

# Management Process

## UNIT-I

Nature of Management – Tasks of a Professional Manager - Social Responsibilities of Business – Manager and Environment – Systems Approach to Management – Levels in Management – Managerial Skills.

## INTRODUCTION TO MANAGEMENT

### MEANING:

- Management is an art of getting things done through others.
- Management is to plan, organize, direct and control the resources of the organization for obtaining common objectives or goals.
- It is related with resources like material, money, machinery, methods, manufacturing and marketing.

### DEFINITIONS:

- According to Henry Fayol:- “To manage is to forecast and to plan, to organize, to co-ordinate and to control.”
- According to Taylor:- “Management is the art of knowing what you want to do and then seeing that it is done in the best and cheapest way.”

## NATURE OF MANAGEMENT

### i) Management is universal:

- Most of the principles and techniques of management are universal in nature.
- They can be applied to government organization, military, educational institutes, religious institutes etc.
- They provide working guidelines which can be adopted according to situations.

### ii) Management is continuous Process ongoing activity

- The activity of planning, organizing, staffing, directing and controlling can be applied to each and every task of the organization. Hence, it is continuous.

### **iii) Management is Multidisciplinary**

- The field of management has contributions from various disciplines like accounting, commerce, economics, and statistics etc., Hence it is called as multi disciplinary.

### **iv) Management is intangible**

- It is an unseen force, its presence can be evidence by the result of its efforts up to date order but they generally remain unnoticed, Where as mismanagement is quickly noticed.

### **v) Management is concern with people:**

- Since management involves getting things done through others only human being performed this activity with the help of planning and control.
- The element man cannot be separated from the management.

### **vi) Management is the combination of art, science and profession:**

- Management makes use of science as well as art.
- It is science because it collects knowledge with the methods and data, analyzes and measures it and decision is taken with the help of experiment. It is a systematic body of knowledge.
- Art means application of knowledge for solving various problems.
- In modern times there is separation of ownership and management, so professional experts are appointed.

### **vii) Management is an intellectual activity**

- The practice of management requires application of mind and intelligence.
- Each and every work needs to be properly planned and executed.

### **viii) Management is goal oriented:**

- Management is concern with achievement of specific goals. It is always directed towards achievement of objectives.
- The success of management is measured by the extent to which objectives are achieved.

- The manager takes up the role of managing people to complete the task.

### **ix) Management is multidimensional:**

Management is a complex activity that has three main dimensions. These are:

- (a) Management of work
- (b) Management of people
- (c) Management of operations

### **FUNCTIONS OF MANAGEMENT**

Management is a continuous process composed of different functions that managers have to perform for attainment of desired goals. These functions are broadly classified into two parts:

#### **i) Primary Functions**

Following are the main functions of management:



#### **a) Planning**

- It is the basic function of management. Planning means looking ahead and chalking out future courses of action to be followed to achieve the desired goals. It is a continuous and ongoing process.
- According to KOONTZ, "Planning is deciding in advance - what to do, when to do & how to do. It bridges the gap from where we are & where we want to be". A plan is a future course of actions. It is an exercise in problem solving & decision making.
- Planning is necessary to ensure proper utilization of human & non-human resources.

- It is all pervasive, it is an intellectual activity and it also helps in avoiding confusion, uncertainties, risks, wastages etc.

## **b) Organising**

- It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals.
- According to Henry Fayol, “To organize a business is to provide it with everything useful or its functioning i.e. raw material, tools, capital and personnel’s”.
- To organize a business involves determining & providing human and non-human resources to the organizational structure.
- Organizing as a process involves:
  - a) Identification of activities.
  - b) Classification of grouping of activities.
  - c) Assignment of duties.
  - d) Delegation of authority and creation of responsibility.
  - e) Coordinating authority and responsibility relationships.

## **c) Staffing**

- It is the function of manning the organization structure and keeping it manned.
- Staffing has assumed greater importance in the recent years due to advancement of technology, increase in size of business, complexity of human behavior etc.
- ***The main purpose of staffing is to put right man/woman on right job*** i.e. square pegs in square holes and round pegs in round holes.
- According to Kootz & O’Donell, “Managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal & development of personnel to fill the roles designed un the structure”.
- Staffing involves:
  - a) Manpower Planning (estimating man power in terms of searching, choose the person and giving the right place).

b) Recruitment, Selection & Placement.

c) Training & Development.

d) Remuneration.

e) Performance Appraisal.

f) Promotions & Transfer.

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**d) Directing:**

- It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes.
- Direction is that inter-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals.
- Direction has following elements:
  - a) Supervision
  - b) Motivation
  - c) Leadership
  - d) Communication

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**e) Controlling**

- It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals.
  - The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur.
  - According to Koontz & O'Donnell "Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished".
  - Therefore controlling has following steps:
    - a) Establishment of standard performance.
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- b) Measurement of actual performance.
- c) Comparison of actual performance with the standards and finding out deviation if any.
- d) Corrective action.

## 2. Secondary Functions

Following are the subsidiary functions of management which are needed to be performed to carry out the primary functions:

- a) Coordination b) Decision-making c) Innovation d) Representation e) Reporting f) Budgeting g) Forecasting

### DIFFERENCE BETWEEN MANAGEMENT AND ADMINISTRATION

<i>BASIS</i>	<i>MANAGEMENT</i>	<i>ADMINISTRATION</i>
Meaning	It is an art directing and inspiring people.	it is concerned with the formulation of broad plans & objectives
Role	Managers are paid employees of an organization	They are the governing people or owners of an organization
Nature	It is an executing function	It is a decision making function
Process	It decides who and how should do it.	It decides what & when is to be do done
Function	it is a doing function	It is a thinking function
Skills	Technical and human skills	Conceptual and human skills
Level	Middle & lower level function	Top level function

### DIFFERENCE BETWEEN MANAGEMENT & ORGANISATION

<b>Points</b>	<b>Management</b>	<b>Organization</b>
<b>Meaning</b>	It is an executive function which is primarily concerned with getting the things done by others.	It is an organic function of putting together the different parts of an enterprise into working order.
<b>Types</b>	Planning, organizing, staffing, motivation, direction, co- ordination and control are the functions of management.	Organization is one of the important functions of management.
<b>Nature</b>	It is like the entire body of human being.	It is like a nervous system of human body.
<b>Levels</b>	There are different levels in management, e.g. top, middle and lower level.	There are no such levels in organization.
<b>Scope</b>	Management uses the organization.	Organization is the machine of management.

### **DIFFERENCE BETWEEN MANAGER AND ENTREPRENEUR**

<b>Manager</b>	<b>Entrepreneur</b>
A manager is a person who coordinates and oversees the work of others so that organization goal can be achieved.	An entrepreneur is a person who will make efforts in establishing a business enterprise with his creative and innovative ideas and under take legal responsibility for the success of the business
A manager can simply work with the framed objective.	He has full freedom in framing the objectives of the organization
A manager get salary for the work he has done	An entrepreneur is rewarded with profit of a business.
A manager cannot take decision in all situations.	He can take decision in all business situations.
The attitude, belief, and opinion will have an impact on the decision of a manager	The availability of resources, economic condition and government regulation will affect the decision of an entrepreneur

A manager does not bear any risk and he gets and assured (fixed) amount of salary every month	An entrepreneur will irregular profits and uncertain business conditions
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## MANAGEMENT IS AN ART, A SCIENCE AND A PROFESSION

### 1. Management as a Science

- Science is a systematic body of knowledge based on certain principles and which are universally approved.
- F. W. Taylor was the first person who considered management as a science. Science is divided into two parts. a) Physical science. b) Social science.
- Management is a social science because it deals with human being.

#### **Management is a social science due to the following reasons:-**

##### ***a) Systematic collection and processing of information:***

- ✓ Management collects information either by observation or experiment and practice.
- ✓ E.g. Marketing people collect information about expected sales on the basis of observation, experiment and practice. The data is collected. Then it is process and with the help of computer and statistical tools and then the data is analyzed and decisions are taken.

##### ***b) Output may change though the inputs are same:***

- ✓ In management the output may change even when the input remains the same because it deals with human being.
- ✓ Process of management is universally followed i.e. planning, organizing, staffing, directing, controlling and reporting.
- ✓ Every manager while performing his job must use his knowledge to get better results.

##### ***c) Principles of Management are universally accepted:***

- ✓ All successful organizations must follow established principles of management, such as division of work, unity of command, authority and responsibilities, discipline etc.

### **2. Management as an Art**

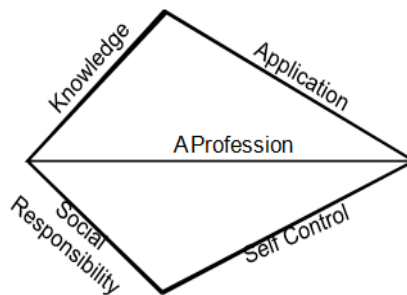


- Art is personal skill. It is created by nature. It is not possessed by all.
- Art is bringing about desired results with the help of skills.
- Management is one of the most creative arts. It requires a lot of knowledge.
- Management is an art because:
  - a) It is creative
  - b) It involves use of skill.
  - c) It involves use of technical know how.
  - d) It is directed towards getting results.
  - e) It is personalized.
- Thus, management is a perfect art or rather a fine art.

### 3. Management as a Profession

- Profession is an occupation carried by professionals like doctor, lawyer, architect, chartered accountant, cost accountant etc

**Management is a profession because:-**



- It involves knowledge and application of it.
- Management as a profession is modern concept different from traditional one.

**Characteristics of a profession:-**

**Systematic body of knowledge:**

- Professionals require expert knowledge in a particular discipline.
- E.g. a doctor requires knowledge of medicine; Chartered Accountant needs to have knowledge of Income Tax.

**Formal Education:**

- A true professional needs to have formal education from the institution.
- E.g. Lawyer needs degree of law.

**Social Responsibility:**

- The professional are socially responsible while handling their tasks and responsibilities.
- Their aim should not be only profit maximization, but they have to follow certain rules for social responsibilities.

**Independent Office:**

- Normally professionals practice from their independent office.

**Specialization:**

- The professionals may specialize in a particular field.
- E.g. heart specialist, child specialist and ENT surgeon.

**Fees:**

- The professionals required license or a permission to practice.
- E.g. a doctor requires license to practice as a medical practitioner.

The modern concept of management has developed as a profession because:-

- a) Organization is a systematic body of knowledge.
- b) Formal methods of acquiring knowledge and skill with the help of different institution.
- c) Rise in professional management consultant.
- d) Need for honesty.

**MANAGEMENT BY OBJECTIVES****Definition:**

- The concept of 'Management by Objectives' (MBO) was first given by Peter Ferdinand Drucker in 1954.
- It can be defined as a process whereby the employees and the superiors come together to identify common goals, the employees set their goals to be achieved, the standards to be

taken as the criteria for measurement of their performance and contribution, deciding the course of action to be followed and comparing their performance with the standards.

### **Characteristics of MBO:**

- It includes participative goal setting.
- It clearly defines each individual's responsibilities in terms of results.
- It focuses attention on what must be accomplished (goals), instead of how it is to be accomplished (methods).
- It establishes standards or key performance indicators (KPI) as operating guides and also the basis of performance evaluation.
- It converts objectives into personal goals at every level in the organization.
- It is a system directed towards effective and efficient achievement of organizational goals.

### **Steps in MBO**

The 6 steps of the MBO process are;

1. Define organizational goals
2. Define employees objectives
3. Continuous monitoring performance and progress
4. Performance evaluation
5. Providing feedback
6. Performance appraisal



### **i) Define Organizational Goals**

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

### **ii) Define Employees Objectives**

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

### **iii) Continuous Monitoring Performance and Progress**

- MBO process is not only essential for making line managers in business organizations more effective but also equally important for monitoring the performance and progress of employees.
- For monitoring performance and progress the followings are required;
  - a) Identifying ineffective programs by comparing performance with pre-established objectives,
  - b) Using [zero-based budgeting](#),
  - c) Applying MBO concepts for measuring individual and plans,
  - d) Preparing long and short-range objectives and plans,
  - e) Installing [effective controls](#), and
  - f) Designing a sound organizational structure with clear, responsibilities and decision-making authority at the appropriate level.

### **iv) Performance Evaluation**

Under this MBO process performance review is made by the participation of the concerned managers.

### **v) Providing Feedback**

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

### **vi) Performance Appraisal**

- [Performance appraisals](#) are a regular review of employee performance within organizations. It is done at the last stage of the MBO process.

### **Advantages of MBO**

Some of the important features and advantages of MBO are:

- There is Clarity of goals and objectives
- It promotes self- commitment and self- confidents.
- Overall, management by objectives increases the productivity of an organization over time because it continuously evolves the process.
- It increases the quality of teamwork and communication between the management team, as they need to constantly cooperate to ensure clarity in the strategies and provide feedback.
- Employees may achieve their goals more easily because they will be coherent and achievable.
- It enhances the transparency of the organization and the efficiency of the management. Thus, it improves productivity by minimizing ambiguity.

### **Disadvantages of MBO**

- The philosophy of MBO is difficult to understand
- This approach involves lot of paper work and time consuming
- MBO may not be applicable for implementation in the short run of an organization.
- It emphasizes the goals too much.
- Some relevant parts of a company are often ignored by MBO, such as company culture, work ethos, and interpersonal activities.
- MBO can cause burnout as it puts a heavy strain on employees to meet the goals set by management.

### **Example of MBO:**

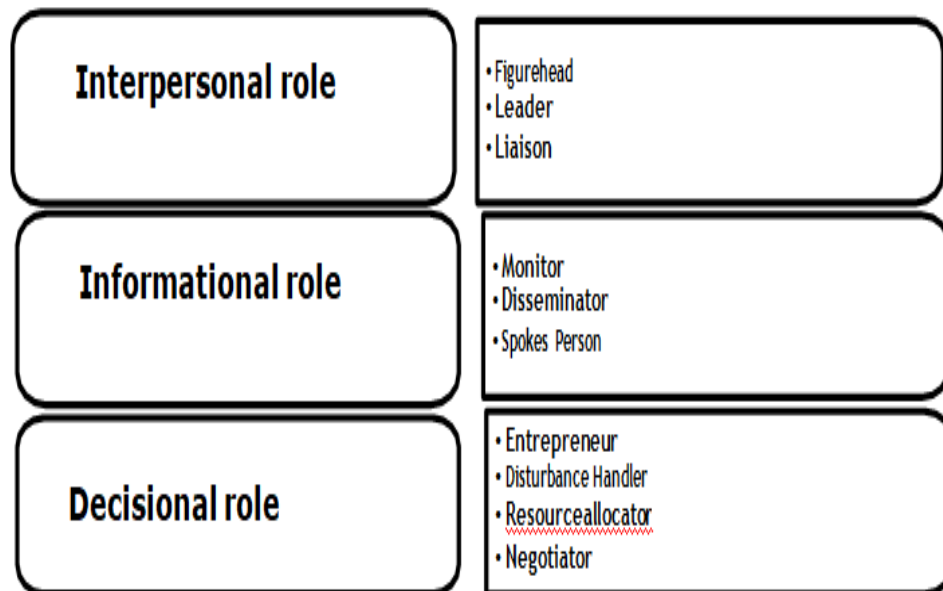
An example of MBO in action would be a company that has a quarterly objective to earn 30% of overall revenue from their marketing efforts. To achieve this objective, they break it down into personal objectives for each team member.

- For the digital marketers on the team, their personal objectives are to secure three new marketing clients for the quarter.
- Managers monitor team member performance over the quarter to identify how each team member plans to achieve their personal goal and whether they're making progress toward the goal.
- If a team member reaches their goal at the end of the quarter, they are rewarded with a paid bonus.

## ROLES OF A MANAGER

Henry Mintzberg studied the activities of five chief executive officers of major corporations and found out the following roles;

### Ten Managerial Roles identified by Mintzberg:



### Interpersonal Roles

- **Figurehead role:** The manager performs certain functions such as receiving important visitors and signing documents.
- **Leader** : The manager motivates and encourages subordinates.
- **Liaison role** : The manager establishes and maintains a network of relationships with outside persons to bring information and favors to the organization.

### Informational Roles

- **Monitor** : Seeks and receives information to obtain thorough understanding of organization and environment.
- **Disseminator role:** The manager must transmit much of the information received from outsiders or insiders to other organization members.

- **Spokes person** : Information about the organization must be transmitted to outsiders.

## Decisional Roles

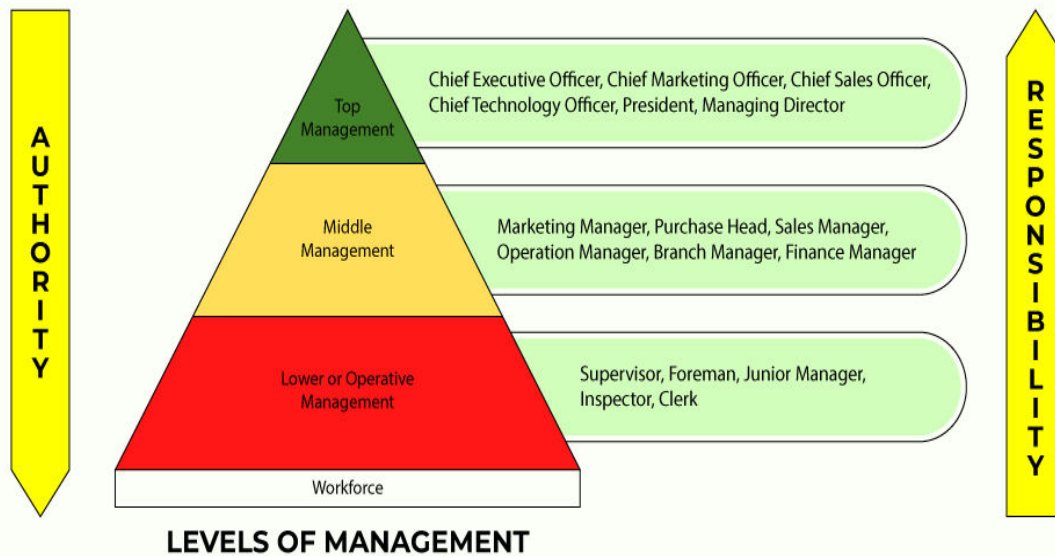
- **Entrepreneurial role:** The manager acts as an initiator and designer of controlled change in the organization.
- **Disturbance handler role:** This role equips the manager to take corrective actions needed to resolve important and unexpected disturbances. He must seek solutions of various unanticipated problems like strike, natural disasters, accidents etc. Routine problems must also be dealt with simultaneously.
- **Resource allocator role:** The manager allocates the monetary and non-monetary resources of the organization. Specific activities include developing and monitoring budgets, forecasting future resource needs and problems in acquiring them.
- **Negotiator role:** The manager frequently must negotiate with outsiders in matters affecting the organization.

## LEVELS IN MANAGEMENT

### 1. Strategic or Top-level Management

- Top-level management includes - Chief Executive Officer (CEO), Managing Directors, President and Vice President, Senior Level Managers (called executives).
- These top-level managers have the overall responsibility of the survival and welfare of the organisation.
- They carry out the analysis of the business environment both internal and external and assess its impact on the organisation.
- To establish the goals and objectives of the organization
- To Perform the activity of monitoring and controlling
- To make plans and take decisions for the benefit of the organization.





## 2. Tactical or Middle level Managers

- They will form the next layer of the management hierarchy. They are subordinates to top-level managers.
- Middle level managers include - sales manager, financial manager, production manager, personnel manager R&D manager and they are otherwise called as functional or departmental heads.
- Middle level managers have overall responsibility of implementation of the plan and

controlling the activities.

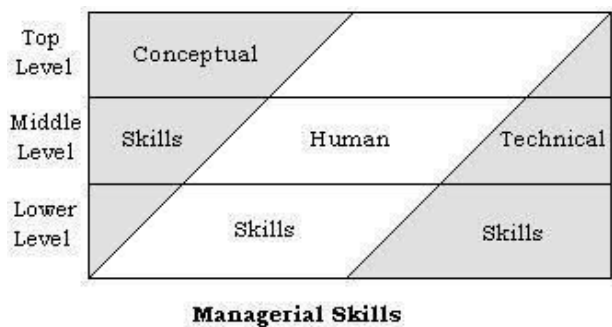
- They act as a link between the top management and lower level management. They will plan short term departmental targets
- Motivate the employees towards achieving the targets and act as a resource allocator, disturbance handler and negotiator.
- They are responsible for all the activities of the Lower level managers.

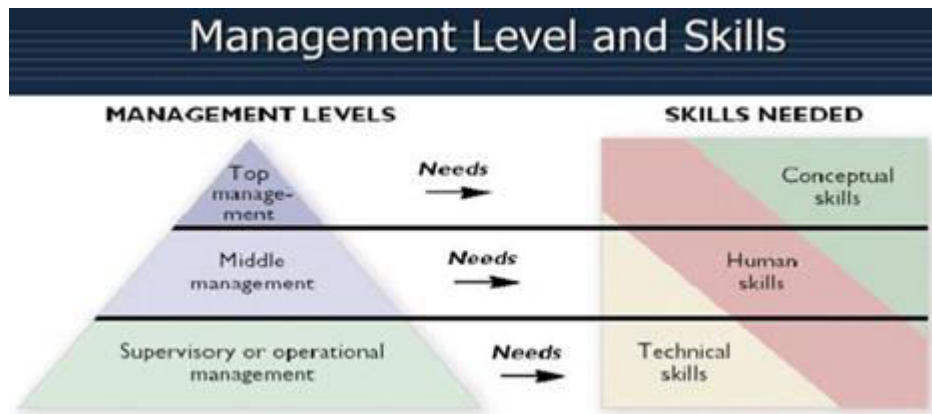
### 3. Lower Level/First level Managers/ Supervisory level

- It includes of foremen, supervisors, charge-hands, inspectors and so on.
- The operators or workers directly report to first line managers.
- They are responsible for controlling of operational plans prepared by middle level managers.
- They are responsible for outputs. Much of the time of line managers is spent in direct supervision of subordinates.
- Monitoring the regular work schedule

## MANAGERIAL SKILLS:

### SKILLS REQUIRED BY THE MANAGERS AT EACH LEVEL





## 1. Technical Skills- at supervisory level

- A technical skill is an ability to use a special proficiency or expertise relating to a method, process, or procedure.
- Accountants, engineers, and attorneys, for example, possess technical skills acquired through formal education.
- Most jobs have technical skill components. Some require formal education, while others allow skills to be acquired through appropriate training and job experience.

## 2. Human Skills- middle level

- Human skill is the ability to work well in co-operation with other people. It emerges as a spirit of trust, enthusiasm, and genuine involvement in interpersonal relationships.
- A person with good human skill will have a high degree of self-awareness and a capacity to understand or empathize with the feelings of others.
- Since managers get things done through others, they must have good human skills to communicate, motivate and delegate.

## 3. Conceptual Skills- top level

- All good managers, ultimately have the ability to view the organization or situation as a whole and solve problems to the benefit of all concerned.
- This is a conceptual skill that draws heavily on one's mental capacities to identify problems and opportunities, gather and interpret relevant information, and make good problem-solving decision that serve the organization's purpose.

## **EVOLUTION/THOUGHTS /HISTORY OF MANAGEMENT**

### **1. Scientific Management (Frederick Winslow Taylor)**

- The concept of scientific management was proposed by F. W. Taylor in the period between 1856-1956.
- He worked as an employee and rose to the position of an engineer in Midvale steel company. He identified two major problems.
  - (i) The employees are deliberately slow in their work
  - (ii) The working system is complicated.

He has given the following suggestions.

- To conduct time study & motion study
- To provide piece rate system
- To provide adequate training.
- To raise the standard of living of the employees
- To standardize the material and tools used for production

### **2. Administrative Management (Henry Fayol)**

- Henry Fayol worked as a Mining Engineer who put forth the concept of management in terms of administration during the period 1856-1925.
- Fayol classified business activities into six groups as given below-
  - a) Technical (Production, Manufacturing)
  - b) Commercial (Buying, Selling, Exchanging)
  - c) Financial (Obtaining and using capital)
  - d) Security (Protecting of property and persons)
  - e) Accounting (Balance sheet, stock taking, statistics, costing)
  - f) Managerial (Planning, Organizing, Commanding, Co-coordinating, Controlling)

### **General Principles of Management**

Fayol developed 14 basic principles of management. This are-

1. **Division of Work:** By this we mean that the total work to be done is divided into small parts, each entrusted to as particular individual.

