An Introduction to
MANAGEMENT
Its Principles and Techniques

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In Memory of

MY DEPARTED MOTHER

PREFACE TO THE FIRST EDITION

This is a book on what is popularly known as Busines Administration. Management has evolved as a social science in the present century, and considerable literature on the subject i available in advanced countries of the world. Despite its awarenes and crucial importance, management as a subject of study remain mostly neglected in our country. However, far-reaching changes in the economy of the country have compelled us to look for the bett way of doing jobs in all social institutions, whether they are busines educational, governmental or others. And for this improvemen in work performance, management is widely discussed up and dow the country although its fundamental principles remain unknow to many of us as yet.

An attempt has been made to present the basic thoughts c management in this short treatise. Principles of management hav been elaborated with reference to current techniques and practice of management so as to make them more easily comprehensible t all managers, administrators and students concerned. The first par of the volume explains what management is and what it doe: Subsequent four parts are devoted for explaining how managemer is carried on through planning, organizing, directing and controllin functions. The last part deals with the practical application o management principles and techniques in the sphere of industri activities.

In the preparation of this volume I have consulted mar publications of different authors. A select bibliography is giv at the end of the book for the purpose of acknowledging my indebte ness to all such authors and their publishers as well as of providin guides to those readers who may wish to pursue further studies. am also indebted to my friends, colleagues and publishers who hav helped much in the publication of this work.

June, 1960 S. S. CHATTERJI

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Chapter 1

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ROLE OF MANAGEMENT

Management is an activity process, comprised of some basic functions, for getting the objective of any enterprise accomplished through the efforts of people. Wherever and whenever objectives are to be achieved through organized and co-operative endeavour, management becomes essential for directing and unifying the group efforts towards a common purpose. As human aims and beliefs are mostly realized through the establishment of diverse associations in our society, management is universally called for in all such organizations. Management, viewed as a functional concept, is of equal necessity to the educational, religious, charitable and other non-business institutions as it is required for business organizations. Furthermore, the greatest and the most comprehensive of our social organizations, *viz.*, the Government of all types needs management as much as others require, perhaps more than all other social organizations. That the Government requires a management process has been aptly pointed out in the statement : A Government without good management is a house built on sand.[1] Put in short, management is an essential accompaniment of all social organizations, and it is to be found everywhere as a distinct, separate and dominant activity. The nature and significance of the activity do not change even if it is called *administration* in some social institutions and *management* in others.

Management is the activating element of any enterprise for getting things done through people. The job of management is to provide dynamic leadership that combines the productive but passive resources into a fruitful organization. Not only does it adapt itself to existing opportunities, restrictions and pressures, but it exercises a positive influence as well to make the future events favourable for the enterprise. With a view to getting the expected

[1] President Roosevelt's letter introducing before Congress the Report of the President's Committee on Administrative Management, 1937.

results and seeing that things happen as they should, management has to become a creator, not a creature, of the economy.

Management forges ahead through innovations in operating situation and the adoption of far-sighted planning. It visualizes the future, initiates changes and achieves the purpose of any enterprise under highly dynamic conditions. As an activity process, management plans the future course of action, organizes people and their work, directs the operation and controls the performance, and thus ensures the accomplishment of enterprise objectives. Adaptations and innovations permeate through each of these phases of the management process

Management acts as a creative and invigorating force in the organization. It creates a result that is bigger whole than the sum total of efforts put in by the group. Management adds a real plus value to the operation of any enterprise by enlisting a little extra value out of each person. It provides new ideas, imaginations and visions to the group working and integrates its efforts in such a manner as to account for better results or better performances. It ensures a smooth flow of work in the organization by focusing on strong points, neutralizing weak links, overcoming difficulties and establishing team spirit. Management strives to secure the maximum result by the use of minimum resources. As Urwick and Brech have rightly observed, "No ideology, no 'ism', no political theory can win a greater output with less effort from a given complex of human and material resources, only sound management. And it is on such greater output that a higher standard of life, more leisure, more amenities for all must necessarily be founded".[2] Briefly, the well-being of the society is largely dependent upon the quality of management prevailing in all social organizations.

Managers' Contribution to Productivity. That the managers occupy a pivotal position in any industrial enterprise becomes crystal clear from the discussion of the productivity concept. Productivity is the balance among all factors of production in such a way that maximum results are obtained from the use of minimum resources. Increased productivity must be the goal of every enterprise and is the key to higher standard of living. Productive resources fall into two categories : material and human. Material resources are subject to the laws of mechanics, and they cannot have an output greater than their input. Productivity of material resources becomes stagnant after the attainment of their fixed or rated capacity. On the

[2] *The Making of Scientific Management*, Vol. II. (Sir Isaac Pitman & Sons, Ltd., London, 1947), p. 224.

other hand, human resources are capable of tremendous growth and development, and they can yield an output that may be far greater than what the value of their input warrants. Managerial activity being concerned with getting things done through people the managers have the opportunity of utilizing human resources to secure greater productivity. As all organizations fish in the same pool for employee talent, greater productivity in any organization cannot be derived from the superior talent of its people. Actually, the edge that one enterprise secures over others comes from its management. That is, productivity is ultimately dependent upon the competency and ability of managers. Several studies have indicated that productivity differentials between concerns stem from the attitude adopted by their management teams and that they are not the result of capital investment. Capital value of material resources depreciates in course of time in spite of all precautions. But under conducive conditions, the value of human resources appreciates through the process of time. Briefly, business is built not by the technical ability of specialists but largely by the managerial ability of good managers who can effectively utilize human skill, energy and efficiency for transmuting resources, rather than transforming resources, to higher productivity.

Social Responsibilities of Management. The evolution of management as a dominant social institution in our economic life has brought about in its wake managerial responsibilities to the society as a whole. Social responsibilities of management are nowhere better expressed than in the case of business. With the growth of business and the separation of ownership from management in large-sized public companies, these responsibilities have been transformed into definite commitments of obligations to different groups both within and without the enterprise. Within the enterprise, employees and owners form the two groups which have certain demands, expectations or hopes to be met by management. As the employees provide the brain and brawn, rather the very breath of life, to any business, they expect job security, work satisfactions, personal safety and adequate financial rewards. Because of the supply of investible funds, owners expect steady return on investments at a progressively higher rate, conservation of capital investments and accurate information about present and future conditions of the business. For providing job security to employees and steady return to owners, there arises another responsibility of management to the business itself which is to be survived through adequate measures.

Outside the business, social responsibilities extend to consumers, suppliers, neighbouring citizens, management associations as well as to the Government as guardian of the entire society. Consumers want the supply of quality goods at acceptable prices; suppliers of raw materials expect a fair deal without any manipulation of market prices; neighbouring citizens desire community welfare through participation in benefit drives as well as through minimization of offences against civic amenities by air or water pollution, traffic congestions and noisy sound; and management associations demand maintenance and development of professional standards and skills for the advancement of managerial knowledge. The society through the Government provides the necessary economic and political environment for the operation of business and expects in turn the satisfaction of public interests by way of creating jobs, supplying desirable goods and services, utilizing scarce resources in the best possible manner and meeting expenses for the functioning of the Government.

EVOLUTION OF MANAGEMENT AS A SOCIAL SCIENCE

Despite the crucial importance and pervasive use of management as a social activity from the very dawn of our civilization, it is curious to find that management, as a subject of study and research, has been completely neglected. This paradoxical situation can be explained by a number of contributory causes. *First,* management was taken to be a fixed pattern of job in most cases so as to take its own course. It was believed to be an activity which could be learned in an empirical manner only, *i.e.,* by guesswork, intuition or trial-and-error. *Secondly,* the false analysis of factors of production by the nineteenth-century economists also contributed to this situation. Management was believed by them to be a mechanical job for the assemblage of resources, and they failed to see any distinction between human resources and material resources. Too much emphasis was placed upon inanimate material resources, particularly capital, for improving productive results of the enterprise to the utter neglect of human resources. But two serious limitations of material resources—that they cannot be developed beyond their more or less fixed rated capacity, and that their productivity is entirely dependent upon the manner in which they are utilized by human beings—have forced the economists to change their notion about human resources. The foundation of a management theory has been laid on the recognition of the fact that human beings, of all the resources, are capable of maximum growth and development. And it has now become the province of management theory to demonstrate realistically that the economic and industrial development of a country is largely dependent upon the rate of "brain formation" and "skill formation", not upon the rate of 'capital formation'. *Thirdly,* political science which is concerned with activities of the Government did not pay adequate attention on the problem of administration until recent years. Like the early economists, they too were preoccupied with policy-making functions of the Government at the national and international levels. Furthermore, the problem of administration was not complicated because of the simple functions of the earlier Government. The maintenance of law and order was the only function in the beginning, and the assumption of economic function by the Government has an origin in recent history. *Finally,* business was looked upon as an inglorious career up to the greater part of the nineteenth century. As a result, it was shunned by the educated class, independent thinkers, and research scholars. Businessmen were taught by other social scientists that management could not be regarded as a separate discipline capable of formal study, analysis and appraisal. But to improve knowledge over a particular field, the only basis available in our civilized society is to study, analyse and appraise the activities involved pertaining to the subject. Unfortunately, this approach was not applied for the solution of business problems. The business horizon was darkened further by the "practical man" fallacy. It was believed by many practical businessmen (even today it is believed by some) that management process consisted of some hidden tricks, inner clues or mysterious practices that could be mastered only through apprenticeship. Accordingly, it was held that management as a subject-matter of study is not amenable to principles. The development of a theory of management was delayed so long as the intuitive or chance decisions had their self-satisfied supporters from the rank of practical businessmen.

The logic of events and the complexities of business, however, compelled the businessmen to search for a theory of management that would help them to keep pace with the progress of time. The old tricks were found to be completely inadequate to cope with the changing circumstances, particularly those which were introduced by technological developments. The expanding size of the business brought the problem of human relations to the forefront of the organization. To make the human efforts effective, a whole battery of new techniques had to be developed. The introduction of new factors like use of specialization, separation of ownership and management in the publicly held company, regulatory measures of the Government and rise of labour unionism offered a serious challenge to businessmen in their task of management. The empirical knowledge and traditional skill were found to be of no help under the new setting. Consequently, it impelled the progressive leaders in the field of business to make a thorough analysis of the management process. Toward the beginning of the present century, an insight into the problem of management was gained when it was realized that management process was made up of some basic functions, regardless of the spheres or areas of social organizations. It went to the credit and genius of Henri Fayol who succeeded in laying down a theory of general management applicable equally to all social institutions. It is the latest of our social sciences ; nevertheless, for the economic betterment of our society, it is perhaps the most important of all social sciences. To be sure, determination of objectives and formulation of policies for our social institutions by the economists, sociologists and others do not help us much unless effective steps are taken for the execution of objectives and policies into concrete realities. Management has ushered a new era in supplying the missing link of our social sciences by directing the way in which the objectives of any social institution are to be accomplished. It has been well said that "the job can always be betrayed by the way the job is done".[3]

Benefits and Limitations of the Science of Management. Management is a new and growing science. It becomes hardly possible, therefore, that a comprehensive body of principles is available on the subject. Some principles are well established, others are in the process of development, and still some others may be established in future. Whatever principles have been established, they are however sufficient for weaving them into a theory of management.

The first benefit of a theory is to increase our knowledge of management know-how and thereby to improve managerial efficiency. As principles are established by analytical study. research and experimentation, they provide sound guides to managerial action. Instead of relying upon the vague fund of knowledge called 'common sense' and making chance or intuitive decisions, management members can base their decisions on sound footing for solving many business problems, increasing the productivity of the concern and ensuring the social and economic justifications of the enterprise. *Secondly*, because of the development of principles, it has been possible now to arrange for scientific training of persons in management in order to meet the ever-growing demand for executive personnel. Furthermore, as pointed out by Drucker in his *Practice of Management*, the problem of unlearning the skill is a more serious

[3] Lilienthal, D. E., *T.V.A.—Democracy on the March.*

question than that of learning the management skill. If the skill is acquired through apprenticeship without understanding or studying the principles involved, such skill which amounts to trickery at best becomes useless with every important technical or technological change. The so-called practical man cannot adapt himself to the changing situations and becomes deadwood in the organization unfit for the job any further. Hence, training based on principles is the only rational method which can overcome the problem of incessant business changes. *Finally,* much of our miseries and vices can be ascribed to the failure of social sciences to keep pace with the development of physical and biological sciences. The root cause of this malady lies in unsatisfactory human relations and we do not know as yet how to live peacefully and happily with our neighbours. Management, through the development of principles, makes a scientific approach to the problem of human relations. As pointed out earlier, management is mainly concerned with one resource—people. As human beings handle other material resources, management has rightly focused attention on human beings and is seriously engaged in finding out the facts that make them willing to work to their full capacity. For example, researches of Mary Parker Follett and the "Hawthorne Investigations" have made significant contributions which have provided us with an entirely new concept of human relations.

The science of management has been assailed from different angles and the validity of management principles has been doubted by many. *First,* management as one of the social sciences cannot have the exactness and accuracy like the physical sciences of chemistry and physics. Recent researches on human relations in organizational behaviour have shown that many familiar generalizations or principles of management are not of the type of law-of-gravity rules and that they are required to be used with discretion in a particular situation. *Secondly,* different countries have different cultures and varying stages of economic growth, and they place different values on goals and objectives. Accordingly, any generalization involving value judgments and motivations is not practicable. In the absence of principles, we are to fall back on varying practices in such situations from place to place or from time to time. *Thirdly,* increased complexities of management and the changing environment of business have brought about in recent years changes in the theory, practice and philosophy of management. Application of the quantitative techniques and of human relations approach to the problems of business management has increased the horizon of management thinking and as a result, some established principles have been refined. Behavioural sciences like sociology, psychology, cultural anthropology and others are engaging more attention of managers and scholars as they seek explanations of the way organizations really work.

Is Management an Art or a Science? Limitations of the management science have led some to believe that management is an art, not a science. Be that as it may, the management science can be compared in a befitting manner with the medical science. A surgeon or a physician without the knowledge of medical science becomes a witch doctor' or a 'quack'. On the other hand, no amount of reading textbooks on medical science will make a man a good surgeon or a good physician. To collect the best things of both worlds, theoretical knowledge must be supplemented and perfected by practical knowledge. To be precise, both theory and practice are equally important and there is nothing to choose between them so far as the process of learning is concerned. As in the case of medicine and surgery, management is to be regarded both as an art and a science. Science is a systematized body of knowledge pertaining to an area of study and contains some general truths explaining past events or phenomena. In other words, the management science provides a body of principles or laws for guidance in the solution of specific management problems and in the objective evaluation of results. The analysis of basic management functions has led to the development of certain principles which can be applied as general guides for solving concrete problems in the future. On the other hand, the art of management deals with the application of skill and effort for producing desirable results or situations in specific cases. The art of management, to be effective, must be grounded in the knowledge of principles. Fundamental principles always react upon the art and shape the way of doing specific things. That is, science and art are interrelated and complementary; with every increase in the knowledge of science, the art is bound to be improved. Management science and management art are thus interwoven and overlapping in nature.

The practice of management is as old as the history of human co-operation. Wherever co-operative endeavours have been required in the past, management has been practised as an art. The introduction of the scientific method in the process of management dates back to Taylor's time from the commencement of the present century. Principles developed over the first half of the century by businessmen, practitioners and social scientists are being put to severe tests by behavioural scientists and quantitative analysts from the 1950's. In the light of these researches some principles have been refined, some have been relegated to the status of hypothesis and others have been retained as enduring generalizations. Accordingly, the science of management is still in the evolutionary stage, and management is practised as yet largely as an art like the earlier period.

Is Management a Profession ? The progressive development in the size of business and the consequential separation of ownership from management in the corporate forms of enterprises have contributed to the emergence of management as a distinct profession or as a new social institution in the present century. Although management as yet does not include all the essential characteristics of a profession, it is no doubt moving in the direction of a profession. Of the usual characteristics of a profession, it includes (*a*) an organized and systematic body of knowledge, (*b*) a formal method of acquiring such knowledge and skill through established institutions of business management, (*c*) formation of management associations, (*d*) growth of professional management consultants and (*e*) growing emphasis on the ethical conduct of management personnel. But like other recognized professions, management does not call for the licensing of managers nor does it restrict the entry of people into managerial jobs with a special academic degree. Being short of a full-fledged profession, management has been identified however as a crucial social activity by many and varied studies of human behaviour.

HISTORY OF MANAGEMENT THOUGHT

Urwick and Brech have written about the contributions of thirteen pioneers in "The Making of Scientific Management."[4] The pioneers have been drawn from various parts of the world, six from America, three from France, three from England and one from Germany. As might be expected, the list of contributors cannot be made exhaustive. There are many research scholars and social thinkers who have materially added to our fund of knowledge on management science in recent years. Much water has flown down the river since the publication of the book. Management movement has acquired a new dimension from the 1950's through the contributions of several disciplines. As Haynes and Massie point out, there are at present six streams of thought that have influenced the scientific management movement, *viz.*, quantitative approaches, managerial economics & accounting, universals of management, scienti-

[4] *The Making of Scientific Management*, Vol. I. (Pitman, London), 1947.

fic management, human relations and behavioural sciences.[5] With this understanding, we may study in greater details the contributions made by two top rankers in management literature, *viz.*, Frederick Winslow Taylor and Henri Fayol and in brief outline the more significant contributions by others from the U.K. and the U.S.A.

Of the important contributors from the U.K., Boulton and Watt introduced in 1796 *Production Management* by way of work study, production planning, payment by results and cost-accounting procedure ; Robert Owen adopted pioneering step in 1810 in the field of *Personnel Management* ; Charles Babbage busied himself with an improved use of machines and the organization of human beings and published a work *On the Economy of Machinery and Manufactures in* 1832. During the present century, a comprehensive work on management is *The Philosophy of Management,* written by Oliver Sheldon in 1923 ; besides, several publications of Lyndall Urwick have enriched the management literature.

In the U.S.A., Taylor's ideas on scientific management were greatly extended by his three important disciples, *viz.,* Henry L. Gantt, Frank Gilbreth and Harrington Emerson. Contributions from businessmen include *Lectures on Organization* by Russel Robb in 1910 ; a publication entitled *Organization Engineering* by Henri Dennison in 1931 ; a comprehensive theory of organization under the title of *Onward Industry* by Mooney and Reiley in 1931 ; and Chester I. Barnard's book, *The Functions of the Executive,* published in 1947. The results of Hawthorne Research have been published by three important researchers, *viz.*, Elton Mayo, F. J. Roethlisberger and T. N. Whitehead. Last but not the least, influence of the *American Management Association* and *the Society for the Advancement of Management* is tremendous on the growth of management science. Outside the business field, the political scientists, sociologists, psychologists and anthropologists have made some significant contributions in recent years.

Of all the social scientists, the name of Mary Parker Follett deserves special mention. Mary Parker Follett (1868-1933) has made valuable contributions through books and papers on group dynamics, human relations and authority exercise, some of which bear a striking similarity with Hawthorne Experiments published in a subsequent period. She pointed out that any human group has a life which is something more than the sum of the individual lives composing it and that the individual's thoughts and actions are always moulded by the group influence. In all co-operative endea-

[5] Haynes and Massie, *Management* : *Analysis, Concepts and Cases,* (Englewood Cliffs, N.J. ; Prentice-Hall, Inc. 1961), p. 3.

vours, the group adds a plus value when properly directed. Conflicts between person and person or between group and group stem from differences which can be used as an avenue towards, and a vehicle of, progress when such differences are integrated rather than compromised or suppressed under domination. Exercise of authority is involved in leadership, control and execution of decisions and orders. In all such situations, employee acceptance of authority would be satisfactory provided "Law of the Situation" is explained through the presentation of facts. Briefly, instead of imposing power over people, order giving and authority should be depersonalised.

Taylor, F. W. (1856-1915). Taylor is well known for his famous work, *The Principles of Scientific Management,* published in 1911. Although the work was professed to provide general principles of management, it was in reality found to contain certain principles of factory management or production management. To improve the productive efficiency of industrial concerns, he was preoccupied with machines and their operators. With this end in view, he developed time and motion study which was regarded as the "cornerstone of scientific management". The central theme of Taylor's work was the advocacy for separation of planning functions from doing functions, management taking more and more the thinking functions from workers so as to make their work purely mechanical through the formulation of rules, laws and formulas. His insistence on the application of scientific methods to managerial problems and his analytical search for best methods or "one best way of doing jobs" are the principal contribution to management theory. His ideas on selection, training, compensation and discipline of workers have some rudiments of validity. He placed several new duties on management in the form of principles: (*a*) replacement of the old rule-of-thumb method by scientific one through the exact determination of each man's work on the basis of elementary motions or operations; (*b*) scientific selection, placement and training of workers; (*c*) absolute co-operation between labour and management in the performance of work; and (*d*) equitable division of work and responsibility between management and labour.

Taylor's scientific management inundated the whole industrial world in a sudden flood which, however, receded back in course of time. Taylorism has become a dead cult now for two misconceptions. Subsequent studies have revealed that complete separation of planning from doing under his functional foremanship is a thoroughly unrealistic principle. *Secondly,* assignment of mechanical job to workers by breaking a task into its elementary components is an unproductive concept, since it denies job satisfaction to workers and makes them inanimate cogs in the industrial machinery. Organized labour misunderstood it as a device for speeding-up and rate-cutting. Moreover, the claim of Taylor and his disciples that theirs was an "exact science" has belittled the importance of it. Rather than providing fundamental principles of general management, Taylorism is now held to be responsible for delaying the propagation of a true management science developed by Henri Fayol in 1916. That the Americans even now use the term *scientific management* can be explained historically. Taylorism is nothing but a shadow of the present-day concept of scientific management even in the U.S.A.

Fayol, Henri (1841-1925). Henri Fayol, the French industrialist, is regarded in responsible quarters as the real father of management science. After graduating himself as a mining engineer in 1860, he immediately joined a coal mining company as its engineer and was promoted to the position of its Managing Director in 1888 for his conspicuous ability. When he became the chief executive of the company, it was on the verge of collapse. Under his leadership over a period of 30 years, the company came out as one of the largest coal and iron combines in the country with exceptionally strong financial position. As a successful industrialist, Fayol had the opportunity to search for sound management principles and was able to analyse the management process correctly in course of his two lectures delivered in 1900 and 1908. Subsequently he tried to reduce his ideas into a coherent philosophy by the development of principles through his famous work, *General and Industrial Management,* published in French in 1916. From the date of retirement in 1918 till 1925, he devoted himself to the task of popularising his theory of management in France. But unfortunately, the English translation of this book was not made available before 1949 on a wide scale and his work remained unknown to the outside world.

The relative contributions of these two pioneers have been reviewed by Urwick in his foreword to the English translation of *General and Industrial Management* in the following words: "The work of Taylor and Fayol was, of course, essentially complementary. They both realized that the problem of personnel and its management at all levels is the 'key' to industrial success. Both applied scientific method to this problem. That Taylor worked primarily on the operative level, from the bottom of the industrial hierarchy upwards, while Fayol concentrated on the Managing Director and worked downwards, was merely a reflection of their very different careers. But Fayol's capacity to see and to acknowledge this publicly was an example of his intellectual integrity and generosity of spirit. They gave France a unified management body more than twenty years before the same ideal began to be realized in Great Britain." Although Taylorism has undergone a profound change under the impact of new developments, Fayol's principles have stood the test of time and have been accepted as the core of management science even up to the present time.

FAYOL'S ANALYSIS OF MANAGEMENT

Fayol's monograph, *General and Industrial Management*, falls into two parts—the first develops a theory of management, and the second enters into a discussion on managerial training. He began his study by analysing the activities which are required in industrial undertakings and by pointing out their comparative importance at different levels of the organization. The total activities are divided into six main groups—technical (*production*) ; commercial (*buying, selling and exchange*) ; financial (*search for, and optimum use of capital*) ; security (*protection of property and persons*) ; accounting (*including statistics*) ; and managerial (*planning, organization, command, co-ordination and control*).

The managerial activity was thus broken down into five elements or functions, *viz.*, planning, organization, command, co-ordination and control. Planning draws up a plan of action wherein "the result envisaged, the line of action to be followed, the stages to go through, and methods to use" are clearly incorporated. He pointed out that the plan of action rests on three things—resources of the enterprise, nature and importance of the work, and future trends of the business. A good plan of action should have at least four features—unity, continuity, flexibility, and precision. Fayol placed too much importance on *prevoyance, i.e.*, "looking ahead" in planning. He observed that "to foresee means both to assess the future and make provision for it." Organizing function in a business is "to provide it with everything useful to its functioning; raw materials, tools, capital, personnel." Organizing is the building of the dual structure, material and human, of the enterprise. In connection with the organizing work, Fayol listed sixteen managerial duties, some of which overlap with his principles enunciated elsewhere in the book.

Fayol observed that the mission of command was to set the business going and to get the optimum return from all employees. He pointed out that the art of command was dependent upon a knowledge of general principles of management as well as upon the personal qualities of manager who should know eight things.

Co-ordination was thought of as the harmonising activities in a business to facilitate its successful working. He further observed that co-ordination was "to accord things and actions their rightful proportions, and to adapt means to ends". Fayol, however, could not spell out this function clearly so as to demarcate it from other managerial functions. Subsequent studies have revealed that co-ordination is the heart of managing, or the sum total of managing. Perhaps this approach to co-ordination escaped his attention. Fayol had clear notion about control which he defined as the task of "verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established." The object of control is "to point out weaknesses and errors in order to rectify them and prevent recurrence." He further pointed out that control, to be effective, "must be done within reasonable time and be followed up by sanction".

Coming to the requirement of abilities, Fayol pointed out that "the most important ability on the part of the worker is technical ability. As one goes up the scalar chain the relative importance of managerial ability increases, while that of technical ability decreases. The most important ability on the part of the manager is managerial ability and the higher the level of authority the more dominant this ability." Comparative importance of different abilities has been expressed by him through several tables and charts; a part of his one chart is shown below:

REQUISITE ABILITIES EXPRESSED IN PERCENTAGE

	Managerial	Technical	Commercial	Financial	Security	Accounting	Total
Small firms ..	25	30	15	10	10	10	100
Large firms ..	40	15	15	10	10	10	100
State Enterprises ..	60	8	8	8	8	8	100

Principles of Management. Fayol evolved fourteen principles of management which may be briefly stated as follows:

1. *Division of work.* The object of division of work is to derive the benefits from the principle of specialisation which can be applied not only in technical work, but in all other work as well. Unlike Taylor, Fayol pointed out that division of work has its obvious limits.

2. *Authority and responsibility.* Authority and responsibility are correlated terms; responsibility is the essential counterpart of authority and they go hand in hand. An ideal manager is expected

to have official authority arising from official position as well as his inherent personal authority. Such personal authority is "compounded of intelligence, experience, moral worth, ability to lead, past services, etc."

3. *Discipline.* "Discipline is in essence obedience, application, energy, behaviour, and outward marks of respect" shown by employees. "Discipline is what the leaders make it" through the observance of agreements, because agreements spell out the formalities of discipline. Three requisites of discipline are (*a*) good supervisors at all levels, (*b*) clear and fair agreements, and (*c*) judicious application of penalties or sanctions.

4. *Unity of command.* This principle requires that an employee should receive orders from one superior only. Dual command wreaks havoc in all concerns, "since authority is undermined, discipline is in jeopardy, order disturbed, and stability threatened."

5. *Unity of direction.* Fayol discussed this principle of unity of direction in a different way from that of unity of command. While unity of direction is concerned with the functioning of the body corporate, unity of command is only concerned with the functioning of personnel at all levels. For the accomplishment of a group of activities having the same objective, there should be one head and one plan. "A body with two heads is in the social as in the animal sphere a monster, and has difficulty in surviving."

6. *Subordination of individual interest to general interest.* Common interest must prevail over individual interest, but some factors like ambition, laziness, weakness, and others tend to reduce the importance of general interest.

7. *Remuneration of personnel.* As the price of services rendered, remuneration should be fair and satisfactory to both the parties.

8. *Centralization.* "Everything which goes to increase the importance of the subordinate's role is decentralization, everything which goes to reduce it is centralization." The question of centralization or decentralization holds the key for utilizing all faculties of the personnel.

9. *Scalar chain.* It is the chain of superiors or the line of authority from the highest executive to the lowest one for the purpose of communication. The need for swift action should be reconciled with due regard to the line of authority by using "gang plank" or direct contact.

10. *Order.* This is a principle of organization relating to things and persons. Material order requires "a place for everything

and everything in its place" and social order demands the engagement of "the right man in the right place."

11. *Equity*. Equity is greater than justice, since it "results from the combination of kindliness and justice." The application of equity requires much good sense, experience and good nature with a view to securing devotion and loyalty from employees.

12. *Stability of tenure of personnel.* Stability of tenure is essential to get an employee accustomed to doing a new work and to enable him in performing it well. Instability of tenure is an evidence of bad running of affairs.

13. *Initiative.* The freedom to propose a plan and to execute it is what is known as initiative that increases zeal and energy on the part of human beings. Since initiative is one of "the keenest satisfactions for an intelligent man to experience", Fayol advised managers to secure as much initiative from employees as possible.

14. *Esprit de corps.* This is an extension of the principle of unity of command whereby teamwork is ensured. To maintain proper *esprit de corps* in the organization, personality politics and abuse of written communications are to be guarded against.

Managerial Training. In view of the importance of managerial ability required on the part of executives, Fayol pointed out the urgent necessity of management teaching. He observed that managerial ability should be acquired in the same way as technical ability, first at the school and later in the workshop. Because of the widespread need for managerial ability in the running of all social institutions, Fayol pointed out that "there should be some generalized teaching of management; elementary in the primary schools, somewhat wider in the post-primary schools, and quite advanced in higher educational establishments."

Fayol's Emphasis on the Universality of Management Principles. In his monograph, *General and Industrial Management,* as well as in his public speeches, Fayol has time and again pointed out the university of management principles. To quote from his a case monograph, "This (*management*) code is indispensable. Be it a case of commerce, industry, politics, religion, war, or philanthropy, in every concern there is a management function to be performed, and for its performance there must be principles,........"

FUNCTIONS OF MANAGEMENT

There are four basic functions of management, *viz.,* planning, organization, direction and control (which have been thoroughly discussed in the following Four Parts of the volume). These functions are closely interlinked and interwoven in character. All executives or managers, regardless of their area and position, are to discharge these functions. These functions are the identifying marks by which a manager can be differentiated from a non-manager. Of the four functions, however, the upper or top executives are mostly preoccupied with the first two functions—planning and organization, while the lower-ranking executives are largely busy with direction and control. But the thinking functions of planning and organization cannot be separated into water-tight compartments from the doing functions of direction and control. Irrespective of their levels and spheres of activity, the executives are required to perform all the four functions in varying degrees.

Planning is the rational and orderly thinking about ways and means for the realization of certain goals. It involves thought and decision pertaining to a future course of action. It anticipates and precedes action rather than making a reflective thinking about the past events. Absence of planning before doing implies rashness, imprudence or short-sightedness in the performance of work. Before undertaking any work, it is worthwhile to ascertain *what* the work is, *how*, *when* and *where* the work is to be done, and *who* is to do the work. In considering these points, managers have to clarify objectives or goals and to evolve policies and procedures for guiding those who do the work; they have to chart the proposed lines of action with proper time schedules for the execution of work. For providing a factual basis for future action, managers have to map out a programme indicating the best course of action to be followed, fixing the targets and standards of work performance therein, and evolving the strategies and remedies for possible hindrances to the smooth flow of work. In other words, programmes provide a complete road map for the guidance of managers to get things done through operators.

In a sense, planning and decision making are synonymous. Like decision making, planning is made for providing guides to action in problem areas. There is much common ground between the steps of planning and of decision making—*diagnosis of the problem, development of alternatives, evaluation of alternatives* and *selection of the best course of action*. The decision phase of planning is so important that many writers have treated planning as a synonym of decision making.

Organization provides the mechanism or apparatus for purposive, integrated and co-operative action by two or more people with a view to implementing any plan. With a few persons, organization calls for the allocation of tasks to individuals and the integration of their efforts towards the common purpose. When the enterprise expands and requires the efforts of many people, several departments come into existence under the charge of different managers who are tied together neatly by authority relationships for integrated action. That is, organization involves the division and subdivision of activities into departments, sections and jobs as well as the integration of activities and positions into a co-ordinated whole. The division of activities entails three things, *viz.*, determination of total activities, grouping of such activities and assignment of tasks or jobs to both managers and operators. The integration of activities is effected through positions which are bound together in a consistent pattern by the fabric of inter-relationships among enterprise functions, jobs and personnel. Delegation of authority is the cement that holds the positions together as one entity.

The concept of organization has two aspects : *technical or mechanistic aspect* pertaining to activities and *social or humanistic aspect* pertaining to people. For the personal contentment and social satisfaction of people, organization calls for the matching of jobs with individuals and *vice versa*. Secondly, as a mechanism for action, organization is required to be changed when either the volume and nature of action or the personnel change. Although some amount of reorganization takes place with every personnel change, upper-level personnel change is more significant in effect. Thirdly, delegation of authority takes place not only between management members, but it extends to operators as well. In addition to managerial job, the operating job becomes subject to the same process of delegation.

Direction is largely a function of human relations and motivation. This function, of course, is denoted variously by different writers, such as *command, leadership, motivation, execution* or *actuating*. The organizational mechanism is to be energized, activated or put into action for carrying out the management plan. This is what is actually done through directing function to set the organization in motion. But human beings are not inanimate cogs in a machine ; they have emotions, aspirations, sentiments, capacity to participate or to withhold such participation. Like a machine, they could not be ordered to do a predetermined work. With the object of inducing the members of the organization to put forth their best endeavour, managers direct the employees through the medium of leadership, guidance, supervision, communication and counselling. Direction involves guiding and overseeing people at work with a view to securing their co-operation through the maintenance of their inter-personal and social-group relationships. The working teams are inspired and motivated to do the work willingly and whole-heartedly because of providing desirable job satisfaction and wanted team spirit.

Control ensures qualitative and quantitative performance of work in the organization for completing plans and achieving objectives. Under the control function, measuring standards or yardsticks are established and communicated to managers so that they can regulate employee performance and can work by self-control. Moreover, control brings to light any management lapses that hinder satisfactory work progress, and thus it provides an opportunity to managers to take remedial action before it is too late. The control function furnishes new data and facts that enable the managers to verify the accuracy of their decisions with regard to planning, organizing and directing functions. Controlling as a process involves measurement, evaluation and correction of performance in the light of standards established through planning. That planning and controlling are inter-dependent can be explained from the nature of either function. As control forces events to conform to plans there can exist no control without planning. Likewise, plans are not capable of self-achieving without the exercise of controlling function. In the past, control was work-focused for objective appraisal of results. But nowadays, control has become worker-focused rather than work-focused.

SCOPE OF THE MANAGERIAL JOB IN BUSINESS

We have proceeded so long with the assumption that all social institutions, whether they are business or non-business ones, require the same process of management for achieving their objectives. But there are some special considerations that put the business enterprises in a class by itself from other social institutions. The criteria of efficiency, productivity and accountability are not so exacting and demanding in the case of other social institutions as in the case of business. Leaving aside communist countries where totalitarian planning takes place, the very survival of business depends upon the fulfilment of objectives in the face of competition and many other odds. For a clarity of understanding of the process of business management and for studying the contents of the managerial job, we may observe the managers in their day-to-day work.

1. *Three facets of the managerial job.* As pointed out by Peter F. Drucker, the manager performs three types of work simultaneously—managing a business, managing managers and managing workers and work. Almost every decision or action a manager takes affects all these facets. *Managing a business* is the task pertaining to the economic performance of the enterprise and calls for the supply of goods and services at acceptable prices. To be effective, a manager must be a creator rather than a creature of the economy. Secondly, *managing managers* is necessary for making a productive organization out of human and material resources. It involves co-ordination of efforts and functions of managerial personnel, setting goals for them and directing their activities. Finally, *managing workers and work* is concerned with organizing and directing the employees and their work. It implies evaluation of the worker both as a human being and as a resource.

2. *Managerial versus non-managerial duties.* Managers are supposed to confine themselves to managerial duties. But in actual practice, almost all managers do a lot of non-managerial duties in addition to their managerial duties. The lower the level of managers, the managerial content of the job gradually shrinks and non-management duties predominate. Even the top jobs are not immune from non-managerial duties. To take some examples, sales calls on important customers are usually made by the sales manager, although such duties are not managerial in character. The chief executive of a company is very often found to undertake public relations activities by way of making public addresses, having press conferences and going through like other non-managerial duties. A supervisor at the bottom performs many non-managerial duties like making reports, preparing invoices, operating equipment, and so on.

3. *Time spent on different phases of work.* Pertinent studies in the U.S.A. indicate that a large proportion of the managers' time is spent in talking with other personnel. The time spent in talking varies from 60 to 80 per cent of the total working time on the part of higher-level executives, and in the case of foremen, it takes more than 50 per cent of their time. It is further revealed in the studies that a small percentage of the time is spent on actual decision making and an even smaller percentage of time is devoted to order giving. From another study, the time spent by executives at different levels

in General Electric Corp. of the U.S.A. is indicated in the following table :

	Thinking ahead	Doing work that cannot be delegated	Working with men on the same or higher levels	Working with men on lower levels	Total working time
President and Group Executive ..	30	25	20	25	100
Division Managers & Service Officers ..	25	20	30	25	100
Departmental (General) Managers ..	25	15	20	40	100
Section Managers & Superintendents ..	20	15	20	45	100
Foremen ..	15	15	15	55	100

4. *Make-up of the job in different types of business.* There are different types of business enterprises with varying degrees of risks and opportunities, problems and potentialities. Accordingly, the significance and importance of the managerial job vary from case to case. It would be completely wrong to say that all top managers are great decision makers and that they make reflective thinking and pass momentous judgment of lasting importance. In their managerial jobs, some managers are like elevator operators, some are locomotive drivers, some other stand for automobile drivers and others take the place of ship captains. Managers of banks and insurance companies and public utilities belong to the category of elevator operators with a fixed way of movement. Their operations are regulated in such a manner that there is hardly any choice of alternatives. Managers of marketing enterprises can be compared with locomotive drivers who are to move along the established track. Managers of manufacturing enterprises are either automobile drivers or ship captains. Managers of mature industries (cotton textile, food processing, for example) and single-product companies are like automobile drivers who can move in several directions so long as they confine themselves to the appropriate lanes of roadways. In these industries, the managerial job is largely sales-oriented rather than production-oriented. On the production side, the scope for innovations in products or processes is limited and the only concern of managers is to keep the cost of production in line with prices.

The new industries (electrical goods, engineering, automobile, etc.) with many and varied products are subject to incessant changes both in their products and processes, and they face even chances of success or failure. The managers of these industries are like ship captains who have wide latitude for movement in any direction, although there are chances of shipwreck in adopting wrong direction. The quality of managers in these industries is required to be of the first order, because management becomes a crucial factor of their success.

5. *The challenge of innovations in managerial job.* As greater productivity comes largely from innovations in products, processes or some other phases of the work, managers should be change-oriented. Although the scope for innovations is wider in the case of new industries, some benefits can be derived by mature industries also from innovations in operating practices. The consequences of failure to innovate may be explained by citing the case of the Underwood Company. Underwood, as the leading typewriter maker up to the 1940's, was sold in 1959 to Olivetti of Italy in a bankrupt condition. When competitors introduced new models in the 1950's Underwood's models were allowed to continue without any change. Again, Underwood found no scope for electric typewriter and permitted International Business Machines to walk away with this profitable business. But all changes are not happy. If the changes are not well thought out, they can be as risky as failure to change. Underwood lost $15 million in the mid-1950's for going into the computer business. Studebaker has lost its former position for replacing its accepted styling of cars by Italian styling in 1949.

6. *The managerial job is financially oriented.* All managerial decisions and actions affect either money income or money outgo. Accordingly, managerial jobs are always financially oriented. Particularly at the top level of giant companies, managerial jobs are heavily concerned with the financial aspect. As a matter of fact, overall business planning always culminates in a financial budget which is regarded as the basic business plan. It is rather uncommon to find any large business concern operating without comprehensive business budgets. Moreover, recognition of the importance of cost control in each phase of the work is an essential requirement of the managerial job. Peter F. Drucker has observed that management's biggest job is marketivity of the company's products or services. But companies enjoying monopoly or near monopoly position, though not bother about marketivity, have to remain vigilant in respect of cost control. Cost control is an aspect of the managerial job that no manager of any business concern can overlook without impunity.

TERMINOLOGY PROBLEMS IN MANAGEMENT

Management literature presents a serious difficulty and even misunderstanding to the beginners because of diverse terms used for a particular concept. For these semantic difficulties, some of the common misconceptions are required to be dispelled at the outset. Otherwise the entire study may lead to confusion.

Administration and Management. Management is a specialized activity required for the running of all those social institutions which are composed of a group of human beings. The same management functions are to be found everywhere and as such, the management skill is transferable from one kind of social institution to another. Usually, this specialized ability is called "management" in business institutions and "administration" in others. The attempt to draw a distinction between 'business administration' and 'business management' is thoroughly misleading and all recent studies have tried to avoid it as far as practicable. That there is no distinction even between management and public administration was pointed out by Fayol in his address to the Second International Congress of Administrative Science—"All undertakings require planning, organization, command, co-ordination and control, and in order to function properly, all must observe the same general principles. We are no longer confronted with several administrative sciences, but with one which can be applied equally well to public and to private affairs." Persons who discharge management functions are universally called 'executives', but in business they are further known as 'managers'.

Levels of Management. The two broad levels of management used to be denoted by administrative management and operating management. The upper level of management is usually called "administrative management" and the lower level is known as "operating management". The use of these terms implies a division of the management functions into two separate groups, *viz.*, thinking functions and doing functions. As pointed out earlier, fundamental management functions are undertaken by all managers, irrespective of their levels or ranks. Accordingly, it does not fit into the facts of the real life to draw any line of separation between thinking functions and doing functions. Furthermore, the use of these terms stems from the acceptance of two different social sciences—management and administration—which are not existing in fact.

The current practice is to denote the upper level of management by the term "top management". The lower level of management goes by the name of "middle management". The adoption of the term middle management undoubtedly suggests that there is a further level below it. Actually, the lowest level is comprised of foremen and supervisors who also perform precisely the same management functions of planning, organizing, directing and controlling in different degrees. To be sure, whoever performs the basic management functions are to be called 'managers' in the technical sense of the term, since their functions can be sharply distinguished from those of non-managers.

