



**SHIVAJI UNIVERSITY, KOLHAPUR**

**CENTRE FOR DISTANCE EDUCATION**

**Principles of  
Business Management**

For

**B. Com. Part-I**

**Semester-I**

## Unit-1

# Introduction to Management

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## **1.0 Objectives of the unit**

After studying this unit, you will be able to:

- Understand the meaning and definitions of Management.
- Know the characteristics, significance and functions of Management.
- Find relationship between Administration and Management.
- Familiar with Management as a Science or an Art.
- Acquaint with Professional Management.
- Explain the characteristics and need of Professional Management.

## **1.1 Introduction to Management**

In any business organization one of the most important activities is management. It has its place not only in business organizations but also in charitable trusts, religious bodies, politics, military, financial institutions, hospitals, hostels, social and educational institutions etc. In fact, it has its place in any organized activity. It is a group activity and not a one man show. Every organization has objectives/goals of its own. These goals can be achieved with the group efforts of several employees. The work of a number of persons is properly co-ordinated to achieve the objectives through the management process. So, management can be considered as the proper utilization of people and other factors of production in an organization to attain the predetermined goals and objectives.

Management is a universal process. In the present era of increasing global competition, rapid changes in technology, changes in business practices as well as increasing social responsibility of business concerns, importance of management has increased. Management plays an important role in the welfare of any organization, people and the destiny of the country. This has been rightly stated by Marshall E. Demock, “The management is not a matter of pressing a button, pulling a lever, issuing orders, scanning profit and loss statements, promulgating rules and regulation. Rather it is the process to determine what shall happen to the personalities and happiness of entire people, the power to shape the destiny of a nation and all the nations which make up the world.”

## **1.2 Presentation of Subject Matter**

Management is an essential activity of every organization. It is considered to be the brain of business, which plans, co-ordinates resources of production, gets the things done through other people and accomplishes objectives and predetermined goals.

In the present era of globalization and changes in economic and business world the real success of management lies in applying the professional management techniques in all activities of management. Hence, success in management hinges on thorough understanding of principles and practices of business management.

### **1.2.1 Meaning and Definitions of Management**

Meaning of Management : No organization can run successfully unless there is management. Harold Knoots says, “Management is the art of getting things done through and with people.” It indicates that management is the essential part of any group activity. It is important activity to control/manage men, machines, material and money in direction towards predetermined objectives. Management is concerned with planning, policy formulation and co-ordinating functions. It also includes quality control of product. According to E.F.L. Brech “Management is the process of controlling the whole productive machinery.”

So, management is an important factor in the business. It is considered as important as brain in human body. Without brain human body is only collection of bones and flesh which is of no use; likewise if management is not in business it is only collection of money, machines, material and men which is not useful in achieving the objectives.

From the above information we can understand the meaning of management that it is the art of getting things done by a group of people with the effective utilization of available resources.

The management is thus the dynamic life-giving element in each and every organization. Without it the resources of production will remain resources only and never change in the production.

\* **Definitions of Management**

The term ‘Management’ can be interpreted differently in different contexts. To know a better and detail meaning of management, let us refer various definitions of management contributed by different scholars.

A) According to the Theo Haimann the term management is used in three different senses, viz. i) Management as a Noun. ii) Management as a Discipline and iii) Management as a Process or group of functions.

i) Management as a Noun– In this sense the term ‘Management’ refers to the ‘group of persons’ managing the affairs of the organization. (i.e.- The governing body of any Institution, Board of Directors of a company, Executive council or Managerial council of an Institution etc.)

ii) Management as a Discipline– In this sense the term ‘Management’ is described as a subject or faculty, which can be taught and learnt. Various universities, commerce colleges, Business schools and Management Institution offer the diplomas and degrees in the management discipline, e.g. BBA, BCA, B.Com., M.Com., MBA, C.A, C.S, DBM, DMM, DIT etc.

iii) Management as a Process / functions– In this sense the term ‘Management’ relates to the process of managing or managerial functions like planning, organizing, staffing, directing, co-ordinating, communicating, reporting, budgeting and controlling.

**B) Functional Concept of Management** – The management process/functions, has been defined by different management experts in different ways, They are:

1) ‘Management is what management does’.

According to many management experts, management is the sum of all those functions concerned with the working of an enterprise.

\* Dr. James Lundy.

\* Stanley vance.

\* Ordway Tead.

\* Henry Fayol.

\* George Terry.

\* Mcfarland.

\* Peter F. Drucker.

2) 'Management is a process for the utilization of minimum in-put for the production of maximum profit'.

\* John F. Mee.

\* Mary Cushing Niles.

3) 'Management is the art of getting things done'

\* Prof. Harold Koontz.

\* E.F.L. Brech.

\* J.L. Haynes.

\* S. George.

\* William Spriegel.

\* E. Peterson.

4) 'Management is the function of executive leadership'.

\* R.C. Davis

\* J.N. Schulze.

\* James D. Mooney.

5) 'Management is the development of people'

\* In other words of Lawrence A. Appley,

'Management is the development in people and not the direction of things. It is personnel administration.'

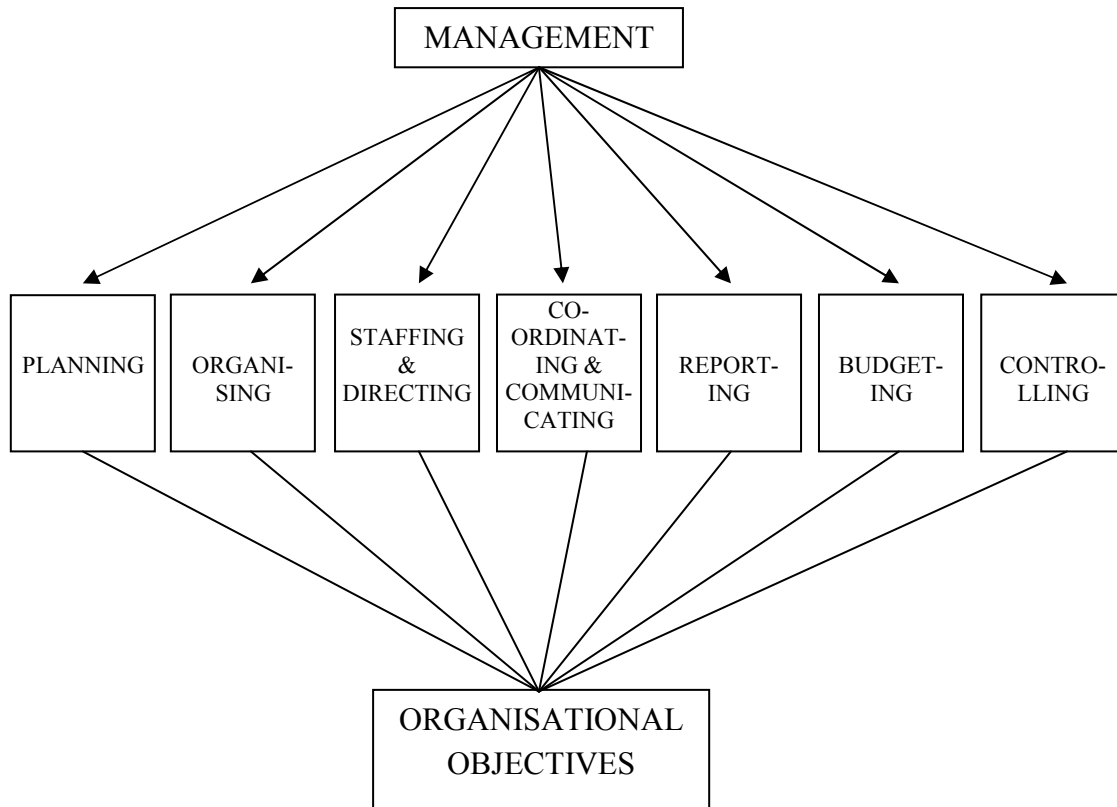
\* The Head of the American Corporation remarked,

"We do not build automobiles, airplanes, refrigerators, radios, shoe-strings. We build men, the men build products."

\* Conclusion – Each definition emphasizes only a particular aspect of the term, 'Management'. So, one can get a complete view of the concept of management only by combining the various views.

In short, we can say, "From planning to control whatever functions are there in process, all these functions together is called 'Management' – i.e.- POSDCORB+C

The same can be explained by following diagram.



This Diagram indicates that all functions which together work for achievement of organizational objectives are ‘Management ‘.

### **1.2.2 Characteristics and significance:**

#### **A) Characteristics of Management –**

Following are the important characteristics of Management.

##### **1) Management is universal-**

Management is applicable to all forms of human organizations whether it is profit- making or non- profit making.

##### **2) Management is a social process-**

To get things done from the people manager has to establish inter-personal relations with them. He has to understand the behavior of all as individual members as well as members of a group.

**3) Getting things done through people/ group-**

In the words of Koontz and O'Donnell, "Management is the art of getting things done through people or organized groups."

**4) Management is an integrating / unifying force.-**

Management is integrating people into a single working force with available physical resources.

**5) Management is objective/ target oriented-**

Management is purposeful or goal-oriented activity. The success of management is measured by the extent to which organization goals are achieved.

**6) Management is dynamic, and not static-**

Management is not a stereotype activity but is ever changing. It is a complex and dynamic activity. Management adapts itself to changes in environment, and also initiates and introduces changes. i.e . innovations, change in methodology etc.

**7) Management is a system of authority-**

In management scalar- chain indicates system of authority. Every body in the organization knows under whom he is working, whose orders he has to follow and to whom he is answerable.

**8) Decision-making-**

Decisions are taken in all the activities of management. The success is judged by the quality of decisions taken by the managers.

**9) Continuous process-**

Management is not one time activity, but it is continuous activity. The cycle of management continues to operate so long as the organization continue to exist.

**10) Management is born as well as acquired ability-**

Management is considered not only as an inborn ability but also an acquired ability by proper training.

**11) Proper utilization of resources-**

Management is concerned with the best and proper utilization of the resources.



## **12) Intangible-**

Management is intangible, it cannot be seen with eyes, It is evidenced or measured only by the quality results of organization, such as increased productivity, the increased morale of the employees etc.

**13)** Management is a science as well as an art.

**14)** Modern management can be regarded as a profession.

**15)** Management enjoys the separate status in the organization, so, management is a distinct activity.

## **B) Significance / Importance of Management –**

Management acts as a creative and life giving force in the organization. Management by right men through right methods may give better results. It is properly said that business is built not by the technical ability of specialists but largely by good managers who can effectively utilize human skill, energy and efficiency for transforming resources with higher productivity.

Management is considered to be the brain of business, which plans, co-ordinates resources of production, gets the things done through other people and accomplishes objectives. Hence, management is inevitable element in every enterprise. It is rightly said that organization without management is like a temple without deity. Management is every where like a god, like an air (without which we cannot live), like shadow (it is always with us). Management is always with us without which, we cannot live as a common person in society. Further more, the survival and success of an organization largely depends on the competence of its management.

More significance or importance of management can be explained with the help of the following points.

### **1) Management meets the challenge of change-**

In the modern business world, there are frequent changes; business operates in an environment created by demographic, political, legal, technological, social, natural, economic and cultural factors. The business environment is highly dynamic and it has far-reaching impact on business. The management can gear-up the business in such a way that the opportunities are grabbed and threats are fought against successfully.

**2) Accomplishment of various interests of different groups-**

There are various groups such as shareholders, society, which have various interest in the business. The survival of the business depends on the satisfaction of these stakeholders. Management can skillfully integrates the interests of these different groups and obtain their support .

**3) Effective utilization of resources.-**

The efficient management can make optimum use of resources, (i.e.- Men, Money, Materials, Machines, Methods, Motivation, Markets and Management.) Underutilization or over utilization of resources should be avoided and this can be done by management only because Management has control oven other remaining ‘M’s.

**4) Stability to society-**

If there is no smooth supply of goods and services to the society, the society becomes vibrant. There fluctuations in supply can be stabilized by the management.

**5) Innovation-**

New ideas are developed by the management and implemented in the business for better performance.

**6) Co-ordination and team-spirit-**

Management co-ordinates the activities of different department and establishes team- spirit to achieve the objectives.

**7) Social responsibilities-**

No organization can run its function in isolation from society. A number of responsibilities have to be discharged for the upliftment of the society. The management plays an important role in discharging the responsibilities towards society.

**8) Development of country-**

The management helps in infrastructural development of the nation, in increasing GDP, capital formation, national income etc.

**To sum-up we can say, “Anything + Management = Success”**

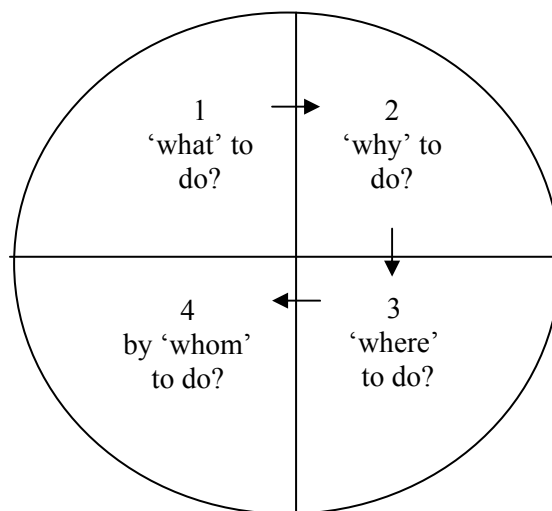
### 1.2.3 Functions of Management :

As per 'Theo Haiman', one of the definition is "Management as a process or group of organizational / Managerial functions". The list of management functions varies from scholar to scholar with number of functions ranging from three to eight. Particularly 'Luther Gullik states seven such functions; we can add one more function as '+C' to the catchword 'POSDCORB' '+C'. which stands for planning, organizing, staffing, directing, co-ordinating / communicating, reporting, budgeting and '+c' indicates 'controlling'.

The important functions of management as per the catchword 'POSDCORB' '+C' are briefly explained below:

#### 1) 'Planning'- 'P'

Planning is the primary function of management All other functions are based on it. Planning is the beginning of all managerial work. Planning determines the course of future action. It serves as a compass and shows the right direction that an organization should take action to attain its goal. It is a blue print of future actions. Planning means deciding in advance what to do in future. In other words it is looking ahead. Planning is performed generally at all levels, but particularly at top level only. It is an intellectual task; which is to be carried-out scientifically. For this every organization is following **4-'W' formula**. Following figure indicates this scientific process.



The maxim in management is 'First plan your work, and then work your plan. Before making a plan, if manager is following this 4-'w' formula and after getting proper/appropriate answers to these 4-'w's; planning will be scientific. This process is very important because all other functions are following planning so, planning should be based on reliable/authentic information and scientific. Then only you will proceed towards success and can achieve it definitely.

## **2) Organising – 'O'**

Planning done by manager will remain on paper only if further steps are not taken. Hence, the second function of management process 'organising' should be followed. Organising means collecting/assembling factors of production together. For this purpose organization creates order and system by bringing various elements such as capital, machinery, materials, executive personnel, workers etc. together and co-ordinating them.

## **3) Staffing – 'S'**

Staffing involves finding the right person for the right place, allotting the right job and at right time. Staffing also includes training to personnel to increase their efficiency and avoid waste of material and machinery.

## **4) Directing – 'D'**

The actual performance of a work starts with the function of Direction. Direction deals with making the workers learn techniques to perform the job assigned to them. Direction includes guidance, supervision and motivation of employees.

## **5) Co-ordinating and communicating - 'CO'**

**a) Co-ordinating :** Co-ordinating is the process of harmonization of different activities within the enterprise with reference to time, progress of work, performance standards etc. It is the essence of management. All personnel and departmental activities are directed towards achieving common goals of the organization.

**b) Communicating :** Communication is a mutual transfer of information and understanding. Through proper communication by using simple, local and unambiguous language, a manager can create a feeling of belongingness on the part of the subordinates.

#### **6) Reporting – ‘R’**

Informing about the work done, problem faced and results achieved to the boss/head of Dept./ to management is called reporting. Reporting in proper timing helps to solve problems; which makes easy process to achieve the target.

#### **7) Budgeting – ‘B’**

Budgeting means preparing a receipt/resources and payment/applications statement in advance before starting any plan. It helps in numerical terms the requirements of various resources such as money, men, materials, machinery, methods and time with which the management deals.

#### **8) Controlling - +’C’**

Controlling is looking behind. Controlling function ensures that the achieved objectives conform to pre-determined objectives. Necessary corrective action may be taken if there is any deviation. The control is very easy when the organization has fixed standards. According to Henry Fayol, “Control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established.