2. **Authority and Responsibility:** Authority is the official right of the manager. Responsibility is the duty or obligation on the part of a subordinate to account for the work done by him.
3. **Discipline:** Fayol calls upon employees to adhere to the agreement reached with the employer in the matter of discipline
4. **Unity of Command:** According to this principle, an employee should receive orders from one superior only and is accountable to him alone
5. **Unity of Direction:** The principle of unity of command which says that employees should get orders from one superior only.
6. **Subordination of Individual Interest to Group**
7. **Remuneration of Personnel:** it holds the principle that remuneration payable to the employees should be fair and should give maximum satisfaction to both the employees and employers.
8. **Centralisation:** Concentration of authority at a particular place is centralisation.
9. **Scalar Chain:** It is the chain of superiors ranging from the highest to the lowest level in the organisation.
10. **Order:** Fayol talks about two types of order, namely material and social order. Material order means place of everything in its place.
11. **Equity:** The principle of equity ensures fairness, kindness and justice in treatment of employees by their managers.
12. **Stability of Tenure of Personnel:** According to this principle, stability of tenure is necessary for all. It means that an employee shall not be shifted unnecessarily from one job to another.
13. **Initiative:** The freedom to think and act is what initiative according to Fayol is. An employee who has the freedom to think and act in organisation will show greater interest in his work

14. **Esprit De Corps:** The work done in any organisation is teamwork. Team spirit and co-operation among the members of an organisation are essential for its success.

### **3. *Human relations Management (Elton Mayo)***

This thought was proposed by Elton Mayo who has proved the result with the help of experiments. He conducted his experiment in Western Electric Company, Hawthorne. So this is also called as Hawthorne Experiments. He has conducted three experiments and used the result of one more experiment for his study.

- (i) Illumination Experiment
- (ii) Relay assembly test room Experiment
- (iii) Mass Interview Test
- (iv) Bank Wiring observation test

#### ***Illumination Experiment***

Here the intensity of the lighting in the workplace is compared with the output of the employees. The result taken from this experiment is that there is only less relation between intensity and the output.

#### ***Relay assembly test room Experiment***

Here a group of six female employees are grouped to work together with flexible rest pauses, tea breaks and timings and the result observed was increased. After few days all the flexible provisions given to the six employees were taken off and the result observed. The output still increased.

#### ***Mass Interview Test***

A random group of employees taken into interview with the questionnaire to know their opinion with respect to the firm.

#### ***Bank wiring observation test***

A group of 14 employees from different department are asked to connect the telephone wires and the result observed. The employees are not reaching the expected output and it was found that the employees are not willing to expose their talents when they are put in a different team.

From the above experiments Mayo observed that

- (i) Employees are motivated with non monetary rewards.
- (ii) They represent to the management not as an individual but as a group
- (iii) The employees are more concerned with their social networks

#### ***4. Systems Management (Modern Approach)***

The system concept of management is as simple which involves three steps.

Input → Transformation → output

The systems concept of management pictures out the 5Ms used in an organization for the expected output of products or services. The transformation process involves the accumulation of data, compilation, storage and retrieval of the required information which is essential and beneficiary for the achievement of goals of the organization.

### **SOCIAL RESPONSIBILITIES OF BUSINESS**

#### **Social Responsibility**

- Social responsibility is an ethical paradigm that implies that an entity, whether an organization or an individual, has a responsibility to behave in the best interests of society as a whole. Every individual has a responsibility to fulfil in order to maintain a balance between the economy and the ecosystems.
- Social responsibility encompasses more than a company's legal obligations. Compliance with the law may be sufficient to discharge legal responsibility
- But social responsibility entails a lot more. It is a company's recognition of social obligations that are not covered by legislation, as well as legal requirements.
- To put it another way, social responsibility entails a voluntary activity on the part of business people for the good of society.

#### **Need for Social Responsibility**

## **1. Improving Company's Brand Image**

- Being socially responsible is of utmost importance to build company's image and brand.
- By portraying a positive image, a firm can build a name for itself for not only being financially profitable, but socially responsible as well.

## **2. Engaging Customers**

- A company's social responsibility policy may impact customers' purchasing decisions.
- Some buyers may pay a greater price for a product if they know a portion of the profit will be donated to a worthwhile cause.

## **3. Retaining Top Talent**

- Many employees desire to be a part of something bigger than themselves.
- Employees with a sense of social responsibility can use the tools available to them at work to help others.

## **4. Helping Company Stand Out of Competition**

- Companies that are involved in the community set themselves apart from the competitors.
- Improving the brand's image by cultivating relationships with customers and their communities.

## **Kinds of Social Responsibility**

### **1. Economic Responsibility**

The primary social obligation of a business enterprise is the economic responsibility, i.e., to produce things and services that society desires and sell them for a profit.

### **2. Legal Responsibility**

Every business has a legal obligation to follow the rules of the land. A business who abides to the laws and regulations of the country, is also a socially responsible business.

### **3. Ethical Responsibility**

Described as the behaviour that is expected by society but not codified in law. Performance of this task includes some voluntary action.

### **4. Discretionary Responsibility**

It is the responsibility of the company to protect the capital investment by avoiding speculative activity and engaging in only healthy business initiatives that provide good returns on investment, such as charities, donations etc.



## **Social Responsibility towards Different Interest Group**

### **1. Responsibility towards Owners and Shareholders**

- To ensure a fair and regular return on the investment of shareholders.
- To ensure the safety of their investment
- To strengthen financial position of the company.
- To safeguard the assets of the business.
- To protect the interest of all types of investors in the business.

### **2. Responsibility towards Workers**

- The correct kind of working circumstances to provide in order to gain workers' cooperation.
- Providing fair compensation and benefits,
- Providing good and safe Working conditions,
- To develop a sense of belongingness.
- The company must respect the workers' democratic freedom to form unions.
- The employee must also be guaranteed a fair wage and a fair deal from the employer.

### **3. Responsibility towards Consumers**

- To supply right quality of goods & services at reasonable prices.
- To ensure regular and adequate supply of products.
- To inform them about new products and new uses of existing products.
- To handle the customers grievance promptly.
- Adulteration, poor quality, lack of desired service and courtesy to consumers, misleading and dishonest advertising, and so on must all be avoided by the business.

### **4. Responsibility towards the Government**

- To pay taxes honestly
- To observe rules laid down by the government,
- to avoid corrupting government employees.
- It must also act as a good citizen and adhere to the society's acceptable norms.

### **5. Responsibility towards the Community**

- To make available opportunities for employment,
- To avoid polluting the environment,
- To up lift the weaker sections of society

## **Arguments for Social Responsibility**

### **1. Protect the Interest of Stakeholders:**

- It has become vital for organizations to discharge responsibilities towards their employees in order to gain their support.
- The customer does not purchase what is being provided to him. He purchases what he desires. As a result of increased customer awareness, businesses have been pushed to assume social responsiveness toward them.
- Fulfilling social commitments is helpful to a company's long-term sustainability.

### **2. Long-run Survival:**

- When a company's primary purpose is to provide "service to society," it and its image stand to profit the most in the long run.
- If a company performs its social obligation, it benefits itself.
- Also the image of the firm in the eyes of the people also improves, when the firm fulfils social goals.

### **3. Self-enlightenment:**

- Businesses are motivated to work for the greater good as their degree of knowledge and understanding of their role as society's creators increases.
- Managers adopt and follow voluntary moral and social responsibility norms, which help to shape public expectations.
- Firms assume social responsibility on their own, rather than as a result of legislative intrusion.

### **4. Avoids Government Regulation:**

- Regulations from the government are unwelcomed since they restrict one's freedom.
- Businessmen are thought to be able to escape the problem of government restrictions by voluntarily taking on social duties, hence reducing the need for new legislations.
- The Central Pollution Control Board, for example, is in charge of environmental pollution issues.

### **5. Resources:**

- Business organizations have vast resources that can be leveraged to help solve societal problems in part.
- Businesses are the result of society's creation, and they must act in its best interests, both economically and socially.

- Given the vast financial and personnel resources at its disposal, it can assist society in better addressing its problems.

#### **6. Professionalization and Better environment:**

- Management is becoming more professional, which is helping businesses become more socially oriented.
- Managerial ethics bind them to societal ideals and a growing sense of social responsibility.
- A society with fewer difficulties creates a better environment for a company to operate in.

#### **7. Holding Business Responsible for Social Problems:**

- Businesses have either generated or perpetuated social problems.
- Instead of ignoring these issues, businesses have a moral obligation to be actively involved in their solution rather than only anticipating that they will be dealt with by other social agencies.

#### **8. Converting Problems into Opportunities:**

- By accepting the challenge, business, which has a history of turning difficult situations into profitable agreements, may not only alleviate societal problems, but also make them successfully helpful.

#### **Arguments against Social Responsibility:**

##### **1. Violation of Profit Maximisation:**

- Profit maximisation is the sole purpose of business. As a result, any discussion of social responsibility is incompatible with this goal.
- Profit maximisation through higher efficiency and lower costs is the best way for business to fulfil its social obligation.

##### **2. Burden on Consumers:**

- Pollution management and environmental preservation are expensive social duties that frequently necessitate large financial investments.
- Instead of carrying the burden of social duty, business people tend to simply pass it to their customers by demanding higher costs.

##### **3. Lack of Social Skills:**

- Business people lack the essential knowledge and training to solve social issues. Instead, other specialized agencies need to deal with social issues.

## **MANAGER AND BUSINESS ENVIRONMENT**

A system approach is set of interrelated and inter dependent parts arranged in a manner that produces a unified whole.

### **For Example**

- The human body is a system with all the organs, muscles, bones and conscious that like all of its parts.
- In a company a group of division people working for a common goal or success. So this system is the main approach to the management.

### **Features of Management as A System**

- Management as a social system
- Management as an open system
- Adaptive
- Dynamic
- Probabilistic
- Multi level and multidimensional
- Multivariable
- An integrated approach

### **Basic types of systems**

#### **Closed Systems**

- Closed systems are not influenced by and do not interact with their environment

#### **Open Systems**

- Dynamically interact to their environments by taking inputs and transforming them into outputs that are distributed into their environments.

### **The four parts of a system**

## Inputs

From the external environment include people, capital, management & technological skills etc. in short- man money material

## Outputs

It include products, services, profit, loses, employee, satisfaction or discontent, and the like that are produced by the organization.

## Transformation Process

The organization's capabilities in management and technology that are applied to converting inputs to outputs.

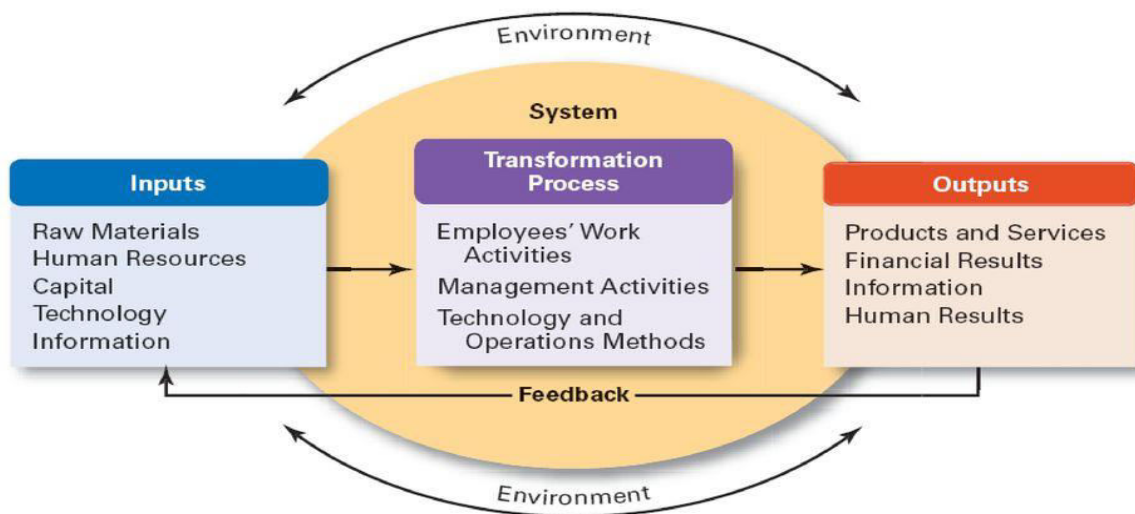
## Feedback

Information about the reaction of the environment to the outputs that affects the inputs.

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**Exhibit 2-6 The Organization as an Open System**

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## ADVANTAGES OF THIS THEORY

- Under system approach, manager has a good view of the organization.
- It gives importance to interdependent of the different parts of an organization and its environment.
- It forecast consequences and plans action.
- Goal oriented.

## **DISADVANTAGES OF THIS THEORY**

- Does not offer specific tools and techniques for practicing manager.
- In smaller organization it is not relevant.
- Activity of any part affect activity of other parts.
- **Unpractical:** It cannot be easily and directly applied to practical problem.

## UNIT- II

Planning – Steps in Planning Process – Scope and Limitations – Short Range and Long Range Planning – Flexibility in Planning – Characteristics of a Sound Plan – Management by Objective (MBO) – Policies and Strategies – Scope and formulation – Decision Making – Techniques and processes.

### PLANNING

#### Meaning:

Planning is looking forward and chalking out the future course of action to be followed.

#### Definition:

Planning is deciding in advance of what to do, how to do it, when to do it and who is to do it. It bridges the gap between where we want to – O'Donnel and Knottz.

Planning is deciding the best alternative from others to perform different managerial operations in order to achieve the predetermined goal – Henry Fayol

#### Nature or Characteristics or Features of Planning:

- Planning is goal oriented
- It is a continuous function
- It is an on going activity
- It is future oriented
- It can be categorized based on planning period
- It is applicable in all levels of management
- It reduces uncertainty and risk

#### Importance of planning:

##### ➤ It focuses on the objectives or goals of an organization:

Once the objective of the business has been fixed, the next step is to prepare a plan for its effective accomplishment.

##### ➤ It reduces stress and work pressure:

In the absence of planning, the workers in an organization may have to work even beyond working time due to the volume of work particularly towards the end of the year.

##### ➤ It reduces uncertainty and risk:

Planning is for future use and future is uncertain. While planning, future uncertainties are anticipated and adequate provision is made to meet or overcome the same.

- **It enhances efficiency and effectiveness of a task:**  
Efficiency is ensured by doing right things and effectiveness is achieved by doing things right.
- **It coordinates the team work:**  
The work done in any organization is a team-work. Different departments participate in the process of goal attainment.
- **It facilitates controls**  
If planning is the first function of management, control is the last function. Planning without control is useless and control without planning is meaningless

***Process or Steps in planning:***

- ✓ ***Identify business opportunities***  
Business activities are influenced by internal as well as external factors. Government regulation, technological changes, availability of material and labour and the extent of competition are some of the important factors affecting business prospects.
- ✓ ***Establishment of objectives***  
The second step in the planning process is to establish the organizational objectives in tune with the opportunities identified, taking into account the resources available
- ✓ ***Determination of planning premises***  
Planning premises are the assumptions made about the future happenings. As planning is for future and future is uncertain, certain assumptions about the future become necessary.
- ✓ ***Identifying the planning period***  
The planning period varies according to the different levels of management. Deciding the planning period is the primary step to define a plan.
- ✓ ***Identification of alternative course of action***  
There always alternatives ways of carrying out any task just as there are different routes to reach a destination point.
- ✓ ***Evaluation and selection of best alternative***  
Once the alternative courses of action are identified, the next step is to evaluate the same. Each alternative should be examined carefully to decide on its suitability.  
Once the alternative courses of action have been evaluated, the next step is to select the best. The one finally selected should help the organization in making an optimum use of the available resources and help to attain the objective set in the most effective manner.
- ✓ ***Establishing derivative plans***  
After the basic plan of the enterprise has been determined, the step is to prepare the subsidiary or derivative plans to support the basic plan.



✓ **Periodical evaluation and follow up**

Once the implemental on of the plan starts, it becomes necessary to evaluate performance at periodic intervals to ensure that the activities of the enterprise proceed in the right direction.

**Types of plans**

Planning can be classified into following categories

**On the basis of time**

1. **Long term plan:** The period covered by the long-term plan is usually 5 to 15 years. Long-term planning is also called strategic planning.  
**Example:** 1. Introduction of a new product, 2. Entering a new market.
2. **Middle term plan:** It is also known as tactical planning. The period covered by the medium-term plan is usually 1 to 5 years. Such a plan may be necessary in the following cases-  
**Example:** 1. Making additions to an existing plant, 2. Expanding output from its present level.
3. **Short term plan:** The period of the short-term plan is less than one year. It is also known as operational planning. Such a plan may relate to any of the following matters.  
**Example:** 1. Purchase of raw materials, 2. Arranging for employee training.

**On the basis of levels**

1. **Strategic plan:** The period covered by the long-term plan is usually 5 to 15 years. Long-term planning is also called strategic planning.  
**Example:** 1. Introduction of a new product, 2. Entering a new market.
2. **Tactical Plan:** It is also known as tactical planning. The period covered by the medium-term plan is usually 1 to 5 years. Such a plan may be necessary in the following cases-  
**Example:** 1. Making additions to an existing plant, 2. Expanding output from its present level.
3. **Operational Plan:** The period of the short-term plan is less than one year. It is also known as operational planning. Such a plan may relate to any of the following matters.  
**Example:** 1. Purchase of raw materials, 2. Arranging for employee training.

**On the basis of use**

1. **Standing plans or repetitive plans:** It refers to those plans that are used again and again. They provide guidelines pertaining to activities that occur frequently over a period of time.

2. **Single use plans or non-repetitive plans:** Single-use plans are meant for a specific purpose only. As soon as that purpose has been served, the plan becomes useless and is given up. Programmers and budgets are examples of single-use plans.

## **STANDING PLANS**

These are plans repeatedly used in organization, some of the examples of standing plans are vision, mission, objective, strategies, policies, procedures, goals.

### ***Vision***

Vision is the long term aspiration of an individual or an organization the fulfillment of a vision takes much more time in executive into action. For example an organization can have a vision statement of following. For example

- To become a global player
- To increase the market share
- It to insure and sustain quality product to the customers

### ***Mission***

Mission is the purpose for which the institution or organization as been established. It is the basic ambition of the promoter to serve the society.

### **For example**

- A hospital will have a mission of serving the society and the patience.
- An orphanage will have a mission serving the orphanages in the society.

### ***Goal***

Goal are otherwise called as aims or targets to be achieved an organization will function based on a common goal to fulfill a long term aspiration of the company. For Example,

- To maximize a target
- To achieve annual production target

### ***Objectives***

Objective are the action carried out for end the result of an aim/goal it can be short term and long term depending upon the completion of the task.

### **Advantages of objective**

- Objectives focuses on the goal of an organization
- Planning of activities can be possible only with the help of objectives

- Integration of various activities can be done based on the objective frame
- It also facilitates clarity of roles and responsibility of an individual
- It insures actions to be followed to achieving goal or target

### ***Strategies***

Strategies are long term objectives followed by the adoption of course of action and allocation of resources necessary to achieve goals or the targets framed.

The actions that are executed to achieve the strategy are called tactics. Strategies are supported by effective tactics.

### **Types of strategy**

There are different types of strategy can be adopted by organization

#### **a. Stability strategy**

An organization that has a stable environment, limited number of products, customers, suppliers and competitors, minimum need for special skills and so on may follow what is called the 'stability strategy'

#### **b. Growth strategy**

An organization that wants to raise its level of performance may adopt what is called the 'Growth strategy'. Example: Development of new products for the existing markets.

#### **c. Alliance strategy**

It is also possible that identical business units may combine to rationalize production and sales and thereby derive the benefits of economies of large-scale operation. That is what is known as 'Merger strategy'

#### **d. Product elimination strategy**

The product elimination strategy may be adopted by a firm to avoid loss of profits as well as reputation.

#### **e. Expansion strategy**

In order to increase the wealth of the asset, the company can adopt the expansion strategy where by establishing its operations in different locations of a country.

### ***Policies***

Policies are general statement or understanding to channelize proper decision making. They are also called as guidelines of an organization.

### Essentials of a good policy

- ❖ A policy should be clear and simple. It should not be difficult and vague.
- ❖ A policy should possess ethical or moral value by providing benefit to the society and the business.
- ❖ A policy should have justice and it should be fair or rational without any discretion.
- ❖ There should not be two policies indicating. The same action which may result in duplication of work.

### Types of policies

There are different types

- **Expressed policies:** Policies framed to give effect to the decisions of the government, judiciary, trade associations and such other external forces are what are called external policies. For example: Income tax.
- **Implied Policies:** Policies formulated to give effect to certain decision taken by the owners of a business establishment are what are called internal policies. For Example: selection of certain categories of workers purely on contract basis.
- **Applied policies:** Such policies are formulated to give effect to the suggestions of the staff of an organization. For example: the employee may make an appeal to the top management to give employment to an eligible member of an employee's family after latter's retirement.

### On the basis of functions

Policies can be production policies, recruitment policies, HR policies, finance policies, purchase policies etc.

### On the basis of levels

Policies can be major and minor policies

### *Procedures*

Procedures are the methods that are planned to execute the future activity. It can be distinguished by the rules that it can only display actions and no actions without any discretion.

### **Advantages of procedures**

- A procedure helps to have sequence of operations
- It helps to monitor the overall performance of the system
- It controls deviations and ensures the right direction
- It helps a manager to take effective decisions

### **SINGLE USE PLANS**

#### **Program (Non-repetitive plan)**

A program is a set of clear instructions in a clear and logical sequence to complete a particular task.

A program will have different objective and hence it can be used once in a while.

#### **Examples of programs**

- a) Training programs   b) Recreation programs

#### **Budget**

Budget is a financial plan in a business it is a statement of expected result expressed in numerical terms. It is one category of single use plan as it varies every year.

#### **Advantages of budget**

- It is a measurement for future estimation of business.
- It helps to control deviations
- It ensures the growth of business

### **DECISION MAKING**

It is a process of selecting an alternative from two or more alternatives for deciding opinion or course of action - George terry

Whatever a manager does, he does through decision making - Peter.F. Drucker

#### **Features/characteristics of decision making**

- It is goal oriented
- It may be positive/negative
- It is future oriented
- It id ongoing activity
- It involves complex mental activity

## Types of decision

There are different types of decision which are classified below.

- **Personal and organizational decision**

The decisions made by a manager in his personal capacity are called personal decision. For example, the manager of a concern may give a personal loan.

These decisions are made by a manager in his official capacity. For example, the manager of a concern may decide to place an employee, who has misappropriated the company's funds, under suspension.

- **Individual and group decisions**

When decision is made by an individual for an organizational issue. It is termed as personal decisions.

These are decisions made by group persons. In an organization, there may exist a committee consisting of the representatives of both the workers and the management. When there is any dispute between the workers and the management, the matter will be referred to the committee. The committee may conduct an enquiry and announce its decision which is binding on both the workers and the management.

- **Programmed and Non-programmed decisions**

These decisions have already been evolved and they provide a basis for action. These decisions are the outcome of past experience, tradition, custom and so on.

These decisions are concerned with unexpected or unprecedented situations. The basis for action does not exist already.

- **Strategic and tactical decision**

Strategic decisions are complex in nature and are always taken after deep deliberations. Any mistake in such decisions will prove to be dangerous for the concern.

The decisions are necessary for implementing or executing policy decision. Taking the example for policy decision given above, if seniority is to be adopted as the basis for promotion, the manner in which seniority should be determined also to be decided. Seniority of an individual may be determined in different ways.

## PROCESS/STEPS IN DECISION MAKING

### 1. Defining the Problem or the situation

The first step in the process of decision-making is to identify and understand the actual problem. If only the actual problem is identified, it will be possible to provide a remedy by evolving a suitable decision.

**2. Collecting the data**

Analysis of the problem requires data which may be obtained from both internal and external sources.

**3. Identifying the alternatives.**

Any organizational problem has many solutions. It is, therefore, necessary, that the decision-maker identifies the alternative solutions.

**4. Evaluation of all alternatives**

Evaluation of alternatives is done by seeing the pros and cons (merits and demerits) of each.

**5. Selection of best alternative**

At this stage, the solution considered the best and the most viable one, under the circumstances, is selected. In addition to the merits of each alternatives solution, the following factor will also influence the selection of the best alternative:

- Resources available.
- The value and beliefs of the decision-maker.
- Opinions of the staff.
- Past experience, etc...

**6. Implementing the decision**

Implementing the decision is done by communicating the same to all concerned. The responsibility for carrying out the decision must be fixed in individuals.

**7. Follow up and feedback**

Periodic review of the decision, during the period of its implementation, is necessary.

**Limitations of Planning:**

**1. Planning leads to rigidity:**

Once plans are made to decide the future course of action the manager may not be in a position to change them. Following predefined plan when circumstances are changed may not bring positive results for organisation. This kind of rigidity in plan may create difficulty.

