective organising?
2. What is a divisional structure? Discuss its advantages and limitations.
3. Decentralisation is an optional policy. Explain why an organisation would choose to be decentralised.
4. Distinguish between centralisation and decentralisation.
5. How is a functional structure different from a divisional structure?
6. A company, which manufactures a popular brand of toys, has been enjoying good market reputation. It has a functional organisational structure with separate departments for Production, Marketing, Finance, Human Resources and Research and Development. Lately to use its brand name and also to cash on to new business opportunities it is thinking to diversify into manufacture of new range of electronic toys for which a new market is emerging. Which organisation structure should be adopted in this situation? Give concrete reasons with regard to benefits the company will derive from the steps it should take.
7. A company manufacturing sewing machines set up in 1945 by the British promoters follows formal organisation culture in totality. It is facing lot of problems in delays in decision making. As the result it is not able to adapt to changing business environment. The work force is also not motivated since they cannot vent their grievances except through formal channels, which involve red tape. Employee turnover is high. Its market share is also declining due to changed circumstances and business environment. You are to advise the company with regard to change it should bring about in its organisation structure to overcome the problems faced by it. Give reasons in terms of benefits it will derive from the changes suggested by you.

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8. A company X limited manufacturing cosmetics, which has enjoyed a pre-eminent position in business, has grown in size. Its business was very good till 1991. But after that, new liberalised environment has seen entry of many MNC's in the sector. With the result the market share of X limited has declined. The company had followed a very centralised business model with Directors and divisional heads making even minor decisions. Before 1991 this business model had served the company very well as consumers had no choice. But now the company is under pressure to reform. What organisation structure changes should the company bring about in order to retain its market share? How will the changes suggested by you help the firm? Keep in mind that the sector in which the company is FMCG.

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# 6 CHAPTER

# STAFFING

## Management of Human Resources at INFOSYS

"Our assets walk out of the door each evening. We have to make sure that they come back the next morning" (as stated by Narayana Murthy former, CEO of INFOSYS.)

At a time when organisations are debating the strategic importance of their human resources, Infosys, a consulting and software services organisation, includes its human resources on its balance sheet to affirm their asset value. The rationale for this is as follows: "The long term success of a company is usually examined on certain financial and non-financial parameters. Human resources are among these new non-financial parameters that challenge the usefulness of evaluating corporate success solely on traditional measures. Human resources represent the collective expertise, innovation, leadership, entrepreneurial and managerial skills endowed in the employees of an organisation."

As a knowledge intensive company, Infosys recognises the value of its human assets in maintaining its competitive position. It realises that these assets can easily walk away, as competitors in India and abroad covet its IT talent. Consequently, the challenge facing Infosys is how to attract, retain and develop its human assets in a highly competitive and dynamic environment?

Most of the current human resource practices at Infosys result from the vision of the leaders and the culture that they have created. Narayana Murthy, known for his leadership and vision is the public image of Infosys. His leadership style is humble and straight-forward, quite uncommon in the world of Indian business. He believes in sharing wealth with his employees and in leading by example. In a knowledge-based business like Infosys, he sees the importance of consistency in rhetoric and action in empowering employees. He is credited with creating a culture of closeness and empowerment at Infosys. His management style, rare among Indian business leaders, is based on western management.

*Source: Sumita Raghuram, Fordham Graduate School of Business*

## LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- define staffing;
- establish its relationship with Human Resource Management;
- state the need and importance of staffing;
- describe the steps in the staffing process;
- state the meaning of recruitment and selection;
- identify important sources of recruitment;
- describe the steps in the selection process;
- appreciate the need of training and development; and
- explain various on the job and off the job methods of training.

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## Introduction

The foundation of any organisation is the talented and hardworking people, who are the principal assets of any firm. It is an established fact that the growth of an organisation requires the continual infusion of quality staff. Thus, adequate staffing or the provision for appropriate human resources is an essential requirement for any organisation's success. It is, therefore, believed that an organisation can achieve its objectives only when it has the right persons in the right positions.

## Meaning

After planning and selection of the organisation structure, the next step in the management process is to fill the various posts provided in the organisation. This is termed as the management of staffing function. In the simplest terms, staffing is 'putting people to jobs'. It begins with workforce planning and includes different other function like recruitment, selection, training, development, promotion, compensation and performance appraisal of work force. In other words, staffing is that part of the process of management which is concerned with obtaining, utilising and maintaining a satisfactory and satisfied work force. Today, staffing may involve any combination of employees including daily wagers, consultants and contract employees. Staffing recognises the importance of every single person employed by an organisation as it is the individual worker, who is the ultimate performer.

Staffing has been described as the managerial function of filling and keeping filled the positions in the organisation structure. This is achieved by, first of all, identifying requirement of work force, followed by recruitment, selection, placement, promotion, appraisal and development of personnel, to fill the roles designed into the organisation structure.

In a new enterprise, the staffing function follows the planning and organising functions. After deciding what is to be done, how it is to be done and after creation of the organisation structure, the management is in a position to know the human resource requirements of the enterprise at different levels. Once the number and types of personnel to be selected is determined, management starts with the activities relating to recruiting, selecting and training people, to fulfill the requirements of the enterprise. In an existing enterprise, staffing is a continuous process because new jobs may be created and some of the existing employees may leave the organisation.

## Importance of Staffing

In any organisation, there is a need for people to perform work. The staffing function of management

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fulfills this requirement and finds the right people for the right job. Basically, staffing fills the positions as shown in the organisation structure.

Human resources are the foundation of any business. The right people can help you take your business to the top; the wrong people can break your business. Hence, staffing is the most fundamental and critical drive of organisational performance. The staffing function has assumed greater importance these days because of rapid advancement of technology, increasing size of organisation and complicated behaviour of human beings. Human resources are the most important asset of an organisation. The ability of an organisation to achieve its goal depends upon the quality of its human resources. Therefore, staffing is a very important managerial function. No organisation can be successful unless it can fill and keep filled the various positions provided for in the structure with the right kind of people.

Proper staffing ensures the following benefits to the organisation:

(i) helps in discovering and obtaining competent personnel for various jobs;

(ii) makes for higher performance, by putting right person on the right job;

(iii) ensures the continuous survival and growth of the enterprise through the succession planning for managers;

(iv) helps to ensure optimum utilisation of the human resources. By avoiding overmanning, it prevents under-utilisation of personnel and high labour costs. At the same time it avoids disruption of work by indicating in advance the shortages of personnel; and

(v) improves job satisfaction and morale of employees through objective assessment and fair reward for their contribution.

Staffing function must be performed efficiently by all organisations. If right kind of employees are not available, it will lead to wastage of materials, time, effort and energy, resulting in lower productivity and poor quality of products. The enterprise will not be able to sell its products profitably. It is, therefore, essential that right kind of people must be available in right number at the right time. They should be given adequate training so that wastage is minimum. They must also be induced to show higher productivity and quality by offering them proper incentives.

### *Staffing as part of Human Resource Management*

It is a function which all managers need to perform. It is a separate and specialised function and there are many aspects of human relations to be considered. It is the job of managers to fill positions in their organisation and to make sure that

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they remain occupied with qualified people. Staffing is closely linked to organising since after the structure and positions have been decided, people are required to work in these positions. Subsequently, they need to be trained and motivated to work in harmony with the goals of the organisation. Thus, staffing is seen as a generic function of management.

The staffing function deals with the human element of management. Managing the human component of an organisation is the most important task because the performance of an organisation depends upon how well this function is performed. The success of an organisation in achieving its goals is determined to a great extent on the competence, motivation and performance of its human resource.

It is the responsibility of all managers to directly deal with and select people to work for the organisation. When the manager performs the staffing function his role is slightly limited. Some of these responsibilities will include placing the right person on the right job, introducing new employees to the organisation, training employees and improving their performance, developing their abilities, maintaining their morale and protecting their health and physical conditions. In small organisations, managers may perform all duties related to employees salaries, welfare and working conditions.

But as organisations grow and number of persons employed increases, a separate department called the human resource department is formed which has specialists in managing people. The management of human resource is a specialised area which requires the expertise of many people. The number of human resource specialists and size of this department gives an indication of the size of the business as well. For a very large company, the Human Resources Department itself will contain specialists for each function of this department.

Human Resource Management includes many specialised activities and duties which the human resource personnel must perform. These duties are:

- Recruitment, i.e., search for qualified people
- Analysing jobs, collecting information about jobs to prepare job descriptions.
- Developing compensation and incentive plans.
- Training and development of employees for efficient performance and career growth.
- Maintaining labour relations and union management relations.
- Handling grievances and complaints.
- Providing for social security and welfare of employees.
- Defending the company in law suits and avoiding legal complications.

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## Evolution of Human Resource Management

Human resource management has replaced the traditional concept of labour welfare and personnel management. Human Resource Management (HRM) in its present form has evolved from a number of significant inter-related developments, which date back to the era of industrial revolution. Emergence of trade union movement led to the need of a person who could act as an effective link between the owners and workers. Thus, the concept of labour welfare officer came into being. His role was limited to the bare minimum welfare activities of employees. In fact, he was looked down by both the workers and the owners.

With the introduction of factory system, thousands of persons began to be employed under one roof. The job of hiring people for the organisation was given to one man, who later on was assigned the responsibility of recruitment, selection and placement of personnel. This led to the emergence of personnel officer in the first place and personnel manager, later on.

Human relations approach recognises human factor as the most important instrument of success in an organisation. Fast changing technological developments, however, necessitated new skill development and training of employees. People came to be recognised as a valuable resource, which can be further developed. Increase in scope of the work led to replacement of personnel manager with human resource manager.

You may have observed that all these aspects are concerned with the human element in industry as distinct from the mechanical side of the enterprise. Thus, staffing is an inherent part of human resource management as it is the practice of finding, evaluating and establishing a working relationship with people, for a purpose.

It is important to understand that staffing is both a function of management just like planning, organising, directing, and controlling as well as a distinct functional area of management just as marketing management and financial management. Staffing, is therefore, referred to as both a line as well as a staff activity i.e., an essential function of the manager as well as an advisory role played by the Human Resource Department.

## Staffing Process

As you are now aware, the prime concern of the staffing function in the management process is the timely fulfillment of the manpower requirements within an organisation. These requirements may arise in case of starting a new

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business or expanding the existing one or they may arise as a matter of the need for replacing those who quit, retire or are transferred or promoted from or are fired from the job. In any case, need for 'the right person for the right job' hardly needs an over emphasis. But just as the phrase 'water water everywhere and not a drop to drink' amplifies the fact that despite 2/3rd of the earth being water, drinkable water is a scarce commodity, so may also be said of finding 'the right person for the right job.' As such, it is important to appreciate staffing as a process that starts from understanding the manpower requirements within the organisation and identifying the potential sources from where it can be met, either from within the organisation or from outside. And, given that 'the right person' is scarce, there is need to 'market' the job and the organisation to the people. Even in situations where a single job vacancy might attract a few hundreds of the applicants, there is a challenge of selecting the most appropriate one. Freshly appointed persons might need orientation or training to familiarise them with the way the things are done in an organisation. And, in case they have been selected only on the basis of academic qualifications and aptitude for learning, they might need training in specific skills as well. For example, if one is selected by a Business Process Outsourcing (BPO) unit by virtue of being extrovert and well-versed in English speaking, one needs to be trained in the relevant business processes, telephone conversation etiquettes as well as diction adaptation before actual placement. The employee's experiences during orientation and placement form his/her 'first impression' of the organisation. Even whilst on the job, the employees need training for upgradation of knowledge and skills and for preparing for higher responsibilities. So staff training and development is another important aspect of the staffing process.

What follows is a brief description of the above stages.

(i) **Estimating the Manpower Requirements:** You are aware that while designing the organisational structure, we undertake an analysis of the decisions and the decision-making levels, activities as well as relationship among them with a view to evolving the horizontal and vertical dimensions of the structure. Thus, various job positions are created. Clearly, performance of each job necessitates the appointment of a person with a specific set of educational qualifications, skills, prior experience and so on.

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Thus, understanding manpower requirements is not merely a matter of knowing how many persons we need but also of what type. Given that we need to encourage women, persons from backward communities and persons with special abilities (such as physically challenged, visually and hearing impaired) to assume responsible positions in our organisations, there is a need to understand, and if the need be, to redefine manpower requirements accordingly. Can you think why should we encourage such a diversity in the workforce?

Operationally, understanding the manpower requirements would necessitate workload analysis on the one hand and workforce analysis on the other. Workload analysis would enable an assessment of the number and types of human resources necessary for the performance of various jobs and accomplishment of organisational objectives. Workforce analysis would reveal the number and type available. In fact such an exercise would reveal whether we are understaffed, overstaffed or optimally staffed. It may be pointed out that neither over-staffing nor under-staffing is a desirable situation. Can you think why? In fact this exercise would form the basis of the subsequent staffing actions. A situation of overstaffing somewhere would necessitate employee removal or transfer elsewhere. A situation of understaffing would necessitate the starting of the recruitment process. However, before that can be done, it is important to translate the manpower requirements into specific job description and the desirable profile of its occupant — the desired qualifications, experience, personality characteristics and so on. This information becomes the base for looking for potential employees.

(ii) **Recruitment:** Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. The information generated in the process of writing the job description and the candidate profile may be used for developing the 'situations vacant' advertisement. The advertisement may be displayed on the factory/office gate or else it may be got published in print media or flashed in electronic media. This step involves locating the potential candidate or determining the sources of potential candidates. In fact, there are a large number of recruitment avenues available to a firm which would be discussed latter when we talk about the various sources of recruitment. The essential objective is to create a pool of the prospective

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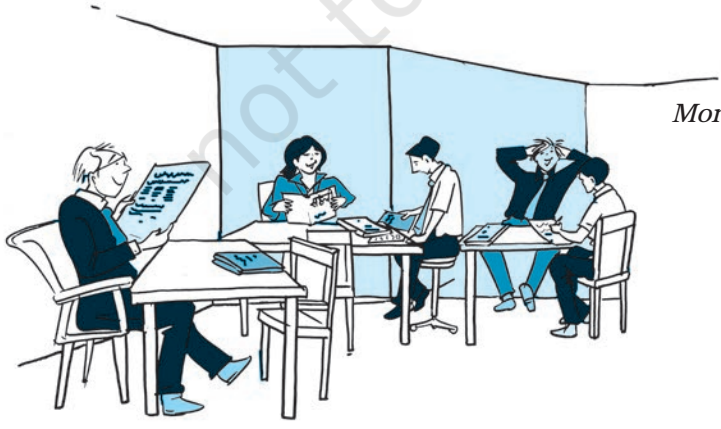
job candidates. Both internal and external sources of recruitment may be explored. Internal sources may be used to a limited extent. For fresh talent and wider choice external sources are used.

(iii) **Selection:** Selection is the process of choosing from among the pool of the prospective job candidates developed at the stage of recruitment. Even in case of highly specialised jobs where the choice space is very narrow, the rigour of the selection process serves two important purposes: (i) it ensures that the organisation gets the best among the available, and (ii) it enhances the self-esteem and prestige of those selected and conveys to them the seriousness with which the things are done in the organisation. The rigour involves a host of tests and interviews, described later. Those who are able to successfully negotiate the test and the interviews are offered an employment contract, a written document containing the offer of employment, the terms and conditions and the date of joining.

(iv) **Placement and Orientation:** Joining a job marks the beginning of socialisation of the employee at the workplace. The employee is given a brief presentation about the company and is introduced to his superiors, subordinates and the colleagues. He is taken around the workplace and given the charge of the job for which he has been selected. This process of familiarisation is very crucial and may have a lasting impact on his decision to stay and on his job performance. Orientation is, thus, introducing the selected employee to other employees and familiarising him with the rules and policies of the organisation. Placement refers to the employee



*Over-staffing: More play, less work*

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occupying the position or post for which the person has been selected.