### **1.2.4 Administration and Management:**

Scholars of Management are having different opinions regarding the terms ‘Administration’ and ‘Management’. There are three different views holding three different schools of thought, which are as follows.

#### **1) ‘Administration’ and ‘Management’ are different functions:**

According to American school of thought, Oliver Sheldon, W.R. Spriegel, Milward, William Schulze, Tead, Lansberg and Florence have advocated the view that there is distinction between these two terms.

They believe that ‘Administration’ involves the overall framing of major objectives, deciding policies and taking decisions while ‘Management’ works as a secondary function, which looks after the execution of these policies and decision framed by the top administration.

**2) ‘Management’ is a generic term, includes Administration :**

British school of thought, E.F.L. Brech, Kimball and Kimball uses the term ‘Administration’ as a part of ‘Management.’ In first function of management (i.e. planning) decisions are taken, plans and policies are made; these same functions carried out by administration are inclusive in management that’s-why this school regards as ‘administration’ as part of management. As ‘management’ is used in the sense of an all inclusive function; management is regarded as the generic term.

**3) ‘Administration’ and ‘Management’ are one/synonymous:**

French school of thought, Henry Fayol, Koontz and O’Donnell, Allen, Strong, Terry, Newman, Chester Barnard etc. make no distinction between the two terms and use ‘Administration’ and ‘Management’ as one/synonymous or use these terms interchangeably.

They hold the view that the term ‘Administration’ is used for the higher executive functions in government and other non-business or social institutions, whereas the term ‘Management’ is used for the same functions in the business world.

From the above discussion it is quite evident that there is no exact line of demarcation between the functions of ‘thinking’ and ‘doing’.

**Distinction between ‘Administration’ and ‘Management’**

Sr. No.	‘Administration’	Sr. No.	‘Management’
1.	Nature – Administration is a determinative or thinking function.	1.	Nature – Management is an executive or doing function.
2.	Scope – Administration is related with the deciding of major objectives and policies.	2.	Scope – Management is related with the implementation of objectives and policies.
3.	Level – Administration is mainly a top level function.	3.	Level – Management is largely a middle and lower level function.
4.	Skills required – Conceptual and human skills.	4.	Skills required – Technical and human skills.
5.	Main functions – Planning and control are the main functions involved in it.	5.	Main functions – Directing and organizing are the main functions in it.

6.	Example – Minister, Commander, Commissioner, Registrar, Vice-Chancellor, Governor, Owner, Chairman, Board of Director etc.	6.	Example – Managing Director, General Manager, Secretary Sales Manager, Branch Manager, HOD, Supervisors, workers.
7.	Usage – Used largely in government and public-sector.	7.	Usage – Used mainly in business organizations.

### 1.2.5 Management as a ‘Science’ or an ‘Art’

To answer this statement, it is necessary to find-out whether the management possesses characteristics of science and art or it may be regarded both as a science and an art.

\* A science is a systematic body of knowledge containing particular branch of study. It depends upon some particular rules, general principles or laws which are capable of universal application.

#### Characteristics of science –

- 1) It is a systematic body of knowledge.
- 2) It uses the scientific methods of observation.
- 3) Its principles are evolved on the basis of continuous observation and experiment.
- 4) Its principles are exact and have universal application.

**Examples of Science** – Physics, Chemistry, Maths, any physical science (natural / core science).

Management as a science – To know whether the management is a science, it would be appropriate to see how far the management fulfils the criteria of science.

1. Management has a systematized body of knowledge like Production Management, Marketing Management, Financial Management, HRM, HRD, Functions and Principles of Management, tools, techniques, theories and methods etc. The literature on management has been systematically organised.
2. In management, the scientific methods are used.

i.e. – Quantitative techniques, PERT, CPM, BEP Analysis, Statistical Tools, Cost and Accounting rules etc.

3. Management includes continuous observation and empirical verification. viz. F. W. Taylor's scientific management, Henri Fayol (Admn. Mgt.), Max Weber (Bureaucratic Mgt.) Elten Mayo (Human Approach) Abraham Maslow's need hierarchy theory, Herzberg's two factor theory etc.
4. Establishment of cause and effect relationship, as well as Management principles are universally accepted and applied.

Is management a science? –

Taking into consideration above criteria, the management fulfils most of the criteria of science but at the same time, there are some limitations on management. Therefore it cannot be considered perfectly as a natural or physical science; but it is a social science. (like Economics, Political Science, Behavioural Science etc.)

\* An art is practical skill. It is a way of doing things for getting desired results. Its application is guided by certain principles which are provided by science. Further, an art is practice-based and perfection in it requires continuous practice over a long period of time.

Examples of an art : Singing, Dancing, Drawing and Painting etc.

#### **Characteristics of an art :**

- 1) It is a personal skill required to put the acquired knowledge into practice.
- 2) It includes practical know-how.
- 3) It is result – oriented
- 4) It is creative
- 5) It results into realization of goals.
- 6) It needs constant practice aimed at perfection.
- 7) An artist needs high qualities such as initiative, foresight, discipline, dynamism, leadership, tact etc.

Is Management an Art?



Management fulfils all important criteria of an art. Managers require certain qualities and knowledge of psychology and so on.

\* Conclusion : Management is both a science and an art.”

Explanation – Management is both a science and an art. Management science is compared in a proper way with medical science. A surgeon or a physician without the knowledge of medical science becomes a ‘witch-Doctor’. On the other hand, mere reading of textbooks does not make a man a surgeon or a physician. Both the theoretical knowledge and practical knowledge are essential for a man to become a good surgeon or physician. Similarly, a manager without the knowledge of principles of management cannot effectively, efficiently and successfully manage the affairs of business. He has to just depend upon luck. Again mere possession of knowledge of the principles of management cannot make a good manager unless he puts these principles into practice. Thus, the manager’s task required the characteristics of both a science and an art.

It is important to note that management is a social science and hence it cannot be compared with science like physics or chemistry because management science deals with human behaviour, which is a subject with a number of limitations and which is always uncertain. Therefore, management science cannot be as exact as the physical sciences, like physics or chemistry. Therefore, the management policies and techniques will be adjusted with the changing circumstances in a dynamic world.

By way of conclusion, we can say that management is both a science and an art.

### **1.2.6 Professional Management : The Concept.**

Due to increasing size, widening market, severe competition, changing technology the need for proper management of four Ms. i.e. men, machine, material and markets is underlined. Now-a-days it is no longer possible to manage the organizations by experience, intuition or on trial and error method (i.e. traditional mgt.). So, there is the necessity of trained managers to run the organizations on professional base. The professional management is 20<sup>th</sup> century practice. Up to 19<sup>th</sup> century, family management practice was followed. Today, professional management is getting importance due to complex nature of business.

The Concept : In the words of Fredric Habison & Charls Mayor, “Professional Management is a type of management in which major policy making positions and

nearly all other positions in the hierarchy are held by persons on the basis of alleged or demonstrated technical competence.”

According to L. M. Prasad, “Profession is an occupation for which specialized knowledge, skills and training are required and use of these skills is not meant for self-satisfaction but these are used for larger interests of the society and the success of these skills is measured not in terms of money alone.”

It is understood that all professions are occupation. The reason is that they provide means of livelihood. But at the same time, all occupations are not professions because some of them lack certain characteristics of a profession.

### **1.2.7 Characteristics and Need of Professional Management :**

#### **a) Characteristics of Professional Management :**

To decide whether management is a profession or not, it would be relevant to have a clear understanding of the essential elements of profession. Houle has listed fourteen characteristics which are associated with the continuous process of organisation’s improvement. They are-definition of the occupation’s functions, mastery of theoretical knowledge, capacity to solve problems, use of knowledge, self-enhancement, public acceptance, ethical practice, penalties, relations to other vocations, relations to the users of the service.

Especially, professional management has the following five characteristics-

#### **1) Existence of systematised body of knowledge -**

The development of knowledge, in management is emerged due to requirement of managing complex and large organizations in a better way. So, management has to fulfill the requirement of profession i.e. existence of knowledge.

#### **2) Formal method of acquisition of knowledge -**

An individual can enter into a profession only after getting knowledge and skills through formal/practical training. Management can be regarded as profession since the management graduates are also getting inplant training and familiar with the various techniques of management.

### **3) Professional Association**

An individual is required to acquire knowledge of the profession of management. There are certainly vigorous programmes of formal education for management in existence. School of Business Administration in the U.S.A., Institute of Management in the U.K., like wise All India Management Association (AIMA) in India etc. All these institutions are developing professional activities and standardize the profession. In this way, management is termed as profession.

### **4) Code of Ethics and Social Responsibility -**

There are some ethical standards for every profession. Every one in organization has to maintain conformity with these standards. In addition to this management executives are supposed to be socially responsible and it is their duty to protect the interest of all parties associated with the organization. (viz - customers, suppliers, employees, financiers, creditors, general public and the Government.)

### **5) Service Motive -**

Service motive should prevail over the profit motive. It means that professionals should keep social interest in their mind while charging fees for their services.

Considering the above discussion, it is concluded that the professional-management has certain characteristics of profession.

### **b) Need of Professional Management -**

Today in the present era, the competition has become increased and more intensive than ever before. Business operations have been internationalized. So, in this globalised economy, the business organizations in India need professional management especially for the following reasons.

1. Major portion of our economy is unorganized.
2. Industrial/organizational poor infrastructure. Professional management can cope with these complexities.
3. Yet, there is less utilization of modern technology. The professional management can adapt to the fast developing technology.
4. As a result our industry is having low productive efficiency.
5. To reduce the wide spread poverty and unemployment in India.

6. For efficient management of funds invested by public in corporate sector.
7. The procurement and disbursement of funds has become IT based. The rapidity of transactions has increased and their regulation has changed. The professional management can successfully manage the finance function in today's environment.
8. LPG policy, has impacted almost all fields of human and business life. LPG policy has offered a number of opportunities to business. The professionally managed companies can take advantage of these opportunities at proper time and can overcome from many problems.

After considering all above reasons and situation in this globalised era, the importance and need of professional management has been constantly increasing.

### 1.3 Summary

- **Management :** Management is an essential activity of every organization. Not only in business organization but management is every-where in human and business life. It is just like air without which we cannot live.

Management means getting things done successfully from others. Theo Haiman has defined this term (1) Management as a noun, (2) Management as a discipline and (3) Management as a process/functions. As per this third definition of Management, it's a functional term, Luther Gullik also stated this term in keyword 'POSDCORB'+ 'C'

It means from planning to control all functions together or group of these functions is called management.

- **Characteristics of Management :** Management is, (1) Universal (2) a social process (3) getting thing done (4) unifying force (5) target oriented (6) dynamic (7) a system of authority (8) Decision-making (9) continuous process (10) born as well as acquired ability (11) proper utilization of resources (12) Intangible (13) science as well as an art (14) regarded as a professional mgt. (15) a distinct activity.

- **Significance of Management :** Management is considered to be the brain of business. Without management a person or business can not live properly. In short we can say; "Anything + Management = success" and "Anything – Management = Nothing/ 'O'".

- **Functions of Management** – ‘POSDCORB’ + ‘C’.
- **‘Administration and Management’** – There are three different views given by three **different schools of thoughts** – (1) American – ‘Administration’ and ‘Management’ are different. (2) British – ‘Management’ is a generic term, includes ‘Administration’. (3) French – ‘Administration’ and ‘Management’ are one.
- **Management as a ‘Science’ or an ‘Art’?**
  - 1) Management is a social science
  - 2) Management is an Art
  - 3) Management is both a science and an art.

Management possesses characteristic of both a science and an art.
- **Professional Management** : Concept – Management which possesses professional characteristics is called professional Management.
- **Characteristics** – (1) Existence of knowledge (2) Knowledge acquisition (3) Professional Association (4) Ethics (5) Service motive.

Need – Professional mgt. is necessary in India due to the following reasons.

- 1) Major portion of our economy is unorganised.
- 2) Poor Infrastructure.
- 3) Less utilization of modern technology.
- 4) Low productive efficiency.
- 5) Wide spread poverty and unemployment.

#### **1.4 Terms to Remember**

- **Management** : “Management means getting things done through other people successfully.”
- **Functional Definition of ‘Management’ / ‘POSDCORB’ + ‘C’** : “From planning to control whatever process / functions are; all these functions together are called management.”
- **‘Administration’** : “Administration is mainly a top level function related with the deciding of major objectives and policies.”

- **Professional Management** : “Management which possesses professional characteristics is called professional management.”
- **‘LPG’** : ‘Liberalisation’, ‘Privatisation’ and Globalisation.

### 1.5 Check your progress

#### A) Fill in the blanks

- 1) .....is getting things done, from others.
- 2) Luther Gullik has given catch word for definition of functional mgt. as ..... + ‘C’.
- 3) ..... + Management = ‘Success’.
- 4) ..... is universal.
- 5) To survive in global competition ..... management is to be followed in organization.

#### B) State True or False.

- 1) ‘Management’ is a functional concept.
- 2) ‘Administration’ implements policies and plans decided by lower management.
- 3) Professional management is not necessary now-a-days.
- 4) Management is both a science and an art.
- 5) Professional Management is universally not accepted.

### 1.6 Answers to check your progress.

- A) 1) Management    2) ‘POSDCORB’    3) Anything    4) Management  
 5) Professional
- B) 1) True            2) False            3) False            4) True  
 5) False

### 1.7 Exercise

#### A) Write short answers / notes

- 1) What is management?

- 2) Importance of management.
- 3) 'Administration'.
- 4) Professional Management.
- 5) Need of Professional Management.

**B) Give answers to the following questions.**

- 1) What do you mean by 'Management'? Explain the characteristics of Management.
- 2) Describe the functions of management.
- 3) Differentiate between the concepts 'Administration' and 'Management'.
- 4) Is management a Science or an Art? – Discuss.
- 5) Define professional management and explain its characteristics.

**1.8 Books for further reading.**

- 1) Drucker P. F. – 'Practice of Management' (New Delhi : Allied, 1970).
- 2) Tripathi P.C. & Reddy P. N. – Principles of Management, Tata McGraw-Hill Publishing Ltd., New Delhi, 2003.
- 3) Ramasamy T. – Principles of Management, Himlaya Publishing house, 2008.
- 4) Shukla M. C. – 'Essentials of Management.'
- 5) Dr. Gupta C. B. – Organisation and Management.
- 6) Prasad L. M. – 'Principles & Practice of Management.
- 7) ICFAI Centre for Management Research 'Introduction to Management', Hyderabad.



## Unit-2

# Contribution towards Development of Management Theory

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- 1.0 Objectives
- 2.1 Introduction
- 2.2 Subject Matter
  - 2.2.1 F. W. Taylor's Scientific Management
  - 2.2.2 Henri Fayol's Principles of Management
  - 2.2.3 Max Weber's Concept of Bureaucracy
  - 2.2.4 Elton Mayo's Hawthorne Experiments
- 2.3 Summary
- 2.4 Terms to Remember
- 2.5 Check your progress
- 2.6 Exercise
- 2.7 Books for Further Reading

### 2.0 Objectives

- After studying this unit you will be able to understand Taylor's Theory of Scientific Management.
- Principles of Management as suggested by Fayol,
- Weber's Model of Bureaucracy.
- Hawthorne studies and their findings.

### 2.1 Introduction

Management knowledge is as old as human civilization. But from the beginning of the 20th century serious efforts were made to develop management as a separate discipline. Contribution of F. W. Taylor, Gantt, Gilbreth, Emerson, Henri Fayol, Sheldon, Mooney, Mary Parker Follet and Max Weber gave birth to the classical



approach to management. From this classical approach the development of management thought started. Then the neo-classical approach evolved. The contributors to this approach attempted to study the human relations and human behaviour in the organization. Some advocates of this approach were Elton Mayo, Douglas McGregor, Mary Parker Follett, Chester Bernard etc. After neo-classical approach, there evolved the modern approach. The evolution of management thought is a continuous process and newer approaches like system approach, contingency approach are developed in present era. Our discussion, however, is confined in this unit to the contribution of Taylor, Fayol, Weber and Mayo.

## **2.2 Subject Matter**

### **2.2.1 F. W. Taylor's Scientific Management**

Frederick Winslow Taylor, known popularly as the 'Father of Scientific Management' is one of the great contributors of the classical theory of management. He was the first person to insist on introduction of scientific methods in management. His contribution is largely regarding improvement of productivity at shop level.