**2. Planning may not work in dynamic environment:**

Business environment is very dynamic as there are continuously changes taking place in economic, political and legal environment. It becomes very difficult to forecast these future changes. Plans may fail if the changes are very frequent. The environment consists of number of segments and it becomes very difficult for a manager to assess future changes in the

environment. For example there may be change in economic policy, change in fashion and trend or change in competitor's policy. A manager cannot foresee these changes accurately and plan may fail if many such changes take place in environment.

**3. It reduces creativity:**

With the planning the managers of the organisation start working rigidly and they become the blind followers of the plan only. The managers do not take any initiative to make changes in the plan according to the changes prevailing in the business environment. They stop giving suggestions and new ideas to bring improvement in working because the guidelines for working are given in planning only.

**4. Planning involves huge Cost:**

Planning process involves lot of cost because it is an intellectual process and companies need to hire the professional experts to carry on this process. Along with the salary of these experts the company has to spend lot of time and money to collect accurate facts and figures. So, it is a cost-consuming process. If the benefits of planning are not more than its cost then it should not be carried on.

**5. It is a time consuming process:**

Planning process is a time-consuming process because it takes long time to evaluate the alternatives and select the best one. Lot of time is needed in developing planning premises. So, because of this, the action gets delayed. And whenever there is a need for prompt and immediate decision then we have to avoid planning.

**6. Planning does not guarantee success:**

Sometimes managers have false sense of security that plans have worked successfully in past so these will be working in future also. There is a tendency in managers to rely on pretested plans. It is not true that if a plan has worked successfully in past, it will bring success in future



also as there are so many unknown factors which may lead to failure of plan in future. Planning only provides a base for analysing future. It is not a solution for future course of action.

### 7. Lack of accuracy:

In planning we are always thinking in advance and planning is concerned with future only and future is always uncertain. In planning many assumptions are made to decide about future course of action. But these assumptions are not 100% accurate and if these assumptions do not hold true in present situation or in future condition then whole planning will fail. **For example**, if in the plan it is assumed that there will be 5% inflation rate and in future condition the inflation rate becomes 10% then the whole plan will fail and many adjustments will be required to be made.

### Process of Decision Making:



### **Identification of the Purpose of the decision**

In this step, the problem is thoroughly analysed. There are a couple of questions one should ask when it comes to identifying the purpose of the decision.

- What exactly is the problem?
- Why the problem should be solved?
- Who are the affected parties of the problem?
- Does the problem, have a deadline or a specific time-line?

### **Information Gathering**

A problem of an organization will have many stakeholders. In addition, there can be dozens of factors involved and affected by the problem. In the process of solving the problem, you will have to gather as much as information related to the factors and stakeholders involved in the problem. For the process of information gathering, tools such as 'Check Sheets' can be effectively used.

### **Principles for Judging the Alternatives**

In this step, the baseline criteria for judging the alternatives should be set up. When it comes to defining the criteria, organisation goals as well as the corporate culture should be taken into consideration.

### **Brainstorm and Analyse the different choices**

For this step, brainstorming to list down all the ideas is the best option. Before the idea generation step, it is vital to understand the causes of the problem and prioritization of causes.

For this, you can make use of Cause-and-Effect diagrams and Pareto Chart tool. Cause-and-Effect diagram helps you to identify all possible causes of the problem and Pareto chart helps you to prioritize and identify the causes with highest effect.

### **Evaluation of Alternatives**

Use your judgement principles and decision-making criteria to evaluate each alternative. In this step, experience and effectiveness of the judgement principles come into play. You need to compare each alternative for their positives and negatives.

### **Select the best alternative**

Once you go through from this step is easy. In addition the selection of the best alternative is an informed decision since you have already followed a methodology to derive and select the best alternatives.

### **Execute the decision**

Convert your decision into a plan or a sequence of activities. Execute your plan by yourself or with the help of subordinates.

### **Evaluate the results**

Evaluate the outcome of your decision. See whether there is anything you should learn and then correct in future decision making. This is one of the best practices that will improve your decision-making skills.

### **Techniques of Decision-Making**

#### **Marginal Analysis**

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

### **Financial Analysis**

This decision-making tool is used to estimate the profitability of an investment to calculate the payback period (the period taken for the cash benefits to account for the original cost of an investment), and to analyse cash inflows and cash outflows.

### **Break-Even Analysis**

This tool enables a decision-maker to evaluate the available alternatives based on price, fixed cost and variable cost per unit. Break-even analysis is a measure by which the level of sales necessary to cover all fixed costs can be determined.

### **Ratio Analysis**

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

### **Operations Research Techniques**

One of the most significant sets of tools available for decision-makers is operations research. An operation research or involves the practical application of quantitative methods in the process

of decision-making. When using these techniques, the decision-making makes use of scientific, logical or mathematical means to achieve realistic solutions to problems. Several or techniques have been developed over the years.

### **Linear Programming**

Linear programming is a quantitative technique used in decision-making. It involves making and optimum allocation of scarce or limited resources of an organization to achieve a particular objectives. The word 'linear' implies that the relationship among different variables is proportionate.

### **Waiting-Line Method**

This is an operations research method that uses a mathematical technique for balancing services provided and waiting lines. Waiting lines occur whenever the demand for the service exceeds the service facilities.

### **Simulation**

This techniques involves building in model that represents a real or an existing system. Simulation is useful for solving complex problems that cannot be readily solved by other techniques. In recent years, computers have been used extensively for simulation. The different variables and their interrelationships are put into the model.

### **Decision Tree**

This is an interesting techniques used for analysis of a decision. A decision tree is a sophisticated mathematical tools that enables a decision-making to consider various alternatives

courses of action and select the best alternative. A decision tree is a graphical representation of alternative courses of action and the possible outcomes and risks associated with each action.

### **Nature and Management Scope of Strategic Management**

Strategic management is both an Art and science of formulating, implementing, and evaluating, cross-functional decisions that facilitate an organization to accomplish its objectives. The purpose of strategic management is to use and create new and different opportunities for future. The nature of Strategic Management is dissimilar form other facets of management as it demands awareness to the “big picture” and a rational assessment of the future options. It offers a strategic direction endorsed by the team and stakeholders, a clear business strategy and vision for the future, a method for accountability, and a structure for governance at the different levels, a logical framework to handle risk in order to guarantee business continuity, the capability to exploit opportunities and react to external change by taking ongoing strategic decisions. Strategic management process encompasses of three phases.

1. Establishing the hierarchy of strategic intent
2. Strategic formulation.
3. Implementation
4. Evaluation and control.

Strategy formulation comprises of developing a vision and mission, identifying an organization’s external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, creating alternative strategies, and choosing particular strategies to follow. Strategy implementation needs a company to ascertain annual objectives, formulate policies, stimulate employees, and assign resources so that formulated strategies can be implemented. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and relating employee reward to organizational performance.

## **Strategy formulation**

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision.

### **Steps in strategy formulation**

The process of strategy formulation basically involves six main steps:

- 1. Setting Organizations' objectives** - strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.
- 2. Evaluating the Organizational Environment** – The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position.
- 3. Setting Quantitative Targets-** To compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.
- 4. Aiming in context with the divisional plans** - In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit.
- 5. Performance Analysis** - Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization.
- 6. Choice of Strategy** -The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

### **Strategic Tools for Strategic Formulation**

- SWOT Analysis or TOWS Matrix
- BCG Matrix
- Porter's Five forces Model
- PESTEL Framework
- Ansoff's product-market matrix
- Porter's diamond model
- Barlett & Ghoshal internationalisation strategies model
- Value chain analysis

## **Characteristics of a Sound Plan – Planning**

### **Primacy:**

Planning is an important managerial function that usually precedes other functions. Obviously, without setting the goals to be reached and the lines of actions to be followed, there is nothing to organize, to direct, or to control in the enterprise. But this should not lead us to think that planning is isolated from other managerial functions.

### **Continuity:**

Planning is a continuous and never ending activity of a manager to keep the enterprise as a going concern. One plan begets another plan to be followed by a series of other plans in quick succession. Actually, a hierarchy of plans operates in the enterprise at any time. Planning gets used up where tomorrow becomes today and calls for further planning day in and day out. Again, the incessant changes make re-planning a continuous necessity.

### **Flexibility:**

Planning leads to the adoption of a specific course of action and the rejection of other possibilities. This confinement to one course takes away flexibility. But if future and assumptions upon which planning is based prove wrong, the course of action is to be modified for avoiding any deadlock. Accordingly, when the future cannot be molded to conform to the course of action, the flexibility is to be ingrained in planning by way of adapting the course of action to the demands of current situations.

### **Consistency:**

Planning is made by different managers at different times. Maintenance of consistency or the unity of planning is one of its essential requirements. Objectives provide the common focus for unifying managerial action in planning. Moreover, policies and procedures introduce a consistency of executive behaviour and action in matters of planning.

### **Precision:**

Planning must be precise with respect to its meaning, scope and nature. As guides to action, planning is to be framed in intelligible and meaningful terms by way of pinpointing the expected results. Planning must be realistic in scope rather than being dreams indicating pious desires. As planning errors are far more serious and cannot be offset by effective organizing or controlling, the accuracy and precision is of utmost importance.



### **Pervasiveness:**

Planning is a pervasive activity covering the entire enterprise and every level of management. Planning is not the exclusive responsibility of top management only. But it extends to middle and lower managements as well. Although top managers are mostly preoccupied with planning because of the wider scope of operational and decision making authority, planning is of equal importance to every manager.

### ***Long Range Planning and Short Range Planning***

Planning involves deciding a future course of action. Plans always has some time frame-the period in future that a plan covers. Based on the length of time involved, plans are usually classified as strategic or long range plans and operational or short range plans, strategic plans are designed to meet the broad objectives of the organisation to implement the mission that provides justification for the organisation's existence. Operational plans provide details as to how strategic plans will be accomplished. However, it must be remembered that both strategic and operational plans are not mutually exclusive, but are complimentary. We will first discuss strategic planning and then proceed to operational planning.

### ***Long Range Planning / Strategic Planning***

The terms long range planning, Strategic planning, and Corporate planning are used synonymously by many authors. Strategic planning has its origin in military organizations where the objective is to envisage a variety of contingencies that may arise when large forces move into operation. Viewed in this backdrop, strategic planning in a business organisation envisages a comprehensive study of the various external and internal parameters that affect a company in charting a course of action to achieve the goals.

### ***Strategic Planning helps the Management in:***

1. Coping effectively with future contingencies.
2. Providing an early opportunity to correct mistakes.
3. Making decisions about the right things at the right time

### **Definition**

**George Steiner has defined strategic planning as** *“the process of determining the major objectives of an organisation and the policies and strategies that will govern the acquisition, use and disposition of resources to achieve those objectives”*.

### ***Short Range Planning / Operational Planning***

\* Strategic planning is the prerogative of the top management which is the highest policy making body in any organisation, where as operational planning is done at the lower levels. Strategic planning is mostly concerned with the “why” of the things, whereas operational planning is concerned with the “how” of the things. The focus in strategic planning is on long-term, while it is on short-term in operational planning. Further, planning is less detailed in the former because it is not involved with the day-to-day operations whereas it is more detailed in the latter, considering its nature, operational planning is also called tactical planning.

\* However, Operational plans stem or originate from strategic plans. In other words, strategic planning provides guidance and boundaries for operational planning. Effective management, therefore, must have a strategy and must operate on the day- to- day level to achieve it. Both should not be viewed as mutually exclusive because operational planning identifies the major activities to achieve the objectives of strategic planning. For example, if the strategic plan is to face competition with new and innovative products, major tasks to achieve this goal would be clarified by operational planning.

### Unit-III

*Organizing – Organization Structure and Design – Authority Relationships – Delegation of Authority and Decentralization – Interdepartmental Coordinator – Emerging trends in Corporate Structure, Strategy and Culture – Impact of Technology on Organizational Design – Mechanistic versus Adaptive Structures – Formal and Informal Organization.*

**TOPICS:**

<p><b>Organizing</b></p> <ul style="list-style-type: none"> <li>❖ Definition / meaning</li> <li>❖ Process of organizing</li> <li>❖ Purpose</li> </ul>	<p><b>Organization</b></p> <ul style="list-style-type: none"> <li>❖ Definition,</li> <li>❖ Principles</li> <li>❖ Characteristics</li> <li>❖ topologies</li> </ul>
<p><b>Organization Design and Structure</b></p> <ul style="list-style-type: none"> <li>❖ Definition, Meaning</li> <li>❖ Concept</li> <li>❖ Introduction</li> <li>❖ Elements</li> <li>❖ Types of structures</li> <li>❖ Organization chart</li> <li>❖ Factors influencing/affecting structure</li> </ul>	<p><b>Delegation of Authority and Decentralization</b></p> <ul style="list-style-type: none"> <li>❖ Span of control, factors governing</li> <li>❖ Authority versus Power</li> <li>❖ Uses of Authority</li> <li>❖ Responsibility</li> <li>❖ Line and Staff Authority, Conflicts</li> <li>❖ Delegation of Authority</li> <li>❖ Advantages / Barriers / Guidelines</li> <li>❖ Decentralization of Authority</li> <li>❖ Delegation versus Decentralization</li> <li>❖ Advantages of decentralization</li> <li>❖ Factors considered</li> <li>❖ Empowerment</li> </ul>
<p><b>Inter-departmental Coordinator</b></p>	<p><b>Emerging Trends in Corporate Structure, Strategy and Culture.</b></p>
<p><b>Impact of Technology in Organization Design</b></p>	<p><b>Mechanistic versus Adaptive structure</b></p>
<p><b>Formal and Informal</b></p>	<p><b>Departmentalization</b></p>

**ORGANISING**

➤ *Arranging and structuring work to accomplish the organization's goals.*

**Organizing means:**

- The identification and classification of required activities
- The grouping of activities necessary for attaining objectives
- The assignment of each group to a manager with the authority (delegation) necessary to supervise it
- The provision for coordination horizontally and vertically in the organization structure

**Organizing also refers:**

To the process of deciding who within an organization will perform, what tasks, where decisions will be made, who reports to whom, and how different parts of the organization will coordinate their activities to pursue a common goal.

In a business, organizing typically involves dividing the enterprise in to subunits based on functional tasks – such as Procurement, Research and Development, Production, Marketing, Sales, Customer Service, Human Resources, Accounting and Finance – and deciding how much decision-making authority to give each subunit.

***Organizing is part of planning and strategizing.***

**Purposes of Organizing.**

- *Divides work to be done into specific jobs and departments.*
- *Assigns tasks and responsibilities associated with individual jobs.*
- *Coordinates diverse organizational tasks.*
- *Clusters jobs into units.*
- *Establishes relationships among individuals, groups, and departments.*
- *Establishes formal lines of authority.*
- *Allocates and deploys organizational resources.*

### **The Process of Organizing. (Simple)**

The organizing process consists of the following six steps, although steps 1 and 2 are actually part of planning:

1. *establishing enterprise objectives*
2. *formulating supporting objectives, policies, and plans*
3. *identifying, analyzing, and classifying the activities necessary to accomplish these objectives*
4. *grouping these activities in light of the human and material resources available and the best way, under the circumstances, of using them*
5. *delegating to the head of each group the authority necessary to perform the activities*
6. *tying the groups together horizontally and vertically, through authority relationships and information flows*

**Work Specialization:** *Dividing work activities into separate job tasks.*

### **PROCESS OF ORGANISING: (Elaborated)**

- *In performing the organizing function, the manager differentiates and integrates the activities of his organization.*
- *By differentiation is meant the process of departmentalization or segmentation of activities on the basis of some homogeneity.*
- *Integration is the process of achieving unity of effort among the various departments (segments or subsystems).*

We can describe this differentiation and integration in terms of a six-step procedure.

#### **1. Consideration of Objectives:**

*This is to know the objectives of the enterprise. Objectives determine the various activities which need to be performed and the type of organization which needs to be built for this purpose. This phenomenon is referred as "structure follows strategy."*

#### **2. Grouping of activities into Departments:**

*The next step is to identify the activities necessary to achieve the objectives and to group the closely related and similar activities into departments and sections.*

*For example, the activities of a manufacturing concern may be grouped into such departments as production, marketing, financing and personnel. In addition, the activities of each department may be further classified and placed under the charge of different sections of that department.*

#### **3. Deciding the key departments:**

*Key departments are those which are rendering key activities, i.e., activities essential for the fulfillment of goals such key departments demand key attention. Other departments exist merely to serve them. The key departments should be placed directly under higher management.*

#### **4. Determining Levels at which Various Types of Decisions are to be Made:**

*After deciding the relative importance of various departments, the levels at which various major and minor decisions are to be made must be determined. Each firm must decide for itself as to how much decentralization of authority and responsibility it wants to have.*

*Extreme decentralization may lead to loss of control and effective coordination as a result of which the firm*

as a whole may fail to achieve the overall objectives.

Extreme centralization, on the other hand, may lead to wrong decisions at wrong times and complete breakdown of the morale of employees.

#### **5. Determining the Span of Management:**

The next step to be taken in designing a structure is to determine the number of subordinates who should report directly to each executive. The narrower the span, the taller would be the structure with several levels of management. This will complicate communication and increase the payroll.

For these reasons, a flat structure is generally desirable. However, the span of management for each executive position must be tailored in the light of the description of this topic given in the following section.

#### **6. Setting up a Coordination Mechanism:**

This is emphasizing the importance of coordination in an organization. As individuals and departments carry out their specialized activities, the overall goals of the organization may become submerged or conflicts among organization members may develop.

Coordinating mechanisms enable the members of the organization to keep sight of the organization's goals and reduce inefficiency and conflicts.

### **ORGANISATION**

#### **Definitions:**

- ❖ *Organization is a system of consciously coordinated activities of two or more persons in order to achieve a common goal. It is a system of four major internal interacting components such as task, people, technology and structure.*
- ❖ *An organization is a collectivity with a relatively identifiable boundary, a normative order (rules), ranks of authority (hierarchy), communications systems, and membership coordinating systems (procedures); this collectivity exists on a relatively continuous basis, in environments, and engages in activities that are usually related to a set of goals; the activities have outcomes for organizational members, for the organization itself, and for society.*

**Principles:** A few common principles of organization have been listed below.

- ❖ *Consideration of objectives*
- ❖ *Relationship of basic components of the organization*
- ❖ *Responsibility and authority*
- ❖ *Span of control*
- ❖ *Dividing and grouping work (including coordination)*
- ❖ *Effective delegation*
- ❖ *Communication*
- ❖ *Line and staff relationships*
- ❖ *Balance, Stability and Flexibility and*
- ❖ *Efficiency*

#### **Characteristics:**

Every organization has,

- i) *A purpose, goal(s) and task of planning*
- ii) *A clear concept of the major duties or activities required to achieve the purpose*
- iii) *Classification of activities in to jobs and*
- iv) *Establishment of relationships between these jobs.*

### **TPOLOGY OF ORGANISATIONS:**

All organizations appear alike. But this is not so. Every organization has certain unique combination of the above characteristics which distinguish it from all other organizations. This makes classification of organization into specific types difficult.

Blau & Scott classify organizations into four categories using the criterion – *who benefits*.

1. Organizations which benefit their **owners** – All **business organizations** fall in this category.
2. Organizations which benefit their **members** – A wide class of unions, co-operatives and clubs under this category.
3. Organizations which benefit their **clients** – Examples are insurance companies, private schools etc.
4. Organizations which benefit the whole **society** (common wealth organizations) – such as Govt. departments.

### **SPAN OF MANAGEMENT (OR) CONTROL:**

➤ *The number of employees a manager can efficiently and effectively manage.*

#### **Principle:**

There is a limit to the number of subordinates a manager can effectively supervise.

#### **Meaning:**

The term span of management is also referred to as span of control, span of supervision, span of authority or span of responsibility. It indicates the number of subordinates who report directly to a manager.

#### **Importance:**

Determination of an appropriate span of management is important for two reasons. First, span of management affects the efficient utilization of managers and the effective performance of their subordinates.

Too wide a span may mean that managers are overstraining themselves and that their subordinates are receiving too little guidance or control. Too narrow a span of management may mean that managers are underutilized and that their subordinates are over controlled.

Second, there is a relationship between span of management and organization culture. A narrow span of management results in a tall organization with many levels of supervision between top management and the lowest organizational levels.

This creates more communication and cost problems. There is also the problem of finding trained managerial personnel. On the other hand, a wide span for the same number of employees means a flat organization with fewer management levels between top and bottom.

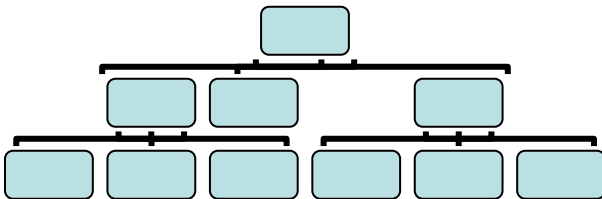
#### **Factors Governing the Span of Management: (Contingency Approach)**

The appropriate span of management must be determined by the specifics of the manager's particular situation. These are under:

1. **Ability of the Manager.** Some managers are more capable than others and can, therefore handle a large number of subordinates. In planning an organization, the span of management should be based on a manager of average ability.
2. **Ability of the Employees.** If the employees are competent and possess the necessary skill and motivation to perform the task assigned, less attention from the manager is required and a larger span of management can be used.
3. **Type of Work.** If employees are doing similar or routine jobs, the span of management can be larger. If their jobs are quite different or non-routine, a small span may be necessary.
4. **Well-defined Authority and Responsibility.** If the authority and responsibility of each employee are properly defined, they need not make frequent calls on their supervisors for guidance and instructions. This helps a superior to manage a large number of subordinates.

5. **Geographic Location:** Direct supervision is impossible for a manager to supervise his subordinates in various locations.
6. **Sophisticated Information and Control System:** If the company uses a sophisticated information and control system and objective standards to detect deviations from established plans, the need for close supervision is obviated. This factor also helps the superior to control a large number of subordinates.
7. **Level of Management:** Span of management also varies with each level in the organization.
8. **Economic Considerations:** Economic considerations also affect the choice of span. Smaller spans mean a larger number of managers with the added salaries and other costs they entail. But wide span also involve extra costs in the inefficiencies that result from diminished managerial leadership. Hence, an economic balance has to be arrived.

**Organizations with Narrow Spans:**



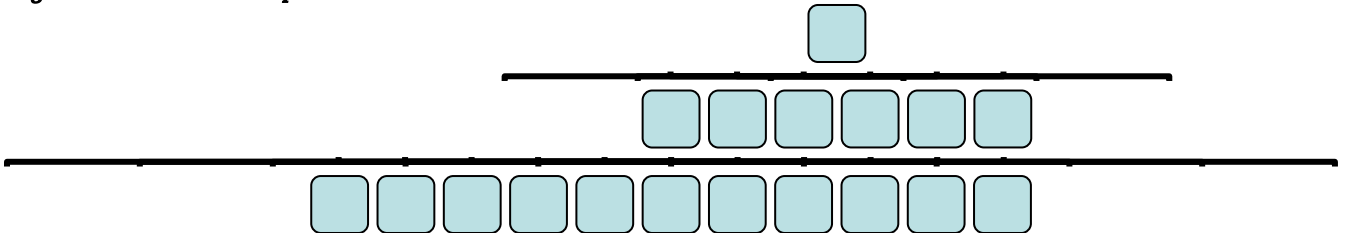
**Advantages:**

- ❖ Close supervision and control
- ❖ Fast communication between subordinates and supervisors

**Disadvantages:**

- o Superiors tend to get too involved in subordinates' work
- o Many levels of management
- o High costs due to many levels
- o Excessive distance between lowest level and top level

**Organizations with Wide Spans:**



**Advantages:**

- ❖ Supervisors are forced to delegate
- ❖ Clear policies must be made
- ❖ Subordinates must be carefully selected

**Disadvantages:**

- o Tendency of overloaded superiors to become decision bottlenecks
- o Danger of superior's loss of control
- o Requires exceptional quality of managers.