Operating Work and Managerial Work. The total work of any business can be sharply divided into two groups; operating work and managerial work. Operating work refers to those activities which are necessary for the fulfilment of enterprise goals or purposes. For a manufacturing business, operating work includes production, sales, finance, personnel, accounting, engineering, purchasing, advertising and like others. But all these activities are not alike in importance. Some of the activities are supporting, tributary or auxiliary in nature to the mainstream of operation. Activities forming the mainstream of operation are called basic, and the auxiliary activities are known by service. Managerial work, on the other hand, consists of planning, organizing, directing and controlling and falls into two distinct categories of line and staff functions. The line function forms the mainstream of managerial work, while the staff function acts as tributary to the mainstream of managerial work. That is to say, as the service activities support basic activities in the sphere of operating work, so the staff function aids line functions in the sphere of managerial work. Managerial work, however, has no significance unless it results in efficient and successful performance of operating work.

Both these types of work are divided and subdivided into manageable units and delegated step by step to lower levels of the organization structure. But the limits of delegation are different in the two cases. Operating work can be delegated by supervisory management members at the bottom of the management hierarchy to the actual operators, whereas delegation of managerial work must stop at the level of supervisory management. The delegation of managerial work from superior managers to subordinate managers is referred to as *decentalization of authority* which has nothing to do with the operating work.

As the purpose of managerial work is to help accomplishment of the operating work, the managerial work is to be fitted in or tied up with operating work. This link is established between two mainstreams as well as between two tributaries. As a result, line managers (managers assuming line function) become the head of basic units and subunits, and staff managers become the chief of service units and subunits. Strictly speaking, staff men are not called "managers" for two reasons. First, they may confine their activities to one function of management rather than all the four functions, *e.g.*, planning staff, control staff. Secondly, staff men in some cases act on an individual basis as advisers to line managers. *e.g.*, public relations officer, legal consultant. In contrast to staff men, line managers or simply managers always assume four functions of management, and they must have a number of subordinates in all. cases. Staff personnel are called staff men, staff officers or staff executives.

Number of Basic Managerial Functions. Opinion widely differs among management scholars and writers as to the number of basic and fundamental management functions. As a result, the list of managerial functions varies usually from three to six. Unanimity is to be found only in respect of three functions, *viz.*, planning, organization and control. Where the number of basic functions is limited to three, organizing is conceived of in a broad sense to include also the function of leading, guiding, directing or motivating. To be sure, this view is not accepted by most of the writers who separate the actual doing from organizing. But semantic difficulty is being widened by the coinage of new terms to indicate this performance aspect of managerial work. This function is indicated variously by different writers with cogent arguments of their own, *e.g.*, leadership, motivation, direction, actuating, operating, execution, command, etc. The fifth function has been carbed out by some writers by separating the social aspect of organizing function from technical aspect and giving it the label of staffing. Again, this staffing function has been broadened by William Newman in his book, *Administrative Action,* under the title of "Assembling Resources". In addition to five functions, some writers still cling to the old idea of including "co-ordination" as one of the management functions.

Management and Managing. Management is a term which is used in two different senses, namely, as an activity undertaken by a class of people and as a class of people who manages the work of any enterprise. The term management meaning both people and activity presents a lack of clarity and understanding. To avoid this difficulty, there is afoot a laudable attempt to use the term "management" as a class of people and the term "managing" as an activity. Similar difficulty arises in respect of the term organization which means both an activity and an institution. A way out is found by using organization as an institution and organizing as an activity.

Authority and Responsibility. Authority and responsibility are too much overworked terms in management and there is much double talk about the meanings of these terms. For the clarity of thought, the concepts of authority and responsibility require elaboration. Authority is an essential accompaniment of the job of management. To get things done through people, managers have to rely heavily upon authority in every phase of managing. Managerial authority however has a precise meaning and it implies power which is neither unlimited nor wide in character. Authority means certain rights, powers or permissions, *viz.*, the right to act for the company, to speak for the company, to give orders to subordinates or to impose penalty for wrongdoing, the permission to use company's property or to speak as representative of the company. These rights which usually vest in the head of an enterprise can be transferred to subordinate managers for their use. In a capitalistic economy, these rights originate in the institution of private property. In the past, this formal authority was taken as "power over people", With the growth of labour unionism, the concept of authority has been tempered with moderation as "power through people" or as "power with people". In addition, further restrictions on the use of managerial authority are imposed by the standing plans of a company whereby managers are asked to act in accordance with company policies, procedures or custom.

One of the basic principles of management is "the parity of authority and responsibility." This principle states that in the act of delegating managers must match the responsibility of subordinates with the grant of commensurate authority. Whenever a manager delegates to a subordinate, three actions are involved. According to the sequence of actions, first of all, subordinates are assigned some duties; secondly, they are vested with requisite authority; and finally, subordinates assume obligations or accountability for the performance of work. This being the delegation process, some writers on management have toyed with the meaning of responsibility as a synonym of either *duty* or *accountability*. Those who use responsibility in the sense of accountability interpret duty in a narrow sense to mean "task or activities" and think that authority is followed by responsibility in the sequence of actions. In contrast, those who take responsibility as a synonym of duties or work define it broadly to mean "results to be shown through tasks". As the latter view conforms to the common usage and is accepted by most of the writers, the term responsibility has been used here in the sense of duties or work.

PRINCIPLES OF MANAGEMENT AND PARKINSON'S LAW

Much theorizing has been made about the management science and a large body of principles, laws, rules or generalizations has been developed by writers on management. For example, Koontz and O'Donnell have spelt out in all 67 principles of management including four principles for co-ordination. A particular statement is regarded as a principle only when such statement has universal application at all places of the world and in all ages of civilization. If we apply this test of principle, the number of real management principles comes down to a dozen or so, and others may be regarded as hypotheses. Because of this situation, the amount of theorizing varies widely among writers. Of the fourteen principles of Henri Fayol, six have acquired universal acceptance, *viz.*, (1) division of work (specialization), (2) correlation of authority and responsibility, (3) unity of command, (4) unity of direction, (5) centralization, and (6) scalar chain. Some other principles having wide acceptance may be added to the Fayol's list, *e.g.*, (a) span of supervision principle, (b) principle of motivation, (c) principle of leadership, (d) principle of limiting factor, (e) exception principle, and (f) principle of staffing.

C. Northcote Parkinson in his book, *Parkinson's Law,* has written satirically on political organization and public administration and has developed a list of principles.[6] Although Parkinson's principles are meant for political organization, some of them cast their lurking shadow on business management and appear to be suspiciously valid for business organizations. The following are some of his principles :

1. Administrators create work for each other by artificial means and swell their rank by more than five per cent every year, irrespective of the volume of work to be done. (Managers who manipulate the organization structure to maximize their personal prestige and benefits are referred to as empire builders and the tendency is known by empire building in the management literature.)

2. Executives increase the number of subordinates so as to move one level upward in the organization structure and they refrain from increasing their rivals who may bar their further promotion.

[6] ***Parkinson's Law* (Boston : Houghton Mifflin Company, 1957).**

3. Organizations grow more stupid as years roll by, since executives select subordinates who are less smart than themselves with a view to preventing their protential rivals.

4. Committees tend to grow in size until they lose effectiveness with 21 members thereof. At that stage, the inbreeding of small committees takes place, and they in turn grow and the process is repeated.

5. In committee meetings, according to *the law of triviality*, the time spent on subjects varies in inverse proportion to the sum involved. Because of the members' ability to comprehend small things easily, the discussion of petty matters is prolonged at the cost of important and expensive proposition.

6. The grandeur of buildings and facilities reaches its climax when organization starts decaying.

7. Expenditures of an organization rise to eat up the available money.

Chapter 2

Co-ordination

NATURE OF CO-ORDINATION

The earlier concept of co-ordination as one of the functions of management has been given the go-by, and it is now regarded as the essence of the management process. Co-ordination is the integration, synchronization or orderly pattern of group efforts in the enterprise towards the accomplishment of common objectives. To ensure harmonious and smooth working of an enterprise with a number of its divisions, departments or units, the activities in all areas are required to be pulled together, unified and blended so as to give them a commonnes of purpose. Co-ordination implies the avoidance of all splintering efforts that may destroy the unity of action through either cross-purpose working or inter-personal conflict.

Co-ordination should not be confused with co-operation. The concept of co-ordination is much broader than that of co--operation. Co-ordination includes co-operation plus something else. Co-operation implies the collective efforts put in by a group voluntarily in the performance of any work, and it has no time, quantity or direction element associated with group efforts. Co-ordination must have time, quantity and direction dimensions. It is the concerted effort of requisite quality and quantity arranged at the proper time through deliberate executive action. This type of unified and composite effort can only act as a creative force.

The ever-changing horizon of the business makes co-ordination highly dynamic in character. Business operations are continually being modified by external influences and internal actions and decisions. In the face of these alterations, co-ordination tends to focus attention on new strengths and forces and tries to eliminate weaknesses and inconsistencies. Conflicts and controversies are resolved promptly by co-ordinating action so that they may not result in the dissipation of efforts.

Problems of co-ordination exist both horizontally and vertically in the organization, though the impact of horizontal co-ordination is much higher than that of vertical co-ordination. Under horizontal co-ordination, dissimilar activities of such hybrid units as are created in the organization are to be harmonized and unified with overall objectives and fixed pattern of behaviour of the enterprise. Vertical co-ordination calls for the symmetrical action of people at various levels in accomplishing enterprise objectives through the linkage of individual contributions with total performance.

NEED FOR AND IMPORTANCE OF CO-ORDINATION

Need. There are some distintegrating forces that emphasize the need for co-ordination in any enterprise. The disintegrating factors which act as barriers to co-ordination may be put under the following four heads:

a. Diverse and specialized activities. Co-ordination presupposes that the principle of specialization has been introduced in the enterprise to run its affairs. Total activities are divided into several departments which may again be broken down into units or subunits on the basis of either product specialization, functional specialization, regional specialization or some other forms of specialization. The greater the number of units and subunits, and the larger the number of people with varying skills and personal specialization, the more difficult becomes the task of securing co-ordination of enterprise activities and human abilities. Since each manager tends to concentrate his attention on activities and objectives of his own department, he may by-pass the help needed by his neighbouring departments for realizing enterprise objectives.

b. Empire-building tendencies. To exaggerate self-importance and personal ego, the empire-building motive is deeply implanted in human nature. This motive causes the individual department to be isolated from others, thus turning it as a separate entity. Managers of such department usually take shelter under the cover of vague and undefined authority delegation.

c. Personal rivalries and jealousies. Human organizations give rise in course of time to the development of personality politics among members. Under such situation, co-ordination is deliberately sabotaged by the members of rival groups. The perpetual conflict between line and staff positions or between people of production and sales departments is a pointer to this problem. The lack of clarifying objectives in greater details and the failure to specify limits of authority accentuate the problem.

d. Conflict of interests. Subordination of general interest to individual interest acts as a bar to co-ordination. This sub-ordination may arise from a number of causes like laziness, incompetence, and lack of loyalty, integrity or initiative on the part of employees. Poor managerial leadership that cannot bring a psychological unity of workers' will fails to harmonize personal needs with the company needs.

Importance. There are four important benefits of co-ordination which may be stated as follows:

1. *Quintessence of management.* Co-ordination is the one word in which all management functions can be summarized. It is the end result of the management process. It is an all-important and all-inclusive concept in management. In a sense, management is primarily a task of co-ordination of all efforts, forces and activities that affect the enterprise from within and without it.

2. *Creative force.* Management creates something greater, something new out of individual efforts through co-ordination. Group efforts, when co-ordinated, create a result greater than the sum total of individual and isolated efforts. The dovetailing and assembling of efforts for a higher accomplishment become possible only when members of the organization participate in the work willingly and whole-heartedly. This unity of effort is brought about by executive action on human relations and leadership.

3. *Unity of direction.* Co-ordination enables managers to see the enterprise as a whole from its different segments. It ensures unity of direction through arranging spontaneous collaboration on the part of different departments. The focussing of efforts to pursue a common aim throughout the organization is not an easy task, because disruptive forces are at constant play in all organizations. It is co-ordination that can weld different segments and parts into one entity, one enterprise or one integrated whole. All members of the organization are induced to view their work from the standpoint of the enterprise and its objectives.

4. *High employee morale.* In addition to promoting efficiency in a number of ways, co-ordination tones up the general level of employee morale and provides job satisfaction. Orderly nature of operations established through team spirit and executive leadership permit the employees to derive personal contentment and social satisfaction from the work. Because of job satisfaction and favourable environment of work, the enterprise can secure the services of good personnel with steady growth in their capacity.

PRINCIPLES & TECHNIQUES OF CO-ORDINATION

Principles of Co-ordination. There are four important principles of co-ordination which every manager should take into account in discharging his managerial functions.

The first principle is that co-ordination is to be aimed at in the early stage of the management process. As the thinking function of management precedes the doing function, co-ordination endeavour must start at the planning stage, otherwise it becomes impossible to secure co-ordination of activities and efforts in the execution of work.

The second principle stresses the importance of direct personal contact in removing misunderstanding and conflicts between people or between departments. In contrast to personal discussion, written communication may result in the misinterpretation of words and the growth of opposite viewpoints between parties.

The third principle states that co-ordination is a continuous activity that permeates though every managerial function. Constant endeavour must be made to secure co-ordination in the management process, and some machinery of co-ordination must always be there to give continued service. Although sometimes special co-ordinating committees are created to meet a specific situation, it does not dispense with the ever-present need for co-ordination.

The fourth principle demands integration of all efforts, actions and interests towards some common purpose. For this, co-ordination calls for the establishment of a reciprocal relationship among all factors of any situation by way of balancing, blending and dovetailing the factors with one another.

Techniques of Co-ordination. Co-ordination in the total performance is achieved through co-ordination of efforts. As managerial functions are designed to get things done through efforts of other people, managerial functions hold the key to co-ordination. Of different phases of managerial functions, some aspects like communication, supervision, leadership, departmentation and authority delegation have unique contributions toward co-ordination. Effective communication is arranged not only by building a network of communication systems but by allowing wide participation in decision making on the part of affected persons as well. Standing plans like policies and procedures as well as standing orders and instructions communicate the expected pattern of behaviour required for co-ordinated action. Because of checking, observation and guidance involved in supervision, it aids much in developing co-ordinated effort. Leadership provides individual motivation and persuades the group to have identity of interests and outlook in group efforts. Departmentation arranges for neccessary correlation and interconnection of activities in an analytical manner. In assigning duties and delegating authority to different positions in the work of departmentation, component units and positions are bound together by clarifying objectives and defining authority for each of them.

In addition to basic functions, some special techniques are employed to obtain desired co-ordination. Conferences and group meetings are an effective device for co-ordination. Direct contact permits the management members to exchange their ideas, prejudices and difficulties as well as to understand each other's viewpoints. Direct contact is a prompt and effective means of co-ordination. Fayol pointed out that weekly conferences of all departmental managers under the chairmanship of the chief executive are absolutely necessary for co-ordination. The second technique of co-ordination lies in the use of a liaison officer, a co-ordinating committee or a group of expediters composed of interested parties. This device for co-ordination is usually made available through the organizing function of management as and when circumstances dictate the need for creating such a special body.

CO-ORDINATION—INTERNAL AND EXTERNAL

Co-ordination is the blending of all efforts, activities and forces within and without the enterprise. Inside the enterprise, co-ordination is necessary among individuals of a group, among groups of a department, among departments of the enterprise, as well as among various functions and activities. Beyond the enterprise, co-ordination is required with the activities of other enterprises, with the regulatory measures of the Government, with the technological advances, with the national and international economy, as well as with the wishes and wants of consumers, workers and owners. Co-ordination is thus an all-round activity covering every phase of the work and every area of the business.

Internal Co-ordination. Although the list of fundamental management functions does not include co-ordination, yet managers discharge their functions in such a manner as to facilitate co-ordination in the enterprise. The basic functions contribute towards co-ordination as follows:

Planning is a well-thought-out course of action to be taken for realizing certain objectives through the available means. A good plan requires perfect harmonization between means and ends, and this in itself is an act of co-ordination. To reach the ends, all plans include a programme mapping out the orderly course of action. To draw up an orderly course of action, all activities and efforts are to be interlinked, interwoven and dovetailed for their guidance towards the desired ends. Thus, the plan of action is largely a matter of co-ordination among various activities and efforts. Planning may either facilitate or retard co-ordination in any enterprise according to its quality. If a plan is not carefully prepared, it becomes very difficult, if not impossible, to secure co-ordination when the plan is put into action.

Organization is set up with the primary object of securing co-ordination, particularly inter-departmental and inter-personal. Mooney in his book, *Principles of Organization,* has pointed out that co-ordination contains all the essential ingredients of organization and becomes the heart of the organizing function. Departments and divisions are established to ensure a smooth flow of work without friction, failing or delaying. Correlated activities are generally placed in charge of a manager so that he can obtain necessary co-ordination. Co-ordination is secured not only in work assignment but in authority delegation as well. The very idea of authority delegation has stemmed from the requirement of integrated and synchronized activities. Vertical co-ordination between levels as well as horizontal co-ordination between departments is brought about by authority relationships of the organization structure.

Direction is concerned with making the human efforts more effective and productive through the exercise of leadership, guidance, motivation, supervision, communication, etc. Managers exercise leadership with the object of deriving teamwork from employees and of directing their efforts towards some common channels. Supervision is a cementing force for securing better performance from workers. Supervisors give assistance, advice or direction to the group so as to obtain cohesive group efforts. Inter-personal relationships and group satisfactions are maintained by the supervisor for improving productivity of labour. Communication brings the workers into touch with the objectives, policies or procedures of the enterprise. Communication has been recognized as a powerful tool in the hands of managers for obtaining symmetrical work performance throughout the organization.

Control ensures the realization of planned objectives through the process of work evaluation. The work progress is analysed and appraised in terms of quantity, quality, time use and cost. In other words, control is to see how far co-ordination has become effective in the organization. If any deficiency is found, corrective actions are taken to bring back needed co-ordination into full play.

External Co-ordination. No enterprise operates in a vacuum. As a social institution, it is affected by the ever-changing social influence and the dynamic political and economic environment in which the enterprise must work. Whether the external forces are properly recognized or not, they affect the working, and even the very existence, of the enterprise continually. To stay in business, managers must recognize these forces, analyse their impact on the enterprise and take some remedial or preventive measures that are found fit. The external forces that usually exert a profound influence on the working of any business may be stated as follows:

1. *Three interested parties.* There are three interested parties—the customers, the employees and the owners—whose conflicting needs and demands have to be satisfied by managers of any business enterprise. Consumers desire an uninterrupted supply of quality goods and services at fair prices and expect a steady improvement in the quality of goods and services so as to give them a higher standard of living. Employees demand fair wages, congenial working conditions, steady employment, social satisfaction from the work as well as protection against hazards of accident, sickness or old age. Owners want conservation of assets, efficient and continuous operation of the business, fair returns on investments and accurate information on several aspects of the business. The managers have to respect the aspirations, desires and wishes of all these interested parties. They are to balance and harmonize these claims to avoid any disruption in the work.

2. *Other enterprises.* An enterprise affects and is affected in turn by the activities of other enterprises, particularly in the same line of business. All enterprises purchase materials and services from other enterprises and sell their products or services to some other enterprises. In this way, many enterprises are usually chained together by their customer-buyer relationships. Non-availability of materials may lead to stoppages of production; reduction in the quantum of sales to other enterprises requires an adjustment in the selling enterprises' production schedule. Apart from these allied enterprises, activities of competitive enterprises may change the status of any business in a significant manner. Establishment of additional production facilities or curtailment of existing facilities by others is bound to have a serious repercussion on any business.

3. *Government regulation.* The Government at city, state or central level exerts potent forces that are to be reckoned with by all managers. Regulatory measures of the Government have become so extensive in character that no enterprise can stay in business without becoming thoroughly familiar with the socio-economic trends which produce these restrictive or prohibitive regulations. Compliance with the various laws relating to tax, tariff, labour, etc. is an obvious necessity. Successful managers try to foresee the trend of these regulatory measures and take advance steps to adjust their business accordingly. A business cannot prosper either by evading the regulatory laws or by entering into legal battles with the Government.

4. *General business economy.* Business horizon is pulsated with regular ebbs and tides of the trade cycle. The enterprises must

adjust themselves with the swings of the trade cycle through economic forecasting and trend study. To find out the minimum sales volume required for the business over a period, the tool of "break-even analysis" can be utilized by the enterprise. It is foolhardy to expect that uniform sales volume can be maintained during bad and good periods. But it is within the powers of managers to push some extra sales during boom periods so as to make up the deficiencies of sales in the ensuing depression.

5. *Technology advances.* An enterprise must utilize the benefit of new technology which is being made continually available in our society through research and inventions. Technological advances contribute significantly towards the reduction of cost and the improvement of productivity. An enterprise cannot go ahead, and even stay in business, without introducing the technological changes. With the advent of the electronic and atomic age as well as the development of automation, technological co-ordination has appeared to be of great significance to the managers of tomorrow.

Chapter 3

Decision Making

ROLE OF DECISION MAKING

Decision making lies deeply embedded in the management process and is the only vehicle for carrying managerial workload. Decision making permeates through all managerial functions and covers every area of the enterprise. Decision making is the sole way in which managers can discharge their functions of managing. Management, as a specialized activity, can be carried on only in the form of decisions. The task of decision making is the distinguishing mark that identifies a person as the manager of any undertaking. Management and decision making are bound up inseparably, and they go hand in hand.

Whatever a manager does he can do it by taking some decision from a number of alternative courses of action. Whether a manager orders or advises, plans or organizes, approves or disapproves a work, hires or fires an employee, he is engrossed in the process of decision making. An uninformed manager who manages his job traditionally may not be aware that he is making decisions constantly. But a little reflection will reveal that he cannot move even a step in his managerial work without decisions. In other words, the management process consists of a bundle of decisions in all areas and for all activities of the enterprise. All matters relating to planning, organization, direction and control are settled by managers through decisions which are executed or translated into practice by operators of the enterprise.

Deciding and planning. Deciding is no doubt a form of planning. Like planning, deciding affects in most cases a future course of action and involves choosing among alternatives. For that matter, deciding and planning have cognate meanings. Planning as a whole with its component parts like objectives, policies and procedures is the outcome of decision making. Furthermore, as planning is necessary for other managerial functions of organizing, directing and controlling, decision making too has a pervasive influence on all managerial functions. Because of this situation, decision making is regarded by many writers as a part of the planning process. But many and varied operating orders and instructions are given by the middle and supervisory managers for getting the work accomplished through people. Such ordering and instructing involve decision making within the framework of planning. Should the task of order giving or instruction giving be included within the planning function of management? If included, there does not exist any distinction between planning and directing functions of management. Again, in firing employees, in motivating them or in disapproving their work, decisions are taken by all managers. If such decision making is regarded as a synonym of planning, we cannot make an analytical study of the complex management process.

CLASSIFICATION OF DECISIONS

Decisions are broadly divided into two categories: the first includes the *typical, routine or unimportant decisions* and the second is made up of *important, vital or strategic decisions.* Routine decisions involve no extra-ordinary judgment, analysis and authority, since they are to traverse along more or less fixed avenues. Ends of the enterprise are clearly established and the definite means to secure the ends are also given. With given means and ends, routine decisions demand a power of selection of the shortest path, as the connecting link between means and ends, on the part of managers. On the other hand, strategic decisions aim at determining or changing the means and ends of the enterprise. They require a thorough study, analysis and reflective thinking on the part of managers. Strategic decisions are usually taken by top managers, while routine decisions are made mostly by lower-level managers.

Decisions are also classified from other approaches with a view to revealing their routine or strategic nature. *First, from the standpoint of futurity of the decision,* decisions may be deemed either as routine or as strategic ones. For more distant future, the risk and uncertainty involved in decisions increase proportionately. Decisions of this nature are to be carefully thought through and analysed before they are made effective, since they commit the enterprise to enter into speculation about the uncertain future and to introduce important changes in its affairs. But the risk element is reduced in decisions requiring the solution of current problems or problems of the near future and such decisions are taken within defined jurisdiction. Where the degree of risk and uncertainty is high, decisions are reserved for top-level managers; otherwise they are pushed down to the lower level of management.

Secondly, according to the frequency or rarity of some decisions, they may be looked upon as routine or strategic decisions. The routine decisions are oft repeated so as to reduce their uncertainty and risk to a minimum, and they are usually taken against a familiar background. Particularly, when such decisions are taken within the framework of established policies, and procedures, they become so routine in character that such decisions can be made by managers at the lower level. But in the case of rare decisions not covered by established policies and procedures, the managers are required to probe the matters to the bottom to find out any hidden difficulty, to utilize any untapped resource, or to unlock any revealing situation. The rare decisions, in most cases, require a searching analysis on the part of top managers.

Thirdly, from the approach of their impact, decisions may affect one department, several departments or the enterprise as a whole. Decisions, to be made effective, must be supported by necessary authority. A departmental manager cannot take a decision affecting other departments, areas or functions of the enterprise. It is a truism to state that managers must decide matters falling within their jurisdictions. Enterprise decisions are taken at the highest level, inter-departmental decisions are made by the superior manager in collaboration with managers of the affected departments, and departmental decisions by managers of their respective departments. This order of arrangement is followed in the case of routine decisions. But strategic decisions, wherever they may arise, cannot be made in this fashion. Even a departmental decision may be raised to the status of strategic one because of the elements of either rarity or futurity of decisions.

Finally, some decisions require *judgment of non-economic factors like ethical values, moral conduct or human behaviour in the enterprise.* The presence of these quality considerations in decision making calls for a judicial function that can only be discharged by managers of the higher level. To ensure unbiased decisions on these qualitative and intangible problems, decisions of this nature are pushed up to the top of the organization. Many questions of human relations are not decided by the personnel department head, but they are taken up by superior managers. Human problems that are fully covered by established policies and procedures are, however, decided at a lower level.

DECISION MAKING AND AUTHORITY

The need for correlationship between authority and responsibility becomes crystal clear from the decision-making process. The responsibility of a manager can only be discharged through decision making. In all areas and at all levels, managers act through decisions. But without the grant of requisite authority, managers can neither take decisions nor make them effective. They must have sufficient authority to make all necessary decisions within their respective jurisdictions. To deny authority to managers for decision making amounts to retarding their performance and pulling down their efficiency.

The principle of decision making requires that the task of decision making should always be pushed down as far as practicable. Top managers should be relieved of the burden of taking too many unimportant decisions. There are two advantages of this practice. On the one hand, decisions are taken by operating managers who are close to the field of work and who have a thorough knowledge of local problems and situations. As a result, decisions are likely to become more realistic in character. On the other, top managers can concentrate on important problems in order to give meditative thought and reflective judgment over the issues for coming to a decision. Unless they are free from making routine decisions, top managers cannot make creative thinking and take decisions concerning innovations, the vital contributory to progress of any enterprise.

However, as we have already seen, there are important limitations on the shifting of responsibility. Future decisions, rare decisions, qualitative decisions as well as enterprise decisions cannot be shifted down to the lower level of management. Strategic factors involving the degree of change or risk are to be taken into consideration, and they alone will determine how far down the decision can be made.

Limits of Individual Authority on Decision Making. As decision making has a number of steps—making the diagnosis, analysing the problem, developing alternatives and selecting the best course of action—it is hardly possible for a manager to make decisions through his own effort and thinking only. Activities of a business interlock with one another and require joint consideration for the solution of most business problems. For ensuring this joint consideration, the facts, ideas, suggestions or opinions are collected from different persons before making any decision. To facilitate sound decisions on the part of managers, some phases of the decision-making process are assigned to others working in separate and distinct roles. Single-handed decision making is very uncommon rather than the customary practice.

Even when subordinate managers make any routine decision, their authority is greatly circumscribed by existing standing plans and prevailing informal traditions of the enterprise. Such plans and customs provide limits, guides and assumptions for decision making. It is these standing plans and customary practices that develop a consistent pattern of executive behaviour, and at the same time, allow individual managers to take independent decisions of their own. Apart from authority constraints, there are other constraints on decision making, *e.g.* biological, physical, technological and economic constraints.

STEPS IN DECISION MAKING

The decision-making task can be divided into six steps which are stated in the order of their sequence as follows:

1. *Making the diagnosis.* The first step is to determine what the real and correct problem is. If the problem is not ascertained correctly at the beginning, money and effort expended for the decision over a wrong problem are sure to go in waste. Furthermore, the original situation will not be brought under control; rather new problems will stem from this incorrect appraisal of the situation. In other words, the presence of one or two visible symptoms of a disease should not tempt a manager to arrive at the correct diagnosis. Symptomatic diagnosis often betrays the real issue, and it should be replaced by analytical methods as far as practicable. To illustrate, the problem of declining sales can be solved by taking a decision for intensifying the sales efforts. But if the real problem lies in changing the product lines, in reducing the price through the adoption of improved methods of production, or in redesigning the existing products, no amount of sales effort and demand creation can bring the desired result. In short, it is to be realized that a problem is half solved when it is well defined, and it is foolhardy to search for a correct solution of an incorrect problem.

2. *Analysing the problem.* The problem should be thoroughly analysed to find out adequate background information and data relating to the situation. This analysis may provide the manager with revealing circumstances that help him to gain an insight into the problem. The whole approach to the problem should, however, be based around the limiting or critical factors. There can be innumerable factors involved in any situation, some of which are pertinent and others are remote. To minimize the expense of time and effort, analysis is required to be directed towards the pertinent and closely connected factors, as dictated *by the principle of the limiting or strategic factor.* Of the myriads of data and information collected, facts should be screened out and separated from beliefs, opinions or preconceived notions. The focusing of attention on crucial factors helps the manager to spell out the facts of the case. And as a basis, facts alone provide the solid foundation for making decisions.

3. *Searching alternative solutions.* Analysis of the problem can never become thorough and satisfactory unless attempts are made to search for several alternatives. There is hardly any course of action wherein alternatives cannot be developed. The search for alternatives forces the manager to see things from many viewpoints, to study cases from their proper perspectives, and to unearth the trouble spots of the problem. In the absence of alternatives, decision-making process becomes a mechanical job. Routine decisions of this type may not give rise to any serious difficulty. But strategic decisions can never be taken in this fashion, because they will complicate the problem rather than easing it. Furthermore, some of the decisions require the development of a series of derivative decisions that are related to one another as the links of a chain. Making of one such decision in isolation to others means indecision over the problem. To illustrate, a decision to make a thorough replacement of machinery in a plant must be supported by other decisions relating to the production arrangement and personnel problem of the plant during the transitional period. In other words, the practice of developing alternatives is the best guarantee for ensuring adequate attention on the part of managers. It also avoids bottlenecks to operation consequent upon the failure of one decision in the enterprise, since alternative decisions can be put into effect without delay.

4. *Selecting the best solution.* The selection of one best course of action, out of several alternatives developed, requires an ability to draw distinctions between tangible and intangible factors as well as between facts and guesses. Sound knowledge and accumulated experience provide some managers with an uncanny ability to choose the best course at a greater ease. Practical experience counts much in this step of decision making. In any case, the evaluation of several alternatives is made from a consideration of their probable results on the enterprise objectives. Four criteria have been suggested by Drucker in selecting the best solution : (a) the proportion of risk to the expected gain, (b) the correspondence between economy of effort and possibility of results, (c) the timing considerations that meet the needs of the situation, and (d) the limitations of resources.

5. *Putting the decision into effect.* Even the best decision may become inoperative due to the opposition of employees. The decisions can only be made effective through the action of other people. To overcome the opposition or resistance on the part of employees, managers must make necessary preparations for putting the decision into effect. There are three important things relating to this preparation, *viz., communication of decisions, securing employee acceptance and timing of decisions.* Any change involved

in the decision should be made known to all employees in clear, precise and simple language; opportunity must be given beforehand to know and understand the expected changes. After communication, the necessity of changes should be explained to win over their co-operation. In many enterprises, the selection of the best course of action is made through group decisions with the primary object of securing whole-hearted participation from the side of subordinates. As all decisions affect the employees and their work, they must be taken into confidence for securing their willing support. Otherwise the best of decisions may be sabotaged in such a manner as to elude the attention and efforts of most managers. Opportune time is to be determined and favourable circumstances are to be created for converting a decision into action. Moreover, some human relations factors are usually taken into consideration for determining whether the entire decision is to be put into action at one time, or it is to be introduced piecemeal. Timing considerations dictate the choice in either way.

6. *Following up the decision.* In spite of their best endeavour, the managers cannot make infallible decision. One reason is that some amount of guesswork becomes inevitable in almost every decision. Because of the cost and time involved in analysing the problem, all facts cannot be secured. The second reason is to be found in the limited capacity of the manager himself. As a consequence, it is idle to expect that managers would be making correct decisions in all cases. Any active and responsible manager is bound to make some incorrect decisions along with his frequently correct decisions. The fear of incorrect decision prevents many managers from taking any decision at all. Strictly speaking, indecisive manager are the evaders of responsibility, and the managers who make some incorrect decisions cannot be blamed to such an extent. However, as a safeguard against this incorrect decision, managers are required to institute a system of follow-up to the decisions so as to modify them at the earliest opportunity.

TIME FOR DECISION MAKING

Contrary to popular belief, decisions are not taken by managers in a hasty manner. The different phases of decision making are usually gone through before coming to an important decision. True, routine decisions can be taken in a shorter period than strategic decisions. But irrespective of the nature of decisions, sufficient time must be given for analysing the problem, for developing alternatives, as well as for selecting and putting the best solution into effect. Although managers are sometimes called upon to decide things as quickly as possible, it does not imply that they are to take sudden or snap decisions without considering the various facets of the problem.

Experience is the most important and valued basis utilized for making rapid decisions. The importance of experience cannot possibly be overstated in making decisions. It is experience that gives any manager the requisite breadth of vision, that trains him to apply the knowledge to the best of its use, and that helps him to recognize the crucial factors from a mass of unnecessary details. Furthermore, experience removes the fear complex and brings necessary confidence in the taking of decisive action. As a result, the greater the experience, the lesser the time required for coming to a decision.

INDIVIDUAL AND GROUP DECISIONS

Decisions are reached by individual managers as well as by several managers acting in a group. Alternatively, group decisions are arrived at by superior managers in collaboration with their subordinates. Routine decisions are mostly taken by individual managers who can thereby avoid delay, hesitation and deadlocks associated with group decisions. One-man decisions are the familiar practice in all small businesses, and to some extent, this system prevails in large businesses also. In some cases, however, individual managers do not like to share the power of decision making with others for the fear of losing their status and prestige in the enterprise. But important and strategic decisions which introduce any change in the organization cannot be made effective without the active support of affected people. Inter-departmental decisions must be taken by the group as a matter of necessity. For putting the decisions into effect, the group participation in decision making has acquired special importance with a view to winning employee acceptance.

Even when decisions are made by the group, participation in the first two stages of decision making becomes unnecessary. Making diagnosis of the problem and its analysis can best be done by individual managers, and group participation here results in procrastination and delay of decision making. But developing alternative solutions and picking up of the best solution can be more effectively done through group participation along with the benefits of different ideas, suggestions and experiences. There are, however, some serious limitations of group decisions which have been discussed elsewhere in connection with the use of committees in organization.

DECISION MAKING AND OPERATIONS RESEARCH

In recent years, the scope of intuitive judgment in decision making is gradually being curtailed and a greater emphasis has been put on quantitative approach involving the use of mathematics and statistics. This quantitative approach to decision making is referred to *as operations research.* Operations research has proved itself to be an invaluable technique of decision making, particularly with regard to planning and controlling functions of management. Operations research found its first application during World War II in the analysis of military problems in Great Britain. Operations research utilizes the applied mathematical and statistical methods to find out some basic pattern of relationships among a number of variable factors in any operating situation. Basically, it applies the probability and sampling theories for mathematical analysis and synthesis of a problem through the establishment of significant relationship.

The various factors of a problem are reduced into quantitative terms for mathematical measurement and analysis. Effects of these chosen factors or situations are also estimated by assignment of quantitative values. From the quantifying values, models are constructed in terms of mathematical equations. With the help of these equations, possibilities of all alternatives are clearly revealed. To apply operations research for the analysis of business problems, the entire enterprise is looked upon as a group of related activities with common objectives. Otherwise, the new quantitative technique may give misleading results from what is known as "sub-optimization". The development of electronic computers has facilitated the growth of operations research for finding out the best course of action with its probabilities and potentialities.

Application of Operations Research. The quantitative analysis of business problems is made through a number of techniques and tools, such as linear programming, probability theory, sampling theory, queuing theory or waiting line theory, simulation, dynamic programming (*e.g.*, the Programme Evaluation and Review Technique or PERT), operational gaming (*e.g.*, the business game), input-output analysis, search theory and formal game theory. Of the different tools and techniques of operations research, the first five are of proven value and the last five have limited or little application in their present state of development. Lindsay, Franklin A. in his book *New Techniques for Management Decision Making,* holds the view that probability theory, simulation and operational gaming will have a major impact on management in the 1960's and 1970's.[1] Varied business problems that have been subjected to

[1] *New Techniques for Management Decision Making,* (New York : McGraw-Hill Book Co., Inc. 1958), p. 168.

quantitative analysis by operations research include production scheduling, control of production runs in oil refineries, purchasing policies, capital budgeting, freight and transportation costs, assignment of salesmen to market areas, pricing, selection of advertising media and location of plant, store or warehouse. The American Management Association in its Report No. 10 in 1958, *Operations Research Reconsidered,* has indicated the results of a survey of the industrial application of operations research, and it is found in the Report that areas like production, long-range planning, sales and marketing and inventory have seen the greatest application of operations research.

Limitations of Operations Research. There are a number of limitations of operations research which may be stated as follows :

1. In the quantitative analysis of operations research, certain assumptions and estimates are made for assigning quantitative values to factors involved. If such estimates are wrong, the result would be equally misleading.

2. Many management problems do not lend themselves to quantitative measurement and analysis. Intangible factors of any problem concerning human behaviour cannot be quantified accurately and all the patterns of relationships among the factors may not be covered. Accordingly, the outward appearance of scientific accuracy through the use of numbers and equations becomes unrealistic.

3. The quantitative methods of operations research are in many cases costly, elaborate and sophisticated in nature. Although complex problems are fit for analysis by tools of operations research, relatively simple problems have no economic justification for this type of quantitative analysis.

4. A knowledge of some concepts of mathematics and statistics is prerequisite for the adoption of quantitative analysis by the managers. According to the present training and experience of most managers, the actual use of these tools may be confined to a few cases.

5. Operations research is not a substitute for the entire process of decision making and it does not relieve the managers of their task of decision making. In one phase of decision making, *viz.*, selection of best solution through evaluation of alternatives, operations research comes into the picture. Managers have to prepare the groundwork for the introduction of operations research through several steps in decision making, *viz.*, diagnosis of problem, analysis of problem and development of alternatives; and even after the

selection of best solution by operations research, managers have to put the decision into effect and to institute a system of follow-up.

DECISION MAKING AND MANAGEMENT INFORMATION SYSTEMS

The "systems" approach to the information flow throughout the enterprise has been of valuable assistance to rational decision making. To reduce the scope of subjective judgment in decision making and to increase the supply of facts to managers for their decisions, the information system has added a new dimension to the decision-making process and has been recognized as a new concept of top-management functions. It is partly a by-product of computer technology which dictates centralization of data handling and information development for the benefit of the entire organization. Under computer technology, the functions of data manipulation, calculation and data storage (or, as they are collectively called "data processing") can be performed accurately with a terrific speed and at a comparatively lower cost. Primary data or items of raw information are mainly created in certain areas of the business like production, purchasing, sales and personnel. These primary data in varying combinations are fed into the computer centre as *input* for being processed into various kinds of information as *output*. Because of the system approach, the whole organization is looked upon as one entity with interrelated parts which are provided with desired information from a common centre through the processing of primary data in various ways.

In the past, data manipulation through manual operation used to take place separately in different functional areas of the business. As a result, a number of defects crept into office work and clerical operations, *viz.*, duplication of effort, multiplicity of reports, lack of requisite information, inaccurate and untimely information and utter inefficiency in office work. All these defects have been eliminated by the integration of data handling and information development activities under one agency of data processing. Activities concerning not only data processing, but office systems, operations research and like others as well have been organized as a top-level job under the "management services" manager. The development of this information system is expected to improve the process of decision making by permitting the managers to base their decisions on greater information, to enlarge their visions for developing alternatives, to make a thorough and speedy analysis of problems and to comprehend in a better way the impact of their decisions on the enterprise and its objectives.

Chapter 4

Innovations and Creative Thinking

IMPORTANCE AND SIGNIFICANCE OF INNOVATIONS

Creative ideas and their offshoot, innovations, nourish the management process through enlightened and original decisions. Of all the decisions, innovation decisions call for a high degree of creativeness as they lead to major changes in business operation in accordance with the fuzzy and nebulous trend of future business. Business depends greatly on new ideas and innovations. Innovations in products or services are the best guarantee for the enduring success of an enterprise. A business can only thrive by maintaining a good market standing throughout its existence. For the purpose of market standing, products or services must come up to the customers' satisfaction as to quality, price, utility, style and appearance. All these specifications of the product are, however, continually changing along with the development of new materials, new methods and new products. In the face of these changes the existing enterprises may either pave their way towards progress or go to ruin. As continued progress is the normal expectation of all enterprises, innovations must be accepted as the only means of achieving this coveted ideal. It is innovations that can keep the enterprise ever living, growing and flourishing in the midst of dynamic conditions.

Innovations in products or services imply the imparting of greater satisfaction to customers. This greater satisfaction can be given in a variety of ways: by redesigning the product, by lowering its price, by effecting packaging alterations or by offering new products. A change in product designs may require the remodelling of plant, the introduction of new machines and the establishment of new methods of production. To reduce prices of products or services, the cost of production is to be decreased through an all-round improvement in activities of the entire business. Thus innovations encompass the whole enterprise with all its segments and cover every phase of its activity. Innovations in marketing, accounting, office work, human relations and management development can bring as much cost reduction as is possible in the case of manufacturing activities. As all activities contribute their mite towards supplying desirable goods or services to customers, a business cannot confine its innovations to manufacturing activities alone. A cumulative effort in all areas can only bring what the customer wants.

Innovations push back the economic limitations of the business horizon and open the way for progress and prosperity. Technological changes or social changes are taken care of much in advance of their actual coming so as to supply the right type of products at the right time. Further, innovations ensure the supply of new products required in an expanding market. Constant improvement or adaptation of products is the perpetual lookout of innovations. No product, whatever might be its present market appeal, would continue to maintain its steady demand in the years ahead. In a competitive economy, new producers are likely to appear on the scene with better products that may give greater satisfaction to customers. Accordingly, there is a fear of constant encroachment upon the demand for an existing product. Changes in demand, if they are not anticipated, foreseen and provided for, may put the company unprepared for the situation and may lead to its forced liquidation. Innovations in products or services are the only insurance against this risk of changing demand.

RESPONSIBILITY FOR INNOVATIONS

Innovations in products or services are tied up with innovations in all areas of the business. They can never be the exclusive responsibility of the production department. No doubt many technical developments are ultimately given a concrete shape by the production department. But this does not mean that other departments have no contributions towards innovations, even when innovations are technical in nature. Marketing department, through an adequate market study, provides the necessary facts and information upon which product innovations are based. Likewise, other departments have their own share in supplying requisite skills and efforts. Invariably, innovations are the outcome of joint endeavour of the enterprise as a whole. This overall responsibility for innovations can be stressed by top management alone. The top executives visualize the future, devote creative thinking to new ideas and put the entire machinery in motion for working out ideas into practical details.