Born in 1856 at Philadelphia, Taylor took his early education at French and German Schools. Later he obtained degree in engineering from Stevens Institute of Technology at New Jersey. Taylor started his career as an apprentice in a small machinery making shop. Afterwards he became the Chief Engineer in Midvale Steel Company at Philadelphia. He also worked as a consultant engineer in Bethlehem Steel Company. He developed the scientific management theory from his observations and experiments conducted mostly in Midvale and Bethlehem Steel companies. His famous works are Shop Management (1903) and Principles of Scientific Management (1911). The great management thinker Taylor died in 1915.

While working in Midvale Steel Company, Taylor observed that neither management nor workers knew their duties and responsibilities. Workers worked slowly. They used different techniques to do the same job. No effective work standards existed. Workers chose their own work and trained themselves. They were placed on jobs without considering their abilities and attitude. Management depended on intuition and trial and error basis. This affected the output, increased cost and wastages. Taylor, therefore, decided to correct the situation by applying scientific method to the jobs on the shop floor. He devoted more than two decades

for defining 'One Best Way' for a job to be done. His book "Principles of Scientific Management" was accepted all over the world. He did many experiments, introduced new scientific methods.

Scientific management means "the use of scientific method to define 'one best way' for a job to be done". Taylor's philosophy of scientific management is based on the following principles.

**1) Science, not rule of thumb :**

The manager should develop a science for each element of man's work and replace the old rule of thumb method. Decisions should be based on facts and not on intuition.

**2) Harmony, not discord :**

There should be complete group harmony in the organization. This can be achieved through satisfying the needs of group members and eliminating their dissatisfaction and frustration. Clashes or conflicts should be avoided as far as possible and proper co-ordination should be established among the different groups/departments.

**3) Co-operation, not individualism :**

For achieving the objectives of organization there should be co-operation between the management and workers. Importance should be given to co-operative efforts and not individual efforts.

**4) Maximum, not restricted output :**

Instead of giving restricted output, workers should be asked to give maximum output. As output increases the cost per unit will decrease and productivity will improve.

**5) Development of each man to his greatest efficiency and prosperity :**

The workers should be scientifically selected, properly trained and developed to their maximum potential. This will not only increase workers' efficiency but also their wages and prosperity. Prosperity to workers will bring prosperity to the employers.

**Techniques of Scientific Management :**

Based on his experience at shop floor Taylor has suggested the following techniques to bring the philosophy of scientific management into practice.

### **1) Scientific Study and Planning of Work :**

The management should study each element of work scientifically and decide the daily standard output for each worker. For this purpose time and motion study should be conducted. Time study will help to determine the standard time required to do a job. Motion study will help to remove unnecessary movements of workers in doing the job. With the help of this technique the management can give precise idea to the workers on what is to be done and how it can be done efficiently.

### **2) Scientific Selection, Placement and Training :**

The workers should be selected by using scientific methods and not relying on intuition and judgement of the foreman. They should be placed on the right job by matching job requirements with their capacity and attitude. Further, they should be trained on a regular basis to do the task in the best manner and give maximum output at minimum cost.

### **3) Standardisation :**

Taylor advocated the importance of standardization of tools, equipments, raw materials, quality of work and physical working conditions.

### **4) Separation of Planning From Doing :**

Planning function should be separated from doing function to secure the benefits of division of work and specialisation. Planning of work should be the responsibility of management. The management should plan, organize and direct the work where as the workers should implement the plans.

### **5) Functional Foremanship :**

Taylor was the first to introduce and practice the concept of functional foremanship. According to Taylor, instead of having one foreman, there should be four Supervisors in the shop room namely, the gang boss, the speed boss, the repair boss and inspector. In the planning office there should be four specialists namely the time and cost clerk, the instruction card clerk, the order of work and route clerk and the shop disciplinarian. Under functional foremanship each worker should receive orders directly from these eight different supervisors dealing with different aspects of his job.

## **6) Wage Incentives :**

Taylor suggested to pay workers according to their efficiency. Workers producing more should be given higher wages. He devised differential price rate plan which implies different rates of wages for different levels of efficiency of workers. The efficient worker should get more wages than the average worker. Introduction of wage incentive scheme will reward the efficient worker and punish the inefficient worker.

## **7) Mental Revolution :**

For getting the desired results of scientific management Taylor emphasised the need of a mental revolution i.e. a fundamental change of outlook on the part of both employer and employees. The workers should change their attitude, outlook and behaviour as to their duties, their work, their fellowmen and their employer. At the same time the management should change its attitude, outlook and behaviour towards the workers and their problems. Instead of having a hostile attitude and engaging in continuous conflict, management and workers should co-operate each other and work for their mutual benefit. They should give up the perception that any gain by one is at the expense of other. Their relationship should be cordial, co-operative and positive. There should be no hostility, distrust and suspicion between them.

## **Criticism on Scientific Management :**

Taylor's philosophy of scientific management was criticised on the following grounds.

1. Taylor treated worker just as a factor of production. He neglected the social and psychological needs of workers. Thus, he ignored the 'human' element.
2. Taylor concentrated on improving productivity at shop floor. His philosophy is confined to operative personnel only. It is not concerned with the overall organization and improving its effectiveness.
3. Functional foremanship would result into over specialisation and create confusion in the minds of workers.
4. Adoption of principles of scientific management may result in exploitation of workers. Hence, it may be opposed by workers and their union.
5. Scientific management is anti-democratic. It does not seek participation of workers in decision making process.

### **2.2.2 Henri Fayol's Principles of Management :**

The credit of developing the administrative theory of management goes mainly to Henri Fayol. Henri Fayol was born in 1841 in France. He studied engineering in France. He worked first as a mining engineer in a large French mining and metallurgical company. Later on he became its Managing Director. Based on his rich administrative experience he wrote a monograph titled as General and Industrial Management, published in UK. It is a short-book containing four parts.

First part deals with classification of business activities.

Technical Activities - Manufacturing or Production

Commercial Activities - Buying, selling and exchange

Financial Activities - Raising and optimum use of capital.

Accounts Activities - Recording, costing and statistics

Security Activities - Protection of person and property.

Managerial Activities - Planning, Organizing, Command, Coordination and Contribution.

Fayol devoted most of his book to analysis and explanation of management activities.

Second part deals with basic functions of management performed by the managers in all types of organization. According to Fayol management is a continuous process beginning with planning and ending with controlling. He divided management function into planning, organizing, command, co-ordinating and control.

Third part deals with 14 principles of management.

Fourth part deals with the managerial qualities and skills.

#### **Fayol's Principles of Management :**

Henri Fayol was the first thinker to point out basic principles of management. He made a distinction between 'General Principles of Management' and 'Elements of Management'. According to Fayol these principles have universal application. They are applicable to all types of organization - business, government, military,

religious etc. They are fundamental or universal truths and can be taught in schools and universities. Fayol made it clear that these principles were flexible and capable of adoption to every need. These principles are briefly discussed below :

- 1) **Division of Work** : It involves dividing the work among various departments and employees according to their abilities and skills. The object of this principle is to obtain the benefit of specialization i.e. produce more and better goods.
- 2) **Authority and Responsibility** : Authority must be in proportion to responsibility. Authority and responsibility should go together. When managers are given authority, their responsibility should also be decided.
- 3) **Discipline** : Discipline means obeying and respecting the rules of the organization. Fayol considered discipline as absolutely essential for the smooth running of business. For maintaining discipline there should be good supervisors at all levels, clear and fair agreements with employees and judicious use of penalties.
- 4) **Unity of Command** : This principle states that every employee should receive orders from one Supervisor only. Dual command leads to confusion and conflict.
- 5) **Unity of Direction** : According to this principle “there should be one head and one plan” for a group of activities having the same objective.
6. **Subordination of Individual Interests to General Interest** : The interest of any one employee or group of employees should not precede over that of the concern. Individual employees should not give priority to their own interest, rather they should work for the interest of the organization.
- 7) **Remuneration** : Employees should get fair remuneration for their services. Fair remuneration provides satisfaction to both the employees and the firm.
- 8) **Centralisation** : This principle refers to the extent to which authority should be centralized or decentralized in an organization. The degree of centralization depends upon individual circumstances. It should be such as to give the best results to the organization.
- 9) **Scalar Chain** : The line of authority from top management to the lowest management is known as the scalar chain. Orders and feedback follow this chain. It creates superior-subordinate relationship among the employees in the

organization. For effective management the scalar chain should be as short as possible.

- 10) **Order** : For ensuring smooth flow of work and efficient use of physical and human resources, people and materials should be in the right place at the right time. Everything and everyone should be in the right places.
- 11) **Equality** : This principle states that managers should give equal, fair and kind treatment to their employees.
- 12) **Stability of tenure of personnel** : Since instability is both the cause and effect of bad running, the management should provide stability of employment to its personnel. This will create a feeling of security among the employees and reduce their tension.
- 13) **Initiative** : Management should allow the employees to develop and use initiative for 'solving work-related problems'. This will help employees to develop better in the organization.
- 14) **Espirit Corps** : According to this principle "unity is strength". Managers should, therefore, try to build team spirit and unity among the employees for achieving the organizational goals.

Fayol's ideas and thoughts received wide acceptance in the business world. His famous book 'General and Industrial Management' is widely acknowledged. Fayol was the first to highlight the equal need of management functions to all types of organizations and for proper functioning all organizations should observe the same general principles of management. Management principles have universal application. Some of Fayol's principles have stood the test of time and have been reproduced in almost all standard books on general management and organization theory.

### 2.2.3 Max Weber's Concept of Bureaucracy

Max Weber, a German Social Scientist and Philosopher made valuable contribution to the general administration theory through his concept of Bureaucracy. According to Weber there are three types of authority systems as follows.

- 1) **Charismatic Authority System** : It is based on the extra-ordinary qualities or magnetic personality of the leader, e.g. Henri Ford of Ford Motors. However, this type of authority structure suffers from the problem of instability. It comes

to end with the leader. People may not accept the successor of such person as a leader.

- 2) **Traditional Authority** : Here a person enjoys authority because of his status derived by inheritance. The extent of authority is decided by the custom. Traditional authority system ignores whether the particular person has necessary leadership qualities and competencies.
- 3) **Bureaucracy** : According to Weber both the charismatic and traditional authority systems are not suitable to large business organizations because they are person-centered and instable in nature. Hence, Weber has advocated Bureaucracy model based on rationality and legality.

The model bureaucracy suggested Weber has the following characteristics.

- 1) **Division of Labour** : In bureaucracy jobs are broken into simple routine and well-defined tasks and assigned to various employees on the basis of their abilities, skills and aptitudes.
- 2) **Hierarchy of authority** : Bureaucracy works on a well-defined hierarchy of authority. Higher officials or offices supervise lower officials or offices and the lower officials/offices have the right of appeal.
- 3) **Formal selection** : All persons in the organization are selected and placed on the basis of their technical qualifications.
- 4) **Formal rules and regulations** : The organization functions according to formal rules and regulations. These rules and regulations are in written form and communicated to all employees. Use of formal rules and regulations ensures uniformity in action and helps the management to control the employees.
- 5) **Impersonality** : There is no place for emotions, sentiments and personal attachment. Rules and regulations supersede the persons in the organization and are applied uniformly avoiding involvement with personalities and personal preferences of employees.
- 6) **Career orientation** : In bureaucratic organisation the officers are 'professionals' rather than owners of the organization. They derive authority because of the office/post they hold and work for fixed salary. They have the prospects of regular advancement in the organisation. They are appointed on full time basis.



- 7) **Continuity** : The official business is conducted on continuous basis. The organization enjoys continuity of operations because of rational-legal authority structure.
- 8) **Separation between official business and personal affairs** : The official business of employees and their personal affairs are treated as two separate things. There is separation between official revenue and personal incomes. Officials do not own the resources required for performing their duties. However, they are accountable for the use of official resources.
- 9) **Rational-legal Structure** : Weber's bureaucracy model is characterized by rationality and legality. It is rational in the sense that means are expressly allotted for achieving predetermined goals. It is called 'legal' because authority is attached to the office and is exercised impersonally through the system of rules and regulations.

**Criticism on bureaucracy model :**

1. Bureaucracy fails to meet the need of job satisfaction and creativity and hence it is not useful in modern times.
2. Bureaucracy is overridden by rules and regulations, losing the 'human element'.
3. The rules and procedures may be misused by the higher authority to punish the employees.
4. Officials give excessive importance to following rules and procedures. They pay less attention to achievement of overall goals.
5. According to Peter Drucker, "procedures are wrongly considered as a substitute for judgment".
6. Bureaucracy does not consider the existence of informal organization and its role in management.
7. The human resources may not be fully utilized due to distrust, fear of reprisals etc.

Weber attempted to provide an ideal model for organizations in the days when organisations were run on either traditional authority structure or charismatic authority structure. Weber thought that his model bureaucracy will lead to precision, speed, unambiguity, continuity, knowledge of files, reduction of friction and depersonalisation. However, in modern times it is not popular because of its

autocratic nature and lack of human face. But many of its components are still found in large organizations.

#### **2.2.4 Elton Mayo's Hawthorne Experiments:**

George Elton Mayo (1880-1949) of Australia is one of the main contributors of New-classical approach to management theory. Elton Mayo studied logic and philosophy in Adelaide University and medicine in Edinburgh. He worked as a lecturer in Logic, Ethics and Philosophy in Queensland University. He was also researcher for Rockefeller Foundation. Later he served as Associate Professor at Harvard from 1926 to 1929.

Mayo became famous on account of Hawthorne Experiments conducted in Hawthorne plant of the Western Electric Company in Chicago, USA from 1924 to 1932. It is regarded that the human relations movement began with the Hawthorne experiments. Initially in 1924 these experiments were started by the engineers of Western Electric Company to measure the impact of lighting on productivity. Elton Mayo and his associates were invited to join the experiments in 1927. The experiments continued till 1932. Mayo came to the conclusion that human relations and group norms matter more than physical environment. This changed the traditional thinking of managers.

Hawthorne experiments were conducted in three stages as follows :

1. Test Room Studies
2. Interviewing Studies
3. Observational Studies

**1) Test Room Studies (1924-27) :** The purpose of this study was to assess the effect of lighting on the output of the employees. Two groups of employees were selected for this experiment. One group was kept in a room where lighting remained constant. The other group was kept in another room where lighting intensity was changed periodically. The results were unexpected and surprising because production increased in both the groups. It was, therefore, concluded that environmental factors like lighting do not affect productivity. But the engineers conducting this experiment could not explain "other factors" affecting the output.

#### **Relay Assembly Test Room Experiment (1927-29) :**

This experiment was conducted to remove the discrepancies in the previous experiment. For this experiment a small group of six female telephone relay

assemblers was selected and assigned to work in a separate room. Some new variables such as friendly and informal supervision, shorter working hours, piece-work, rest pauses, improved working conditions were introduced and their effect on output was measured. Then all improved physical conditions were withdrawn and output was measured. It was found that output and morale of workers increased and was maintained even after withdrawal of improved physical conditions. It was therefore, concluded that social relationship among workers, participation in decision making etc. had a greater effect on productivity. It was observed that the employees formed a 'group' and worked without tension or coercion from the above. They developed informal relations among themselves.

## **2) Mass Interviewing Programme (1928-30)**

In this experiment 21000 employees were interviewed over a period of three years to find out the reasons for increasing productivity. In the beginning direct questions were asked on the subjects considered important by the interviewers. This resulted in just comments of workers on the questions asked and did not serve the purpose. The method of questioning was then changed and the workers were asked to talk freely on matters important to them. This proved fruitful in understanding the views and problems of workers. The interviewing programme revealed the following things.

- The opportunity given to the worker to talk freely and air his grievance created a positive effect on his morale.
- Complaints are often symptoms of some deeper dissatisfaction.
- Worker's satisfaction depends on his status in the organization.

## **3) Observational Studies (1932) :**

The Bank Wiring Observation Room Experiment was the last phase of Hawthorne studies. Its purpose was to investigate the social pattern of a group of fourteen workers and their supervisors. A group of 14 male workers in the Bank Wiring Room was selected for this experiment and was placed under observation for a period of 6 months. A worker's pay depended on the performance of the group as a whole. Researchers expected that efficient worker would put pressure on the less efficient workers to complete the task. However, it was found that the group established its standards of output, used various social pressures for restricting the output and nobody was allowed to exceed the group output norm. It was also found

that a member of the group cared more for the opinion of the group than the financial incentives offered by the management.