**Factors Determining an Effective Span:**

*The number of subordinates a manager can effectively manage depends on the impact of underlying factors.*

**Table: Factors Influencing the Span of Management:**

<p><b>Narrow Spans:</b> (A great deal of time spent with subordinates)</p>	<p><b>Wide Spans:</b> (Very little time spent with subordinates)</p>
--	--

<i>Little or no training of subordinates</i>	<i>Thorough training of subordinates</i>
<i>Inadequate or unclear authority delegation</i>	<i>Clear delegation and well-defined tasks</i>
<i>Unclear plans for non-repetitive operations</i>	<i>Well defined plans for repetitive operations</i>
<i>Non-verifiable objectives and standards</i>	<i>Verifiable objectives used as standards</i>
<i>Fast changes in external and internal environment</i>	<i>Slow changes in external and internal environments</i>
<i>Use of poor or inappropriate communication techniques including vague instructions</i>	<i>Use of appropriate techniques, such as proper organization structure and written and oral communication</i>
<i>Ineffective interaction of superior and subordinate</i>	<i>Effective interaction between superior and subordinate</i>
<i>Ineffective meetings</i>	<i>Effective meetings</i>
<i>Greater number of specialties at lower and middle levels</i>	<i>Greater number of specialties at upper levels</i>
<i>Incompetent and untrained manager</i>	<i>Competent and trained manager</i>
<i>Complex task</i>	<i>Simple task</i>
<i>Subordinates' unwillingness to assume responsibility and reasonable risks</i>	<i>Subordinates' willingness to assume responsibility and reasonable risks</i>
<i>Immature subordinates</i>	<i>Mature subordinates</i>

**Need for Balance:**

Despite the desirability of a flat organization structure, the span of management is limited by real and important restrictions. Managers may have more subordinates than they can manage effectively, even though they delegate authority, conduct training, formulate clear plans and policies, and adopt efficient control and communication techniques.

More precise balancing is required, in a given situation, of all pertinent factors. Widening spans and reducing the number of levels may be the answer in some cases; the reverse may be true in others. One must balance all the costs of adopting one course or the other, not only the financial costs but also costs in morale, personal development, and attainment of enterprise objectives.

**AUTHORITY AND POWER**

**POWER:**

- *The ability of individuals or groups to induce or influence the beliefs or actions of other persons or groups.*

**Bases of power.**

- **Legitimate Power.** This power normally arises from position and derives from our cultural system of rights, obligations, and duties whereby a "position" is accepted by people as being "legitimate."
- **Expertness.** Power may also come from the expertness of a person or a group. This is the power of knowledge.
- **Reference Power.** This is, influence that people or groups may exercise because people believe in them and their ideas.
- **Reward power.** Power arises from the ability of some people to grant rewards. University professors have considerable reward power; they can grant or withhold high grades.
- **Coercive power.** It is still another type. Closely related to reward power and normally arising from legitimate power, it is the power to punish, whether by firing a subordinate or by withholding a merit pay increase.

**AUTHORITY**

- *The right in a position to exercise discretion in making decisions affecting others.*



While organizational authority is the power to exercise discretion in decision making, it almost invariably arises from the power of position, or legitimate power. When people speak of authority in manual settings, they are usually referring to the power of position.

**Difference between Authority and Power.**

s.No.	Authority	Power
1	It is the institutionalized right of a superior to command and compel his subordinates to perform a certain act.	It is the ability of a person to influence another person to perform an act.
2	It rests in the chair or position. With the change in position, the authority of the individual also changes.	It rests in the individual. Hence even when his position has changed, his power remains with him.
3	It is delegated to an individual by his superior	It is earned by an individual through his own efforts. The individual gets it from people below him or from his peers.
4	It is mostly well-defined, conspicuous (shown in the organization chart) and finite (commensurate with responsibility).	It is undefined, inconspicuous and infinite. Its location cannot be known from the formal organization chart. As a matter of fact, one might find it in unspecified places.
5	It is what exists in the eye of law. It is mostly nominal.	It is what exists in fact. Some people in organizations exercise significant power far beyond the accepted borders of their authority.
6	It serves as a basis of formal organization.	It serves as a basis of informal organization.

**Uses of Authority:**

1. **It enforces obedience to norms.** The subordinate who accepts the authority of the superior is motivated to a very great extent by the fear of sanctions.
2. **It secures expertise in the making of decisions.** An extremely important function of authority is to enable the enforcement and execution of expert advice given by specialists in the organization.
3. **It permits centralization of decision-making and coordination of activities.** By the exercise of authority it is possible to centralize the function of decision-making and to force all members to take mutually consistent decisions.

**RESPONSIBILITY:**

- *Responsibility is the obligation of a subordinate to obey those commands.* Thus, when a superior assigns some work to a subordinate, it becomes his responsibility to perform it.
- *Responsibility has two dimensions: 'Responsibility for' and 'responsibility to.'*

**'Responsibility for'** is the obligation of a person to perform certain duties written in his job description or otherwise accepted by him.

**'Responsibility to'** is his accountability to his superiors. It is inevitably associated with check-up, supervision control and punishment.

Responsibility cannot be delegated or transferred. The superior can delegate to a subordinate the authority to perform and accomplish a specific job. But he cannot delegate responsibility in the sense that once duties are assigned, he is relieved of the responsibility for them.

Responsibility can be divided into two parts at the time of delegation as follows:

1. Operating responsibility and
2. Ultimate responsibility.

The subordinate assumes only the operating responsibility for the task. The superior retains ultimate

responsibility for getting the job done. If the subordinate fails to perform the job (operating responsibility), the superior is held responsible for this failure (ultimate responsibility). The ultimate responsibility cannot be shifted or reduced by assigning duties to another.

#### **EMPOWERMENT:**

- *Employees at all levels in the organization are given the power to make decisions without asking their superiors for permission.*

The notion underlying empowerment is that those closest to the task are best able to make the decision – provided that they have the required competencies. Empowerment is also based on suggestion schemes, job enrichment, and worker participation.

Both delegation and empowerment are a matter of degree. Under delegation of authority only authority is transferred to the subordinates and not the responsibility. Under empowerment both authority and responsibility are transferred.

They also require that employees and teams accept responsibility for their actions and tasks. Conceptually, this can be illustrated as follows:

- ❖ *Power should be equal to responsibility (P=R).*
- ❖ *If power is greater than responsibility (P>R), then this could result in autocratic behavior of the superior who is not held accountable for his/her actions.*
- ❖ *If responsibility is greater than power (R>P), then this could result frustration because the person has not the necessary power to carry out the task for which he or she is responsible.*

#### **Need for Empowerment:**

The increasing interest in empowerment is due in part to the rise in global competitiveness, the need to respond quickly to the demands and expectations of customers, and a better-educated work force that demands greater autonomy.

Empowerment of subordinates means that superiors have to share their authority and power with their subordinates. Most employees want to be involved and want to participate in decisions; this participation creates a sense of belongingness and achievement and raises self-esteem.

Effective management requires that empowerment be sincere, based on mutual trust, accompanied by relevant information for the employees to carry out their tasks, and given to competent people.

#### **Merits:**

- ❖ *It enables employees to act swiftly,*
- ❖ *It boosts employees' morale.*
- ❖ *It leads to the formation of important cross functional links used by employees for seeking solutions of their many operational problems.*

#### **Demerits:**

- o *It sometimes encourages employees to compete among themselves in taking care of customers' needs leaving customers with different levels of service.*

### **LINE AND STAFF AUTHORITIES**

#### **Line Authority:**

- *The relationship in which a superior exercise direct supervision over a subordinate.*

Line authority gives a superior a line of authority over a subordinate. It exists in all organizations as an uninterrupted scale or series of steps. In many large enterprises, the steps are long and complicated; but even in the smallest; the very fact of organization introduces the scalar principle.

Line authority is represented by the standard chain of command that starts with the board of directors and extends down through the various levels in the hierarchy to the point where the basic activities of the organization are carried out

**Scalar Principle:**

- *The clearer the line of authority, the clearer will be the responsibility for decision making and the more effective will be organizational communication.*

**Staff Relationship:**

- *Staff relationship is advisory.*

*The function of people in a pure staff capacity is to investigate, research, and give advice to line managers. The information which a staff officer furnishes or the plans he recommends flow upward to his line superior who decides whether they are to be transformed into action.*

**FUNCTIONAL AUTHORITY:**

*The right delegated to an individual or a department to control specified processes, practices, policies, or other matters relating to activities undertaken by persons in other departments.*

*One can better understand functional authority by thinking of it as a small slice of the authority of a line superior. If the principle of unity of command were followed without exception, authority over these activities would be exercised only by the relevant line superiors.*

**LINE AND STAFF CONFLICTS:**

*The line and staff departments of an organization are generally found to be at loggerheads with each other.*

*The line departments complain that:*

- *The staff people encroach upon their authority and prerogatives.*
- *The advice given by staff people is mostly academic and unhelpful in achieving production goals. The line department can accomplish better results with less money.*
- *When a project is unsuccessful, it is the line people who are blamed and held responsible for its failure but when it is successful, the staff people receive credit.*
- *Staff people fail to see the whole picture. They tend to operate in terms of the limited objectives of their own speciality rather than in the interests of the business as a whole.*

*Staff departments complain that:*

- *Line people are generally ignorant. They resist new ideas. They fear that changes in methods may expose forbidden practices and departmental inefficiency.*
- *Line people distrust, non-cooperate and even sabotage staff plans.*
- *Staff has not enough authority to translate its advice into action. Many staff managers feel that if they have the best answer to a problem, they should be able to enforce the solution on the line man involved.*
- *Line departments receive preferential treatment in matters of staff allowances and other facilities on the basis of their being earning departments.*

*There is only one answer to these sets of commonly heard complaints: better understanding of the nature of the relationship between line and staff. Line should be educated and encouraged to make maximum use of staff. Staff should merely transmit, not originate, orders.*

*The success of an enterprise is dependent upon both, the front-line and the back-room personnel. The relationship between the two should be of the professional-client type, in which neither party typically exercises authority over the other, although there is influence in both directions.*

**DELEGATION OF AUTHORITY:**

- *Authority is delegated when a superior gives a subordinate discretion to make decisions.*

*A manager in an enterprise cannot himself do all the tasks necessary for the accomplishment of group goals. His capacity to do work and to take decisions is limited. He therefore, assigns some part of his work to his subordinates and also gives them necessary authority to make decisions within the area of their assigned duties.*

This downward pushing of authority to make decisions is known as delegation of authority. By delegating authority, the manager does not surrender his authority or give this authority away. The delegating manager always retains the overall authority which was assigned to him to perform his function.

**Process of Delegation:**

1. Determining the results expected from a position,
2. Assigning tasks to the position,
3. Delegating authority for accomplishing these tasks, and
4. Holding the person in that position responsible for the accomplishment of the tasks.

**THE ART OF DELEGATION:**

Delegation is an elementary act of managing. Most failures in effective delegation occur not because managers do not understand the nature and principles of delegation but because they are unable or unwilling to apply them. Poor or inept delegation is one of the causes of managerial failures. Much of the reason lies in personal attitudes toward delegation.

**Personal Attitudes toward Delegation:**

***Receptiveness:*** An underlying attribute of managers who will delegate authority is the willingness to give other people's ideas a chance. The manager must be able not only to welcome the ideas of others but also to help others come up with ideas and to compliment them on their ingenuity.

***Willingness to let go:*** A manager who will effectively delegate authority must be willing to release the right to make decisions to subordinates. Size or complexity of the organization will force the delegation of authority.

Managers will enhance their contributions to the firm if they concentrate on tasks that contribute most to the firm's goals and assign to subordinates other tasks, even though they could accomplish them better themselves.

***Willingness to allow mistakes by subordinates:*** Since everyone makes mistakes, a subordinate must be allowed to make some, and their cost must be considered an investment in personal developed. Serious or repeated mistakes can be largely avoided without nullifying delegation or hindering the development of a subordinate.

***Willingness to trust subordinates:*** Superiors have no alternative to trusting their subordinates, for delegation implies a trustful attitude between them. This trust is sometimes hard to come by.

***Willingness to establish and use broad controls:*** since superiors cannot delegate responsibility for performance, they should not delegate authority unless they are willing to find means of getting feedback, that is, of assuring themselves that the authority is being used to support enterprise or departmental goals and plans. Obviously, controls cannot be established and exercised unless goals, policies, and plans are used as basic standards for judging the activities of subordinates.

**Advantages of Effective Delegation:**

***1. It relieves the manager of his heavy workload:*** Delegation of authority relieves the manager from heavy load of work and enables him to concentrate on higher functions of management.

***2. It leads to better decisions:*** Since subordinates are closest to the scenes of action usually have the best view of the facts.

***3. It speeds up decision-making:*** Time delay is eliminated when subordinates are authorized to make the necessary decision on the spot.

***4. It helps train subordinates and builds morale:*** Effective delegation causes subordinates to accept responsibility and exercise judgment. This not only helps train subordinates but also improves their confidence.

***5. It serves as compensation to those employees who face the prospect of limited advancement.***

***6. It helps to create a formal organization structure:*** Delegation of authority is the key to formal organization. The process of delegation of authority results in what is generally known as superior-subordinate relationship which gives rise to a formal organization structure.

**Barriers to Effective Delegation:**

On the manager's side, the reluctance to delegate may be due to the following reasons:

1. Fear of Loss of Power
2. The "I Can Do it Better Myself" Fallacy
3. Lack of Confidence in Subordinates
4. Fear of Being Exposed
5. Difficulty in Briefing

On the subordinates' side the reluctance to accept delegation may be due to the following reasons:

1. They may refuse to accept authority because of their fear of criticism by their superior in case they commit mistakes in decision-making.
2. They may avoid accepting any authority if they feel that they lack adequate information and resources to help them discharge their duties properly.
3. They may lack self-confidence and initiative and this may also be the cause for their unwillingness to accept any authority.
4. They may avoid accepting any authority because there are no positive personal gains to them for assuming extra responsibility.

#### **GUIDELINES FOR EFFECTIVE DELEGATION:**

- ❖ **Define assignments and delegate authority in light of results expected.** Grant sufficient authority to make possible the accomplishment of goal assignments.
- ❖ **Select the person in light of the job to be done.**
- ❖ **Maintain open lines of communication.** There should be free flow of information between superior and subordinate, furnishing the subordinate with the information needed to make decisions and to interpret properly the authority delegated.
- ❖ **Establish proper controls.** delegation should be accompanied by techniques for ensuring that the authority is properly used. But if controls are to enhance delegation, they must be relatively broad and be designed to show deviations from plans rather than interfering with routine actions of subordinates.
- ❖ **Reward effective delegation and successful assumption of authority.** managers should be ever-watchful for means of rewarding both effective delegation and effective assumption of authority. Many of these rewards will be monetary.

### **CENTRALISATION AND DECENTRALISATION**

#### **CENTRALISATION:**

- *The degree to which decision making is concentrated at upper levels of the organization.*

The term *Centralization* refers to concentration of decision-making at a single point in the organization. If top managers make the organization's key decisions with little or no input from below, then the organization is centralized.

#### **Advantages of Centralization:**

- Coordination of activities of subordinates is better achieved.
- There is no duplication of efforts or resources.
- Decisions take into account the interest of the entire organization.
- Strong central leadership develops which may be required in crisis.

#### **DECENTRALISATION:**

- *The degree to which lower-level employees provide input or actually make decisions.*

In contrast, when the top management gives maximum direction to the lower level of personnel in the organization to make decisions, then it can be said that there is decentralized in the organization.

It is the tendency to disperse decision-making authority in an organized structure. It is a fundamental aspect of delegation, to the extent that authority that is delegated is decentralized.

In a *Decentralized* organization, action can be taken more quickly to solve problems, and more people provide inputs into decisions. For firms having a number of plants, which are located at the different places, decentralization is more beneficial.

With most of the large companies now preferring to make organizations more flexible and responsive, there has been a marked change towards decentralized decision making. The concept of centralization-decentralization is relative, not absolute – that is, an organization is never completely centralized or decentralized.

**Main advantages of Decentralization:**

- It reduces the burden of the top management by freeing them from many operational decisions, and enables them to concentrate on their strategic responsibilities and
- It can contribute to staff motivation by enabling middle and lower level managements to get a taste of responsibility and by encouraging the use of knowledge, innovation and initiative by all employees.
- It permits quicker and better decision-making.
- It leads to a competitive climate within the organization.

**Disadvantages of Decentralization:**

- o It requires greater coordination by senior management to ensure that individual units in the organization are not working against the interest of the whole organization.
- o It can lead to inconsistency of treatment of customers, clients or public, especially in service industry and
- o Decentralization does require a plentiful, supply of capable and well-motivated managers, who are able to cope with increased responsibility which decentralization brings about.

**Factors influencing the amount of Centralization and Decentralizations:**

<b>More Centralization</b>	<b>More Decentralization</b>
Environment is stable.	Environment is complex, uncertain.
Lower-level managers are not as capable or experienced at making decisions as upper-level managers.	Lower-level managers are capable and experienced at making decisions.
Lower-level managers do not want to have a say in decisions.	Lower-level managers want a voice in decisions.
Decisions are relatively minor.	Decisions are significant.
Organization is facing a crisis or the risk of company failure.	Corporate culture is open to allowing managers to have a say in what happens.
Company is large.	Company is geographically dispersed.
Effective implementation of company strategies depends on managers retaining say over what happens.	Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

**Distinction between Delegation and Decentralization:**

The terms delegation and decentralization appear to mean the same thing, but in reality there is considerable difference between the two. The main differences are,

1. Delegation is a process, while decentralization is the end result of delegation and dispersal of authority. Delegation mainly refers to the granting of authority and the creation of responsibility as between one individual and another; decentralization is the situation which exists as a result of the systematic delegation of authority throughout the organization.
2. In delegation, a superior continues to be responsible for the work delegated to his subordinates, while in decentralization the superior is relieved from his responsibility for the work decentralized and the subordinate becomes liable for that.
3. Delegation is vital and essential to the management process. Only through delegation, subordinates can be involved in the organization and the management can get things done. Decentralization is optional, in the sense that it may or may not be practiced as a systematic policy.

**FORMAL AND INFORMAL ORGANIZATIONS**

**Formalization:**

Formalization refers to how standardized an organization's jobs are and the extent to which employee behavior is guided by rules and procedures. The degree of formalization varies widely between organizations and even within organizations.

### **FORMAL ORGANISATION:**

- *The internal structure of roles in a formally organized enterprise.*

The *formal organization* refers to a structure of clearly defined jobs, each bearing a definite amount of responsibility and authority. The formal organization lays down formal procedures, rules and regulations, which guide the behavior of individuals performing these jobs.

### **Today's View.**

Although some formalization is important and necessary for consistency and control, many of today's organizations seem to be less reliant on strict rules and standardization to guide and regulate employee behavior.

### **INFORMAL ORGANIZATION:**

- *A network of interpersonal relationships that arise when people associate with one another.*

The *informal organization* is the outcome of social interaction that takes place between the individuals of the formal organization. When people work together they tend to form informal work groups, often spontaneously, because of physical proximity, commonality of interest etc.

These informal groups are collectively known as informal organization. Unlike the formal organization, the informal organization is unstructured and not given. Generally, it is an unofficial organization born out of a formal organization.

An informal organization has its own structure, roles, procedures, norms, and values which are unwritten and are evolved through consensus among the members of the informal groups.

An informal organization does not have a fixed chain of command. It is based on the sentiments of the members. The communication patterns are not fixed and as such communication may flow in any direction.

In contrast to formal organization analysis, the dysfunctional aspects of informal organization such as conflicting objectives, restriction of output, resistance to change have received more attentions than the functional ones. In other words, the informal organization is often projected to be counter-productive to the formal organization.

### ***Benefits of Informal organizations:***

In reality, the informal organization can benefit the formal organization in the following ways:

- It serves as a useful channel of communication.*
- It lightens the work load of the management if the latter gives due importance to the informal work groups.*
- It reduces the undesirable effects of the rigidities of the formal organization.*
- It provides a safety valve for employees' emotions.*

A most important aspect of informal organization is the informal communication network or "*grapevine*" as it is more commonly known.

### ***Disadvantages of Informal Organizations:***

- Resistance to change:*** the informal groups resist the management demands which are perceived by it as detracting from its culture or threatening the existing relationships among the members.
- Sub-optimization:*** the informal groups with different interests and needs, develop the quest for achieving group goals, it may lead members away from organization objectives. Members are likely to put their own group-need satisfaction ahead of the organization's objectives. This is known as the sub-optimization problem where small group objectives conflict with or take precedence over the larger organization's goals.
- Rumour:*** one undesirable characteristics of informal communication, called the "*grapevine*", is its function as a carrier of rumour. People may amend some existing details according to their psychological framework. This is assimilation.

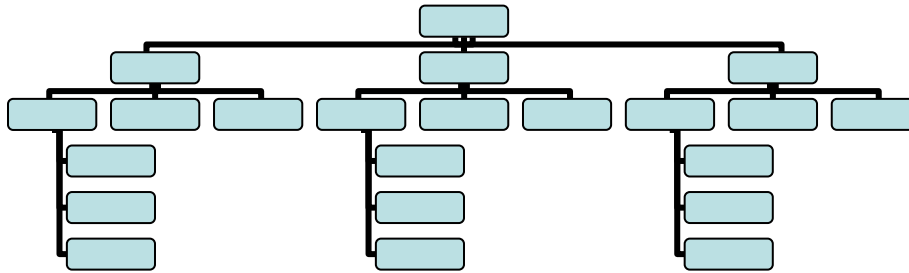
### **The grapevine:**

Informal organization tends to exist when members of a formal organization know one another well enough

to pass on information – sometimes only gossip – that is in some way connected with the enterprise.

In the typical enterprise – whose members spend many hours a day deriving material security and status, as well as social satisfaction, from the grapevine – the desire for information concerning the organization and its people is strong enough for such information to be rapidly transmitted between persons who know and trust one another.

The grapevine thrives on information not openly available to the entire group, whether because that information is regarded as confidential, or because formal lines of communication are inadequate to spread it, or because it is of the kind, like much gossip, that should never be formally disclosed. Since all forms of informal organization serve essential human communication needs, the grapevine is inevitable and valuable.



**Distinction between Formal and Informal Organizations:**

<b>Formal Organization</b>	<b>Informal Organization</b>
1. Structured.	Unstructured.
2. Status bestowed on positions.	Status acquired by persons.
3. Official Norms: often imposed from above.	Unofficial Norms: often evolved out of consensus.
4. Relationships prescribed.	Relationships not prescribed, but sought.
5. Interactions occur as required by rules/ roles.	Interaction occurs as desired, voluntarily.
6. Communication flows horizontally or vertically.	Communications flow in any / many directions.
7. This organization is usually very enduring and may grow to any size.	This organization is not very enduring, being dependent on the sentiments of members, which often change.

**Harmonizing Informal and Formal Organization:**

- When informal rules are acceptable, they should be institutionalized.
- If informal lines of communication exist, they should be used by the management.
- When informal leaders develop, they should be appointed to positions of formal authority.
- Employees should be made to know that the management not merely tolerates but willingly accepts the existence of an informal group.
- In designing a formal organization structure, the team concept should be followed.

**ORGANISATION STRUCTURES**

**Definition and Meaning.**

- ❖ By organizational structure, we mean, “the distributions along various lines of people among social positions that influence the role relations among these people.”
- ❖ Other definition stresses the importance of human interactions in the formation of structures as “structures shape people’s practices, but it is also people’s practices that constitute structure”.

**Concept:**

Organization structure marks lines of authority, responsibility and co-ordination.

The structure of an industrial organization differs from that of another organization and it depends upon the followings:

- i) Size of the organization
- ii) Nature of the product being manufactured and



- iii) Complexity of the problems being faced.

**Introduction:**

An organization structure specifies the various job tasks and shows how the same are formally divided, grouped and coordinated. It provides an appropriate framework for authority relationship. It indicates the hierarchy of authority and the reporting relationships. It is a means to help the management to achieve the organizational objectives.

As the objectives of the organizations are derived from the overall strategy of the organization, it is logical that an organization structure is closely linked to its strategy. As such, if the management makes a significant change in the organization's strategy, the organization's structure needs to be modified to accommodate and support the change.

There is considerable evidence to indicate that choice of an organization's strategy (*stability strategy/growth strategy*) is determined by three basic factors (**contingency factors**):

- i) the organization's size
- ii) technology used by the organization (for converting the financial, human and physical resources into products and services) and
- iii) Environmental uncertainty (external environment).

Information technology and globalization have had a tremendous impact on organization structures. Many of today's managers realize that the traditional organization structures based on bureaucratic principles no longer provide solutions to the challenges posed by the new paradigm environment.

The needs of flexibility, adaptability to change, creativity, innovation, knowledge and the ability to overcome environmental uncertainties are among the biggest challenges facing many of the organizations.

The result has been that the *vertical (tall) structures* are being replaced by *horizontal (flat) structures*, the organizations with *mechanistic structures* are being transformed into ones with *organic structure*.

These shifts reflect a clear departure from the practice of *centralized* decision-making to *decentralized* decision-making, from *command* to *consensus based self control*. The new forms of organization structure that have emerged are **task force, network, virtual and boundary-less structures**.

**Organization Architecture:**

This refers to the totality of a firm's organization including formal organization structure, control systems, incentive systems, organization culture and people.