(v) **Training and Development:** What people seek is not simply a job but a career. Every one must have the opportunity to rise to the top. The best way to provide such an opportunity is to facilitate employee learning. Organisations have either in-house training centers or have forged alliances with training and educational institutes to ensure continuing learning of their employees. The organisations too benefit in turn. If employee motivation is high, their competencies are strengthened, they perform better and thus, contribute more to organisational effectiveness and efficiency. By offering the opportunities for career advancement to their members, organisations are not only able to attract but also retain its talented people.

As discussed earlier, in most organisations there is a separate Human Resource Department, which takes care of the staffing function. But in small organisations the line manager is required to perform all the functions of management viz, planning, organising, staffing, directing and controlling. The process of staffing will then include three more stages.

(vi) **Performance Appraisal**
After the employees have undergone a period of training and they have been on the job for some time, there is a need to evaluate their performance. All organisations have some formal or informal means of appraising their employee's performance. Performance appraisal means evaluating an employee's current and/or past performance as against certain predetermined standards. The employee is expected to know what the standards are and the superior is to provide the employee feedback on his/her performance. The performance appraisal process, therefore, will include defining the job, appraising performance and providing feedback.

(vii) **Promotion and career planning**
It becomes necessary for all organisations to address career related issues and promotional avenues for their employees. Managers need to design activities to serve employees' long-term interests also. They must encourage employees to grow and realise their full potential. Promotions are an integral part of people's career. They refer to being placed in positions of increased responsibility. They usually

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mean more pay, responsibility and job satisfaction.

(viii) **Compensation**

All organisations need to establish wage and salary plans for their employees. There are various ways to prepare different pay plans depending on the worth of the job. Basically the price of the job needs to be determined. Compensation, therefore, refers to all forms of pay or rewards going to employees. It may be in the form of direct financial payments like wages, salaries, incentives, commissions and bonuses and indirect payments like employer paid insurance and vacations.

Direct financial payments are of two types : time based or performance based. A time based plan means salary and wages are paid either daily, weekly or monthly or annually. Performance based plans means salary/wages are paid according to piecework. For example, a worker may be paid according to the number of units produced by him/her. There are many methods to calculate the compensation under various incentive plans to reward performance. Certain pay plans can be created which are a combination of time based pay plus incentives for higher performance. Various plans may be formulated for paying employees time based wage or salary as well as performance based financial incentives and bonuses, and employee benefits.

Besides there are some other factors also which influence the design of any pay plan, like legal (labour laws), union, company policy and equity.

Thus, we see that as a process, staffing includes acquisition, retention, development, performance appraisal, promotion and compensation of the most important resource of an organisation, that is, its human capital.

It needs to be kept in mind that several factors such as supply and demand of specific skills in the labour market, unemployment rate, labour market conditions, legal and political considerations, company's image, policy, human resource planning cost, technological developments and general economic environment etc., will influence the way recruitment, selection and training will be actually carried out.

## Aspects of Staffing

There are three aspects of staffing: recruitment, selection and training. These are now discussed in detail.

## Recruitment

Recruitment refers to the process of finding possible candidates for a job or a function. It has been defined as

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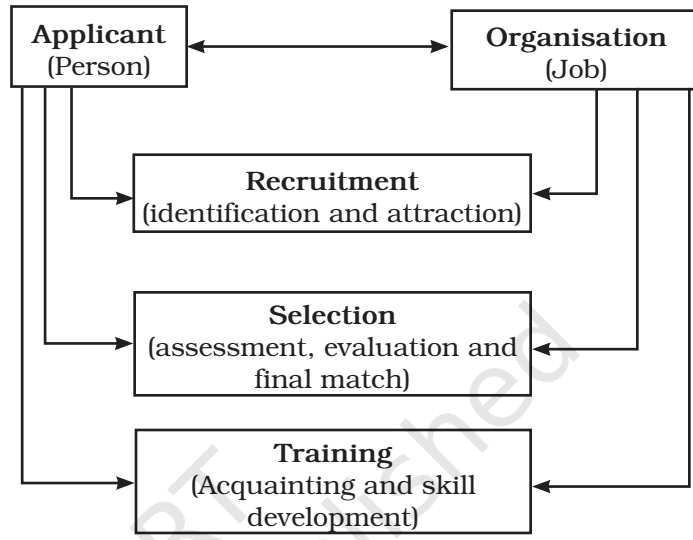
'the process of searching for prospective employees and stimulating them to apply for jobs in an organisation.'

Advertising is commonly part of the recruitment process, and can occur through several means, through newspapers, using newspaper dedicated to job advertisement, through professional publication, using advertisements placed in windows, through a job center, through campus interviews, etc.




*Aspects of Staffing*

## Sources of Recruitment

The object of recruitment is to attract potential employees with the necessary characteristics or qualification, in the adequate number for the jobs available. It locates available people for the job and invites them to apply for the job in the organisation. The process of recruitment precedes the process of selection of a right candidate for the given positions in the organisation. Recruitment seeks to attract suitable applicants to apply for available jobs. The various activities involved with the process of recruitment includes (a) identification of the different sources of labour supply, (b) assessment of their validity, (c) choosing the most suitable source or sources, and (d) inviting applications from the prospective candidates, for the vacancies.

The requisite positions may be filled up from within the organisation or from outside. Thus, there are two sources of recruitment – Internal and External.

## Internal Sources

There are two important sources of internal recruitment, namely, transfers and promotions, which are discussed below:

(i) **Transfers:** It involves shifting of an employee from one job to another, one department to another or from one shift to another, without a substantive change in the responsibilities and status of the employee. It may lead to changes in duties

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and responsibilities, working condition etc., but not necessarily salary. Transfer is a good source of filling the vacancies with employees from over-staffed departments. It is practically a horizontal movement of employees. Shortage of suitable personnel in one branch may be filled through transfer from other branch or department. Job transfers are also helpful in avoiding termination and in removing individual problems and grievances. At the time of transfer, it should be ensured that the employee to be transferred to another job is capable of performing it. Transfers can also be used for training of employees for learning different jobs.

(ii) **Promotions:** Business enterprises generally follow the practice of filling higher jobs by promoting employees from lower jobs. Promotion leads to shifting an employee to a higher position, carrying higher responsibilities, facilities, status and pay. Promotion is a vertical shifting of employees. This practice helps to improve the motivation, loyalty and satisfaction level of employees. It has a great psychological impact over the employees because a promotion at the higher level may lead to a chain of promotions at lower levels in the organisation.

## Merits of Internal Sources

Filling vacancies in higher jobs from within the organisation or through internal transfers has the following merits:

(i) Employees are motivated to improve their performance. A promotion at a higher level may lead to a chain of promotion at lower levels in the organisation. This motivates the employees to improve their performance through learning and practice. Employees work with commitment and loyalty and remain satisfied with their jobs. Also peace prevails in the enterprise because of promotional avenues;

(ii) Internal recruitment also simplifies the process of selection and placement. The candidates that are already working in the enterprise can be evaluated more accurately and economically. This is a more reliable way of recruitment since the candidates are already known to the organisation;

(iii) Transfer is a tool of training the employees to prepare them for higher jobs. Also people recruited from within the organisation do not need induction training;

(iv) Transfer has the benefit of shifting workforce from the surplus departments to those where there is shortage of staff;

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(v) Filling of jobs internally is cheaper as compared to getting candidates from external sources.

## Limitations of Internal Sources

The limitations of using internal sources of recruitment are as follows:

(i) When vacancies are filled through internal promotions, the scope for induction of fresh talent is reduced. Hence, complete reliance on internal recruitment involves danger of 'inbreeding' by stopping 'infusion of new blood' into the organisation;

(ii) The employees may become lethargic if they are sure of time-bound promotions;

(iii) A new enterprise cannot use internal sources of recruitment. No organisation can fill all its vacancies from internal sources;

(iv) The spirit of competition among the employees may be hampered; and

(v) Frequent transfers of employees may often reduce the productivity of the organisation.

## External Sources

An enterprise has to tap external sources for various positions because all the vacancies cannot be filled through internal recruitment. The existing staff may be insufficient or they may not fulfill the eligibility criteria of the jobs to be filled. External recruitment provides wide choice and brings new blood in the organisation. The commonly used external sources of recruitment are discussed below:

(i) **Direct Recruitment:** Under the direct recruitment, a notice is placed on the notice-board of the enterprise specifying the details of the jobs available. Job-seekers assemble outside the premises of the organisation on the specified date and selection is done on the spot. The practice of direct recruitment is followed usually for casual vacancies of unskilled or semi-skilled jobs. Such workers are known as casual or '*badli*' workers and they are paid remuneration on daily wage basis. This method of recruitment is very inexpensive as it does not involve any cost of advertising the vacancies. It is suitable for filling casual vacancies when there is a rush of work or when some permanent workers are absent.

(ii) **Casual Callers:** Many reputed business organisations keep a database of unsolicited applicants in their offices. Such job-seekers can be a valuable source of manpower. A list of such job-seekers can be prepared and can be screened to fill the vacancies as they arise. The major merit of this source

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of recruitment is that it reduces the cost of recruiting workforce in comparison to other sources.

(iii) **Advertisement:** Advertisement in newspapers or trade and professional journals is generally used when a wider choice is required. Most of the senior positions of industry as well as commerce are filled by this method. The advantage of advertising vacancies is that more information about the organisation and job can be given in the advertisement. Advertisement gives the management a wider range of candidates from which to choose. Advertisements may be placed in leading newspapers. Its disadvantage is that it may bring in a flood of response, and many times, from quite unsuitable candidates.

(iv) **Employment Exchange:** Employment exchanges run by the Government are regarded as a good source of recruitment for unskilled and skilled operative jobs. In some cases, compulsory notification of vacancies to employment exchange is required by law. Thus, employment exchanges help to match personnel demand and supply by serving as link between job-seekers and employers. Unfortunately, the records of employment exchange are often not up to date and many of the candidates referred by them may not be found suitable.

(v) **Placement Agencies and Management Consultants:** In technical and professional areas, private agencies and professional bodies appear to be doing substantive work. Placement agencies provide a nationwide service in matching personnel demand and supply. These agencies compile bio-data of a large number of candidates and recommend suitable names to their clients. Such agencies charge fee for their services and they are useful where extensive screening is required. These professional recruiters can entice the needed top executives from other companies by making the right offers.

Management consultancy firms help the organisations to recruit technical, professional and managerial personnel. They specialise in middle level and top level executive placements. They maintain data bank of persons with different qualifications and skills and even advertise the jobs on behalf of their clients to recruit right type of personnel.

(vi) **Campus Recruitment:** Colleges and institutes of management and technology have become a

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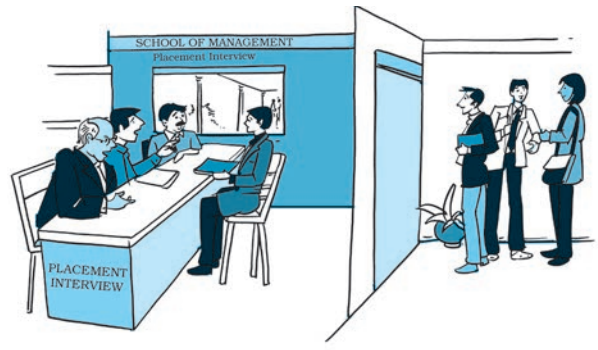
popular source of recruitment for technical, professional and managerial jobs. Many big organisations maintain a close liaison with the universities, vocational schools and management institutes to recruit qualified personnel for various jobs. Recruitment from educational institutions is a well-established practice of businesses. This is referred to as campus recruitment.

(vii) **Recommendations of Employees:** Applicants introduced by present employees, or their friends and relatives may prove to be a good source of recruitment. Such applicants are likely to be good employees because their background is sufficiently known. A type of preliminary screening takes place because the present employees know both the company and the candidates and they would try to satisfy both.

(viii) **Labour Contractors:** Labour contractors maintain close contacts with labourers and they can provide the required number of unskilled workers at short notice. Workers are recruited through labour contractors who are themselves employees of the organisation. The disadvantages of this system are that if the contractor himself decides to leave the organisation, all the workers employed through him will follow suit.

(ix) **Advertising on Television:** The practice of telecasting of vacant posts over Television is gaining importance these days. The detailed requirements of the job and the qualities required to do it are publicised alongwith the profile of the organisation where vacancy exists.

(x) **Web Publishing:** Internet is becoming a common source of recruitment these days. There are certain websites specifically designed and dedicated for the purpose of providing information about both job seekers and job opening. In fact, websites are very commonly visited both by the prospective employees and the organisations searching for suitable people.




*Campus Recruitment*

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### Merits of External Sources

The advantages of using external sources of recruitment are as follows:

(i) *Qualified Personnel:* By using external sources of recruitment, the management can attract qualified and trained people to apply for vacant jobs in the organisation.

(ii) *Wider Choice:* When vacancies are advertised widely, a large number of applicants from outside the organisation apply. The management has a wider choice while selecting the people for employment.

(iii) *Fresh Talent:* The present employees may be insufficient or they may not fulfill the specifications of the jobs to be filled. External recruitment provide wider choice and brings new blood in the organisation. However, it is expensive and time-consuming.

(iv) *Competitive Spirit:* If a company taps external sources, the extisting staff will have to compete with the outsiders. They will work harder to show better performance.

### Limitations of External Sources

1. *Dissatisfaction among existing staff:* External recruitment may lead to dissatisfaction and frustration among existing employees. They may feel that their chances of promotion are reduced.
2. *Lengthy process:* Recruitment from external sources takes a long time. The business has to notify the vacancies and wait for applications to initiate the selection process.
3. *Costly process:* It is very costly to recruit staff from external sources. A lot of money has to be spent on advertisement and processing of applications.

## SELECTION

Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job. Towards this purpose, the candidates are required to take a series of employment tests and interviews. At every stage many are eliminated and a few move on to the next stage until the right type is found. The process may start right from the screening of the applications. It may continue even after the offer of employment, acceptance and joining of the candidate. It is so because the process of selection, like any other managerial decision, involves judgment about the performance potential of the candidate. The effectiveness of the selection process would ultimately be tested in terms of on-the-job of the chosen person.

### Process of Selection

The important steps in the process of selection are as follows:

(i) **Preliminary Screening:** Preliminary screening helps the

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**...Hiring via employee referrals on the rise**

When Lenovo India decided to strengthen its diversity numbers, it decided to tap into its referral system. The company asked its employees to recommend candidates, and decided to reward those who successfully recommended more women for the same roles. As employee referrals become an established method to hire quality lateral talent, companies are using technology platforms to build a steady talent pipeline through referrals. A majority of companies (nearly 41%, according to one study) across India use top technology for referral hires. According to the study India Recruiting Trends 2016 conducted by LinkedIn Talent Solutions, employee referrals are on the rise. This year, referrals were the top source of quality hires. "Nearly 55% of talent leaders see employee referral programmes as the top source of quality hire," says Irfan Abdulla, director, talent solutions, LinkedIn India. Top players such as Coca-Cola, Infosys, Genpact, Capgemini, Deloitte, Dabur, Jubilant and more are reporting that over 40% of their hires come through referrals.

Today, technology major Infosys, for instance, has enhanced the use of technology for the employee referral process. It has created a portal where employees can view requirements and submit profiles of candidates directly. Employees can then track the status of their referral real-time. Richard Lobo, senior vice president and head HR, Infosys, says a majority of their hiring now takes place through the referral route. "Employees can make a good referral decision as they understand the aspirations of the candidate they refer as well as the requirements and culture of the company," he said.

*Source: https://economictimes.indiatimes.com ›, August 19, 2016*

manager eliminate unqualified or unfit job seekers based on the information supplied in the application forms. Preliminary interviews help reject misfits for reasons, which did not appear in the application forms.

(ii) **Selection Tests:** An employment test is a mechanism (either a paper and pencil test or an exercise) that attempts to measure certain characteristics of individuals. These characteristics range from aptitudes, such as manual dexterity, to intelligence to personality.

**Important Tests Used for Selection of Employees:**

(a) *Intelligence Tests:* This is one of the important psychological tests used to measure the level of intelligence quotient of an individual. It is an indicator of a person's learning ability or the ability to make decisions and judgments.

(b) *Aptitude Test:* It is a measure of individuals potential for learning new skills. It indicates the person's capacity to develop.