### **Findings of Hawthorne Studies :**

The findings of Hawthorne studies underlined the importance of human relations in management. They underlined the importance of human and social factors in industrial relationships. The main findings of Hawthorne studies can be summarized as follows :

1. Physical and environmental factors do not materially influence the workers performance and their attitude to work. These factors have little consistent relationship with productivity.
2. Worker is not merely an 'economic man' motivated solely by money. His behaviour at work is more influenced by the social and psychological needs.
3. Workers respond to their total work situation of which social relations are an important part.
4. Hawthorne studies for the first time highlighted the impact of informal groups on the attitude and behaviour of workers. It is the informal relations among the workers which affect their performance more than the formal relations.
5. Good communication between supervision and workers can improve the relationships and productivity of workers.
6. Employees work better when they are allowed to participate in decision making process affecting their interests.
7. The sense of security, recognition, morale and belonging is of crucial importance in increasing the productivity of workers.
8. Complaints are often symptoms of more deep-rooted disturbances or dissatisfaction of workers.
9. Group norms influence the attitude to work, behaviour with management and level of production. It is the group which decides on its own the daily standard of work and restricts the output. It puts social pressures on workers for not exceeding the group output norm.

Hawthorne effect is a phenomenon where respondents change their behaviour and perform better when they know that they are part of an experiment and are being observed.

### **Criticism on Hawthorne Studies :**

**1) Lack of Validity :** The Hawthorne experiments were conducted under controlled situations. The workers under observation had an idea about the experiment. Therefore, it is argued that workers might have improved their productivity only for the experiments. Hence, the findings lack validity and they may not work in real settings.

**2) More importance to human aspects :** It is also said that the Hawthorne experiments gave too much importance to human aspects and neglected the technological and other factors.

**3) Not a Scientific Enquiry :** No scientific research methodology and techniques were followed in conducting the Hawthorne studies.

**4) Lack General Application :** Since the findings of Hawthorne studies were based on the experiments on a small group of workers in one industry they may not enjoy wide and general application in all kinds of work situations.

**5) Pro-management bias :** Some critics say that the Hawthorne studies had a pro-management bias. It was assumed that management objectives were correct and logical.

In spite of the above criticism, Hawthorne studies have become a milestone in the development of human relations theory. They stimulated an interest in human factor. They changed the dominant view prevailing in those times that people were no different from machines. They changed the traditional thinking of management from economic man to social man.

### **2.3 Summary**

In this Unit a brief review of the contribution of select management thinkers is taken. Taylor, Fayol and Weber laid the foundation of classical approach to management theory. Mayo was one of those thinkers who developed the neo-classical approach. Taylor concentrated on improving the productivity at shop floor by adopting scientific methods. His scientific management theory proved to be an eyeopener to the management which hither to depended on intuition, trial and error, and rule of thumb methods. Taylor's scientific management is concerned with finding one Best way for doing a job. He has stated certain principles of scientific

management and also prescribed the techniques for putting scientific management in practice. He has stressed the need of mental revolution on the part of both the employer and employees. Henri Fayol, was the first thinker to point out basic principles of management and their universal application in all types of organizations. Fayol's fourteen principles of management and functions of management gave him recognition as father of principles of management. Max Weber developed the ideal model of authority system based on rationality and legality and called it as bureaucracy. It is an impersonalized authority structure characterised by formal rules and regulations and professionalization. Mayo brought to notice the importance of human relations and informal groups at work setting. Hawthorne experiments conducted during the period from 1924 to 1932 provided new insights into group norms and behaviour. These experiments made the beginning of human relations movement in management and changed the traditional thinking of management towards workers from economic man to social man.

## 2.4 Terms to Remember

- **Scientific Management** : Use of Scientific methods to define 'one best way' for the job to be done.
- **Unity of Command** : The principle which tells that employees should receive orders from one superior only.
- **Unity of direction** : One head and one plan for a group having common objective.
- **Espirit de corps** : Unity is strength.
- **Bureaucracy** : Weber's authority structure model based on rational-legal authority with formal rules and impersonal relationships.
- **Mental revolution** : A basic change in the attitude of employer and employees.

## 2.5 Check your progress

### A) Fill in the blanks

1. .... suggested principles of management.
2. Elton mayo is known for ..... studies.
3. .... is regarded as the father of scientific management.
4. The concept of Bureaucracy is proposed by .....
5. .... means unity in strength.

**B) State True or false.**

1. Henri fayol is called as the father of scientific management.
2. Bureaucracy model enjoys stability.
3. Scalar chain defines the superior-subordinate relations in the organisation.
4. Max webar is the pioneer of Hawthorne studies.
5. Bureaucracy is based on rationality and legality aspects.

**2.6 Answers to check your progress**

**Ans.** A) 1. Henri fayol, 2. Hawthorne, 3. Taylor, 4. Max Weber, 5. Espirit de corps.

B) 1. False 2. True 3. True 4. False 5. True

**2.7 Exercise**

**A) Write short answers.**

- a) State any five principles of management suggested by Fayol.
- b) What do you mean by scientific management ?
- c) State any four characteristics of bureaucracy.
- d) Describe the principles of scientific management.
- e) What is the effect of informal group on productivity ?

**B) Give answers to the following questions.**

1. Describe the 14 principles of management suggested by Fayol.
2. What is Bureaucracy ? Explain the characteristics of bureaucracy.
3. Comment on Hawthorne experiments and their findings.
4. Explain Taylor's concept of scientific management and its techniques.

**2.8 Books for Further Reading**

1. Moshal B.S., Management Theory and Practice, Galgotia House, New Delhi.
2. P. Subba Rao, Management and Organizational Behaviour. Himalaya Publishing House, New Delhi.
3. Stephen B. Robbins and David A. Decenzo : Fundamentals of Management, Pearson Education, Delhi.
4. Tripathi P.C. and Reddy P.H., Principles of Management.



## Unit-3

### Planning and Decision-making

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3.0 Objectives of the Unit

3.1 Presentation of Subject Matter

3.1. A.0 Planning

A.1 Definitions

A.2 Characteristics

A.3 Importance

A.4 Steps in Planning Process

A.5 Functional Types of Planning

A) Financial, B) Production, C) Personnel and D) Marketing Planning

3.1 B.0 Decision-Making

B.1 Definitions

B.2 Decision-Making Process

B.3 Techniques of Decision-Making

3.2 Summary

3.3 Terms to remember

3.4 Check your progress

3.5 Answers to check your progress

3.6 Exercise

3.7 Books for further reading



### 3.0 Objectives of the Unit

After studying this unit you will be able to:

- a) Know the meaning, importance & process of planning.
- b) Understand the different types of planning.
- c) Understand the meaning of Decision-making & steps as well as techniques of decision-making.

### 3.1 Presentation of Subject Matter

This unit focuses upon the primary and important functions of management. This topic is about planning and Decision Making. It describes the concept, characteristics and importance of planning. Further topic highlights on different steps in planning – process. It also informs about significant types of functional planning like Financial Planning, Production Planning, Personnel Planning and Marketing Planning.

This topic helps to understand the concept of decision making and the steps involved in decision-making process. It also explains the techniques of decision making.

#### 3.1.A.0 Planning :

The planning is the most important and primary function of management. Due to planning the objectives of the organization can be achieved very easily. The work is completed in time without disturbance because of proper planning. In this modern business world the scale of business has become very large and so the planning is becoming essential. Planning means predetermination of future work regarding how and when to be done. Planning includes Time-table, scheduling and budgeting of work to be done.

In short planning is a primary function of management. Which accelerates to other functions of management.

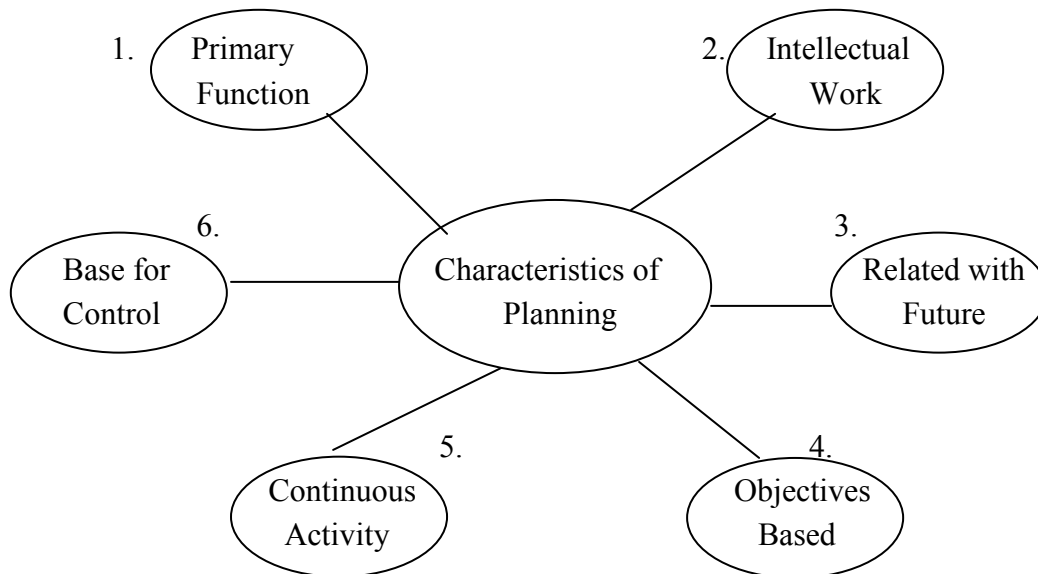
**A.1 Definitions :** A few important definitions of planning are as below-

1. **Theo Haiman :** Planning is deciding in advance what is to be done. When a manager plans, he projects a course of action for future, attempts to achieve a consistent, co-ordinated structure of operations aimed at the desired results.”

2. **Koontz & O'Donnell** : “Planning is an intellectual process, the conscious determination of course of action, the basing of decisions on purpose, facts and considered estimates.”
3. **Afford & Betty** : “Planning is the thinking process, the organized foresight, the vision for any organization.”
4. **George Terry** : “Planning is the selection and relating of facts and making and using of assumptions regarding the future in the visualisation and of proposed activities believed necessary to achieve desired goals.”

From the above definitions it is clear that planning bridges the gap between where we are and where we want to go. It is the thinking process and organized foresight based on past experience and analysis of present situation.

#### A.2 Characteristics/Features of Planning-



1. **Primary Function** : Planning is a first and primary function of management. Due to planning the control function is possible. The essence of planning is assessing the future. Accurate forecasting leads to correct decisions about future course of action.

2. **Intellectual Process** : Planning means forecasting of future and analysis of present situation. Under the planning the work scheduling and budgeting is done. For all this there is need of intellectual efficiency.
3. **Related with Future** : Planning deals with uncertainties in the future. Planning decides in advance the future course of action. The exact future can seldom be predicted.
4. **Objectives Based** : Each plan is based on objectives. In the planning process, organizational objectives or goals play an important part. Planning includes deciding of fore path based on certain concrete objectives.
5. **Continuous Process** : Planning is a continuous process. It is an activity related to future. In every present movement we have to plan for future. Planning is a never ending process. It is unending process to keep the organization as a going concern.
6. **Base for the Control Activity** : Planning is a basic activity. It accelerates all other activities of management. It helps to control process. Without planning control is impossible. Under controlling actual results are compared with plans.

Planning co-ordinates the activities of various departments, sections and sub-sections. It helps to control the future actions. The features of planning say that planning is a primary function of management.

In any business organization planning includes–Forecasting, setting of objectives, scheduling, work-flow, budgeting and detail work plan. To complete the work in time, work-plan with all supplementary details has become essential in this modern business world. Without planning the modern complex business can not run smoothly. The sifting of objectives and setting of the path of its implementation is a main part and parcel of planning.

### **A.3 Importance/Advantages of Planning**

Planning is a basic and important function of management. Planning is very important for any business organization. It helps to achieve goals of business and maximize the use of business resources. Due to planning the cost of production can be minimized and control on the activities can be possible. The following points indicate the importance of planning function –

- 1) **Attainment of objectives** : A predetermined objectives can be achieved through plans. Planning enables a purposeful set of activities instead of random action. In short planning focuses attention on the objectives. Objectives are set first and then the work plans are fixed.
- 2) **Minimizes Uncertainty** : Planning reduces the uncertainty of future. Due to planning the manager can anticipate changes in technology, taste fashions etc. Proper provision is made in the plans to attest these uncertainties. No doubt, the future is uncertain but under planning expected and estimated expenses leads to control over expenses and losses.
- 3) **Better Utilization of Resources** : There are many resources used in business organization. Out of them material, machines, men, power, money are prime manufacturing resources. Due to planning there is proper scheduling for maximum use of resources. Planning set the actions and flow of actions with its cost and time effects.
- 4) **Minimizes Cost** : Planning reduces wastages. Proper planning increase speed and efficiency of the workers which indirectly affects the cost. Planning is a base of control. Functional budgets are prepared under planning which minimizes cost by controlling wastages. It reduces variances between actual estimated cost.
- 5) **Better Use of Technology Resources** : In this modern age the business has to cope up with advance technology. This is possible only when proper planning for adoption of technology will be done. Human resources and other infrastructure resources can be utilized up to their maximum capacity only because of proper planning.
- 6) **Facilitates Decision-Making** : Decision – Making means selection of best alternative out of many options. Planning includes the evaluation and analysis of best option from so many options. Planning facilitates to decision – making.
- 7) **Facilitates Control** : Control is the last function of management. Control means comparison of actual results with the estimated or budgeted aspects. The difference between actual and planed targets is required to be redesigned again so indirectly planning facilitates to control.

From the above points it is clear that planning ensures unity of direction. It helps to control the business activities. Planning leads to budgeting, scheduling work-plan etc. Planning is the essence of all management activities. Once the work is planned well other activities of the business automatically follow.

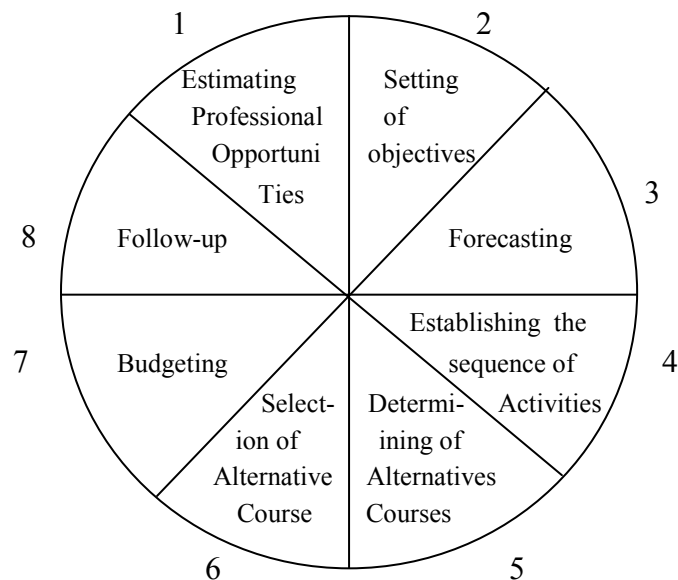
#### **A.4 Steps in Planning Process**

To plan is to chart out the future course of action to achieve the desired goal. For this purpose, the following major steps are involved in planning process.

Planning is a continuous process which is unending process which indicates the following systematic procedure. The steps in planning include the segmental procedure followed by the planning committee. The following are the steps.

- 1. Forecasting of Professional Opportunities :** Planning needs to search for professional opportunities in the business. The objectives can be set after knowing the opportunities. The professional opportunity may be in the form of units of production, sales units, profit in rupees, profit in percentage.
- 2. Establishment of objectives :** Planning is closely associated with the objectives of the organization. If there are no objectives there is nothing to plan. Objectives must be laid down in the clearest possible item.
- 3. Forecasting :** Forecasting means assessing the future on the basis of present situation and past experiences. Accurate forecasting leads to correct decisions about future course of action. Accurate forecasting helps to make accurate planning.
- 4. Establishing the sequence of Activities :** Planning includes the forecasting of so many activities. The proper sequence for those activities is essential. In order to have a successful execution of the basic plan as also of the derivative plans proper sequence is decided.
- 5. Determing of Alternative Courses :** There are several alternatives available for achieving the organizational objectives. Therefore, the next step in the planning process is to search for and examine alternative courses of action. However the more common problem is not selection of alternative but reducing the number of alternatives. So that the most promising option may be analysed.

6. **Selection of Alternative Course :** After having searched and examined the alternative courses, the next step is to evaluate the alternatives taking into consideration their favourable and unfavourable problem as one alternative may have some favourable points and other alternative may have some other favourable points.
7. **Budgeting :** A master budget for the whole enterprise and other departmental budgets are prepared to give meaning to plans. Financial aspects are covered under budgeting.
8. **Follow-up :** This is the last step in planning. After having adopted major and expected plans and they are brought into execution.