**The elements of an organization structure:**

1. The network of formal relationships and duties i.e. the **organization chart** plus the **job descriptions**.
2. The manner in which various tasks and activities are assigned to different people and departments (**Differentiation**)
3. The manner in which the separate activities and tasks are coordinated (**Integration**)
4. The power, status and hierarchical relationships within the organization (**Authority system**)
5. The planned and formalized policies, procedures and controls that guide the activities and relationships (**Administrative system**) and
6. The flow of **information and communication** network.

**ORGANISATION CHART**

The usual way of depicting a formal organization is by means of an organization chart. It is a snap shot of an organization at a particular point of time which shows the flow of authority, responsibility and communication among various departments which are located at different levels of the hierarchy.

The connecting lines on this chart show who is accountable to whom and who is in charge of what department.

**Concept:**

- ❖ *Organization chart is the result of organization design.*
- ❖ *It portrays graphically the structural relationships among the different functions (departments) and the positions (persons) in the enterprise and who are responsible for those functions.*
- ❖ *It shows how the dynamic activities of a concern are coordinated in to a working unit.*
- ❖ *Also known as organization tree – a map or drawing of the organization.*

**Advantages:**

- *Organization chart tells who is responsible for a particular function.*
- *It pin-points the weakness of the organizations*
- *Information contained in the organization chart supplements the details available in the organization manual.*
- *An organization chart can serve as a training device and as a guide in planning for expansion.*
- *It is useful in showing the nature of organization and changes if any in the existing staff and the new-comers.*

**Limitations:**

- *An organization chart needs frequent updating.*
- *It shows a static picture of the dynamic business.*
- *It induces certain structural rigidity. (Shortcuts, sometimes may improve efficiency).*
- *It is very difficult to portray human relationships on an organizational chart.*

**Use:**

- *Besides certain weaknesses, an organizational chart serves very useful purpose especially when it is drafted by an expert.*

**ORGANISATOIN DESIGN****Introduction:**

- *Organization design can be defined as the total pattern of structural elements and patterns used to manage the overall organization. Organization design should be seen as a tool for implementation of organizational strategies and the attainment of organizational goals.*
- *Technological advancement has brought about far-reaching changes in the methods of work and also in the organization design. Globalization of market, changing methods of production, economic instability etc, are the factors which affect the organization designing.*
- *The term organization design refers to how various parts of the organization and the distinct elements match together to make it. It considers both, how these elements match together and ways in which they may be analyzed and improved.*
- *As the organizations grow in their size from small to large over a period of time, their priorities do change and it becomes necessary for the organizations to make the changes in the organization design in order to ensure that the organizations function efficiently.*
- *Modern organizations are in constant interaction with the external environment. As such, any change that takes place in the environment – social, political, technical, economic, legal – have implications for the organizations.*
- *In order to remain competitive, organizations respond to the pressures exerted by the environmental factors. The nature of their responds depends upon the degree of the pressure.*
- *Normally, organizations respond by formulating new business strategies when the degree of pressure is high. Changes in strategies often necessitate changes in organization design.*
- *Thus restructuring of organization design becomes inevitable when the environment for the organization becomes turbulent and unstable.*

**The procedural steps involved are,**

- a) *understand and formulate the objectives and goals of the organization and the nature of the*

- business to be carried out;*
- b) *determine the functions necessary to achieve the objectives of the organizations;*
- c) *related functions example – Inventory Control, Production Control and Quality Control, can be grouped together;*
- d) *Examine all the function and outline the various positions to be filled to take up those functions;*
- e) *Prepare job descriptions, duties and responsibilities of each position;*  
*Fill up all the positions by recruiting suitable persons wither from outside or from with in by upgrading the existing personnel after giving them extensive appropriate training.*

**Purposes of the organization design:**

- *To support the organization’s strategy – realizing organization’s goal and objectives;*
- *To arrange resources in the most efficient and effective way;*
- *To provide for the effective division of tasks and accountabilities among individuals and groups;*
- *To ensure effective coordination and clarify decision-making processes;*
- *To enhance better communication;*
- *To aid the handling of crises and problems;*
- *To motivate, manage and give job satisfaction to individual members of the organization; and*
- *To provide management succession.*

**The design process – 7 step sequence:**

1. *Identify the major objectives of the firm and derive primary line functions needed to accomplish the objectives.*
2. *Organize from the top down by establishing a scalar change of authority and responsibility.*
3. *Organize from the bottom up by integrating the activities of each function.*
4. *Decide what management positions are needed for each activity.*
5. *Identify position in group related work.*
6. *Seek groupings to ensure balance in the distribution of resources.*
7. *Check whether the spans of control are appropriate.*

**MECHANISTIC AND ADAPTIVE STRUCTURES**

**Similarities:**

<b>Mechanistic structure</b> is also known as	<b>Adaptive structure</b> is also known as
Classical structure	Organic structure
Bureaucratic structure	Behavioral structure
	Adhocracy structure

**Mechanistic structure:**

- *An organizational design that is rigid and tightly controlled.*

The Mechanistic or Classical organization was characterized by rules; procedures, a clear hierarchy of authority, centralized decision making, and the control of incoming and outgoing communications from the top and a tendency for information to be provided on a need to know basis.

The mechanistic form of organization structure is adopted when there is relative stability in the environment.

**Organic structure:**

- *An organizational design that is highly adaptive and flexible.*

By contrast, the Organic or Behavioral organization was characterized by low formalization, rules and

regulations were not written or if written down were ignored, and open and widely used communication patterns which incorporate horizontal, diagonal as well as vertical channels.

The organization should change its structure in relation to its environment. In a rapidly changing environment an organization tends to change to organic form from the mechanistic form in order to remain competitive.

While the mechanistic model is generally synonymous with the bureaucracy, the organic model looks more like the boundary less organization. The relation of one form to the other is elastic.

As such, an organization may oscillate from one end (mechanistic) to the other (organic) depending upon the nature of the environment and other factors like the overall strategy of the organization, organization size and technology.

**Mechanistic versus Organic structures:**

<b>Classical or Mechanistic Organization</b>		<b>strategies</b>		<b>Behavioral or Organic Organization</b>
High specialization	↔	design	↔	Cross-functional teams
Rigid	↔	Departmentalization	↔	Cross-hierarchical teams
Centralized	↔	Hierarchy or Authority	↔	Decentralized
Many	↔	Rules and Procedures	↔	Few
Precise	↔	Division of Labor	↔	Ambiguous
Narrow	↔	Span of Control	↔	Wide
Impersonal	↔	Coordination	↔	Informal
high	↔	formalization	↔	low
Clear chain of command	↔	Flow of information	↔	Free flow

**COMMON ORGANISATIONAL DESIGNS**

**TRADITIONAL ORGANISATIONAL DESIGNS:**

**SIMPLE STRUCTURES: (LINE AND LINE & STAFF ORGANISATION STRUCTURES)**

- *An organizational design with low departmentalization, wide spans of control, centralized authority, and little formalization.*
- **Strengths:** Fast; Flexible; Inexpensive to maintain; Clear Accountability.
- **Weaknesses:** Not appropriate as organization grows; reliance on one person is risky.

**FUNCTIONAL STRUCTURE:**

- *An organizational design that groups similar or related occupational specialities together.*
- **Strengths:** Cost-saving advantages from specialization and employees are grouped with others who have similar tasks.
- **Weaknesses:** pursuit of functional goals can cause managers to lost sight of what is best for overall organization; functional specialists become insulated and have little understanding of what other units are doing.

### ***DIVISIONAL STRUCTURE:***

- *An organization structure made up of separate, semi-autonomous units or divisions.*
- **Strengths:** Focuses on results – division managers are responsible for what happens to their products and services.
- **Weaknesses:** Duplication of activities and resources, increase costs and reduces efficiency.

### ***CONTEMPORARY ORGANISATIONAL DESIGNS:***

#### **TEAM STRUCTURES:**

- *An organizational structure in which the entire organization is made up of work groups or teams.*
- **Advantages:** Employees are more involved and empowered. Reduced barriers among functional areas.
- **Disadvantages:** No clear chain of command. Pressure on teams to perform.

#### **PROJECT STRUCTURES:**

- *An organizational structure in which employees continuously work on projects.*

#### **MATRIX STRUCTURES:**

- *An organizational structure that assigns specialists from different functional departments to work on one or more projects.*
- **Advantages:** Fluid and flexible design that can respond to environmental changes. Faster decision making.
- **Disadvantages:** Complexity of assigning people to projects. Task and personality conflicts.

### ***ORGANISATION STRUCTURES FOR THE GLOBAL ENVIRONMENT: (EMERGED ORGANISATION STRUCTURES)***

#### **1. VIRTUAL ORGANISATION:**

- *An organization that consists of a small core of full-time employees and that hires outside specialists temporarily as needed to work on projects.*

#### **2. NETWORK ORGANISATION:**

- *An organization that uses its own employees to do some work activities and networks of outside suppliers to provide other needed product components or work processes.*

#### **3. BOUNDARYLESS STRUCTURE:**

- *An organization structure that is not defined by or limited to the horizontal, vertical, and external boundaries imposed by a predefined structure.*

#### **4. INVERTED PYRAMID STRUCTURE:**

- *Organization structure emphasized on customer orientation.*
  - **Advantages:** Highly flexible and responsive. Draws on talent wherever it is found.
  - **Disadvantages:** Lack of control. Communication difficulties.
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### **LINE ORGANISATION STRUCTURE:**

*Line organization is the simplest form of organization structure. The line structure is based on the scalar principle, which states that authority and responsibility should flow in a direct line vertically from the highest level of the organization to the lowest level.*

*The primary emphasis in the line organization is upon the superior-subordinate relationship. Every person in the organization is in the direct chain of command.*

#### **Advantage:**

- *It facilitates decision making and execution because there is a definite authority at each level of the hierarchy.*

#### **Disadvantage:**

- *If a wrong decision is made at the top level, the same is carried out simply without anybody down the line venturing to point out its deficiencies.*

### **LINE AND STAFF ORGANISATION STRUCTURE:**

*Most business organizations, except the very small, have this type of structure. As the organizations have grown complex, the problems of line executives have become sufficiently complicated. The line executives being generalists need the advice of personnel with specialized knowledge and functions to tackle these problems. For this purpose, the staff positions are created in the organization.*

*In line and staff organization, the line authority remains the same as it does in the line organization i.e. the authority flows from top to bottom; and the line executives perform the major functions; the staff functionaries support and advice the line executives.*

#### **Advantage:**

- *The staff specialists relieve the line executives of the botheration of concentrating on specialized functions like selection, training, development, wage and salary administration, accounting, public relations etc.*

#### **Disadvantage:**

- *Since functionaries are not accountable for the results, they may not be performing their duties effectively.*

### **FUNCTIONAL ORGANISATION STRUCTURE:**

*This is most widely used form of organization structure because of its simple logic and commonsense appeal. Here the tasks are grouped together on the basis of common functions. So, all production activities or all financial activities are grouped into a single function which undertakes all the tasks required of that function.*

*This functional structure suits best to the small to medium organizations producing one or a few products, where the goals of the organization emphasize functional specialization, efficiency and quality.*

#### **Advantages:**

- *By grouping people together on the basis of their specialist expertise, the organization can facilitate both their utilization and their coordination in the service of the whole organization.*
- *The functional grouping also provides opportunities for promotion and career development.*

#### **Disadvantages:**

- *The growth of sectional interest which may conflict with the needs of the organization as a whole. (Activities will be seen in a narrow departmental view rather viewing it from the broader perspective of the entire organization).*

### **DIVISIONAL STRUCTURE:**

*This form of organization structure is adopted by large companies producing a wide range of products. Here the activities are grouped on the basis of the individual products manufactured by the company. There are little companies within the company. Within each of these little independent units, we find all important functions viz. production, marketing, finance and human resources.*

#### **Advantages:**

- *It enables diversification of the products to take place with minimal effort.*
- *It can cope better with technological change by grouping people with expertise and their specialized equipment in one major unit.*

#### **Disadvantage:**

- *Each product division may promote its own product group in a way that creates problems to other product divisions of the company.*

### **HYBRID STRUCTURE:**

*The hybrid form combines features of both functional and divisional forms. When an organization starts to get very large, it establishes some self-contained units. Functions that are considered important to each product are decentralized to the units; however, some functions like finance and accounting are centralized at headquarters for practical reasons.*

*The functional part of the organization is reflected in the departments centralized at the corporate level. However, each of the product divisions has specialists in functional areas for necessary assistance.*

#### **Advantages:**

- *The overall organization enjoys the benefits of both functional and product (decentralized) structures.*
- *It provides the opportunity to improve coordination both within and among divisions.*
- *It enables the organization to pursue an adaptive strategy within the product divisions while at the same time achieving efficiency in the functional departments.*
- *It helps in proper alignment of corporate and divisional goals.*

#### **Disadvantages:**

- *It often leads to excessive duplication of activities between functions and divisions.*
- *Its tendency is to create conflict between headquarters and divisional functions.*

### **VERTICAL STRUCTURE:**

*A vertical organization is that in which the size of the hierarchical chain of command is long i.e. the number of hierarchical levels are high. As such, more people have to communicate to the top management through the intervening layers of executives.*

#### **Main advantages:**

- *They provide better communication of the organization's mission, values and goals to all employees and*
- *These organizations have the ability to sustain a very high degree of specialization of functions and roles.*

#### **Principle disadvantages:**

- *Too many hierarchical levels consume more time for communication and the same may lead to delays in decision-making and*
- *As the vertical structures go hand in hand with formality and standardization, the scope for initiative and risk taking at operational levels becomes limited.*

### **HORIZONTAL ORGANISATION:**

*As the traditional vertical hierarchical structures of the organizations are being considered inappropriate to the requirements of the changing environment, an increasing number of modern organizations prefer the*

use of horizontal structures.

For example in the US, corporate giants like General Electric, Motorola and Xerox, among other firms, have moved to the principles of the horizontal structure of organizations. The horizontal structure facilitates cooperation, teamwork and customer orientation rather than a functional orientation.

**Advantages:**

1. Decisions can be taken more quickly to solve problems; and
2. A horizontal structure has fewer problems of coordination.

**Disadvantage:**

1. The absence of proper reporting to superiors by the subordinates because of decentralization.

**PROJECT ORGANISATION:**

When an organization undertakes a big project or a number of small projects, it creates project organization(s) for the completion of the same.

This is done because the existing functional structure of the organization may not be suitable to complete the projects which are time bound and are subject to high standards of performance as in the case of aero space and aircraft companies.

A project organization is separate from and independent of functional departments of the company. Headed by a project manager, every project organization consists of a team of specialists drawn from different functional areas of the company or from outside.

The size of the project team varies from one project to another. Again, within a project, the size of the group may change with the different phases of the work.

A project organization has a temporary set up, and as soon as the project is completed it will be disbanded.

However, when the duration of the project is very long, the project organization takes a permanent form and it may become a regular autonomous project division of the company.

The role of the project manager is quite challenging. He is responsible for the completion of the project exacting to the time schedule and quality standards that are prescribed.

The successful completion of the project depends on how well he coordinates the activities of the project team and how he utilizes the advice and assistance of the internal experts (available within the company) and those belonging to external agencies / organizations.

The project organization is suitable when the company gets a one-time assignment or a huge contract or when the company faces a unique challenge.

**Advantages:**

1. The participating specialists of the project team get opportunity for prompt, expeditious and effective accomplishment of the goals of the project. This motivates them to make maximum contribution to the execution of the project;
2. It facilitates speedy communication between the project manager and the team members; and
3. It provides flexibility in handling various tasks.

**Disadvantages:**

1. The entire project becomes meaningless, if the project manager fails to coordinate the activities of the project properly;
2. The members of the project organization have to sever the contacts with the mainstream organizational life. As such, they may be bypassed when opportunities arise in their respective fields for promotion; and
3. The job of the project manager becomes very difficult because he has to deal with specialists from a number of diverse fields.



### **MATRIX ORGANISATION:**

The matrix organization combines two forms of departmentalization – functional and product. It is built around a project which is headed by a project manager. The project manager is also known as product manager as he is responsible for the output (product) of the project.

The project teams comprise of employees (specialists) drawn from different functional departments such as the Human Resources, Finance, Production, Marketing, and Research & Development Departments of the Company. Thus the employees of the matrix have two bosses: their Functional Departmental Manager and their Project Manager.

The figure illustrates the Matrix Structure of an Engineering firm, which is composed of two projects, each having its specific objective and specific time for completion.

The matrix organization is different from the functional organization. In the functional organization, the project manager is given complete responsibility for the project as well as the resources needed for its completion. But in the matrix organization, the project manager has to share the resources with the rest of the enterprise.

The matrix structure is used in advertising agencies, aerospace firms R & D laboratories, construction companies, hospitals, government agencies, universities, management consulting firms and entertainment companies.

#### **Advantages:**

1. It facilitates coordination when the organization has multiple complex and independent activities;
2. It ensures the effective utilization of the services of the people with highly specialized skills; and
3. The direct and frequent contact between the different functional specialists in the matrix ensures better communication and more flexibility.

#### **Disadvantages:**

1. This structure breaks the unity-of-command concept. Reporting to one boss introduces role conflict and role ambiguity;
2. it fosters power struggle between product (project) managers and functional managers who share the same set of resources; and
3. a matrix organization incurs higher costs than an organization with a conventional hierarchy.

### **VIRTUAL ORGANISATION (NETWORK STRUCTURE):**

A virtual organization is a small, core organization that out sources major business functions. It is highly centralized, with little or no departmentalization.

The virtual organization creates network relationships with other organizations / agencies located anywhere in the world for the purpose of contracting out functions like manufacturing, distribution, marketing, R & D, etc.

The networking is done through the electronic technology. As such, the partnerships between the virtual organization and the other organizations are based on electronic contracts. The partners are less permanent, less formal, and more opportunistic.

Each partner contributes to the virtual organization its core capabilities. The managers of the virtual organizations spend most of their time in coordinating the various activities through the networking.

**Examples** of virtual organizations include Ford, Nike, Rebok, IBM etc.

#### **Major advantages:**

1. Through virtual organization it is possible to create “best-of-everything” organization because each partner brings its “core competence.”
2. A virtual organization allows someone with an innovative idea and little money to successfully compete against large companies. This is possible because of flexible nature.

#### **Major disadvantages:**

1. *It reduces management's control over the key parts of its business; and*
2. *The reliability of the partners may be doubtful.*

### **BOUNDARYLESS ORGANISATION:**

The boundary-less organization seeks to remove the **vertical and horizontal boundaries** within the organization and to break down **external barriers** between the company and its customers and suppliers. Once the management removes the vertical boundaries, the structure of the organization looks more like a *silo* than a *pyramid*.

To break down the **vertical boundaries**, the management adopts the following strategies:

- i) *Creating cross-hierarchical teams (which includes top executives, middle managers, supervisors, and operative employees);*
- ii) *Encouraging participative decision making; and*
- iii) *Making use of 360 degree performance appraisal (peers and others above and below the employee evaluate his/her performance).*

To reduce the barriers to the **horizontal boundaries**, the management adopts the following strategies:

- i) *Replacing the functional departments with cross-functional teams and organizing activities around processes;*
- ii) *Using lateral transfers; and*
- iii) *Rotating people into and out of different functional areas.*

The **external barriers** can be reduced through practices like strategic alliances, customer-organization linkages and telecommuting (mainly with the networked computers).

#### **Advantages:**

- *It fosters teamwork among the employees;*
- *It ensures speedy communication with the organization (intra-organizational communication) and between the organization and the customers and suppliers (inter-organizational communication); and*
- *It can help competitiveness in the global economy.*

#### **Drawback:**

- *A principle drawback of this form of organization is that it is difficult to clearly establish the relationship between superiors and subordinates in the organization.*

### **INVERTED PYRAMID STRUCTURE:**

Organizations with this type of structure put the customers at the top and give them the most important role in driving the business. The front-line employees like sales representatives, people in charge of help-desk, etc. who come in direct contact with the customers, are also given a similar position.

The Chief Executive Officer of the organization is at the bottom of the structure. Thus, in this form of organization, the role of the management changes from a commanding one to a supporting one.

#### **Advantages:**

- *This structure gives first preference to the customers. Therefore, it becomes easy for the organization to know the customers' satisfaction; and*
- *In this form of organization, the employees are given more responsibility and authority than the top management.*

#### **Disadvantage:**

- *A major disadvantage of the inverted pyramid relates to formulation of strategies. The frontline foremen are not quite equipped to formulate strategies regarding the organization.*

### **TASK FORCE:**

*A task force is a temporary structure comprising of specialists from different functional departments, formed primarily to accomplish a specific and complex task. It co-exists with the traditional structure. As such, it can be viewed as a scaled-down version of the temporary matrix. The members of a task force are transferred to another task force, once the goal of their task force is achieved.*

**Advantage:**

- *Organization can enjoy the benefits of both the traditional structure and the task force simultaneously. The benefits are stability, flexibility, and efficiency.*

**Disadvantage:**

- *Coordinating the activities and maintaining interpersonal relationship within the task force is difficult.*

**COMMITTEE:**

*A committee is a group of people who have been formally assigned some task or some problem for their decision and/or implementation. In modern business enterprises there is a widespread use of committees in all areas of management and administration.*

*Each unit head and his subordinates would work as a decision-making committee. And each unit head would serve as a chief. Thus organized a company could avoid the major risks but reap the full advantages of "authoritative" group decision-making.*

*Committees can be broadly classified into advisory committees and executive committees. Whenever committees are vested with staff authority they are known as advisory committees. Advisory committees have only a recommendatory role and can not enforce implementation of their advice or recommendation. Some of the usual advisory committees formed in business enterprises are: work committees, sales committees, finance committees, etc. whenever committees are vested with line authority, they are called executive committees.*

*Unlike advisory committees, executive committees not only take decision but also enforce decisions and thus perform a double role of taking a decision and ordering its execution. The Board of Directors of a company is an example of an executive committee.*

**Advantages:**

- *Better coordination will be achieved as the committees consist of all departmental heads as members.*
- *Decision-making quality will be improved as the committees provide a forum for the pooling of knowledge and experience of many persons of different skills, ages and backgrounds.*
- *Committees provide an opportunity to many persons to participate in the decision-making process and motivate them for getting more involvement.*
- *Committees are excellent means of transmitting information and ideas, both upward and downward.*
- *By exposing members to different viewpoints, committees contribute indirectly to their training and development.*
- *Committees are impersonal in action and hence their decisions are generally unbiased and are based on facts.*

**Weaknesses:**

- *Time consuming-it takes longer to get action or take decision from a committee than from an individual manager.*
- *It encourages irresponsibility among the members, as in case a wrong decision is taken by a committee, no member can be individually held responsible.*
- *It is very expensive as huge amount is spent for convening meetings and giving allowance to the members.*
- *It is difficult to dissolve the committees even after the purpose is solved.*
- *Decision-making will not be the best always because of compromising.*
- *Secrecy maintaining is difficult because committees consist of a large number of persons.*

**Suggestions for making committees effective:**

- ❖ *The number of members of the committee should not be very large.*
- ❖ *A committee's authority should be carefully spelt-out; its activities correctly chosen and closely*

defined.

- ❖ *The members should freely interact with each other.*
- ❖ *The members should give precedence to organizational interests over departmental interests.*
- ❖ *The chairman of the committee should plan and conduct the meeting with firmness and fairness. He should recognize the need to perform both group maintenance and task roles effectively.*
- ❖ *The work of the committee should be periodically reviewed to determine if it is working effectively in terms of the purpose for which it was established and whether that purpose is still valid.*

## **IMPACT OF TECHNOLOGY ON ORGANISATIONAL DESIGN**

### **Introduction:**

*The relationship between technology and organization structure is not easy to understand, in more complex situations. Technology involves “acting on and / or changing an object from one state to another... the object can be a living being, a symbol, or an inanimate object.”*

*Our technology involved discussion, consultation, looking at our own values, considering the ramifications for the future. Organizationally, it was high on complexity and low on formalization and centralization.*

*The nature or the technology vitally affected the management structures. The number of levels in the management hierarchy, the span of control of first-line supervisors and the ratio of managers and supervisors to other personnel are all affected by the technology employed.*

*Not only the structure is affected, but also the success or effectiveness of the organizations is related to the “fit” between technology and structure. The successful forms are those who have the appropriately structured technical systems.*

*The general concept of technology has three components:*

- ❖ *Operations technology – the techniques used in the workflow activities of the organizations.*
- ❖ *Materials technology – the materials used in the workflow (a highly sophisticated technique can be applied to relatively simple materials); and*
- ❖ *Knowledge technology – the varying complexities in the knowledge system used in the workflow.*

*Operations technology will come before the effects of size in these work organizations. They also imply that the administrative element in the large organizations will be relatively unaffected by the operations technology.*

*In particular organizations like having more levels of hierarchy, a wider span of control for first-line supervisors, fewer employees under the direction of higher supervisors, and fewer responsibilities but more communications and responsibilities for members who are nominally in supervisory positions, the knowledge technology changed from simple to relatively complex.*

### **Impact of Technology:**

*With the concept of specialization and division of work, organizations, instead of being designed around individual craftsman, were structured on the basis of different people doing only a specialized part of the entire process of the work.*

*This concept was further refined with the introduction of automation and assembly lines. Now with the introduction of computerization and robots, new structural designs are once again emerging.*

*Entire plants are manned by a single operator who controls the operations through computers. Major human inputs are needed in designing computer controls and software rather than in performing repetitive jobs.*

*These technological changes affect not only the large firms but also the smaller ones. In India, in a large number of medium and small scale companies, simple routine functions such as preparing payroll, invoicing and ledger maintenance have been computerized.*

Such small changes also necessitate redefining jobs and redesigning existing departments to suit the new technological process.