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**Intense Competition, Talent Crunch Push Companies to Hand Out 15-20% Pay Hikes**

Indian employees have never had it so good. Intense competition and rising attrition levels are forcing companies to hand out 15-20% mid-term salary hikes.

Reliance Industries, Marico and Dabur have offered mid-term increments and out-of-turn hikes of 15-20% to top performers in recent months. This is over and above the 15-20% salary hikes handed out during annual appraisals last year. This comes at a time when India Inc. is desperately trying to hold back talent, especially in telecom, IT, BPO and retail.

A massive recruitment spree in sunrise sectors like BPO, telecom and retail has led to a demand-supply mismatch and mid-term hikes going up to 40%. Average attrition rates in IT have moved up to 22% from 18% and those in BPOs to 50% from 46%. In the manufacturing sector, talent exodus is averaging 8-12%.

Several corporates are even offering bonuses and increments on a quarterly basis to top teams. An HR head said, "Although it is a short-term reaction, we have to react proactively to the market scenario and retain our performers. If one loses an employee, the average time taken for a new person to pick up the skills is up to six months, which is critical time lost for a company. Also, replacement costs like hiring consultants would in any case add up to a huge expense and a lot of pressure on HR," said Dabur India HR chief.

Company are identifying people who may be tempted to leave and are devising ways of retaining such talent – offering learning and development facilities for freshers, sending them abroad on one-year bonds (for six-months postings), etc.

*Source: The Economic Times, 1st Dec. 06*

Such tests are good indices of a person's future success score.

(c) *Personality Tests:* Personality tests provide clues to a person's emotions, her reactions, maturity and value system etc. These tests probe the overall personality. Hence, these are difficult to design and implement.

(d) *Trade Test:* These tests measure the existing skills of the individual. They measure the level of knowledge and proficiency in the area of professions or technical training. The difference between aptitude test and trade test is that the former measures the potential to acquire skills and the later the actual skills possessed.

(e) *Interest Tests:* Every individual has fascination for some job than the other. Interest tests are used to know the pattern of interests or involvement of a person.

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(iii) **Employment Interview:** Interview is a formal, in-depth conversation conducted to evaluate the applicant's suitability for the job. The role of the interviewer is to seek information and that of the interviewee is to provide the same. Though, in present times, the interviewee also seeks information from interviewer.

(iv) **Reference and Background Checks:** Many employers request names, addresses, and telephone numbers of references for the purpose of verifying information and, gaining additional information on an applicant. Previous employers, known persons, teachers and university professors can act as references.

(v) **Selection Decision:** The final decision has to be made from among the candidates who pass the tests, interviews and reference checks. The views of the concerned manager will be generally considered in the final selection because it is he/she who is responsible for the performance of the new employee.

(vi) **Medical Examination:** After the selection decision and before the job offer is made, the candidate is required to undergo a medical fitness test. The job offer is given to the candidate being declared fit after the medical examination.

(vii) **Job Offer:** The next step in the selection process is job offer to those applicants who have passed all the previous hurdles. Job offer is made through a letter of appointment/confirm his acceptance. Such a letter generally contains a date by which the appointee must report on duty. The appointee must be given reasonable time for reporting.

(viii) **Contract of Employment:** After the job offer has been made and candidate accepts the offer, certain documents need to be

**Right/ Wrong Selection Decisions Matter a lot to the Organisations!**

Consider, for a moment that any selection decision can result in 4 possible outcomes. A decision is correct when an applicant was predicted to be successful and proved to be successful on the job, or when the applicant was predicted to be unsuccessful and would perform accordingly if hired. In the first case, we have successfully accepted; in the second case we have successfully rejected. Problems arise when errors are made in rejecting candidates who would have performed successfully on the job (reject errors) or accepting those who ultimately perform poorly (accept errors). Don't you think, these problems can be significant and can result in costly mistakes?

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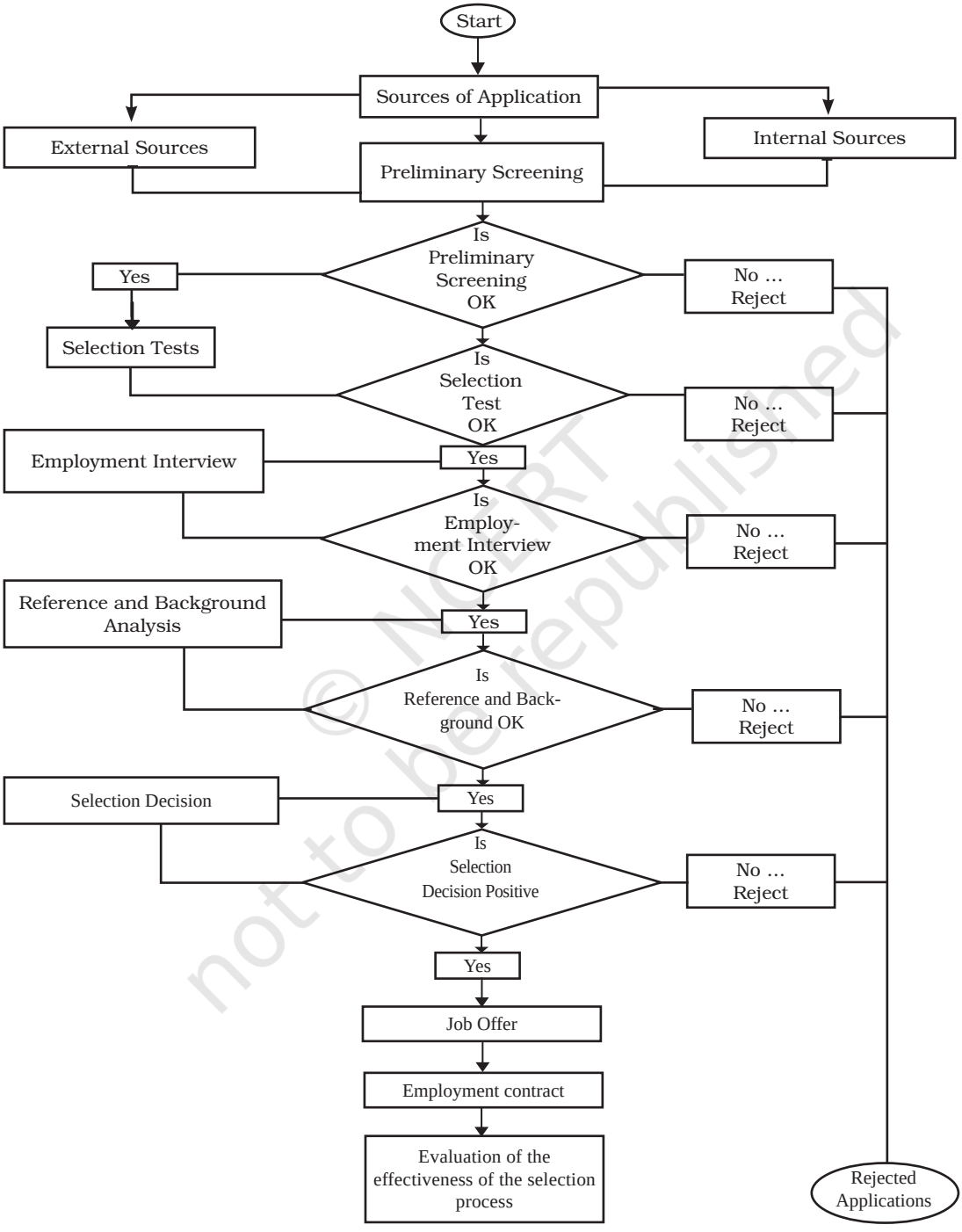


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executed by the employer and the candidate. One such document is the attestation form. This form contains certain vital details about the candidate, which are authenticated and attested by him or her. Attestation form will be a valid record for future reference. There is also a need for preparing a contract of employment. Basic information that should be included in a written contract of employment will vary according to the level of the job, but the following checklists sets out the typical headings: Job Title, Duties, Responsibilities, Date when continuous employment starts and the basis for calculating service, rates of pay, allowances, hours of work, leave rules, sickness, grievance procedure, disciplinary procedure, work rules, termination of employment.

## Training and Development

Someone has rightly said:

"If you wish to plan for a year, sow seeds,

If you wish to plan for 10 years, plant trees,

If you wish to plan for a lifetime, develop people."

Training and Development is an attempt to improve the current or future employee performance by increasing an employee's ability to perform through learning, usually by changing the employee's attitude or increasing his or her skills and knowledge.

### Importance of Training and Development

When jobs were simple, easy to learn and influenced to only a small degree by technological changes, there was little need for employees to upgrade or alter their skills. But the rapid changes taking place during the last quarter century in our highly sophisticated and complex society have created increased pressures for organisations to readapt the products and services produced, the manner in which products and services are produced and offered, the types of jobs required and the types of skills necessary to complete these jobs. Thus, as jobs have become more complex the importance of employee training has increased.

Training and development help both the organisation and the individual.

### Benefits to the organisation

The benefits of training and development to an organisation are as follows:

(i) Training is a systematic learning, always better than hit and trial methods which lead to wastage of efforts and money.

(ii) It enhances employee productivity both in terms of quantity and quality, leading to higher profits.

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(iii) Training equips the future manager who can take over in case of emergency.
(iv) Training increases employee morale and reduces absenteeism and employee turnover.
(v) It helps in obtaining effective response to fast changing environment – technological and economic.

## Benefits to the Employee

The benefits of training and development activity to the employees are as follows:

(i) Improved skills and knowledge due to training lead to better career of the individual.
(ii) Increased performance by the individual help him to earn more.
(iii) Training makes the employee more efficient to handle machines. Thus, less prone to accidents.
(iv) Training increases the satisfaction and morale of employees.

## Training, Development and Education

The term training is used to indicate the process by which attitudes, skills and abilities of employees to perform specific jobs are increased. But the term development means growth of individual in all respects. Training is short term process but development is an on going process. Also, development includes training.

It also needs to be understood that training, education and development are distinct terms although they overlap to some extent.

**Training** is any process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased. It is a process of learning new skills and application of knowledge. It attempts to improve their performance on the current job or prepare them for any intended job.

**Education** is the process of increasing the knowledge and understanding of employees. It is the understanding and interpretation of knowledge. It does not provide definite answers, but rather develops a logical and rational mind that can determine relationships among pertinent variables and thereby understand a phenomenon. Education imparts qualities of mind and character and understanding of the basic principles and develop the capacities of analysis, synthesis and objectivity. Education is broader in scope than training. Training is tied to the goals of organisations more than to the goals of the individual.

**Development** refers to the learning opportunities designed to help employees grow. It covers not only those activities which improve job performance but also those which bring about growth of the personality, help individuals in the progress towards maturity and actualisation of their potential

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**Difference between Training and Development**

| Training | Development |
|---|---|
| It is a process of increasing knowledge and skills. | It is a process of learning and growth. |
| It is to enable the employee to do the job better. | It is to enable the overall growth of the employee. |
| It is a job oriented process. | It is a career oriented process. |

capacities so that they become not only good employees but better men and women.

The field of training and development concerned with improving deals with the design and delivery of learning to improve performance within organisations. In some organisations the term Learning and Development is used instead of Training and Development in order to emphasise the importance of learning for the individual and the organisation. In other organisations, the term Human Resource Development is used.

## Training Methods

There are various methods of training. These are broadly categorised into two groups: On-the-Job and Off-the-Job methods. On-the-Job methods refer to the methods that are applied to the workplace, while the employee is actually working. Off-the-Job methods are used away from the work place. The former means learning while doing, while the latter means learning before doing.

## On the Job Methods

(i) **Apprenticeship Programmes:** Apprenticeship programmes put the trainee under the guidance of a master worker. These are designed to acquire a higher level of skill. People seeking to enter skilled jobs, to become, for example, plumbers, electricians or iron-workers, are often required to undergo apprenticeship training. These apprentices are trainees who spend a prescribed amount of time working with an experienced guide, or trainer. A uniform period of training is offered to trainees, in which both fast and slow learn here, are placed together. Slow learners may require additional training.

(ii) **Coaching:** In this method, the superior guides and instructs the trainee as a coach. The coach or counselor sets mutually agreed upon goals, suggests how to achieve these goals, periodically reviews the trainees progress

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and suggests changes required in behavior and performance. The trainee works directly with a senior manager and the manager takes full responsibility for the trainee's coaching. Classically the trainee is being groomed to replace the senior manager and relieve him from some of his duties. This gives a chance for the trainee to learn the job also.

(iii) **Internship Training:** It is a joint programme of training in which educational institutions and business firms cooperate. Selected candidates carry on regular studies for the prescribed period. They also work in some factory or office to acquire practical knowledge and skills.

(iv) **Job Rotation:** This kind of training involves shifting the trainee from one department to another or from one job to another. This enables the trainee to gain a broader understanding of all parts of the business and how the organisation as a whole functions. The trainee gets fully involved in the departments operations and also gets a chance to test her own aptitude and ability. Job rotation allows trainees to interact with other employees facilitating future cooperation among departments. When employees are trained by this method, the organisation finds it easier at the time of promotions, replacements or transfers.

## Off the Job Methods

(i) **Class Room Lectures/Conferences:** The lecture or conference approach is well adapted to conveying specific information-rules, procedures or methods. The use of audio-visuals or demonstrations can often make a formal classroom presentation more interesting while increasing retention and offering a vehicle for clarifying more difficult points.

(ii) **Films:** They can provide information and explicitly demonstrate skills that are not easily represented by the other techniques. Used in conjunction with conference discussions, it is a very effective method in certain cases.

(iii) **Case Study:** Taken from actual experiences of organisations, cases represent attempts to describe, as accurately as possible real problems that managers have faced. Trainees study the cases to determine problems, analyse causes, develop alternative solutions, select what they believe to be the best solution, and implement it.

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(iv) **Computer Modelling:** It simulates the work environment by programming a computer to imitate some of the realities of the job and allows learning to take place without the risk or high costs that would be incurred if a mistake were made in real life situation.

(v) **Vestibule Training:** Employees learn their jobs on the equipment they will be using, but the training is conducted away from the actual work floor. Actual work environments are created in a class room and employees use the same materials, files and equipment. This is usually done when employees are required to handle sophisticated machinery and equipment.

(vi) **Programmed Instruction:** This method incorporates a prearranged and proposed acquisition of some specific skills or general knowledge. Information is broken into meaningful units and these units are arranged in a proper way to form a logical and sequential learning package i.e. from simple to complex. The trainee goes through these units by answering questions or filling the blanks.

## Key Terms

Staffing | Personnel Management

Human Resource Management

Recruitment | Selection

Training | Development

Performance Appraisal | Assessment Tests

## Summary

**Meaning**: Staffing has been described as the managerial function of filling and keeping filled, the positions in an organisation structure. This is achieved by, first of all, identifying requirement of work force, followed by recruitment, selection, placement, promotion, appraisal and development of personnel, to fill the roles designed into the organisation structure.

**Need and Importance of Staffing**: In any organisation, there is a need for people to perform work. The staffing function of management fulfills this requirement and finds the right people for the right job.

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The staffing function has assumed greater importance these days because of rapid advancement of technology, increasing size of organisation and complicated behaviour of human beings. The ability of an organisation to achieve its goal depends upon the quality of its human resources.

**Staffing as part of Human Resource Management:** Staffing is a function which all managers need to perform. It is a separate and specialised function and there are many aspects of human relations to be considered.

It is the responsibility of all managers to directly deal and select people to work for the organisation. When the manager performs the staffing function his role is slightly limited. In small organisations, managers may perform all duties related to employees salaries, welfare and working conditions.

But as organisations grow and number of persons employed increases, a separate department called the human resource department is formed which has specialists in the field to manage people.

Human Resource Management includes many specialised activities and duties which the human resource personnel must perform.

**Evolution of HRM:** Human resource management has replaced the traditional concept of labour welfare and personnel management. HRM in its present form has evolved from a number of significant inter-related developments, which date back to the era of industrial revolution. Emergence of trade union movement led to the need of a person who could act as an effective link between the owners and workers.