Innovation is such a vital problem that it cannot be left in the hands of operating managers or of technical men. The very existence of the enterprise may be at stake if innovations are delayed or made ineffective. For this reason, top managers prescribe the requirements of innovations for the guidance of all concerned and allocate their individual responsibility for achieving expected result. Product lines are put to a searching analysis to find out the market standing of each product separately. On the basis of this analysis, innovation requirements are established by discarding some existing products, adopting new products and improving other products in the line. In other words, innovations are carried out through a long-range planning of operations. One of the important groups of objectives must relate to innovations in products or services. Like other objectives, innovation objectives are translated down step by step to serve as a guide to action for all employees in the organization. Products cannot be changed overnight; they require sustained efforts over a considerable time for developing them into a saleable form. That is, planning of future operation is the real safeguard against the danger of obsolete or outdated products.

Innovations involve some change in products and services or in other activities of the enterprise. As all changes, whether good or bad, may be opposed to some extent by the working personnel of the enterprise, innovations can be properly carried out by the direct support of top management. The top executives must overcome the resistance to change by explaining the urgency of measures to the operatives. Innovations can be made certain and effective under the concerted drive and purposive action of the top-management members. To throw the entire burden of innovations upon the technical men is to betray the work itself. Rather than imitating others in making innovations, managers must initiate measures for changing their adopted course of action much in advance of other competitors. This forward-looking and imaginative plan of action is what sound management can arrange for the enterprise.

INNOVATIONS STEM FROM IDEAS

Irrespective of their place and time of origin, ideas of great thinkers have led the whole world in pursuing a particular way of thinking and action. It is not strange, therefore, that business leadership goes to the company which can evolve practical and pioneering ideas through its management team. Original ideas are reflected outwardly in the form of innovations in products or in some other aspects of work. Successful management is really a task of leadership, and this leadership finds expression and vitality through new and constructive ideas. From the very start of the business, ideas come into play in deciding the competitive position and prospects of the enterprise. It is the working out of new ideas that can keep the enterprise ever growing in stature and importance.

With a view to providing greater satisfaction to customers, innovations call for a receptivity to ideas, a constructive thinking and an imaginative vision about the future. Better market standing being the primary objective of business, all planning activities are necessarily based on innovations. A practical idea as to the better way of doing things is processed into innovations through planning. Ideas serve as a beacon light for illuminating the objectives of an enterprise, and it is these objectives around which all activities are built in a planned course of action. Put in brief, ideas are bones, while innovations are sinews and flesh around the bones within the body of a plan.

It is in the realm of ideas that managing acts as a creative force. Facts and information collected from forecasting are subjected to realistic interpretation in the light of managerial ideas about the future. The comparative efficiency of different management teams lies in their ability to evolve workable ideas. Managers can win over the gravest of their situations with the help of ideas. Ideas are not only helpful in planning but they are equally important in other managerial functions. Problems of human relations and organizing can hardly be solved in a mechanical way. It is creative ideas that can overcome any situation, because ideas point out new angles of the problem and provide an insight into it so as to find an easy solution.

SOURCES OF IDEAS

Ideas are not confined to the garret genius but they are available to any common man who cares to enlist their support. To evolve practical ideas, one must have a rich background knowledge, an experience with diverse situations and an ability to analyse events in their proper settings. Preconceived notions are a great bar to the evolution of ideas, and the person must be receptive to ideas with an open mind. Ideas come to the person who makes a search for them through sustained labour and intensive effort.

Business tour within and outside the country increases the depth of one's knowledge and vision considerably. A trip to other factories and business offices makes the manager familiar with different conditions and situations. Furthermore, reading of technical journals and books permits a person to widen his frontiers of knowledge, particularly in respect of recent developments. Both these sources —business tour and reading—are, however, of secondary importance in the formation of ideas, as they go to increase one's background knowledge and experience relating to a particular field of endeavour.

The ability to observe things from several viewpoints is probably the greatest faculty required in the idea-formation process. Observation by an analytical mind clearly reveals the critical factors of a situation and goes a long way towards taking an enlightened managerial action. Successful managers have an uncanny ability to see things from many angles, to twist familiar facts to get at the heart of the problem and to study cases to click ideas for securing an improved way of doing jobs. As ideas are very elusive in character and appears for a short period like a flash of light, teamwork by several managers often proves to be effective in seeking original ideas about the improved way of doing things. Moreover, mutual discussion by group members uncovers many clues that become a straight pointer to the hitting on the correct idea.

Suggestion system is a valuable source for securing ideas from operators of an enterprise. It is a commendable means of utilizing company talents for the betterment of work performance and for increasing the employee interest in the activities of an enterprise. Practical and valuable ideas are recognized by the company through the grant of cash rewards to the person suggesting the idea. To facilitate suggestions from all employees, suggestion boxes are set up at convenient places along with the supply of printed suggestion forms and writing facilities. In our country, some well-known companies have introduced this suggestion scheme which has been amply justified by the development of new ideas. To make the suggestion scheme effective, prompt acknowledgment of suggestions and quick distribution of worthwhile rewards to the suggester are essential. Moreover, suggested ideas are required to be put into use as early as possible for permitting continued interest and active participation on the part of employees. One difficulty of this suggestion scheme is that many valuable suggestions may be suppressed by the executive under whom the employees work. Such executives, being dominators rather than managers in the real sense of the term, do not like to accept their subordinates as more resourceful and imaginative than they are. As a result, they develop an unwarranted fear about the loss of their power and prestige. Devoid of personal authority, such executives have no vestigial prestige that can be lost before the eyes of subordinates. A good executive must have both official authority and personal authority combined in him. To overcome this difficulty, suggestions may be profitably received from the employees by a distantly related higher authority.

RESEARCH INTO IDEAS

Creativity is no longer the absolute privilege of a class of geniuses. Much of the creativity in business has been made by the properly trained employees in the field of their actual operations. This type of creativity has brought about the marvellous development of business through the introduction of new products and processes.

Creativity of this type is too common to be mentioned and lies in securing new uses for an existing product, and in replacing old materials, methods, equipments or products by their vastly improved varieties. This search for improvement has ensured the onward march of industry and has paved the way for greater prosperity of the nations and higher standards of living to their citizens. Put in other words, creativity has been instrumental in reducing the cost of production, in improving the quality of products, and in supplying a greater variety and volume of goods. These advancements have been achieved through organized group efforts by trained persons within the sphere of business itself.

Creative ideas must be practical enough for contributing towards industrial progress. To evolve practical ideas, the same scientific methodology of research is applied for translating ideas from the mental realm into concrete realities. Research into ideas points out their feasibilities as well as deficiencies. Research makes a thorough probe into ideas so as to unfurl them with all ramifications and to develop them into workable ones by imparting collateral ideas. The organized and conscious attempt for evolving practical ideas is apparent from the number of research laboratories that are being added from year to year in the business world. These research laboratories are, however, chiefly engaged in applied research rather than in pure research. But to increase the base of applied research, large sums are provided by business enterprises to the educational and technical institutions for undertaking basic and fundamental research that can be ultimately used for improving business activities. This co-operative and joint endeavour has become the mainspring of all developments in business.

The methodology of research for processing ideas into innovations may be indicated under the following three steps :

> In the first step, soundness of the ideas is examined on a theoretical plane by thinking through its relationship in terms of cause and effect. Ways and means are also devised for finding out practical lines of converting the ideas into action.
>
> After this preliminary investigation, ideas are experimented in the second step by a trial run of prototype work on a miniature scale. On the successful translation of ideas into actions at this experimental stage, the groundwork for a new course of action is completed.
>
> Finally, ideas are transformed into innovations after making necessary adjustments and improvements in the process of experimental work. To arrive at the final stage, however, many difficulties and problems are required to be solved by the formulation of other supporting ideas.

Stages in Creative Thinking. The process of creative thinking is said to pass through the following five stages:

1. *Saturation.* The thinker becomes absorbed with a problem and collects all facts and information relating to the problem.
2. *Deliberation.* He investigates the problem deeply to secure further ideas. Ideas and facts collected are analysed, classified or rearranged from many viewpoints.
3. *Incubation.* The severe strain of thinking compels the man to take relaxation from the conscious and purposeful search of solution, although he broods over the problem and carries it in his subconscious mind.
4. *Illumination.* The central theme appears like a flash of light over a period. The solution seems to him to be fresh, exciting and full of promise.
5. *Verification.* The ideas developed in the preceding stage are experimented for their effective use. If required, necessary modification and adaptation are introduced through further cycles of creative thinking.

PART TWO
MANAGERIAL PLANNING

Chapter 5

Fundamentals of Planning

NATURE AND CHARACTERISTICS OF PLANNING

Planning is the conscious determination of a future course of action to achieve the desired result. Future events, instead of leaving them to chance, are made to happen in a certain recognized manner through planning. There are several ways in which a particular thing can be done. Planning involves choosing of a course of action, from all available alternatives, for accomplishing the desired results with the greatest economy and certainty. Planning sketches a complete mental picture of things yet to happen in the enterprise through the process of looking ahead. The proposed course of action is charted out in greater details with the help of a complex chain of plans like policies, procedures, programmes and budgets focused on objectives of the enterprise.

Planning has a number of characteristics:

a. Primacy. Planning is an important managerial function that usually precedes other functions. Obviously, without setting the goals to be reached and lines of action to be followed, there is nothing to organize, to direct, or to control in the enterprise. But this should not lead us to think that planning is isolated from other managerial functions which have no impact on it.

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

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

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

e. Precision. Planning must be precise as to its meaning, scope and nature. As guides for action, planning is to be framed in intelligible and meaningful terms by way of pinpointing the expected results. According to the capacities and facilities of the company, planning must be realistic in scope rather than dreams indicating pious desire. As planning errors are far more serious than mistakes in other functions and cannot be offset by effective organizing or controlling, planning precision is of utmost importance.

f. Pervasiveness. Planning is a pervasive activity covering the entire enterprise with all its segments and every level of management. Planning is not the exclusive responsibility of top management only, but it extends to middle and lower management as well. Although the top managers are mostly preoccupied with planning work because of their wide jurisdiction of operation and decision making, planning is of equal necessity to every manager. Further, there is nothing to choose between a large firm and a small firm so far as the planning process is concerned.

BENEFITS AND LIMITATIONS OF PLANNING

Benefits. 1. *Planning leads to more effective and faster achievements in any organization.* It replaces random operation by orderly and meaningful action. Planning guides the enterprise to traverse along a safe and short path for reaching its destination.

2. *Planning gives a competitive edge to companies that forecast and plan.* In the context of changing and uncertain business horizon, planning is the best way for ensuring an orderly progress of the enterprise. As planning foresees the future and makes provision for it, planning gives an added strength to the business for its continuous growth and steady prosperity.

3. *Planning secures unity of purpose, direction and effort by focussing attention on objectives.* Isolated and distinct activities are co-ordinated towards one common goal, and at the same time,

duplication, overlap and cross-purpose working are avoided throughout the organization. It produces a mighty stream of operations and effects a thorough utilization of facilities.

4. *Planning minimizes costs of performance.* With a background knowledge of current situations and future setting of actions, planning involves the selection of one profitable course of action that would yield the greatest result at the least cost. Because of consistency and balance of efforts, plan introduces an even flow of work without any friction or dissipation of energy. It removes hesitancy, avoids crisis decisions, eliminates false steps and protects against improper deviations.

5. *Planning has unique contributions towards the efficacy of other managerial functions.* The overall picture of business presented through planning makes the functions of managerial direction and control more effective in the organization and points out clearly the need for further assistance or for revision in the course of action.

6. *Planning provides the basis for control in an organization.* Planning expresses the goals and targets in numerical data, and as such, it supplies the standard for subsequent work performance. Planning fixes the starting and finishing times for each operation so as to control actions of different employees. Determining a course of action along with clarification of individual objectives and timing considerations supplies the requisite standards for measuring work performance. As control is to see that events conform to plans, there can be no real control without planning.

Limitations. As against these benefits, there are several limitations of planning. *In the first place,* the importance of a plan depends upon facts and information on which it is based. If reliable information and dependable data are not available, planning is sure to lose much of its value. The longer the period involved in the future, the lesser will be the accuracy of planning. No doubt planning requires some amount of guess-work, but a good plan utilizes advanced forecasting techniques for making educated and intelligent guesses rather than pure guess, hunch or gamble. *Secondly,* planning may lead to internal inflexibilities and procedural rigidities. By limiting individual freedom, planning may stifle initiative and personal development. Rigidity appears from managers' negligence to revise the plan, particularly policies and procedures. Initiative and development can be aroused primarily by the directing function of managers. *Thirdly,* planning is said to be a time-consuming and expensive process. Planning in and of itself, cannot be blamed for these two defects ; rather the fault lies with the planners. A good plan always pays off in higher and quicker accomplishment. *Fourthly,* enterprises with rapidly changing situations present a serious difficulty to the task of planning. It is claimed that working on a day-to-day basis proves more economical in such cases rather than on a planned basis. To be precise, this is not a controversy between planning and no planning. But it suggests a choice between planning techniques and calls for the use of a short-range plan coupled with the system of regular follow-up. Unplanned operations produce chaos and disorder everywhere without exception.

ELEMENTS OF PLANNING

Planning consists of several individual plans or component parts that are bound together in a consistent structure of operations. Any complete and thorough planning must provide for the following elements :

Objectives. Objectives are basic plans which determine goals or end results of the projected actions of an enterprise. By setting goals, objectives provide the foundation upon which the structure of plans can be built. To guide and unify efforts towards the desired end, objectives stand steadfastly over all operations in the enterprise. As effective management nowadays implies *management by objectives,* all planning work must spell out the objectives to be realized from the proposed actions.

Policies. Policies are further guides to thinking and action of subordinates in the enterprise, even though they must lie within the boundaries fixed by objectives. Policies are written statements or oral understandings in some general terms for governing actions in repetitive situations. Realization of objectives is made easy with the help of policies, as policies provide standing solutions or answers to similar problems. As general guides to thinking and action, policies are however open to interpretation by different managers, particularly at the upper level, thereby permitting managers to exercise initiative, judgment and discretion in all cases. Policies are plans in the sense that they also aid in mapping out a course of action to be followed for the achievement of end results.

Procedures. Procedures indicate the specific manner in which a certain activity is to be performed. They prescribe definite tasks with their chronological sequences to be assumed by a number of people within the limits chalked out by the policy. Procedures mark a fixed path through the defined area of policy. In contrast to policies which provide guide to thinking and action, procedures are more definite and specific guides to action only for the fulfilment of objectives. Procedures may be durable like policies, but they are not as flexible as policies are.

Programmes. Programmes weld together different plans for implementing them into a complete and orderly course of action. All individual plans in the form of policies and procedures are assembled in such a fashion as to put them into a workable form for achieving the predetermined goals or objectives of the enterprise. Piecemeal plans are transformed into a master plan at this stage of programme planning. Programmes are necessary for both repetitive and non-repetitive courses of action. Programmes for repetitive action are referred to as *routine planning* while programmes for non-repetitive action go by the name of *creative planning.*

Budgets. Budgets are plans containing statements of expected results in numerical terms, *i.e.*, rupees, man-hours, product-units, and so forth. A cash budget projects the expected flow of cash for a period in advance, a revenue and expense budget shows the anticipated revenues and expenses, or a capital-expenditure budget reflects the estimated capital outlays over a period; all these budgets prove beyond doubt that budgeting is planning. But budgets are primarily used as control devices and they fail to serve this purpose unless budgets are developed into plans for utilizing them as definite standards of work performance.

To be precise, budgets and programmes are closely inter-related. While many programmes are implemented by means of some budgets, the budgets themselves are very often utilized as the entire programe in most of the business enterprises. As a matter of fact, budgets are adopted as the main instrument of planning in many companies by way of integrating different individual budgets into one master budget.

CLASSIFICATION OF PLANS

Planning provides a future course of action. Such course of action may involve either repetitive or non-repetitive operation as well as short-range or long-range operation. According to the nature and use of planning, different plans can be divided into three groups —*objectives, standing plans and master plans.*

First, objectives are basic plans which are necessary for all types of planning and operation. The entire planning activity is geared into action through the formulation of objectives. Objectives have predominant importance not only in planning, but they have unique role in other managerial work of organizing, directing and controlling also.

Second, standing plans which include policies and procedures have application only in repetitive action, whether it involves long-range or short-range operation. To ensure consistency of executive behaviour and managerial action, standing plans provide a ready guide to action for solving recurring problems. Standing plans have no use unless similar problems appear in the organization again and again. For non-repetitive operation, special problems are faced in each case and they are to be solved in a different way. However, standing plans limit individual freedom and restrict managerial authority for ensuring integrated and co-operative action. In other words, they constitute constraints for managerial operation.

Third, programmes are master plans which indicate the complete course of action along with timing and strategy considerations. All plans are meshed together in an orderly way under programming for mapping out the course of action. Programmes are applicable to both repetitive and non-repetitive operation. As non-repetitive operation does not require standing plans, some special considerations arise in programming for such operation. Budgets as a class of plans belong to the same category of programmes and have the same characteristics and application.

To be sure, plans can be classified in various other ways. In terms of jurisdiction, plans may be company-wide (overall) or subsidiary (derivative) in nature. In terms of scope, plans may be either detailed or broad in character. In terms of enterprise functions plans may relate to production, sales or other activities.

IMPORTANT STEPS IN PLANNING OR PROGRAMMING FOR REPETITIVE ACTION

The techniques of planning may be outlined to indicate a step-by-step approach to the adoption of a comprehensive plan ready for execution.

1. *Determination of objectives.* The first step in planning work is to determine the overall, major objectives. These objectives set the pattern of the proposed course of action and shape the structure of other subsidiary objectives in the organization. That is, major objectives are broken down into departmental, sectional and individual objectives when derivative plans are developed throughout the organization. Major objectives must be spelled out in realistic or specific terms rather than the establishment of general, philosophical or creed-type objectives. Creed-type

objectives are completely useless in managerial planning. As a guide to action, objectives must be specific, informative and clear enough as to indicate what is to be done.

2. *Establishment of planning premises*. Planning premises are assumptions about the future or understandings of the expected situation. On the stage of planning, they provide the setting or back-drop against which all planning activities are carried out. Planning premises supply pertinent facts and information relating to the future, and as such, they are vital to the success of planning. Of all the relevant factors of any planning area, some are constant and others are variable. Constant factors are ignored in planning because they behave in the similar fashion, irrespective of the course of action adopted. Variable factors have a significant bearing on the success of the plan. Accordingly, planning premises must have a wide coverage so as to encompass all variable factors. Some of the important planning premises utilized in business are population trends, production costs and prices, regulatory and prohibitive measures of the Government, capital and materials availability, national and world economy, and the product market. Forecasts and trends analyses provide most of the information required in planning.

3. *Selection of the operating plan from alternative*. In business, there exist a number of alternative courses of action for achieving the desired result. All these courses of action must be found out for their comparative and analytical evaluation. With reference to considerations like cost, risk and gain, all available alternatives are appraised to select a satisfactory course of action. In other words, the techniques of decision making are applied to choose the proposed course of action from several alternatives. If alternatives are not developed, planning becomes a straight-jacket pattern of activity and loses much of its beneficial results. The overall programme or the operating plan emerges from this step in the planning process.

4. *Preparation of derivative plans*. The overall operating plan of the enterprise cannot be executed effectively unless it is supported, enlarged and clarified by the preparation of other derivative plans for each segment of the company. Within the framework of a primary and basic operating plan, derivative plans are developed in each area of the business to integrate objectives with all policies, procedures, programmes and budgets. The break-down of the primary plan of action into departmental and sectional plans gives a realistic picture of the course of things to come in future.

5. *Timing and sequence of operations.* Timing is an essential consideration in planning, and it gives practical shape and concrete form to the programme. The starting and finishing times are fixed for each piece of work so as to indicate when and within what time the work is to be commenced and completed. There are several cases on record to show that bad timing of programmes has resulted in their failure. Further, to maintain a symmetry of performance and a smooth flow of work, the sequence of operations is to be arranged carefully by giving priorities to some work in preference to others. Sequence determination is, of course, tied up with timing and both of them are encompassed in scheduling.

6. *Securing participation.* For the effective execution of the programme, participation by subordinates has been found to be of extreme importance. Plans must be communicated and explained in greater details to subordinates for increasing their understanding of the proposed action and for enlisting their co-operation in the execution of plans. This participation improves the quality of planning through the knowledge of additional facts, new visions and revealing situations. Moreover, the participating managers owe a personal obligation to execute the plan as effectively as possible. The key to the successful execution of plans lies in having a fully informed group of managers and employees. Accordingly, joint participation in planning has become the rule rather than an exception nowadays.

7. *The use of strategy.* Strategy has a significant contribution towards the execution of a plan. Accordingly, consideration of different strategies becomes an integral part of the planning process. The word "strategy" implies an approach to the execution of plan whereby all resistances and reactions of employees are encountered. Strategy dictates some adjustment and adaptation of the plan in accordance with the changing attitude of people, both within and without the enterprise. It is the tactical retreat in planning to win over oppositions and pressures from others. Before putting the plan into action, strategies are thought out and kept in reserve to apply them as and when necessity arises.

> There can be countless business strategies to meet diverse situations. To take some examples, a plan involving considerable changes in the organization may better be introduced piecemeal for its execution so as to overcome employees' resistance (*Camel's head in the tent*). In those cases where a plan is required to be executed promptly, an artificial emergency may be created to put the whole plan into action (*Mass-concentrated offensive*). Controversial issues may be overshadowed by deferring their discussion or by giving a greater concentration on favourable issues

(*Confuse the issue or Red herring across the trail*). Favourable terms can be obtained from important suppliers of finances by making preliminary negotiations with their rivals and by bringing this information to their knowledge (*Conserve your gunpowder*). A senior manager can transfer the consequence of an unpleasant action to his subordinate by mutual agreement, and the subordinate manager in turn can face the situation by arranging a temporary transfer to other departments (*Pass the buck*). A manager who opposes a plan of action can be won over through his appointment as the chairman of a committee constituted to make recommendations relating to that activity (*Unwilling ally*).

8. *Providing follow-up to the proposed course of action.* Since all pertinent facts are not available in most planning activities and since some guesswork is inevitable, there should be a prior provision for following up the proposed programme when it is put into action. In the context of current problems and situations, some adjustments and modifications become necessary for achieving the objectives of the enterprise. Failure to revise the plan amounts to half-hearted planning. Moreover, many derivative plans are developed according to the needs of the situation. A regular follow-up can only find out the requirement of these derivative plans for effective execution of the proposed course of action.

PLANNING PREMISES

Planning premises provide a framework for planning and a basis for action in the midst of uncertainties in the business environment. Planning premises imply not only assumptions about the future, but they involve predictions also. Effective planning is therefore largely dependent upon the knowledge and accurate choice of planning premises. There are innumerable forces and factors which react upon business economy. It is impracticable on the part of managers to search for and analyse all these forces and factors. As a matter of necessity, managers concentrate on strategic factors and forces which have important bearing on the future operation of a business, and they ignore many subtle forces and minor factors affecting the business to a lesser extent. This recognition of *strategic, crucial or limiting factors* guides the manager to select the proper and adequate premises upon which he can raise the superstructure of planning. Alternatively, he misdirects his energy, overlooks some vital factors and causes the company to suffer loss.

Planning premises may be classified in several ways:

a. There are premises that exist both within and outside the company, *i.e., internal and external premises.* Important internal premises include the resources and abilities of the enterprise in the form of men, machines, money and methods. Competence of management members and skill of labour force are the most significant premises within the enterprise. External premises centre round the various types of markets, *viz.*, the product market, the materials market, the capital market, the labour market, and so forth. As the political, social and economic conditions are important determinants of the market, they fall under the category of external premises. Population growth, Government policies and regulations, general economy and business cycles, and technological changes are some external premises of great importance.

b. Planning premises may be divided into *tangible and intangible ones.* Tangible premises are those which can be measured quantitatively in one way or other, while intangible premises defy any quantitative measurement because of their qualitative character.

c. Planning premises may be *fully controllable, partly controllable or absolutely uncontrollable.* The presence of these uncontrollable factors dictates the need for revising the plan in accordance with current developments. Strikes, wars, natural calamities, new discoveries and inventions, emergency legislation, and like other events during the coming years cannot be predicted and controlled at all; but they may upset all well-thought-out calculations. Hence, planning flexibility must be taken as the normal run of things. In the case of intangible premises too, prediction cannot be made with an infallible accuracy about the behaviour of human beings.

d. Looked at from another standpoint, various forces and factors may be regarded as either *constant or variable.* Internal premises are associated with constant factors which are definite, known and well understood. The capacity of men and machines and the amount of capital investment are fully controllable factors within the powers of management. As their variations are dependent upon the decisions of management, no prediction or forecast is necessary to ascertain their position in the years ahead. Sales volume of the enterprise can be partly controlled by the activities of management. Many other factors lie beyond the controlling powers of management. Managers can only peer into the future to study their variations in the years to come. That is, forecasting gives the managers an idea or knowledge of their variations. But forecasting is not required in the case of constant factors, though they are included on the list of planning premises. The scope of premising is, thus, larger than that of forecasting.

FORECASTING

Forecasting underpins the planning work by indicating the future setting of business conditions. To base planning decisions on a solid foundation, forecasting provides mines of information and pertinent facts relating to the future. Forecasting implies the act of making a detailed analysis of the future to gain a foresight of background situations and latent forces. Most of the important planning premises are merged in forecasting of one type or another. Accordingly, planning without forecasting is an impossibility. Fayol has aptly observed. "The plan is the synthesis of the various forecasts : annual, long term, short term, special, etc."

Advantages. Forecasting has a number of advantages: (*a*) Forecasting plays a key role in managerial planning and supplies vital facts and crucial information. (*b*) Forecasting improves the quality of management personnel by compelling them to think through the future, to look ahead and to make provision for it. (*c*) Forecasting ensures better utilization of resources by extending the frontiers of control in several directions and by revealing the areas where control is lacking. (*d*) The employees are trained for accepting changes without any serious resistance as well as for facing unexpected occurrences courageously. (*e*) Forecasting steers the enterprise safely for reaching its fixed destination, as outlined by the objectives of the organization. (*f*) By focussing attention on the future, forecasting assists in bringing a singleness of purpose to planning on the part of all managerial personnel.

Limitations. Despite all efforts, forecasts are subject to a degree of error and they can never be made with a pin-point accuracy. Guesswork cannot be totally eliminated from forecast, even though guessing can often be reduced to a minimum. It would be more correct to say that managers expect too much from forecasts and fail to realize the unavoidable margin of errors that must exist in any prophecy. To make the forecast more dependable, managers must apply their accumulated experience, skill and objective judgment to the results of forecasts for critical evaluation.

Elements of forecasting. The techniques of forcasting have been improved to a marked degree in recent years, and they are applicable to almost every sphere of business activities. As an inference from known facts and given information, forecasting requires four well-marked steps for analysing the uncertain future. *In the first stage, the groundwork is made for building the future estimates thereon.* The known results of past decades are scanned to ascertain the growth of the entire industry in which the company is engaged, the growth of the company itself as well as the growth of its product lines. This growth is studied separately for each of them and in relation to one another. *In the second stage, the future business is estimated.* Projecting the prospects of the company over the known setting of past activities, an estimate of future business is made by management from a number of probable trends studied by it. These trends, however, cannot be taken as absolute guides to action, as some margin of error is likely to be present in such analyses. In fact, different trends are put to managers' judgment, intelligent guess and reflective thinking before arriving at a decision as to what the future holds. *In the third stage, actual results are compared with the estimated results.* As a safeguard against wrong anticipation, actuals are always compared with the anticipated results. Any discrepancy is explained by thorough investigation and probe into the matter. *In the final stage, the forecasting process is refined.* In the light of experience and proficiency acquired, the forecasting technique is refined, sharpened and adjusted suitably to meet the needs of the situation.

Kinds of forecasts. As to quality, forecasts vary from an intuitive hunch to elaborate statistical studies for measuring the possibilities of economic factors. Since the financial data lend themselves to easy statistical measurement and since the various business activities are ultimately translated into financial terms, the financial forecasts of some type or other are commonly adopted by business houses. This is particularly true in the case of those enterprises which are accustomed to budget making. All important budgets like the cash budget, the sales budget, the revenue and expense budget, and the capital expenditure budget are the direct outcome of relevant forecasts. Forecasts are translated into budgets within the established objectives and standing plans of the company. In short, forecasting is the precursor of all budgeting activities.

Techniques of Sales Forecasting. Sales forecasting is the starting point in business forecasting, and it provides the basic planning data for constructing other plans in the organization. With an idea of expected sales from the sales forecast, future profitability of the business can be easily ascertained by management through forecasting and controlling the group of operating expenses. Briefly, sales forecasting is the basis for good business planning and operation. There are five broad techniques of, or approaches to, sales forecasting which are used in the business world to find out the expected sales for a period of months ahead or years ahead. Different techniques of sales forecasting assemble and process information drawn from various sources and lead to the adoption of several types of sales forecasts which are submitted to top management for decision. The relevant techniques of sales forecasting are :

1. **Time-series or trend analysis for projecting historical data.**
2. **Correlation of sales with other variables.**
3. **Econometric model building.**
4. **Sample surveys of customers' or others' opinion.**
5. **Executive judgment or guessing.**

Time-series Analysis. Pertinent national and industrial indices, past company records and other indicators of sales are analysed to reveal the trend of sales in the past. Assuming that the future grows out of the past, time series analysis calls for the extension of past trends into the future by extrapolation. The future trend is then tempered by cyclical variation and seasonal adjustment of sales. Although this method appears to have little scientific validity, it supplies in many instances surprisingly accurate estimates. Since the future does not always reflect the past, it may give misleading results in some cases because of the ever-changing business horizon, particularly where major shifts in growth rates take place.

One refinement has been made to the trend projection method by the use of "pressure indexes." Presssure indexes are ratio and difference measures that can reflect the impending change and its direction to some extent. For example, the difference between the rate of family formation and the rate of house construction will force the "pressure index" for indicating shifts in the long-term demand for new houses.

Correlation Analysis. It amounts to analysing the correlation of sales to leading indicators like national income, gross national product, population size, consumers' purchasing power, or employment levels. If correct indicators can be found through study and research, it yields more reliable results. Instead of correlating sales to one indicator, sales may be correlated to a number of indicators for obtaining a more satisfactory result. Of several indicators with their leads and lags, many companies have found that their sales vary with some national index. But satisfactory correlation is not found in all cases. Lead times do not appear to be consistent enough with the passage of time and changing economic conditions. Nevertheless, it is by far the most widely used method of sales forecasting.

One pharmaceutical concern in the U.S.A., the Eli Lilly & Co., found after considerable study that total sales volume of the drug industry bore a close relationship to consumers' personal disposable income. It was found that total drug sales increased or decreased 5 per cent with each increase or decrease of 10 per cent in consumers' personal disposable income. Actual company sales fell within a range of 2 per cent of the

forecast that was made on correlation basis of a period of fourteen months in advance.

Econometric Model. Trend and correlation analyses have been refined further by the construction of mathematical model for depicting the relationship of a number of variables to the company's sales. As sales on the part of a company are subject to a number of variables, the model attempts mathematically to explain how the variables in a system interrelate with one another. Combining the knowledge of economics, mathematics and statistics, the science of econometrics can make this forecast through a "predictive" model after "descriptive" model has been validated with the help of a computer system. This method is sophisticated, costly and beyond the reach of many companies.

To illustrate the application of this method, the B. F. Goodrich Company of the U.S.A., found that its forecast of total replacement sales of passenger-car tyres wa obtained by multiplying the number of more than two year-old cars by four with subject to one correction for lesser wear of some tyres and another correction for better quality of some tyres.

Sample Surveys. Sample surveys of customers' intentions and opinions conducted in selected market areas by sales personnel result in projecting the expected sales. Sample survey results of different sales regions are then aggregated to estimate the total expected sales of the company. This type of forecasting is claimed to be realistic, because it is made by those who have an intimate knowledge of the market and who have to assume the task of selling goods in the future. But forecasting of this type has a number of limitations. *First,* sales personnel are neither adept in sales forecasting nor can devote the requisite time and thought on the problem. *Secondly,* according to the competence and calibre of sales staff, this forecasting may have a reflection of pessimistic or optimistic tone. *Finally,* sales personnel being concerned with immediate future can forecast sales for the short-run period, and they are poor forecaster for a long-run period.

With a view to making improvement of this method, many companies forecast their business from the top down and from the bottom up and then compare the two forecasts to get the final one. In the top-down approach, forecasting starts from the nation's prosperity and it goes down step by step to sales of industry, sales of company and sales of individual products. In the bottom-up approach, salesmen and dealers are asked to make their individual forecasts of sales and such individual forecasts are aggregated to find out the total expected sales of the company.

Executive Judgment. On the basis of company's own record of past sales, current prices, present inventory positions and like other data, the executive team forecasts the sales volume of the business. All relevant factors affecting sales are put to objective appraisal and subjective judgment of the executive team for estimating the expected sales. Some guesswork is, of course, involved in this forecasting. As the simplest and cheapest type of forecasting, this is widely used by small firms in forecasting their sales. But even the large firms have to make use of this forecasting to guard against the possible error in mechanical projection of sales through statistical techniques. By pooling knowledge, skill and judgment of experienced executives, it provides an insight into the sales forecast. But in the absence of a deductive approach, this forecasting may lead to an incorrect estimate of sales based on opinions and guesses rather than on facts and analyses.

Forecasting Methods in Practice. As no method of sales forecasting is infallible and all-inclusive in character, the actual forecasting is based on a combination of all methods. When different forecasts lead to the same result, the degree of accuracy is increased. And when they vary, the disparity points out that some essential factor has been overlooked in forecasting. For example, the Electric Storage Battery Company of Philadelphia in the U.S.A. utilizes three independent forecasts for getting the final forecast to base its planning and operation. The initial forecast is made by field salesmen for their respective territories and this forecast is evaluated and modified by both the product managers and the sales vice-president. A second forecast is prepared by the company's economists on the basis of both past and future economic and market conditions concerning the company. The third forecast is based on sampling techniques to determine actual markets for the company's products, as disclosed by customers' plans and practices. These three independent sets of sales forecasts are then put to analysis and appraisal by top management for evolving the final pattern.

Chapter 6

Objectives

Objectives determine the shape of future events in the business. By establishing goals and aims, objectives provide the spotlight over the routes along which activities are to be organized and efforts are to be directed. Objectives help to secure a clear vision, a singleness of purpose and a unifying spirit in achieving the end results of the enterprise. As a result, setting objectives is taken to be one of management's big jobs. There are really three kinds of objectives which managers set. Of them, managers are concerned with only two kinds of objectives that cast far-reaching influence on managerial work. The other is the broad, general kind of objectives, which companies call differently as "creeds," "basic objectives," "guiding principles," "we believe," and like other terms. The creed-type objectives which stress social viewpoint of business are virtually useless for managing. Many companies do not develop these objectives; even when they are developed by some companies, they do not call for any change. Important objectives that concern management are specific objectives of two types at the top and lower levels of the organization. Top-level specific objectives are major objectives with company-wide application and involve long-range objectives. Lower-level specific objectives are subsidiary or derivative in nature and have short-range in operation.

BUSINESS OBJECTIVES IN GENERAL (Creed Type)

The widespread belief that profit maximization is the only purpose of business has prevented many enterprises from searching the real objectives of business. Neglecting to see the distinction between the meanings of motives and objectives, the acceptance of profit maximization as the so-called objective of business has done incalculable damage to the growth of many enterprises and has threatened the very existence of business in other cases. As profit maximization represents the desire or motive of the ownership group in business, and as business is a co-operative endeavour requiring the support of many other social groups, profit maximization fails to motivate other groups for co-operative action, and hence it cannot be taken as the purpose or objective of business. Pushed to its extreme, any business with the purpose of profit maximization may become the machinery for exploiting other social groups by the ownership group. As pointed out by Urwick, "Profit can be no more the objective of a business than betting is the objective of racing, making a score the objective of cricket, or eating is the objective of living".[1] True, there are men who live to eat; likewise, there may be enterprises whose existence is for profit only. But this practice is as much sure to lead them to ultimate ruin and remorse as happens in the case of overeating.

A business does not spurt in an isolated deal with the intention of liquidating itself at the next deal. It desires to grow better and larger steadily over a time. To stay in business over a long period, it must supply goods and services according to wants of the community as to quality, price and form. In other words, the enterprise must have a good market standing throughout its existence for ensuring the steady sale of products. This is the primary objective of all businesses, and to fulfil this primary objective, it must have some other objectives along with earning a certain minimum amount of profit. As eating is necessary for living and working, some profit must be earned by the business to ensure its continuous existence for fulfilling the primary objective. To be precise, profit maximization is not justified by this requirement of certain minimum profits.

The primary objective of supplying desirable goods and services must be supported by other supplementary objectives in all the key areas of the business, otherwise the enterprise fails to make the hoped-for future accomplishments. Goods are produced and supplied with the help of several M's of the enterprise, *viz.*, men, materials, machines, money, management and methods. Profit can be inflated in the short period by crippling these factors of production and neglecting their future development. That this process of profit maximization is the result of short-sightedness and leads to self-destruction need not be explained by any argument. Hence, every attempt must be made to preserve and develop the assets to their utmost capacity for achieving the primary objective of the business. In other words, it implies the spelling out of objectives with respect to all of the productive factors. Personnel objectives are necessary for improving workers' performance which in turn is dependent upon the morale-building and training arrangements. There should be objectives relating to plant and equipments for maintaining them in high running condition through regular replacements and renovations. To ensure steady supply of capital, capital objectives must outline the minimum necessary return on investments for the benefit of owners and must evenly spread the

[1] Urwick, L., *The Elements of Administration.* (London: Pitman 1947), p. 27.

capital expenditure over a long-range period. To improve management performance, objectives of management development are to be established in the organization. There must be materials procurement objectives for ensuring steady supply of quality materials over a period. Methods can be improved by constant study and research, and as such, there should be innovation objectives clarifying the goals of research activities. Innovation objectives must pinpoint the goals to be arrived at by all research efforts.

> According to Prof. Drucker, objectives are essential in all key areas where performance and results directly contribute to the growth and survival of the business for enabling managers (a) to organize and explain the whole range of business phenomena by such objectives, (b) to verify the objectives in actual business operations, (c) to predict employee behaviour, (d) to vouchsafe the soundness of decisions, and (e) to improve their performance. The eight key areas, suggested by Drucker, where objectives are necessary for improving performance and results of the business include: market standing; innovations; productivity; physical and financial resources; profitability; managerial performance and development; workers' performance and attitude; and public responsibility.[2]

Productivity versus Profitability. Objectives of the business centre round the highest performance or the greatest productivity. Productivity is a state of affairs in which maximum results are obtained from the use of minimum resources. Because of the absence of any yardstick for measuring productivity, profit is commonly taken as the measuring rod of business performance. But productivity and profitability may not mean the same thing over a long period. High performance may be accompanied with a low rate of profit; or conversely, poor performance may show a high rate of profit. This situation arises from the practice of computing profit figures on different bases. By manipulating or neglecting expenditures on replacements, depreciation, workers' training, management development, research, sales promotion, market study, and like other managed expenditures, profits can show an entirely different picture from the realities of the situation. Hence, high profitability must not be regarded as equivalent to high productivity.

True, some minimum profit is necessary for the survival of the business and for the payment of some return to its investors. For measuring this minimum necessary profit, a highly effective tool has been found out in what is called "break-even point" analysis. To guard against forced liquidation, every business enterprise should

[2] Drucker, Peter F., *The Practice of Management*, (New York: Harper & Brothers, Publishers, 1954), p. 63.

utilize this tool for profit planning to ascertain the minimum necessary sales volume and profit to be maintained by it year in and year out.

SPECIFIC OBJECTIVES FOR MANAGING

Importance. General objectives concerning the growth and survival of the business, the material contributions to better standard of living and the social responsibilities to affected groups are common to all enterprises, whether such objectives are explicitly stated in any case or not. General objectives are too vague and indefinite to be acted upon for guiding and directing the activities of any enterprise towards higher accomplishments. That objectives occupy a pride of place in the management process is evident from the oft-repeated phrase, *Management by Objectives.* Objectives are necessary for clarifying the sense of direction through unity of purpose and efforts, for developing plans into a logical course of action, and for expressing the significance of organization and control. And for that matter, objectives must be specific, realistic and tailored to individual needs for spurring human energy and co-operative action in any enterprise.

Top-level Specific Objectives. These major objectives are concerned with decisions as to ends and means of the enterprise. As these decisions on ends and means affect the company's future success to a great extent, they are raised to the status of strategic decisions and are taken by top management after considerable study and thought. Moreover, these decisions are allowed to stay over a long-range period for the reason that ends and means are not changed frequently in any business. Accordingly, major objectives have company-wide application and involve long-range decisions. Of means and ends, decisions concerning means become necessary for both new and mature industries. But decisions pertaining to ends are mostly confined to new industries which have to define from time to time the exact scope of their business because of ever-changing situations. For example, the Gillette Safety Razor Company is a top seller of safety razors and blades but it does not deal in electric shavers. When its chief competitors, Sunbeam Corporation and Schick Inc., were selling millions of electric shavers, top management of Gillette had to decide whether to go into the electric shaver business. After considerable study, it decided not to go into the business and this was an act of establishing, rather re-establishing, major objectives because the whole course of business would have been changed otherwise. Again, the Cunard

Steam-Ship Company operates passenger ships but one of its rivals, Canadian Pacific, owns ships, airplanes and hotels in addition to its main business of railways. Top management of Cunard had to set the major objectives of the enterprise by way of defining whether it was a business of operating ships, or of transporting people, or of selling vacations on water. Although it confined its business to operating ships, the choice of other two alternatives would have affected the scope of its business by way of owning airplanes and buses for transporting people and running hotels and arranging travels tours for selling vacations. The nature of top-level specific objectives is illustrated further by the following examples:

"Ends" decisions:	To go into new business for producing and selling some new products or to continue the old business with some innovations.
"Means" decisions:	To strengthen an existing business by (*a*) changing organization structure and adopting management development, (*b*) providing better manufacturing or marketing facilities, (*c*) improving industrial or public relations, or (*d*) increasing the amount of capitalization.

Lower-level Specific Objectives. These objectives are auxiliary or complementary to the major objectives. But they have equal importance like top-level objectives in managing the business. They are developed for the divisional, departmental or sectional level and have short-range duration for a year or two. These objectives take the names of goals, targets, standards or budgets at the middle and lowest levels of management. Again, these objectives are necessary for all industries including public utilities and banks and insurance companies. But setting of these objectives is equally difficult, if not more, as in the case of specific major objectives. The nature and scope of these objectives are illustrated as follows:

A. To expand an existing business by (*a*) securing a larger share of the total market through penetration into new areas, (*b*) improving the quality of products over its closest rivals, (c) increasing the volume of production to effect 10 per cent reduction in costs or (*d*) making diversification of its product line through the addition of two or three items.