Today the greatest impact of technology is on the manner in which people collect, receive and use information. In many companies full-fledged Management Information System (MIS) departments have been setup in response to the exposition in information technology.

**Woodward's view on the Impact of Technology:**

Different structural patterns for effective and ineffective companies are based on technologies of low, medium, or high complexity. Effective organizations with either low or high complexity, technology tended to have an organic structure.

Effective organizations passed on technology of medium complexity tended to have a mechanistic structure. Woodward concluded that technology was the overriding determinant of organization structure.

As technology moves from routine to non-routine, sub-units adopt less formalized and less centralized structures.

**Technology versus Size:**

Structural differentiation and formalization are more a function of size than of technology. On the other hand, labor inputs, complexity, cost & wages, differentiation of management from ownership, span of control of the chief executive, and union recognition varies more with technology than with size.

In universities, growth in administration departments is related to large size where as growth in academic departments has more of a technology base.

**Technology and Organizational Design:**

Two important technological contingencies that influence the type of organizational structure are the variety and analyzability of work activities.

- Variety refers to the number of exceptions to standard procedure but can occur in the team or work unit.
- Analyzability refers to the extent that the transformation of input resources to outputs can be reduced to a series of standardized steps.

Some job are routine, meaning that employees perform the same tasks all of the time and rely on set rules (standard operating procedures – SOP) when exceptions do occur. When employees perform tasks with high variety and low analyzability, they apply their skills to unique situations with little opportunity for repetition.

Research project teams operate under these conditions. These situations call for an organics structure, one with low formalization, highly decentralized decision-making authority, and coordination mainly through informal communication among team members.

High variety and high analyzability tasks have many exceptions to routines, but these exceptions can usually be resolved through standard procedures. Maintenance groups and engineering design teams experience these conditions.

Work units that fall into this category should use an organic structure, but it is possible to have some what greater formalization and centralization due to the analyzability of problems.

**Woodward's Findings on Technology, Structure, and Effectiveness:**

	<i>Unit Production</i>	<i>Mass Production</i>	<i>Process/Batch Production</i>
<i>Structural characteristics</i>	Low vertical differentiation	Moderate vertical differentiation	High vertical differentiation

	<i>Low horizontal differentiation</i>	<i>High horizontal differentiation</i>	<i>Low horizontal differentiation</i>
	<i>Low formalization</i>	<i>High formalization</i>	<i>Low formalization</i>
<b><i>Most effective structure</i></b>	<i>organic</i>	<i>mechanistic</i>	<i>organic</i>

### **FACTORS INFLUENCING / AFFECTING ORGANISATION STRUCTURE (CONTINGENCY VIEW)**

The type of structure useful for a particular organization depends on a number of factors as described below.

#### **1. Environment:**

Researchers have shown that, different types of environments require different types of organization structures for effectiveness. In stable environments, when people do fixed and specialized jobs and feel little need to change their skills classical structures with strong controls and tightly specified duties are appropriate.

But in fast-changing environment and when jobs need to be constantly redefined to cope with the ever-changing needs of the environment and when the creative problem-solving and decision-making processes require free and open communication among members, behavioral structures are appropriate. Decentralized informal structures are best able to cope with uncertain environmental conditions. Conversely centralized formal structures are more effective in stable environments.

#### **2. Culture:**

Another factor shaping the under-lying structure of an organization is culture. Culture sets the bounds on what may or may not be done, on what is desirable and what is not. **Organizational Culture** is values and assumptions that are shared among the employees of an organization. Organizations are societies of individuals who come together to perform collective tasks.

#### **3. Task:**

The task of an organization is another major determinant of its structure. It is determined by the organization's original charter and the role which the organization decides to play in the society at large. The task of business is production and marketing of economic goods and services; of government the fulfillment of such social needs as security and welfare; of a university research and teaching; of a temple, administering to religious needs; and so on.

#### **4. Technology:**

The structure of an organization is influenced greatly by its technology. Three broad types of technology are **Unit, Mass and Process**. Of these **unit** is the simplest technology and **process** is the most complex.

- ❖ The more complex the technology, the more the need for supervision and coordination and the greater the number of managers and management levels. In other words, complex technologies lead to tall organization structures.
- ❖ The more complex the technology, the more the need for better personnel administration and plant maintenance, to keep the equipment in operation for higher proportion of the time and the greater the number of clerical and supporting staff.
- ❖ In mass technology, workers usually perform similar type of unskilled jobs. Hence large number of workers can be supervised by one first-line manager. But in unit or process technology, this is not possible. Here workers perform highly skilled jobs, for which small work groups are inevitable.

#### **5. Strategy:**

By strategy we mean the basic long-term goals of an enterprise and the allocation of resources necessary for carrying out these goals. With the change in strategy, change in structure becomes essential. The strategy

of diversification into new products or new geographical areas inevitably makes a highly centralized structure inefficient and impractical.

The different units are required to have a greater measure of independence in order to be able to respond quickly to the changing demands of their special markets. This makes essential for a company to shift to a decentralized structure with near-autonomous divisions, in order to remain successful.

**6. Size:**

By size, we mean the number of employees working for the organization in a single location. As the number of employees increases, the amount of formality also increases to cope with the complexity of employee inter relationships and communication problems. As size increases, specialization becomes further determined and with it the formality of structure.

**7. Span of Control:**

There is a very close relationship between the span of control and the shape of the organization structure. Small spans give rise to tall structures and big spans to flat structures.

**8. Form**

By form we mean whether the enterprise is a cooperative, a private company or a government agency.

**9. Managerial characteristics:**

The structure of an organization is also influenced by the personality and the value system of its top managers. If the managers believe that people are good and committed to organization goals, they would create an organization which emphasizes freedom of action.

**10. Employee Characteristics:**

By characteristics, we mean their abilities, skills and experience as well as their needs and personality characteristics. If an organization is generally composed of employees who are highly skilled and motivated, have strong needs for independence and self-realization, a behavioral structure would be more appropriate than a classical one. On the other hand, if the organization is generally composed of unskilled and poorly motivated employees, a classical structure may be more appropriate.

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**Interdepartmental coordinator.**

Interdepartmental collaboration is when people with specific expertise work together to complete a project or achieve a common goal. For many modern businesses, these multi-departmental experts might be in different locations – from the other side of the building to across the country and even the globe. To help your business thrive, it's essential that you put in place an effective process that ensures those various departments can work together.

*Create a collaborative culture – Department members are more likely to collaborate when it's ingrained in the company culture. Build trust by creating an environment that promotes collaboration with meetings, team-building activities, and regular follow-ups.*

*Define communication channels and methods – Give your employees a space to collaborate by defining the right channels and methods to communicate.*

*Use collaboration tools – Project management and communication software are powerful collaboration tools to ensure your departments are on the same page with projects, no matter how far apart they are.*

*Share feedback – Listen to what your team members say about interdepartmental work. They'll tell you what works and, more importantly, what doesn't work, so you can make changes to optimize team collaboration*

**Emerging trends incorporate structure:**

To improve organizational performance and achieve long-term objectives, some organizations seek to reengineer their business processes or adopt new

*technologies that open up a variety of organizational design options, such as virtual corporations and virtual teams. Other trends that have strong footholds in today's organizations include outsourcing and managing global businesses*

***Reengineering Organizational Structure:***

*The purpose of reengineering is to identify and abandon the outdated rules and fundamental assumptions that guide current business operations. Every company has many formal and informal rules, based on assumptions about technology, people, and organizational goals, that no longer hold. Thus, the goal of reengineering is to redesign business processes to achieve improvements in cost control, product quality, customer service, and speed. The reengineering process should result in a more efficient and effective organizational structure that is better suited to the current (and future) competitive climate of the industry.*

***The Virtual Corporation:***

*One of the biggest challenges for companies today is adapting to the technological changes that are affecting all industries. Organizations are struggling to find new organizational structures that will help them transform information technology into a competitive advantage. One alternative that is becoming increasingly prevalent is the virtual corporation, which is a network of independent companies (suppliers, customers, even competitors) linked by information technology to share skills, costs, and access to one another's markets. This network structure allows companies to come together quickly to exploit rapidly changing opportunities. The key attributes of a virtual corporation are:*

*Technology - Information technology helps geographically distant companies form alliances and work together.*

*Opportunism - Alliances are less permanent, less formal, and more opportunistic than in traditional partnerships.*

*Excellence - Each partner brings its core competencies to the alliance, so it is possible to create an organization with higher quality in every functional area and increase competitive advantage.*

*Trust - The network structure makes companies more reliant on each other and forces them to strengthen relationships with partners.*

*No borders - This structure expands the traditional boundaries of an organization.*

***Virtual Teams:***

*Technology is also enabling corporations to create virtual work teams. Geography is no longer a limitation when employees are considered for a work team. Virtual teams mean reduced travel time and costs, reduced relocation expenses, and utilization of specialized talent regardless of an employee's location.*

*When managers need to staff a project, all they need to do is make a list of required skills and a general list of employees who possess those skills. When the pool of employees is known, the manager simply chooses the best mix of people and creates the virtual team. Special challenges of virtual teams include keeping team members focused, motivated, and communicating positively despite their locations. If feasible,*



*at least one face-to-face meeting during the early stages of team formation will help with these potential problems*

**Strategy and culture:**

*Strategy and culture are among the primary levers at top leaders' disposal in their never-ending quest to maintain organizational viability and effectiveness. Strategy offers a formal logic for the company's goals and orients people around them.*

*Culture expresses goals through values and beliefs and guides activity through shared assumptions and group norms.*

**Impact of technology on organizational design :**

*Technology is all around us. It's become so ubiquitous that we almost don't notice it. But what impact has all of this technology had on the workplace? In this lesson, we discuss how technology has changed the face of the workplace, including a focus on two specific points of interest: automation and information technology. Technology has a number of different impacts on organizations. For one thing, it can impact the structure of an organization. This means introducing new technology to employees through training. Often this requires that more information technology (IT) professionals are added to a workplace.*

*It can also mean changes to the physical lay out of an organization. For example, switching over to computers from hand filing might mean that file clerks are no longer needed. This changes the layout of an office.*

*These kinds of technological changes can also make organizations more efficient. While upgrading the technology might be initially expensive, it can help organizations save money in the long term.*

**Automation**

*At the broadest level, automation refers to the ways that machines replace work that was once done by humans. Automation is designed to be a labor-saving technique. This is just what it sounds like: companies use technology instead of hiring additional workers.*

*A good example of the automation process in the United States is in the agricultural industry. In the past, most of the labor in this industry was done by humans. Tilling, mowing, and fertilizing were done by people. However, the advent of new farming technologies has changed, and now many of these processes are done by machines*

**Replaced by Robots?**

*Does this mean that robots are going to take all of our jobs? It's not that black and white. While automation has eliminated or replaced some jobs, it has also created other ones. We need new IT professionals and other kinds of employees to work on the technology that comes along with automation.*

*Research has found that less than five percent of jobs can be totally automated. Basically, this means that it's very unlikely we could see total automation of most of our occupations. And, for example, even jobs that have an automated component still require a human being. Think about the self-scan aisle at the*

*grocery store. Even though this technology is doing a job that a human can also do, you still have human beings there to help if something goes wrong or to check identification for alcohol purchases.*

*Automation is most likely to complement, rather than supplant, most human labor. For example, in very high-skilled jobs, machines can be developed that will help employees focus their attention and be more productive. This will help organizations become more profitable and efficient.*

### **Information Technology**

*Information technology (IT) has had a number of effects on organizations; so what exactly is it? Basically, IT refers to computers and computer networks, communication systems, telephones and cellular networks, and data storage and retrieval*

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#### **QUESTION BANK for UNIT 3 – ORGANISING**

1. *Define organizing. Enumerate the purpose and process of organizing.*
  2. *Define organization, its principles and characteristics.*
  3. *Explain about organization design and structures.*
  4. *What is an organization chart? Describe its advantages and disadvantages.*
  5. *Distinguish between Mechanistic and Adaptive structures.*
  6. *Explain about Formal and Informal organizations.*
  7. *Explain Centralization and Decentralization in organizations.*
  8. *Explain about Departmentalization.*
  9. *What is Span of Control? Explain about the factors governing the span of control.*
  10. *Define Authority and Power. Distinguish between them.*
  11. *Define about Line, Staff and Functional Authorities. Discuss about the conflicts between line and staff authorities.*
  12. *Describe about Delegation of Authority. Differentiate it with Decentralization.*
  13. *Explain about the role and responsibility of the Interdepartmental Coordinator.*
  14. *Explain about the Impact of Technology on Organization Design.*
  15. *Discuss in detail about the Emerging Trends in Corporate Structure, Strategy, and Culture.*
  16. *Draw and discuss about any two traditional organizational structures.*
  17. *Draw and explain about any two contemporary organization designs.*
  18. *Draw and explain about any two emerged organization structures which are fit for the global environment.*
  19. *Distinguish between the traditional organizational structures and the contemporary designs.*
  20. *Explain about the factors affecting / influencing the organization structures.*
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## UNIT- IV

*An Overview of Staffing and Directing functions – Controlling – Prerequisites of Control Systems – Control Process – Methods, Tools and Techniques of Control – Design of techniques – Choices in Control.*

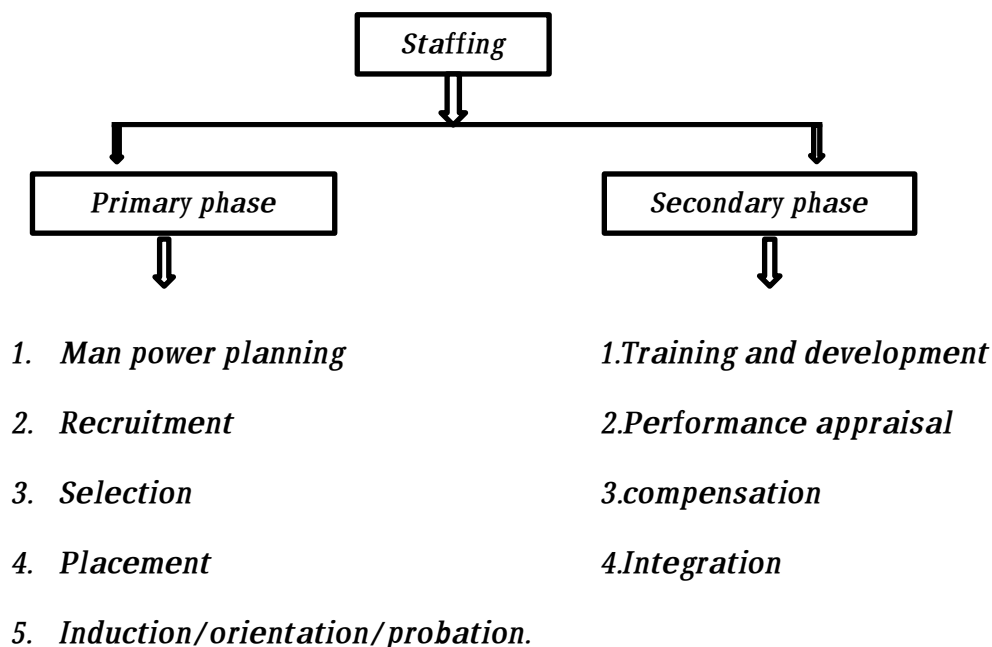
### STAFFING

#### *Meaning:*

*Staffing is the process of selecting the right person, to the right job, for the right designation at the right time. It is the third element or the function of management. It deals with one of the important M's of production. (i.e.) with people.*

#### PHASES OR FUNCTIONS OF STAFFING

*Staffing is a wide concept which deals with the complete life of an employee from this joining till his termination.*



#### **Man power planning.**

*It is otherwise known as human resources planning. It is a process of allocation of manpower in an organization by fulfilling the demand of manpower.*

$$\text{Manpower Planning} = \text{manpower demand} - \text{manpower supply}$$

**Recruitment:**

*It is a process of searching the prospective candidates and stimulating them to apply for in an organization -Edwin. B. Flippo.*

*Sources of recruitment*

*There are two sources available for recruiting the employees of an organization.*

- ❖ *Internal sources*
- ❖ *External sources*

***Internal Sources***

*Transfer  
Promotion  
Old employees*

***External Sources***

*advertising vacancies  
employment exchange  
labour contracts  
Personnel consultancy  
Gate hiring & Campus Interviews*

**Selection:**

*It is the process of eliminating the unwanted candidates at various stages of recruitment process. It is the process of choosing the best candidate applied for the job.*

*Definition:*

*“Selection is the process in which the candidates for employment are divided into two classes, those who are to be offered employment and those who are not to be”-Dale Yoder.*

*Steps in selection process (Note: explain each point)*

- ❖ *Receiving the application form*
- ❖ *Scrutinization(verification)*
- ❖ *Preliminary interview*
- ❖ *Test (aptitude, personality, analytical)*
- ❖ *Final interview*
- ❖ *Checking for reference*
- ❖ *Medical examination*
- ❖ *Appointment*
- ❖ *Induction or probation*
- ❖ *Confirmation of service.*

**Placement:**

*It is a process of confirmation of service of an employee in a particular*

*organization describing the job profile with the required qualification.*

***Induction/Orientation/Probation:***

*It is a process of welcoming or inviting a new employee into an organization and making him more comfortable with an atmosphere by providing adequate basic knowledge related to the job profile. An induction program will help a new employee in gaining basic information about the organization. Such as,*

- ❖ History of the company*
- ❖ Product manufacture*
- ❖ Services provided*
- ❖ Policies of the organization*
- ❖ Job profile*
- ❖ Organization culture*
- ❖ Welfare measures*

***SECONDARY PHASE OF STAFFING***

***Training:***

*It is the act of enriching the knowledge and skill of an employee for doing a particular work- Edwin. B. Flippo*

*Training is a short term process which helps an employee to gain more knowledge about his job and excel with the job profile.*

***Need for training:-***

- ❖ It enables a new employee to gain more knowledge about the present job*
- ❖ It helps the existing employee to update the knowledge with their work*
- ❖ It increases rate of productivity*
- ❖ It reduces supervision and improves the efficiency of the employees*
- ❖ It makes the employees more expertise with their work.*

***Process of training: (Note: explain each point)***

- ✓ *Identifying training needs*
- ✓ *Designing training program*
- ✓ *Implementing the training program*
- ✓ *Achieving expected result and analyzing the effectiveness*

*Types of training*

- i. *On the job training*
- ii. *Off the job training*

*On the job training*

- ❖ *Orientation training (fresher training)*
- ❖ *Position rotation training (changing the job profile)*
- ❖ *Apprentice training (Trainee)*
- ❖ *Refresher training (recalling the methods and procedures to be followed in the job)*
- ❖ *Projects assignments.*

*Off the training*

- ❖ *Lectures*
- ❖ *Conferences/ Workshops*
- ❖ *Case studies (analyzing a situation)*
- ❖ *Management games*
- ❖ *Role play (enacting an individual role)*
  
- ❖ *Vestibule training (Workplace sample arrangement)*
  
- ❖ *In basket exercise (a kind assigned job selected at random from a basket of exercise)*
  
- ❖ *Sensitivity or T-group training( an informal team joining with different tasks and assignments)*

**Development:**

*Development is a long term process which helps the managers in enriching the skills and knowledge with respect to their job profile. It is a long term process which enriches skills and knowledge of a manager in his decision making and performance of a task.*

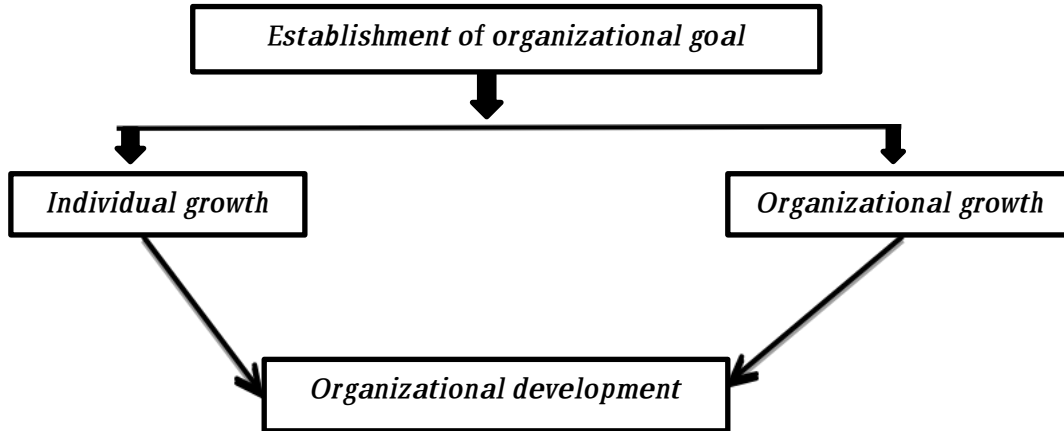
*Steps in career planning (Note: explain each point)*

- 1.** *SWOT analysis*
- 2.** *Determination of long term objectives*
- 3.** *Identifying alternative sources determination of short term objectives*
- 4.** *Action planning*

**5. Measuring the progress and corrective action**

**Organizational development: [OD]**

It is a process of individual growth and organizational growth for overall development of an organization.



*Steps in organizational development (Note: explain each point)*

- a) Consulting with the organization expert
- b) Collection of data
- c) Data feedback
- d) Diagnosis of the problem
- e) Planning OD intervention technique
- f) Implementation of OD technique
- g) Evaluation and feedback

**Performance appraisal:**

Performance appraisal is an impartial rating of excellence of an employee towards a particular job and increasing his potential towards the same job.