You may have observed that all these aspects are concerned with the human element in the industry as distinct from the mechanical side of the enterprise. Thus, staffing is an inherent part of human resource management as it is the practice of finding, evaluating and establishing a working relationship with people, for a purpose.

**Staffing Process**: The prime concern of the staffing function in the management process is the timely fulfillment of the manpower requirements within an organisation.

*Estimating the Manpower Requirements:* Performance of each job necessitates the appointment of a person with a specific set of educational qualifications, skills, prior experience and so on. Operationally, understanding the manpower requirements would necessitate workload analysis on the one hand and workforce analysis on the other.

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*Recruitment:* Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.

*Selection:* Selection is the process of choosing from among the pool of the prospective job candidates developed at the stage of recruitment.

*Placement and Orientation:* Orientation is introducing the selected employee to other employees and familiarising him with the rules and policies of the organisation. Placement refers to the employee occupying the position or post for which the person has been selected.

*Training and Development:* What people seek is not simply a job but a career. Every one must have the opportunity to rise to the top. The best way to provide such an opportunity is to facilitate employee learning.

**Recruitment**

Recruitment refers to the process of finding possible candidates for a job or function.

**Sources of Recruitment:** The requisite positions may be filled up from within the organisation or from outside. Thus, there are two sources of recruitment – Internal and External.

*Internal Sources:* Recruitment from within the enterprise. There are two important sources of internal recruitment, namely, transfers and promotions.

*External Sources:* An enterprise has to tap external sources for various positions because all the vacancies cannot be filled through internal recruitment. The commonly used external sources of recruitment are Direct Recruitment, Casual Callers, Advertisements, Employment Exchange, Placement Agencies and Management Consultants, Campus Recruitment, Recommendations of Employees, Labour Contractors, Advertising on Television and Web Publishing.

**Process of Selection:** (i) Preliminary Screening: Application Form (ii) Selection Tests: (a) Intelligence Tests (b) Aptitude Test (c) Personality Tests (d) Trade Test (e) Interest Tests
(iii) Employment (iv) Interview, (v) Reference and Background Checks, (vi) Selection Decision, (vii) Medical Examination, (viii) Job Offer (ix) Contract of Employment

**Training and Development**

**Need of Training and Development**

The rapid changes taking place in our highly sophisticated and complex society have created increased pressures for organisations

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to readapt the products and services produced, the manner in which products and services are produced and offered, the types of jobs required and the types of skills necessary to complete these jobs.
**Training** is any process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased.
**Education** is the process of increasing the knowledge and understanding of employees. It is the understanding and interpretation of knowledge.
**Development** refers to the learning opportunities designed to help employees grow.

**Training Methods**
There are various methods of training. These are broadly categorised into two groups: On-the-Job and Off-the-Job methods.
**On the Job Methods**
(i) Apprenticeship Programs (ii) Coaching (iii) Internship Training (iv) Job Rotation
**Off the Job Methods**
(i) Class Room Lectures/Conferences (ii) Films (iii) Case Study (iv) Computer Modelling (v) Vestibule Training (vi) Programmed Instruction.

## Exercises

**Very Short Answer Type**

1. What is meant by staffing?
2. State the two important sources of recruitment.
3. The workers of a factory are unable to work on new machines and always demand for help of supervisor. The Supervisor is overburdened with their frequent calls. Suggest the remedy. ( Hint: training)
4. The quality of production is not as per standards. On investigation it was observed that most of the workers were not fully aware of the proper operation of the machinery. What could be the way to improve the quality of production to meet the standards? (training).
5. The workers of a factory remain idle because of lack of knowledge of hi-tech machines. Frequent visit of engineer is made which causes high overhead charges. How can this problem be removed. (vestibule training)

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**Short Answer Type**

1. What is meant by recruitment? How is it different from selection?
2. An organisation provides security services. It requires such candidates who are reliable and don't leak out the secrets of their clients. What steps should be incorporated in selection process?
3. A company is manufacturing paper plates and bowls. It produces 1,00,000 plates and bowls each day. Due to local festival, it got an urgent order of extra 50,000 plates and bowls. Explain the method of recruitment that the company should adopt in the given circumstances to meet the order.
4. Distinguish between training and development.
5. Why are internal sources of recruitment considered to be more economical?
6. ' No organisation can be successful unless it fills and keeps the various positions filled with the right kind of people for the right job.' Elucidate

**Long Answer Type**

1. 'Human resource management includes many specialized activities and duties.' Explain.
2. Explain the procedure for selection of employees.
3. What are the advantages of training to the individual and to the organisation?
4. Kaul Consultants have launched www.naukaripao.com exclusively for senior management professionals. The portal lists out senior level jobs and ensures that the job is genuine through rigorous screening process.
   a. State the source of recruitment highlighted in the case above.
   b. State four benefits of the above identified source of recruitment.
5. A company, Xylo limited, is setting up a new plant in India for manufacturing auto components. India is a highly competitive and cost effective production base in this sector. Many reputed car manufacturers source their auto components from here. Xylo limited is planning to capture about 40% of the market share in India and also export to the tune of at least ₹ 50 crores in about 2 years of its planned

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operations. To achieve these targets it requires a highly trained and motivated work force. You have been retained by the company to advise it in this matter. While giving answers keep in mind the sector the company is operating.

**Questions:**

a. Outline the process of staffing the company should follow.
b. Which sources of recruitment the company should rely upon. Give reasons for your recommendation.
c. Outline the process of selection the company should follow with reasons.

6. A major insurance company handled all recruiting, screening and training processes for data entry/customer service representatives. Their competitor was attracting most of the qualified, potential employees in their market. Recruiting was made even more difficult by the strong economy and the 'jobseeker's market.' This resulted in the client having to choose from candidates who had the 'soft' skills needed for the job, but lacked the proper 'hard' skills and training.

**Questions**

a. As an HR manager what problems do you see in the company?
b. How do you think it can be resolved and what would be its impact on the company?

7. Ms. Jayshree recently completed her Post Graduate Diploma in Human Resource Management. A few months from now a large steel manufacturing company appointed her as its human resource manager. As of now, the company employs 800 persons and has an expansion plan in hand which may require another 200 persons for various types of additional requirements. Ms. Jayshree has been given complete charge of the company's Human Resource Department.

**Questions**

a. Point out, what functions is she supposed to perform?
b. What problems do you foresee in her job?
c. What steps is she going to take to perform her job efficiently?
d. How significant is her role in the organisation?

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# 7 CHAPTER

# DIRECTING

**Grassroot Leadership - Ford Motor Co.**

Ford has always attracted and nurtured capable managers and technicians, but it has failed to do the same for change agents and leaders. So, as part of the automaker's cultural overhaul, Ford is embarking on a sweeping attempt to mass-manufacture leaders. It wants to build an army of "warrior-entrepreneurs" — people who have the courage and skills to topple old ideas, and who believe in change passionately enough to make it happen.

Ford Motor Company announced key changes to its senior management team as it continues to strengthen its automotive business, improve the company's operational fitness, and accelerate a strategic shift to capitalize on emerging opportunities. In announcing the leadership changes, Ford President and CEO Jim Hackett said Form is "very fortunate to have an experienced and committed executive team in place to significantly strengthen their business while building towards their vision of becoming the world's most trusted mobility company. Their objective is to lead business to new levels of operational fitness, product and brand excellence and profitability.

Ford views grassroot leadership as the best vehicle for creating a successful business.

*Source: http://media.ford.com/content/fordmedia/fna/us/en/news/2018/02/22/company-news.html*

## LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Explain the concept of directing and its importance in business organisations;
- Understand the principles guiding directing process;
- Explain the meaning of supervision and its importance;
- Explain the meaning of motivation and its importance in business management;
- Understand and explain Maslow's theory of hierarchy of needs and its application to motivation of employees in an organisation;
- Explain the financial and non-financial incentives through which managers motivate their employees;
- Explain the concept of leadership and its importance in management;
- Describe the qualities of a good leader;
- Explain about formal and informal communications in the organisations; and
- Identify various barriers to effective communications and measures to overcome these barriers in the organisations.

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## Introduction

The above case reveals how important it is to instill leadership qualities in all managers. Business organisations have always given due importance to its managers who are capable of leading others. A manager needs to use various ways to lead, motivate and inspire the subordinates and to communicate with them suitably. These ways, discussed in the present chapter, are collectively called the directing function of management.

## Meaning

In the ordinary sense, directing means giving instructions and guiding people in doing work. In our daily life, we come across many situations like a hotel owner directing his employees to complete certain activities for organising a function, a teacher directing his student to complete an assignment, a film director directing the artists about how they should act in the film etc. In all these situations, we can observe that directing is done to achieve some predetermined objective.

In the context of management of an organisation, directing refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives.

You can observe here that directing is not a mere issue of communication but encompasses many elements like supervision, motivation and leadership. It is one of the key managerial functions performed by every manager. Directing is a managerial process which takes place throughout the life of an organisation.

The main characteristics of directing are discussed below:

(i) *Directing initiates action:* Directing is a key managerial function. A manager has to perform this function along with planning, organising, staffing and controlling while discharging his duties in the organisation. While other functions prepare a setting for action, directing initiates action in the organisation.

(ii) *Directing takes place at every level of management:* Every manager, from top executive to supervisor performs the function of directing. The directing takes place wherever superior – subordinate relations exist.

(iii) *Directing is a continuous process:* Directing is a continuous activity. It takes place throughout the life of the organisation irrespective of people occupying managerial positions. We can observe that in organisations like Infosys, Tata, BHEL, HLL and the managers may change but the directing process continues because without direction the organisational activities can not continue further.

(iv) *Directing flows from top to bottom:* Directing is first initiated at top level and flows to the bottom through organisational hierarchy.

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It means that every manager can direct his immediate subordinate and take instructions from his immediate boss.

## Importance of Directing

The importance of directing can be understood by the fact that every action in the organisation is initiated through directing only. Directing guides towards achievement of common objectives. Through directing, managers not only tell the people in the organisation as to what they should do, when they should do and how they should do but also see that their instructions are implemented in proper perspective. Very often, this becomes an important factor in the efficient and effective functioning of the organisation. The points which emphasise the importance of directing are presented as follows:

(i) Directing helps to initiate action by people in the organisation towards attainment of desired objectives. For example, if a supervisor guides his subordinates and clarifies their doubts in performing a task, it will help the worker to achieve work targets given to him.

(ii) Directing integrates employees-efforts in the organisation in such a way that every individual effort contributes to the organisational performance. Thus, it ensures that the individuals work for organisational goals. For example, a manager with good leadership abilities will be in a position to convince the employees working under him that individual efforts and team effort will lead to achievement of organisational goals.

(iii) Directing guides employees to fully realise their potential and capabilities by motivating and providing effective leadership. A good leader can always identify the potential of his employees and motivate them to extract work up to their full potential.

(iv) Directing facilitates introduction of needed changes in the organisation. Generally, people have a tendency to resist changes in the organisation. Effective directing through motivation, communication and leadership helps to reduce such resistance and develop required cooperation in introducing changes in the organisation. For example, if a manager wants to introduce new system of accounting, there may be initial resistance from accounting staff. But, if manager explains the purpose, provides training and motivates with additional rewards, the employees may accept change and cooperate with manager.

(v) Effective directing helps to bring stability and balance in the organisation since it fosters cooperation and commitment

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among the people and helps to achieve balance among various groups, activities and the departments.

## Principles of Directing

Providing good and effective directing is a challenging task as it involves many complexities. A manager has to deal with people with diverse background, and expectations. This complicates the directing process. Certain guiding principles of directing may help in directing process. These principles are briefly explained below:

(i) *Maximum individual contribution:* This principle emphasises that directing techniques must help every individual in the organisation to contribute to his maximum potential for achievement of organisational objectives. It should bring out untappted energies of employees for the efficiency of organisation. For example, a good motivation plan with suitable monetary and non-monetary rewards can motivate an employee to contribute his maximum efforts for the organisation as he or she may feel that their efforts will bring them suitable rewards.

(ii) *Harmony of objectives:* Very often, we find that individual objectives of employees and the organisational objectives as understood are conflicting to each other. For example, an employee may expect attractive salary and monetary benefits to fulfill his personal needs. The organisation may expect employees to improve productivity to achieve expected profits. But, good directing should provide harmony by convincing that employee rewards and work efficiency are complimentary to each other.

(iii) *Unity of Command:* This principle insists that a person in the organisation should receive instructions from one superior only. If instructions are received from more than one, it creates confusion, conflict and disorder in the organisation. Adherence to this principle ensures effective direction.

(iv) *Appropriateness of direction technique:* According to this principle, appropriate motivational and leadership technique should be used while directing the people based on subordinate needs, capabilities, attitudes and other situational variables. For example, for some people money can act as powerful motivator while for others promotion may act as effective motivator.

(v) *Managerial communication:* Effective managerial communication across all the levels in the organisation makes direction effective. Directing should convey clear instructions to create total understanding to subordinates. Through proper feedback, the

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managers should ensure that subordinate understands his instructions clearly.

(vi) *Use of informal organisation:* A manager should realise that informal groups or organisations exist within every formal organisation. He should spot and make use of such organisations for effective directing.

(vii) *Leadership:* While directing the subordinates, managers should exercise good leadership as it can influence the subordinates positively without causing dissatisfaction among them.

(viii) *Follow through:* Mere giving of an order is not sufficient. Managers should follow it up by reviewing continuously whether orders are being implemented accordingly or any problems are being encountered. If necessary, suitable modifications should be made in the directions.

## Elements of Direction

The process of directing involves guiding, coaching, instructing, motivating, leading the people in an organisation to achieve organisational objectives. Consider the following examples: (i) A supervisor explains a worker about operations to be carried by him on a lathe machine, (ii) A mining engineer explains about safety precautions to be followed while working in a coal mine, (iii) A Managing Director declares share in the profits to the managers for their contribution to inhance profits of the company, and (iv) A manager inspires his/her employees by playing a lead role in performing a work.

All these examples and many other activities related to directing may broadly be grouped into four categories which are the elements of directing. These are:

(i) Supervision
(ii) Motivation
(iii) Leadership
(iv) Communication

To know more about directing, these elements are discussed in detail.

## Supervision

The term supervision can be understood in two ways. Firstly, it can be understood as an element of directing and secondly, as a function performed by supervisors in the organisational hierarchy.

Supervision being an element of directing, every manager in the organisation supervises his/her subordinates. In this sense, supervision can be understood as the process of guiding the efforts of employees and other resources to accomplish the desired objectives. It means overseeing what is being done by subordinates and giving instructions to ensure optimum utilisation of resources and achievement of work targets.

Secondly, supervision can be understood as the function to be performed by supervisor, a managerial

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position in the organisation hierarchy at the operative level i.e., immediately above the worker. The functions and performance of the supervisor are vital to any organisation because he is directly related with workers whereas other mangers have no direct touch with bottom level workers.

## Importance of Supervision

The importance of supervision can be understood from multiple roles performed by a supervisor. These are explained below:

(i) Supervisor maintains day-to-day contact and maintains friendly relations with workers. A good supervisor acts as a guide, friend and philosopher to the workers.

(ii) Supervisor acts as a link between workers and management. He conveys management ideas to the workers on one hand and workers problems to the management on the other. This role played by supervisor helps to avoid misunderstandings and conflicts between management and workers/employees.

(iii) Supervisor plays a key role in maintaining group unity among workers placed under his control. He sorts out internal differences

### Directing a Dissatisfied Manager

Rashmi Joshi had been a district sales manager with Fine Productions for ten years. She was recognised by her peers and supervisors as a person who managed department in a good way. However, everyone realised that Rashmi was extremely ambitious and was seeking a higher-level management position. When one of her sales representatives did a good job, she would attempt to take the credit. However, if a problem arose, she thought it was not her fault. When the marketing manager retired, Rashmi applied for the position. The company decided to do a thorough search because of the responsibility and importance associated with the position. When the search was concluded, the decision was made to fill the position by a person from outside the company. The consensus of top management was that Rashmi, although a good district sales manager might have difficulties in working with her new peer groups. They felt that she might displease the other managers if she tried to take credit for their work and, as a result, their performance would suffer.