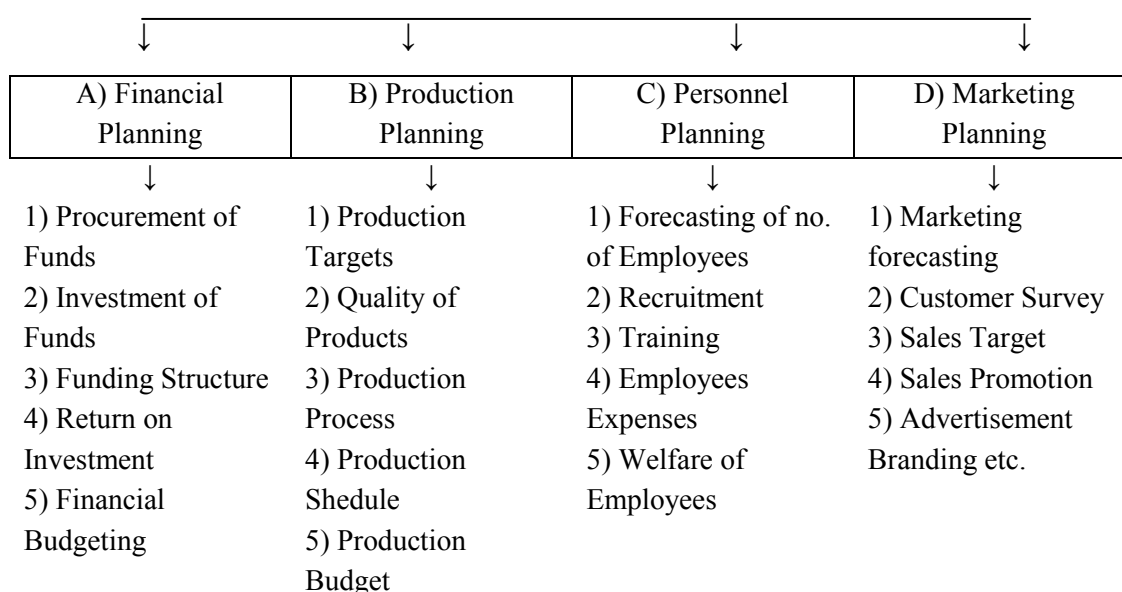
It is necessary to make a provision to check that the actual work is being executed and results are obtained at each stage according to plans and in case of variances or differences to actual, corrective steps are taken immediately.

### **A.5 Functional Types of Planning :**

There are many types of planning on the basis of nature, period, objectives and area of functions. Planning is a Primary, intellectual and important function of management. Due to proper planning the objectives of organization can be achieved very easily. According to Henry Fayol there are 14 principles of management. The

first and most important principle is of 'Division of Labour.' On the basis of this principle the entire process of the organization is divided into some sections/departments and sub-sections. In any production organization **Finance, production, personnel and Marketing** are some of the important departments. Other than these there may be purchase, storage, advertising and accounting departments, so depending upon the scope and size of the business. The planning of these four functional departments need to be studied in detail.

#### Types of Functional Planning



#### **A) : Financial Planning:**

Capital is essential to start the business. Funds are also required to run and to expand the business. In short the capital or funds are required at every stage of business. For the constant flow of funds in business proper financial planning is essential. Financial planning is related with how to raise the funds and how to invest in any asset or resource so that maximum return can be gained from the capital. Capital is raised in two ways. One is own capital and another is borrowed capital. Own capital includes share capital, capitalization of reserves etc. Borrowed capital includes issue of debentures, loans from banks and financial institute etc. When the collected capital is invested in long-term fixed assets, it is called fixed capital and when the funds are invested in short term needs this is called working capital. How to raise the funds through proper financial structure and how to invest the funds in

different assets, what will be reserves, how will be the profit distribution, annual budgeting etc. are the main factors of financial planning.

Financial planning is the process of estimating capital requirement and determining its utilization. It is an activity of framing financial policies in relation to procurement, investment and administration of funds of an enterprise.

This financial planning includes-

- I) Estimating the amount of capital to be raised.
- II) Framing different sources of capital from both owned and borrowed capital.
- III) Setting the policies of application of raised capital in different resources so that maximum return can be achieved by each investment.

● **Definitions of Financial Planning:**

1) **Walker and Boughni:**

“Financial Planning pertains only to the function of finance and includes the determination of the firms financial objectives formulating and promulgating financial policies and developing financial procedures.”

2) **Henry Hagland:**

“Financial planning of a corporation is its patterns of outstanding stocks and bonds.”

From the above definitions it is clear that financial planning is the responsibility of finance department. It is very useful to achieve the goals of the organization in time.

● **Importance of Financial Planning:**

Financial planning plays an important role in the success of any business organization. Due to financial planning funds flows constantly without any obstacle. The importance of financial planning in any business organization can be understood from following points.

1) **Forecasting of funds:**

Financial planning helps to forecast the need of funds for different reasons in the business. This helps to prepare different types of budgets.



**2) Capital Structure:**

Under the financial planning plans for how to raise own capital and how much to collect borrowed capital is also decided. By issuing appropriate number of shares the burden of fixed rate of interest on borrowed capital can be decreased.

**3) Proper distribution of capital:**

The collected capital can be distributed in to fixed capital and working capital. It is possible due to financial planning only.

**4) Maximum use of Resources:**

Financial planning helps in deciding the investment of funds in different resources. It also decides the return on investment in advance, which helps to maintain optimum use of resources.

**5) Economy in capital structure :**

Financial planning helps in maintaining the lowest expenses while raising capital funds. i.e. cost of capital factor is predetermined under financial planning.

**6) Constant flow of funds:**

Financial planning helps to maintain constant flow of funds in the business. This reduces the risk of over liquidity and unsound insolvency position of the business. It reduces the over-capitalisation and under-capitalisation.

**B) : Production planning:**

Production is a main and an important process of any business organization. There is a need of raw material, machinery, men-power and oil-fuel etc. as factors of production. There is a need to plan for all these production factors. Under the production planning, schedule and production budget is prepared. Production planning is the responsibility of production manager. Quality of production, production cost control, production efficiency etc. are important things to be considered while preparing production planning.

Production planning is an important to maintain the constant flow of production process from raw material to finished goods and from finished goods to consumption by the customer.

- **Definitions of production planning:**

- 1) **British Standard Booklet:**

“The administrative process that takes place within a many factories, business and which involves making sure that sufficient raw materials, staff and other necessary items are procured and ready, to create finished according to the schedule specified.”

- 2) **J. Betty:**

“Production planning is related with setting the production target, forecasting the factors of production and making the arrangement for production resources.”

- **Importance of Production Planning:**

- 1) **Maximum use of Production Factors:**

Due to production planning the factors of production (i.e. money, material, men, machine etc.) can be used at its maximum level. As the production planning includes the forecasting of schedule and standard quantity to be used in future while production.

- 2) **In time production:**

Because of production planning the production processes go on without disturbance continuously, which helps to complete the production in time.

- 3) **Reduction in cost of production:**

Production planning helps in reducing the cost of production. Production planning includes production budget which also helps to maintain control on cost.

- 4) **Best Quality of Production:**

Production planning helps to maintain quality of production quality control planning is a part of production planning.

- 5) **Co-ordination Between Different Departments:**

Production planning tries to maintain the co-ordination between purchase department, storage and marketing departments. The planning of all these departments co-ordinate between departments depending upon the production planning.

**6) Guideline to workers:**

Production planning helps to workers while working in factory. Production Schedule, Production Procedure, Production Cost, Production Budgets and targets are helpful to know the direction of the work.

**7) Forecasting of Sales:**

Production planning helps to forecast the production and sales quality, sales budget etc. The sales budgets are possible due to production planning.

**8) Customers Satisfaction:**

Customers or consumers are satisfied when they get the things as per their needs. This is possible only through the production planning-market survey, consumers survey is conducted. From the above points it is clear that production planning is the backbone of any business. It plays an important role in the success of business organization.

**C) : Personnel planning/Human Resource planning:**

In any business organization there are so many sections/departments. The different employees are required with different skills at different positions. Personnel Planning/Human Resource Planning helps to provide sufficient and proper human resource supply to the organization. Personnel planning includes selection of employees in proper numbers, training to employees, motivation, welfare activities and resource development etc. The Human Resource Manager needs to plan for every factor of the Human Resource Development. This means Human Resource Planning is related with recruitment and thorough development of human resource. So that it can be utilized at its maximum level. This ultimately effects on productivity and quality of production.

● **Definitions of Personnel Planning:**

**1) According to Vettor:**

“The process by which management determines how an organization should move from its current man-power position to its desired manpower position.”

**2) Wendell French:**

“Human resource planning is defined as the process of assessing an organisation’s human resources need in the light of organizational goals and

changing conditions and making plan to ensure that a competent, stable workforce is employed.”

- **Importance of personnel planning:**

- 1) Acceleration to other factors of production:**

Due to personnel planning the men-power recruited is mostly of skillful and efficient. Such Manpower always accelerates to the other factors of production. (i.e. Materials, Money, Machinery etc.)

- 2) Increase in production quality and quantity:**

Total success of institute is depending upon the manpower employed. The employees are constantly and in time supplied for every department especially production department helps to increase the quality and quantity of the production.

- 3) Able to adopt the new technological changes:**

Under production planning advance training is planed for employees. Due to this new advance technology can be adopted easily. Advance training helps to employees to increase their efficiency.

- 4) Helpful to achieve goals:**

Production planning helps to achieve the main goal of the business that is net profit. Production planning increases the work efficiency of the workers. Proper training increases the efficiency as well as mental satisfaction of the employees. There is low rate of labour turnover. It reduces cost of production and increases the net profit.

- 5) High employment opportunity:**

Production planning helps to plan proper need of employees with specific skills and education, with this proper plan employment opportunity can be generated.

From the above points the need of personnel planning is shown. This exposes that the very important factor of production that is men power can be utilize at maximum level with the help of production planning.

#### **D) : Marketing Planning :**

Marketing Planning helps to profit planning. Profit can be earned through proper marketing of the products. Finished goods are handed over in time to the consumers

through effective marketing planning. Sustaining the present market as well as market extension and sales promotion are the main objectives of marketing planning. Marketing planning includes-planning for search of new market, branding, packing, advertising, market division, market survey etc. Marketing planning has become more complicated due to the changing market environment, competition, changing trends and demands of customer and changes in fashion etc.

- **Definitions of Marketing Planning :**

- 1) **McDonald:**

“A logical sequence of activities leading to the setting of marketing objectives and formulation of plans for achieving them.”

- 2) **American Marketing Association:**

“Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer or user.”

- **Importance of Marketing Planning:**

- 1) **Fast/Quick stock turnover:**

Because of proper marketing planning there is fast turnover of the stock of finished goods. The final product is sold very quickly and it does not lay in stock for long period.

- 2) **Forecasting of many factors:**

In the marketing planning the forecasting of many factors like – customers, competitors, middlemen, publicity, packing etc. is done by marketing manager. It may be done through market survey and research.

- 3) **Guidelines to salesmen:**

Marketing planning is helpful to sales officers and salesmen etc. It gives the guidelines to them. As it includes sales targets, sales budgets, sales strategies etc.

- 4) **Fulfillment of institutional objectives:**

Because of long-term as well as short term marketing planning, the main objectives of expected sales and profit can be achieved easily.

**5) Easy to face new Environmental challenges:**

The marketing planning is essential to face new environmental changes in the market. Changes in demand, taste, fashion, competition etc. can be predetermined and proper remedies can be decided in marketing planning.

**6) Helpful to production department :**

Marketing planning is helpful to co-ordinate with production function. The production target depends upon marketing efficiency. Marketing forecasting, marketing surveys etc. which helps to set production budget.

**7) Marketing planning is the base of annual budget :**

Annual budget includes proposed incomes and expenditures with profit and loss estimation. Marketing planning contributes to budget for all expenses as well as budgeted incomes through proposed profit and loss A/c.

Above all the few points which indicates the importance of marketing planning in any business organization.

**3.1.B.0 Decision – Making**

Management includes a chain of functions like planning, Organization Direction, Co-ordination and control. In case of every function the management needs to take decisions. Decision- Making is a crucial and central Job. Decision is a choice whereby a person comes to a conclusion about the solution of given problem. It is the selection of a course of action from two or more alternative courses of action.

It is an intellectual and continuous process. In case of industry to achieve the objectives of the business and to face the problems of organizations management needs to select the best alternative out of many alternatives. According to dictionary meaning ‘Decision’ means to prepare concrete view on any fact. The word ‘decision’ has been derived from the Latin word ‘Decidere’ which means a cutting away or a cutting off. Thus, a decision involves a cut off alternatives between those that are desirable.

“A decision is an action chosen from the various possible course of action”.

Decision- Making is rational process to arrive at a decision. The process by which an individual or organization chooses one action.

### **B.1 Definitions – Following are few important definitions-**

- 1) **According to Allen** – “Decision making is the work which a manager performs to arrive at conclusion and judgement”.
- 2) **According to George Terry** – “Decision Making is the selection based on some criteria from two or more alternatives”.
- 3) **According to E. Dale** – “Management decisions are those decisions which are always made in the course of one of the true management activities. : Planning, Organising, Staffing, Directing. Controlling, Innovation and Representation”.

From the above definitions it is clear that decision- making is a function related with all other functions of management. It is concerned with selection of best alternative out of many options. In time decision- making helps the organization to achieve its goals.

### **Features / Characteristics of Decision- Making**

- 1) **Selection of Best Alternatives** – Decision- Making means selection of the best alternative out of various alternatives. Decision making implies that a manager selects the most desirable alternative to solve a problem.
- 2) **Intellectual Activity** – Decision- making is a rational and intelligent process. A manager has to think seriously and then choose the most appropriate way of doing a thing.
- 3) **Goal- Oriented** – Decision – making is goal-oriented activity. Every decision has to solve a specific problem. Every problem has many solutions but the best solution is based on a specific objective of the business.
- 4) **Continuous Activity** – Decision – making is a continuous activity. It is related with many functions. In case of management functions from planning, organizing, co-ordination and controlling there is decision- making involved.
- 5) **Means to an end** – A decision is a means to an end and not an end. it is a device to achieve some results, Decision – making shows the results and effects in long run.
- 6) **Related to Situation** – Decisions are different in different situations selection of alternative changes as per changing priorities and priorities changes as per situation.

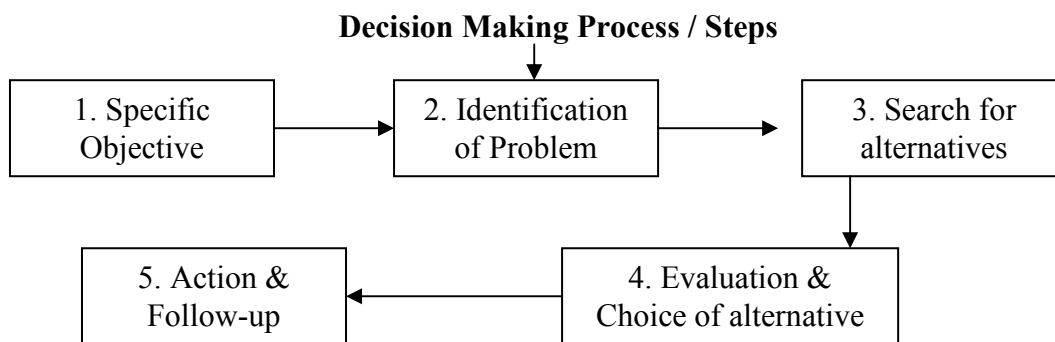
Present situation is based on present economic conditions climate social- needs, changing habits and fashion etc.

The above are few important features of Decision- Making.

## **B.2 Process of Decision – Making – Process:**

Decision- Making is defined as the selection of one course of action from two or more alternative courses of action. Whatever manager does, he does it through decision- making, so the management is basically a decision- making process. This process passes through some sequential steps.

The process of decision making has the following steps to be followed in progression, so that a decision is arrived at. The following figure shows the steps involved in decision- making –



**1) Setting Specific Objective :** There must be some specific objective. Every business activity has some goals. Setting of objective is an essential step. There are many objectives for a single problem. The objectives are set by top level management. The management should be very careful while setting objectives of the organization.

**2) Identification of Problem :** Identification of the problem is the real beginning of decision-making. A manager tries to solve a problem but identification of accurate problem is very important. If the objective is set specifically, it provides a manager a clue in identifying the problem. For identifying a problem the analysis and diagnosis of every aspect of the problem.