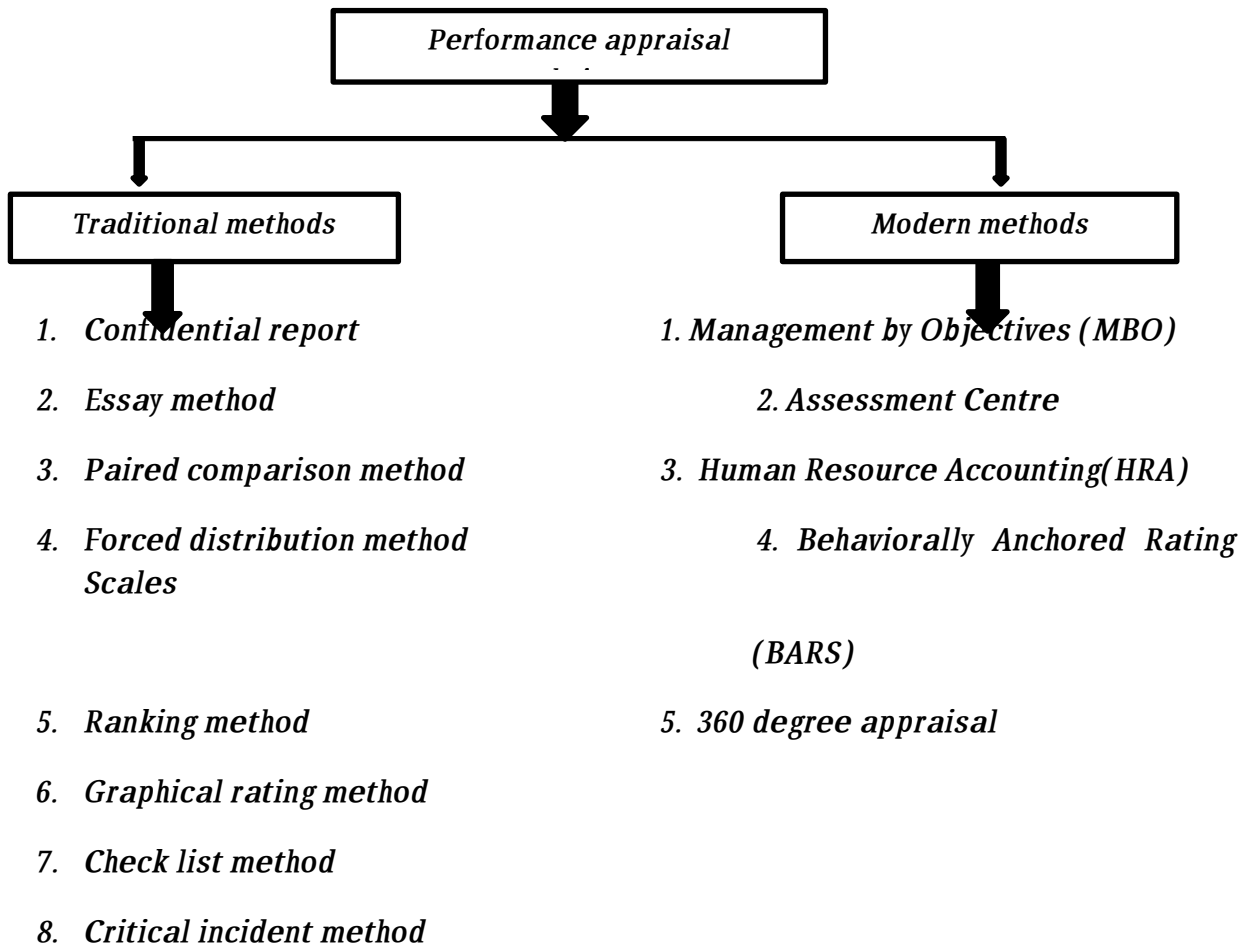
*Objectives of Performance appraisal:*

- ❖ To review the past performance of the employees
- ❖ To increase the level of productivity
- ❖ To enrich the potential of an employee
- ❖ To provide suggestions this helps the overall development of organization
- ❖ To foster better relationship with the employees
- ❖ To make the training & recruitment process very effective

*Steps in Performance Appraisal (Note: points to be explained)*

1. *Establishing the standards*
2. *Communicating the standards to the employees*
3. *Measuring the actual performance*
4. *Comparing with the standards*
5. *Measuring the progress.*

*Methods or techniques of Performance Appraisal:*



**Traditional Methods:**

1. *Confidential Report*

*In this type of appraisal, the superior will describe the qualities of an individual employee with respect to the various criteria of the job profile and provide a summary which is confidential to higher authority.*

2. *Essay Appraisal Method*

*This traditional form of appraisal, also known as "Free Form method" involves a*



*description of the performance of an employee by his superior.*

**3. *Paired Comparison***

*A better technique of comparison than the straight ranking method, this method compares each employee with all others in the group, one at a time. After all the comparisons on the basis of the overall comparisons, the employees are given the final rankings.*

**4. *Forced Distribution***

*To eliminate the element of bias from the rater's ratings, the evaluator is asked to distribute the employees in some fixed categories of ratings like on a **normal distribution curve**. The rater chooses the appropriate fit for the categories on his own discretion.*

**5. *Straight Ranking Method***

*This is one of the oldest and simplest techniques of performance appraisal. In this method, the appraiser ranks the employees from the best to the poorest on the basis of their overall performance. It is quite useful for a comparative evaluation.*

**6. *Graphic Rating Scale***

*In this method, an employee's quality and quantity of work is assessed in a **graphic scale** indicating different degrees of a particular trait.*

**7. *Checklist Method***

*The employer is given a checklist of the descriptions of the behavior of the employees on job.*

**8. *Critical Incidents Methods***

*In this method, the evaluator rates the employee on the basis of critical events and how the employee behaved during those incidents. It includes both negative and positive points.*

**Modern Methods:**

**1. *Management by Objectives (MBO)*- (Note: Given in Unit 1)**

**2. *Assessment Centers***

*It involves the use of methods like social/informal events, tests and exercises, assignments being given to a group of employees to assess their competencies to take higher responsibilities in the future. Generally, employees are given an assignment similar to the job they would be expected to perform if promoted.*

**3. *Human Resource Accounting (HRA)***

Human resources are valuable assets for every organization. Human resource accounting method tries to find the relative worth of these assets in the terms of money.

#### *4. Behaviorally Anchored Rating Scales*

BARS is a relatively new technique which combines the **graphic rating scale** and critical incidents method. It consists of predetermined critical areas of job performance or sets of behavioral statements describing important job performance qualities as good or bad

#### *5. 360 degree appraisal*

**360 degree feedback**, also known as '**multi-rater feedback**', is the most comprehensive appraisal where the feedback about the employees' performance comes from all the sources that come in contact with the employee on his job.

360 degree appraisal has four integral components. This technique is being effectively used across the globe for performance appraisals. Some of the organizations following it are Wipro, Infosys, and Reliance Industries etc.

1. Self appraisal
2. Superior's appraisal
3. Subordinate's appraisal
4. Peer appraisal.

#### **Compensation:**

It is the remuneration given to an individual for the service rendered in an organization.

##### *Types of compensation:*

- ❖ *Direct compensation*
- ❖ *Indirect compensation.*

##### *Direct compensation:*

- ❖ *Salary, wages, bonus, incentives, etc...*

##### *Indirect compensation:*

- ❖ *ESI [employee state insurance]*
- ❖ *EPF [employee provident fund]*
- ❖ *Transport, insurance, medical facilities, education facilities etc.,*

#### **Integration:**

*Integration is the welfare activities and all supportive elements that provide better quality of work life to the employees. The activities such as health, safety measures, human resource accounting, disciplinary procedures etc., will be a part of integration in an organization.*

*It is a supportive function which includes the following,*

- ❖ *Workers participation*
- ❖ *Grievance handling mechanism*
- ❖ *Employee safety measures*
- ❖ *HRA [human resource accounting]*
- ❖ *Employee counseling*
- ❖ *Collective bargaining*

### ***DIRECTING [fourth element or function of management]***

#### *Meaning:*

*It is the process of guiding people to perform their task and ensuring that they do it in the best possible manner.*

#### *Definition:*

*Directing is telling people what to do and seeing that they do it in the best of their ability- E. Dale.*

#### *Features or characteristics of directing:*

- ❖ *It follows the hierarchy of planning*
- ❖ *It is a continuous process*
- ❖ *It is needed in all levels of management*
- ❖ *It is result oriented*
- ❖ *It is an ongoing activity*
- ❖ *It is goal oriented.*

#### *Importance of directing:*

- ❖ *It improves efficiency,*
- ❖ *It ensures completion of the task,*
- ❖ *It enhances growth of the organization,*
- ❖ *It improves effectiveness in controlling activity,*
- ❖ *It develops communication among the work group.*

### **TECHNIQUES OF DIRECTING**

*The techniques of directing can be fulfilled with the help of the following criteria*

- *Delegation*
- *Supervision*
- *Communication*
- *Motivation*
- *Leadership.*

### **SUPERVISION**

*Supervision refers to the direct and immediate guidance and control of the subordinates in performing their task -Wytel.*

*Process of supervision:*

- ❖ *Assignment of duties and responsibilities of the subordinates,*
- ❖ *Giving orders & instruction and related information to the subordinates,*
- ❖ *To motivate the subordinates in completing the task.*

*Qualities of a supervisor:*

- ❖ *To enforce discipline,*
- ❖ *To instruct the subordinates with orders and related to work,*
- ❖ *Knowledge about the organization,*
- ❖ *Knowledge about the work,*
- ❖ *Handling the grievances.*

- ❖ *To know the ability of the subordinates,*
- ❖ *Communication skill,*
- ❖ *Patience and ability to listen others,*
- ❖ *To have positive approach.*

*Functions of a supervisor:*

- ❖ *Preparing the basic plan*
- ❖ *Selection of subordinates*
- ❖ *Assignment of duties and responsibilities*
- ❖ *Training the employees*
- ❖ *Enforcing discipline*
- ❖ *Giving orders and instructions*
- ❖ *Motivating the employees.*

*Span of control/Management/Supervision*

*Span of control is the degree of control or authority by a supervisor towards their subordinates.*

*It's otherwise called as span of supervision or span of control. It considers the following*

- *Nature of work*
- *Extend of authority*
- *Ability of the subordinate in completing the task*
- *The time taken for completing the task*

## **COMMUNICATION**

*According to Newmann and Summer "Communication is the exchange of ideas, opinion between two or more persons"*

*Elements of communication:*

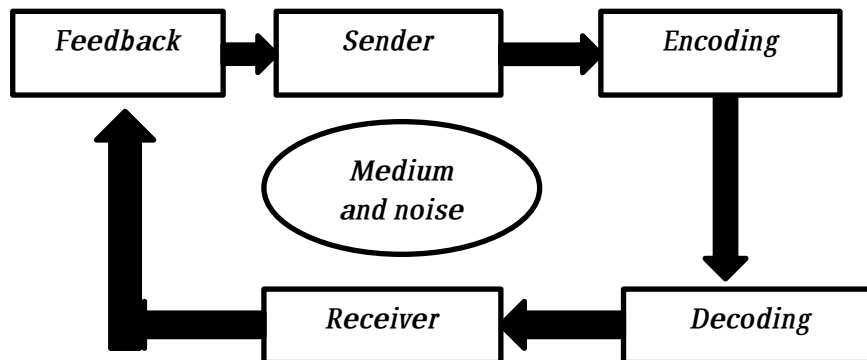
- ✓ *Sender*
- ✓ *Receiver*
- ✓ *Encoding*
- ✓ *Decoding*
- ✓ *Transmission*
- ✓ *Message*

- ✓ *Noise*
- ✓ *Feedback*

*Features of communication:*

- ❖ *It is a two process*
- ❖ *It is needed in all levels of management*
- ❖ *It is knowledge of language*
- ❖ *It may be formal or informal*
- ❖ *It is a continuous process*
- ❖ *It develops relationship among individuals*

*Process of communication:*



*Types of communication:*

*Communication can be classified on the following basics,*

- ❖ *On the basics of nature*
  - *Oral*
  - *Written*
  - *Non-verbal communication*
- ❖ *On the basics of levels*
  - *Upward communication*
  - *Horizontal communication*

- *Downward communication*
- ❖ *On the basics of relationships*
  - *Formal communication*
  - *Informal communication or grapevine communication*

**Motivation:**

*Motivation is a process of encouraging people to action to achieve desired goals.*

*Definition:-*

*“Motivation is a process of stimulating people in their action to accomplish the desired goal”-W. G. Scott.*

*Features or characteristics of motivation:*

- ❖ *It is a psychological concept*
- ❖ *It may be positive or negative*
- ❖ *It can be financial or non-financial*
- ❖ *It is a continuous process.*

*Importance of motivation:-*

- ❖ *It helps to achieve the desired goal or target*
- ❖ *It improves efficiency and increases productivity*
- ❖ *It ensures the growth of the organization,*
- ❖ *It improves better rapport between the superior and the subordinate*
- ❖ *It avoids the deviation and provides the effective control*
- ❖ *It helps to retain the employees for a longtime in an organization.*

*Process of motivation:*

- ❖ *Identifying the unfulfilled need*
- ❖ *Find out the ways of fulfillment*
- ❖ *Fulfillment of the need*
- ❖ *Identifying other unfulfilled needs.*

*Theories of motivation:*

1. Maslow's Need Hierarchy theory
2. Herzberg's two factor theory
3. MC Gregor's Theory X and Theory Y (Carrot and stick approach)
4. ERG theory[existence, relatedness and growth]
5. Mc Clelland 's Need theory
6. Vroom's expectancy theory

***Maslow's Need Hierarchy Theory (Note: Pictorial form given in class notes)***

*This theory explains about the satisfaction of needs of human being at various levels in their life time. it can be broadly categorized into five needs*

- *Physiological needs (basic needs of human being like food, clothing & shelter)*
- *Safety /Security needs ( need that will secure the survival of an human being like the job security)*
- *Social needs ( need that helps the human being to share their emotions)*
- *Self Esteem needs ( this is a need which gives self respect, self confidence, status etc..)*
- *Self actualization/realization needs ( this need indicates what a person wants to achieve in his /her overall capacity)*

***Herzberg's two factor theory***

*Herzberg classified the factors influencing human beings into two categories*

***Hygienic factors***

*This factor will not motivate a person but their absence will make them dissatisfied. They are also called as extrinsic factors.*

- *Company policies and administration*
- *Types of supervision*
- *Working condition*
- *Job security*
- *Salary*
- *Interpersonal relationships etc.,*

***Motivational factors***

*These factors are termed as intrinsic factors. The presence of this factor will motivate the employees but their absence will not lead to dissatisfaction.*

- *Work itself*
- *Achievements*
- *Recognition*



- *Responsibility*
- *Growth*

### ***MC Gregor's Theory X and Theory Y***

*This theory depicts the positive and negative approach to the employees in the workplace. Theory X deals with the negative perspective and Theory Y deals with positive perspective.*

#### *Theory X*

- *People in general dislike work*
- *Most people are not ambitious but not responsibility*
- *People in general lack creativity*
- *Close supervision is required*

#### *Theory Y*

- *People love to do work*
- *With proper motivation people can certainly achieve goals*
- *Management has a positive approach towards employees which helps them to display their ideas and skills.*
- *Workers are good at self direction*

### ***ERG theory [existence, relatedness and growth]***

*Clayton Alderfer reworked Maslow's need hierarchy to align it with the empirical research his revised need hierarchy is labeled ERG theory.*

*Alderfer argues that there are three groups of core needs existence, relatedness, and growth.*

- o *The existence group*
  - *Provides our basic material existence requirements*
  - *They include Maslow's physiological and safety needs*
- o *Relatedness*
  - *The desire we have for maintaining important interpersonal relationships*

- *These social and status desires require interaction with others.*
- *They align with Maslow's social need and the external component.*
- o *Growth needs*
  - *An intrinsic desire for personal development*
  - *These include the intrinsic component from Maslow's esteem category and the characteristics included under self-actualization.*

### ***Mc Clelland's Need theory***

*In this theory Mc Clelland identifies three needs that induce people to work. These are*

- *Achievement Need ( individuals desire to achieve their goal)*
- *Affiliation Need ( their support from formal and informal groups)*
- *Power Need ( their ability and capacity to perform the task)*

### ***Vroom's expectancy theory***

*Vroom developed a theory on motivation called the expectancy theory. He tried to explain motivation through the following concepts.*

- *Valence*
- *Expectancy*
- *Instrumentality*

*According to him, motivation is the sum of the product of valence, expectancy and instrumentality. That is*

$$\text{Motivation} = \text{valence} * \text{expectancy} * \text{instrumentality}$$

## ***LEADERSHIP***

*Leadership is a process where a manager induces his subordinates to work with zeal and confidence.*

*According to Knootz and Donell, Leadership is the ability of a manager to induce their subordinates to work with zeal and confidence.*

*Leader:*

*A leader is a person who directs and guides others called followers. A leader can be a manager who induces his subordinates to work with confidence.*

*Qualities of a leader:*

- ❖ *Act as a director*
- ❖ *Act as a decision maker*
- ❖ *Act as a disturbance handler*

- ❖ *Emotional stability*
- ❖ *Act as a communicator*
- ❖ *Act as a responsible person*
- ❖ *Act as an advisor*
- ❖ *Act as a motivator*
- ❖ *He should listen to others*
- ❖ *He should possess adequate knowledge*
- ❖ *Act as an initiator*
- ❖ *He should possess analytical skill*
- ❖ *He should be a role model*
- ❖ *He should possess positive approach*

***Leadership styles:***

There are different types of leaders available in an organization. They are as follows

1. *Autocratic leader (like military type, strict rules to be followed, no participative decision making)*
2. *Democratic Leader (otherwise called participative, discuss the problems and provide solutions)*
3. *Laissez faire/Free rein leader (full freedom, self direction of employees supported with the leader)*
4. *Functional Leader ( concentrates on the core operations to be carried out and guides the employees)*
5. *Institutional leader ( as leader by virtue of its office position)*
6. *Paternalistic leader( a kind of parental care with the qualities of leadership)*

***Leadership theories:***

***1. Trait theory***

*This theory is based on the assumption that that a leader should possess certain qualities or traits. Many such traits are given below*

- ✓ *Intelligence*
- ✓ *Communication skill*
- ✓ *Judgment*
- ✓ *Knowledge*
- ✓ *Mental ability*
- ✓ *Emotional ability*
- ✓ *Courage*

- ✓ *Imagination*
- ✓ *Physical appearance*
- ✓ *Determination*

### *2. Behavioral Theory*

*According to this theory, the act of a person depends upon his personal traits. The behavior of a leader may attract his followers. The interaction between the leader and the follower, the goals and the environment will bring out the right behavior.*

### *3. Situational Theory*

*This theory indicates that the behavior of a leader is influenced by the situation. It concentrates on the following*

- *The leader –subordinate relationship*
- *The nature if the task of the subordinate*
- *The ability if the leader to influence the subordinate*

## **CONTROLLING (Fifth element or function of Management)**

*Controlling is a continuous process of measuring the actual performance with the desired performance. It identifies deviation and takes corrective action.*

### *Definition:-*

*“Control is a continuous process of measure the actual result of operation of an organization which is compared with the planned results”.*

### *Features of control:-*

- ❖ *It is a continuous process*
- ❖ *It is backward looking*
- ❖ *It gives meaning to planning*
- ❖ *It is needed in all levels of management*
- ❖ *It is goal oriented or result oriented.*

### ***Process of control:(Note: Explain each point)***

- ❖ *Establishing the standards*
- ❖ *Communicating the standards*
- ❖ *Measuring the actual performance*
- ❖ *Comparing with the standards*
- ❖ *Analyzing the variance*
- ❖ *Taking corrective actions if any deviations.*

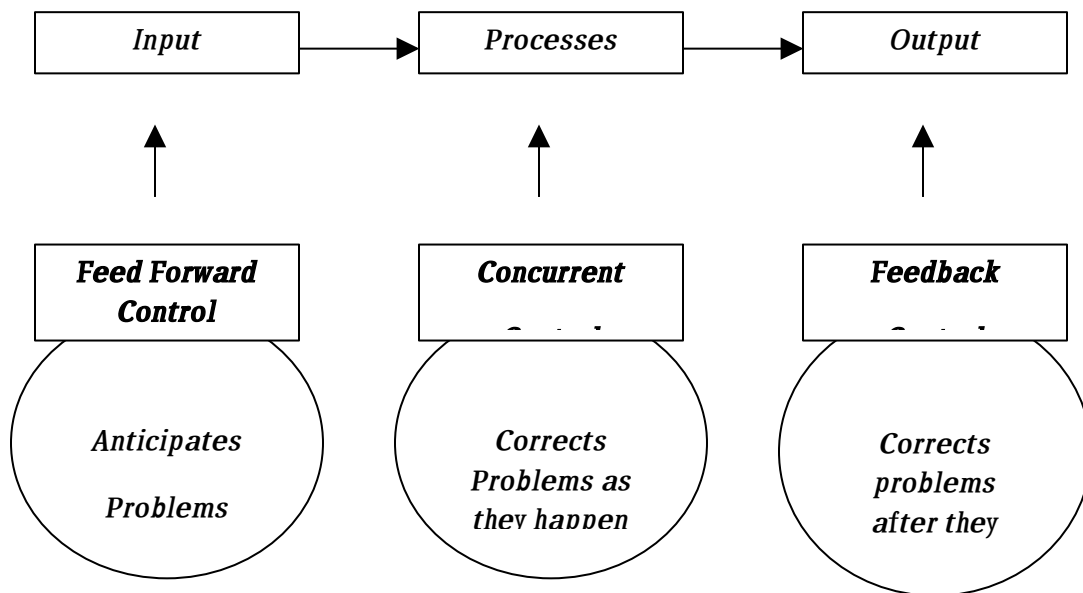
### ***Types of control***

#### ***1. Based on stages***

- ✓ *Feed Forward*
- ✓ *Concurrent*
- ✓ *Feedback*

**2. Based on elements**

- ✓ *Strategic (control over planning)*
- ✓ *Operational ( control in action plan)*



***Controlling Techniques (Note: Each point has to be explained)***

*It can be broadly classified into two types.*

**1. Overall controlling technique**

- a) *Financial ratio analysis ( it projects the financial status of the company in terms of ratio)*
- b) *Human resource accounting ( the cost involved in employing an human)*
- c) *Management information system ( it collects and provides information from various sub systems such as finance, marketing, production etc., that is needed to operate the business)*

**2. Operational controlling technique**

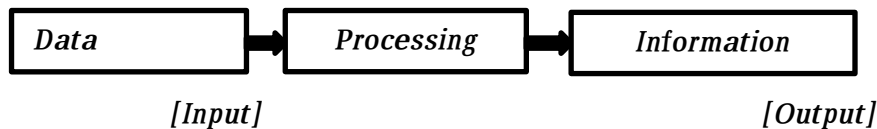
**I. Budgetary**

- a) *Internal audit: This is one kind of controlling activity where the regular activities are compared with the set standardization and results will be analyzed.*
- b) *Budgets: Budget is a financial plan in a business it is a statement of expected result expressed in numerical terms. It is one category of single use plan as it varies every year.*
- c) *Responsibility accounting: It is process where the all the cost and profit related information are gathered for further procession*
- d) *Cost centers: It is similar to responsibility accounting where in the complete financial transactions are accumulated for estimating the profit of the business.*

**II. Non budgetary**

- a) *Total quality management: it is the measurement of the entire quality of the company including each activity.*
- b) *Quality circle: it is a group of people contributed from each department continuously assessing the quality system in the company*
- c) *Inventory control: it the collection, accumulation, management and control of the raw materials for the production system.*

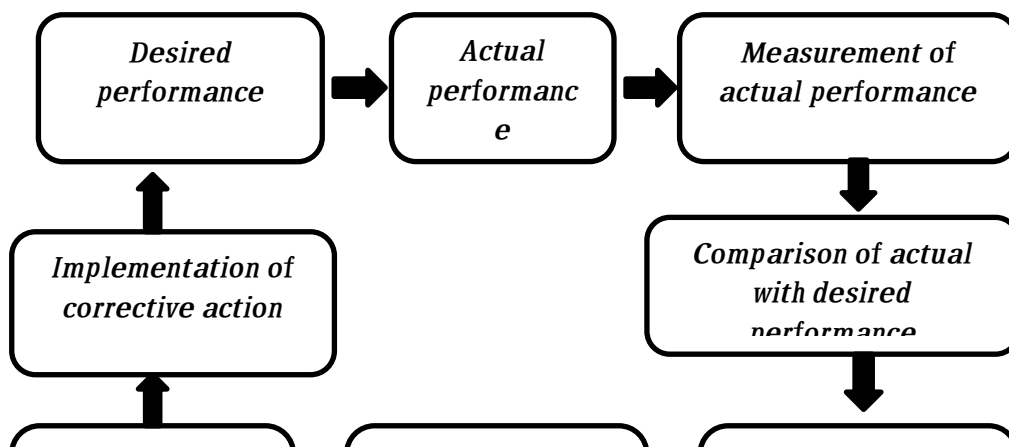
***Controlling Information system/ managing information (Note: explain each Point)***



- 1. Assembling
- 2. Processing
- 3. Retrieval and storage
- 4. Evaluation

***Control as a feedback system:***

The function of control can be perceived as a feedback system which will evaluate the deviation and helps to take corrective actions.



***Perquisites for effective control (Note: explain each Point)***

- ❖ *Well defined plan*
- ❖ *Appropriate structure and strategies*
- ❖ *Reliability*
- ❖ *Cost effectiveness*
- ❖ *Focused towards objective.*

***Methods of control:***

- ❖ *Constantly used control*
- ❖ *Periodically used control*
- ❖ *Occasionally used control*

***Constantly used control:***

- ❖ **Self-control:** *Self-control means giving a fair day's work for a fair day's pay, reporting to work on time, discharging duties and responsibility properly and respecting the rights of others in the organization.*
- ❖ **Group control:** *Work groups are a source of control. Group-defined norms exert greater influence in organizations. Group norms and group control can aid or hinder formal authority. Organizations would do well to develop and use group control processes to reinforce formal authority.*
- ❖ **Procedures and policies:** *the policies, procedures and rules are properly formulated, clearly communicated and implemented consistently throughout the organization, they can be effective in controlling individual and work group behavior.*

***Periodically used control***

- ❖ **MIS [management information system]:** *A management Information System is a mechanism designed to collect, combine, compare, analyze and disseminate data in the form of information.*
- ❖ **External audit:** *The annual financial audit by an outside accounting firm is one form of external audit, mainly of the finances of an organization.*
- ❖ **Budget:** *Budgets are plans that deal with the future allocation and utilization of various resources to different enterprise activities over a given period of time.*

***Occasionally used control***

***Special reports: These have a special role. Special reports can be commissioned by an organization when its normal control systems point to the need for detailed investigation or study of a particular operational aspect.***

❖ ***Project Controls:*** Various methods have been developed for controlling specific enterprise projects. The best example is the network analysis using the CPM & PERT tool. PERT is an acronym for Programme Evaluation and Review Technique. CPM is an acronym for Critical Path Method

***PERT-*** A planning and control technique is a time-event network analysis called the Program Evaluation and Review Technique (PERT).