Rashmi was heart-broken. She had wanted that particular job for a long time and had dedicated all her energies towards obtaining it. She became very despondent and her work deteriorated. The department functioned inspite of her, not because of her. Decisions were made slowly if at all and she began to be late with her sales reports. Although her sales staff continued to be productive, Rashmi could not take the credit.

When the new marketing manager took over, one of the first major problems that he confronted was how to motivate and inspire Rashmi to her former level of performance. He recognised that Rashmi had been with the company for a long time but something had to be done to motivate her to perform really well.

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and maintains harmony among workers.

(iv) Supervisor ensures performance of work according to the targets set. He takes responsibility for task achievement and motivates his workers effectively.

(v) Supervisor provides good on-the-job training to the workers and employees. A skilled and knowledgeable supervisor can build efficient team of workers.

(vi) Supervisory leadership plays a key role in influencing the workers in the organisation. A supervisor with good leadership qualities can build up high morale among workers.

(vii) A good supervisor analyses the work performed and gives feedback to the workers. He suggests ways and means of developing work skills.

## MOTIVATION

The case of Rashmi reveals an important fact of managerial work; it is not always possible to get the best of work from employees merely by exercising formal authority. What makes people to behave the way they do? Why are some people reluctant to do the work though they have ability to do? What should be done to make people work effectively?

For answering these questions, a manager should try to develop insights into causes of behaviour of people. A manager may come across highly committed and hardworking staff or lazy, evasive and superficial workers. He or she may wonder what to do with workers not willing to work to their potential. Psychologists say it is motivation, which stimulates people to take up work voluntarily.

Let us try to understand something about motivation.

***Motivation:*** Motivation means incitement or inducement to act or move. In the context of an organisation, it means the process of making subordinates to act in a desired manner to achieve certain organisational goals.

While discussing about motivation, we need to understand three inter related terms — motive, motivation and motivators. Let us try to know about these terms.

(i) *Motive:* A motive is an inner state that energises, activates or moves and directs behaviour towards goals. Motives arise out of the needs of individuals. Realisation of a motive causes restlessness in the individual which prompts some action to reduce such restlessness. For example, the need for food causes hunger an account of which a man searches for food. Some such motives are – hunger, thirst, security, affiliation, need for comfort, recognition etc.,

(ii) *Motivation:* Motivation is the process of stimulating people to action to accomplish desired goals. Motivation depends upon satisfying needs of people.

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(iii) *Motivators:* Motivator is the technique used to motivate people in an organisation. Managers use diverse motivators like pay, bonus, promotion, recognition, praise, responsibility etc., in the organisation to influence people to contribute their best.

Some of the definitions to explain the concept of motivation are given in the above box.

***Features of Motivation:*** The analysis of various definitions and viewpoints on motivation reveals the following features of motivation:

(i) Motivation is an internal feeling. The urge, drives, desires, aspirations, striving or needs of human being, which are internal, influence human behaviour. For example, people may have the urge or desire for possessing a motorbike, comfortable house, reputation in the society. These urges are internal to an individual.

(ii) Motivation produces goal directed behaviour. For example, the promotion in the job may be given to employee with the objective of improving his performance. If the employee is interested in promotion, it helps to produce a behaviour to improve performance.

(iii) Motivation can be either positive or negative. Positive motivation provides positive rewards like increase in pay, promotion, recognition etc., Negative motivation uses negative means like punishment, stopping increments, threatening etc. which also may induce a person to act in the desired way.

(iv) Motivation is a complex process as the individuals are heterogeneous in their expectations, perceptions and reactions. Any type of motivation may not have uniform effect on all the members.

**Definitions on Motivation**

Motivation means a process of stimulating people to action to accomplish desired goals

*William G. Scout*

Motivation refers to the way in which urges, drives, desires, aspirations, strivings or needs direct, control and explain the behaviour of human beings.

*Mc Farland*

Motivation is a complex force starting with keeping a person at work in an organisation. Motivation is something which moves the person to action and continues him in the course of action already initiated.

*Dubin*

Motivation is a process which begins with a physiological or psychological need or deficiency which triggers behaviour or a drive that is aimed at a goal or incentive.

*Fred Luthans*

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***Motivation Process:*** Motivation process is based on human needs. A simple model to explain motivation process is presented below.

The following example explains the process of satisfaction of human needs.

Ramu is very hungry since he did not have breakfast in the morning. By1.00 P.M., he became restless and started walking on the road in search of a hotel for snacks or meals. After walking for 2 kms, he could find a hotel where roti and dal was available for ₹ 10. Since he had only ₹ 15 in his pocket, he paid ₹ 10 and had a satisfying meal. After taking a meal, he felt that he had regained energy.

An unsatisfied need of an individual creates tension which stimulates his or her drives. These drives generate a search behaviour to satisfy such need. If such need is satisfied, the individual is relieved of tension.

**Motivating Employees in Tata Steel**

In Tata Steel several initiatives have been taken to further improve the motivation levels and participation in the decision making process of the officers, greater impetus to training through a formalised system of a personal development programme, talent review and job rotation systems, compensation linked to the performance management system, formal rewards and recognition systems, knowledge management systems linked with appraisals, leadership opportunities in quality circles, continuous improvement and value engineering programmes and an extremely transparent and credible multi-path communication system to address queries and concerns of all employees through various dialogues both formal and online, with such tools as video conferencing, 'MD Online', special dialogues with senior management, meetings, conferences and seminars. These initiatives have helped to build a homogeneous and focused team in Tata Steel, increasing motivation and binding to the vision of the company and spurred employees to deliver targets on a participatory management basis leading to ownership of processes.

Tata Steel is a company that actively promotes freedom to work, freedom to innovate and even the freedom to fail. It is a nimble, fast, modern and forward-looking company on a strong growth path. The company has undergone a revolutionary change in terms of its production facilities and the technology in the manufacturing process. These changes have resulted in creating greater opportunities for taking up newer challenges for young recruits work and for performance based on IT enabled systems and high levels of automation. These have led to making the company one of the lowest cost producers of steel and the only Indian company to be recognised by the World Steel Dynamics as one of the top most 'World Class' steel makers. Tata Steel hopes not only to consolidate but better its leadership by robust leadership development systems that have seen the company create many CEOs for other companies.

*http://www.tata.com/tata_steel/releases/20030829.htm*

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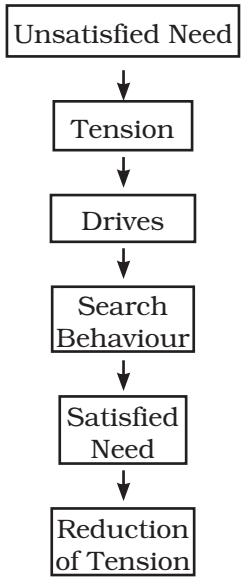


***Importance of Motivation:*** In the example of Tata Steel you have seen how the direction, motivation and effective leadership has taken the company forward. Even communication systems in the company have encouraged employees to achieve targets.

Motivation is considered important because it helps to identify and satisfy the needs of human resources in the organisation and thereby helps in improving their performance. It is the reason why every major organisation develops various kinds of motivational programmes and spends crores of rupees on these programmes. The importance of motivation can be pointed out by the following benefits:

(i) Motivation helps to improve performance levels of employees as well as the organisation. Since proper motivation satisfies the needs of employees, they in turn devote all their energies for optimum performance in their work. A satisfied employee can always turnout expected performance. Good motivation in the organisation helps to achieve higher levels of performance as motivated employees contribute their maximum efforts for organisational goals.

(ii) Motivation helps to change negative or indifferent attitudes of employee to positive attitudes so as to achieve organisational goals. For example, a worker may have indifferent or negative attitude towards his work, if he is not rewarded properly. If suitable rewards are given and supervisor gives positive encouragement and praise for the good work done, the worker may slowly develop positive attitude towards the work.

(iii) Motivation helps to reduce employee turnover and thereby saves the cost of new recruitment and training. The main reason for high rate of employee turnover is lack of motivation. If managers identify motivational needs of employees and provide suitable incentives, employees may not think of leaving the organisation. High rate of turnover compels management to go for new

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recruitment and training which involve additional investment of money, time and effort. Motivation helps to save such costs. It also helps to retain talented people in the organisation.

(iv) Motivation helps to reduce absenteeism in the organisation. Some important reasons for absenteeism are–bad working conditions, inadequate rewards, lack of recognition, poor relations with supervisors and colleagues etc. Through sound motivational system, all these deficiencies can be covered. If motivation is adequately provided, work becomes a source of pleasure and workers attend to the work regularly.

(v) Motivation helps managers to introduce changes smoothly without much resistance from people. Normally, for any change introduced in the organisation, there may be resistance for changes. If manager can convince employees that proposed changes will bring additional rewards to employees, they may readily accept the change.

***Maslow's Need Hierarchy Theory of Motivation:*** Since motivation is highly complex, many researchers have studied about motivation from several dimensions and developed some theories. These theories help to develop understanding about motivation phenomenon. Among these, Maslow's Need Hierarchy Theory is considered fundamental to understanding of motivation. Let us examine it in detail.

Abraham Maslow, a well-known psychologist in a classic paper published in 1943, outlined the elements of an overall theory of motivation.

His theory was based on human needs. He felt that within every human being, there exists a hierarchy of five needs. These are:

(i) *Basic Physiological Needs:* These needs are most basic in the hierarchy and corresponds to primary needs. Hunger, thirst, shelter, sleep and sex are some examples of these needs. In the organisational context, basic salary helps to satisfy these needs.

(ii) *Safety/Security Needs:* These needs provide security and protection from physical and emotional harm. Examples: job security, stability of income, Pension plans etc.,

(iii) *Affiliation/Belonging Needs:* These needs refer to affection, sense of belongingness, acceptance and friendship.

(iv) *Esteem Needs:* These include factors such as self-respect, autonomy status, recognition and attention.

(v) *Self Actualisation Needs:* It is the highest level of need in the hierarchy. It refers to the drive to become what one is capable of

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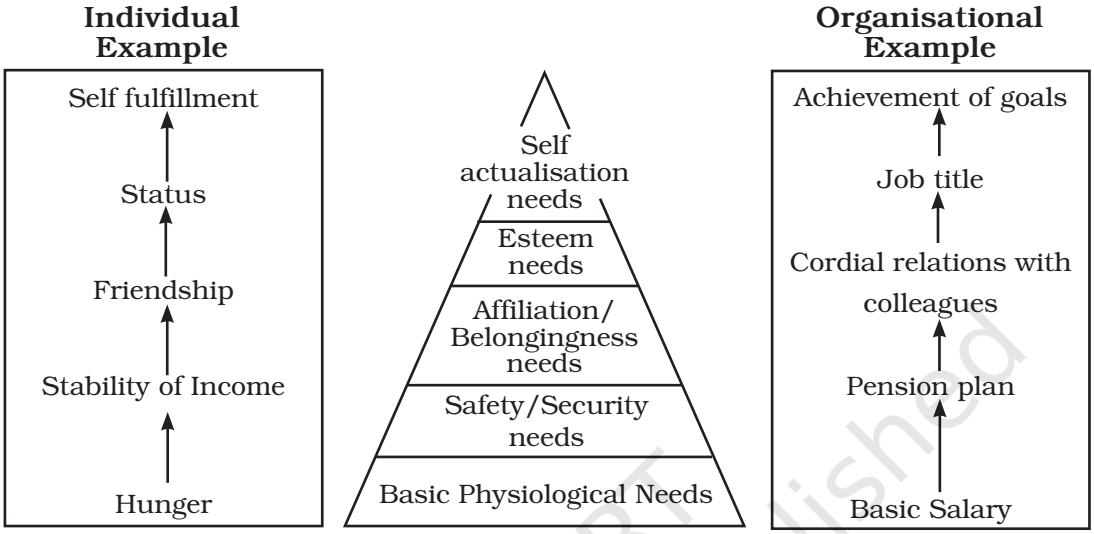


*Maslow's Need Hierarchy Theory*

becoming. These needs include growth, self-fulfillment and achievement of goals.

Maslow's theory is based on the following assumptions:

(i) People's behaviour is based on their needs. Satisfaction of such needs influences their behaviour.

(ii) People's needs are in hierarchical order, starting from basic needs to other higher level needs.

(iii) A satisfied need can no longer motivate a person; only next higher level need can motivate him.

(iv) A person moves to the next higher level of the hierarchy only when the lower need is satisfied.

Maslow's Theory focuses on the needs as the basis for motivation. This theory is widely recognised and appreciated. However, some of his propositions are questioned on his classification of needs and hierarchy of needs. But, despite such criticism, the theory is still relevant because needs, no matter how they are classified, are important to understand the behaviour. It helps managers to realise that need level of employee should be identified to provide motivation to them.

## Financial and Non-Financial Incentives

Incentive means all measures which are used to motivate people to improve performance. These incentives may be broadly classified as financial and non financial. Let us learn about these incentives in detail.

***Financial Incentives:*** In the context of existing economic system, money

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**Profile of Abraham Maslow (1908 – 1970)**

Abraham H. Maslow was born in Brooklyn, New York, in 1908. He studied primate behavior at the University of Wisconsin, where he received his doctorate in psychology in 1934.

Early in his career, Maslow was drawn to the study of human motivation and personality. His work in this area upset strict behaviorists, whose explanations of motivation and personality failed to account for what Maslow called the whole person. His theory of the hierarchy of needs, which leads to the 'self-actualised' individual, was a strong catalyst for the founding of humanistic psychology. Maslow successfully bridged motivation and personality in his theories of needs, self-actualising persons, and peak experiences.

Maslow is considered an important figure in contemporary psychology. His career was a formidable one. For 14 years he taught at Brooklyn College, and then went to Brandeis University as chairman of the Psychology Department. In 1968 he was elected president of the American Psychological Association. In 1969 he went to the Laughlin Foundation in Menlo Park, California. He wrote two important books: Toward a Psychology of Being (1968) and Motivation and Personality (1970). Abraham Maslow died of a heart attack in 1970.

has become a means to satisfy the physical needs of daily life and also of obtaining social position and power. Since, money has the purchasing power, it becomes a very important incentive for every individual.

Financial incentives refer to incentives which are in direct monetary form or measurable in monetary term and serve to motivate people for better performance. These incentives may be provided on individual or group basis. The financial incentives generally used in organisations are listed below:

(i) *Pay and allowances:* For every employee, salary is the basic monetary incentive. It includes basic pay, dearness allowance and other allowances. Salary system consists of regular increments in the pay every year and enhancement of allowances from time-to-time. In some business organisations, pay hike and increments may be linked to performance.

(ii) *Productivity linked wage incentives:* Several wage incentive plans aims at linking payment of wages to increase in productivity at individual or group level.

(iii) *Bonus:* Bonus is an incentive offered over and above the wages/salary to the employees.

(iv) *Profit Sharing:* Profit sharing is meant to provide a share to employees in the profits of the organisation. This serves to motivate the employees to

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improve their performance and contribute to increase in profits.

(v) *Co-partnership/ Stock option:* Under these incentive schemes, employees are offered company shares at a set price which is lower than market price. Sometimes, management may allot shares in line of various incentives payable in cash. The allotment of shares creates a feeling of ownership to the employees and makes them to contribute for the growth of the organisation. In Infosys the scheme of stock option has been implemented as a part of managerial compensation.

(vi) *Retirement Benefits:* Several retirement benefits such as provident fund, pension, and gratuity provide financial security to employees after their retirement. This acts as an incentive when they are in service in the organisation.

(vii) *Perquisites:* In many companies perquisites and fringe benefits are offered such as car allowance, housing, medical aid, and education to the children, etc., over and above the salary. These measures help to provide motivation to the employees/ managers.

***Non-Financial Incentives:*** All the needs of individuals are not satisfied by money alone. Psychological, social and emotional factors also play important role in providing motivation. Non-financial incentives mainly focus on these needs. Some times, monetary aspect may be involved in non-financial incentives as well. However, the emphasis is to provide psychological and emotional satisfaction rather than money driven satisfaction. For example, if an individual gets promotion in the organisation, it satisfies him psychologically more as he gets a feeling of elevation, increase in status, increase in authority, challenge in the job etc., Though promotion involves payment of extra money, non-monetary aspects over-ride monetary aspects.