**3) Searching for Alternatives :** A detailed diagnosis and analysis help in knowing the nature of the problem. Then the manager makes a search for possible solution. The search for various alternatives helps in selecting the most appropriate



alternative. A manager may use several sources for finding alternatives for that he can use his past experiences.

**4) To Evaluate & select alternative :** There are many alternatives for a single problem. Sometimes some alternatives may not be significant. It is essential to evaluate from different aspects like – cost economy, time factor, social effects etc. A manager mostly make a list of the alternatives. The priority list must be prepared and the best alternative must be decided on the basis major objectives.

The critical or strategic factors should also be taken into account. These factors may be financial provision, technical know-how, political situation, govt. policy, etc. On the basis of such factors the analysis and selection of best alternative is done.

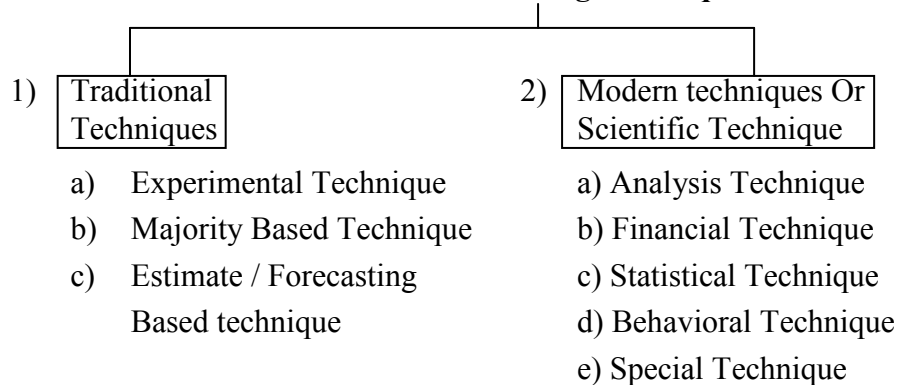
**5) Action & Follow-up :** Once the best alternative is selected it is put in to action. The implementation of decision shows the problems or hurdles in practice. Sometimes these obstacles are not possible to reduce then the revision of whole decision process is required to be done. A decision is made effective through the action of the people in the organisation. If the action of implementing a decision is helpful to achieve objectives of the organisation.

When a decision is put into action, it brings certain results. But if there is differences between results and objectives the reasons of differences are being found out and review of the decision is done. A follow-up system ensures the achievement of the objectives.

### **B.3 Techniques of Decision Making:**

To take the accurate decisions in business the management needs of follow few steps. One of these steps is to select the best option out of many options on the basis of few criteria. While selecting the best option the management has to consider some techniques of decision-making. There are two types of techniques to take managerial decisions. These techniques are as follows.

## Decision Making Techniques



**1) Traditional Techniques :** These Techniques are useful for small business concerns. These techniques are used by high experienced managers of the businesses. In modern days these techniques are becoming out dated as the business scale is increasing and many environmental factors are effecting on business operations.

**2) Modern / Scientific Techniques :** In modern business world has become more dynamic and of large scale. In this advance technology age taking the decisions on the basis of traditional method has become more risky. So modern scientific techniques are developed and used in modern businesses. The few major techniques are as below.

**a) Analysis Technique :** This technique makes an analytical study of available options in present situation and tries to forecast for future. It is useful for small business organizations where there are limited options available to select.

**b) Financial Techniques :** As any business decision affect directly or indirectly to financial need of organsiation. Due to any decision what will be the capital investment, return on investment and burden of loan etc. are the factors which are required to be considered. The Break Even-point, Cost-Volume- Profit analysis etc. required to be found out and based on that profit planning and cost control should be done.

**c) Statistical Technique :** Under this technique Probability Theory, Operation Research, Co- relation & Regression,Ratios, Mean, Medians Trend analysis etc. are used to make analysis of the data. In modern business world these statistical techniqhes can be used with special softwares with computers.

**d) Behavioural Technique :** This technique is used in selection of human resource. To select a right person at right place there is need of Judgment of behavioural factors like-choice,trend psychological, emotional quantum, thoughts

and nature of a person etc. The evaluation of behaviour aspects is done with some psychological test under this technique .

e) **Special Technique** : In modern business world some new special techniques of operation research,PERT,CPM and SWOT analysis techniques are used while analysing the data in decision making process.

The above are few modern techniques used in decision making process.

### 3.2 Summary

#### A) Planning :

Planning means to look ahead and to estimate the future course of action on the basis of past experience and the present situations. Planning decides in advance the answers of the question of what to do, why to do, how to do, when to do, and who is to it.

Planning is the primary and intellectual process. It is the base of controlling

- |                                       |                      |
|---------------------------------------|----------------------|
| 1) Characteristics : Primary Function | 2) Intellectual work |
| 3) Related with Future                | 4) Objectives Based  |
| 5) Continuous Process                 | 6) Base for control. |

#### ● Importance of Planning

- 1) Attainment of objectives.
- 2) Minimizes Uncertainty.
- 3) Better Utilization of Resources
- 4) Minimizes Cost.
- 5) Better Use of technology.
- 6) Facilitates Decision Making.
- 7) Facilitates to control.

#### ● Steps in Planning process

- 1) Estimating professional opportunities
- 2) Setting of objectives.
- 3) Forecasting
- 4) Establishing the sequence of activities
- 5) Determining of Alternative courses

- 6) Selection of Alternative courses
- 7) Budgeting
- 8) Follow-Up

- **Functional Types of Planning.**

1) **Financial Planning** : It is the process of estimating capital requirement and determining its utilization.

2) **Production Planning** : It is related with setting the production target, forecasting and scheduling production process and arrangement of all production resources.

3) **Personnel Planning** : It is related with guessing the need of people, making plan for the recruitment and further development of human resource.

4) **Marketing Planning** : It is concerned with setting of marketing objectives and planning the flow of goods and services from producer to consumer.

**B) Decision Making :**

Decision making is a rational process related with selection of option out of so many options after analyzing all options.

- **Characteristics of Decision Making:**

- 1) Selection of Best Alternatives
- 2) Intellectual Activity
- 3) Goal Oriented
- 4) Continuous Activity
- 5) Means to an end.
- 6) Related to situation

- **Decision Making Process:**

- 1) Setting specific objective
- 2) Identification of Problem
- 3) Search for alternatives
- 4) Evaluation & Choice of alternatives
- 5) Action & Follow -up

● **Techniques of Decision-Making:**

There are two types of techniques

- 1) **Traditional Techniques** : This type of decision - making techniques includes Experimental Technique, Majority Based technique, Forecasting Based technique etc.
- 2) **Modern or Scientific Techniques** -Under this category there are following few modern techniques like Analytical, Financial, statistical, Behavioural and special Techniques etc.

**3.3 Terms to Remember**

- |  |                         |
|--|-------------------------|
| 1) Forecasting                                     | 2) Intellectual Process |
| 3) Goal - oriented                                 | 4) Identification       |
| 5) Professional                                    | 6) Opportunities        |
| 7) Establishing                                    | 8) Alternative courses  |
| 9) Uncertainties                                   | 10) Maximization        |
| 11) Resources                                      | 12) Utilization         |
| 13 facilitates                                     | 14) Technology          |
| 15) Traditional                                    | 16) Scientific          |
| 17) Break-Even-Point                               | 18) Operation Research  |
| 19) Co- relation & Regression                      | 20) Behavioural         |
| 21) Programme Evaluation & Review Technique (PERT) |                         |
| 22) Critical Path Method (CPM)                     |                         |

**3.4 Check Your Progress**

**A) Fill in the blanks**

- 1) The managerial Function involving an intellectual process before action is called .....
- 2) To off set uncertainty and change -----is very important.
- 3) Selecting best alternatives out of many is called -----
- 4) Operation research, probability theory, Averages etc. are ----- analytical technique.
- 5) ----- planning includes estimation of procurement and utilization of capital.

**B) State Whether Statement is True or False**

- 1) Planning is a base for control.
- 2) Planning is a primary function of Management.
- 3) Production Planning includes flow of goods & services from producer to consumer.
- 4) Setting specific objective is the last step in decision making process.
- 5) There are two types of techniques of decision making
- 6) Selecting the best option out of so many options after analysing the each option is called decision making .

**3.5 Answers to check your Progress.**

**A) Fill in the blanks (Answer)**

- |                |              |                    |
|----------------|--------------|--------------------|
| 1) Planning    | 2) Planning  | 3) Decision Making |
| 4) Statistical | 5) Financial |                    |

**B) True or False. (Answer)**

- |          |         |          |
|----------|---------|----------|
| 1) True  | 2) True | 3) False |
| 4) False | 5) True | 6) True  |

**3.6 Exercise**

**I) Answer in Short.**

- 1) Explain the concept of 'Planning'.
- 2) Give the importance of Planning .
- 3) Explain the Characteristics of Planning.
- 4) Give the steps in planning process.
- 5) What is financial planning?
- 6) What is production planning?
- 7) What is Personnel Planning?
- 8) What is Marketing Planning?
- 9) What is decision - Making?
- 10) Give the steps of decision making process.
- 11) Explain the modern techniques of Decision -making.

## II) Answer in Detail

- 1) What is planning? Give its characteristics.
- 2) What is the importance of planning?
- 3) What are the functional types of planning?
- 4) Explain the steps involves in planning process.
- 5) What is decision-making? Give decision-making process.
- 6) What are the decision-making techniques?
- 7) What is maketing planning? Give its importance in brief.
- 8) What is financial planning? Give its importance in brief.

## III) Write Short Notes.

- 1) Importance of Planning.
- 2) Steps in planning process.
- 3) Production planning.
- 4) Personnel planning.
- 5) Financial Planning.
- 6) Decision - Making.
- 7) Steps in Decision -making process.
- 8) Techniques of Decision-making
- 9) Modern techniques of decision-making.
- 10) Statistical technique of analysis SWOT analysis.

## 3.7 Books for further Reading:

- 1) Dr. P.M. Herekar “Principles of Management” Mehta Publishing House”
- 2) L.M. Prasad ‘Principles and Practice of Management’ Sultanchand & sons.
- 3) Hein weihrich & Harold Kootz “Management A Global Perspective” (Tenth edition) Tata McGraw Hill.
- 4) R.K. Singla “Business studies” Global Publication Pvt .Ltd.



**Unit-4**  
**ORGANIZING**

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- 4.0 Objectives of the topic
- 4.1 Subject Matter
- 4.2 Organizing: Introduction
  - 4.2.1 Meaning and importance of organizing
  - 4.2.2 Levels of management and their functions
    - (a) Top Level Management
    - (b) Middle Level Management
    - (c) Lower Level Management
  - 4.2.3 Types of Organization
    - I) Line Organization
    - II) Line and Staff Organization
    - III) Functional Organization
    - IV) Committee Organization
- 4.3 Summary
- 4.4 Terms of Remember
- 4.5 Check your progress
  - A) Fill in the blanks
  - B) State 'True' or 'False'
- 4.6 Answer to check your progress
- 4.7 Exercise:
  - I) Answer in short
  - II) Answer in detail
  - III) Write short notes
- 4.8 References
- 4.9 Books for further study



## **4.0 Objectives of the topic:**

After studying this unit you should be able to:

- Know the meaning and importance of organizing.
- Analyze the structure and types of organization.
- Understand the different levels of management and their functions.

## **4.1 Subject Matter:**

The present unit deals with organizing function of management and its integral aspects, such as levels of management and different types of organization structure.

Organizing is considered to be the second important function of management. Without organizing, planning made by the management will remain on paper only. It means for the implementation of plans and achieving the objectives, an efficient organizing function is indispensable. Organizing is an important element of management because it is through organizing that a manager brings together the material and human resources required for achievement of desired goals. The organizing function is performed in varying degree by all levels of management. The managerial hierarchy consists of a series of managerial positions in an organization called levels of management. Organization structure is primarily concerned with the allocation of tasks and delegation of authority. The organization structure is, of course, not an end in itself but a tool for accomplishing enterprise objectives.

## **4.2 Organizing: Introduction**

Modern society may be called an organizational society. We are born and brought up in an organizational (family), we receive our education in organizations (Schools and Colleges) we worship and find joy in organizations (temples & clubs) and we buy most of our daily requirements from an organization (Retail Store). Each one of us belongs to several groups which may be called organization, e.g. our family, club etc. This proves the pervasiveness of organization. Organization affects not only our daily life but also the pace and pattern of human civilization. Organization has become an essential part and parcel of our daily life and of the environment in which we work, play, relax or do just anything.

Organizing is the process of defining and grouping the activities of the business enterprise and establishing the authority relationships among them. In performing the

organizing function, the manager defines, departmentalizes and assigns activities so that they can be most effectively executed. Organization is the foundation upon which the whole structure of management is built. It is the backbone of management. Without organization manager cannot function as manager. Organization is concerned with development and maintenance of structure of working relations in order to achieve the objectives of the enterprise. Organizing means determination and assignment of duties to people, establishment and maintenance of relationships. It is the structural framework within which the various efforts are coordinated and related to each other.

The term organizing is also used as a process carried out for arranging the tasks into manageable units and defining the formal relationships among the people working on different tasks. It involves putting things and persons at proper places and in relation to each other. The success or the failure of an enterprise depends largely on the nature of organization. Describing the significance of sound organization, Andrew Carnegie, a well known American industrialist, once said: *“Take away our factories, our trade, our avenue of transportation, our money, leave us nothing but our organization and in four years we shall have re-established ourselves.”*

#### **4.2.1: (a) Meaning of Organizing:**

As a basic function of management, organizing is the continuous and dynamic process involving the identification and grouping of activities to be performed and defining and establishing the authority responsibility relationships. This enables people to work most effectively together in achieving business objectives. It is through the process of organizing that the tasks and responsibilities of people are determined. In a general sense, organizing consists of determining and arranging for men, material, machines and money required by an enterprise for the attainment of its goals. In a restricted sense, the term organizing means defining the duties and responsibilities of the people employed, and determining the manner in which their activities are to be interrelated. It is the function of creating a structure of duties and responsibilities of people in different position. The outcome of the organizing process is the ‘organization’ consisting of a group of people working together for the achievement of one or more common goals.

The components of organization structure include men, materials, machines, money, methods, functions, authority and responsibility and organizing is the determining, grouping and arranging of the various activities deemed necessary for the attainment of the objectives, the assigning of people to those activities, the providing of suitable physical factors of environment and the indicating of the relative authority delegated to each individual charged with the execution of each respective activity.

**Definition of Organizing:**

1. **Louis Allen.** ‘Organizing as the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing objectives.’
2. **Alvin Brown.** ‘Organizing defines the part where each member of an enterprises is expected to perform and the relations between such members, to the end that their concerted endeavour shall be most effective for the purpose of the enterprises’
3. **Koontz and O’Donnell.** ‘Organizing involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate departments and the provision for authority delegation and coordination.’
4. **Oliver Sheldon.** ‘Organizing is the process of combining the work which individual and groups have to perform with the faculties necessary for its execution, so that they provide the best channels for efficient systematic, positive and coordinated application of the available effort.’

These definitions, if looked at carefully, point to some of the basic elements of organizing, involves, determination of objectives, identification and grouping of activities, allocation of duties and developing relationships.

**4.2.1. (b) Importance of Organizing:**

Sound organization is essential for the continuity and success of every business. It is indeed the backbone / foundation of effective management. Since ages and in every walk of life, organization has been playing a very vital role. Obviously, the

better the organization the fuller would be the achievement of the common objectives. Some of the principal advantages of organizing may be outline as below:

1. **Optimum Utilization of Technological Innovations-** A good organization succeeds in adjusting to the new and changing situation. The technological improvements are taking place every time; the management is requiring making use of them to exist in competitive world. Power should be delegated for making best utilization of technological changes.
2. **Smooth Management /Administration-** A balanced organization facilitates both management and operation of the business. It is the mechanism through which management coordinates and controls the business. It serves as an effective instrument for realizing the objectives of the business. It is through the framework of organization that plans are put into practice and other managerial functions are carried out. It helps to focus the attention and action of management on the accomplishment of objectives.
3. **Facilitates Growth and Diversification-** A well-designed organization provides for systematic division of work and permits necessary change. It is a framework within which the organization /company grows. Therefore, it enables the enterprise to enter new lines of business. The enterprise possesses necessary adaptability to face new challenges. Scope for innovation and diversification is increased.
4. **Training and Development –** A good organization offer an opportunity for the training and development of human resources. A clearly defined authority provides a scope for the use of talent. The new entrants are attached to experienced persons who guide them for undertaking various jobs. It facilitates sufficient opportunity for the training of new trainees and development of existing human capital.
5. **Stimulates Creativity-** Sound organization encourages creative thinking and initiative on the part of employees. Delegation of authority provides sufficient freedom to lower level executives for exercising discretion and judgment. Individual objectives can be integrated with organizational goals. New and improved ways of working can be developed.
6. **Ensures Optimum Use of Resources-** A good organizational set-up permits adoption of new technology. It helps to avoid duplication of work, overlapping

efforts and other types of waste. As a result it facilitates the best possible utilization of human and physical resources.