B. To improve business by development of selected areas of business or by adopting new methods of operation.

Three common ways of expansion are the diversification of product lines, the production increase for cost reduction and the market penetration through sales promotional efforts. Although growth is the normal rule of life, unwarranted expansion is as much a source of troubles as static condition. To overcome this difficulty, objectives are always required to be appropriate, attainable, balanced and timely ones.

SHORT-AND LONG-RANGE OBJECTIVES

There are short-range and long-range objectives of a business. The period which demarcates a short-range objective from a long-range one cannot be stated precisely, and it varies from case to case according to the nature of the industry. Normally, business enterprises establish short-range objectives for a year or two, and for long-range objectives, they set up goals to be realized five years hence, ten years hence, or even twenty years hence. For selecting the period of long-range objectives, regard must be had for the principles *of commitment and of flexibility*. For the realization of many objectives, a huge amount of capital investment of sunk and permanent nature is required to be made by the enterprise. Prudence dictates that the period of long-range objectives should extend in that case at least to the time required for recovering the invested sum. That is, objectives which call for long-term investments should be operative for such period as is required to pay off the committed investments. The principle of flexibility, on the other hand, dictates staggering of the period of long-range objectives. When suitable adjustments or adaptations can be made in the objectives without incurring extra expenses to push objectives to their logical ends, the choice of a longer period does not place any limitation on the course of action. But where inflexibility exists, the period of long-range objectives should be narrowed down to the time of reasonable prediction rather than extending the period involving blind chance.

Yearly objectives are cast in such a fashion as to merge in, and harmonize with, five-yearly or ten-yearly objectives. Two sets of objectives must not lead to any confusion and be contradictory in character. They must be reconciled and integrated into one set of objectives at the departmental and sectional levels. This balancing of objectives requires a high competence on the part of managers and is effected through their judgment and analytical ability.

PIVOTAL ROLE OF OBJECTIVES

Objectives form the core of business planning and provide the following benefits :

1. *Unity of planning.* Since every manager makes plans of his own at different times, planning may lose its consistency unless all plans have the same focus of action. It is objectives that prompt the managers to pursue a common course of action in planning for the accomplishment of the same purpose.

2. *Means of decentralization.* Sharing managerial work among a large number of managers with powers of independent decision

making may lead to disintegration of the enterprise unless there is a clear indication of each unit's contribution towards the realization of common goals. Objectives clarify the contributions or expected results of all units for tying them effectively and allowing the managers concerned to exercise their individual skill, judgment and initiative.

3. *Facility of co-ordination.* The operating work consists of so many specialized activities that co-ordination poses a difficult problem. In both the phases of assigning the work into units and of their subsequent operation, objectives serve as a perpetual guide to co-ordination and remove all jurisdictional disputes, conflicts or misunderstandings between units.

4. *Stimulant to individual motivation.* The job of individuals is confined to such a narrow phase of operation that employees at lower level do not find any importance of their efforts. Human beings are never motivated for work performance unless their action has some worthwhile purpose. Objectives specify the purpose of each job and fit the individual goals into the overall company goals. By making the job meaningful and worthwhile, objectives stimulate human motivation.

5. *Basis for control.* Managerial control is to see that actual results of operators correspond with the expected results. It is obvious therefore that controlling implies a prior indication of expected results of all units and jobs. Objectives provide the standard for control by way of clarifying the expected results or contributions of each job as well as each unit.

CRITERIA OF SOUND OBJECTIVES

A number of considerations are involved in setting objectives which are supposed to play a dominant role in management.

First, translation of major objectives into derivative objectives should always be effected in intelligible, tangible and meaningful terms. Unless individual objectives are specified in definite terms of expected results and they are well understood by lower-level executives and operators, no successful accomplishment is practicable. Furthermore, in the hierarchy of objectives, individual objectives must fit into the mould of overall objectives for the company to ensure effective management.

Secondly, objectives should be set in realistic terms rather than in idealistic terms. Objectives which are not attainable and which signify the mere hope of top executives demoralize the employees and retard their performance. But realistic objectives based on measured expectations provide incentives and job satisfaction for high performance.

Thirdly, short-range objectives should be recognized as distinct steps in the realization of long-range objectives. Otherwise, the achievement of long-range objectives becomes difficult, if not impossible. Long-range objectives involving plans for the distant future fail to make individual objectives tangible and meaningful and to provide sensible standards for control. Such objectives may also appear as idealistic to the employees. All these difficulties can be removed by setting short-range objectives as different steps in long-range objectives.

Finally, as company objectives are of multiple character, there arises the necessity of balancing the emphasis on various objectives for removing their conflicts. Pressing and dominant objectives are given more care than others through he constant adjustment of short-run emphasis on such objectives. Moreover, dynamic business environment makes the company objectives dynamic in nature, and objectives call for changes along with changing time and situations. Although objectives are more stable than other plans, periodic adjustment of objectives becomes necessary to keep pace with the progress of time and to cope with the expanding size of the business. Once a change is introduced in overall or major objectives, derivative objectives must also reflect the same degree of change to fit into the hierarchy of objectives.

Chapter 7

Policies And Procedures

NATURE OF POLICIES

Policies are basic statements serving as guides to thinking and action of subordinates in repetitive situations. As guides to thinking and action, policies are both restrictive and permissive at the same time. They are restrictive in the sense that certain constraints are contained therein for ensuring consistency of executive behaviour and action. They are also permissive in the sense that subordinates are granted freedom to act within the limits or constraints specified. As basic statements, policies may be either written or verbal and they apply as enduring decisions on a continuing basis. Unless situations are repetitive in character, policies have no application. Acting as blanket or standing decisions, policies help subordinates to solve thousands of similar problems in accordance with the frame of policy reference. The function of policies is to direct the way in which objectives are to be achieved. That is, objectives determine the destination of the enterprise while policies indicate the route for reaching that destination. Policies are developed at all levels of management and at the foremen's level, they assume the character of regulations. To take some examples of policies, "The customer is always right," "The company will promote from within," "No discrimination in hiring," "The company will maintain industry leadership in research and product development" and "We are fundamentally a company that designs, builds and sells products based on motors".

NEED FOR AND IMPORTANCE OF POLICIES

1. *Way to goals.* While objectives determine "what to do" in the organization, policies deal with "how to do" the work. Policies give a practical shape to the objective by elaborating and directing the way in which the predetermined goals are to be achieved. The abstract statement of objectives is translated into concrete terms by providing a comprehensive, intelligible and realistic guide to action. Although policies supply more specific guide to action in comparison with objectives, yet they are not as narrow, inelastic and definite in scope as procedures are. In short, policies are the first step towards

converting the objective into a workable form, and thus they help to develop a future course of action to its logical consequence.

2. *Instrument for delegation.* Policies are the main instrument for delegating authority by a superior manager to his subordinates. By delegating authority to a subordinate manager, the delegator cannot absolve himself from the responsibility of transferred duties. As a safeguard against the improper use of authority by the delegatee, the delegator always establishes a policy that shows the broad way of discharging duties. Authority is somewhat circumscribed by a policy no doubt, but still it allows much freedom and initiative to the delegatee because of the wide direction and broad guide to thinking and action contained in the policy.

3. *Helpful to managers and subordinates.* Policies help the manager and the managed to work for a better performance. As policies are standing and continuing decisions for the solution of similar problems, managers are not required to take individual decisions in repetitive situations. Subordinates can act freely, boldly and confidently so long as they operate within the jurisdiction of a policy. They are not required to run to the superior each time, have the support of top management in carrying out operations covered by the policy, and become immune from the whims and caprices of any individual manager.

4. *Co-ordination of efforts and activities.* Policies secure co-ordination of efforts and activities in the enterprise and provide a steadiness to the adopted course of action. In delegating authority, policies define activities and assign duties to positions in such a way that all activities are integrated effectively for accomplishing the company objectives. By indicating the manner of doing a particular work, policies co-ordinate individual efforts towards the goals. Because of their stability of existence, policies ensure a steady course of action and prevent unwarranted deviations from planned operations.

TYPES OF POLICIES

From different approaches, policies may be put into the following categories:

a. As to the source of their formulation, policies may be divided into *originated, appealed and imposed policies.* Originated policies are those which are developed by the managers themselves with the express intention of guiding the actions of their subordinates and of their own in managing the business. These policies are usually formulated by top managers for giving a practical shape to objectives. Moreover, authority delegation throughout the organization is made possible with the help of these originated policies since they retain sufficient control in the hands of top management. Appealed policies arise from the appeal made by a manager to his superior for deciding an important case. Decisions on these appeal cases tend to develop precedents which serve as a guide to action on the part of subordinates. Appealed policies do not provide any satisfactory guidance because they are mostly incomplete, untraceable and contradictory in character. As too many appealed policies hinder work performance, they should be replaced by originated policies. Imposed policies arise from the influence of some outside forces like the Government, the trade unions, the trade associations, etc. Either the specific policies may be dictated, or such typical conditions may be created as to compel the adoption of a particular policy.

b. From the standpoint of important business functions pertaining to which policies are made, there may be *sales, production, finance* and *personnel policies.* Usually a bundle of policies is made relating to each of these functions. Important sales policies comprise matters like determination of markets, selection of products to be offered therein, pricing of the products, packaging of the products, and use of brand name, sales-promotion efforts, distribution channels, and so on. Production policies must guide matters relating to methods of production, volume of outputs, materials procurement, size of inventory, technical research, inspection practices, and like others. Finance policies deal with capital structure, capital procurement, internal financing, working capital, owning or leasing assets, depreciation rates, dividend payments, and credit terms. Personnel policies centre round issues of selection, training, compensation, working conditions, welfare activities, safety measures, morale development, union relations, and public relations. (These policies have been discussed in greater details in Part Six of the volume).

c. As to grades of policies, there are *basic policies, general policies and departmental policies.* Basic policies are used by top managers for their own guidance. Basic policies are broken down into general and departmental policies for the use of managers at the middle and lower levels of the organization. Like the objectives, policies are worked out step by step downward from the overall policies of the company.

d. Looked at from a different angle, managerial policies stem from decisions on fundamental management functions, *viz., planning policies, organization policies, direction policies and control policies.* Some companies maintain policy manual in which policies are stated in a classified manner for ready reference and guidance to all concerned.

Integration of Policies. Different policies are developed for securing an orderly, effective and efficient performance of the work. This purpose is fulfilled only when policies are simple, clear and perfectly co-ordinated. Hence, integration of diverse policies towards the achievement of goals is of primary importance. Policies for different areas and functions are to be adjusted, balanced and linked together so as to avoid all confusions, hesitations and misunderstandings on the part of subordinates. As policies remain in force over a fairly long period, they may cause the company to suffer heavy loss. Always, isolated and conflicting policies hinder work performance rather than helping it. For this reason, new policies are introduced after much careful study, and old policies are appraised from time to time to see their contributions to work accomplishment.

POLICY FORMULATION, COMMUNICATION AND REVIEW

Policies are formulated by the same managerial decisions which are constantly taken in the organization. But there is a world of difference between a policy decision and an operating decision. Policies involve standing decisions which are used again and again over a considerable period of time. A series of problems is solved by a policy decision. Nevertheless, the same process of decision making is utilized for policy development.

Policies can become potent tools of management when they are carefully formulated and communicated by managers, and when they are easily understood and accepted by subordinates. As policies give meaning to the concept of objectives and flow directly from them, a tentative policy is first developed by the analytical process. Secondly, the tentative policy is tried out in actual circumstances to reveal its potentialities and weaknesses. Finally, this testing of tentative policy is further supported by securing ideas, suggestions and opinions of the affected members. Information and data collected from three different sources are evaluated by managers to get at the facts. On the basis of these facts, managers formulate a decision on policy matters.

Development of a policy is only one aspect of the managerial work. Policies must be communicated and explained to members who are supposed to have guides and directions from them. Communication becomes effective when the subordinate managers are allowed to participate in the policy-development stage. Participation is helpful in determining the best policy and in securing subordinates' acceptance and co-operation. Policies are explained and clarified with a background knowledge of all pertinent facts and situations.

The practice of prefacing policies with a statement of objectives is also intended for explaining the significance of the contents of policies. This broader understanding of policies results in giving a complete picture of what is going to be accomplished. It also prevents the resistance of subordinates to accept changes.

In course of time, policies may become outdated, irrelevant and irksome. Policies are to be checked up from time to time to see their results and their use by members of the organization. Evaluation of policies is the best guarantee for ensuring their effectiveness and for integrating them towards a smooth flow of operation. Moreover, the requirement of a new policy as well as the revision of an existing policy is clearly dictated by the periodic appraisal of policies. It is, of course, a part of the control function of management whereby policy failure is detected by top managers for taking suitable remedial action. Follow-up is as much important in the sphere of policies as it is necessary in other decisions.

WRITTEN VERSUS UNWRITTEN POLICIES

While policies are usually written in character, there may exist many unwritten policies in an organization. Because of their implied nature, verbal policies fail to achieve the result for which they are designed. Unwritten or verbal policies remain obscure and inaccessible to the subordinates, and hence policies may not be used by them. Even when policies are known, the subordinates cannot work with that degree of confidence, decisiveness and initiative which is present in the case of written policies. Constant threat, doubt and anxiety must be the outcome of all unwritten policies, because they lack precision and accuracy. Nevertheless, unwritten policies are in vogue with those companies which want to maintain secrecy of their operations. But it is the experience of several well-known companies that savings from better work performance far outweigh the savings which arise from secrecy of operations. This is particularly true in the case of large companies with considerable separation between their top management and supervisory management. Controversial issues can only be dealt with by a clear-cut and written policy, and not by an unwritten policy which adds to the difficulties and complications of the case.

To study the importance of written policies, we may enumerate the following advantages of written policies.

1. Written policies compel managers to make an analytical study of the situation for formulating the policy.
2. Written policies provide clear-cut, precise and authoritative guides to members of the organization.

3. Uniform and consistent application of policies is ensured throughout the organization.
4. Written policies facilitate easy reference and use by all members.
5. Written policies protect the conscientious subordinate against the arbitrary and whimsical decisions of his superiors.
6. Written policies protect the enterprise from unwarranted deviations in its course of action by defining the limits of authority and the scope of assigned duties in respect of each managerial job.
7. Written policies promote deep delegation of authority, management by exception, teamwork and understanding.
8. They also help in training managerial personnel and in fostering good human relations.
9. Written policies indicate the standard of ethics and integrity prevailing in the organization.

As against these advantages, the disadvantages of written policies include the following:

1. Accuracy and preciseness of the policy may be lost by ambiguous construction which gives different ideas to different persons.
2. Written policies may be framed in such a manner as to provide a rigid guide to action, thus taking away the flexibility of policies.
3. Written policies are too slow to be adapted to changing situations and conditions.
4. Written policies may endanger the security and strength of an enterprise by permitting others to know the contents of confidential policies.
5. Written policies may lead to the confusion of procedures with policies, because procedures are usually appended to policies for working out the policy into actual practice. The vital element of the policy may be lost sight of in the midst of procedural details.

NATURE AND IMPORTANCE OF PROCEDURES

Procedures are standardized and definite guides to action for accomplishing any phase of work with all its sequential tasks involved. Within the broad area of a policy, procedures chalk out the specific way in which a piece of work is to be performed. Procedures deal with one complete phase of work and divide the operation into several tasks or jobs for performance by several persons. Individual tasks are integrated into a complete whole by determining their mutual relationships through proper sequencing and timing. That is, procedures outline how an integrated series of tasks will be done, when they will be done, and preferably by whom they are to be done.

While policies are broad and general guides to both thinking and action, procedures supply predetermined and fixed path along which repetitive action shall take place. Policies are subject to interpretation so as to fit them in a group of homologous situations. But procedures do not provide any scope for interpretation, because they are tailor-made and provide specific directions for the operation. In short, policies provide the setting against which procedures are framed in accordance with resources and facilities of the enterprise. Procedures prescribe one best way of doing things satisfactorily.

Importance of Procedures. Procedures play an important role in office management, accounting and production planning. *First,* by indicating one standardized way the jobs can be done, the procedures ensure a high level of performance in the organization. *Secondly,* as procedures are established after thorough study and analysis of the work, they often lead to work simplification and elimination of unnecessary steps and overlap. *Thirdly,* procedures relieve the manager of the burden of deciding individual cases when they fall within the areas covered by such procedures. By outlining a well-thought-out course of action, procedures make the work of managers and their subordinates equally productive of high results. *Fourthly,* procedures help to exercise an effective control over work performance, because they define individual tasks with their chronological sequence and timing. *Finally,* procedures increase the efficiency of employees by pointing out the complete phase of work on the one hand, and by saving time and expense on their job training on the other. Employees, through their grasp of the whole range of work, are induced to look for the requirements of co-ordination.

But procedures have one serious disadvantage. By prescribing one standardized way of making operation, procedures discourage the search for any improvement or innovation in work performance. More effective ways of doing the work may be lost sight of unless procedures are reviewed and appraised from time to time for making improvements therein.

ESTABLISHMENT OF PROCEDURES

Procedures involve a series of tasks or jobs required for performing a complete phase of work. Procedures must be prepared by striking a balance between needs for the situation and physical facilities of the enterprise. Needs in any organization are dictated by its objectives and policies, whereas physical facilities exist in the shape of men, machines and money. Procedures aim at adapting the facilities to the organizational needs. Hence, procedures must not be idealistic in character, or prototype of other enterprise. As a matter of necessity, they must be designed to suit the peculiar needs and situations in any company and should be perfectly tailor-made rather than ready-made ones.

Changes in needs and facilities must have their repercussions on procedures. Procedures are to be modified and revised whenever there is any change in personnel, equipments and other facilities. The refusal to modify procedures in such cases results in pulling down efficiency to a lower level of performance. Faulty procedures give rise to red tapism, delay, overlap, duplication and to cross-purpose working.

Procedures are established by analysing and dissecting the work into its minute details. Data and information obtained from the analysis are sorted out to secure facts about the situation. On the basis of these facts, procedures are designed for the future. Procedures must integrate the different tasks of the work into a co-ordinated whole. To ensure smooth flow of work, all frictions and failings are avoided by correlating and dovetailing the steps as one integrated whole.

Like other plans, procedures must be followed up so as to ascertain their efficacy. With every change in objectives or physical facilities of operation, procedures must undergo some changes. In the absence of any change, however, procedures should prescribe a fixed course of action for making the employees accustomed to it. That is, procedures should provide not only stability to an adopted course of action, but flexibility must also be maintained to cope with changing circumstances. To deny flexibility to a procedure is to standardize a defective work process throughout the organization.

As a definite guide to action for non-management employees at the operating level, procedures must be written in a simple and clear language. Without any scope for doubt, hesitation and ambiguity, the procedures must be intelligible to all concerned.

Chapter 8

Programming and Long-Range Planning

NATURE AND IMPORTANCE OF PROGRAMMING

Programming involves master planning for indicating a future course of action. Objectives and standing plans are piecemeal plans which cannot specify in sufficient details the course of action to be followed in the enterprise. All planning activities culminate in drawing up a programme for action. In other words, the programme provides the end product of planning efforts. Programming is required for both repetitive and non-repetitive actions. Programming for repetitive action is of so routine and standard nature that it can maintain the customary flow of work through built-in practices and habitual operating situation. The only tasks involved in programming for such action are timing and strategy considerations. But the role of programming becomes significant in non-repetitive action, and it calls for managerial decisions on a number of facets.

Programmes are necessary for opening a new branch, establishing an additional plant, introducing a new product, developing a market, making organization changes, training executives and for a thousand other acts which are not repetitive in character. Almost all enterprises are to adopt programmes of this type every now and then. Besides these major programmes, derivative and subsidiary programmes are required at different levels of management and in all areas of the business. That is, programmes are as pervasive as other plans and have application in diverse situations faced by executives in their day-to-day operation. As for example, the sales-promotion manager needs a programme for advertising campaign, the sales manager is to devise a programme for handling rush orders during busy sessions, the production manager works out a programme for accommodating seasonal peaks, the office manager draws up a programme for changing the office layout, the finance manager must have a programme for raising additional capital, and so on.

CONSIDERATIONS IN PROGRAMMING FOR NON-REPETITIVE ACTION (Creative Planning)

The programme for any non-repetitive action has problems of its own that are to be solved by management in specific situations. But there are some common programming problems that permeate through all courses of action and have to be solved for effective execution of the programme. The following three considerations are of great help in overcoming problems and in piloting the programme to its destined mission or objective.

1. *Division of actvities into distinct steps or projects.* The activities necessary for the programme are to be divided into separate steps or projects in such a way that each project has a distinct derivative objective and a termination point. Each project consisting of a block of activities facilitates planning, organizing and controlling for satisfactory results. The bigger the size of work and the greater the time involved in programming, the more prominent becomes the benefit derived from activities grouped into projects. Planning is improved by concentrated managerial thinking and attention to a project rather than the whole programme. Organizing is facilitated by the assignment of each project to separate executives on the basis of their knowledge and experience for effective performance. Controlling becomes satisfactory, since an individual executive can be held accountable for definite results of a project on the basis of the clean break of activities. Moreover, benefits of flexibility in planning and operation can be fully reaped by way of delaying or deferring the execution of next project of the programme in accordance with needs of changing time and situation.

2. *Interrelation and sequence of required actions for different projects.* As different projects are the divided parts of a complete programme, they are dependent on one another. Chronological sequences and the mutual dependence of projects are to be ascertained correctly for giving priority to some projects in preference to others. Because of the varying time spans required for the completion of different projects, sequence order of projects has a significant bearing on the scheduling of actions for individual projects. Not only scheduling of actions, but requirement of work facilities and resources is also dictated by the sequence order of projects. If some facilities, materials or personnel are not readily available, special arrangements are to be made for ensuring their availability at the time when a specified project is put into execution.

3. *Scheduling of actions for various projects.* Timing is an important consideration in programming, and it can make a programme successful or break it completely. Timing of actions becomes very crucial in those cases where the success of managerial action depends on uncontrollable events beyond the enterprise. For instance, the programme for raising capital through selling shares and debentures may fail if it is badly timed. Timing of a project action requiring the supply of a large quantity of steel may prove inopportune if a steel strike happens at the time of action. Misjudg-

ment of the market demand has led many successful companies to adopt wrong timings of their programmes. On the belief of impending great depression after World War II, conservative operation of the Montogomery, Ward & Company in the U.S.A. was responsible for the dramatic growth of its chief competitor, the Sears, Roebuck & Company. Again, another company of the U.S.A., Du Pont undertook action for the supply of *Dacron fibre* at a time when the demand for the product was yet to grow after two years.

Timing of a part of the programme becomes, of course, easier than the whole of it and is strongly influenced by the chain of projects encompassed in the programme. With a view to scheduling of action for any project, the commencing time and the duration period of action are to be indicated for successful accomplishment. For movement of materials or facilities, if any transit time is required such time should be compounded in the estimated time for the completion of projects.

FLEXIBILITY IN PLANNING

Flexibility is regarded as an essential attribute of planning, and it refers to the adaptability of the planned course of action to requirements of altered situations. Obviously, when subsequent march of events cannot be made to conform to a future course of action, we should adapt the course of action to demands of the situation by way of hedges, retreats or like other cautious approaches. Maintaining flexibility in planning is more difficult in the case of non-repetitive action than in the case of repetitive action. But flexibility is of equal necessity to both the cases.

Flexibility in Routine Planning. As regards flexibility in planning for repetitive action, the nature and scope of standing plans are of crucial importance. As guides to action, standing plans may provide for flexibility through broad planning or may introduce rigidity into the course of action through detailed planning. The choice between rigidity and flexibility in planning thus leads to a discussion of *detailed versus broad planning.* The arguments in favour of detailed planning are based on the benefits of standing plans like consistent employee behaviour, uniformity and dependability of operation, reduction of executive workload, better control system and the facility of co-ordination. On the other hand, broad planning is supported for a number of reasons like flexible operation, encouragement of personal initiative and individual motivation, and saving of planning time and expenses. The controversy between detailed and broad planning cannot be resolved by subjective considerations of merits and demerits of standing plans. Objective considerations concerning the work and people affected by standing plans provide a clear-cut guide to this controversy. Some activities like pricing, delivery and credit terms, wages and other personnel matters where uniformity of action is essential, detailed planning has much to commend. But in other work where policy control is not so urgent, broad planning yields better results. Again, the skill and capacity of subordinates dictate the need for either detailed planning or broad planning. If subordinates cannot decide matters or take action on their own account without the guidance of superiors, detailed planning is bound to be adopted. In contrast, if subordinates are competent and mentally resourceful, broad planning would stimulate employee action for the desired result.

Flexibility in Creative Planning. In programming for non-repetitive action, more uncertainties are involved because of newness of the problems, and thus flexibility in planning is difficult to achieve. Many adjustments are required in the programme back and forth, up and down. For maintaining flexibility in such situations, three courses are available to managers for adapting the programme to current needs and pressures. *First,* the programme should be adopted as an evolving pattern of action rather than a fixed blueprint through arranging a continuous feedback of information from each project of the programme. If the programme is split into distinct steps or projects, revision of the programme becomes easy through feedback information and data. *Secondly,* scheduling of real actions should be limited to as near a period as possible. If the programme is divided into parts, each part or project can be scheduled after the completion of the prior project. Avoiding to make commitments until absolutely necessary for a period in the near future, executives have successfully achieved flexibility in planning. *Thirdly,* another way of maintaining flexibility is to keep two or more alternatives open for choosing in the future. The last approach to flexibility involves some extra expenses which are, however, justified by saving the programme from total abandonment.

LONG-RANGE PLANNING

Long-range planning provides the proper perspective and the correct setting for adjusting current operations and for moving towards a predetermined course of action. All companies make some long-range planning for their steady and orderly growth of business over a period. Although the term "long-range planning" does not convey a fixed concept, we find the use of *four types or forms of long-range planning* in the business world. These forms of long-range planning are not mutually exclusive; rather, they are the successive parts of a comprehensive long-range planning for future operation. While some enterprises adopt all these forms of long-range planning for preparing a full-blown programme for the future, other enterprises restrict their long-range planning to the first one or two forms of it. Whether planning is limited or comprehensive, the character of long-range planning remains unchanged. The four forms of long-range planning are stated in their successive order as follows:

1. *Current decisions are brought to fruition in the long-run period.* In day-to-day operations, every company takes some decisions that affect its position in the years to come. Decisions for developing resources, market, executive talent or product affect not only the present operation, but they also influence the future operation in a significant manner. However, to fit these current decisions into a framework of long-range planning, the implications of these decisions on future action are to be thought through clearly and such implications are to be reconciled into a consistent pattern of future behaviour and action.

2. *Adjustment of current operations on the basis of long-run forecasts.* By peering into the future through long-term forecasts, the future possibilities, opportunities and limitations are continually appraised to draw significant conclusions for necessary guidance. This approach to long-range planning differs from the first in a material respect. In the first approach, current operations dictate what is to be done for the future. In this approach, expected future problems dictate what is to be done now. This looking ahead insures against forced liquidation of business, or abrupt and costly changes in the course of action. Adaptations and innovations can be effected in an orderly and smooth way through this forward-looking approach. In other words, planning flexibility becomes ingrained in this form of long-range planning.

3. *Conforming current operations to the company model built for the long-term period.* Raising the scope of long-range planning to a higher level under this form, a full-fledged picture or model of the company is drawn five, ten or twenty years hence. The model is built on the totality of all long-term objectives of the company for indicating its size, position, operations, standing, and like other aspects. This form of long-range planning encompasses the previous two forms partly, because both decisions for the future and forecasts are necessary for formulating long-term objectives. Once objectives are established, they provide managers with a new sense of direction and a set of fixed values for making day-to-day decisions. Thus, standards for measuring the appropriateness of current operations are cast in

the mould of long-term objectives; but such standards are made available to subordinates in the form of more immediate goals. In this way, the current operations are channelled to a deliberately selective course of action for reaching the far-way company model.

4. *Preparation of a comprehensive programme for coming years.* In this final form of long-range planning, the programming is effected for indicating the full course of action and for guiding all operations of the company. Long-term objectives are translated down into meaningful and tangible objectives for each unit, section or individual; resources and work facilities are arranged; and different actions are scheduled by way of indicating the commencing time and the duration of each operation. A complete three-year, five-year or ten-year programme emerges from this form of long-range planning. But our limited ability to make accurate forecasts leads to a number of difficulties regarding this form of long-range planning. The more elaborate and long-drawn the programme, the more serious becomes the planning inflexibility. As funds are committed, the time and energy are devoted to making plans and the executives are coached for pursuing a course of action, the subsequent modification or adjustment of the course becomes a baffling task. Three guides are available for removing these difficulties:

a. Commitments of funds are to be delayed until absolutely necessary.

b. Detailed programming is to be limited to the period of certainty for providing the basis for current operations; and for unpredictable future, broad programming is to be adopted.

c. Annual revisions of long-range programme are to be made on the basis of additional information and new forecasting data.

PART THREE
ORGANIZATION

Chapter 9

Organization Design

NATURE OF ORGANIZATION

With a view to getting things done by others, management is required to pay attention on organizing people and their work. Organization provides the means or avenues along which efforts are directed for making such joint efforts more productive, effective and fruitful of results. By allocating fixed duties to managers and operators as definite jobs, organization adds certainty and promptness to the work to be done without any gaps and overlaps. Organization thus weaves a neat pattern of relationships among personnel (efforts), jobs (duties), and activities (work) for ensuring harmonious teamwork towards the fulfilment of common aims. Organization provides the framework within which managerial functions of planning, direction and control take place for successful performance of operating work. It builds the foundation upon which the managerial edifice can be raised for the accomplishment of objectives. Planning, direction and control can be of no avail without making the groundwork through the organizing function of management.

Organization is a process of dividing and combining activities. The total work is divided into units and subunits of correlated activities, and the divided activities are then linked together as an integrated whole. The reasons for dividing work can be attributed to four factors. *First,* the total work is too big to be done by a few persons. *Secondly,* economies of specialization can be derived and staffing becomes practicable only when the work is divided on a logical basis. *Thirdly,* the speed of work performance can be improved by distributing the work among a number of persons. *Finally,* the process of dividing work permits to place a greater emphasis upon certain activities in preference to others. More important activities are grouped into units and less important activities are assigned to subunits. Even two units may be given different organizational status according to the degree of their importance in the organization.

The reverse case of combination is required for giving the activities a commonness of purpose. Activities of an enterprise stem from its objectives and are to be directed towards the fulfilment of such objectives. Accordingly, all activities are assembled, integrated and co-ordinated as one complete whole. This connecting link is provided by authority relationships of the organization structure. Upward, downward and sidewise relationships bind the specialized parts of the enterprise as one co-ordinated whole. That is, the horizontal relationships between two or more parallel departments and the vertical relationships between levels of a department act as the cohesive element of the organization structure.

Organization is not only a mechanistic structure of duties, activities and relationships, but it is as well a human organization consisting of diverse social groups. Attitudes, aspirations, likes and dislikes of personnel play a great part in transforming the organization as an organ of productivity and creativity, or in the alternative, simply as a device for mechanical assemblage of human efforts. Organization may encourage initiative and sense of duty on the part of personnel, or it may stifle them. Division of activities and spelling out of individual duties may either facilitate the growth of human faculties or arrest such growth. Human factor must be taken into consideration in building an organization structure. Briefly, the organization structure is designed both from mechanistic and humanistic points of view. Viewed broadly, Fayol says, "To organize a business is to provide it with everything useful to its functioning : raw materials, tools, capital, personnel." To be sure, the provision of physical facilities, capital and personnel is not now identified as the core of the organizing function of management.

IMPORTANCE OF ORGANIZATION

1. *Organization increases managerial efficiency in a number of ways.* It avoids delay, duplication or confusion in performance and removes friction or rivalry among personnel. By analysing the enterprise objectives, all pertinent activities are spelled out in order of their importance. These activities in turn are allocated to definite individuals as fixed duties. The assignment of fixed duties helps to add certainty and promptness in the doing of work without any shirking of responsibilities by subordinates.

2. *Organization ensures an optimum use of human efforts through specialization.* Because of the detailed job specifications, right persons are placed in the right positions on the basis of their knowledge, skill and experience. Men with outstanding abilities are

not allowed to waste their time and energy over a minor job. By matching jobs with individuals and *vice versa,* organization enlists the benefits of both functional and occupational specialization.

3. *Organization places a proportionate and balanced emphasis on various activities.* By dividing activities into departments, sections and jobs, a greater attention can be focused on more important activities. Money and effort can be spent proportionately with the importance of activities. Minor problems are incorporated in routine jobs so as to facilitate their handling at a lower level. Important and serious problems are reserved for top jobs which are filled by senior executives for enabling them to concentrate on major issues and challenging situations.

4. *It facilitates co-ordination in the enterprise.* Different departments and sections, positions and jobs, functions and activities are welded together by structural relationships of the organization. Empire building in any segment of the enterprise is made difficult by sound organizing. Common interests and enterprise objectives are kept at the forefront of each segment or area of the business.

5. *It provides scope for training and developing managers.* Management personnel are trained to acquire a wide and varied experience in diverse activities by their placement in different jobs through job rotation and thus they are prepared for top jobs which require "generalists" rather than specialists in a narrow sphere.

Moreover, one of the basic tasks of organizing is organization planning and management development. Because of this practice, managers are always trained, developed and tested for assuming greater responsibilities or meeting new demand for managerial positions in the future. If the organization is to survive beyond the life of existing managers, there is no escape from management development.

6. *It helps to consolidate growth and expansion of the enterprise.* It is the organizing practice that has encouraged the business enterprises to expand their sizes to an ever-increasing level. With hundreds of employees and extensive ramifications of operations, giant enterprises are the direct outcome of the organizing function of management. No economic theory, no cult of the colossal could have dared to prescribe such mammoth sizes but for the development of organization practices.

7. *Organization prevents the growth of laggards, wirepullers, intriguers or other forms of corrupters.* Corruption can only thrive in those enterprises which have failed to set up a sound organization structure. Unsound organization becomes the breeding ground of dishonesty, whether in matters of effort or of money. With the passage of time, however, even a good organization may be transfor-

med into a bad one unless continual adjustments are made with the varying circumstances. Effective management implies managerial adaptability to changing situations within the dynamic framework of an organization structure.

STEPS IN ORGANIZATION

The steps in organization may be stated as follows:

a. Determination and enumeration of activities. The required activities are spelled out from the objectives of the enterprise. The total work, operating and managerial, is broken down into component activities that are to be performed by all personnel. The breakdown of activities is carried as far down as to determine the job of each individual.

b. Grouping and assignment of activities. Correlated and similar activities are grouped into divisions or departments first. And these divisional or departmental activities are further divided into sections and jobs. Different bases are adopted for dividing and subdividing activities into different groups or blocks of work. Enterprise functions like sales, production or finance, the products manufactured and territorial regions are usually made the basis of primary grouping. Secondary grouping is made on the basis of geographical areas, types of customers, equipments used, processes adopted or constituent parts of the major enterprise function.

c. Allocation of fixed duties to definite persons. Definite job assignments are made to different subordinates for ensuring certainty of work performance. These job assignments are first made to different management members who, in turn, allocate the jobs among their subordinates. Along with the allocation of duties to different positions, each job is to be staffed by the placement of qualified personnel. To make any systematic recruitment and selection, job requirements are first ascertained by the allocation of duties to different positions, and on the basis of job descriptions, man specifications are prepared. In accordance with man specifications which indicate qualifications and experience expected from candidates for different posts, positions are filled by selection, training and placement of individuals.

d. Delegation of authority. Corresponding to the nature of duties, commensurate authority must be granted to the subordinates for enabling them to make adequate work performance. As authority without responsibility is a dangerous thing, so responsibility without authority is an empty vessel. As we have seen earlier, authority and responsibility are correlated terms and they are taken to be constant companions.

Delegation is a three-tier concept that calls for assigning duties and delegating authority to subordinates and demanding accountability from subordinates. Wherever duties are assigned to subordinates, whether managers or operators, the other two aspects of delegation come into the picture. Division and subdivision of activities create a number of managerial and operating jobs which are bound together in a consistent pattern by the delegation process. Absence of delegation in any enterprise implies that one person is performing the whole work of operation and management with nobody else to assist him. In such a situation, no formal structure can be designed as there is no proliferation of activities into levels. For establishing any organization structure, it is obvious therefore that delegation is to be effected in some way or other.

Leaving aside operating work of sales, production, finance or personnel, delegation of managerial work results in decentralization of authority. In all enterprises which employ at least two managers and divide the managerial work between them, decentralization of authority takes place in the organization structure. As a result, decentralization is to be found in almost all enterprises except the very small ones. But the universal existence of decentralization does not imply that the extent of decentralization is uniform in all enterprises. The organization structures are usually referred to as centralized and decentralized ones depending upon the degree or extent of decentralization.

DEPARTMENTATION

The process of dividing activities into units and subunits is referred to as departmentation. The term departmentation is used in a generic sense and is not only confined to the creation of such units as are called departments, but it includes divisions, sections and jobs also. Dividing up work calls for identification of total activities and classification of such activities into units and subunits. There are three bases for primary grouping of activities at the second level of the organization just below the top level. Units at the second level are commonly called departments when business functions are adopted as the pattern of grouping activities. Such units go by the name of divisions when either products manufactured or territories are adopted as the means of classifying activities. There are, however, two approaches to departmentation—top-down and bottom-up approaches. In the top-down approach, activities are divided step by step downward from the chief executive's job to the operating jobs. In the bottom-up approach, the division of activities is carried on in a reverse order. Starting from operating jobs, there arise sections from combining some correlated jobs, departments from combining some sections and finally the chief executive position from putting departments together. While the top-down approach gives emphasis on co-ordination and managerial action, the bottom-up approach focuses attention on employee performance. Although the top-down approach is easy for understanding the departmentation process, both the approaches are utilized in actual practice.

PATTERNS OF DEPARTMENTATION

Departmentation is effected by the following methods:

1. **Functions.** Important enterprise functions provide the usual basis for classifying activities into departments. Manufacturing, marketing, finance, personnel, accounting, purchasing and engineering are the typical functions of an industrial enterprise, and departments may be established on the basis of such functions. But all these functions are not alike in importance from the business point of view. Marketing and manufacturing are the basic functions of an industrial concern, and others are regarded as service functions because they exist for supporting the main functions of the business. Accordingly, basic and main functions must be given a higher organizational status than the status enjoyed by service functions. Furthermore, the size, nature and volume of business have an important say in creating departments. A small business may not require so many departments and it may organize its functions under three departments, *viz.*, marketing, manufacturing and finance. Purchasing, engineering and personnel may be put under the manufacturing department, and accounting under finance. Conversely, large-sized enterprises may be required to create more units than this classification of functions warrants. For example, marketing department may be split into three separate ones like sales, advertising, and market research & product design. This type of departmentation is known by *functionalization*.

Application. Functionalization is the usual choice to small enterprises for creating major departments. Large enterprises are also required to adopt this classification at some point of their organization structure. But it is a second choice to them for establishing major units, the first being divisional classification based either on product lines or on geographical areas. The traditional emphasis on functional classification has been shifted in recent years by two developments: one is the growing importance of teamwork at the executive level for facilitating co-ordination, and the other is the requirement of job enlargement at the operating level for securing individual motivation.

Merits & demerits. The important advantages of functional classification include the benefits of occupational specialization, effective utilization of man-power, facility of intra-departmental co-ordination, economy of operation, as well as adoption of a logical and comprehensible structure. On the other hand, functional classification leads to excessive centralization, delay in decision making, poor inter-departmental co-ordination, ineffective control of work performance and unsatisfactory handling of diversified product lines.

2. Products. Products manufactured may be adopted for divisional as well as for subdivision purposes. When there are several product lines and each product line consists of a variety of items, functional classification fails to give balanced emphasis on each product. Slow-moving and outdated products may be given greater attention at the cost of growing ones. For the sake of expansion and development of their products, many large enterprises have created more or less autonomous, self-sufficient products divisions based on either one single product or a group of related products. A gigantic structure with separate product lines is usually laid on this pattern of departmentation which is technically called *divisionalization.* With favourable product and market characteristics, divisionalization becomes the only choice available to large-sized enterprises. Apart from this use, products or services may be made the basis of major divisions by a departmental store, a banking concern and an insurance company. Again,, manufacturing and marketing departments may subdivide their activities on the basis of products.

Pros & cons. Departmentation by product permits to make the maximum use of specialization in technical skill, managerial knowledge and capital equipments. It facilitates effective control of operation, as rigid standards of performance are carefully established and communicated to subordinates. It ensures steady growth and expansion of the product lines. Moreover, divisionalization is an important device for management development. Divisional managers are permitted to develop their skill and experience as generalists under a higher degree of decentralization. The only defect lies in its increased managerial cost. Duplicate service functions are required both at the top and operating levels of the organization. Duplication and wasteful use of equipment are also involved. High cost of operation prevents many small and medium-sized concerns from adopting this basis of classification, particularly for creating major units.

3. Territories. Like the products basis, geographical regions are adopted for main division as well as for subdivision purposes. Units that are located at physically dispersed areas are made so many self-contained divisions of the organization. Apart from this divisionalization, marketing activities are very often subdivided on the basis of geographical areas.

It has almost the same advantages and disadvantages as are to be found in the case of departmentation by products. However, there are two special advantages of this pattern of grouping activities. Being nearer to the market and becoming familiar with local conditions, this classification helps to cater to the needs of local people more satisfactorily. In addition, economy in transport cost, local supply of raw materials or services and convenience of supervision make a significant contribution towards the lower cost of operation.

4. Customers. This basis of classification is widely followed in subdividing activities of the marketing department. To give individual attention to diverse groups of buyers in the market, sales activities are often split into several parts. When the products are offered to an extensive market through numerous channels and outlets, it has the special merit of supplying goods in accordance with the peculiar needs of customers. Sales being the exclusive field of its application, co-ordination may appear difficult between sales function and other enterprise functions. Specialized sales staff may become idle with the downward movement of sales to any specified group of customers.

5. Processes. The manufacturing activities may be subdivided on the basis of their processes of production. Similar machines are grouped into separate sections that are utilized for a distinct operation of the job. For example, lathe machine, drill machine, grinding machine and milling machine are placed in each distinct unit. In office work also, this basis of grouping activities has become common, *e.g.*, filing department, mail handling department and duplicating department. Cost and economy considerations urge the use of electronic office equipments and other costly machine on the basis of this subdivision. It is, however, not a suitable basis to be utilized in any mass-production arrangement.