Some of the important non-financial incentives are discussed below:

(i) *Status:* In the organisational context, status means ranking of positions in the organisation. The authority, responsibility, rewards, recognition, perquisites and prestige of job indicate the status given to a person holding a managerial position. Psychological, social and esteem needs of an individual are satisfied by status given to their job.

(ii) *Organisational Climate:* Organisational climate indicates the characteristics which describe an organisation and distinguish one organisation from the other. These characteristics influence the behaviour of individuals in the organisation. Some of these characteristics are–individual autonomy, reward orientation, consideration to employees,

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risk-tasking, etc., If managers take positive measures regarding these aspects, it helps to develop better organisational climate.

(iii) *Career Advancement Opportunity:* Every individual wants to grow to the higher level in the organisation. Managers should provide opportunity to employees to improve their skills and be promoted to the higher level jobs. Appropriate skill development programmes, and sound promotion policy will help employees to achieve promotions. Promotion works as a tonic and encourages employees to exhibit improved performance.

(iv) *Job Enrichment:* Job enrichment is concerned with designing jobs that include greater variety of work content, require higher level of knowledge and skill; give workers more autonomy and responsibility; and provide the opportunity for personal growth and a meaningful work experience. If jobs are enriched and made interesting, the job itself becomes a source of motivation to the individual.

(v) *Employee Recognition programmes:* Most people have a need for evaluation of their work and due recognition. They feel that what they do should be recognised by others concerned. Recognition means acknowledgment with a show of appreciation. When such appreciation is given to the work performed by employees, they feel motivated to perform/work at higher level. Some examples of employee recognition are:

- Congratulating the employee for good performance.
- Displaying on the notice board or in the company news letter about the achievement of employee.
- Installing award or certificate for best performance.
- Distributing mementos, complimentaries like T-shirts in recognition of employee services.
- Rewarding an employee for giving valuable suggestions.

(vi) *Job security:* Employees want their job to be secure. They want certain stability about future income and work so that they do not feel worried on these aspects and work with greater zeal. In India, this aspect is more important considering the inadequate job opportunities and too many aspirants for these. However, there is one negative aspect of job security. When people feel that they are not likely to lose their jobs, they may become complacent.

(vii) *Employee participation:* It means involving employees in decision making of the issues related to them. In many companies, these programmes are in practice in

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the form of joint management committees, work committees, canteen committees etc.,

(viii) *Employee Empowerment:* Empowerment means giving more autonomy and powers to subordinates. Empowerment makes people feel that their jobs are important. This feeling contributes positively to the use of skills and talents in the job performance.

## LEADERSHIP

Whenever we hear the success stories of any organisation, we are immediately reminded of their leaders. Can you imagine Mircrosoft without Bill Gates, Reliance Industries without Ambanis, Infosys without Narayana Murthy, Tata without J.R.D. Tata or Wipro without Azim Premji. You would say it is not possible to achieve success without such great leaders. The leaders always play a key role for the success and excellence of any organisation.

Let us understand the concept of leadership, its importance and qualities of good leaders. Leadership is the process of influencing the behaviour of people by making them strive voluntarily towards achievement of organisational goals. Leadership indicates the ability of an individual to maintain good interpersonal relations with followers and motivate them to contribute for achieving organisational objectives.

### Features of leadership

An examination of the above definition reveals the following important features of leadership:

(i) Leadership indicates ability of an individual to influence others.

**Definitions of Leadership**

Leadership is the activity of influencing people to strive willingly for group objectives.

George Terry

Leadership is the art or process of influencing people so that they will strive willingly and enthusiastically towards the achievement of group goals.

*Harold Koontz and Heinz Weihrich*

Leadership is a set of interpersonal behaviours designed to influence employees to cooperate in the achievement of objectives.

*Glueck*

Leadership is both a process and property. The process of leadership is the use of non-coercive influence to direct and coordinate the activities of the members of an organised group towards the accomplishment of group objectivities. As a property, leadership is the set of qualities or characteristics attributed to those who are perceived to successfully employ such influence.

*Gay and Strake*

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(ii) Leadership tries to bring change in the behaviour of others.

(iii) Leadership indicates interpersonal relations between leaders and followers.

(iv) Leadership is exercised to achieve common goals of the organisation.

(v) Leadership is a continuous process.

The term leader emerges from leadership. An individual possessing attributes of leadership is known as leader. While discussing about leadership, it is important to understand leader–follower relationship. Many times, the success of an organisation is attributed to the leader, but due credit is not given to the followers. Many followers related factors like – their skills, knowledge, commitment, willingness to cooperate, team spirit etc., make a person an effective leader. It is said that followers make a person, a good leader by acceptance of leadership. Therefore, it is to be recognised that both leader and follower play key role in leadership process.

***Importance of Leadership:*** Leadership is a key factor in making any organisation successful. History reveals that, many times, difference between success and failure of an organisation is leadership. It is aptly mentioned by Stephen Covey, a famous management consultant, that managers are important but leaders are vital for lasting organisational success. A leader not only commits

*Effective leadership is getting work done, tasks completed on time and goals achieved at minimum cost*

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his followers to organisational goals but also pools needed resources, guides and motivates subordinates to reach the goals.

The importance of leadership can be discussed from the following benefits to the organisation:

(i) Leadership influences the behaviour of people and makes them to positively contribute their energies for the benefit of the organisation. Good leaders always produce goods results through their followers.

(ii) A leader maintains personal relations and helps followers in fulfilling their needs. He provides needed confidence, support and encouragement and thereby creates congenial work environment.

(iii) Leader plays a key role in introducing required changes in the organisation. He persuades, clarifies and inspires people to accept changes whole-heartedly. Thus, he overcomes the problem of resistance to change and introduces it with minimum discontentment.

(iv) A leader handles conflicts effectively and does not allow adverse effects resulting from the conflicts. A good leader always allows his followers to ventilate their feelings and disagreement but persuades them by giving suitable clarifications.

(v) Leader provides training to their subordinates. A good leader always builds up his successor and helps in smooth succession process.

However, we should remember that all good leaders may not necessarily posses all the qualities of a good leader. In fact, it is not possible for any individual to have all the qualities. But an understanding about these qualities help the managers to acquire them through training and conscious efforts.

**Leadership Style**

There are many theories of leadership behaviour and styles. Research studies have revealed certain traits and qualities which a leader might possess. However, these are not conclusive since many people may possess these qualities but may not be leaders.

There are several bases for classifying leadership styles. The most popular classification of leadership styles is based on the use of authority. Depending on the use of authority, there are three basic styles of leadership:

(i) Autocratic (ii) Democratic, and (iii) Laissez-faire

**(i) Autocratic or Authoritarian leader**

An autocratic leader gives orders and expects his subordinates to obey those orders. If a manager is following this style, then communication is only one-way with the subordinate only acting

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according to the command given by the manager.

This leader is dogmatic, i.e., does not change or wish to be contradicted. His following is based on the assumption that reward or punishment both can be given depending upon the result. This leadership style is effective in getting productivity in many situations like in a factory where the supervisor is responsible for production on time and has to ensure labour productivity. Quick decision-making is also facilitated.

But there are variations also, they may listen to everyone's opinion, consider subordinates ideas and concerns but the decision will be their own.

**(ii) Democratic or Participative leader**

A democratic leader will develop action plans and makes decisions in consultation with his subordinates. He will encourage them to participate in decision-making. This kind of leadership style is more common now-a-days, since leaders also recognise that people perform best if they have set their own objectives. They also need to respect the other's opinion and support subordinates to perform their duties and accomplish organisational objectives. They exercise more control by using forces within the group.

**(iii) Laissez faire or Free-rein leader**

Such a leader does not believe in the use of power unless it is absolutely essential. The followers are given a high degree of independence to formulate their own objectives and ways to achieve them. The group members work on their own tasks resolving issues themselves. The manager is there only to support them and supply them the required information to complete the task assigned. At the same time, the subordinate assumes responsibility for the work to be performed.

Depending upon the situation a leader may choose to exercise a combination of these styles when required. Even a laissez faire leader would have certain rules to be followed while doing work and a democratic leader may have to take his own decision in an emergency situation.

## COMMUNICATION

Communication plays key role in the success of a manager. How much professional knowledge and intelligence a manager possesses becomes immaterial if he is not able to communicate effectively with his subordinates and create understanding in them. Directing abilities of a manager mainly depend upon his communication skills. That is why organisation always emphasise on improving communication skills of managers as well as employees.

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**Definitions of Communication**

Communication is the sum of all things one person does when he wants to create understanding in the mind of another. It involves systematic and continuous process of telling, listening and understanding.

*Louis Allen*

Communication is transfer of information from the sender to the receiver with the information being understood by the receiver.

*Harold Koontz and Heniz Weihrich*

Communication is a process by which people create and share information with one another in order to reach common understanding.

*Rogers*

*Effective Communication increases managerial efficiency*

The word communication has been derived from the Latin word 'communis' which means 'common' which consequently implies common understanding. Communication is defined in different ways. Generally, it is understood as a process of exchange of ideas, views, facts, feelings, etc., between or among people to create common understanding.

Some of the definitions given by management experts are presented in the box.

A close examination of above definitions reveals that communication is the process of exchange of information between two or more persons to reach common understanding.

## Elements of Communication Process

Communication has been defined as a process. This process involves elements like source, encoding, media/channel, receiver, decoding, noise and feedback. The process is represented in the figure.

The elements involved in communication process are explained below:

(i) *Sender:* Sender means person who conveys his thoughts or ideas to the receiver. The sender represents source of communication.

(ii) *Message:* It is the content of ideas, feelings, suggestions, order, etc., intended to be communicated.

(iii) *Encoding:* It is the process of converting the message into

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communication symbols such as words, pictures, gestures etc.,

(iv) *Media:* It is the path through which encoded message is transmitted to receiver. The channel may be in written form, face to face, phone call, Internet etc.,

(v) *Decoding:* It is the process of converting encoded symbols of the sender.

(vi) *Receiver:* The person who receives communication of the sender.

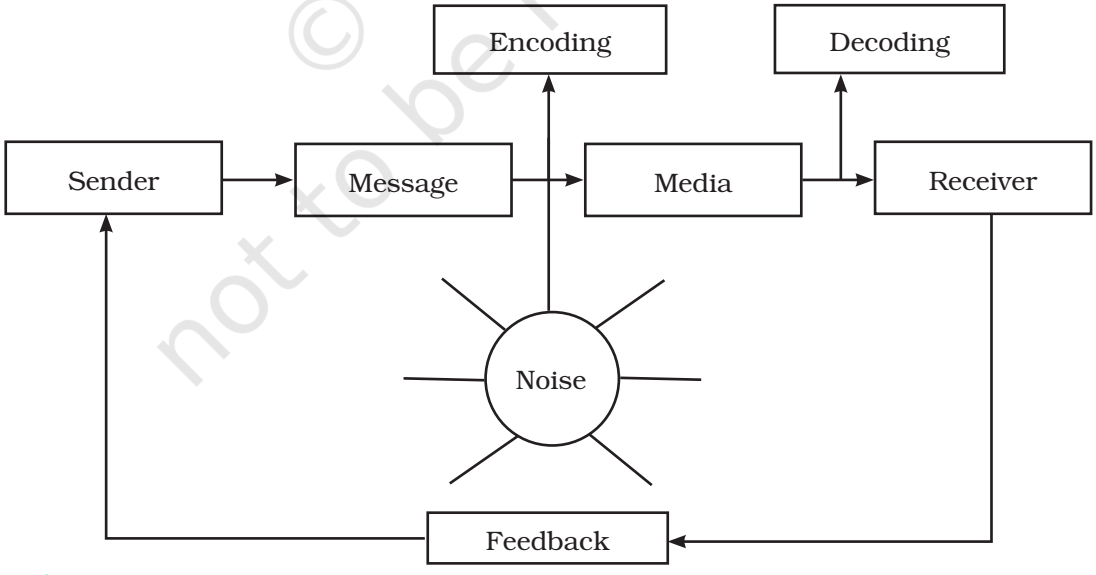
(vii) *Feedback:* It includes all those actions of receiver indicating that he has received and understood message of sender.

(viii) *Noise:* Noise means some obstruction or hindrance to communication. This hindrance may be caused to sender, message or receiver. Some examples of noise are:

(a) Ambiguous symbols that lead to faulty encoding.
(b) A poor telephone connection.
(c) An inattentive receiver.
(d) Faulty decoding (attaching wrong meanings to message).
(e) Prejudices obstructing the poor understanding of message.
(f) Gestures and postures that may distort the message.

## Importance of Communication

Communication is one of the most central aspects of managerial activities. It has been estimated that a manager spends 90 percent of his time in communicating-reading, writing, listening, guiding, instructing,




*Communication Process*

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approving, reprimanding, etc. Effectiveness of a manager depends significantly on his ability to communicate effectively with his superiors, subordinates and external agencies such as bankers, suppliers, union and government.

An ex-president of American Management Association once observed that number one management problem today is communication. Bernard has called it the foundation of all group activities. Communication serves as the lubricant fostering for the smooth operations of the management process. The importance of communication in management can be judged from the following:

(i) *Acts as basis of coordination:* Communication acts as basis of coordination. It provides coordination among departments, activities and persons in the organisation. Such coordination is provided by explaining about organisational goals, the mode of their achievement and inter relationships between different individuals, etc.

(ii) *Helps in smooth working of an enterprise:* Communication makes possible for the smooth and unrestricted working of the enterprise. All organisational interactions depend on communications. The job of a manager is to coordinate the human and physical elements of an organisation into an efficient and active working unit that achieves common objectives. It is only communication which makes smooth working of an enterprise possible. Communication is basic to an organisation's existence-right from its birth through its continuing life. When communication stops, organised activity ceases to exist.

(iii) *Acts as basis of decision making:* Communication provides needed information for decision making. In its absence, it may not be possible for the managers to take any meaningful decision. Only on the basis of communication of relevant information one can take right decision.

(iv) *Increases managerial efficiency:* Communication is essential for quick and effective performance of managerial functions. The management conveys the goals and targets, issues instructions, allocates jobs and responsibilities and looks after the performance of subordinates. Communication is involved in all these aspects. Thus, communication lubricates the entire organisation and keeps the organisation at work with efficiency.

(v) *Promotes cooperation and industrial peace:* Efficient operation is the aim of all prudent management. It may be possible only when there is industrial peace in the factory and mutual cooperation between management and workers. The

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two way communication promotes cooperation and mutual understanding between the management and workers.

(vi) *Establishes effective leadership:* Communication is the basis of leadership. Effective communication helps to influence subordinates. While influencing people, leader should possess good communication skills.

(vii) *Boosts morale and provides motivation:* An efficient system of communication enables management to motivate, influence and satisfy the subordinates. Good communication assists the workers in their adjustment with the physical and social aspect of work. It improves good human relations in industry. Communication is the basis of participative and democratic pattern of management. Communication helps to boost morale of employees and managers.

## Formal and Informal Communciation

Communication taking place within an organisation may be broadly classified as formal and informal communication.

### Formal Communication

Formal communication flows through official channels designed in the organisation chart. This communication may take place between a superior and subordinate, a subordinate and superior or among same cadre employees or managers. The communications may be oral or written but generally recorded and filed in the office.

Formal communication may be further classified as – Vertical and Horizontal.

Vertical communication flows vertically, i.e., upwards or downwards through formal channels. Upward communications refer to flow of communication from subordinate to superior whereas downward communication indicates communication from a superior to subordinate. The examples of upward communication are – application for grant of leave, submission of progress report, request for grants, etc. Similarly, the examples of downward communication include – sending notice to employees to attend a meeting, ordering subordinates to complete an assigned work, passing on guidelines framed by top management to the subordinates, etc.

Horizontal or lateral communication takes place between one division and another. For example, a production manager may contact marketing manager to discuss about schedule of product delivery, product design, quality, etc.

The pattern through which communication flows within the organisation is generally indicated through communication network.