***CPM-*** The critical path method (CPM) is a step-by-step technique for process planning that defines critical and non-critical tasks with the goal of preventing time-frame problems and process bottlenecks. The CPM is ideally suited to projects consisting of numerous activities that interact in a complex manner.

### ***Design of Techniques:***

Design Techniques means the Synplicity- supplied date, circuit and logic elements, libraries, algorithms, search strategies, rule bases, and technical information incorporated in the SOFTWARE and employed in the process of creating Designs. Synplicity retains all right, title and interest in and to Design Techniques incorporated into the SOFTWARE, including all intellectual property rights embodied therein. Licensee acknowledges that Synplicity is in the business of licensing SOFTWARE which incorporates Design Techniques. Licensee agrees that in the event Licensee voluntarily discloses any design techniques to Synplicity without designating such as Licensee's Confidential Information, Synplicity shall have the unrestricted, royalty-free right to incorporate such design techniques into its software, documentation and other products, and to sublicense third parties to use such incorporated design techniques.



## UNIT- II

Planning – Steps in Planning Process – Scope and Limitations – Short Range and Long Range Planning – Flexibility in Planning – Characteristics of a Sound Plan – Management by Objective (MBO) – Policies and Strategies – Scope and formulation – Decision Making – Techniques and processes.

### PLANNING

#### Meaning:

Planning is looking forward and chalking out the future course of action to be followed.

#### Definition:

Planning is deciding in advance of what to do, how to do it, when to do it and who is to do it. It bridges the gap between where we want to – O'Donnell and Knootz.

Planning is deciding the best alternative from others to perform different managerial operations in order to achieve the predetermined goal – Henry Fayol

#### Nature or Characteristics or Features of Planning:

- Planning is goal oriented
- It is a continuous function
- It is an on-going activity
- It is future oriented
- It can be categorized based on planning period
- It is applicable in all levels of management
- It reduces uncertainty and risk

#### Importance of planning:

- It focuses on the objectives or goals of an organization:  
Once the objective of the business has been fixed, the next step is to prepare a plan for its effective accomplishment.
- It reduces stress and work pressure:  
In the absence of planning, the workers in an organization may have to work even beyond working time due to the volume of work particularly towards the end of the year.

- It reduces uncertainty and risk:

Planning is for future use and future is uncertain. While planning, future uncertainties are anticipated and adequate provision are made to meet or overcome the same.
- It enhances efficiency and effectiveness of a task:

Efficiency is ensured by doing right things and effectiveness is achieved by doing things right.
- It coordinates the team work:

The work done in any organization is a team-work. Different departments participate in the process of goal attainment.
- It facilitates controls  

If planning is the first function of management, control is the last function. Planning without control is useless and control without planning is meaningless

***Process or Steps in planning:***

- ✓ *Identify business opportunities*

Business activities are influenced by internal as well as external factors. Government regulation, technological changes, availability of material and labour and the extent of competition are some of the important factors affecting business prospects.
- ✓ *Establishment of objectives*

The second step in the planning process is to establish the organizational objectives in tune with the opportunities identified, taking into account the resources available
- ✓ *Determination of planning premises*

Planning premises are the assumptions made about the future happenings. As planning is for future and future is uncertain, certain assumptions about the future become necessary.
- ✓ *Identifying the planning period*

The planning period varies according to the different levels of management. Deciding the planning period is the primary step to define a plan.
- ✓ *Identification of alternative course of action*

There always alternatives ways of carrying out any task just as there are different routes to reach a destination point.
- ✓ *Evaluation and selection of best alternative*

Once the alternative courses of action are identified, the next step is to evaluate the same. Each alternative should be examined carefully to decide on its suitability.

Once the alternative courses of action have been evaluated, the next step is to select the best. The one finally selected should help the organization in making an optimum use of the available resources and help to attain the objective set in the most effective manner.

✓ *Establishing derivative plans*

After the basic plan of the enterprise has been determined, the step is to prepare the subsidiary or derivative plans to support the basic plan.

✓ *Periodical evaluation and follow up*

Once the implemental on of the plan starts, it becomes necessary to evaluate performance at periodic intervals to ensure that the activities of the enterprise proceed in the right direction.

### ***Types of plans***

Planning can be classified into following categories

#### *On the basis of time*

1. Long term plan: The period covered by the long-term plan is usually 5 to 15 years. Long-term planning is also called strategic planning.  
Example: 1. Introduction of a new product, 2. Entering a new market.
2. Middle term plan: It is also known as tactical planning. The period covered by the medium-term plan is usually 1 to 5 years. Such a plan may be necessary in the following cases-  
Example: 1. Making additions to an existing plant, 2. Expanding output from its present level.
3. Short term plan: The period of the short-term plan is less than one year. It is also known as operational planning. Such a plan may relate to any of the following matters.  
Example: 1. Purchase of raw materials, 2. Arranging for employee training.

#### *On the basis of levels*

1. Strategic plan: The period covered by the long-term plan is usually 5 to 15 years. Long-term planning is also called strategic planning.  
Example: 1. Introduction of a new product, 2. Entering a new market.
2. Tactical Plan: It is also known as tactical planning. The period covered by the medium-term plan is usually 1 to 5 years. Such a plan may be necessary in the following cases-  
Example: 1. Making additions to an existing plant, 2. Expanding output from its present level.

3. Operational Plan: The period of the short-term plan is less than one year. It is also known as operational planning. Such a plan may relate to any of the following matters.  
Example: 1. Purchase of raw materials, 2. Arranging for employee training.

*On the basis of use*

1. Standing plans or repetitive plans: It refers to those plans that are used again and again. They provide guidelines pertaining to activities that occur frequently over a period of time.
2. Single use plans or non-repetitive plans: Single-use plans are meant for a specific purpose only. As soon as that purpose has been served, the plan becomes useless and is given up. Programmers and budgets are examples of single-use plans.

**STANDING PLANS**

These are plans repeatedly used in organization, some of the examples of standing plans are vision, mission, objective, strategies, policies, procedures, goals.

***Vision***

Vision is the long term aspiration of an individual or an organization the fulfillment of a vision takes much more time in executive into action. For example an organization can have a vision statement of following. For example

- To become a global player
- To increase the market share
- It to insure and sustain quality product to the customers

***Mission***

Mission is the purpose for which the institution or organization as been established. It is the basic ambition of the promoter to serve the society.

For example

- A hospital will have a mission of serving the society and the patience.
- An orphanage will have a mission serving the orphanages in the society.

***Goal***

Goal are otherwise called as aims or targets to be achieved an organization will function based on a common goal to fulfill a long term aspiration of the company. For Example,

- To maximize a target
- To achieve annual production target

### **Objectives**

Objective are the action carried out for end the result of an aim/goal it can be short term and long term depending upon the completion of the task.

### **Advantages of objective**

- Objectives focuses on the goal of an organization
- Planning of activities can be possible only with the help of objectives
- Integration of various activities can be done based on the objective frame
- It also facilitates clarity of roles and responsibility of an individual
- In insures actions to be followed to achieving goal or target

### **Strategies**

Strategies are long term objectives followed by the adoption of course of action and allocation of resources necessary to achieve goals or the targets framed.

The actions that are executed to achieve the strategy are called tactics. Strategies are supported by effective tactics.

### **Types of strategy**

There are different types of strategy can be adopted by organization

#### a. Stability strategy

An organization that has a stable environment, limited number of products, customers, suppliers and competitors, minimum need for special skills and so on may follow what is called the 'stability strategy

#### b. Growth strategy

An organization that wants to raise its level of performance may adopt what is called the 'Growth strategy'. Example: Development of new products for the existing markets.

#### c. Alliance strategy

It is also possible that identical business units may combine to rationalize production and sales and thereby derive the benefits of economies of large-scale operation. That is what is known as 'Merger strategy'

d. Product elimination strategy

The product elimination strategy may be adopted by a firm to avoid loss of profits as well as reputation.

e. Expansion strategy

In order to increase the wealth of the asset, the company can adopt the expansion strategy where by establishing its operations in different locations of a country.

### **Policies**

Policies are general statement or understanding to channelize proper decision making. They are also called as guidelines of an organization.

### **Essentials of a good policy**

- ❖ A policy should be clear and simple. It should not be difficult and vague.
- ❖ A policy should possess ethical or moral value by providing benefit to the society and the business.
- ❖ A policy should have justice and it should be fair or rational without any discretion.
- ❖ There should not be two policies indicating. The same action which may result in duplication of work.

### **Types of policies**

There are different types

- Expressed policies: Policies framed to give effect to the decisions of the government, judiciary, trade associations and such other external forces are what are called external policies. For example: Income tax.
- Implied Policies: Policies formulated to give effect to certain decision taken by the owners of a business establishment are what are called internal policies. For Example: selection of certain categories of workers purely on contract basis.
- Applied policies: Such policies are formulated to give effect to the suggestions of the staff of an organization. For example: the employee may make an appeal to the top management to give employment to an eligible member of an employee's family after latter's retirement.

### **On the basis of functions**

Policies can be production policies, recruitment policies, HR policies, finance policies, purchase policies etc.

### **On the basis of levels**

Policies can be major and minor policies

### **Procedures**

Procedures are the methods that are planned to execute the future activity. It can be distinguished by the rules that it can only display actions and no actions without any discretion.

### **Advantages of procedures**

- A procedure helps to have sequence of operations
- It helps to monitor the overall performance of the system
- It controls deviations and ensures the right direction
- It helps a manager to take effective decisions

### **SINGLE USE PLANS**

#### **Program (Non-repetitive plan)**

A program is a set of clear instructions in a clear and logical sequence to complete a particular task.

A program will have different objective and hence it can be used once in a while.

#### **Examples of programs**

- a) Training programs b) Recreation programs

#### **Budget**

Budget is a financial plan in a business it is a statement of expected result expressed in numerical terms. It is one category of single use plan as it varies every year.

#### **Advantages of budget**

- f. It is a measurement for future estimation of business.
- g. It helps to control deviations
- h. It ensures the growth of business

## DECISION MAKING

It is a process of selecting an alternative from two or more alternatives for deciding opinion or course of action - George terry

Whatever a manager does, he does through decision making - Peter.F. Drucker

### Features/characteristics of decision making

- It is goal oriented
- It may be positive/negative
- It is future oriented
- It is ongoing activity
- It involves complex mental activity

### Types of decision

There are different types of decision which are classified below.

- Personal and organizational decision

The decisions made by a manager in his personal capacity are called personal decision. For example, the manager of a concern may give a personal loan.

These decisions are made by a manager in his official capacity. For example, the manager of a concern may decide to place an employee, who has misappropriated the company's funds, under suspension.

- Individual and group decisions

When decision is made by an individual for an organizational issue. It is termed as personal decisions.

These are decisions made by group persons. In an organization, there may exist a committee consisting of the representatives of both the workers and the management. When there is any dispute between the workers and the management, the matter will be referred to the committee. The committee may conduct an enquiry and announce its decision which is binding on both the workers and the management.

- Programmed and Non-programmed decisions

These decisions have already been evolved and they provide a basis for action. These decisions are the outcome of past experience, tradition, custom and so on.

These decisions are concerned with unexpected or unprecedented situations. The basis for action does not exist already.



- Strategic and tactical decision

Strategic decisions are complex in nature and are always taken after deep deliberations. Any mistake in such decisions will prove to be dangerous for the concern.

The decisions are necessary for implementing or executing policy decision. Taking the example for policy decision given above, if seniority is to be adopted as the basis for promotion, the manner in which seniority should be determined also to be decided. Seniority of an individual may be determined in different ways.

## PROCESS/STEPS IN DECISION MAKING

1. Defining the Problem or the situation

The first step in the process of decision-making is to identify and understand the actual problem. If only the actual problem is identified, it will be possible to provide a remedy by evolving a suitable decision.

2. Collecting the data

Analysis of the problem requires data which may be obtained from both internal and external sources.

3. Identifying the alternatives.

Any organizational problem has many solutions. It is, therefore, necessary, that the decision-maker identifies the alternative solutions.

4. Evaluation of all alternatives

Evaluation of alternatives is done by seeing the pros and cons (merits and demerits) of each.

5. Selection of best alternative

At this stage, the solution considered the best and the most viable one, under the circumstances, is selected. In addition to the merits of each alternative solution, the following factor will also influence the selection of the best alternative:

- Resources available.
- The value and beliefs of the decision-maker.
- Opinions of the staff.
- Past experience, etc...

6. Implementing the decision

Implementing the decision is done by communicating the same to all concerned. The responsibility for carrying out the decision must be fixed in individuals.

7. Follow up and feedback

Periodic review of the decision, during the period of its implementation, is necessary.

## **Limitations of Planning:**

### **1. Planning leads to rigidity:**

Once plans are made to decide the future course of action the manager may not be in a position to change them. Following predefined plan when circumstances are changed may not bring positive results for organisation. This kind of rigidity in plan may create difficulty.

### **2. Planning may not work in dynamic environment:**

Business environment is very dynamic as there are continuously changes taking place in economic, political and legal environment. It becomes very difficult to forecast these future changes. Plans may fail if the changes are very frequent. The environment consists of number of segments and it becomes very difficult for a manager to assess future changes in the environment. For example there may be change in economic policy, change in fashion and trend or change in competitor's policy. A manager cannot foresee these changes accurately and plan may fail if many such changes take place in environment.

### **3. It reduces creativity:**

With the planning the managers of the organisation start working rigidly and they become the blind followers of the plan only. The managers do not take any initiative to make changes in the plan according to the changes prevailing in the business environment. They stop giving suggestions and new ideas to bring improvement in working because the guidelines for working are given in planning only.

### **4. Planning involves huge Cost:**

Planning process involves lot of cost because it is an intellectual process and companies need to hire the professional experts to carry on this process. Along with the salary of these experts the company has to spend lot of time and money to collect accurate facts and figures. So, it is a cost-consuming process. If the benefits of planning are not more than its cost then it should not be carried on.

### 5. It is a time consuming process:

Planning process is a time-consuming process because it takes long time to evaluate the alternatives and select the best one. Lot of time is needed in developing planning premises. So, because of this, the action gets delayed. And whenever there is a need for prompt and immediate decision then we have to avoid planning.

### 6. Planning does not guarantee success:

Sometimes managers have false sense of security that plans have worked successfully in past so these will be working in future also. There is a tendency in managers to rely on pretested plans. It is not true that if a plan has worked successfully in past, it will bring success in future also as there are so many unknown factors which may lead to failure of plan in future. Planning only provides a base for analysing future. It is not a solution for future course of action.

### 7. Lack of accuracy:

In planning we are always thinking in advance and planning is concerned with future only and future is always uncertain. In planning many assumptions are made to decide about future course of action. But these assumptions are not 100% accurate and if these assumptions do not hold true in present situation or in future condition then whole planning will fail. **For example**, if in the plan it is assumed that there will be 5% inflation rate and in future condition the inflation rate becomes 10% then the whole plan will fail and many adjustments will be required to be made.

### Process of Decision Making:



### **Identification of the Purpose of the decision**

In this step, the problem is thoroughly analysed. There are a couple of questions one should ask when it comes to identifying the purpose of the decision.

- What exactly is the problem?
- Why the problem should be solved?
- Who are the affected parties of the problem?
- Does the problem, have a deadline or a specific time-line?

### **Information Gathering**

A problem of an organization will have many stakeholders. In addition, there can be dozens of factors involved and affected by the problem. In the process of solving the problem, you will have to gather as much as information related to the factors and stakeholders involved in the problem. For the process of information gathering, tools such as 'Check Sheets' can be effectively used.

### **Principles for Judging the Alternatives**

In this step, the baseline criteria for judging the alternatives should be set up. When it comes to defining the criteria, organisation goals as well as the corporate culture should be taken into consideration.

### **Brainstorm and Analyse the different choices**

For this step, brainstorming to list down all the ideas is the best option. Before the idea generation step, it is vital to understand the causes of the problem and prioritization of causes. For this, you can make use of Cause-and-Effect diagrams and Pareto Chart tool. Cause-and-Effect diagram helps you to identify all possible causes of the problem and Pareto chart helps you to prioritize and identify the causes with highest effect.

### **Evaluation of Alternatives**

Use your judgement principles and decision-making criteria to evaluate each alternatives. In this step, experience and effectiveness of the judgement principles come into play. You need to compare each alternative for their positives and negatives.

### **Select the best alternative**

Once you go through from this step is easy. In addition the selection of the best alternative is an informed decision since you have already followed a methodology to derive and select the best alternatives.

### **Execute the decision**

Convert your decision into a plan or a sequence of activities. Execute your plan by yourself or with the help of subordinates.

### **Evaluate the results**

Evaluate the outcome of your decision. See whether there is anything you should learn and then correct in future decision making. This is one of the best practices that will improve your decision-making skills.

## **Techniques of Decision-Making**

### **Marginal Analysis**

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

### **Financial Analysis**

This decision-making tool is used to estimate the profitability of an investment to calculate the payback period (the period taken for the cash benefits to account for the original cost of an investment), and to analyse cash inflows and cash outflows.

### **Break-Even Analysis**

This tool enables a decision-maker to evaluate the available alternatives based on price, fixed cost and variable cost per unit. Break-even analysis is a measure by which the level of sales necessary to cover all fixed costs can be determined.

### **Ratio Analysis**

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

## **Operations Research Techniques**

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

### **Linear Programming**

Linear programming is a quantitative technique used in decision-making. It involves making and optimum allocation of scarce of or limited resources of an organization to achieve a particular objectives. The word 'linear' implies that the relationship among different variables is proportionate.

### **Waiting-Line Method**

This is an operations research method that uses a mathematical technique for balancing services provided and waiting lines. Waiting lines occur whenever the demand for the service exceeds the service facilities.

### **Simulation**

This techniques involves building in model that represents a real or an existing system. Simulation is useful for solving complex problems that cannot be readily solved by other techniques. In recent years, computers have been used extensively for simulation. The different variables and their interrelationships are put into the model.

### **Decision Tree**

This is an interesting techniques used for analysis of a decision. A decision tree is a sophisticated mathematical tools that enables a decision-making to consider various alternatives courses of action and select the best alternative. A decision tree is a graphical representation of alternative courses of action and the possible outcomes and risks associated with each action.

### **Nature and Management Scope of Strategic**

Strategic management is both an Art and science of formulating, implementing, and evaluating, cross-functional decisions that facilitate an organization to accomplish its objectives. The purpose of strategic management is to use and create new and different opportunities for future. The nature of Strategic Management is dissimilar form other facets of management as it demands awareness to the “big picture” and a rational assessment of the future options. It offers a strategic direction endorsed by the team and stakeholders, a clear business strategy and vision for the future, a method for accountability, and a structure for governance at the different levels, a logical framework to handle risk in order to guarantee business continuity, the capability to exploit opportunities and react to external change by taking ongoing strategic decisions. Strategic management process encompasses of three phases.

1. Establishing the hierarchy of strategic intent
2. Strategic formulation.
3. Implementation
4. Evaluation and control.

Strategy formulation comprises of developing a vision and mission, identifying an organization’s external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, creating alternative strategies, and choosing particular strategies to follow. Strategy implementation needs a company to ascertain annual objectives, formulate policies, stimulate employees, and assign resources so that formulated strategies can be implemented. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and relating employee reward to organizational performance.

### **Strategy formulation**

- Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision.

### **Steps in strategy formulation**

The process of strategy formulation basically involves six main steps:

- 1. Setting Organizations’ objectives** - strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.



- 2. Evaluating the Organizational Environment** – The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position.
- 3. Setting Quantitative Targets**- To compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.
- 4. Aiming in context with the divisional plans** - In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit.
- 5. Performance Analysis** - Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization.
- 6. Choice of Strategy** -The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

#### **Strategic Tools for Strategic Formulation**

- SWOT Analysis or TOWS Matrix
- BCG Matrix
- Porter's Five forces Model
- PESTEL Framework
- Ansoff's product-market matrix
- Porter's diamond model
- Barlett & Ghoshal internationalisation strategies model
- Value chain analysis

#### **Characteristics of a Sound Plan – Planning**

**Primacy:** Planning is an important managerial function that usually precedes other functions. Obviously, without setting the goals to be reached and the lines of actions to be followed, there is nothing to organize, to direct, or to control in the enterprise. But this should not lead us to think that planning is isolated from other managerial functions.

**Continuity:** Planning is a continuous and never ending activity of a manager to keep the enterprise as a going concern. One plan begets another plan to be followed by a series of other plans in quick succession. Actually, a hierarchy of plans operates in the enterprise at any time. Planning gets used up where tomorrow becomes today and calls for further planning day in and day out. Again, the incessant changes make re-planning a continuous necessity.

**Flexibility:** Planning leads to the adoption of a specific course of action and the rejection of other possibilities. This confinement to one course takes away flexibility. But if future and assumptions upon which planning is based prove wrong, the course of action is to be modified

for avoiding any deadlock. Accordingly, when the future cannot be molded to conform to the course of action, the flexibility is to be ingrained in planning by way of adapting the course of action to the demands of current situations.

**Consistency:** Planning is made by different managers at different times. Maintenance of consistency or the unity of planning is one of its essential requirements. Objectives provide the common focus for unifying managerial action in planning. Moreover, policies and procedures introduce a consistency of executive behaviour and action in matters of planning.

**Precision:** Planning must be precise with respect to its meaning, scope and nature. As guides to action, planning is to be framed in intelligible and meaningful terms by way of pinpointing the expected results. Planning must be realistic in scope rather than being dreams indicating pious desires. As planning errors are far more serious and cannot be offset by effective organizing or controlling, the accuracy and precision is of outmost importance.

**Pervasiveness:** Planning is a pervasive activity covering the entire enterprise and every level of management. Planning is not the exclusive responsibility of top management only. But it extends to middle and lower managements as well. Although top managers are mostly preoccupied with planning because of the wider scope of operational and decision making authority, planning is of equal importance to every manager.

### ***Long Range Planning and Short Range Planning***

Planning involves deciding a future course of action. Plans always has some time frame-the period in future that a plan covers. Based on the length of time involved, plans are usually classified as strategic or long range plans and operational or short range plans, strategic plans are designed to meet the broad objectives of the organisation to implement the mission that provides justification for the organisation's existence. Operational plans provide details as to how strategic plans will be accomplished. However, it must be remembered that both strategic and operational plans are not mutually exclusive, but are complimentary. We will first discuss strategic planning and then proceed to operational planning.

### ***Long Range Planning / Strategic Planning***

The terms long range planning, Strategic planning, and Corporate planning are used synonymously by many authors. Strategic planning has its origin in military organizations where the objective is to envisage a variety of contingencies that may arise when large forces move into operation. Viewed in this backdrop, strategic planning in a business organisation envisages a comprehensive study of the various external and internal parameters that affect a company in charting a course of action to achieve the goals.

### ***Strategic Planning helps the Management in:***

1. Coping effectively with future contingencies.
2. Providing an early opportunity to correct mistakes.
3. Making decisions about the right things at the right time

### Definition

**George Steiner has defined strategic planning as** *“the process of determining the major objectives of an organisation and the policies and strategies that will govern the acquisition, use and disposition of resources to achieve those objectives”*.

### ***Short Range Planning / Operational Planning***

\* Strategic planning is the prerogative of the top management which is the highest policy making body in any organisation, where as operational planning is done at the lower levels. Strategic planning is mostly concerned with the “why” of the things, whereas operational planning is concerned with the “how” of the things. The focus in strategic planning is on long-term, while it is on short-term in operational planning. Further, planning is less detailed in the former because it is not involved with the day-to-day operations whereas it is more detailed in the latter, considering its nature, operational planning is also called tactical planning.

\* However, Operational plans stem or originate from strategic plans. In other words, strategic planning provides guidance and boundaries for operational planning. Effective management, therefore, must have a strategy and must operate on the day- to- day level to achieve it. Both should not be viewed as mutually exclusive because operational planning identifies the major activities to achieve the objectives of strategic planning. For example, if the strategic plan is to face competition with new and innovative products, major tasks to achieve this goal would be clarified by operational planning.