Departmentation Pattern in Practice. In actual practice, no single pattern of grouping activities is applied throughout the organization structure with all its levels. Different bases are used in different segments of the enterprise. Composite or hybrid method forms the common basis for classifying activities rather than one particular method. Once the major units have been created with the help of functions, products or territories, sub-divisions can be done by any one of these five bases enumerated above. In fact, sales activities are frequently grouped on one basis, while manufacturing and other activities are divided on a different basis.

GUIDES FOR ASSIGNING ACTIVITIES IN DEPARTMENTATION

There are some activities that defy logical and practical classifications on the basis of products, functions, territories or others. Requirements of co-ordination, economical operation and effective performance dictate the assignment of such activities to different places of the organization structure. To overcome this difficulty, there are two broad techniques of assigning activities—*similarity of functions* and *intimate association*. Correlated and similar activities are usually put to one department. The basic purpose of this approach is to secure full benefits of specialization. But it may not be compatible with the other two requirements of co-ordination and effective performance. To make a balanced assignment of activities, management is sometimes required to shift an activity from its natural home to some other point in the organization structure. That is, attention must also be paid on the technique of intimate association of functions. Activities must have intimate and close relationships with one another as determined by facts of the case.

To illustrate, traffic activities for receiving raw materials and despatching finished goods should be split into two parts under functional classification. Receiving work, as a part of purchasing, comes under production department and despatching under sales department. To secure effective performance, it is desirable in many cases to combine receiving and despatching activities into one section and to place the combined section under the care of either production department or sales department. Even after this assignment, services can be obtained satisfactorily by both the departments. Again, engineering and innovation activities can be assigned either to production department or to sales department, and both have equal claims from the functional viewpoint. The facts of the situation would help in making the choice in either way. Further, when innovation and engineering are regarded as major tasks for the survival of a business, they may be organized into a separate department under the direct control and care of top management. Both performance and co-ordination are likely to improve by the creation of a separate department. To take another illustration, accounting and audit represent a similarity of function as well as of skill; but they can never be organized into one unit. The very object of audit would be frustrated by its association with accounting.

Similarly, inspection activities are required to be separated from their operating counterparts.

The nature of activities alone is too narrow to provide any guide for grouping and assigning activities. In fact, there are three important bases for assigning activities—*activities analysis, responsibilities analysis,* and *relations analysis.* As managerial responsibility is discharged through making decisions and as decisions are either routine or strategic in nature, activities requiring strategic decisions are to be assigned to a higher level and other activities involving routine decisions to a lower level. Because of the similarity of functions, assignment of an activity requiring strategic decisions to a lower level means indecisions and inordinate delay in performance. Relations analysis is done with the object of ensuring a smooth flow of operation and securing perfect co-ordination. In view of the dominating influence of co-ordination, it is worthwhile to make a special analysis of structural relations and hence of co-ordination. Problems of departmentation arise not only at the upper level, but they are present at the middle and lower levels also. Accordingly, all these analyses are necessary for making a logical and balanced assignment of activities.

Key Factors in Assigning Activities. In assigning activities, managers may have to face many typical problems in specific situations. Irrespective of the nature of problems, there are some key factors that permeate through most of the problems and serve as guides for assigning activities.

1. *Facility of control.* For facilitating control in the organization, managers are confronted with four aspects of the control problem in assigning activities. *First,* activities which serve as *an independent check on others* are to be separated and assigned to different units. *Secondly,* to make definite persons accountable for performance results, there should be *a clean break or a clear-cut division between activities* of two departments. If certain activities are related to the operation of two or more departments and they are not capable of a clean break, they should preferably be assigned to one department. *Thirdly,* for setting performance standards and comparing results, the establishment of two or more *deadly parallel operating units* is of great help in exercising control, encouraging healthy competition and improving performance. *Finally, for effective policy control,* managers who participate in policy formulation should decide policy matters with a view to making consistent and satisfactory application of policies.

2. *Ease of co-ordination.* Co-ordination raises three important issues that are to be weighed by the managers in assigning activities.

First, even dissimilar activities are required to be put under the care of a single executive when such activities *need close and frequent co-ordination* for their effective performance. *Secondly,* activities having *a specified common objective* are to be assigned to the same unit for co-ordinated action. *Thirdly,* service activities of miscellaneous character are to be put to the department that *makes most use* of them.

3. *Reduction in operating expenses.* In assigning activities, economy in operating expenses can be effected in two different ways. *First,* creation of any new unit involves direct expenses by way of executives' pay and office facilities and indirect expenses by way of interference to the work of other units. Accordingly, unless there are compelling reasons, the creation of the new unit should be held in abeyance. *Secondly,* the assignment of activities should be made in such a way that all the jobs of a unit do not require highly skilled persons with higher pay. The possibility of effecting economy in payroll expenses should be explored by creating some unskilled jobs.

4. *Lack of executive interest and attention.* All auxiliary or service activities are separated from primary or basic activities on the ground of lack of executive interest and attention. As most of the auxiliary activities require high technical knowledge of the work and can be performed by specialists, the assignment of such activities to operating executives results in their lack of interest and attention. To arouse interest in such work during the period of incubation growth and to secure adequate attention on all aspects of the work, auxiliary activities are to be separated from primary operating activities, and they are to be assigned to properly qualified personnel.

5. *Benefits of specialization.* In assigning activities, the benefits of specialization should be secured by way of functional specialization and occupational specialization. The skill that is acquired through experience in a particular job becomes a speciality on the part of employees, and such speciality ensures successful company operation.

6. *Human considerations.* As organization has a social aspect in addition to its technical aspect, human considerations affect the assignment of activities to some extent. The availability of competent personnel, the existence of informal groups and the prevailing employee behaviour and attitude may have a significant influence on the way the activities are grouped and assigned in the organization structure.

SPAN OF SUPERVISION

Span of supervision is the limitation on the number of subordinates who can be effectively supervised by a manager in the discharge of his managerial responsibility. The incapacity of human beings restricts the number of persons who can be managed efficiently. Evidently, the chief executive of a large-sized company cannot personally supervise the work of all employees in the concern, and he requires the assistance of several other managers to share the work of management. *Span of supervision* is referred to variously as *span of management, span of control, span of authority,* or as *span of responsibility.* Whatever might be the nomenclature, all management experts agree that there is a definite span limiting the number of subordinates who can be managed effectively by one executive.

Graicunas's Theory. This concept was developed by V. A. Graicunas, a management consultant in Paris, and was published in 1933 in a paper under the title of Relationship in Organization. Graicunas has shown mathematically that a number of direct, group and cross relationships exist between a superior and his subordinates. According to him the number of direct and group relationships increases in mathematical relation as the number of subordinates assigned to an executive increases. An executive with four subordinates is required to deal with the four "direct single" relationships, twelve "cross" relationships, and twenty-eight "direct group" relationships. Graicunas finds that with five subordinates, the total relationships go up to 100, with six subordinates to 222, with seven subordinates to 490 and with eight subordinates to 1080. He thinks that an executive can at best manage 222 relationships arising from six subordinates, and as such, he prescribes six subordinates as the maximum span of supervision. Other experts are in favour of fixing the span of supervision within a range of four to eight subordinates at the upper level and of twenty to forty subordinates at the foremen's level.

Graicunas has developed relevant mathematical formulas for finding out the number of different types of relationships. The formula for cross relationships is $n(n-1)$, where n represents the number of subordinates supervised.

For direct group relationships, the formula is

$$n\left(\frac{2^n}{2}-1\right)$$

and for the total number of relationships, the formula is

$$n\left(\frac{2^n}{2}+n-1\right)$$

How an executive with three subordinates is required to deal with 18 relationships may be shown by the following illustration :

Three direct single relationships—These relationships arise from the direct and individual contacts of the superior with his three subordinates—A, B, and C.

Six cross relationships—These are mutual relationships among subordinates necessary for working under a common superior. In course of the work, A is required to consult B, or B is required to consult A. But the consultation may have different results depending on the response of the other party. Hence, six relationships include : A to B & B to A, A to C & C to A, B to C & C to B.

Nine direct group relationships—These are relationships between the superior and his two or more subordinates. As groups may be composed of in different ways, relationships too may vary from one group to another. Depending on possible combination of subordinates, nine relationships are as follows : A with B, A with C, C with A, C with B, B with A, B with C, A with B & C, B with C & A, and C with A & B.

Criticisms of the Theory. The actual span of supervision is determined by a number of factors which have not been pointed out in the theory. As a result, the maximum span of supervision, as prescribed by Graicunas, is not corroborated by actual company practices and there is a wide diversity in the optimum span of supervision. *Secondly,* the frequency and severity of relationships have not been dealt with in the theory, but they form the core and present the real picture in superior-subordinate relationships. *Thirdly,* all possible relationships have not been included in the theory; on the list of cross relationships, three other relationships with three subordinates are : A to BC, B to CA and C to AB. *Finally,* like the operating executives, the service department heads exercise line authority over their subordinates and supervise them. That the span of supervision has a much limited application in the sphere of service activities is not clearly indicated in the theory.

Factors Determining the Span of Supervision. Factors which determine the optimum span of supervision may be stated as follows :

1. *Ability of executives.* The supervisory ability of executives is comprised of the capacity to comprehend problems quickly, to get along well with people and to command respect and loyalty from subordinates. In addition, the communicative skill is an important determinant of supervisory ability. Accordingly, executives differ from one another in their ability to supervise others. When the ability is high, a larger number of subordinates can

be supervised. In contrast, the poor ability results in limiting the span of supervision.

2. *Time available for supervision.* As supervision forms one of the numerous managerial duties, a manager cannot devote his full time and energy in supervising subordinates. The manager has to plan, organize, control and perform other managerial work. In addition, most of the managers have to do some operating work. Consequently, other duties of managers make an encroachment upon the time available for supervision. The lesser the time available for supervision, the fewer the subordinates can be effectively supervised by a manager.

3. *Nature and importance of the work supervised.* The work involving routine operations and affecting a smaller number of employees does not require much attention and time on the part of executives. Lower level managers can, therefore, supervise the work of a greater number of subordinates. On the other hand, managers at the top level usually supervise the work of a lesser number of subordinates, because such work involves complexities, requires serious executive attention and affects immediate subordinates and other lower-level personnel. Business dynamics, territorial separation of operations and use of costly physical facilities make the work complex in nature, thus restricting the span of supervision.

4. *Use of standing plans.* Standing plans relieve executive burdens by way of making blanket decisions for the guidance of subordinates. As standing plans are applicable in repetitive actions and cover all recurring problems in the work situations, subordinates need not go to the superior frequently for orders, instructions or guidance. As a result, a larger number of subordinates can be effectively supervised by an executive in such situations.

5. *Capacity of subordinates.* Subordinates who are trained, developed and experienced can discharge their duties satisfactorily without much help and direction from the superior. An executive in such situation can supervise a greater number of subordinates than the case in which he has no confidence in the capacity of subordinates. High turnover of personnel causes a restricted span.

6. *Degree of decentralization.* If an executive is free from the task of taking too many decisions because of the higher degree of decentralization, he can successfully supervise a larger number of subordinates. In contrast, if the degree of decentralization is small, the executive will have to remain busy in decision making to such an extent that he will find little time for supervising a greater number of subordinates.

7. *Facility of staff assistance.* As staff men share managerial work for reducing the workload of executives, the subordinates can

and others effect very little delegation. In other words, delegation may be used by a particular manager in a specific area of the business without being a party to the decentralization programme for the company as a whole.

NATURE OF DELEGATION

One person constitutes only one manpower. Wherever a person's job grows beyond his capacity, his success lies in his ability to multiply himself through other personnel. Delegation is necessary for extending the personal capacity of an individual manager. The chief executive cannot accomplish the whole work of the enterprise through his personal efforts, and he can neither manage the personnel for achieving objectives and obtaining satisfactory performance. Delegation is the means by which he can share his duties with his immediate subordinates who in turn delegate to their subordinates, and the process is continued until managerial work reaches supervisors and the operating work is assumed by operators. Delegation gives to the work of organizing a realistic meaning. Without delegation, the very existence of organization is shattered at once. If there are no duties to be divided and no authorities to be shared in the enterprise, the existence of an organization structure is nullified and becomes absurd. Management, and for that matter, organization become impossible without delegation.

In organizing, the process of dividing the work among units and people creates a number of jobs for both managers and operators. As the primary purpose of organizing is to provide for integrated and co-operative action, all managerial and operating jobs are to be tied together in a consistent pattern of relationships. Delegation is the cement that holds the jobs together and determines the relationships between the members. Different authority relationships that bind the specialized parts and positions of the organization structure are established through the process of delegation from superiors to subordinates. Accordingly, delegation holds the key to synchronized and co-ordinated operation of the organization.

Three Aspects of Delegation. As an integral part of the organizing process, delegation has three essential aspects or dimensions—(*a*) assignment of duties or tasks, (*b*) grant of authority, power, right or permission, and (*c*) creation of obligation or accountability.

Assignment of duty. As one manager cannot perform all the tasks, he must allocate a part of his work to subordinates for the purpose of accomplishment by them. The sharing of duties between a manager and his subordinates can only be done when the work is suitably subdivided into parts. To delegate duties the manager has to decide what part of his work he will keep for himself and what parts will be transferred to his subordinates. That is, duty delegation implies a prior division of work. As delegation does not imply abdication of responsibility, a manager cannot assign the whole of his work to subordinates.

Grant of authority. If the delegated duty is to be discharged by subordinates, they must be entrusted with requisite authority for enabling them to make such work performance. The same rights and powers as would have been necessary on the part of a manager for his self-performance are to be conferred upon his subordinates. Duty cannot be effectively discharged by a subordinate without the grant of necessary authority. As the total duties of a manager can never be delegated, authority delegation too need not be full in any situation. There must be some *reserved authority* which the manager retains for his own performance. Otherwise, he ceases to function as a manager. Authority, however, has a precise meaning in management. It does not indicate power over people. Besides the power to command, it also means the right to act, to use company's property or to do like other things.

Creation of accountability. Delegation of duties implies an accountability from the side of subordinates. With the allocation of powers and duties, there must logically go the obligation on the part of subordinates to render an account of their performance. Subordinates' performance must always be measured and appraised by the delegating manager. As the delegator cannot absolve himself from work performance, whether delegated or not, and he remains ever accountable to his superior, the power of demanding accountability from subordinates can never be delegated. Duties can be delegated, authority can be delegated, but it is not the same with accountability. In other words, a manager delegates authority and duties downward or sidewise to his subordinates, but at the same time he has an accountability upward to his superior. Because of this accountability, the manager must keep for himself some reserved authority and duties for directing, regulating and controlling the course of work undertaken by his subordinates.

PRINCIPLES OF DELEGATION

If the activities are to be integrated and the resulting co-ordination and company unity are to be achieved, the act of delegating must be made effective. Pertinent to this context, there are four fundamental principles which serve as guides for making effective delegation.

1. *Assignment of duties in terms of expected results.* Duties of subordinates become clear to them only when they understand what activities they must undertake and what results they must show. Assignment of duties without indicating the expected results or job accomplishment may amount to asking subordinates to go through certain motions for work performance. By spelling out duties in terms of goals or expected results, an advance notice is given to subordinates as to the criteria on which their performance will be judged. Consequently, subordinates direct their efforts for the realization of goals and avoid aimless activity. That is, assignment of duties calls for the clarification of individual objectives in meaningful and tangible terms.

2. *Parity of authority and responsibility.* This principle calls for equality of authority and responsibility on the assumptions that if subordinates are assigned duties, they must be vested with requisite authority to carry out duties, and that if subordinates are given authority, they have a corresponding obligation to use it properly. Duties, powers and obligations are three different things of different orders and it is perhaps impossible to find a common denominator for measuring equality among them. Although duties and powers can be weighed to some extent, difficulty arises about obligations which are attitudes involving moral compulsion. Rather than stressing on equality, it would be more correct to say that duties, powers and obligations are correlated to one another and exist in unison in the act of delegating.

In one sense, authority is always lesser than responsibility. All managers have to operate within several internal and external constraints and their area of decision making is curtailed. Moreover, there are three kinds of authority—*the authority of technical knowledge, the authority of position* and *the personal authority*—that a manager needs to carry out his duties. Positional authority can be conferred on subordinates through delegation. But other kinds of authority cannot be conferred ; they are to be earned by the subordinates through working over a period. Writers who deem responsibility in the sense of obligation find a difficult situation in explaining this principle. It is argued by them that authority generates its own responsibility or obligation. According to this view, authority and responsibility are co-extensive, and equality between them is achieved as a matter of course. If the view is correct, there is no need for this principle.

3. *Clarification of limits of authority.* No other principles can make delegation more effective in application than the principle clarifying limits of authority. It is the clear limit of authority that permits subordinates to exercise initiative, to develop their personal capacity through freedom of action and to know their area of operation. There are organization manuals and standing plans for indicating some limits of authority. But these documents do not give the full picture. Knowledge about the real limits of authority is acquired by subordinates partly through their work experience, partly through their consultations with the superior, and partly through the superior's praise or blame for their actions. These implied limits of authority imposed by tradition, habit and executive attitude are much more important than formal authorization in determining the real core of authority limits, and they influence subordinates' action to a great extent. The clearer the limits of authority, the more effective will be the scope of delegation.

4. *Unity of command.* Command, orders or guidance should always come from one delegating superior, otherwise there are chances of shirking duties, of abusing authority and of evading accountability. In course of the operation, subordinates may have relations with many people and can accept their advice on certain matters or respond to a variety of influences. To encourage co-operation, particularly in the case of assignments of joint undertakings type, it is specifically provided in many acts of delegation that a subordinate is accountable for both work and teamwork. But this does not indicate that subordinates should be subjected to command of two or more superiors. Subordinates should always be placed under the guidance, control and supervision of one superior who will set up work priorities and will arrange for co-operation.

BENEFITS AND DIFFICULTIES OF DELEGATION

Benefits. Delegation forms the core of the organizing function by way of establishing the authority relationships between members and brings in the following benefits :

1. *Vehicle for co-ordination.* As the primary purpose of delegation is to establish structural relationships throughout the organization, it results in securing co-ordination and achieving company unity. Downward, upward and sidewise relationships of line, staff or functional authority bind the specialized parts and positions into an integrated whole. If delegation is made in an improper way, some problems of co-ordination may appear in the organization. Delegation, in and of itself, cannot be blamed for this situation.

2. *Reduction of executive burden.* Delegation relieves the superior of time-consuming, minor duties and allows him to concen-

trate more effectively on major responsibilities of his own position. Executives who fail to delegate adequately remain buried in current operations and overlook the important considerations for the future.

3. *Facility of expansion.* As delegation provides the means of multiplying the limited personal capacity of the superior, it is instrumental for encouraging expansion and diversification of the business. Industrial empires have been built by giant enterprises through the perfection of the art of delegation.

4. *Development of subordinates.* Delegation permits the subordinates to enlarge their jobs, to broaden their understanding and to develop their capacity. By forcing subordinates to assume greater responsibilities and to make important decisions, the superior insists on the development of subordinates' executive talents.

5. *Improvement of morale.* Delegation raises the subordinates' position in stature and importance and increases their job satisfaction. Accordingly, the subordinates usually respond to delegated authority with favourable attitude and try to size up themselves with the situations.

Difficulties. When delegation appears to be indispensable for organizing, it is somewhat illogical to speak of its dangers, pitfalls or shortcomings. Yet a number of difficulties crop up in the actual practice of delegation.

a. Frailty of human life. As human beings, all of us have some of the dictator in us. We grow into an autocrat with the vesting of power. Managers are no exception to this rule. With a view to improving their status and prestige, managers hoard authority by imaginary rather than real delegation. They put forward many excuses for withholding authority and restricting the scope of delegation.

b. Unfamiliarity with the art of delegation. Even when psychological barrier to delegation is removed by accepting the supreme importance of delegation, managers fail to weave the different facets of delegation into a neat superior-subordinate relationship. It is easy to acknowledge the worth of delegation but much more difficult to follow it consistently and judiciously. Managers have to learn the art of delegation by practising delegation over a period.

c. Incapacity of subordinates. As authority of technical knowledge and personal authority cannot be transferred by the superior to his subordinates overnight, the degree of delegation shrinks in many cases. The subordinates are to be trained, coached and developed through a spadework for assuming responsibilities of delegated authority. Moreover, subordinates who lack initiative and self-confidence constitute a real bar to delegation.

DETERMINANTS OF THE DEGREE OF DELEGATION

The degree of delegation in any enterprise is determined by the following four factors :

A. **Specific vs. General Delegation.** The nature of specific and general delegation is indicated by various terms, such as written and unwritten, formal and informal, hard and soft, sharp and fuzzy, precise and vague, active and lazy, clear and unclear. Delegation can be effected in very broad terms without delineating the exact nature of duty and authority. If delegation is not made in accurate details by spelling out specific duties and authorities, much of the usefulness of delegation may be lost. There are chances of gaps and overlaps in activities, of misunderstanding and hesitations on the part of subordinates, as well as of dissipation and loss of human efforts. To overcome these defects of this type of delegation, the practice of making specific, written or precise delegation has come into vogue. Organization manual is prepared with sufficient details so as to give a clear notion of duties of each position. All uncertainties, frictions or jurisdictional disputes are removed by the exact demarcation of the area of activity. Although written delegations are likely to become inflexible through the lapse of time, yet their advantages far outweigh their disadvantages, and all companies of repute have defined duties and authorities of each position before making delegation. Flexibility is maintained through continuous organisation planning and changes.

B. **Attitude of Superiors.** Delegation calls for the establishment of a close and cordial personal relationship between an executive and his subordinates. But this relationship may not be existing in fact because of unfavourable attitudes adopted by the superior towards his subordinates. Unfavourable attitudes stem from a number of reasons. With that attitude, many executives even after delegation handle matters to their extreme details and make the delegatees absolutely dependent upon delegators. Such executive behaviour acts as a barrier to delegation and reduces the total accomplishments in the company. As a remedy for this undesirable behaviour, top management must create the necessary environment for adequate delegation by way of rewarding successful delegators and penalising authority hoarders. Promotion of executives to higher position can be made dependent on leaving a worthy successor through systematic coaching and guidance. Compulsory leave of executives from work situation also adds much in overcoming this barrier to delegation.

C. **Control Techniques.** Delegation does not mean abdication of duties, and the delegator remains ever accountable to his superiors. To discharge this accountability, the delegators must exercise some broad measures of control over the operations of their subordinates. In exercising this control, the test of effective delegation is to be found. If control is exercised by supervising detailed operations of subordinates, delegation becomes meaningless. Requirements of effective delegation dictate that control is to be exercised by the setting up of some broad but strategic standards of performance. Subordinates must be given ample opportunity to develop their capacity, initiative and sense of responsibility. To further this growth potential among subordinates, delegatees should be encouraged to take independent decisions of their own without any censure or checking on the part of the delegator. Independent decision making by subordinates implies that some decisions may not tally with the ideas or thinking of the superior. Even in that case, delegators should not criticize the subordinates' decisions. Successful delegators pass off their insights and experience to subordinates through coaching and guidance over a period and subsequently accept most of the decisions, whether such decisions are in line with their thinking or not. The control techniques that are used for exercising control over delegated authority include *pre-action approvals in serious cases, spasmodic discussion and questioning, periodic reports and cross checking of subordinates.*

D. **Inconsistent Behaviour of Parties.** Since delegation is concerned with superior-subordinate relationship, faults may lie with both the parties who may mar the relationship by inconsistent behaviour and action. From the side of the superior, common faults include executive's feeling that he can do the job in a better way than his subordinates, lack of confidence in subordinates, fear of subordinates' growth potential, absence of reliable control systems for indicating impending difficulties, temperamental aversion to chance taking, and inability to direct subordinates with advance planning and guidance. From the viewpoint of subordinates, common deficiencies that arrest the scope of delegation are : perpetual dependence on the superior for guidance rather than deciding or operating on their own account, fear of superior's criticism and the resulting wrath, lack of self-confidence and initiative, and absence of necessary information and work facilities for discharging duties.

NATURE OF DECENTRALIZATION

Decentralization is the pushing down of authority and power of decision making to lower levels of organization. Delegation of managerial work results in establishing decentralization in any enterprise. As delegation is an essential part of the organizing work, decentralization in some form or another must be present in all organization structures which have at least two managers. To be precise, an organization structure cannot be maintained without the support of decentralization.

Decentralization must not be confused with physical dispersal of activities in isolated areas. Physical dispersal of activities may or may not facilitate the growth of decentralization. Decentralization and dispersal may move in the opposite directions. There can be greater decentralization in an enterprise with a high concentration of its activities in one compact area than the one in which activities are widely dispersed over a large number of places. *The structural pattern of the organization as well as the outlook of top management in distributing planning duties decides the degree of decentralization in any undertaking.* The vital question is to see whether sub-ordinate managers are allowed to exercise authority and to make independent decisions of their own or not.

There can be no total absence of decentralization, but the degree of decentralization varies from case to case. The opposite of decentralization is the centralization of authority and power in the hands of top management. The concepts of centralization and decentralization are the two extreme points in matters of distributing authority in the organization structure. Neither absolute centralization nor absolute decentralization is a feasible proposition for creating an organization structure, but both of them have to be used in different degrees. As an intermixture of centralization and decentralization, we may find a leaning of an organization structure either towards centralization or towards decentralization. This is what we mean by a centralized or decentralized structure. In the centralized structure there is lesser delegation, while in the decentralized structure there exists a greater degree of delegation. In short, the concepts are based on the proportion between reservation of authority and delegation of authority by top-management members.

DECENTRALIZATION AND ORGANIZATION STRUCTURES

The extent of decentralization is mainly determined by the overall pattern of the organization structure. As we have seen earlier, major classification of activities can be done on the basis of either functions or products and territories. Functional classification of activities (*functionalization*) gives rise to the growth of functional organization structures, while classification by products and territories (*divisionalization*) results in the creation of divisional organization structures. There are thus two basic patterns of structures—*functional and divisional organizations.* Functional structure stands for greater centralization, while divisional structure represents the case of greater decentralization. Irrespective of the nature and amount of decentralization in any particular enterprise, there is bound to exist in the divisional structure a higher degree of decentralization than in a functional structure. Briefly, when we say centralized organization we mean functional organization structure. On the other hand, we take the divisional organization structure as a representative of decentralized organization.

Concept of profit centres. The divisional organization structures have become the vehicle for decentralization. To extend the limits of decentralization, almost all divisionalized companies have organized their divisional units on the profit-centre basis. Two essential features of profit centres are that (*a*) they must have separate, identifiable income, expenses and assets from the company with a view to enjoying operational independence and calculating their own profits and returns on investment, and (*b*) they must earn profit on a long-term view after looking into the interests of both their divisions and the company. Because of these two features, the product or territorial divisions of the company become self-sufficient and autonomous in character. The business of the company is thus split into a number of small businesses. The emphasis on company interest and long-term view in earning profit calls for preventing disintegration tendency on the part of divisions and for preserving divisional assets properly. Performance of divisional managers is measured and evaluated on the basis of profits their centres earn. This concept of profit centres is not practicable in the case of functional structures where major units are either cost centre or responsibility centre, not profit centres of the divisional organization structure.

FUNCTIONAL ORGANIZATION STRUCTURE

The functional organization structure is laid on the basis of enterprise functions. Total activities are divided into major correlated groups that are placed under several departments. Marketing, manufacturing, personnel, finance, purchasing and secretarial activities are placed in charge of their departmental managers. Although functional classification of activities must be used in some form or other in all organization structures, all such structures do not represent functional organization. The identifying marks of a functional structure are (a) that enterprise functions are made the main basis of classification, and (b) that co-ordination between functions takes place at a higher point in the structure. The diagram in Fig. 1 illustrates the nature of a functional organization structure.

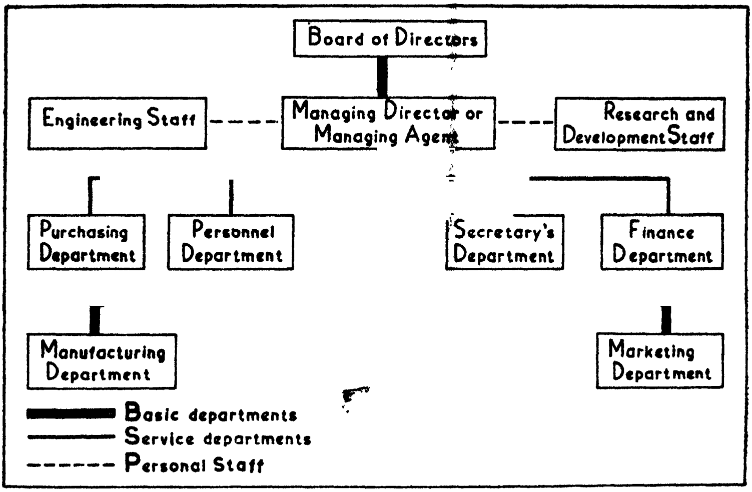

Figure 1. Functional Organization Structure featuring Centralization

Expansion of Functional Organization Structure. The weaknesses of the functional organization structure are revealed in the process of its growth. Requirements of expansion are met through the addition of layers, levels and positions to the existing functional departments, thus making the task of co-ordination more difficult and impeding the flow of communications in the structure. Although expansion leads to the adoption of a tall type of structure with supporting decentralization, the functional organization structure retains its basic leaning towards centralization and cannot reap the benefits of decentralization. A diagram, projecting the position after expansion, is given in Fig. 2 as an extension of the first figure.

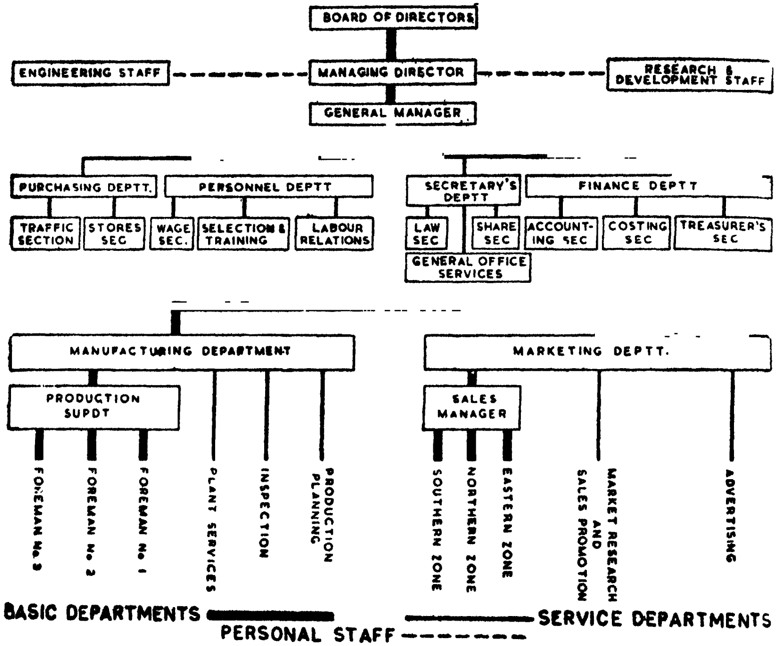

Figure 2. Functional Organization Structure after Expansion

DIVISIONAL ORGANIZATION STRUCTURE

The divisional organization structure is the real decentralized organization in which autonomous and self-sufficient divisions are created. The divisions are established either on the basis of products or on geographical areas. The required co-ordination among activities for manufacturing and selling one or more products takes place at the divisional level. Accordingly, divisional managers are given ample authority for making decisions within their own jurisdictions. Necessary service functions like accounting, personnel, engineering and purchasing are arranged at the divisional level for enabling the divisional managers to make their units self-sufficient in character. Top management maintains a corresponding staff group for each function of the enterprise in order to make overall planning and control more effective in the organization. The central staff is primarily meant for research, development and innovations work. It also helps in establishing standards of performance to be expected from each division. But the central staff is not allowed to interfere with the operations of the divisional staff. To be sure, the divisional staff is never placed under the control and direction of the central staff, otherwise the efficiency of the system is lost and the authority of the divisional manager undermined. As a safeguard against this interference, the central staff is composed of a small number of persons with high ability and qualifications. Unlike in the case of the functional organization structure, the expansion can be easily accommodated in the organization by the creation of further parallel divisions. That is, the organizational set-up of other divisions and top management is not at all affected by the growth of the structure. The diagram in Fig. 3 illustrates the organizational arrangement of a divisional organization structure.

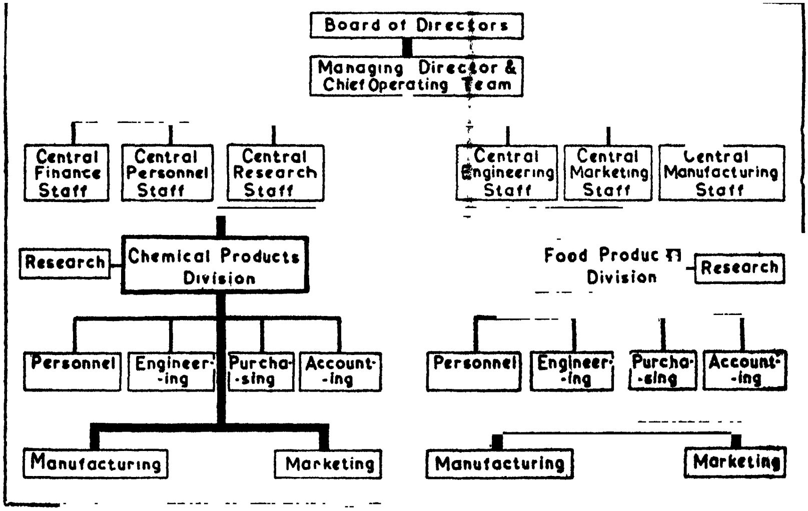

Figure 3. Decentralized Divisional Organization (Product Basis)

BENEFITS OF DECENTRALIZATION (Profit Centres)

Important benefits of decentralization may be stated as follows:

1. *Reduces the burden of top executives.* Decentralization is the answer to the problem of the expanding size of an enterprise. It is the means by which top executives can extend their leadership over a giant enterprise and yet can keep themselves free for concentrating on major issues. By the establishment of self-contained units as well as by the placement of capable managers in charge of such units, the top managers become free from the burden of taking too many operating decisions. As a result, top managers can think for the future and make plans accordingly.

2. *Motivates subordinates for high performance.* By consistent and adequate delegation of managerial work, the organization

structure promotes the development of initiative, responsibility and morale of subordinates. Improved communication, counselling and leadership that are available from the local decentralized unit go to foster their personal ties and working relationships. As duties are matched with authority without any undue interference from top executives, the subordinates are induced to develop their capacity in a free atmosphere.

3. *Develops the quality of managerial personnel.* The decentralized unit becomes the testing and training ground for developing all-round executives for high managerial positions. In a centralized structure, departmental managers become narrow specialists in their individual spheres of work, and they fail in most cases to assume the overall managerial responsibility of the enterprise. In contrast, the divisional managers can acquire the requisite breadth of vision and experience through managing a total business so as to make them ideally fit for high positions. Moreover, junior managers can be trained and developed for captainship of divisional units through their placements in the key jobs of decentralized units. That is to say, the necessity of management development is one of the compelling reasons for decentralization.

4. *Facilitates diversification of product lines.* Decentralization facilitates the growth and diversification of product lines. As one single product or a group of related products is made the basis for creating divisions, all important features like present position, future prospects and comparative efficiency of each product can be readily ascertained. Proper emphasis and requisite sales efforts are maintained in marketing different products of the enterprise. As all products are marketed by one sales department in a centralized structure, the sales department is bound to neglect certain potentially important and growing items in favour of established but declining products for making the total sales look good. Briefly, where the product lines consist of a variety of products, decentralization brings excellent result in its wake.

5. *Secures better co-ordination of operations.* As self-sufficient divisions are established with provisions for necessary service functions, all activities are co-ordinated at the divisional level. In contrast, co-ordination of activities is secured at the highest level in a centralized structure where all communications must pass through several layers before reaching the top executives. Besides this facility of co-ordination within the division, co-ordination with other divisions is not necessary in many cases, and wherever required, it is effected by the next higher level. But co-ordination between service functions may appear as a serious problem to the decentra-

lized organization unless the general staff and the divisional staff are assigned distinct roles.

6. *Ensures effective control.* Because of the profit-centre concept, both establishment of standards and measurement of performance become easy for controlling the operations of divisions. The total amount of profits and the rate of return on investment are available for appraising the efficiency of divisional managers. Creation of deadly parallel operating divisions helps to set goals, to compare results and to demand accountability.

LIMITATIONS AND DIFFICULTIES OF DECENTRALIZATION

Despite its marked advantages, decentralization cannot be applied to all cases and in all situations. There are some serious limitations of decentralization.

a. High cost of operation. The size of the business must be large enough to meet the high operating cost of a decentralized organization. To make the divisional units self-sufficient in character, necessary service functions are to be provided for each division separately in addition to the central staff for control purposes. Moreover, separate production and marketing facilities are to be arranged for each division. This practice of organizing leads to the duplication of functions and the wastage of resources.

b. Lack of divisibility of all operations. Companies operating in one region or with a few products in one line cannot divide their operations for adopting the divisional structures. Even a large-sized enterprise like Tata Iron & Steel Company is prevented from adopting this structure because technology does not permit the division of such a large operation into several autonomous ones. Product and market characteristics must be favourable for the introduction of divisional organization.

c. Absence of well-rounded executives. Divisionalized companies are to rely heavily on the efficiency of divisional managers. Such capable executives who are willing to assume the heavy responsibilities of running a total business under the remote control of headquarters are not readily available when a company changes its organization from a functional to a divisional one. As divisionalization helps to develop well-rounded executives in course of time, this difficulty is not experienced later on.

d. Problem of policy control. The creation of independent units implies the freedom of action and the diversity of decisions. But the need for policy control has become urgent in all companies because of the challenge of labour unions, Government regulations and shifting business situations. A great difficulty is experienced from this aspect of policy control, because it may be exercised in such a manner as to take away autonomy of the divisions. On the other hand, loose policy control has resulted in serious losses for some companies which have been forced to recentralize their operations.

EBBS AND FLOWS DECENTRALIZATION

Two American companies, General Motors Corporation and Du pont, are the pioneers in the decentralization experiment through the adoption of divisional structures in 1921. General Motors (GM) did not change its organizing pattern from the functional organization to the divisional organization until it passed $500 million annual sales and 80,000 employees mark. GM adopted a philosophy of *"decentralized operations and responsibilities with co-ordinated control"* and established 35 operating product-line divisions on a profit-centre basis. There are separate divisions for each of its automobile lines—Chevrolet, Pontiac, Buick, Cadillac and Oldsmobile. There are also supplying divisions for parts—A-C Sparkplugs, Fisher Body, New Departure, Delco-Remi, and so forth. In addition to automobiles, other products of the company include refrigerators, diesel locomotives, airplane engines and others. In the words of GM President, John Gordon, "Each division designs, develops, manufactures and merchandises its own products. It buys its own materials, develops its manufacturing processes and methods, hires and trains its own employees, and develops and maintains its own operating organization". Top management is constituted by four group executive vice-presidents and the president and their functions are limited to overall planning, control, guidance and research. GM is the most fabulously growing company the world has ever known and its assets grew by more than 150 times between 1914 and 1962 (from $ 60 million to $ 9 billion).

During the 1950's, decentralization became a fad with American companies and several important companies changed their structures from functional to divisional ones to push the limits of decentralization. The names of General Electric Company, Ford Motor Company and Radio Corporation of America can be cited from this group. The General Electric Company has established nearly 100 profit-making units in 1953 and one of its important divisions, Hotpoint, was further divided into five product divisions in 1956. Top management is constituted by five group executive vice-presidents and the president. GE's assets grew by 20 times between 1914 and 1962 (from $ 140 million to $ 2.8 billion). Ford Motor Company under the control of Henry Ford I was a highly centralized organization and came on the verge of bankruptcy in the early 1940's. Like other companies, it went in for decentralization in the 1950's. Both Ford and RCA have 15 divisions each.

After a decade's experience with decentralization, some companies have started recentralization in the 1960's for exercising tighter controls over their operating divisions. Decentralization has not worked well in all cases. The Convair Division of General Dynamics lost half a billion dollars between 1957 and 1962, and it was forced thereafter to impose greater control over the operating units through recentralization. Likewise, Ford Company which grew from internal expansion, rather than by merger as in the case of GM, did not find decentralization suitable for it. In the 1960's, it has recentralized some functions for extending the scope of central control over the operating units.

FACTORS AFFECTING THE DEGREE OF DECENTRALIZATION

The following factors determine the degree of decentralization in any company:

1. *Size and dispersal of operations.* Small-sized enterprises cannot bear the high operating cost of divisional structure, and they prefer functional structures which give them an economy of operations. Most companies with 10,000 employees in the U.S.A. have divisional organizations. There are however some notable exceptions, *e.g.*, the National Cash Register and Aluminium Company of America with 50,000 employees each have functional structures. If the large size of companies is supported by dispersal of operations, the tendency towards decentralization becomes very strong. With a view to giving proper market emphasis and curing the evils of absentee management from one central place, the divisional organization has been found to be a better choice.

2. *Diversity of product lines.* Where several lines of products with different items in each line are dealt in by a company, the functional structure absolutely fails to give a balanced product emphasis on each item. The urge for developing new products has become one of the compelling reasons for changing the pattern of structures from functional to divisional one.

3. *Nature of the company growth.* Growth of a company can take place either by internal expansion or by merger. In the case of internal expansion, the original pattern of functional structure is retained by the company until it becomes absolutely impossible. That National Cash Register and Aluminium Company have not changed their functional structures with 50,000 employees each can be explained from the nature of their growth through internal

expansion. But in the case of expansion by merger, the divisional structure is highly preferable because of the facility of utilizing absorbed companies as separate operating divisions and exploiting their goodwill.

4. *Nature of business functions.* Basic functions are subject to a greater degree of decentralization than service functions. Basic functions entail heavy and exacting responsibilities and call for a familiarity with on-the-spot situations. Accordingly, performances in such areas improve when they are widely decentralized. Even in a functional structure, for example, sales and production are first decentralized. On the other hand, service functions can be better discharged when they are centralized under the control of one agency for improving the quality of service and exercising policy control thereto. In the recent process of recentralization, service functions have been put under tighter controls than basic functions.

5. *Quality of executives.* Unless middle-level executives are capable and experienced, they cannot be entrusted with making important decisions, and for that matter, decentralization cannot proceed too far. Not only middle-level executives, but top executives also are required to be of high order for successful operation of any divisional organization. In functional organization, weak top executives with capable middle-level executives establish decentralization by drift rather than by deliberate design. Moreover, the outlook of top executive is a vital question for deciding the degree of decentralization. If they have dictatorial frame of mind, there would be more centralization in spite of other considerations.