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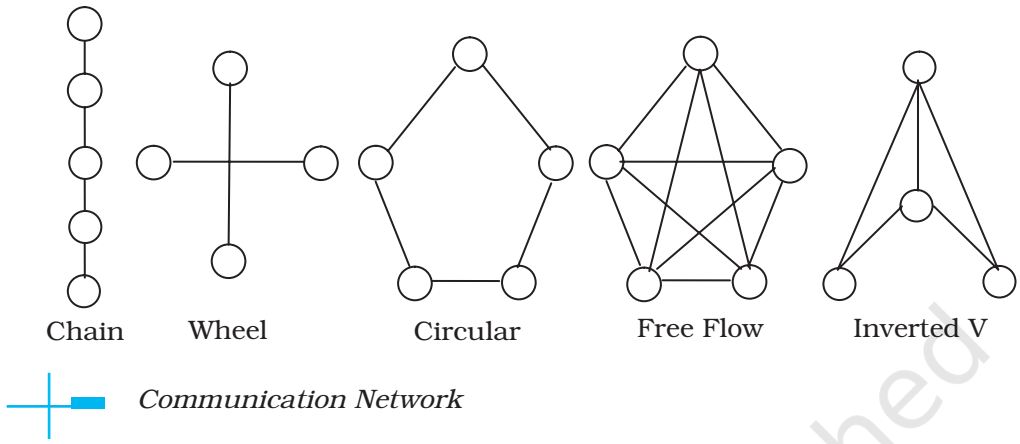


Different types of communication networks may operate in formal organisation. Some of the popular communication networks are presented and discussed in given figure.

(i) *Single chain:* This network exists between a supervisor and his subordinates. Since many levels exist in an organisation structure, communication flows from every superior to his subordinate through single chain.

(ii) *Wheel:* In wheel network, all subordinates under one superior communicate through him only as he acts as a hub of the wheel. The subordinates are not allowed to talk among themselves.

(iii) *Circular:* In circular network, the communication moves in a circle. Each person can communicate with his adjoining two persons. In this network, communication flow is slow.

(iv) *Free flow:* In this network, each person can communicate with others freely. The flow of communication is fast in this network.

(v) *Inverted V:* In this network, a subordinate is allowed to communicate with his immediate superior as well as his superiors superior. However, in later case, only prescribed communication takes place.

## Informal Communication

Communication that takes place without following the formal lines of communication is said to be informal communication. Informal system of communication is generally referred to as the 'grapevine' because it spreads throughout the organisation with its branches going out in all directions in utter disregard to the levels of authority.

The informal communication arises out of needs of employees to

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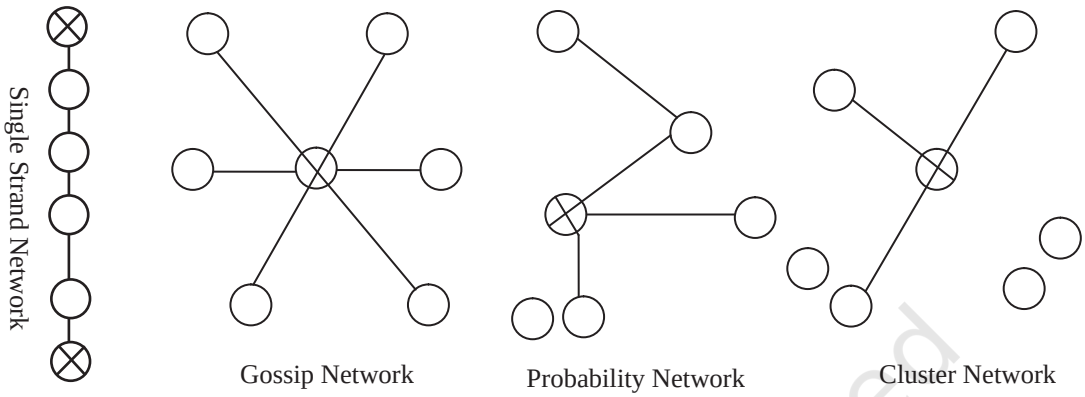


*Grapevine Communication Networks*

exchange their views, which cannot be done through formal channels. Workers chit chating in a canteen about the behaviour of the superior, discussing about rumours that some employees are likely to be transferred are some examples of informal communications. The grapevine/ informal communication spreads rapidly and sometimes gets distorted. It is very difficult to detect the source of such communication. It also leads to generate rumours which are not authentic. People's behaviour is affected by rumours and informal discussions and sometimes may hamper work environment. Sometimes, grapevine channels may be helpful as they carry information rapidly and, therefore, may be useful to the manager at times. Informal channels are used by the managers to transmit information so as to know the reactions of his/her subordinates. An intelligent manager should make use of positive aspects of informal channels and minimise negative aspects of this channel of communication.

## Grapevine Network

Grapevine communication may follow different types of network.

In single strand network, each person communicates to the other in sequence. In gossip network, each person communicates with all on non-selective basis. In probability network, the individual communicates randomly with other individual. In cluster, the individual communicates with only those people whom he trusts. Of these four types of networks, cluster is the most popular in organisations.

## Barriers to Communication

It is generally observed that managers face several problems due to communication breakdowns or barriers. These barriers may prevent

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a communication or filter part of it or carry incorrect meaning due to which misunderstandings may be created. Therefore, it is important for a manager to identity such barriers and take measures to overcome them.

The barriers to communication in the organisations can be broadly grouped as: semantic barriers, psychological barriers, organisational barriers, and personal barriers. These are briefly discussed below:

***Semantic barriers:*** Semantics is the branch of linguistics dealing with the meaning of words and sentences. Semantic barriers are concerned with problems and obstructions in the process of encoding and decoding of message into words or impressions. Normally, such barriers result on account of use of wrong words, faulty translations, different interpretations, etc. These are discussed below:

(i) *Badly expressed message:* Some times intended meaning may not be conveyed by a manager to his subordinates. These badly expressed messages may be an account of inadequate vocabulary, usage of wrong words, omission of needed words, etc.

(ii) *Symbols with different meanings:* A word may have several meanings. Receiver has to perceive one such meaning for the word used by communicator. For example, consider these three sentences where the work 'value' is used:

(a) What is the value of this ring?

(b) I value our friendship.

(c) What is the value of learning computer skills?

You will find that the 'value' gives different meaning in different contexts. Wrong perception leads to communication problems.

*Communication Grapevine*

(iii) *Faulty translations:* Sometimes the communications originally drafted in one language (e.g., English) need to be translated to the language understandable to workers (e.g., Hindi). If the translator is not proficient with both the languages, mistakes may creep in causing different meanings to the communication.

(iv) *Unclarified assumptions:* Some communications may have certain assumptions which are subject to different interpretations. For example, a boss may instruct his subordinate, "Take care of our guest". Boss may mean that

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subordinate should take care of transport, food, accommodation of the guest until he leaves the place. The subordinate may interpret that guest should be taken to hotel with care. Actually, the guest suffers due to these unclarified assumptions.

(v) *Technical jargon:* It is usually found that specialists use technical jargon while explaining to persons who are not specialists in the concerned field. Therefore, they may not understand the actual meaning of many such words.

(vi) *Body language and gesture decoding:* Every movement of body communicates some meaning. The body movement and gestures of communicator matters so much in conveying the message. If there is no match between what is said and what is expressed in body movements, communications may be wrongly perceived.

***Psychological barriers:*** Emotional or psychological factors acts as barriers to communicators. For example, a worried person cannot communicate properly and an angry receiver cannot understand the real meaning of message. The state of mind of both sender and receiver of communication reflects in the effective communication. Some of the psychological barriers are:

(i) *Premature evaluation:* Some times people evaluate the meaning of message before the sender completes his message. Such premature evaluation may be due to pre-conceived notions or prejudices against the communication.

(ii) *Lack of attention:* The pre-occupied mind of receiver and the resultant non-listening of message acts as a major psychological barrier. For instance, an employee explains about his problems to the boss who is pre-occupied with an important file before him. The boss does not grasp the message and the employee is disappointed.

(iii) *Loss by transmission and poor retention:* When communication passes through various levels, successive transmissions of the message results in loss of, or transmission of inaccurate information. This is more so in case of oral communication.

Poor retention is another problem. Usually people cannot retain the information for a long time if they are inattentive or not interested.

(iv) *Distrust:* Distrust between communicator and communicate acts as a barrier. If the parties do not believe each other, they can not understand each others message in its original sense.

***Organisational barriers:*** The factors related to organisation structure, authority relationships, rules and regulations may, sometimes, act as barriers to effective communication. Some of these barriers are:

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(i) *Organisational policy:* If the organisational policy, explicit or implicit, is not supportive to free flow of communication, it may hamper effectiveness of communications. For example, in an organisation with highly centralised pattern, people may not be encouraged to have free communication.

(ii) *Rules and regulations:* Rigid rules and cumbersome procedures may be a hurdle to communication. Similarly, communications through prescribed channel may result in delays.

(iii) *Status:* Status of superior may create psychological distance between him and his subordinates. A status conscious manager also may not allow his subordinates to express their feelings freely.

(iv) *Complexity in organisation structure:* In an organisation where there are number of managerial levels, communication gets delayed and distorted as number of filtering points are more.

(v) *Organisational facilities:* If facilities for smooth, clear and timely communications are not provided communications may be hampered. Facilities like frequent meetings, suggestion box, complaint box, social and cultural gathering, transparency in operations, etc., will encourage free flow of communication. Lack of these facilities may create communication problems.

***Personal barriers:*** The personal factors of both sender and receiver may exert influence on effective communication. Some of the personal barriers of superiors and subordinates are mentioned below:

(i) *Fear of challenge to authority:* If a superior perceives that a particular communication may adversely affect his authority, he or she may withhold or suppress such communication.

(ii) *Lack of confidence of superior on his subordinates:* If superiors do not have confidence on the competency of their subordinates, they may not seek their advice or opinions.

(iii) *Unwillingness to communicate:* Sometimes, subordinates may not be prepared to communicate with their superiors, if they perceive that it may adversely affect their interests.

(iv) *Lack of proper incentives:* If there is no motivation or incentive for communication, subordinates may not take initiative to communicate. For example, if there is no reward or appreciation for a good suggestion, the subordinates may not be willing to offer useful suggestions.

## Improving Communication Effectiveness

The barriers to effective communication exists in all organisations to a

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greater or lesser degree. Organisations keen on developing effective communication should adopt suitable measures to overcome the barriers and improve communication effectiveness. Some such measures are indicated below:

(i) *Clarify the ideas before communication:* The problem to be communicated to subordinates should be clear in all its perspective to the executive himself. The entire problem should be studied in depth, analysed and stated in such a manner that is clearly conveyed to subordinates.

(ii) *Communicate according to the needs of receiver:* The level of understanding of receiver should be crystal clear to the communicator. Manager should adjust his communication according to the education and understanding levels of subordinates.

(iii) *Consult others before communicating:* Before actually communicating the message, it is better to involve others in developing a plan for communication. Participation and involvement of subordinates may help to gain ready acceptance and willing cooperation of subordinates.

(iv) *Be aware of languages, tone and content of message:* The contents of the message, tone, language used, manner in which the message is to be communicated are the important aspects of effective communication. The language used should be understandable to the receiver and should not offend the sentiments of listeners. The message should be stimulating to evoke response from the listeners.

(v) *Convey things of help and value to listeners:* While conveying message to others, it is better to know the interests and needs of the people with whom you are communicating. If the message relates directly or indirectly to such interests and needs it certainly evokes response from communicatee.

(vi) *Ensure proper feedback:* The communicator may ensure the success of communication by asking questions regarding the message conveyed. The receiver of communication may also be encouraged to respond to communication. The communication process may be improved by the feedback received to make it more responsive.

(vii) *Communicate for present as well as future:* Generally, communication is needed to meet the existing commitments to maintain consistency, the communication should aim at future goals of the enterprise also.

(viii) *Follow up communications:* There should be regular follow up and review on the instructions given to subordinates. Such follow

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up measures help in removing hurdles if any in implementing the instructions.

(ix) *Be a good listener:* Manager should be a good listener. Patient and attentive listening solves half of the problems. Managers should also give indications of their interest in listening to their subordinates.

## Key Terms

Directing | Supervision | Motives | Motivation | Incentives

Self actualisation | Egoistic needs | Leadership | Trait approach

Communication | Encoding | Decoding | Feedback

Semanticism | Formal communication

Informal communication | Profit sharing | Copartnership

Quality circles | Stock options

## Summary

Directing is a complex managerial function consisting of all the activities that are designed to encourage subordinates to work effectively. It includes supervision, motivation, communication and leading. The principles which guide effective directing may be classified as principles related to the purpose of directing and principles related to direction process.

**Supervision:** It is an element of direction. It can be understood as a process as well as the functions performed by supervisor (a position at operative level). Supervision is very important as it is closely linked to overseeing the work, guiding and ensuring that targets are met by workers and employees.

**Motivation:** Motivation is the process of stimulating people to action to accomplish desired goals of organisation. It is an internal feeling of an individual and leads to goal directed behaviour. Motivation is mainly based on needs of individuals. It helps individuals and groups in the organisation for improved performance.

Managers offer incentives to employees both financial and non financial. Financial incentives are monetary and may be in the form of salary, bonus, profit sharing, pension, etc. Non financial incentives provide social and psychological satisfaction.

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These include status, promotion, responsibility, job enrichment, job recognition, job security, employee participation, delegation, empowerment etc.

**Leadership:** Leadership is most important factor in the success of an enterprise. It is the process of influencing people to strive willingly for group objectives. The qualities of a good leader have been researched by many experts. Some of the qualities of good leader include–courage, will power, judgement, knowledge, integrity, physical energy, faith, moral qualities, fairness, vitality, decisiveness, social skills etc. But all these qualities cannot be possessed by one individual nor always help in their success.

**Communication:** Communication refers to process of exchange of ideas between or among persons and create understanding. Communication process involves the elements of source, encoding, channel, receiver, decoding and feedback. In organisations, both formal and informal communications simultaneously takes place. Formal communications refers to all official communications in the form of orders, memos, appeals, notes, circulars, agenda, minutes, etc. Apart from formal communications, informal or grapevine communications also exist. Informal communications are usually in the form of rumours, whispers, etc. They are unofficial, spontaneous, unrecorded, spread very fast and usually distorted. A manager should learn to manage with informal communication also. In most of the organisations, several barriers may exist for effective communications. Some of these barriers include – semantic barriers, organisational barriers, language barriers, transmission barriers, psychological barriers and personal barriers. Managers should take appropriate measures to overcome these barriers and promote effective communication in the organisation.

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## Exercises

**Very Short Answer Type**

1. What is informal communication?
2. Which style of leadership does not believe in use of power unless it is absolutely essential?
3. Which element in the communication process involves converting the message into words, symbols, gestures etc.?

4. The workers always try to show their inability when any new work is given to them. They are always unwilling to take up any kind of work. Due to sudden rise in demand a firm wants to meet excess orders. The supervisor is finding it difficult to cope up with the situation. State the element of directing that can help the supervisor in handling the problem.

**Short Answer Type**

1. What are semantic barriers of communication?
2. Explain the process of motivation with the help of a diagram.
3. State the different networks of grapevine communications.
4. Explain any three principles of Directing.
5. In an organisation, one of the departmental manager is inflexible and once he takes a decision, he does not like to be contradicted. As a result, employees always feel they are under stress and they take least initiative and fear to express their opinions and problems before the manager. What is the problem in the way authority is being used by the manager?
6. A reputed hostel, GyanPradan provides medical aid and free education to children of its employees. Which incentive is being highlighted here? State its category and name any two more incentives of the same category.

**Long Answer Type**

1. Discuss Maslow's Need Hierarchy theory of motivation.
2. What are the common barriers to effective communication? Suggest measures to overcome them.
3. Explain different financial and non-financial incentives used to motivate employees of a company?
4. In an organisation all the employees take things easy and are free to approach anyone for minor queries and problems. This has resulted in everyone taking to each other and thus resulting in inefficiency in the office. It has also resulted in loss of secrecy and confidential information being leaked out. What system do you think the manager should adopt to improve communication?