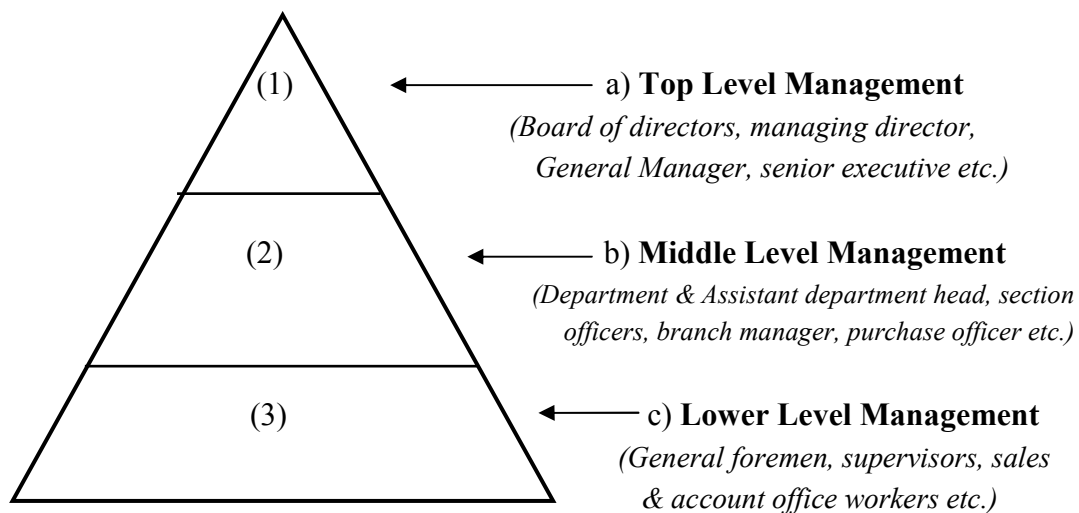
7. **Foster Coordination-** The organizing process fosters coordination by supplying the framework for holding together the various functions in an orderly pattern. It is an important means of integrating individual efforts. It helps in putting balanced emphasis on different departments and divisions of the enterprise.
8. **Facilitates Continuity-** A well established organization provides for training and development of employees at all levels. It provides opportunities for leadership and helps in ensuring the stability of the enterprise through executive development. It makes for cooperation and harmony of actions.
9. **Improves Efficiency and Quality of work-** It is to improve efficiency and quality of work for an organization through synergism. Synergism can result from division of labour, better utilization of human talent, optimum use of technological improvement, and above all increased coordination, all of which are product of good organization.
10. **Effective Control-** A good organization helps in achieving organizational goals through the exercise of effective controls. It provides a channel for better management.
11. **Better Human Relations:** Human relations improve in a good organizational set up. Proper coordination and mutual cooperation encourage developing healthy relation among the people. An organization consists of human beings and their satisfaction helps in improving human relations.

#### **4.2.2 LEVELS OF MANAGEMENT:**

In an organization, there exists a chain of command or scalar chain from the ultimate authority to the lowest rank. This chain is made up of superior-subordinate relationships. It means structure of organization established hierarchical relations between superior and subordinate. This chain or hierarchy of management consists of a series of managerial positions called 'levels of management'. It is determines the authority and status of managers. The levels of management means a line of separation between different positions held by seniors and juniors to distinguish each other, in respect of their duties, responsibilities, rights and authority. The term 'Managerial Level' (Hierarchy) stands for the arranged managerial positions in an

organization. Since management essentially implies taking work from others as per the plan, there will have to be superior-subordinate relation, whereby the former exercise his authority to get the work done from the later as per specific directives. All the management functions cannot perform by an officer at the top; actually they have to be entrusted to different executive officers all along the enterprise. In short, authority has to be delegated and responsibility diversified in order to achieve optimum results. Each level of management is an integral part of the chain of command. An individual at any level gets orders from his immediate superior. Power and authority are delegated downwards. On the other each level acts as a channel for upward communication of reports on results or grievance, reaction etc. All important decisions are made by the top level managers and policies are communicated through successive level. At each lower level the policies are spelled out in increasing details and transformed into operating instructions.

**Number of management levels:** There is no fixed number of management levels. The number of managerial levels depends upon the size and complexity of organization. As a company becomes larger and more complex, there is a natural tendency for the chain of command to lengthen. Hence, the number of management levels is varying in different organization. However, the recommendation of most of the experts and for the convenience of study, the levels of management may be classified into three categories: (1) Top Management, (2) Middle Management and (3) Lower Management.



(Fig. 4.1)

### **a) Top Level Management:**

Top management is at the head of the organization. It consists of the representatives of the shareholders, viz., the Board of Directors and Chief Executive. Chief executive may be known as Managing Director / General Manager, President, Chairman cum managing director senior executive, etc. Top management is the ultimate source of management authority and it is accountable for overall management to the shareholders of the company. This management confronts great uncertainties and spends much of their time dealing with environmental influences. They set the objectives, define the goals, establish the policies, see that the policies are put into effect and judge the results. It is often described as the policy making group responsible for the overall direction and success of all company activities. Top management integrates the functions of the whole organization. It is responsible for the performance of the entire organization through the middle management. They do take or make vital decision regarding plant and investment, research and development, production and marketing, innovation and other facilities. They work hard for long hours and spend much time in meeting or on the communication lines. To discharge its functions effectively, the members of the top management must possess conceptual, decision making and human skills more than technical skill.

#### ● **Functions of Top Level Management:**

The main functions of top management are as follows:

- 1. *Determining Objectives:*** The top management has to keep in view the general objectives viz-survival, profit, business growth, prestige and social acceptance. It help to identify the exactly nature and type of business organization and is its ultimate mission. Similarly, specific objectives may relate to type of activities, specialty of employees, competition, method of marketing, areas of sales, relations with different stake holders etc.
- 2. *Framing the Policies:*** To frame the policies and chalk out plans to carry out the objectives is one of the important functions of top management. Policies may be relate to different aspects of the organization i.e. production, marketing, financial, human resource etc. Top management has to devise plans and schemes for execution of policies within a given time.

3. ***Set up the organizational Framework:*** All operations are carried on within the functional structure of the organization and authority is delegated from the top officers to the subordinates. Hence, top management is responsible for determines the organizational structure for execution of the plans. It ensures smooth flow of work from one section to another.
4. ***Mobilization of Resources:*** The top management has to assemble necessary resource prior to execution of the plans. Preparing the plans are mental processes, but to bring them into practice. Physical resources like machine, tools, building, furniture, power, material etc have to be assembled. This is the task of top management.
5. ***Controlling:*** The top management used to maintain general control over the entire enterprise to ensure that the middle and the lower managements function according to plans. This control is possible through checks or comparisons of actual results with planned targets.
6. ***Selection and motivation of right manpower:*** Sound manpower management start with selection of right kind and right number of people in the organization by top management. They contribute their best qualities and abilities to achievement of organization goal through the proper motivational function of top management.
7. ***Develop business relation with Other organization:*** It is needful function of top management to create and maintain good relations with various groups and factors in the society. These include Government, NGO, supplier, trade associations, trade unions, financial institutions etc.

**b) Middle Level Management:**

Middle management stands between the top management and the lower management. It is largest group of managers in most of the organization. Middle management includes department and section officers such as plant manager, area sales manager or branch manager, office manager, accountant, purchase officer etc. This level of management is responsible for implementing the policies developed by top management and supervising and coordinating the activities of various departments. They are involved less in physical activity and more in paper work and meeting than the operating managers. However, new information technology has



reduced the number of middle level executives by providing on line technical assistance to bottom level management. Thus, middle management plays a role of intermediary between top and operating management and to coordinate inputs, process and outputs.

● **Functions of Middle Level Management:** Of course in degrees the functions of middle level management differ from one organization to another. Some of the functions are:

1. ***Direction for execute plan and policy:*** Middle management attempt take effort to proper use of all resources of the organization to execute the plans and policies. They direct all activities of the organization so that the top management is made free from direction and supervision.
2. ***Framing departmental organization:*** Basically middle management is more responsible for the success or failure of their departments. They develop sound departmental organization structure with proper authority and responsibilities for smooth functioning of whole organization without hindrance of any kind.
3. ***Division of work and specialization:*** After getting the review of organization structure. The middle management prepare a departmental work chart to assign the task to right man at right place and time to secure better performance in the organization.
4. ***Effective Coordination:*** Coordination is the central problem of organization and middle manager are the key people in achieving it; they affect and are in turn affected by three way movement of coordinative forces-upward, downward and sideways throughout the organization.
5. ***Motivating and Development of Staff:*** This level of management deals with various employees both as individual and groups of organization. They create a duty-loving, responsible, satisfied, honest, efficient and skilled team of workers. Their aims at motivating and develop the employees for getting best results from them.
6. ***Prepare work completion report:*** The middle management collect statistical data and necessary information in connection with work of the respective departments /sections and prepare the reports for submission it, to the top management. It helps to take needful action for further improvement.

### **c) Lower Level Management:**

This is bottom /lowest level of management hierarchy. It is also known as '*Supervisory Management*'. It consists of plant superintendent, senior foremen and front line supervisors, sales officer, account officer etc. They are concerned with technical routine and day to day problems. Though classified at the low level, the importance of functions of the personnel employed at the operational level cannot be overemphasized. The plan and policies of the top management will fail if the foreman do not fully realized the spirit of sustained work. This level of management represents the workers before top management. They maintain personal contact with operatives. They direct, lead, motivate and coordinate the activities of the operating employees. They serve as the link between management and workers. Their authority and responsibility are limited but the quality of workmanship and quantity of output depend on their efficiency and effectiveness. This, management is expected to get work done from the staff under their control. They are responsible for the implementation and control of the operational plans developed by middle level management. Thus, it is a group that puts the plans of management into effective action. They are responsible for directly managing operatives and resources.

#### **● Functions of Lower Level Management:**

The lower level management performs:

1. To plan day to day work within the goals lay down by higher authority.
2. To assign jobs to workers and to make arrangement for their training and development.
3. To arrange for the necessary equipment, materials, tools etc., for the workers.
4. To supervise and control workers and maintain personal contact with them.
5. To advise and assist workers by explaining work procedure, solving their problems etc
6. To maintain discipline and good human relation among workers.
7. To build up a high group morale and develop team spirit among the workers.
8. To report the progress to higher authorities in response to their instruction and directives.

### **4.2.3 TYPES OF ORGANISATION:**

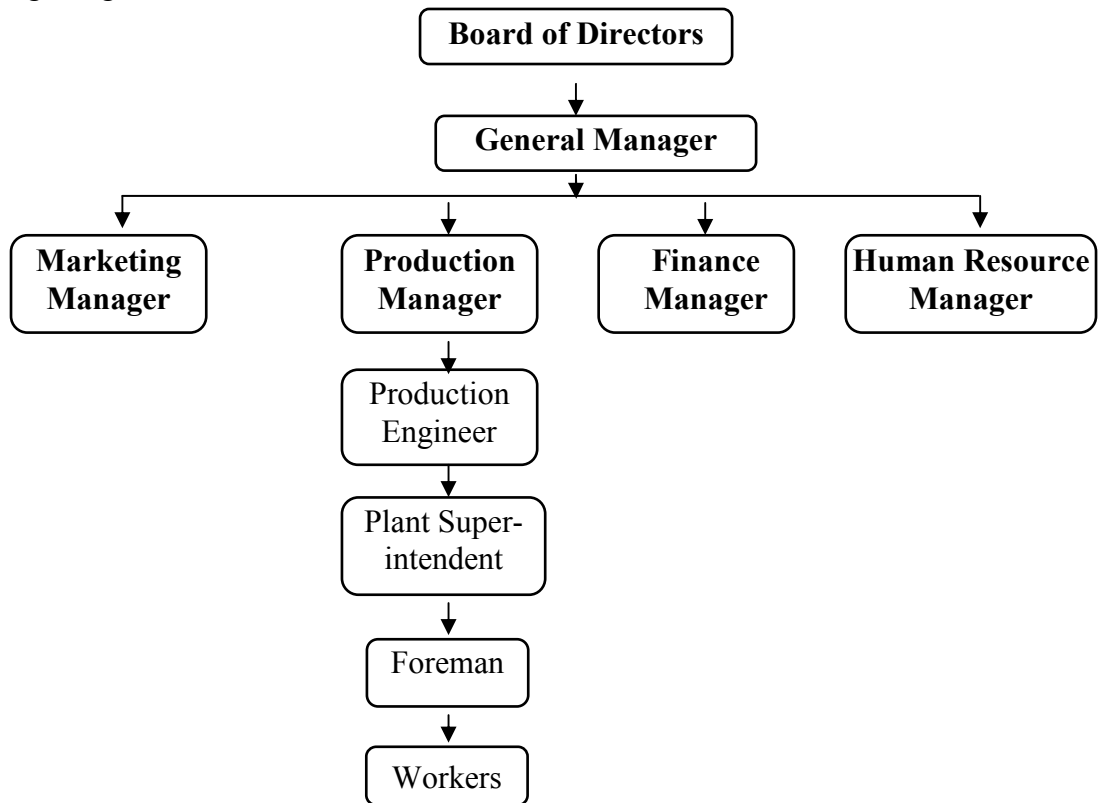
The organization of any business represents the network of vertical and horizontal authority relationships between various positions. The exact form / type of internal organization depend upon the nature, size and objective of the particular business. Hence, the organization structure is primarily concerned with the allocation of tasks and delegation of authority. There are several ways of division of work and distribution of authority. However, there are four main types of organization given below:

- I. Line Organization
- II. Line and Staff Organization
- III. Functional Organization
- IV. Committee Organization

#### **I. Line Organization:**

This is simplest and oldest type of organization. It is also known as Military / Scalar / Hierarchical organization. In this type of organization, there is vertical line of authority flow from the top to bottom and the line of responsibility flow up from bottom to the top uninterrupted. Such type of organization found in military sector. The head of each section is supreme so far his department is concerned and is responsible directly to the person above him. He controls persons below him by virtue of his position.

Line organization may be two types. In *pure line* organization, all individuals at given level perform the same type of work and departments are created only to facilitate effective supervision and control. In *departmental line* organization, work performed in each department is of different nature. Thus line organization is unbroken chain command from general manager to the worker at the floor level. The diagram given below makes it clear:



(Fig. 4.2)

● **Characteristics of line organization:**

- (1) Lines of authority are vertical flowing from the top to bottom.
- (2) The unity of command is maintained in a straight and unbroken line.
- (3) All persons at the same level are independent of each other.
- (4) The authority and responsibility of each position is clearly specified.
- (5) It is flexible nature, but no staff specialization

- **Advantages:**

1. ***It is simple:*** This organization is quite simple in both understanding and implementation. Every person is clear about what is expected of him. There are no complicated relationships.
2. ***Clear division of duties and authority:*** Duties and responsibilities of every employee are clearly defined with reference to work so assigned. Thus work proceeds uninterruptedly without any confusion.
3. ***Prompt decision:*** Every manager can take decisions independently without consulting others. This makes the decision making process easier and less time consuming.
4. ***It provides unity of command:*** It is the fundamental principle of any viable organization. As a result where the subordinates are made accountable to only one superior. It facilitates unity of control and effective supervision.
5. ***Better discipline:*** Unity of command and unity of direction foster discipline among the people in the organization.
6. ***Economical:*** It is very economical because no staff specialists are required.
7. ***Executive Development:*** As every manager has to perform a variety of functions, there is an opportunity for the development of all round executives.