6. *Computers and management information system.* Management information systems have been designed on a new outlook with the advent of computers. As computers are very costly and work with incredible speed, they cannot be set up for individual operating units. Actually, data are supplied from operating units to the computer centre at headquarters for being processed into required records, reports or information. Accordingly, computers have forced centralization of all work connected with data collecting and data processing. One reason for decentralization by top management was the non-availability of information and facts in the past. When all facts and information are quickly available through computers in the central office, top executives may be tempted to decide many problems centrally and to extend the scope of centralization. Of course, if top executives believe in decentralization, subordinates can be provided with greater and timely information from the computer centre for making better decisions by them.

Chapter 11

Authority Relationships in Organization

NATURE OF AUTHORITY RELATIONSHIPS

Authority relationships in the organization structure can be either line, staff or functional. As authority relationships are the cohesive force that integrates the different parts of the enterprise into a co-ordinated whole, the precise nature of these relationships should be clearly understood. Line authority is a direct authority exercised by a superior over his subordinates, and the flow of this authority is always downward. On the other hand, staff authority exists for giving necessary advice to line superiors and the flow of this authority is always upward. Functional authority occupies a midway position between line authority and staff authority.

Managers having line authority are granted the wide power of command over people in a designated area of the organization. In contrast, staff authority has no power of command in the organization; such authority is created for giving specialist advice to the line superior by way of working from the "assistant to" or the like position. Functional authority is a means of putting the specialists to work for the benefit of the whole organization and confers upon the holders a limited power of command over people of other departments concerning a specific phase of the work like functioning of policies, procedures or processes. Line authority confers upon managers the power of full command over people of their own departments relating to the entire work except that phase for which functional authority is granted to some other executives.

Organization structures are often erroneously divided into line, staff, or functional. Because of the existence of line authority, staff authority or functional authority, a structure cannot be called a line organization, a staff organization or a functional organization. There can be no line authority alone in any enterprise, thus giving rise to the growth of so-called line organization. Similarly, staff and functional authority of advice and service cannot exist in themselves; they are meant for giving some assistance to line authority. Thus, the so-called staff organization, based on staff authority alone, is a myth, because staff authority becomes redundant in the absence of line authority. In all organizations, there must exist some line authority, staff authority and functional authority. That is to say, all organization structures must be of the combined line, staff and functional type, and they cannot be otherwise. Hence, it is illogical to classify the organization structure from the standpoint of line, staff and functional authority concepts. As pointed out by Urwick, "Writers on business talk of the 'staff and line form' of organization, of the 'functional form' of organization. Such views suggest a lack of observation of actual undertakings."[1]

Recipients of Authority. Line, staff and functional are the three types of authority, and these are not granted to three different categories of managers. But one manager may be granted all the three types of authority simultaneously. As these are different authority relationships between managers, one manager is differently connected with other managers of the enterprise. For clarity of understanding, these authority relationships may be studied with reference to basic and service functions of a manufacturing enterprise. Basic functions like production and sales as well as service functions like finance, personnel, accounting and purchasing are made the basis for creating different departments in the structure. Line authority is conferred by the chief executive upon departmental heads who exercise command or line authority over the personnel of their respective departments. Service departments are created for rendering specialized services to other departments. For empowering executives of service departments to maintain the quality or uniformity of service throughout the organization, functional authority is granted to those executives in addition to line authority over their own subordinates. Furthermore, as service departments are staffed by specialists, advice of such specialists is sought frequently by the chief executive or other superior executives. In giving such advice, executives of service departments utilize their sta[illegible]hority. Thus service department heads are usually granted all [illegible]e types of authority in the organization structure.

For example, personnel manager is granted line[illegible]rity for managing his own subordinates, functional authority [illegible]uiding the personnel of other departments in respect of handlin[illegible]nnel policies, settling employee grievances or effecting wage [illegible]ini-stration, as well as staff authority for giving advice and cou[illegible] to the chief executive. Although not as much common as in the case of service department executives, production and sales managers are granted both staff and functional authority on some occasions in addition to their enlarged line authority. Exclusive staff authority

[1] Urwick, L, *The Elements of Administration*, p. 68.

exists in those cases where individual specialists are engaged for advising their superior executives, *e.g.*, a legal consultant, a tax consultant, an engineering consultant or a public relations officer attached to the chief executive or other senior executives. But as soon as the number of each kind of specialized staff increases and the situation calls for grouping those activities into different sub-units, the heads of all such specialized staff become the recipient of line authority for managing their subordinates. Accordingly, two or three types of authority are usually conferred upon any manager at the same time.

DISTINCTION BETWEEN LINE AND STAFF AUTHORITY

As functional authority is merely a recent outgrowth of staff authority for rendering specialist services, and as very often it is combined with staff authority, we must have clear notion about line and staff authority.

Staff men have limited and strictly defined advisory authority, while line men enjoy wide authority in the organization structure. Line managers are directly concerned with the show of work performance, and for that purpose, they can give necessary command, orders or instructions to operating personnel. Staff men supply gadgets, techniques or other facilities to line executives so as to improve their performance. They have no power of command in the organization. Only when specialized staff men are organized into a separate department, the departmental manager may have the power of command over his own people. Consequently, staff authority is much narrower in scope and extent than line authority.

Line authority not only becomes the avenue of command to operating personnel, it also provides the channels of communication, co-ordination and accountability in the enterprise. Policies, orders and instructions, on the one hand, and suggestions, reports and complaints, on the other, move up and down in the structure through the medium of communication. Co-ordination is largely dependent upon the effectiveness of communication in the enterprise. In other words, the life-blood of the enterprise flows through this line authority. Staff authority is no more than a mere appendage to the vital line authority. Furthermore, it is line authority that alone becomes the carrier of accountability. To ensure adequate performance for achieving enterprise objectives, accountability from the side of subordinates travels upwards in the structure through this line authority. As a counterpart of delegating duties and powers, accountability is the exclusive concern of line managers for realizing the goals of the business. In contrast, staff authority resides in a sheltered position, often behind an imposing wall.

There are many catch phrases to describe the difference between staff and line positions. "Staffs have the authority of ideas, lines have the authority of command." "Staffs think, lines do." "Staffs advise, lines work." "Staffs should sell, not tell, lines perform."

LINE AUTHORITY

Nature. As already pointed out, an organization structure cannot be based on line authority alone, and it is unrealistic to speak of a structure as "line organization". With this understanding, we may however discuss line authority separately so as to explain the nature of this concept more clearly. Looking to the organization as a whole, service departments stand predominantly in staff positions and basic departments in line position. Responsibilities and duties arising from basic enterprise functions are delegated downward step by step from the top of the structure to its bottom level. Responsibilities of managerial positions are matched with requisite authority for initiating actions in the enterprise. The process of delegation thus sets up a chain of superior-subordinate relationships throughout the structure. This direct relationship between a superior and his subordinates is created by the force of line authority, and as such it is called line relationship. The superior exercises command authority over his subordinates ; that is, he has the authority of giving orders and demanding accountability. The subordinate accepts the obligation for discharging work responsibility and listening to the command of his superior.

Functions. Line authority provides the basis of teamwork on the part of employees engaged in basic functions of the enterprise. It gives an overall picture of the organization by designating 'who is to do what work.' It identifies, connects and directs the operating personnel towards the attainment of predetermined and common aims of the organization. Unity of command, arising from the operation of one line authority, helps to maintain unity of direction in the enterprise. Because of its fixed responsibility and directness of control, line authority encourages quick decision making and high work performance. Line authority is the means by which a greater focussing of efforts can be done on the primary and basic activities of an undertaking. Briefly, line authority is the carrier of command, communication, co-ordination and accountability in the enterprise.

Application in business. Line authority is granted overwhelmingly to those managers who are engaged in basic functions of the enterprise. In most of the manufacturing enterprises, production and sales are recognised as basic functions. But if a manufacturing enterprise is organized for selling its products through an agency basis or through the basis of a long-term contract, sales function does not become important, and in that case, production alone will constitute the basic function. Some writers are in favour of labelling finance as basic function. No doubt finance function is important for the very existence of the enterprise, but at the same time it must also be accepted that finance plays an auxiliary role in the business. The function which plays an auxiliary role is to be taken as service, not basic function. Again, for a marketing enterprise, both wholesale and retail, purchasing is a basic function, while it is a service function in the case of manufacturing concerns. Thus, the division of enterprise functions into basic and service should be done from the standpoints of the type of business and the nature of its activity.

STAFF AUTHORITY

Need for Staff. In addition to pure advisory staff like legal consultant, economic analyst and public relations officer, service department executives stand predominantly in staff positions. In these days of extreme specialization, it is idle to expect the line manager to be specialists in all activities of the enterprise. It is rather desirable that a line manager should not be a specialist in any field; otherwise he cannot maintain the requisite emphasis and balance between functions. For example, if an engineer or an accountant is placed in a top line position, he is likely to retain his affinity towards his specialized field and may require the company to devote a greater amount of effort and time to attain high professional standards in engineering or accountancy matters. In many cases, neither the company nor the customer is benefited by this engineering or accounting excellence. With a view to giving specialist aid to line managers, the staff positions are created throughout the structure. Staff provides expert advice and service to line managers.

Kinds of Staff. Staff positions are organized in two different ways—personal staff and specialized staff.

Personal staff. Personal staff is created by sidewise delegation of authority from the concerned line manager. Personal staff becomes the "thought man" of the line manager. As the use of personal staff involves cost, these staff positions are usually created at the higher level of the organization. Personal staff is used for extending the limited personal capacity of a line manager in order to permit him to carry out his responsibilities more effectively.

Personal staff covers those staff assistants who provide advice and service to a line position and who refrain from taking any decision on behalf of the line manager. Staff assistants are referred to as "Assistant to", "Special Assistant", and like other titles.

In a broad sense, however, personal staff is taken to include all personal assistants, whether *staff assistants* or *line assistants.* Line assistants are essentially different from staff assistants in respect of their authority and range of work. Line assistants give general assistance to a superior line manager in respect of all activities and assume authority and responsibility of the superior when he is away from the work place. In contrast to line assistants, staff assistants are to act in an advisory role within a specified area of superior's activities, and they can never use command authority of the superior in his absence. Line assistants are given the titles of "Deputies", "Assistant Managers", and so on.

Specialized staff. In contrast to personal staff men who give aid to one line executive, specialized staff is meant for providing staff advice, counsel or service to all on a company-wide basis. Specialized staff may be organized as an individual position or as a department. When specialized staff is organized as an individual position, it usually restricts its functions to giving advice and counsel, as in the case of legal counsel and tax counsel. In most cases, however, specialized staff is created as a unit for rendering both advice and service. Some of the specialized staff units are primarily advisory in character *e.g.,* industrial engineering, market research, and research & development. Personnel, purchasing and maintenance are specialized staff units which are primarily meant for service. Some writers have subdivided specialized staff into advisory, service, functional guidance and co-ordinating ones according to the nature of staff work. Specialized staff departments are created through the downward delegation of specific authority by a top line manager and they are usually granted limited functional authority also for giving functional guidance to other departments.

Illustration of Staff Authority. From the overall organizational viewpoint, staff authority rests with pure advisory-staff specialists and with service department executives. Organizational arrangements of line and staff positions are explained by the diagram in Fig. 4. From the diagram, it is to be seen that research staff and public relations staff are pure staff positions for giving specialist advice to the chief executive. When these staff positions are organized as separate units, staff unit heads become the recipient of line authority also. Other staff positions are occupied by several service department chiefs at various levels.

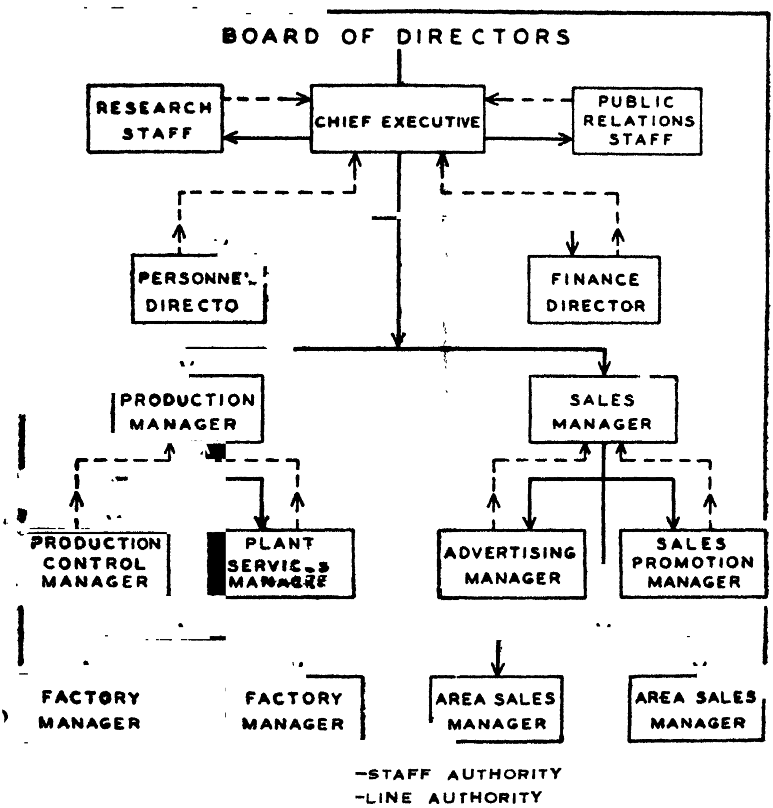

Figure 4. Organization Structure with Line and Staff Authority

USES AND ABUSES OF PERSONAL STAFF

Uses. Personal staff performs various duties for the superior and provides other benefits to the organization :

1. Staff men analyse problems, collect information and develop alternative solutions and thus help the superior to make speedy decisions.

2. In the sphere of directing and controlling, staff men communicate the superior's ideas and instructions to his subordinates, gather information on the work progress, and summarize and review reports for the superior.

3. By undertaking correspondence with outsiders and making outside contacts, they reduce the workload of the superior and allow him to concentrate on important issues.

4. Specialized technical knowledge and expert advice of the staff man help the superior to discharge his reserved duty that cannot be delegated to line subordinates.

5. Line assistant positions offer the facility of training for management development in the organization structure.

Abuses. There are, however, several dangers from the misuse of personal staff:

a. Because of the extension of individual capacity through the use of personal staff, the line manager may reserve too much authority for his own performance, and the line subordinates may thus be deprived of their legitimate share of work.

b. In course of time, line subordinates come in direct conflict with the personal staff of the superior. Moreover, there are chances of duplication, overlap and friction between the activities of line subordinates and of personal staff.

c. The system is also responsible for a steady rise in managerial cost. Because of the ease and comfort in having personal staff, the line managers may be induced to increase the strength of personal staff and to get ready-made decisions prepared by the staff.

BENEFITS AND DANGERS OF SPECIALIZED STAFF

Benefits. The following are the important benefits of specialized staff:

1. *Specialization benefits.* As activities requiring similar knowledge and skill are usually grouped into separate departments, economies of specialization and benefits of standardized and uniform services can be secured in the enterprise.

2. *Operational economy.* Because of specialization in activities, specialized staff departments ensure the maximum utlization of personal skills and equipments, and the supply of quality service to all departments.

3. *Policy control.* By the concentration of activities in one department, policy control can be easily effected with regard to important service functions like personnel, finance, purchasing, etc.

4. *Provision of checks and balances.* Specialized staff positions provide necessary checks and balances in the task of evaluating the line managers' performance. As checking is required to be separated from operation under enlightened control, managerial performance can be measured and evaluated more effectively by the unbiased and impartial opinion of the staff.

5. *Focus on future.* Line managers are so busy with their current operations that they do not find any time to look forward. Staff men have the time and orientation for studying expected troubles. Accordingly, staff men are instrumental for adapting managerial performance to changing time and situation.

Possible Dangers. Specialized staff is not an unmixed blessing and may give rise to some dangers unless top management remains alert and vigilant to guard against such developments.

1. *Empire building.* Specialized staff departments which are manned by professional specialists have an innate tendency towards empire building. Instead of serving line managers for the attainment of enterprise objectives, these departments in many cases control the activities of line managers, particularly at the lower level of management.

2. *Supersession of line authority.* In their zeal for perfecting tools and techniques according to the demand of high professional standards, the staff men detract line managers from work performance and undermine their authority and responsibility. As staff men hold the key to promotions of line managers through measuring and evaluating performance, they can force line managers to follow their lead in adopting new tools and techniques. As a result, the tools and techniques become more important than work performance; service departments outgrow the line positions in importance.

3. *Lack of uniform service.* Service departments cannot provide equal and uniform services to all parts of the organization structure. For example, accounting department may not provide the same costing service to sales department as it does for the production department. A central stenographic department is eager to serve a senior executive in preference to middle-level managers. This discrimination in service is the usual run of things to be found in almost all service departments.

4. *Unbalanced and unwarranted growth.* It is the worst evil associated with a specialized staff department. Being engaged in service functions, the staff departments add to the cost of doing business. For the successful operation of an enterprise, service costs are required to be kept at the minimum. During growth of an enterprise and good periods of business, the service departments are often allowed to expand their sizes in order to provide prompt and effective service in the organization. With every fall in the volume of sales during the ensuing business recession, the fixed overhead cost of service departments becomes a source of anxiety and embarrassment.

THE PROBLEM OF SATISFACTORY LINE-STAFF RELATIONSHIP

Line and staff arrangements are based on the assumptions that they should support each other and work harmoniously for the attainment of enterprise objectives. Line managers assume direct responsibility for operating results, and staff men advise and help line managers to secure such results. Specialized and expert advice is brought within an easy reach of line managers for enabling them to improve work performance in all directions. But these beneficial results of staff advice may not be secured if there is a lack of team-work between line and staff positions. Because of the freedom of line managers to ignore staff advice and to act according to their own thinking, the line and staff arrangements may fail to give necessary support to each other. Just as the staff supports the line in giving advice, likewise the line managers support the staff man in receiving such advice. By consistent refusal to pay heed to staff advice, the line managers weaken themselves and make the staff system superfluous. As a result, mutual support between the two may be replaced by jealousy and antagonism.

Causes of conflict. Close and cordial relationship between line and staff positions is a prerequisite condition for the successful working of this dual system. But the development of a satisfactory line-staff relationship becomes difficult in many cases for a number of reasons. (i) Some line managers do not like to share with staff men the credit of performance. With an eagerness for doing the job on their own account, line managers in many enterprises do not consult the staff men except in grave emergencies. Consultation at the time of such emergencies proves very often to be of no help to the situation. (ii) Staff men sometimes give such advice that cannot be accepted as practical. To make the staff advice acceptable to the line managers, staff men are required to have a familiarity with line managers' work. In an attempt to overcome this difficulty, line managers are sometimes placed in staff positions for tendering practical and acceptable advice. Even in this solution, troubles arise from a different aspect of staff arrangement. (iii) Line managers, being placed in staff positions, often fail to work in the advisory role and encroach upon line activities by giving orders or taking decisions in respect of operating job. There are thus a number of difficulties which prevent the growth of a satisfactory line-staff relationship.

Remedies. From the experience of several well-known companies it can be stated that four essential conditions are to be fulfilled for the maintenance of a sound line-staff relationship. *In the first place,* qualified and trained persons are to be placed in staff positions for ensuring the supply of practical and helpful advice. Staff men must have the capacity to explain the results of advice in concrete terms and to convince the line managers about their contribution towards work performance. *Secondly,* line managers should be made accustomed to giving adequate emphasis on staff advice before taking any important decision. There must be sufficient reasons for ignoring staff advice on the part of line managers. For ensuring teamwork and increasing mutual understanding, any clash between line and staff positions is to be avoided through the placement of both line and staff men in alternate jobs. *Thirdly,* for compelling managers to take advice, the staff men are vested with concurrent authority under which approval of staff men becomes necessary for deciding certain matters. *Finally,* in cases of disagreement between the line and staff men, the right of appeal to the chief executive should be allowed to both the parties. This appeal to higher authority removes their points of difference and restores harmonious working relationship between line and staff positions.

FUNCTIONAL AUTHORITY AND ITS WORKING

Functional authority, granted mostly to service department chiefs, involves a limited power of command over the personnel of other departments, whether service or operating. Functional authority remains confined to functional guidance of personnel of other departments in respect of policies, procedures or operational methods. But the personnel of other departments are never controlled by functional executives, and they remain accountable to their respective line superiors who control them in full sense of the term. Functional executives' control is limited to specified functions only, not their functionaries.

Functional authority is usually an outgrowth of staff authority. As pointed out earlier, service department chiefs are granted staff authority for giving advice to a line superior who sends back such information to his line subordinates. In order to save time and trouble, the line superior may authorize the holder of staff authority to transmit the advice or recommendation directly to line subordinates of the superior. As a result, staff authority is elevated to functional authority under which service department chiefs can advise line subordinates of the superior. Another higher form of functional authority appears in those cases where the staff executive not only advises but also shows the way in which the recommendations are to be put into effect. A still higher form of functional authority may be granted to staff executives for prescribing definite methods

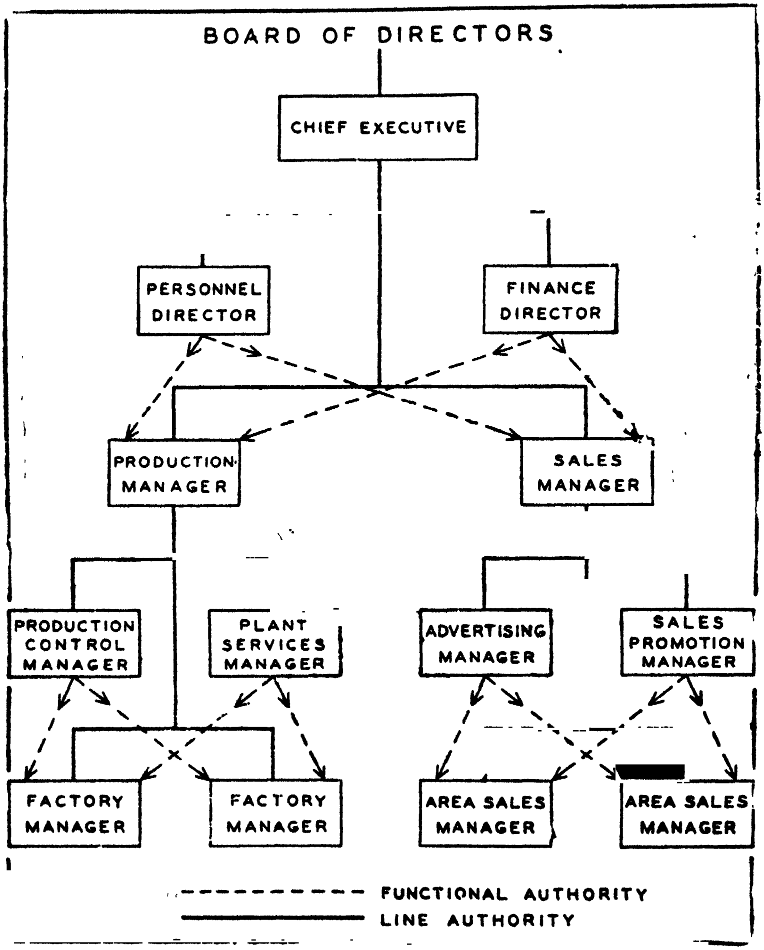

Figure 5. Organization Structure with Line and Functional Authority

or procedures to be followed in all units or departments through issuing orders.

Working of functional authority makes some encroachment upon the operation of line authority, and for that matter, it goes against the principle of "unity of command" to some extent. But in modern business, consistent application of some policies, procedures or methods has appeared to be a more important issue because of greater Government regulations, trade union activities and public relations requirements. Many aspects of personnel and accounting activities require specialized knowledge and guidance of functional executives. Not only staff executives are granted functional authority for guiding personnel of other departments, but line executives too may be vested with functional authority for co-ordination purposes. For example, packaging of goods is effected by the personnel of the production department. But since the sales manager is vitally interested in packaging goods for the accomplishment of his own sales work, he is sometimes given functional authority for guiding the production executives in matters of packaging or like other aspects.

To remedy the evils of divided loyalty and to maintain the unity of command in the organization, two safeguards are adopted in all cases. *First,* accountability of subordinates always rests with their line superiors, not with the functional executives. *Secondly,* the line of functional authority is kept confined to the immediate first level of the organization that comes below the position of the line superior, the delegator of functional authority. Organizational arrangements of functional authority at two different levels are shown in the diagram contained in Fig. 5. Service department executives are usually granted both staff and functional authority in addition to line authority over their respective departments. Functional authority of service-department executives has been shown in the diagram and other cases of functional authority have been omitted for the sake of simplicity.

Taylor's Functional Foremanship. Taylor's functional foremanship is an entirely different concept from that of functional authority. Functional foremanship involves specialization in managerial functions by separating planning from performance. To be sure, managerial functions are the indivisible parts of the management process. As a basic theme of his "Scientific Management', Frederick W. Taylor propounded the so-called functional foremanship in replacement of the usual line authority. Under line authority, all orders and instructions emanate from one line manager who is held accountable for all multi-faceted duties and responsibilities of the operating job. Taylor felt it impossible to acquire the varied knowledge and ability on the part of one line manager, particularly at the supervisory level, for discharging his work responsibility satisfactorily. For the production management of a complex manufacturing concern to which Taylorism centres round, it was believed that one foreman or superintendent could not manage the different aspects of production work for guiding a group of employees. To improve efficiency in such cases, Taylor advised the substitution of line authority by functional foremanship at lower levels of the organization structure. Under functional foremanship, each workman instead of getting all orders from one boss would receive his daily orders and instructions from eight different bosses, everyone of whom would give orders pertaining to his specialized function. The work of one gang-boss or line manager was subdivided among eight specialists—*route clerk, instruction card man, cost and time clerk* for planning work ; *gang boss, speed boss, inspector, repair boss* for execution work ; and the shop *disciplinarian* for the maintenance of disclipline and morale of workers.

The concept of functional foremanship with regard to operating departments has been found to be unrealistic and has not been applied in actual practice. Henri Fayol, the father of the management science, has pointed out that this concept stems from two ideas : " (*a*) need for a staff to help out shop foremen and foremen, (*b*) negation of the principle of unity of command". Fayol succinctly stated his observation, "Just as the first seems to me to be good ; so the second seems unsound and dangerous". He went on to say, "'I think it dangerous to allow the idea to gain ground that unity of command is unimportant and can be violated with impunity".

Chapter 12

Committees and Board of Directors

NATURE AND PURPOSE OF COMMITTEES

Committees are important components of an organization structure and have various roles to play in the enterprise. In all types of social institutions, business and non-business, committees are found to exist in different areas and at different levels of the organization. Committees mean a body of persons entrusted with discharging some assigned functions as a group and in a corporate capacity. Group deliberations and group decisions are the indentifying marks of a committee form. Committees may be permanent or temporary in form and may have staff or line position in capacity. Committees are created for undertaking actions as well as for avoiding actions. Committees have a chequered history of success, and they have both staunch supporters and fiery critics.

Committees are known by different names in different organizations. Boards, task groups, work forces, commissions and councils are the alternative names given to a committee. Committees have a wider use in non-business enterprises than in business enterprises. The extensive use of committees in non-business institutions is rooted in the fear of giving too much authority and powers to an individual executive. As a check against the assumption of wide powers, committees often come into being in such organizations. In the machinery of the Government, there are many standing (or permanent) and special (or *ad hoc*) committees. Some of the important standing committees in the Government of the nation are the Railway Board, the Board of Revenue, the Tariff Commission, the Planning Commission, etc. Of these standing committees, the first two have line or executive authority and the remaining two have staff or advisory authority. Special committees are created by the Government for making recommendations with regard to specific enactments, enquiries and investigations. To illustrate, the name of the Company Law Committee, the National Commission on Labour, the Mahalanobis Committee and the Bonus Commission may be mentioned. In educational establishments, numerous committees come into existence for securing the benefit of group deliberations as well as for circumscribing the authority of the chief executive. Different academic councils, boards of studies, executive committees and development committees are the typical examples of committees in universities. Likewise, religious organizations set up many committees as integral parts of their structures.

Business enterprises too have no escape from the use of committees in many cases. The corporate form has a committee at the apex of the pyramid of the organization structure. That is to say, the board of directors of the company is nothing but a committee unit. In large companies, boards of directors are usually split into several standing committees like the executive committee, the finance committee, the planning committee, and so on. Apart from the use of committees at the top of the structure, several standing and special committees are found to operate at the various levels of the organization. Nevertheless, business enterprises do not place as much reliance upon this committee device as it is done in other cases. Because of their inefficiency and cost, committees do not find favour with the businessman. But the questions of efficiency and economy are mostly secondary considerations in other enterprises which may take resort to the committee device. How the committees work in a Government machinery has been pointed out by the President's Committee on Administrative Management in the U.S.A. "For purposes of management, boards and commissions have turned out to be failures. Their mechanism is inevitably slow, cumbersome, wasteful and ineffective and does not lend itself to co-operation with other agencies".

The committee may be organized with staff or line authority. In the case of committees with line authority, the committee is vested with the power of decision making and the enforcement of such decisions. That is to say, the committee assumes command authority in the organization structure. In place of an individual executive, the committee becomes the group executive and is referred to as "plural executive". The board of directors is the classic example of plural executive. But where the committee is organized for discharging staff functions of advice, staff authority is vested in the committee. In such cases, committees neither take nor enforce any decision of their own. They receive information, make investigation, hear suggestions, give reports or offer recommendations to a line executive.

Group Executive versus Individual Executive. Committees are no match with individual executives so far as swift, certain and decisive actions are concerned. Committees differ from an individual executive in four important respects:

In the first place, committees are intermittent in existence. Like an individual, committees do not exist for actions day in and day out. A committee dies for the intervening period between two sessions or meetings.

In the second place, committees require a directive push from the chairman to set them in motion. In the absence of captainship, committees disintegrate into a gathering of persons and become unfit for coming to a decisive action. But an individual executive can initiate actions of his own and does not require constant guidance from the above.

In the third place, committees cannot go in for actions in all spheres of activities. There are strictly defined jurisdictions within which committees can hope to justify their existence. Beyond these limited spheres, committees are doomed to fail as an organ of action. Obviously, there cannot be any such limitations in the spheres of activities on the part of an individual.

Finally, committee decisions must be in writing as a matter of necessity. Such decisions must be communicated and put into effect without having a personal contact between the committee members and the operating people. The very nature of group decisions encourages evasion of responsibility by committee members. In contrast, authority of an indivdual executive is made co-extensive with his responsibility.

REASONS FOR THE CREATION OF COMMITTEES

Despite their vilifications, committees are widely used in all types of enterprises. The principal reasons for their creation may be stated as follows :

1. *Pooling of knowledge and experience.* Combined abilities of a group of persons are brought together for the solution of many intricate problems that cannot possibly be done by one single executive. Group deliberations ensure a thorough consideration of the problem with all their facets and ramifications before arriving at a decision. In other words, committees are utilized for extending the personal capacity of executives through an exchange of ideas, opinions, knowledge and experience by a body of persons.

2. *Facility of co-ordination.* Co-ordination in an organization structure is often facilitated by the creation of co-ordinating committees. Committees provide an important technique of co-ordination in many enterprises. Several managers meet together in a committee session and discuss their common problems, difficulties or requirements for the attainment of enterprise objectives. This direct contact between managers permits them to pursue a common course of action.

3. *Ease of communication.* The major objectives and policies of many enterprises cannot be precisely stated in writing. To avoid ambiguity and misconception, committees provide the forum for communicating the real purport of such objectives and policies to managers. The committee decisions along with their background discussions are conveyed clearly and uniformly to all concerned through the committee members. That is, committees may be preferred for transmitting correct, authentic and prompt information throughout the organization.

4. *Motivation through participation.* Managerial decisions cannot be successfully put into execution without the willing support of the operating personnel. To gain their confidence and co-operation, the subordinates are allowed to participate in group decisions through the medium of committee forms. Participation enables the subordinates to satisfy their basic human urge of belonging to the enterprise and of accomplishing something worthwhile for the organization. As a consequence, participation results in motivation for obtaining peak performance from subordinates.

5. *Fear of assigning executive authority to one person.* Fear of delegating too much command or executive authority to an individual has given rise to the growth of 'plural executive' in Government as well as in business. As a check and safeguard against the abuse and misuse of powers, line authority is vested in many cases in a committee. In business, the board of directors is a plural executive which reviews and oversees the operations of the chief executive of the company.

6. *Medium of representation.* To give representation to various interested groups on matters of executive authority, committees sometimes come into existence. The syndicate of the university, the stock exchange authority, and various boards and commissions of the Government can be cited as illustrations. The boards of directors in companies also seek this group representation, particularly in Government companies.

7. *Escaping responsibility.* The committee is an important means of cooling off agitation and temper on the part of affected people. Executives who want to avoid action and to escape responsibility take resort to this committee device. Establishment of the the committee is recognized as a strategy for overcoming resistance, opposition or pressure from the affected parties.

8. *Consolidation of authority.* Many special problems arising in individual departments of the business cannot be solved by authority vested in departmental managers, and they require authority concurrence of other executives. The committee device permits

management to consolidate authority that is splintered over several departments.

9. *Educational value.* The committee clarifies executive thinking as it considers different viewpoints. Through the exchange of information and the cross fertilization of ideas, the committee broadens each member's base and sharpens his understanding of the business situations. The committee in this way not only helps the experienced members, but it is also of considerable value to young men for training purposes.

10. *Support on risky matters.* As committee recommendations carry weight and dilute responsibility, top executives seek the support of committee on risky and serious matters. If things go wrong, executives who act on committee advice are censured softly for wrongdoing and become less blameworthy.

LIMITATIONS AND DEFECTS OF COMMITTEES

Committees have some serious defects and limitations which are responsible for restricting their use in many business enterprises. The distrust of business men towards committees is well expressed by the sarcastic definition of the committee as "a group of unfits engaged by the unwilling to do the unnecessary." In particular, the committee form suffers from the following defects:

1. *Expensive device.* The committee session must be long enough to permit discussion and exchange of ideas among all members. This prolonged committee sitting absorbs the collective salary of the group for the time. Even the preparation for committee sitting adds to the cost in terms of both time and money. This expense of time, money and effort represents a sheer waste and becomes all the more glaring in those cases where the problems can be solved by an individual executive.

2. *Indecisive action.* The committee is proverbially slow in work and cannot take any decisive action. It has the tendency for clouding real issues and getting extraneous matters involved in the discussion. The conjoint thinking, a prerequisite to committee success, is often replaced by reservation, vacillation or opposition on the part of committee members.

3. *Compromising attitude.* Because of the slowness of work and the growth of opposite viewpoints, committees are found to follow the path of least resistance for coming to some decisions. The outcome of committee deliberations is not what may be looked upon as the results of joint thinking and group judgment; it is a compromise reached between two or more opposing factions.

4. *Irresponsible character.* Acting in a corporate capacity, all members are jointly responsible for the conclusions or decisions

arrived at by the committee. That is, it turns out to the adage "everybody's business means nobody's business". Because of the lack of fixed individual responsibility, the committee proves to be a breeding ground of inefficiency and of evasion of real responsibility. This is perhaps the greatest evil of the committee form.

5. *Dominance of a few.* The chairman or any strong member of the committee often obtrudes group opinions and perforces the committee to come to a foregone conclusion on the basis of his own thinking. In other words, the committee action is sabotaged and overshadowed by the force of a stronger personality.

6. *Suppression of ideas.* As committee actions are characterized by voting and dissenting practices, they leave behind a legacy of bitterness, discontent and frustration. Because of hard feelings, smart members who can contribute new ideas keep their mouths shut after being knocked down a few times.

7. *Political decisions.* Committee members are often chosen to represent certain departments or interests, not on the basis of their qualifications. This practice prompts members to take narrow views for their departments' good or for the promotion of their own interests. Accordingly, committee decisions on important issues become an expression of politics rather than meritorious ones or for company's good.

CONDITIONS FOR SATISFACTORY COMMITTEE OPERATION

The successful operation of the committee is dependent upon a number of factors, *viz.* (*a*) appropriate subject matter, (*b*) well-defined duties and authority, (*c*) clear-cut agenda, (*d*) chosen membership, and (*e*) capable chairman. Each of the factors is an important determinant of the committee success. Otherwise, the committee misdirects itself and fails to achieve any tangible results.

Certain subjects lend themselves to satisfactory committee action, while many others are unsuitable for committee work. The committee is best adapted for deciding broad and important issues like setting major objectives and policies, overall review of past activities, settlement of jurisdictional disputes and any other work of judicial nature. It fails in all 'doing' work of direction and control. Even in thinking functions of planning and organization, the committee has a strictly defined and narrow scope of work. It can pass judgements on some basic questions. The committee has also some usefulness in co-ordinating work and management training.

Authority and duty of the committee should be spelled out in clear terms to indicate its precise role in the organization structure. An accurate information as to the nature of duties and scope of authority goes a long way towards the committee success. Tendency for irresponsibility can be checked by the elaboration of duties to be undertaken on the part of each member. In addition, the committee requires an orderly and clear-cut agenda for channelling its efforts towards one common direction. Irrelevant discussions and extraneous matters are bound to come up in the committee deliberation unless the committee is provided with a well-thought out agenda. It is the right agenda that can tie the committee down to a charted course of action.

Committee's membership is to be fixed for giving representation to various interested groups and for providing the necessary breadth of vision, knowledge and experience. The conjoint thinking and collective judgement are only practicable when the members realize that group decisions are something more and better than the sum total of all individual views. With this understanding, the members must restrain themselves from making too much eloquence and insistence, have the patience for listening to others and show respect for their viewpoints. Apart from the make-up of membership, the chairman is the key figure to the success of a committee. By careful leading and directing, the committee chairman can procure the collective thought and judgment of members in a comparatively shorter period. In particular, the chairman must not thrust his own opinions or solutions upon committee members, if group decisions are really desired.

PLURAL EXECUTIVES

Where the committee is entrusted with line authority in replacement of one single executive, the committee is labelled as plural executive. The governing bodies of educational institutions and the executive boards and councils in the machinery of the Government are instances of plural executives. The board of directors in busines companies is a plural executive from the legal point of view, since it is charged with authority and responsibility of managing and operating the company. Acting as a group, the board is supposed to exercise almost all powers of company management. Yet, in actual practice, the board very often delegates its major part of the power of managing and operating the company. That is, the actual command and control are left in the hands of individual executives.

Plural executive is effective only in overall planning, in reviewing or measuring progress, and in securing co-ordination of activities. On the other hand, the plural executive suffers from almost all the weaknesses of the committee form. Hence, it is not a commendable form to be adopted in filling line executive positions. If swift, certain, decisive and bold actions are to be taken in any organization, the plural executive appears as the last choice.

THE BOARD OF DIRECTORS—ITS NATURE AND POSITION

The board of directors is a committee in form and plural executive in capacity. The board is charged with the duty of managing the entire company for the benefit of shareholders. Frequently, however, the board delegates its authority and duty to a management team under the leadership of the managing director, managing agent, secretaries and treasurers or the general manager. The day-to-day operation of the company is carried on by delegatees from the board of directors. As no delegator can absolve himself from the exercise of reserved authority and duty, the board too cannot delegate its entire powers of management. Otherwise it ceases to exist as an executive. As in the case of other executives who delegate authority downward and at the same time maintain accountability upward, the board of directors has an accountability to the owners of the company. Briefly, irrespective of the extent of delegation, the board as a plural executive must discharge its reserved duties for giving accountability of its stewardship to shareholders. Since accountability of the board towards shareholders cannot be delegated to others, it is natural therefore that certain duties too cannot be shifted under any circumstance.

Like other committees, powers given to directors are to be exercised by them as a group. Aside from the board meeting, individual directors are completely powerless. To be recognized as an executive authority in the company, directors are to sit together as a body in the committee form. Consequently, this plural executive dies each time it rises for the next meeting. Directors are often criticized as "ciphers", "puppets", "underlings", "rubber stamp", "irresponsible", "callous" and "inactive". But these are the shots that fail to hit the mark. Being a plural executive, the board of directors probably cannot improve its performance for better results. Shareholders, being widely dispersed and completely unorganized, cannot do otherwise but to entrust a body of directors to take their place for managing the company. The choice of a plural executive, rather than an individual executive, stems from the fear of delegating too much authority to one individual as well as from the desire of securing benefits of group thinking and group judgment.

Directors are not agents of the shareholders; they are the elected representatives of the owners. The shareholders cannot take back the powers of management that are vested in the board by the company law, by the memorandum or by the articles of the company. It is directors and directors alone who are entitled as a group to manage the company's affairs. Nevertheless, the board of directors does not assume such a unique position in many cases as it may appear normal. In a publicly held company, the board of directors is reduced to a shadow king or a legal sham. Because of its weaknesses as a plural executive, an informed management team or an inner ring of shareholders becomes all-powerful to overtake the board in respect of powers of management. This has precisely happened in our country through the existence of the managing agency system. Managing agents have become overlords by dethroning the board from its exalted position.

FUNCTIONS OF THE BOARD

The functions of the board can be condensed into one role of "trusteeship". Shareholders own the company which, in turn, owns the assets of the business. Because of this indirect ownership of assets, shareholders cannot exercise a direct control over the company assets and have only a limited liability for the debts of the company. The entire asset of the mute and imbecile legal person, namely company, is placed in the hands of directors. Being removed from the direct control, shareholders have to rely upon the board for husbanding assets for the benefits of the company and its owners. For this peculiar relationship, the company law everywhere places the directors in a fiduciary position so far as conservation and utilization of assets are concerned. To be precise, directors are not trustees in the legal sense of the term, rather they hold an office of trust with regard to the assets of the company. Leaving aside the position of directors in the company set-up, the functions of the board may be indicated under the following heads :

1. *Trustees for all concerned.* In the trustee role, directors are to see not only the interests of shareholders, but also the interests of consumers, labourers, suppliers, and even of the community. The directors must harmonize and balance the demands and needs of so many parties through securing necessary co-ordination in activities of the organization.

2. *Selection of the chief executive.* Barring those cases where the board assumes an actual command authority in the company, it is required to select the chief executive of the company. The chief executive usually selects his subordinates who are formally approved by the board of directors. Because of this staffing practice, the company is ensured of having a well-integrated and co-ordinated management team.

3. *Determination of basic objectives.* The end results or goals of the company are established by the board through the formulation of top-level specific objectives and basic policies of the enterprise. As objectives provide the nucleus around which all other plans rotate, the board may be looked upon as the architect of the planning frame.

4. *Approval of budgets and programmes.* Budgets and programmes are master plans which are prepared by the chief executive and his subordinates. Before putting these plans into execution, they are usually approved by the board of directors. Rather than a mass of details, budget summaries are placed at the board meeting for the directors' perusal and easy acquaintance with the projected course of action.

5. *Evaluation of executive performance.* The board's biggest job is to see that company officers do a good work. The board exercises overall control over the affairs of the company. That is, directors evaluate actual results against budgeted standards for control. Budgets are plans that become the basis for control in the organization. The board reviews the actual performance against predetermined control standards. In its review of executive performance, the board always exercises this crucial control.