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# 8 CHAPTER

# CONTROLLING

**Departure Control Systems (DCS)**

A Departure Control System (DCS) automates processing an airlines airport management operations which includes managing the informant required for airport check-in, printing boarding pass, baggage acceptance, boarding load control and aircraft checks. Today almost 98% of DCS manage e-ticket using interface from a number of devices including check-in kiosks, online check-in, mobile boarding pass and baggage handling. DCS are able to identify and capture updated reservations from an airline computer reservation system for passengers called passenger name record (PNR). A DCS is used to update reservations typically as ckecked-in, boarded, and flown or another status. Additionally and increasingly a DCS or some city fare sectors may also interface with immigration control for visa, immigration and passenger no fly watch list.

**LEARNING OBJECTIVES**

After studying this chapter, you should be able to:

- Explain the meaning of controlling;
- State the importance of controlling;
- Describe the relationship between planning and controlling;
- Explain the steps in the process of controlling; and
- Describe the techniques of controlling.

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It is quite clear from the example that all managers need to manage situations intelligently and take corrective action before any damage is done to the business. Controlling function of management comes to the rescue of a manager here. It not only helps in keeping a track on the progress of activities but also ensures that activities conform to the standards set in advance so that organisational goals are achieved.

## Meaning of Controlling

Controlling is one of the important functions of a manager. In order to seek planned results from the subordinates, a manager needs to exercise effective control over the activities of the subordinates. In other

words, controlling means ensuring that activities in an organisation are performed as per the plans. Controlling also ensures that an organisation's resources are being used effectively and efficiently for the achievement of predetermined goals. Controlling is, thus, a goal-oriented function.

Controlling function of a manager is a pervasive function. It is a primary function of every manager. Managers at all levels of management—top, middle and lower-need to perform controlling functions to keep a control over activities in their areas. Moreover, controlling is as much required in an educational institution, military, hospital, and a club as in any business organisation.

Controlling should not be misunderstood as the last function of management. It is a function that brings back the management cycle back to the planning function. The controlling function finds out how far actual performance deviates from standards, analyses the causes of such deviations and attempts to take corrective actions based on the same. This process helps in formulation of future plans in the light of the problems that were identified and, thus, helps in better planning in the future periods. Thus, controlling only completes one cycle of management process and improves planning in the next cycle.

## Importance of Controlling

Control is an indispensable function of management. Without control the best of plans can go awry. A good control system helps an organisation in the following ways:

(i) **Accomplishing organisational goals:** The controlling function measures progress towards the organisational goals and brings to light the deviations, if any, and indicates corrective action. It, thus, guides the organisation and keeps it on the right track so that organisational goals might be achieved.

(ii) **Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate and objective. An efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards in light of such changes.

> Managerial Control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans.
>
> *Koontz and O' Donnel*

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(iii) **Making efficient use of resources:** By exercising control, a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms. This ensures that resources are used in the most effective and efficient manner.

(iv) **Improving employee motivation:** A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised. It, thus, motivates them and helps them to give better performance.

(v) **Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline in the organisation. It helps to minimise dishonest behaviour on the part of the employees by keeping a close check on their activities. The box explains how an import-export company was able to track dishonest employees by using computer monitoring as a part of their control system.

(vi) **Facilitating coordination in action:** Controlling provides direction to all activities and efforts for achieving organisational goals. Each department and employee is governed by pre-determined standards which are well coordinated with one another. This ensures that overall organisational objectives are accomplished.

## Limitations of Controlling

Although controlling is an important function of management, it suffers from the following limitations.

(i) **Difficulty in setting quantitative standards:** Control system loses some of its effectiveness when standards cannot be defined in

### Control Through Computer Monitoring

Managers at a New York City import-export company suspected that two employees were robbing it. Corporate Defense Strategies (CDS) of Maywood, New Jersey, advised the firm to install a software program that could secretly log every single stroke of the suspects' computer keys and send an encrypted e-mail report to CDS. Investigators revealed that the two employees were deleting orders from the corporate books after processing them, pocketing the revenues, and building their own company from within. The programme picked up on their plan to return to the office late one night to steal a large shipment of electronics. Police hid in the rafters of the firm's warehouse, and when the suspects entered, they were arrested. The pair was charged with embezzling $3 million over two and a half years, a sizable amount of revenue for a $25 million-a-year firm.

*Source: Hellriegel Don, Susan E. Jackson and John W. Slocum Jr., Management: A Competency-based Approach*

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quantitative terms. This makes measurement of performance and their comparison with standards a difficult task. Employee morale, job satisfaction and human behaviour are such areas where this problem might arise.

(ii) **Little control on external factors:** Generally an enterprise cannot control external factors such as government policies, technological changes, competition etc.

(iii) **Resistance from employees:** Control is often resisted by employees. They see it as a restriction on their freedom. For instance, employees might object when they are kept under a strict watch with the help of Closed Circuit Televisions (CCTVs).

(iv) **Costly affair:** Control is a costly affair as it involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system. It cannot justify the expenses involved. Managers must ensure that the costs of installing and operating a control system should not exceed the benefits derived from it.

The box on Control System at FedEx gives an overview of the control system used by FedEx and how it helped FedEx to increase its profits.

*Remain level headed even when things go wrong*

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## Relationship between Planning and Controlling

Planning and controlling are inseparable twins of management. A system of control presupposes the existence of certain standards. These standards of performance which serve as the basis of controlling are provided by planning. Once a plan becomes operational, controlling is necessary to monitor the progress, measure it, discover deviations and initiate corrective measures to ensure that events conform to plans. Thus, planning without controlling is meaningless. Similarly, controlling is blind without planning. If the standards are not set in advance, managers have nothing to control. When there is no plan, there is no basis of controlling.

Planning is clearly a prerequisite for controlling. It is utterly foolish to think that controlling could be accomplished without planning. Without planning there is no predetermined understanding of the desired performance. Planning seeks consistent, integrated and articulated programmes while controlling seeks to compel events to conform to plans.

Planning is basically an intellectual process involving thinking, articulation and analysis to discover and prescribe an appropriate course of action for achieving objectives. Controlling, on the other hand, checks whether decisions have been translated into desired action. Planning is thus, prescriptive whereas, controlling is evaluative.

It is often said that planning is looking ahead while controlling is looking back. However, the statement is only partially correct. Plans are prepared for future and are based on forecasts about future conditions. Therefore, planning involves looking ahead and is called a forward-looking function. On the contrary, controlling is like a postmortem of past activities to find out deviations from the standards. In that sense, controlling is a backward-looking function. However, it should be understood that planning is guided by past experiences and the corrective action initiated by control function aims to improve future performance. Thus, planning and controlling are both backward-looking as well as a forward-looking function.

Thus, planning and controlling are interrelated and, in fact, reinforce each other in the sense that

1. Planning based on facts makes controlling easier and effective; and
2. Controlling improves future planning by providing information derived from past experience.

## Controlling Process

Controlling is a systematic process involving the following steps.

1. Setting performance standards
2. Measurement of actual performance

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3. Comparison of actual performance with standards
4. Analysing deviations
5. Taking corrective action

**Step 1:** ***Setting Performance Standards:*** The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as benchmarks towards which an organisation strives to work.

Standards can be set in both quantitative as well as qualitative terms. For instance, standards set in terms of cost to be incurred, revenue to be earned, product units to be produced and sold, time to be spent in performing a task, all represents quantitative standards. Sometimes standards may also be set in qualitative terms. Improving goodwill and motivation level of employees are examples of qualitative standards. The table in the next page gives a glimpse of standards used in different functional areas of business to gauge performance.

At the time of setting standards, a manager should try to set standards in precise quantitative terms as this would make their comparison with actual performance much easier. For instance, reduction of defects from 10 in every 1,000 pieces produced to 5 in every 1,000 pieces produced by the end of the quarter. However, whenever qualitative standards are set, an effort must be made to define them in a manner that would make their measurement easier. For instance, for improving customer satisfaction in a fast food chain having self-service, standards can be set in terms of time taken by a customer to wait for a table, time taken by him to place the order and time taken to collect the order.

It is important that standards should be flexible enough to be modified whenever required. Due to changes taking place in the internal and external business environment, standards may need some modification to be realistic in the changed business environment.

**Step 2:** ***Measurement of Actual Performance:*** Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc. As far as possible, performance should be measured in the same units in which standards are set as this would make their comparison easier.

It is generally believed that measurement should be done after the task is completed. However, wherever possible, measurement of work should be done during the performance. For instance, in case of assembling task, each part produced

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should be checked before assembling. Similarly, in a manufacturing plant, levels of gas particles in the air could be continuously monitored for safety.

Measurement of performance of an employee may require preparation of performance report by his superior. Measurement of a company's performance may involve calculation of certain ratios like gross profit ratio, net profit ratio, return on investment, etc., at periodic intervals. Progress of work in certain operating areas like marketing may be measured by considering the number of units sold, increase in market share, etc., whereas, efficiency of production may be measured by counting the number of pieces produced and number of defective pieces in a batch. In small organisations, each piece produced may be checked to ensure that it conforms to quality specifications laid down for the product. However, this might not be possible in a large organisation. Thus, in large organisations, certain pieces are checked at random for quality. This is known as sample checking.

**Step 3:** ***Comparing Actual Performance with Standards:*** This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms. For instance, performance of a worker in terms of units produced in a week can be easily measured against the standard output for the week.

**Step 4:** ***Analysing Deviations:*** Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas. Critical point

**Standards used in Functional Areas to Gauge Performance**

| Production | Marketing | Human Resource Management | Finance and Accounting |
|---|---|---|---|
| Quantity | Sales volume | Labour relations | Capital expenditures |
| Quality | Sales expense | Labour turnover | Inventories |
| Cost | Advertising expenditures | Labour absenteeism | Flow of capital |
| Individual job | Individual | | Liquidity |
| Performance | Sales-person's performance | | |

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control and management by exception should be used by a manager in this regard.

1. *Critical Point Control:* It is neither economical nor easy to keep a check on each and every activity in an organisation. Control should, therefore, focus on key result areas (KRAs) which are critical to the success of an organisation. These KRAs are set as the critical points. If anything goes wrong at the critical points, the entire organisation suffers. For instance, in a manufacturing organisation, an increase of 5 per cent in the labour cost may be more troublesome than a 15 per cent increase in postal charges.
2. *Management by Exception:* Management by exception, which is often referred to as control by exception, is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing. Thus, only significant deviations which go beyond the permissible limit should be brought to the notice of management. Thus, if the plans lay down 2 per cent increase in labour cost as an acceptable range of deviation in a manufacturing organisation, only increase in labour cost beyond 2 per cent should be brought to the notice of the management. However, in case of major deviation from the standard (say, 5 per cent), the matter has to receive immediate action of management on a priority basis.

The box below highlights the advantages of critical point control and management by exception.

After identifying the deviations that demand managerial attention, these deviations need to be analysed for their causes. Deviations may have multiple causes for their origin. These include unrealistic standards, defective process, inadequacy of resources, structural drawbacks, organisational constraints and environmental factors

**Advantages of Critical Point Control and Management by Exception**

When a manager sets critical points and focuses attention on significant deviations which cross the permissible limit, the following advantages accrue:

1. It saves the time and efforts of managers as they deal with only significant deviations.
2. It focuses managerial attention on important areas. Thus, there is better utilisation of managerial talent.
3. The routine problems are left to the subordinates. Management by exception, thus, facilitates delegation of authority and increases morale of the employees.
4. It identifies critical problems which need timely action to keep the organisation in right track.

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beyond the control of the organisation. It is necessary to identify the exact cause(s) of deviations, failing which, an appropriate corrective action might not be possible. The deviations and their causes are then reported and corrective action taken at appropriate level.

**Step 5:** ***Taking Corrective Action:*** The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

Corrective action might involve training of employees if the production target could not be met. Similarly, if an important project is running behind schedule, corrective action might involve assigning of additional workers and equipment to the project and permission for overtime work. In case the deviation cannot be corrected through managerial action, the standards may have to be revised. The table below cites some of the causes of deviations and the respective corrective action that might be taken by a manager.

The information in the box in next page gives an account of how Saco Defense was able to control a crisis situation.

*Remedial Plan of Action: Analysing deviations*

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## Key Terms

Controlling | Critical point control | Management by exception

Breakeven analysis | Budgetary control | Return on investment

Ratio analysis | Responsibility accounting | Management audit

PERT and CPM | Management | Information system

## Summary

- Controlling is the process of ensuring that actual activities conform to planned activities.
- The importance of managerial control lies in the fact that it helps in accomplishing organisational goals. Controlling also helps in judging accuracy of standards, ensuring efficient utilization of resources, boosting employee morale, creating an atmosphere of order and discipline in the organisation and coordinating different activities so that they all work together in one direction to meet targets.
- Controlling suffers from certain limitations also. An organisation has no control over external factors. The control system of an organisation may face resistance from its employees. Sometimes controlling turns out to be a costly affair, especially in case of small organisations. Moreover, it is not always possible for the management to set quantitative standards of performance in the absence of which controlling exercise loses some of its effectiveness.
- The process of control involves setting performance standards, measurement of actual performance, comparison of actual performance with standards, analysis of deviations and taking corrective action.
- Planning and controlling are inseparable twins of management. Planning initiates the process of management and controlling completes the process. Plans are the basis of control and without control the best laid plans may go astray.
- Personal observation, statistical reports, breakeven analysis and budgetary control are traditional techniques of managerial control.
- Return on investment, ratio analysis, responsibility accounting, management audit, PERT and CPM and Management Information System are modern techniques of managerial control.

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## Exercises

### Very Short Answer Type

1. State the meaning of controlling.
2. Name the principle that a manager should consider while dealing with deviations effectively. State any one situation in which an organisation's control system loses its effectiveness.
3. State any one situation in which an organisation's control system loses is effectiveness.
4. Give any two standards that can be used by a company to evaluate the performance of its Finance & Accounting department.
5. Which term is used to indicate the difference between standard performance and actual performance?

### Short Answer Type

1. 'Planning is looking ahead and controlling is looking back.' Comment.
2. 'An effort to control everything may end up in controlling nothing.' Explain.
3. Explain how management audit serves as an effective technique of controlling.
4. Mr.Arfaaz had been heading the production department of Writewell Products Ltd., a firm manufacturing stationary items. The firm secured an export order that had to be completed on a priority basis and production targets were defined for all the employees. One of the workers, Mr.Bhanu Prasad, fell short of his daily production target by 10 units for two days consecutively. Mr.Arfaaz approached MsVasundhara, the CEO of the Company, to file a complaint against MrBhanu Prasad and requested her to terminate his services. Explain the principle of management control that MsVasundhara should consider while taking her decision. (Hint: Management by exception).

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**Long Answer Type**

1. Explain the various steps involved in the process of control.
2. Explain the techniques of managerial control.
3. Explain the importance of controlling in an organisation. What are the problems faced by the organisation in implementing an effective control system?
4. Discuss the relationship between planning and controlling.
5. A company 'M' limited is manufacturing mobile phones both for domestic Indian market as well as for export. It had enjoyed a substantial market share and also had a loyal customer following. But lately it has been experiencing problems because its targets have not been met with regard to sales and customer satisfaction. Also mobile market in India has grown tremendously and new players have come with better technology and pricing. This is causing problems for the company. It is planning to revamp its controlling system and take other steps necessary to rectify the problems it is facing.
   a. Identify the benefits the company will derive from a good control system.
   b. How can the company relate its planning with control in this line of business to ensure that its plans are actually implemented and targets attained.
   c. Give the steps in the control process that the company should follow to remove the problems it is facing
6. Mr Shantanu is a chief manager of a reputed company that manufactures garments. He called the production manager and instructed him to keep a constant and continuous check on all the activities related to his department so that everything goes as per the set plan. He also suggested him to keep a track of the performance of all the employees in the organisation so that targets are achieved effectively and efficiently.
   a. Describe any two features of Controlling highlighted in the above situation.(Goal Oriented, continuous and pervasive – any 2).
   b. Explain any four points of importance of Controlling.

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