- **Disadvantages:**

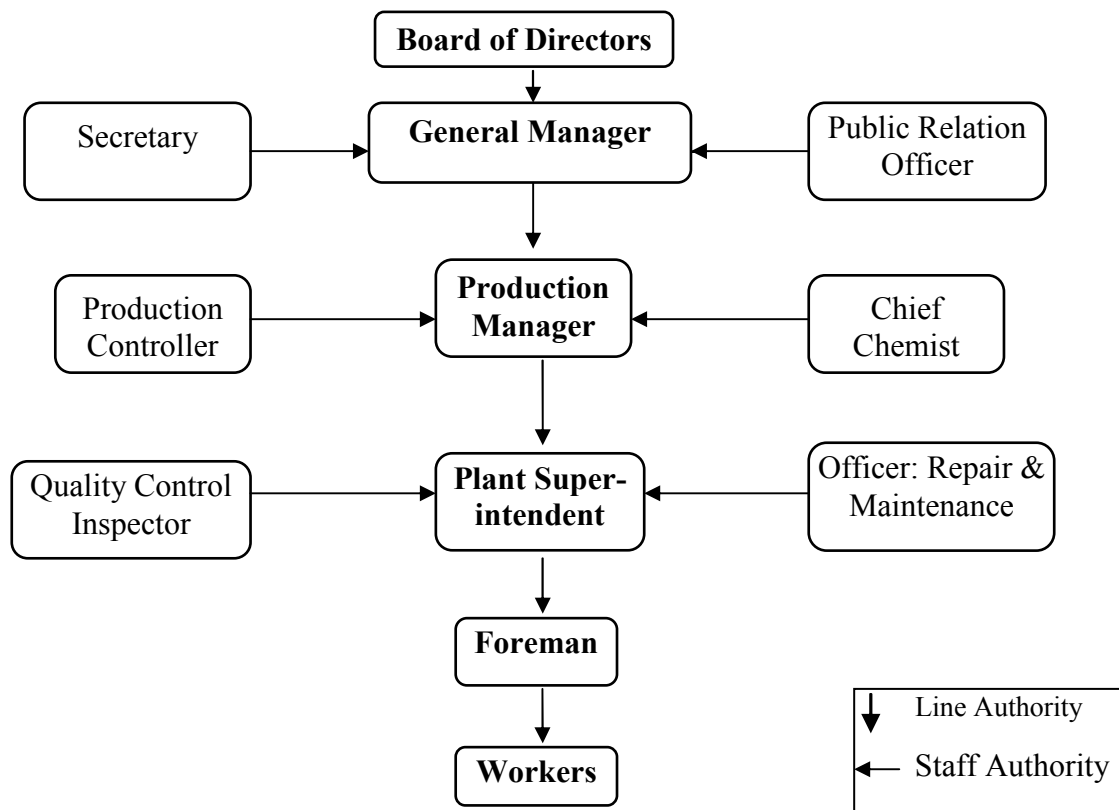
1. ***Lack of specialization:*** There is no scope for specialization. Each personnel are responsible for both planning and execution of work. This encourages the overloading person that affects badly the efficiency of the organization.
2. ***No. initiative:*** A authority is concentrated at the top level, the departmental heads and subordinates lose flair of initiative and drive and dynamism, which is a must to motivate the subordinates.
3. ***It has instability:*** The success of this type of organization depends on the ability of managers. Succession problem is acute and there may be little continuity. A chain broken anywhere in the unit is total break-down.

4. ***Autocratic Approach:*** This organization is based upon autocratic approach. Each manager has monopoly of decision making and he may not listen to the suggestions of his subordinates.
5. ***Problem of coordination:*** Each department concentrates on his own work ignoring the happening in the sister department. This self centre feeling that affects working is worst.

Thus, line organization is suitable for small concerns employing few persons and carrying on routine work.

## **II. Line and Staff Organization:**

Both 'line' and 'functional' types of organization are not free from the limitation. The line type believes in too much of centralization of authority while the functional type in too much of decentralization. Therefore, this line and staff organization has been evolved to achieve the advantages of above both the organization. Line and staff organization is a combination of line and functional structure. Line and staff organization refers to a pattern in which staff specialist advice line managers to perform their duties. Under this line authority flows in a vertical line in the same manner as in the line organization. In addition, staff specialists are attached to line position to advise them on important matters. These specialists do not have power of command over subordinates in other departments. They are purely on advisory nature. When the work of line executives increases, they need advice, information and help of staff specialists. Therefore staff positions are created to support the line managers. The line and staff idea is shown in the following diagram.



(Fig. 4.3)

● **Advantages:**

1. **Full scope for specialization:** Operational efficiency is through expertise of the staff which is highly qualified and experienced. Therefore, there will be sound decision and proper implementation of the same.
2. **Sound decisions:** As experts are consulted before taking any decision it provides a base for sound managerial decisions.
3. **Relief to top executives:** Staff carryout detailed investigation and supply information to line executives. It reduces the workload of line executives who get ample chance for creative thinking to generate new ideas.
4. **Better discipline and control:** As there is clear-cut definition of duties and responsibilities of, line and staff officers, one is bound to respect the orders of higher officers by virtue of their status and this guarantees better control.

5. **Flexibility:** Line and staff organization is more flexible. As the organization expands, more staff may be added to help the line. Because of availability of job there is more opportunity for advancement.
6. **Expert advice:** Line manager receive specialized advice and assistance from staff experts. They are enabled to discharge their responsibilities more efficiently.

● **Disadvantages:**

1. **Conflict between line and staff:** The main problem of line and staff organization is that conflict often arises between line manager and staff specialists.
2. **Staff has neither authority nor responsibility:** Staff officers become ineffective as they do not have any authority to implement their plans. They do not command influence as they cannot force to accept their very best.
3. **Uneconomical:** This type of organization is costlier. It is not suitable to medium and small sized business.
4. **Ineffective staff:** Staff personnel are not accountable for the results. Therefore, they may not take their tasks seriously. They may also be ineffective due to lack of command authority.
5. **Dominance of line authority:** Line authority dominates the staff where the actual and important work is brushed aside. Some of the line officers rely too much on the staff officers because, they are staff officers and they are to advice.

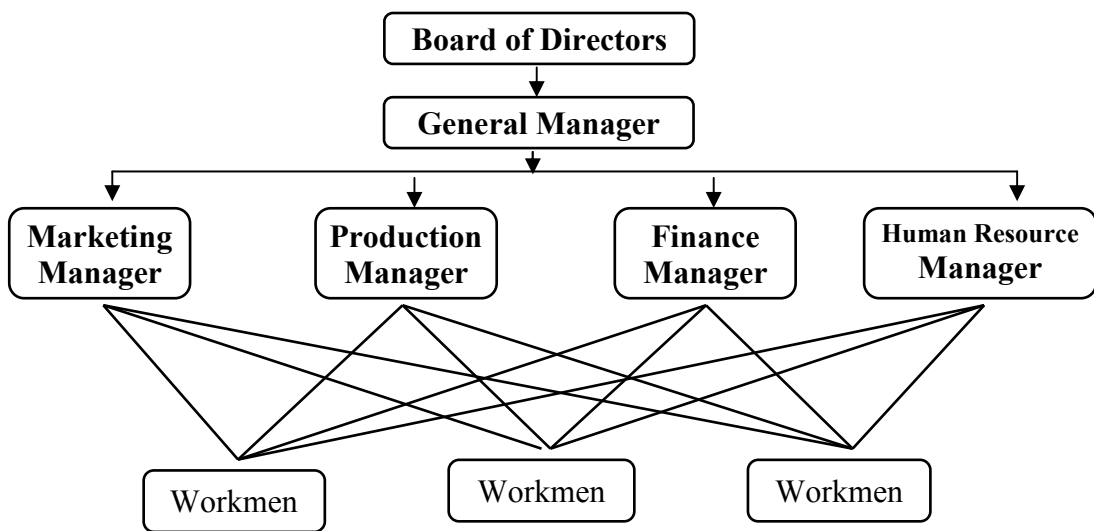
Thus, line and staff organization is very suitable for large business organization. It provides ample scope for specialization without violating the unity of command. Its success depends upon the degree of harmony that is maintained among line and staff.

### **III. Functional Organization:**

As organization grows in size, line organization proves inadequate and it becomes necessary to introduce specialization. The functional organization is based on the concept of 'functional foremanship' suggested by F.W. Taylor. According to him none is to be over-loaded with too many tasks. Under functional organization, the whole organization is divided into a number of functional areas. Each function is



managed by an expert in that area. Every functional area serves all other areas in the organization. For example, the purchase department handles purchases for all departments. The executive in charge of a particular function issues orders throughout the organization with respect to his function only. Every functional expert enjoys functional authority over subordinates in other departments. Within a functional department every operating executive receives orders from several functional specialists. In fact, the concept of functional authority is very appropriate for functional structure. The following diagram makes it more clear.



(Fig. 4.4)

● **Characteristics of functional organization:**

- (1) The whole task of the enterprise is divided into specialized functions.
- (2) Each function is performed by a specialist.
- (3) Specialists operate with considerable independence.
- (4) Functional authority relationships among various departments.
- (5) Line and staff division.

- **Advantages:**

1. ***Benefit of specialization:*** It is the system that gives fullest scope for realizing the benefits of specialization. Each foreman is to look after only a limited set of activities and hence is expected to do well.
2. ***Reduction of workload:*** Every functional head looks after one function only and therefore, burden on top executive is reduced. Mental and manual functions are separated.
3. ***Easier Staffing:*** Recruitment, selection and training of manager is simplified because each individual is required to have knowledge of one functional area only.
4. ***Improved efficiency:*** Every individual concentrates on one function only and receives the expert guidance from specialists. Therefore efficiency of workers improves at all levels of functional organization. This facilitates better utilization of manpower.
5. ***Large scale production:*** Functional organization facilitates large scale production through specialization, standardization and availability of expert's specialized and technical knowledge.
6. ***Better control:*** One man control is done away with and there is joint supervision of work. As a result control becomes more effective.

- **Disadvantages:**

1. ***No unity of command:*** A person is accountable to several superiors. As a result his responsibility and loyalty get divided. Workers are generally not prepared mentally to accept the authority of so many persons.
2. ***Complexity:*** There are many cross-relationships which create confusion. Worker may receive conflicting orders. He cannot understand his place in the organization easily.
3. ***Lack of coordination:*** Several experts create the problem of coordination because no one in the organization is responsible for cost and profit. They think only in terms of their own department rather than of the whole enterprise.

4. **Delay in decision making:** A decision problem requires the involvement of several specialists. Therefore decision making process in functional organization is slow.
5. **Problem of succession:** Lower level executive do not get opportunity of all round experience. This may create problem in succession to top executive positions.

Thus, this type of organization is generally suitable for large and medium sized concerns. But it should be applied at higher levels because it does not work well at the lower levels.

#### **IV. Committee Organization:**

A committee is a group of persons formed to discuss and deliberate on problems and to recommend or decide solutions. In other word, it is a group of persons to whom certain managerial functions are assigned or from whom certain advisory and exploratory services are expected. It is that method of management which permits collective thinking, corporate and common judgment. The committee is a group to which a matter is committed. It may be authorized to deal with all or specific activities. Member of the committee have authority to go into details of the problems. This authority is expressed in terms of one member one vote. Committee is an important instrument of management in modern organization. They may used to achieve different objectives, such as, to secure viewpoint and consultation of various persons in the organization, to coordinate the activities of different department, to review the performance of certain units, to facilitate communication and cooperation among diverse groups, to give participation and presentation to different group of interest etc. Thus, committee type of organization gives democratic touch to the line of thinking and the way of acting upon.

- **Types of committees:** Some of the popular kinds of committees are given below:
  1. Advisory or Executive Committee
  2. Standing or Ad hoc Committee
  3. Line or Staff Committee
  4. Formal or Informal Committee.

- **Advantages:**

1. **Sound Decision:** Problem is analyzed thoroughly from different angles by the committee members of various specialized areas. The decisions arrived at are the outcome of group thinking and judgment. Finally, the results from such decisions are excellent.
2. **Effective coordination:** Committees serve as an important technique of integrating various points of view by bringing together manager from different departments.
3. **Democratic Touch:** Committees are the tool of making decision on democratic lines. Such approach is necessary to secure the commitment and cooperation of people. Group authority makes for diffusion of power and democratic leadership.
4. **Motivation through participation:** By allowing the people to participate in the decision making process, committee help to improve the loyalty, cooperation and commitment of employees.
5. **Executive development:** By putting the young and experienced hands on the committees, it is possible to train them in group by exposing them to the realities of practical life in each specialized area.
6. **Effective communication:** It is useful for quick transmission of information throughout the organization. The objectives, policies and programme of the organization can be effectively communicated through committee meetings.

- **Disadvantages:**

1. **It is Expensive:** Committee type has proved quite costly. The time and monetary costs are not justified by the quality of the decision taken at the meeting.
2. **Inordinate Delay:** Red-tape is the main draw-back of committee organization. Decisions on urgent matters are not taken right in time due to lengthy and sometimes meaningless discussion and debate. Very often they meet and eat and do not resolve at all.
3. **Divided Responsibility:** The responsibility of wrong decisions by a committee cannot be fixed on any one individual. It is so because; committee works on the principle of collective responsibility. Every member feels unaccountable.

4. ***Dominance by a few:*** Committees are often dominated by some aggressive individuals who are more particular by nature to grind their own views.
5. ***Lack of Secrecy:*** It is difficult to maintain secrecy regarding the decisions and actions taken by a committee. A large number of persons participate in committee meetings.

Thus, although there are weaknesses of committee organization, but it is vital important in the modern era of business organization. A committee scores over individuals because people in a group interact differently than individuals. Therefore, the use of committee is widespread in most of the organizations even in most autocratic organizations.

### **4.3 Summary:**

This unit discusses the organizing function of management. Organizing is the process or function of identifying, classifying, grouping and assigning various activities necessary to achieve objectives and prescribing authority relationships in the enterprise. The outcome of the organizing process is the 'organization' consisting of a group of people working together for the achievement of one or more common goals.

The organizing function is performed in varying degrees by all levels of management. The level of management means a line of separation between different positions held by seniors and juniors to distinguish each other, in respect of authority and responsibilities. The number of management levels is varying in different organization. Generally there are three levels of management i. e., Top, Middle and Lower Management. All important decisions are made by the top level managers and policies are communicated through successive level.

The organization structure is the result of organizing process. It represents the network of vertical and horizontal authority relationships between various positions. Hence, the organization structure is primarily concerned with the allocation of tasks and delegation of authority. However, there are four main types of organization namely, Line organization, line and staff organization, functional organization and committee Organization.

#### 4.4 Terms of Remember:

- **Organizing:** Process of identifying and grouping the work to be performed and establishing relations between persons and granting necessary authority to them
- **Levels of management:** A line of separation between different positions held by seniors and juniors to distinguish each other, in respect of their authority and responsibilities.
- **Organization Structure:** The authority and responsibility relationships between various positions in the organization showing who reports to whom.
- **Line and staff organization:** It is a combination of line and functional type of organization. It is a pattern in which staff specialist advice line managers to perform their duties.

#### 4.5 Check Your Progress:

##### A) Fill in the blanks.

1. It is through the process of organizing that the ..... and ..... of people are determined.
2. The structure of organization established hierarchical relations between ..... and .....
3. Hierarchy of management consists of a series of managerial positions called ..... of management’.
4. In the line organization .....flow from top to bottom and forms a chain of command.

##### B) State ‘True’ or ‘False’

1. The outcome of the process of organizing is an ‘organization’ consisting of a group of people working together for the achievement of common goals.
2. Top level management must possess conceptual, decision making and human skills more than technical skill.
3. Functional organization increases the workload of top executives.
4. Military organization is example of line organization.

#### **4.6 Answers to check your progress:**

- A) 1. task and responsibilities  
2. superiors and subordinates  
3. levels  
4. authority
- B) 1. True                      2. True                      3. False                      4. True

#### **4.7 Exercise:**

##### **I) Answer in short:**

1. What do you understand by organizing?
2. What are the levels of management?
3. What is line and staff organization?
4. What is committee organization?
5. Explain the functional organization.

##### **II) Answer in detail:**

1. Define organizing. Explain the importance of organizing.
2. What do you mean by top level management? Explain its functions.
3. What is meant by middle level management? Explain its functions.
4. Explain the functions of lower level management.
5. Explain various types of organization in brief.
6. What is meant by line organization? Explain its merits and demerits.
7. Explain the merits and demerits of functional organization.

##### **III) Write short notes:**

1. Lower level management.
2. Concept of organizing.
3. Merits of line and staff organization.
4. Committee organization

#### **4.8 References:**

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3. Lele R.K and Mahajan J.P (1994) 'Principles of Management' Pitambar Publishing Company, New Delhi.
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5. R. D. Agarwal (2004) 'Organization and Management' Tata McGraw-Hill Publishing Company Limited. New Delhi.

#### **4.9 Books for further study:**

- P. Subba Rao (2008) 'Management and Organizational Behaviour' Himalaya Publishing House, New Delhi.
- Bhushan Y.K (1995) Fundamentals of Business Organization and Management. Sultan Chand & Sons: New Delhi. (Chapter 4,5)