6. *Distribution of profits.* The board is to decide whether the profits of the company would be distributed to shareholders as dividends or they should be retained as reserves in the interest of the company. Because of the transient ownership of the shareholders, they are not allowed to rob the company of its profits. In respect of dividend distribution, the directors have an upperhand and can even go against the wishes of all owners.

7. *Asking questions and giving suggestions.* Being detached from the operating details, the board can take a broad view of the company's affairs. Through searching questions and bright suggestions, the directors can keep the company marching with current events, as required by technological, social and economic changes of the time. That is, the directors provide a breadth of vision and imagination to the management team for looking ahead in matters of planning and organizing. They add a plus value to the company's operation.

8. *Preserving company continuity.* The company being a separate legal person and its entire property being placed in the hands of directors, there casts a duty on the board to see that company is continued through the changing environment of business. For avoiding calamity and maintaining company stability, the board is required to adopt measures for the survival of the company. Changes in objectives and operational techniques, introduction of executive

development, maintenance of market standing and innovations in products are some of the ways which ensure company continuity.

Modus Operandi of the Board. In studying the board of directors, Baker, J. C. has stated that there are four ways in which the board discharges its trustee functions, *viz.*, (*a*) original decision making, (*b*) confirming executive decisions, (*c*) counselling with the chief executive and his subordinates, and (*d*) review of past activities and proposed actions.[1] In the discharge of its reserved duties, the board has to make certain pioneering decisions which cannot be delegated to others. These reserved decisions include the selection of the chief executive, the establishment of objectives, and any major change in the capital structure of the company. The board's approval is given by way of confirming those executive decisions which are made in respect of the conclusion of material contracts, the selection of banks, legal advisers, auditors or important executives, the programme of capital expenditures, and the settlement of claims against the company. Counselling with top executives enables the board to become familiar with the company's affairs and to give suggestions for improving performance. The board makes an overall review of planning, control, performance and physical facilities by way of exercising its reserved authority and demanding accountability. This minimum control is necessary because the board itself has an accountability towards shareholders.

SOME OBSERVATIONS ON THE BOARD OF DIRECTORS

With a view to making this plural executive as much effective as possible, various experiments have been made by a number of companies. From the experiences of those companies, some vital factors contributing to the success of the board of directors may be stated as follows :

Size. The size of the board may vary according to the size of the company. But still, between companies of the same size, the strength of the board varies considerably. Too small a board cannot give representation to various points of view. It also fails to bring the necessary breadth of knowledge and experience for providing the required leadership and direction of the company. On the other hand, a large board becomes ineffective in actions and turns out to be a debating group. Hence, the size is to be fixed at such a figure that would be conducive to the satisfactory working of the board.

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[1] **Baker, J. C., *Directors and Their Functions* (Boston : Division of Research, Graduate School of Business Administration, Harvard University, 1945), pp. 16-20.**

In the U.S.A., the experts have suggested to fix the size of the board at a number ranging from 5 to 12 directors.

Make-up of the Board. As a special form of the committee, the board must include appropriate members and capable chairman for its successful operation. Membership of the board should be wide enough to give representation to varied social and business interests. Social responsibilities of business cannot be emphasized without having some outside and disinterested representatives on the board. As regards representation for business interests, there should be some members who are familiar with the basic functions of the enterprise. With a view to diversifying board membership, the financiers, industrialists and public-spirited men of letters are usually taken on the board.

Age of Directors. The age of the board members is required to be balanced by the inclusion of some young directors. The Companies Act previously restricted the age of directors to 65 years. But this does not ensure that directors will be young enough to set the way towards initiative, drive, vigour and enthusiasm. Within the limit of 65 years, all board members may come up to the age of 60 or the like of it. In that case, the board becomes the repository of invalids and olds with conservative, hesitating and inactive frame of mind. No doubt maturity of experience is an essential prerequisite to board membership. But the benefits of maturity of experience can be reaped so long as a man remains fully active in capacity. The directors can acquire sufficient maturity at 40 years of age and above. Hence, for balancing the age structure of a body of directors, representation must be given to various age groups ranging from, say, 40 to 65 years.

Inside and Outside Members. The board should consist of both inside and outside members. Inside members refer to those directors who are included in the operating management team of the company. Outside directors are not employed as such in the company, and they are free from the controlling influence of the chief executive. Inside members can become thoroughly familiar with the details of operation and have the opportunity to provide ample materials for deliberations at the board meeting. Because of their insights into company problems, the discussions and decisions at the board meeting are likely to be realistic in character. Nevertheless, the board should not be goaded entirely with insiders. Two distinct limitations of insiders dictate the inclusion of some outsiders on the board. *In the first place,* inside directors are likely to come under the influence of the chief executive and to become his "yes-man" in the board discussion. *In the second place,* if the board is packed with insiders, directors become judges of their own performance. Review of activities at the board level proves to be a mockery in such situations. To get rid of these difficulties, there must be some outsiders on the board of directors. They can put discerning questions to the operating executives and awake the company to the realities of the outside world. Rather than stressing on the achievements of the management team, the outside directors can point out the company failures and suggest measures for improving performance.

Professional directors. Many large publicly held companies are leaning towards a greater number of outside directors. This tendency has been intensified further by the rise of "professional directors". Professional directors are outside members who devote their full time and energy in holding directorial positions in several non-competing companies. And they do not have any other connections with the company, not even as its shareholders. Because of their wide experience and knowledge, professional directors can be of substantial help to make this plural executive a success. But to eliminate multiple directorship, the company law in our country has restricted the scope of this experiment with professional directors. For making the plural executive effective and active, the use of professional directors is a commendable one and is worth the adoption in our country.

Information to the Board. The inclusion of outside directors on the board necessitates an arrangement for providing the board regularly with factual information relating to company affairs. To make the board meeting effective, board members must be acquainted beforehand with all matters to be discussed in the meeting together with comprehensive and systematic reports of overall results and performance in the light of established standards. Realizing the importance of keeping the board informed, although some companies have adopted special programmes for supplying greater information to the board, there are yet many companies which have failed to keep the board adequately informed.

THE CHIEF EXECUTIVE

The board of directors is a form of executive which is unsuitable for undertaking the details of management. It cannot assume actual direction and control in the enterprise. Consequently, the board delegates its authority and duty of management to others. This universal practice of delegation on the part of the board requires a chief executive for the operation of the company. The chief executive, for purposes of day-to-day operation, may be either an executive committee of directors, a managing director, a managing agent, a body of secretaries and treasurers, or a manager.

Executive Committee. Of them, the executive committee is the worse type to be adopted. If it is in the committee form, the executive committee is a plural executive to all intents and purposes. To be relieved of one plural executive, *viz.*, the board of directors, another plural executive is created through the delegation of powers to the executive committee of directors. It is equally destined to fail like the board in its task of operating management. There is, however, one possibility of tremendous significance in reorganizing the executive committee as a team in replacement of the usual committee form. In large companies, this is perhaps the best choice among all available alternatives.

When the executive committee is constituted as a team with fixed individual duty and scope of work, all the evils of plural executive are removed at one stroke. Members of the team have strictly defined jurisdiction of work, and in their own spheres, they take final decisions which cannot be altered or questioned by other members of the team. Like a committee, members of the team make group discussions and deliberations, but decisions are subsequently taken by individual members according to their own thinking, knowledge and experience. As one writer has suggested, the model of such executive team can be found in a playing football team.[2] All the eleven players of a football team have assigned positions, but they frequently change their positions for kicking the ball towards the opposite team's goal. Players do justice to their own positions; in addition they support and do work for their friends in sending the ball towards the net.

Likewise, the management team should be constituted in such a fashion as to have some assigned duties for each member of the team. Each executive must assume the full burden of duties in his own sphere. In addition, he should support and work for other teammates for reaching the goals of the enterprise. The support is given through group discussions and deliberations at their joint meeting. Perfect harmony, balance and co-operation are thus maintained in their teamwork. Because of this team organization, the exacting and demanding job of the chief executive can be performed in a satisfactory manner. In most cases, the job is too

[2] Drucker, P. F., *The Practice of Management.* (New York : Harper & Brothers, Publishers, 1954).

pressing to be done by one-man chief executive. Furthermore, the company is not put into a chaos by the sudden death or retirement of one member of the team. The team members are all "generalists" rather than "specialists", and they can ably take up the leadership of the company without causing a vacuum. For maintaining balance and harmony in the team, the strength of the team should be fixed at odd numbers with a minimum of three members. The complexities of the modern business suggest the organization of the chief-executive job on a team basis.

Managing Director. The one-man chief executive in the person of the managing director may be a fit pattern for adoption in the case of small companies, but this form has distinct shortcomings in large companies. Succession to office becomes a serious problem on the sudden death of the managing director. The company may be thrown out of gear for want of a suitable leader. Functional specialists like the production manager, the sales manager or others cannot fully meet the requirements of general management. If they are placed in the chief executive position suddenly, the company's performance is bound to come down to a risky level. Improvement in this one-man chief executive can, however, be done to some extent by the creation of personal assistant positions. Staff assistants and line assistants render some assistance to the chief executive no doubt, but at the same time they create more problems for maintaining their structural relationships and settling jurisdictional disputes. A greater part of the chief executive's energy may be utilized in running his own staff and line units rather than in managing the business. For all these difficulties, the one-man chief executive is gradually becoming an outmoded pattern in all large companies. These limitations of one-man chief executive have made the managing agents more popular in our country, because managing agents mostly act as a team and avoid all problems of succession and of pressing workload.

Recently, however, a new development is to be witnessed in the appointment of two managing directors for a company. The new company law has contributed much towards this growth. But it has nonetheless provided for a half-hearted measure, because this expected development has not been pushed to its logical consequence. Before examining the limitation of the company law, it would be worthwhile to examine the structural relationship between two managing directors. If two managing directors are given co-extensive and joint authority over all affairs of the company and their job is organized on a plural executive basis, it is a development towards the wrong direction and will do more harm to the company than the system of one-man chief executive. It may go against the principle of unity of command in the organization and will be subject to all weaknesses of the plural executive. Of course, the two positions of managing directors may be organized on a team basis for improving the old system of one-man executive. For creating teams, two managing directors may be given independent and separate spheres of work for enabling them to give more concentration and thought on work problems. A clash of personalities is also likely to be avoided through the division of the total work. But a team of two men is not a good one. The minimum number must be three in any case. If one member dies, the team is liquidated. Moreover, in cases of disputes or disagreements between the two, a deadlock is created in the teamwork. But if there is a third man, the teamwork is not jeopardized in such emergencies. The company law has prevented the companies of our country from having three managing directors, since it has prescribed ten per cent remuneration for two or more managing directors. The third managing director has thus been regarded as superfluous and he is to share the income of his two other colleagues. This remuneration provision is to be changed if the team system of managing directors is desired to prevail over other forms.

Managing Agents. The managing agency system is a subject in itself, and volumes after volumes have been written on the subject. In popular parlance, we mean by management the activities of managing agents, their deeds and misdeeds, their exploitations and manipulations, their milking of the company and looting its treasury. Management is far removed from such activities and affairs. The discussion of managing agents is by-passed for the above reasons. Casually, it may be pointed out that years of training and experience are required to fill the chief-executive positions. There is no such thing as plethora of top-ranking executives in our country. However pious desire we may cherish, we cannot dispense with the services of managing agents for several years to come. Limitations on their tenure of office and prohibitions to succession are steps of no avail in the context of an absolute dearth of top-management personnel. Management is a work neither of common senses nor of domination. Much leeway is to be made for the eradication of the managing agency system, if really desired. To be sure, technical qualifications and specialist experience count very little in the chief-executive positions. Adequate arrangements are to be made for acquiring the management skill in our country. And the sooner it is made, the better for the company, for the consumer as well as for the country.

Chapter 13

Organization Planning and Organization Change

NEED FOR ORGANIZATION PLANNING

The organization structure is a tool for managerial performance. As a tool, organization must adapt itself to changing conditions and circumstances, and it must always be compatible with the requirements of management duties and responsibilities. Otherwise the tool becomes blunt and fails to give the necessary aid to high managerial performance in the enterprise. With changes in time and situations, management responsibilities undergo a corresponding change. And they demand the adoption of a new organization structure in the light of known or expected developments. This need for change in the structure can only be fulfilled by keeping a continuous watch on the trend of conditions.

Changes in business offer an ever-present challenge to managers in their capacity to adjust with varying circumstances. The dynamic character of products, processes or physical facilities puts managerial responsibilities in a state of constant flux. Besides, there are numerous outside forces and factors that impinge upon the business economy in a ceaseless fashion. Consequently, managers have no alternative but to accommodate and assimilate the changes through a reorganization of their duties and structural relationships in the enterprise. To be effective and meaningful for the purpose, the organization structure must reflect the shift in managerial duties.

In addition to these major changes or new development, the organization structure is required to be studied from time to time for purging it of defects that may creep in organizing. It is rather uncommon to find that an ideal structure is created through the initial organizing efforts. Had the structure been a mechanistic one of duties and relationships alone, it would have been possible to devise an ideal organization in the beginning. But in its humanistic aspect, organization is concerned with capacity, willingness and attitude of human beings of the enterprise. No two enterprises are alike in respect of human resources. Hence, the practice of organization must vary from case to case as well as from time to time, even though the principles of organization are to be respected universally. According to calibre, feelings and emotions of individuals in the enterprise, the mechanistic structure is required to be adapted to the needs of the situation.

The organization structure, as a tool for managerial performance, can be kept sharpened and sound through a continuous planning work. Expected changes are to be planned much in advance of their actual coming. Otherwise they cannot be fit in with existing pattern of duties and relationships. Abrupt and hasty organizational changes may leave some gaps and overlaps in activities, or may lead to working at cross purposes. Short-range and long-range planning of changes, to be effected one year hence and five years hence, can only bring an orderly and organic variation of the structure. Furthermore, management development is closely related to organization planning which spells out the future requirements of managerial jobs. Accordingly, a programme for management development cannot be gone through without making the required organization planning. In addition, the problem of personalities can be satisfactorily solved by regular and continuous planning of organization. In the absence of planning, organization principles may be sacrificed for acquiescing to the demands of personalities.

PRINCIPLES AND CRITERIA OF SOUND ORGANIZATION

Of the total body of management principles, organizing principles have been perfected to some extent and they have been greatly elaborated by some writers. Nevertheless, the principles of organization have not been raised to the status of fixed laws capable of universal application. This deficiency of organizing principles has led some critics to denote them as criteria rather than principles of organization. Be that as it may, important principles of organization are stated under the following three groups.

Mission of Organization. As a tool of managerial performance, organization is to facilitate the attainment of enterprise objectives under the following principles:

1. *The Principle of Unity of Objective.* The entire organization with all of its parts must be attuned to the realization of enterprise objectives.

A hierarchy of objectives exists at the departmental, sectional and individual levels of any organization structure, and they are unified and dovetailed for contributing to the accomplishment of common objectives of the enterprise. For effective and economic means of realizing objectives, another allied principle is mooted in management literature under the title of the principle of efficiency.

Process of Organization. The organizing process involves four steps, *viz.*, determining activities, grouping and assigning activities, allocating duties to individuals and delegating authority to positions. For dividing activities, the relevant principle is:

2. *The Principle of Division of Work.* Different blocks of activities are to be ascertained and enumerated on the basis of specialization for effective accomplishment of objectives.

For grouping and assigning activities to departments and units, the relevant principles are:

3. *The Principle of Span of Supervision.* The limit to the number of subordinates who can be effectively supervised by an executive is to be taken into consideration in grouping and assigning activities to a department.

4. *The Principle of Scalar Chain of Authority.* Every subordinate position in the enterprise must be linked by a line of formal authority in the organization structure to the source of ultimate authority.

5. *The Principle of Authority Level for Decision Making.* Authority exists at different levels of the organization structure for decision making, and only those decisions which cannot be made at a lower level should be pushed upward in the structure.

6. *The Principle of Unity of Command.* In assigning activities, it is to be seen that subordinates receive orders from one superior only.

7. *The Principle of Balance.* For effective grouping and assigning activities, this principle calls for putting balance and emphasis on all factors and adjusting their conflicting claims through an analytical study and objective judgment.

The principle for allocating duties is as follows:

8. *The Principle of Functional Definition.* The content of every position should be spelled out clearly so as to indicate the nature of duties and the organizational relationship with other positions.

In delegating authority, all principles revolving round authority questions come into play. The basic guide, however, lies in the following:

9. *The Principle of Parity of Authority and Responsibility.* This principle implies that the superior in delegating to subordinates is to see that equality exists between authority and responsibility. This principle becomes more significant in meaning when it is stated

that duties, powers and obligations of the subordinates must be correlated with one another in the act of delegating.

Perpetuity of Organization. Organization after establishment should be allowed to grow and exist perpetually under the following principles:

10. *The Principle of Leadership Facilitation.* Organizational arrangements are to be made conducive to the growth of leadership position of the manager.

11. *The Principle of Continuity.* Organization must evolve measures for continuous existence of the enterprise through redefining objectives, adjusting plans, reorganizing structural components and developing future managers in the context of ever-changing business environment.

COMMON DEFECTS OF ORGANIZATION

Lack of organization planning and change gives rise to many defects in the structure. Some of the common defects of organization may be stated as follows:

1. *Growth of levels.* The growth of too many levels is often a symptom of deep-seated malaise. The efficiency of the enterprise is lost, authority is undermined, and responsibility is evaded throughout the structure. Levels no doubt arise from the limitation of *the span of supervision principle.* But this limitation of the span of supervision can be successfully encountered by the adoption of suitable structural devices. That is, *the principle of balance* should be kept in the forefront in organizing levels by way of adjusting the conflicting claims between tall and flat structures or between centralization and decentralization of authority.

2. *Lengthy chain of command.* Allied to the growth of unnecessary levels, the chain of command is made cumbersome and lengthy in many cases. Command carried through a lengthy chain loses much of its force and value. The influence of leadership, counselling and supervision becomes too remote to be effective. An efficient chain of command implies a short, direct and straight line of authority in the organization structure. In addition, the chain of command is frequently used as the only channel for all communications in the structure. The use of the same lengthy chain for both command and information makes them equally ineffective and impedes the flow of work. In other works, the chain of command arising from *the scalar principle* should not be taken as equivalent to the lines of communication, and accordingly employees should not be refused access to an executive.

3. *Unsatisfactory division of work.* Many of the symptoms of malorganization can be traced to unsatisfactory division of work. A wrong basis for dividing and subdividing work in the enterprise may be responsible for the growth of undesirable levels. Again, a faulty distribution and integration of work among executives may make the chain of command weak and ineffective. Furthermore, it is the division of work that lies at the root of stimulus to work performance. Quantum of work and contents of each job have a significant influence upon the manner of doing jobs by the employees. Just as an excessive quantum of work paralyzes a man, so an abnormally reduced quantum of work may disintegrate him towards callousness and irresponsibility. Besides, a job that does not demand any intelligence, judgment and thinking on the part of employees cannot be satisfactorily performed by human operatives. In other words, a purely mechanical work demoralizes subordinates and retards their performance. To be sure, *the principle of division of work* should be applied in the light of peculiar needs for specialization, mechanization and co-ordination.

4. *Disparity between authority and responsibility.* As a matter of necessity, authority must be equal to the responsibility of work. Responsibility cannot be discharged without the grant of authority for the situation. On the contrary, authority without responsibility appears as a perpetual nuisance and creates a great obstruction to the flow of work in the enterprise. The overbalance of authority is very often utilized in undoing the good doings of others through a constant interference and encroachment upon their work. To ensure adequate performance on the part of subordinates, responsibility is to be counterbalanced by the grant of requisite authority for every situation. This is based on *the principle of parity of authority and responsibility.*

5. *Dual subordination.* In violation of *the principle of unity of command,* dual subordination thwarts work performance in various ways. Divided accountability and loyalty encourage personality politics, undermine authority and destroy discipline in the organization. It adds to the confusion and conflict of subordinates in the execution of their work. As a result, shirking of duty may be widely practised by the members of the organization.

6. *Wide functional authority to staff.* In order to enable staff men for giving functional guidance over the work of line executives, functional authority is sometimes granted to staff positions. But grant of wide functional authority to staff may intensify the innate conflict between line and staff positions. Establishment of a satisfactory line-staff relationship is often a difficult task ; and the grant

of wide functional authority stands in the way of such harmonious relationship. That is, delegation is to be effected according to *the unity of objective principle,* and for that matter, clear definition of duties is essential as required under *the principle of functional definition.*

7. *Overburdened chief executive.* In many enterprises the chief executive is found to engross himself with excessive details with a view to forcing his authority down the structure. This preoccupation of the chief executive with operating work makes him overburdened and totally unfit for thinking through the future. In other words, the chief executive becomes a blind man, a thoughtless captain and an unimaginative leader. In the absence of sound planning and of pioneering innovations, the chief-executive position has no better and worthy job to perform in the organization. In other words, too much centralization of authority results from violating *the principle of leadership facilitation* and from ignoring *the principle of decision making at the lowest possible authority level.*

8. *Failure to provide for successor to the chief executive.* A sound business may be caught unprepared and forced to go out of existence by the sudden exit of one-man chief executive unless all-round general executives are developed to succeed to such positions. Specialist executives of functional departments cannot be relied upon to fill the position of the chief executive. As required under *the principle of continuity,* the organization must make effective arrangements for continuous existence even beyond the life of the present chief executive.

METHODS OF ORGANIZATION CHANGE

The organization structure can be changed in several ways for keeping it in tune with the managerial performance. There are three common methods that are usually adopted for changing the organization structure. The first is *the questionnaire method.* Under this method, practical difficulties are ascertained by putting questions to all executives throughout the structure. On the basis of answers received, remedial action is taken here and there for removing anomalies and inconsistencies. In other words, this involves a patchwork in the structure without making any change in the basic pattern of organization. This pragmatic approach has importance of its own, but it fails in those cases where a thorough reorganization is called for to adjust the structure with changing situations.

It is *the analytical method* that can overcome the limitations of the former method. Under the second method, an ideal structure is envisaged through an analysis of duties, powers and authority relationships in the organization. The mechanistic structure that emerges from study and analysis is tempered by facilities and resources of the enterprise. To establish sound organization, resort must be had to this method sooner or later. Even the questionnaire method becomes fruitful when such method is utilized in conjunction with the analytical method. In the context of an ideal structure, alterations can be effected piecemeal for introducing an orderly change in organization. That is to say, every alteration in such cases becomes a step forward towards the coveted ideal.

Finally, there is *the comparative method* that can be applied for testing the strength of an organization structure. Comparison between two or more competitive enterprises provides pertinent data for effecting organizational changes. Many weaknesses and shortcomings can be brought to light by comparing the structure with that of similar enterprises. To make this comparison effective, quantitative measurements of structural components are made by the use of several ratios. For example, ratios may be compiled between managers and employees, between line and staff men, as well as between units and employees.

Tools for Organization Change. Organization charts and manuals are helpful devices for having a thorough grasp of the structure with its component parts. They show interrelationships between departments, depict lines of authority for command purposes and clarify duties and powers of each management position. Because of this succinct presentation of all organization data, they reveal many deficiencies like gaps and overlaps in activities, dual subordinations, unnecessary levels and units, lengthy chains of command, and wide spans of supervision. It is perhaps impossible in a large enterprise to make an effective organizational analysis without the aid of charts and manuals.

ORGANIZATION CHART

The organization chart demonstrates the overall picture of a structure and unfurls its organizational details. It is a graphic means of showing the major departments and divisions of the enterprise and the lines of formal authority. The purpose of the chart is to indicate the basic pattern of an organization structure and to signify the manner in which different parts are co-ordinated and connected together. To keep the charts simple and easy, the duties and powers of management positions are not shown on the chart, but they are spelled out in clear details through the medium of the organization manual. Briefly, organization charts map out the existing fabric of interrelationships among management positions.

Benefits. There are several benefits of the organization chart:

1. Since a chart clarifies the assignment of duties and the lines of authority, the mere charting brings to light all inconsistencies and weaknesses of organization and leads to their elimination.

2. The organization chart stresses the unity of command and avoids overlapping of authority and responsibility, thus making it possible to enforce accountability upon each individual.

3. The chart provides the incumbents of all positions with a clearer understanding of how they and their work contribute to the organization as a whole. This understanding helps everyone to adjust himself with organizational changes and to know the normal lines of promotion.

4. As the organization chart specifies the nature of authority vested in each position, it makes the new incumbents of different positions aware of the available authority and its limits. Accordingly, managerial training is greatly facilitated by organization charts which reveal how a company is organized.

5. In organization planning and analysis, charts help to develop alternative ways of organizing and to study their comparative merits and demerits. After selecting the best structure and keeping it as an ideal to be coveted for in the future, positions are matched with available personnel for the time being.

Limitations. The importance of charts is questioned by some who point out a number of their limitations.

1. Charts have a tendency to become outdated after the lapse of a time. For information and guidance purposes, outdated charts are as useless as old newspapers. Hence, the difficulty of constant revision goes against the use of charts.

2. Organization charts can only depict formal authority relationships between managers, but there are many significant informal and informational relationships in a structure which defy presentation on the chart.

3. Charts do not indicate the quantum of authority existing in different managerial positions. Blocks of varying sizes put on the chart have nothing to do with their relative job importance.

4. Organization charts may lead to the confusion of authority relationships with the status of line and staff officers. As personal staff men attached to the top executives are usually shown at the top of the structure, the rank or status of staff men may be deemed more important than line executives operating at the lower levels of the structure.

5. Some writers object to charts on the grounds (*a*) that they create superiority-inferiority feelings among personnel, (*b*) that they make subsequent changes more difficult, (*c*) that they freeze relationships between managers, and (*d*) that charts show the lines of authority as they should be rather than as they are.

PREPARATION OF CHARTS

The basic thoughts on the organizing work are given an outward expression through the preparation of charts. The overall picture of the entire structure is grapically presented on the organization chart, since it shows vividly major departments and divisions of the enterprise, their authority relationships and their hierarchical importance. Where there is a great proliferation of an organization into numerous units and subunits, charts are divided into two parts —*master charts and departmental charts.* Master charts portray the basic pattern of the structure with its major units and lines of formal authority. Departmental charts are used to show the organizational arrangement within the prescribed area of each department of the enterprise. That is, one master chart is supplemented by several departmental charts to depict a thorough picture of the organization as a whole.

The organization chart may be prepared in three different ways, *viz.*, (1) top-to-down vertical chart, (2) left-to-right horizontal chart, and (3) circular or concentric chart. The top-to-down vertical chart has already been shown in Figures 1-3 in Chapter 10. The other two charts are explained by diagrams in Fig. 6 and in Fig. 7.

Left-to-right chart. It shows the organization levels more prominently and explains organizational arrangements in a simple manner. As it coincides with the normal practice of reading from left to right direction, this chart can be followed and constructed more easily. Moreover, lines of authority are mapped out conveniently along with their relative length. Thus, a lengthy chain of command can be revealed by the preparation of this chart.

Circular chart. It stresses the pivotal position of the chief executive and the flow of formal authority from the centre to all

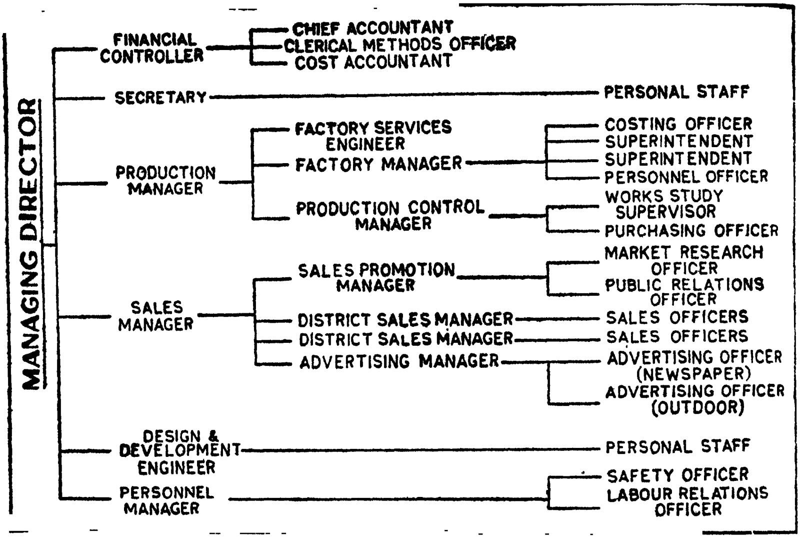

Figure 6. Left-to-right Organization Chart

directions. Levels of management are best indicated by this chart through the construction of inner circles. The circular chart can be studied from any side so as to arrive at the central point.

WRITTEN POSITION DESCRIPTIONS

Written position descriptions or job descriptions contain a list of duties for all jobs in the organization. The practice of writing position descriptions has become common with companies from the 1940's when job evaluation came in vogue. Starting from lower-level jobs, position descriptions have been extended to middle-level jobs, and in some companies, to top-level jobs. But the manner of describing positions varies widely between lower-level and higher-level jobs. Position descriptions at the lower level indicate the detailed list of duties for each job, whereas position descriptions at the higher level indicate the jobs in terms of conditions and results to be created through work performance. For example, position descriptions for a managerial job should indicate the title of the position under the area of responsibility and the name of the department, classified list of broad managerial duties with an emphasis on a special group of duties, upward and downward relationships

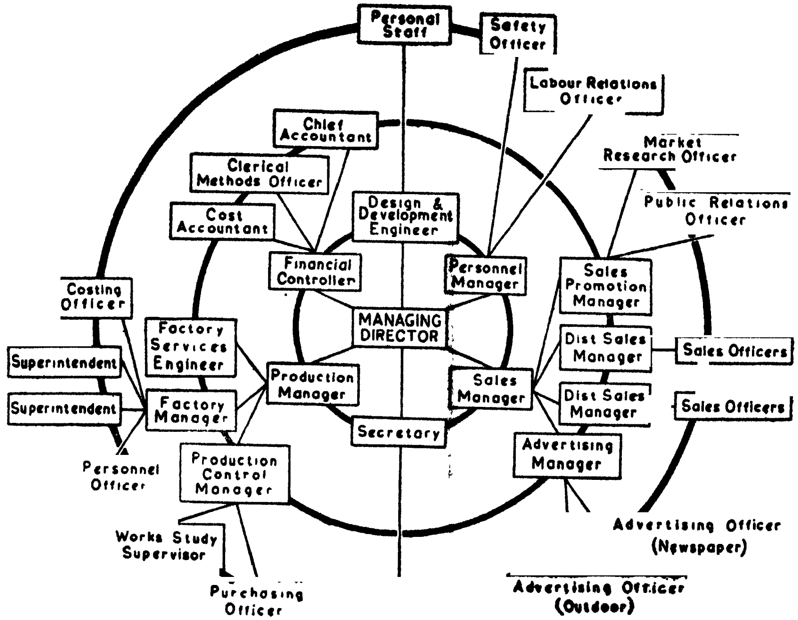

Figure 7. Circular Organization Chart

of the position in the organization, authority limitations of the position and in some cases, qualifications for the position.

Written position descriptions have a number of benefits. *Advantages of position descriptions* include (*a*) facility of setting salary range for jobs, (*b*) appraisal of performance in accordance with listed duties, (*c*) training and development of personnel as per specified duties, (*d*) clear-cut assignment by avoiding confusion and jurisdictional disputes, (*e*) clarification of organizational relationships by indicating who reports to whom, and (*f*) elimination of gaps and overlaps in work assignments. *Disadvantages of position descriptions are* (*i*) confinement to written duties and loss of initiative (*ii*) lack of teamwork for rigidity of jobs, (*iii*) inflexibility of duties for want of quick revision, and (*iv*) cost of preparing position descriptions and of their frequent revisions.

ORGANIZATION MANUAL

Organization manuals furnish complete guideposts to managers by way of indicating their duties, powers, obligations, structural relationships along with a statement of objectives and policies.

Managers are usually provided with their own sets of organization manual. Organization manual is maintained in a loose-leaf book form containing all relevant particulars of organization charts, position descriptions and statements of objectives and policies. Every manager's copy of manuals is personalized and distinct from other managers' copies of manuals. This personalized copy of manuals is also known as *position guide.*

All charts and position descriptions of the company are not included in every copy of manuals. Usually, the manager gets the complete chart for his own chain of command, charts for all levels above his position and charts for other chains provided he requires frequent contacts with men in other chains. As regards the coverage of position descriptions, the manuals contain position descriptions for a manager's own job as well as for jobs of his immediate superior and subordinates.

SOCIAL ASPECT OF ORGANIZATION

The mechanistic structure of formal duties, powers and obligations is a dull and lifeless one. It is no more than the engineers' blueprint of a structure. The real structure emerges when an adequate consideration is given to the human aspect of the organizing work. All organization structures are essentially human organizations, wherein human beings are to assume duty, to exercise authority and to perform the work. For the attainment of enterprise objectives, the emotions, aspirations and prejudices of human beings play a great a role in the organization. The organization structure may become useless if it cannot induce the human beings to work for better performances. In other words, the mechanistic structure is to be adjusted for obtaining the requisite support from its human aspect. The social aspect of organizing calls for the matching of jobs with individuals. Leaving aside mechanistic structure, if organization is created around the people alone, the manager's time is sure to be wasted in dealing with "personality politics".

The dynmic character of an organization structure becomes evident when we look to its humanistic or social aspect. Human characteristics change with time and situations, that is, according to the spirit of the organization. The same set of people may show different performances at different times. Where job satisfaction is not guaranteed, and complaints and grievances are rampant, the employee performance is bound to come down. This poor performance is likely to be brought about in such a way that it eludes all efforts of executives for making improvements. Furthermore, personnel changes are common to all organizations because of death, retirement or resignation. Human resources are thus constantly changing in nature and add a dynamic concept to the organization structure.

Human Factors in Organization Change. Organization change affects values for both the organization and its personnel. For making any effective and satisfactory changes, the results of the change must appear beneficial to all the three sets of values involved. First, changes are always introduced for increasing the organizational efficiency. But what is good for the company may not be good for its personnel. As individuals, the employees have two other sets of values. One set arises from management members who expect opportunities for future career and development. Another set of values springs from operatives who want to maintain the same social satisfactions that they used to enjoy through contacts and friendships involved in the work groups with their old associates. If these values are not fulfilled, organization changes are resisted by both the parties.

Informal Organization. Informal organization refers to those relationships and associations that develop spontaneously among the members of work groups in any organization. Apart from organization of formal groups in any structure, many informal groups develop as a matter of normal course. Because of friendship, kinship or some other close relationship, human beings associate themselves in groups of their own choice, and this grouping of persons often runs counter to the division of men into departments and units. Consequently, informal organization exists in all enterprises side by side with the formal groupings of human beings. The successful managers try to trace out these informal groups and utilize them for achieving the ultimate objectives of the enterprise.

There are four recognized functions of informal organization—(*a*) communication to members of the informal group, (*b*) provision of social satisfaction for members, (*c*) establishment and enforcement of standards of conduct, and (*d*) contribution to work accomplishment through sharing job knowledge and helping one another. *First,* the informal groups working in the role of communication are referred to as *grapevines* which provide good channels of communication for motivating human beings. *Secondly,* association in groups is a social instinct of human beings. And the opportunity to form social groups is enlarged in any organization which is nothing but a social institution. Informal organization provides satisfaction for social needs. *Thirdly,* it maintains certain standards of conduct with reference to work performance which is either favourable or unfavourable to management. Enforcement of the standard is made effective through boycott or ridicule of offending members. *Finally*, it co-operates through supplying job tips, training newcomers or in other ways. The informal organization is not destructive of the formal organization. On the contrary, it gives adequate support to the formal organization structure by supplying individual and social satisfactions to members of the organization. Intelligent managers nurture growth of informal groups and participate in them for understanding the human problems and taking necessary remedial action.

Chapter 14

Staffing

NATURE AND IMPORTANCE OF STAFFING

The systematic approach to the problem of selecting, training, motivating and retaining managerial personnel in any organization is referred to as staffing. The job of staffing is concerned with recruitment and development of managers and their maintenance in a high spirit. It entails management manpower planning with a view to recruiting and training executives. Also, it calls for the satisfaction of managerial wants through the provision of individual motivation and the introduction of self-control on the part of managers.

Management manpower planning involves an estimate of the present and future requirements of executive positions in the enterprise. The demand for managers has steadily grown in all progressive and expanding enterprises during the past several decades. In addition to this demand, existing managers require constant replenishment because of their retirement, resignation, death or even dismissal in some cases. Accordingly, management manpower planning must be undertaken on a continuous basis. But without studying the organization structure and its job requirements, the managerial positions can neither be planned nor filled. To make an effective manpower planning, organization planning must be gone through to find out the exact time when a certain number and type of managerial personnel are required in the enterprise.

The conventional method of selecting, training and grooming management personnel has been found to be inadequate for the present-day needs, and many business concerns have adopted programmes for management development. The growth of decentralization, the expanding size of business, the steady progress of technology and the complexities of business have increased the demand for managers to an ever-increasing level. A sound programme for management development can only ensure a steady supply of qualified managers in accordance with the specific needs of the enterprise. The programme nor only develops personal qualities of managers, but it also attracts resourceful and talented men to the enterprise because of company's reputation as a developer of high-grade managers. However, the programme to be effective must have the support of all managers. The establishment of rule to the effect that no manager would be promoted unless he leaves behind a worthy successor through coaching and counselling goes a long way towards making the programme successful.

ANALYSIS OF MANAGERIAL JOBS

Staffing of executive personnel must be preceded by an analysis of managerial jobs. Unless the content or the make-up of managerial jobs is known, recruitment of managerial personnel is not possible. The results of job analysis are usually indicated by the preparation of position descriptions or job decriptions. Next, position descriptions are translated into man specifications for indicating the qualifications and experience required of prospective incumbents. Companies preparing organization manual have this information readily available for all jobs.

Managerial job descriptions and man specifications. Position or job descriptions involve an analysis of responsibilities and duties associated with various managerial positions in the organization structure. Job descriptions are spelled out in greater details so as to find out the exact scope of varying jobs in the enterprise. Once job descriptions are prepared, an assessment of future managerial requirements can be made from known retirements, projected expansions and anticipated changes. The organization chart and manual help much in ascertaining the number of managerial appointments to be made in the organization. After job descriptions have been prepared, the man specifications showing educational and technical qualifications, experience, personal qualities and management skills required of such positions have to be established.

Qualifications for managership. Some of the outstanding attributes expected from executive candidates are analytical ability, technical knowledge, breadth of vision, initiative, personality, ability to communicate, human relations know-how, leadership, power of judgment, intelligence and integrity of character. These attributes or qualifications have been found necessary by scanning the managerial functions and the process of management itself. Analytical ability, power of judgment and intelligence are basic attributors required for decision making which permeates through all functions of management and all managerial tasks. Breadth of vision, initiative and intelligence are the key to creative thinking for sound planning and organizing. Leadership, personality, integrity and human relations know-how are the gems for triggering human energy in the directing function of management.

Another approach to managerial qualifications concentrates on different skills rather than on personal characteristics. The greatest difficulty of stating qualification in terms of personal characteristics is that they often distinguish between good people and bad people rather than between good managers and bad managers. Three basic skills required for successful management include *technical skills, human relations skill* and *conceptual skills.* Technical skills pertaining to the job area are of predominant importance for managerial jobs at the lower level. Even for jobs at the higher level, careful and rational analysis of problems is not possible without some amount of technical competence. Human relations skills are essential for getting along with people and securing their co-operation with a view to making an effective performance. Conceptual skills consist of the ability to create a harmonious whole out of dissimilar disciplines. At the top level of an organization, conceptual skills are of utmost importance for successful management. Diverse activities of a complex nature can only be integrated with proper balance and emphasis by top executives through this conceptual skill.

RECRUITMENT OF MANAGERIAL PERSONNEL

Recruitment of managerial personnel requires considerations of the sources of recruits and the screening method applied :

Sources of recruits. There are three basic sources from which managerial personnel can be obtained, *viz.*, candidates from other companies, persons promoted from within the company, and fresh graduates from universities and technical institutions. The first source is tapped sometime for securing managers of special ability in connection with manufacturing and marketing activities. To tone up the management efficiency, an outsider is occasionally taken in at the top level for infusing new blood, vigour and drive in the enterprise. The second source is much to the liking of employees and acts as a strong incentive to satisfactory work performance. Moreover, it provides a reserve stock from which potential managers can be selected according to the needs of the organization. Most of the higher level jobs are filled from promotions within the company. One staffing problem involved in this promotion is that internal candidates are to be reoriented from specialists to generalists through training, grooming and coaching over a period. Lower-level managers operate in functional areas and become specialists. As the number of specialist managers is far greater than generalists in any organization, promotion to higher jobs becomes a problem in many cases and is followed by chain promotions throughout the enterprise. Despite the policy of promotions from within, some companies require the internal candidates to face open competition with outsiders for ensuring the right quality of management. The third source is becoming popular with larger companies which have adopted programmes for management development. Fresh graduates with wider outlook and satisfactory background knowledge prove to be excellent materials for developing them into successful managers. Furthermore graduates with their general and liberal education possess such breadth of vision and power of adaptability as are conducive to the successful working of business enterprises. They are always taken at lower-level jobs for being trained and developed over a period.

Screening and selection. The actual selection is based on the appraisal of three basic factors—ability, personality and social traits. Ability traits are composed of intelligence, education, training, and experience of the candidate. Personality traits centre round the power to get along with people and include the attributes of firmness, determination, stability and leadership. Under social traits, the candidate's economic position, community status, willingness to travel, and readiness to shift residence to other places are appraised. These three basic traits are examined by means of biographical records. psychological tests and interviews. Facts and data obtained from biographical records and psychological tests are put to a further study and observation at the interview stage. Effective interviews can be directed to uncover many latent qualities of the candidate as well as to unearth his disqualifying faults. In contrast to the usual method of evaluating candidates one by one by a team of interviewers, group interviews have been found to be more successful in some cases. In group interviews, candidates are brought together as a group in the specific work situation along with their interviewers who get the opportunity for closely studying candidates from various angles. As these interviews are spread over a time and are carried on in a free atmosphere, all the inner faculties of the candidate are expected to be revealed and brought to light.

TRAINING OF MANAGERS

Training may be given in a variety of ways, partly within the organization and partly through study courses at outside centres. The training methods are to be specific to suit the needs of both candidates and the enterprise. Combination of two or more methods has been found to yield satisfactory results. Some of the important methods are job assignment, job rotation, internal coaching, study courses, case studies, training positions, task force on special assignment, committees and junior boards, conferences and seminars. Methods of training vary according to the three distinct levels of management, *viz.*, supervisory training, junior-executive training and senior executive training. Supervisory training methods have been discussed in Chapter 18. Of the different training methods, the last four methods are specific for senior-executive training.

By job assignment, trainees are made familiar with the pattern of duties that they are going to undertake and with the problems and situations that they are to cope with. Necessary guidance and counselling are provided by senior managers through answering queries, making suggestions and giving explanations in all phases of the job.

Under job rotation, a trainee is experienced in different activities so as to enrich his knowledge, vision and capacity. The number of jobs and their sequence are carefully chosen by senior managers, and the trainees are kept at each job for a fairly long period so that they can get into the techniques and practices utilized by the enterprise to reach its objectives.

Internal coaching is provided by the trainee's superior to make him familiar with policies and procedures relating to the specific work. In addition, management principles and techniques, in general terms, are brought within the knowledge of trainees who are deficient in this respect. A series of written instructions is used for management teaching within the enterprise.

Study courses are arranged with a formally organized institution which imparts training in various aspects of the management study. As the management skill is in rudimentary stage in our country, special study courses appear to be more important for upgrading the management competence.

Case studies provide ample thought-provoking materials to trainees for the purpose of increasing their analytical ability. They offer also an opportunity to master the art of utilizing theoretical knowledge for practical purposes, thereby bridging the gap between theory and practice. The firsthand knowledge of decision making can be easily acquired by the trainees through selected case studies.

Training positions of "assistant to" categories have become an effective device for imparting training to candidates in many companies. Training positions in the "assistant to" or "assistant" category are deliberately created in the organization structure in addition to its requirement of essential positions, and they may be either filled or not filled according to the needs for training. By placement in such positions, a candidate can acquire some experience and become familiar with the definite duties of his superior's position. In courses of time, he can assume responsibility for it. The company can try out the candidate at any level of the structure and test his capacity.

Task force on special assignment is utilized by many companies as a training device. To broaden the experience of a managerial prospect in handling special situations or problems, the task forces are constituted by the inclusion of trainees. The task force is a body of experienced managers of those departments which have a direct interest in the special prolem or project. By taking the trainees as members of the task force, they are given the opportunity for learning to analyse special situations, to collect and process information, and finally to make creative thinking.

Committees and junior boards are constituted by some selected managers of the middle-level group in order to prepare candidates for senior-executive positions. Evaluation of policies and procedures, suggestions for improvement in work performance and innovations in products or services are some of the duties assigned to these committees and boards. The prolonged give and take discussion among the members of committees and boards also helps much towards the development of their desirable characteristics. This device for executive training is alternatively referred to *the Multiple Management Plan.*

Conferences and seminars are excellent training media for management development. Both newcomers and oldtimers can derive substantial benefits from the conference, because ideas, experience and knowledge are exchanged between the experts who deal with many intricate problems affecting their enterprises.

Appraisal of Ability and Progress. Results of the training programme are reviewed periodically to determine the extent to which managers have enhanced their competency. The appraisal of managers' ability and progress reveals the soundness of the programme and points out the specific and individual needs for further specialized training. This is the key step in management development, as it ensures availability of the right man at the right place and time. Because of this appraisal system, the managers are urged to develop themselves as fully as possible. No amount of training is helpful unless the urge to learn comes from 'within' the individual. As a straight pointer to managerial deficiencies, the appraisal scheme goes to the heart of management development and pulls up managers to a heightening level of efficiency. Furthermore, the appraisal provides the top managers with an opportunity to know the real difficulties and problems faced by all subordinates in the enterprise. Understanding of their problems and difficulties may lead to the reorganization of management structure with different authority relationships.

MOTIVATION OF MANAGERS

Motivation must begin with the managers who, in turn, are expected to motivate other employees of the enterprise. To motivate the managers, their basic wants and desires are to be satisfied by the enterprise. Some of the important wants of the management personnel are: (*a*) opportunity for development; (*b*) satisfactory spirit of the organization grounded in high standards of justice, integrity and conduct; (*c*) status, prestige and respect for the manager in the enterprise; (*d*) freedom of operation within the framework of a clearly defined charter of rights, duties and obligations; and (*e*) satisfying and rewarding job. If these wants are not fulfilled, management members are bound to develop frustration, discontent, and even bitterness in course of time, and as a result, their performance will come down to a safe mediocrity.

There are *three vital areas* in which managerial wants are highlighted by decisions for them. *First,* placement decisions with respect to managers should be made by a systematic appraisal of the managers' performance, ability, potentiality and aptitude. Always, the job must provide ample opportunity for self-development and it must be to the liking of the individual manager. Unpleasant job demoralizes managers and retards their performance. Moreover, each managerial position should be of such nature as to arouse their faith in the enterprise and their pride in the job.

Secondly, promotion decisions become crucial to managers' motivation. Promotions must always be based upon measured performance and proven ability. Appraisal of ability and progress provides pertinent facts for promotional decisions. Leaving aside performance, if promotions are based on such intangible things as likable personality, tactful behaviour or devoted loyalty, they will result in damaging the spirit of the organization, destroying the morale of management personnel, and abusing justice in the enterprise. Managers are appointed for the sole object of making adequate work performance. As such, promotions must go to the managers who have to their credit high performance. But unfortunately, idiosyncrasy of the human mind fails to see things from their proper perspective, and in many cases, promotions are given to undeserving candidates.

Thirdly, remuneration of managers should be high enough to give them necessary status and prestige in the organization. In respect of salary, what matters more is not the absolute amount of remuneration but salary differentials between managers. It has been found by one research group in the U.S.A. that one single test for the quality of management lies in salary differentials between the chief executive and his subordinates. If the salary differential is very wide between the chief executive and his next subordinate, the organization is bound to have a poor quality of management. The reason for this is that the chief executive centralizes too much power of management without delegating it to his next subordinate. And consequently, he is sure to dominate over his subordinates rather than managing them. The extent of salary differentials varies from company to company, but some generalizations can be made over it. For any good team of management, the second executive's salary should not be less than 75 per cent of the salary of the chief executive. If it is half or near about that, the organization is likely to have a bad management team. If the next executive's salary covers two-thirds of that of the chief executive, the organization fails to provide motivation. This principle of salary fixation can be extended to all levels throughout the management structure.

CONTROL OF MANAGERS

Defects of indirect control. The traditional control procedure is to apportion blame for unsatisfactory performance to some definite managers. To control managers and their activities, the managerial performance is assessed in terms of established standards, and any failing from the standard is assumed to be the result of faulty decisions made by some managers. This system of remote and indirect control fails to trace out the responsible managers in many cases and to prevent recurrence of undesirable results in the organization. There are several serious limitations of this system of control. *In the first place,* standards cannot be established for measuring all activities of an enterprise. Intangible results of research activities, sales-promotion activities, or management-development activities defy all measurements by fixed standards ; even all tangible results cannot be accurately measured by established standards. *Secondly,* poor and unsatisfactory performance may arise from some extraneous factors behind which managers can take shelter to evade their personal obligation. *Thirdly,* because of the cost and time involved in detecting the causes of unsatisfactory work, many minor deviations from the standard are ignored as a matter of practical expediency. *Fourthly,* where undesirable performances stem from the faulty decisions of top managers, no precise steps can be taken to censure their activities. *Finally,* this system of control amounts to domination by top managers, since control is exercised by them through reports and returns. Fear of penalty is the basic force utilized for compelling managers to give correct performance. But the presence of fear can never stimulate a manager to put forth his best ability. At best, it can secure certain minimum quantity of work.

Nature of self-control. These shortcomings of indirect control by domination have led to the introduction of self-control on the part of managers. Self-control is a direct control exercised by the managers themselves. Self-control implies *management by objectives* for guiding the activities of different managers. Any unsatisfactory performance is immediately made known to the responsible managers for enabling them to take the necessary corrective actions. Adequate measuring standards and precise information as to the quality and quantity of managerial performance must accompany this system of self-control. Moreover, self-control calls for the placement of qualified managers in different positions and the periodic appraisal of ability for ensuring satisfactory management.

Advantages of self-control. Self-control focuses attention on the high quality of managers and provides them with every opportunity to account for better performances. *The first advantage* of self-control is to reduce the number of errors to the minimum, because managerial position are filled after thorough testing of knowledge, experience, and ability of managers. *The second advantage* lies in the promptness and effectiveness with which errors are removed by corrective measures. *The third advantage* lies in locating personal responsibilities. Self-control prompts managers to assume all obligations for work performance because of their freedom to adopt any corrective measures for achieving objectives. *The fourth advantage* stems from the periodic evaluation of managers through pointing out their deficiencies and lapses. The weak links in the chain of managers are thus constantly removed by an arrangement for specific training.

PART FOUR
DIRECTION

Chapter 15

Human Relations and Motivation

NATURE OF DIRECTION

Direction is the sum total of managerial efforts that is applied for guiding and inspiring the working teams to make better accomplishments in the organization. Direction is a managerial function that deals exclusively with human beings of the enterprise. Management, as a specialized activity for getting the work performed through efforts of other people, is to place a high premium on the value of direction. It is direction of human beings that secures greater or lesser efforts from employees, and that makes satisfactory or unsatisfactory performances in the organization. As a result, the managerial ability is put to test by its capacity for direction. Planning and organizing are only preparations for work performance and the real work begins with the directing function of management.

Direction is concerned with securing the fullest co-operation of people for the realization of collective purpose or economic objectives of the enterprise. But co-operation from the both rational and emotional human beings cannot be extracted by the managerial command. Favourable conditions must exist both within and without the enterprise for enabling the employees to develop a co-operative attitude. The needs, desires and aspirations of people are to be taken into consideration in creating the will-to-work in them. Employees, as human beings, are subject to perceptions, beliefs and emotions which prevent them from working at their full capacity. To enlist their full measures of support and energy, the workers must be ensured of having personal and social satisfactions from the operating activity. Workers identify themselves with some social groups that emerge as the informal organization in any enterprise. As a member of informal groups, the workers always expect the furtherance of group interests. That is to say, the workers' ability and willingness to perform are influenced by their motivation. To summarize the role of direction in the words of Urwick and Brech, "It is the guidance, the inspiration, the leadership of these men and women that constitute the real core of the responsibilities of management".[1]

HUMAN RELATIONS

Research on human relations has indicated that there are some peculiar characteristics of human behaviour. These characteristics of human behaviour explain why men behave in a manner different from the expectations of managers. Study of human relations problems in the business by psychologists, sociologists and cultural anthropologists has provided important insights into the patterns of human behaviour.

Role of culture. Culture consists of the common way in which people live, think and work in any society. Culture shapes the behaviour patterns, beliefs, customs or habits among people through learning from the other members of the society. Different patterns of culture exist in different countries as well as in different localities of the same country. Business operations and managerial actions are always affected by the cultural setting of the country and of its locality. Within the organization itself, two types of subcultures are found to exist—*institutional subcultures* and *professional subcultures.* Institutional subcultures prevail between levels of the organization and professional or occupational subcultures exist among various professions, occupations or specialized activities. Some cultural practices become deeply embedded in the nature of human beings who show significant attachment to them and put values on them. In organizing operations and introducing changes, possible conflicts with cultural values and practices are to be minimized for making the human behaviour satisfactory.

Status system. Status implies prestige or standing that a person enjoys among people. Status differences exist within the business organization in the same way as they are evident in the society. Chester I. Barnard has suggested two kinds of status—*functional status* concerned with types of work and *scalar status* relating to levels in the chain of command. Both these kinds of status are ranked in terms of organizational position and authority of the incumbent and his personal qualities. Although status systems appear to be undemocratic for causing gradations between persons, their acceptance by people serves *four important purposes* in any formal organization. In the directing function of management,

[1] Urwick and Brech, *The Making of Scientific Management*, Vol. III. (London : Pitman, 1947). p. 199.

(*a*) the status system facilitates effective and authoritative communication from persons of higher status to persons of lower status ; (*b*) it provides incentives for advancement to all by way of occupying positions of greater status ; (*c*) it develops sense of responsibility among persons for avoiding status reduction and thereby losing face ; and (*d*) finally, it protects the personal integrity of those with superior ability from other persons of comparable position with inferior ability. Status is communicated through symbols like official titles, privileges or facilities. But status differences sometimes create difficulties. The social distance between organization levels may increase so as to reduce the scope for effective co-operation. Again, too much status consciousness may lead to friction among people in connection with reorganization and work assignment.

Informal social groups. The social structure of an organization includes not only superior-subordinate relationships, but also informal relationships or associations that develop spontaneously among work groups. Man is a social being and desires the friendship or association of other people. In addition to producing goods, another major function that all industrial organizations perform includes the creation and distribution of association satisfactions among organization members. The social groups are formed on the basis of status differences, and they develop their own behaviour patterns or beliefs on the background of the general culture. Important factors contributing to the formation and cohesion of social groups are the opportunity for face-to-face regular contacts, occupational or professional homogeneity, common bond of language, religion or age, and the general threat affecting the security and well-being of personnel. For the benefit of their members, the social groups provide *association satisfactions, supply information for supplementing the formal channels of communication, establish and maintain group norms of performance and ensure mutual help to one another for accomplishing the work.* When the formation and operation of informal social groups cannot be eliminated by management of any organization, it becomes essential for managers to recognize their importance and to utilize them constructively for achieving company objectives.

Perception of facts. Human beings perceive or understand facts and situations from their own viewpoints. Individual viewpoints constitute the real world or facts of life, even though they differ materially from real facts and situations. Both managers and operators may be subject to this perception of facts rather than knowing the real facts, and their behaviour is moulded accordingly. As a result, the managers' interpretation of employee behaviour and the employees' understanding of managerial action may create a gulf of difference between them on false premise. Say for example, in an organization, there are two capable subordinates who deserve promotion. Of them, Subordinate A has superior ability than Subordinate B. Considering the superior ability of A and thinking him fit for promotion to a higher job after two months, management promotes Subordinate B to an immediately available job without communicating anything to A. In such a case, A's perception of the fact becomes his real fact of life that he is by-passed by management and his services are not recognized by superiors. Several consequences may follow from this perception of the fact unless the issue comes to the surface of open discussion.

Logic and emotion. Human beings have capacity for both thinking and feeling. They are capable of logical thought in solving many problems and choosing their own work and careers. But human beings are not always logical in their action and behaviour, particularly when their feelings are affected. Emotions play a great part in shaping the actual behaviour of persons. The scientific management movement during Taylor's time banked heavily on the logical or rational behaviour of people and devised financial incentive plans on the assumption that employees would increase output in their own self-interest to earn greater pay. The study of employee behaviour over a period has indicated that human beings have some economic and non-economic needs which mould their behaviour patterns. These patterns of behaviour are frequently based on emotions rather than on logic.

NEEDS OF EMPLOYEES

All members of the organization strive to satisfy various needs through their work. There is a hierarchy of needs that exerts their influence of tugs and pulls on the employees. As one need is satisfied, individuals forget about it and other needs take its place for impelling human efforts towards their satisfaction. Psychologists have suggested five classes of needs in the order of their importance —*physiological needs, safety needs, belongingness needs, esteem needs* and *self-fulfilment needs.* The human needs which can be satisfied through working in a business organization may be stated under the followings four heads :

Physiological or physical needs. Physiological needs are essential for the survival of man and his family and the maintenance of their physical fitness. These are the basic needs for food, shelter, clothing and rest. These needs constituting prime necessities of life have priority over all other needs and act as a strong driving force for human efforts. In advanced countries, these needs have been satisfied or reasonably satisfied. But in underdeveloped countries, these are yet to be satisfied and have become a strong motivating force. Money income through wages and salaries is the principal means of satisfying these needs.

Security needs. Security needs have two aspects—economic security and psychological security. Job security is valued by individuals so that physiological needs can be satisfied in the future also through steady income. In addition to job security, the provisions for old age, sickness and other hazards of life are encompassed within economic security. Psychological security relates to those needs which call for status maintenance and personal adjustment with varying job situations in the future.

Social needs. As a social being, the man has a need for companionship and friendship with others. He desires love and affection of other people who can impart a sense of belongingness through accepting him as one of their companions. Social needs are acquired ones and vary from culture to culture. For the satisfaction of social needs, however, individuals have to depend on others. Social satisfactions derived through the fulfilment of social needs make the work enjoyable and remove monotony and boredom

Egoistic or self-expression needs. Egoistic needs are concerned with personal hopes and aspirations of individuals. Human beings desire self-assertion, personal achievement and personal growth for being esteemed by others and for improving their status. Self-assertion calls for freedom of action and independence of judgment to some extent in work performance. The reason for employee resentment against paternalistic attitude of benevolent employers can be found in the non-satisfaction of self-assertion need. Work requiring special skill and craftsmanship satisfies one's need for accomplishment or achievement. The need for personal growth is fulfilled by moving forward to higher positions and thereby making status improvement in accordance with the capacity of man. Managerial and professional personnel are particularly concerned with egoistic needs.

Frustration in Need Fulfilment and Employee Adjustment. Each individual has a hierarchy of needs with varying degrees of importance at different periods. Although physiological needs have priorities over other kinds of needs, the physiological needs can be conceived of in having different dimensions, ranging from bare necessities to luxuries. However, some minimum physiological needs, security needs and social needs can be met by management through integrating pay and adjusting formal organization and jobs with employee needs. But egoistic needs become difficult to satisfy in many organizations. Even in the case of social needs management can create situations and environment for the satisfaction of them, but the fulfilment of social needs depends upon the employees themselves. As a result, all the employee needs cannot be satisfied in any organization. When it becomes impossible to satisfy important needs, the employees develop frustration and become highly emotional in their behaviour.

Frustration in need fulfilment leads to either *emotional adjustment or emotional disturbance.* Where the employees can set their aspiration levels of needs in accordance with their own abilities and actual circumstances of the organization, the emotional adjustment is facilitated on the part of self-confident employees through appropriate organizational arrangement and supervisory leadership. But where the employees are not mentally healthy and cannot resolve their conflicts between competitive needs, frustration in the satisfaction of important needs results in emotional disturbance and undesirable behaviour.

MOTIVATION OF PERSONNEL

Organization members are to be persuaded and inspired for contributing their efforts towards the achievement of enterprise objectives. Accordingly, every member is to be provided with a personal incentive for work accomplishment. Personal incentives always centre round the unfulfilled needs of employees. Needs which are fulfilled cease to act as a motivating factor of human behaviour, and employees take such needs for granted. It is the unsatisfied need that dominates in one's thinking and provides motivation to him. The need for motivation arises in two different ways. Many jobs in business organizations are either unpleasant or monotonous in character, and such jobs have no inherent interest or challenge for motivating personnel. For achieving organizational goals, however, such unpleasant work is to be accomplished through the motivation of employees concerned. In addition, motivation is not only concerned with stimulation of efforts for minimum performance, but it has also the object of securing superb or peak performance from all personnel of the organization.

Motivation of personnel has become a very complicated task in present-day business situations. Gone are the days when motivation was viewed as a routine matter for linking work accomplishment with financial rewards. With the satisfaction, at least partial satisfaction, of financial needs, the non-economic needs have become the major stimulant to employee efforts. Management is required to adopt a number of approaches to motivation for satisfying needs of employees and creating the will-to-work in them. These approaches include arrangement for face-to-face personal leadership, establishment of communication network, provision of loose and general supervision, introduction of employee-centred control, facility of employee participation, integration of pay with social needs, adjustment of formal organization with informal associations, and enlargement of jobs and extension of decentralization for meeting egoistic needs.

EMPLOYEE MORALE

The concept of morale is somewhat slippery in nature and there is much confusion in its definition. So far business is concerned, the concept of morale is better identified with job attitudes of employees. There are different concepts of morale in different social institutions. For example, in military, morale implies pride and esprit de corps of an army unit ; in atheletics, morale is associated with self-confidence of a playing team ; in teaching, morale involves eagerness of students to learn ; and in business, morale is concerned with enthusiasm. Again, some say that morale and motivation are closely related. As morale is correlated with personal contentment, satisfaction of needs creates good morale. But satisfied needs can never act as a motivator of behaviour ; it is the unfulfilled need that motivates human beings for high performance. Employee motivation always results in high productivity, whereas good morale has flopped down productivity in many cases. For example, in two cases out of fifteen different studies, Brayfield and Crockett found a little correlation between job satisfaction and job performance, and in other cases, no such relationship existed.[2] Again, Robert L. Kahn after summarizing a series of studies undertaken by the Institute for Social Research of the University of Michigan concluded that there was an apparent absence of any positive relationship between productivity and morale.[3]

Robert M. Guion has defined morale as "the extent to which an individual's needs are satisfied and the extent to which the individual perceives that satisfaction as stemming from his total job situation."[4] Individual satisfaction is thus the keynote of morale. As the total job situation is comprised of a number of facets like formal organization, immediate supervision, fellow

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[2] Arthur H. Brayfield and Walter H. Crockett, "Employee Attitudes and Employee Performance" in *Psychological Bulletin*, Vol. 52, No. 5, September 1955, p. 402.

[3] Robert L. Kahn, "Productivity and Job Satisfaction" in *Personnel Psychology*, Vol. 13, No. 3, Autumn 1960, pp. 275-287.

[4] Robert M. Guion, "The Problem of Terminology" in *Personnel Psychology*, Vol. 11, No. 1, Spring 1958, p. 62.

employees, financial reward and job content, morale implies employee attitudes to one or more of these facets. However, morale varies from person to person, and group morale is the resultant attitude of various levels of individual morale. Although the term morale without any qualification implies good morale, it has also a negative aspect.

Benefits of morale. Although good morale does not lead to high productivity, there are other beneficial results, Good morale results in reducing the rate of personnel turnover and absenteeism. Moreover, high morale improves public relations image of the company and thereby helps the company in hiring better personnel. The task of supervision becomes easier and the company can enjoy the benefit of satisfactory relationships with labour unions.

Indicators of morale. The level of employee morale can be ascertained in three different ways—managerial observation, the rate of turnover and absenteeism and attitude surveys. Managerial observation can make a thorough and penetrating analysis of morale provided managers have the ability of observation and objectivity in observation. Very often, a systematic approach to observation cannot be adopted, and the negative attitudes of minor degrees are by-passed. As regards the second method, the rate of personnel turnover and absenteeism and the extent of grievances can indicate the level of morale in some cases. But one major difficulty is that personnel turnover, absenteeism or grievances may be caused by other factors like tight labour market, epidemic disease or strategy of the labour union. Under the third method, attitude surveys undertaken through interviews or questionnaires serve as the morale barometer. As the interview technique for surveying attitudes is time consuming and costly, the questionnaire method is ordinarily used. But the questionnaire method can become effective provided employees have the opportunity for expressing their attitudes freely, completed questionnaires are received by an unbiased agency and management is interested in following up the result of surveys by taking necessary action.

HAWTHORNE INVESTIGATIONS

The famous Hawthorne Investigations were conducted at the Hawthorne plant in Chicago of the Western Electric Company of the U.S.A., manufacturer of telephone equipment. The studies were undertaken by Industrial Research Division of Harvard Graduate School of Business Administration in co-operation with the National Research Council, the Massachusetts Institute of Technology, the Rockefeller Foundation and the Western Electric

Company. Investigations were initiated in 1924 and continued for about 8 years until the summer of 1932. At the time of investigations, the company had 30,000 employees drawn from all parts of the country with varied skills and occupations. Investigations covered at some phase (interview programme in connection with relay assembly test) about 20,000 employees. The company had an excellent record of industrial relations and personnel policy and during the previous twenty years of investigations, there had been no strikes or overt symptom of discontent. Hawthorne Investigations, or Experiments as they are alternatively called, are briefly stated under the following three phases :

Illumination Experiments. From 1924 to 1926, a series of experiments were initiated to discover the relationship between lighting in the work place and productivity of employees with the objects of finding the best level of illumination. For experiment purposes, workers were put into two groups—a test group and a control group. In one experiment, illumination levels of the test group were increased from 24 to 46 foot-candles and then to 80 f.cs., while lighting for the control group was held constant. Researchers were surprised to find the results that production of both groups increased in almost the same proportion and lighting had no visible effect on production. In another experiment, lighting for the test group was reduced from 10 to 3 f.cs., while lighting for the control group was held constant. Researchers were taken by surprise again to see that production, instead of falling, increased for both the groups. In a further experiment, when illumination for the test group was reduced to the level of moonlight, production dropped appreciably.

For the puzzling results of experiments, it appeared to researchers that some uncontrolled variables were at work. The understanding of researchers was deepened and they sensed the human element in production to be more significant.

Relay Assembly Test Room Experiments. Following the illumination experiments, a new series of experiments relating to assembly of telephone relays were carried on for five years and a half from 1927 to 1932. The object of these experiments was to measure the effect of fatigue or rest on output. For experimentation purposes, a group of six girls for assembling telephone relays was constituted and brought into a special test room. Without the assignment of any supervisor, an observer was engaged in the test room for recording results and counselling with the girls.

Output was proposed to be measured separately in twelve different periods of several weeks each under varying rest pauses. In the first three periods, the rate of output was ascertained under *normal conditions* for utilizing such output as a standard for comparison in subsequent periods. In period IV, two rest pauses of five minutes each were introduced in the morning as well as in the afternoon. In period V, rest pauses were increased to ten minutes each. In subsequent six periods, rest pauses of various lengths were introduced, and the output steadily increased with improvement in working conditions. Accordingly, it was believed that fatigue was the major factor limiting output. In Period XII, the original working conditions of 48 hours a week without rest pauses and lunch breaks were restored.

At Period XII, researchers' happy state of affairs went sour to see that output, instead of taking the expected nose drive, was maintained at its high level. It was this period which provided the opportunity for realizing the importance of human relationships in industry and which came to be recognized as the *birthplace for industrial sociology*.

Bank Wiring Observation Room Experiment. The final phase of Hawthorne investigations consisted of detailed study of the social organization and forces within the bank wiring observation group. To verify the findings of earlier experiments, this enquiry was designed to study objectively the influence of informally constituted groups on human behaviour as well as the influence of social environment on individual attitudes. With this end in view, a group of fourteen male operators was constituted by the inclusion of wirers, solderers and inspectors for wiring some telephone equipment. For experimentation, the group was brought to a special observation room and an observer was stationed in the same room.

It was discovered that the group operated as an integrated team rather than as a group of isolated individuals, that the group recognized its own informal leaders and shared common feelings and sentiments, and that the group established and enforced certain norms of performance.

Conclusions of Hawthorne Investigations. In summarizing the Hawthorne Investigation, Urwick and Brech have drawn certain conclusions which may be stated under the following points[5]:

1. *Management as a social process.* The human element predominates in management which, in its essence, is a social or human process. In the first place, therefore, all managerial principles and techniques are to be applied for motivating personnel and securing

[5] *Ibid.*, pp. 202-208.

their well-being. Secondly, every manager should adopt a sound human approach to all managerial problems in his dealing with day-to-day activities.

2. *Paving the way for informal social groups.* When social groups influence effectiveness of the work of their members, and when formation of such groups cannot be stopped, organizational arrangements are to be made conducive to the growth of such associations. Constructive utilization of informal groups adds much to the value of formal organization.

3. *Integrating pay with social needs.* That employees are not guided by logical thinking to earn more pay through greater piece-work output is evident from the widespread practice of deliberate and concerted output restriction. With the reasonable satisfaction of physiological needs, social needs become the prime motivator of human behaviour at the operating level. For satisfying social needs, financial incentives must be designed for increasing the social solidarity of working groups rather than disintegrating groups through pay competition between individuals.

4. *Reorganizing first-line supervision.* First-line supervision at the employee level has a unique role in exercising social skills of leadership. Because of their close and intimate contacts with working personnel, supervisors hold the key to employee motivation. By their listening and understanding of human problems supervisors can inspire employees towards greater performance. Effective supervision always implies leadership of the group. And leadership is of no avail without understanding individual problems of group members.

5. *Introducing employee consultation.* The desire of employees to express their views and to have a voice in determining their working conditions is related to their social needs. The sense of belonging is lost in the minds of workers unless they are informed of all important developments affecting the company and their work. To win over employee co-operation and support, the consultation mechanism is to be so designed as to bring in actively and personally all of the employees engaged in a specific area of the business.

6. *New conception of personnel management.* The techniques and tools of personnel management are secondary to the evolution of practical means of carrying out social responsibilities of management. With this end in view, the establishment of an effective two-way channel of communication throughout the organization is of great significance. For maintaining close touch between managers and operators and for keeping them informed of their mutual viewpoints, the managerial decisions and propositions are to be transmitted downward and employees' feelings, difficulties

and aspirations are to be sent upward through the two-way channel of communication.

7. *Employee behaviour.* Wherever employees suffer from a sense of grievance or dissatisfaction, they have the only way of ventilating it through restricting output, making bad quality work or violating instructions. Bad behaviour on the part of normal individuals must be recognized as an expression of underlying discontent with their working situations. In such cases, any responsible manager should know the facts of the situation and latent causes of bad behaviour rather than reprimanding employees for such behaviour.

Chapter 16

Leadership

LEADERSHIP AND USE OF AUTHORITY, POWER AND INFLUENCE

Effective direction is not possible by managers without the aid of leadership. The need for leadership would be evident if we look into the comparative use of authority, power and influence by managers in any organization. *Authority* is defined as the capacity arising from formal position to make decisions affecting the behaviour of subordinates. Authority in business organizations implies institutional power to secure subordinates' compliance with managerial orders and instructions. But institutional power is not the only form of power, there are other forms of power as well. Leaders of informal groups exercise power of restricting output without having any formal position. Again, through expert knowledge, information sources and personal attractiveness, lower-level managers may wield much power beyond their official authority of positions. Accordingly, power may be defined as the capacity to get things done or to secure results. In contrast to both authority and power, managerial *influence* is exercised through persuasions, suggestions and advice for affecting the behaviour of subordinates. In the case of influence, however, the subordinates have the option to reject or accept the proposition.

Acceptance of managerial authority by subordinates does not appear as a problem in many cases because of the system of rewards and penalties, cultural patterns of subordinates, recognition of status differences in society, belief in organization's purpose, technical knowledge and expertise of the superior and the subordinates' admiration for the superior. With the growth of social consciousness and trade unions, however, limitations to the acceptance of formal authority are increasing gradually. Chester I. Barnard has suggested *a zone of indifference for authority acceptance.*[1] Beyond the zone of indifference, authority is questioned and may not be accepted by subordinates. Authority is resented not only through open defiance in some cases, but also through the widespread practice of subtle disobedience by way of deliberate lowering of perform-

[1] Chester I. Banard, *The Functions of The Executive* (Cambridge: Harvard University Press, 1946), pp. 168-169.

ance. Managerial authority and power absolutely fail to deal with these cases of subtle disobedience. The use of leadership and exercise of influence have become the only means available to managers for affecting subordinates' behaviour and getting a little extra effort from them in such cases. As effectiveness of influence is dependent upon leadership attributes, the managerial positions are to be built around leadership qualities for successful accomplishment of company objectives.

QUALITIES OF LEADERSHIP

Qualities of leadership are many and varied, and they are not capable of being classified in a standardized way. The following theories of leadership have been advanced for indicating the diverse qualities of leadership.

The trait theory. Ordway Tead and Chester I. Barnard are prominent trait theorists who have suggested a list of leadership traits or qualities. Ordway Tead has suggested ten qualities: (*i*) physical and nervous energy, (*ii*) a sense of purpose and direction, (*iii*) enthusiasm, (*iv*) friendliness and affection, (*v*) integrity, (*vi*) technical mastery, (*vii*) decisiveness, (*viii*) intelligence, (*ix*) teaching skill and (*x*) faith.[2] Likewise, Chester I. Barnard has indicated two aspects of leadership traits: The first aspect for commanding subordinates' admiration includes outstanding qualities in respect of physique, skill, technology, perception, knowledge, memory and imagination ; the second is comprised of individual superiority in determination, persistence, endurance and courage.[3]

Subsequent studies have made the trait theory untenable. Pointing out its major defects, Alvin W. Gouldner has stated that (*a*) there are no common or universal traits of leadership, (*b*) comparative importance of different traits has not been indicated, (*c*) traits needed for acquiring leadership are not differentiated from those which are necessary for maintaining it and (*d*) it has failed to recognize the influence of situational factors in leadership.[4]

The situational theory. In contrast to the emphasis on human personality alone in trait theory, the situational theory while recognizing the importance of personality sees leadership primarily as a resultant of interaction of people in groups. As leadership roles

[2] Ordway Tead, *The Art of Leadership* (New York : McGraw-Hill Book Company, Inc., 1935), p. 83.

[3] Barnard, *op. cit.*, p. 260.

[4] Alvin W Gouldner (ed.), *Studies in Leadership* (New York : Harper & Brothers, 1950), pp. 23-24.

and skills are shaped by situations in particular groups, the situational theory finds leadership to be different in each case.

Like the traitists, the situationists also have taken one-sided view and failed to see the contributions of individual traits to the complex process of leadership. As pointed out by Thomas Gordon, situationists have overlooked the possibility that some traits influence their possessors to attain leadership success and some others increase the chances of their becoming leaders.[5]

The follower theory. Inadequacies of the above two theories have led F. H. Sanford to focus attention on followers who make leadership possible and effective.[6] Followers become dependent upon those leaders who can satisfy their social and personal needs. Leadership behaviour can be studied with reference to the leaders' attempt to satisfy such needs. But like the other two theories, it represents one-sided view. Followers cannot be studied to the exclusion of leadership situations and the personality of leaders.

Composite approach. Recent studies in leadership have adopted a comprehensive view with regard to three facets of leadership phenomenon: (*a*) the leader and his traits, (*b*) followers with their problems, needs and attitudes and (*c*) the group situation in which leaders and followers react with one another.

NATURE AND CHARACTERISTICS OF LEADERSHIP

1. *Co-existence with followership.* It is axiomatic to say that there cannot be any leader without the existence of followers. The leader exercises authority over the group, and such authority is willingly accepted by followers. Where authority is imposed over the group without the voluntary acceptance of such authority, it results in domination, not leadership of the group. Leadership cannot be conferred or ordered, it must be earned. The first feature of leadership is thus to be found in confidence, respect, loyalty and devotion shown by followers.

2. *Understanding feelings and problems.* The second characteristic of leadership lies in understanding group and individual feelings and problems of followers. The leader must try for the satisfaction of social and personal needs of his followers. The leader is looked upon as one dependable friend, philosopher and guide by followers. Accordingly, followers expect the leader to be acquainted with their individual difficulties and to take every possible measure for their well-being. This dependence or faith in

[5] Thomas Gordon, *Group-Centred Leadership* (New York: Houghton Mifflin Company, 1955), p. 49.

[6] F. H. Sanford, *Authoritarianism and Leadership* (Philadelphia: Stephenson Brothers, 1950) Chapter 1.

the leader is made to prevail among people through mutual understanding. And to increase this understanding, the leader is required to keep the followers informed of all developments affecting the group and its work, to allow participation in decision making on important matters and to practise counselling with group members.

3. *Assumption of responsibility.* The third feature of leadership is the acceptance of full responsibility for all actions and operations. As the leader exercises authority and undertakes the task of guidance, he must assume the responsibility for all actions and happenings of his followers. He must steer the group clear of all difficulties for arriving at the fixed destination. For the attainment of objectives, he is to encourage and develop the weak, to influence and control the strong, and to prepare the whole group for an effective teamwork. Moreover, leadership is to encourage the growth of enthusiasm and initiative among individual members.

4. *Objectivity in relations.* Another characteristic of leadership rests on maintaining objectivity in relations through fair play and absolute justice in all affairs of the organization. This playing fair is to be demonstrated in all decisions and actions, in communication and participation, in reprimand and commendation, or in placement and transfer. The leader's ability to inspire can be retained intact through his impartiality in all affairs and activities. Misjudgment and misdirection by the leader affect employee behaviour and reduce the result of human efforts. Members feel aggrieved and the leader loses their confidence and loyalty. Consequently, leadership fails to guide and direct the group efforts.

5. *Self-awareness.* As the leader's actions influence the behaviour of followers, the leader needs to be aware of his own preferences and weaknesses with a view to learning what impression his actions make on followers. To be effective, leadership must also be supported by technical competence and personality traits. In the absence of familiarity with technical details of the work, necessary guidance and direction cannot be given. Personality traits must be conducive to the growth of self-confidence and conviction on the part of leaders. The leader must have faith and determination to pursue a course of action to its logical ends. Without being certain and positive about the results, he cannot inspire others in following him.

6. *Specific situations.* Leadership is not an abstract skill unrelated to people and physical environment. Leadership patterns are always moulded by the composition of the group and the nature of environment. Levels of education, training and experience of group members shape the pattern of leadership in any situation. Moreover, the tradition of the company, the flexibility in operations

and the rise of emergency conditions have a significant influence on leadership roles and skills that are to be adopted in a specific situation.

TYPES OF LEADERSHIP

The nature of guidance and direction varies according to the types of leadership. Leadership may be broadly classified into personal and impersonal, formal and informal as well as into autocratic and democratic.

a. Personal leadership calls for direct and face-to-face contact between the leader and his followers in matters of giving guidance and direction. Supervisory managers at the lowest level of an organization exercise personal leadership over the working personnel. But leadership of top and middle managers over the rank and file workers becomes impersonal in character because of the lack of direct contact. That is, guiding and directing are effected by top and middle managers through subordinates in the shape of plans, orders and instructions.

b. Formal leadership rests with all managerial positions which are officially recognized as such. But informal leadership arises spontaneously from any group of human beings and the existence of such leadership may not be known in the formal organization. Informal leadership forms the cement of the informal organization.

c. Autocratic leadership calls for vesting of the power of decision making in the leader with little or no consultation of subordinates. In contrast, democratic leadership allows employee participation in varying degrees for work accomplishment through common consent or consultation. The techniques of direction are usually moulded by these two types of executive leadership which may exist at any level of management, whether top, middle or bottom.

Autocratic leadership is based upon close supervision, clear and specific instructions and commanding orders of the superior. It encourages quick decision making and prompt action, fosters unity of direction, avoids splits into factions and guides the recalcitrant and less competent subordinates towards better work accomplishment. Autocratic leadership relies upon lesser degree of delegation. On the other hand, this type of leadership demoralizes subordinates, retards the growth of their capacity and lowers the quality of plans.

Democratic leadership requires joint action through the mutual support and concurrence of subordinates in the plans. Benefits of democratic leadership include greater employee co-operation, improved formulation of plans because of receiving new ideas and suggestions, better employee morale, greater understanding of orders and instructions, as well as the highest personal growth and development. Shortcomings of democratic leadership are manifested in its absence of clear and complete instructions, the fear of unauthorized alteration or modification of the plan and the employee expectation of participation in all phases of decision making.

FUNCTIONS OF LEADERSHIP

a. *Motivating and guiding personnel.* Leadership provides the vital spark to motivation of human beings. Motivation has its roots in human relations which, in turn, can be fostered and toned up by leadership. Whenever a group of human beings desires to accomplish a common objective, the situation calls for the assistance of leadership. It is leadership that guides, inspires and directs group members for achieving a unity of purpose and efforts. Leadership alone can elevate men's visions to higher thinking and raise their capacity to a higher standard of performance. It infuses such will-to-do into the group as to secure the best contribution of human energy. Without leadership, a group disintegrates, destroys its team spirit, and fritters away its energy.

b. *Influencing and shaping the social system.* Leadership is the concomitant of all human associations in our society. Leadership emerges as the natural process in any grouping of human beings. If there is a lack of formal and recognized leadership in the group, informal leadership is bound to develop from the rank and file members of the group. Leadership persuades the group to have an identity of interest, outlook and action. Leadership provides imagination, foresight, enthusiasm and initiative to the group. It exhibits an imitable code of conduct and responsibility, prescribes a high standard of performance and stresses the importance of respect for the individual. Unsatisfactory human performance in any organization can be primarily attributed to poor leadership.

c. *Understanding subordinates and securing co-operation.* Not only the leader influences his subordinates, but he also is influenced by their problems and feelings. On the basis of information, responses and operational facts secured from subordinates, the leader's behaviour and action are modified and made ready for their voluntary co-operation. To grasp subordinates' problems and feelings properly, however, the leader requires a skill of sympathetic contact, careful listening, correct diagnosing and winning their confidence.

A true spirit of co-operation grows principally out of the manner of leaders' dealing with subordinates.

IMPORTANCE OF LEADERSHIP IN MANAGEMENT

1. *Motive power to group efforts.* Management, for getting the work done by others, is to supply leadership in the organization. As group efforts and teamwork are essential for realizing organizational goals, leadership becomes vital for the execution of work. Through leadership, managers can influence any group of human beings to adopt a co-operative and wholesome attitude for successful work accomplishment. Leadership pulls up the group to a higher level of performance through its work on human relations.

2. *Aid to authority.* Managers exercise authority in managing people of the organization and their task becomes easy wherever they are aided by leadership. There are serious limits to the use of authority and power in obtaining high performance. Authority alone can never generate the initiative and resourcefulness required in many jobs. For its main reliance on influence, leadership is essential for obtaining tangible and improved results of human efforts. Leadership contains all the essential ingredients of direction for inspiring people and providing the will-to-do for successful work accomplishments.

3. *Emphasis on human performance.* Effective leadership is needed at all levels of management from top-management down to supervisory management. Management is transformed as a social process through leadership action. It is the social skill of leadership that accomplishes objectives by mobilization and utilization of people. The best of plans can be foundered and the ideal organization structure can be shelved by the deliberate restriction of human efforts at the operating level. High performance of working people is the focal point in managerial work. And this high performance can be secured by leadership of supervisory management.

4. *Mal-adjustment with informal organization.* If management fails to provide competent leadership, informal leadership will prevail over management in controlling and regulating the behaviour of employees. Being confronted with such a situation, management fails to influence the workers, to improve their performance and to stop employee unrest. Leadership is the natural accompaniment of all associations of human beings. For their personal and social contentment, workers are perforced to rely mostly on informal leadership if management cannot provide effective leadership. Competent leadership can, however, integrate informal organiza-

tions with formal organization and utilize them constructively for achieving company objectives.

5. *Basis for co-operation.* Leadership provides the basis for co-operation in several ways. Good two-way communication, man-to-man personal relationship, use of participation and creation of opportunity for need satisfaction are meant for increasing the understanding between the leader and his subordinates of their mutual viewpoints. This increased understanding through the reactions of individual personalities promotes favourable feelings and attitudes among them.

Chapter 17

Communication

NATURE OF COMMUNICATION

Integral part of the management process. Communication involves an exchange of facts, feelings and information by two or more persons and provides the means of putting people into action in an organization. People are to be informed, guided and directed as to what should be done by them every now and then. This informing is done through the use of communication. It conveys ideas, opinions or decisions of managers to subordinates at different levels of the organization and carries back information, suggestions or responses from subordinates. Communication sets employees in individual jobs, regulates their flow of work, co-ordinates their efforts, and secures better and higher work accomplishment. Management in action comes into existence as a direct result of communication. According to Chester I. Barnard, "the first executive function is to develop and maintain a system of communication."[1] In the system of communication, managerial positions form different communication centres which receive information from various sources for passing it on to relevant points.

Flow of communication. Communication is broadly put into two categories—*general communication* from one part of the organization to its other part or parts and man-to-man, *personal communication* between superiors and subordinates. General communication is carried on horizontally between chains of command for securing co-ordination in operations and the flow of the communication can be upward, downward or sidewise in the structure. Personal communication provides the basis for action and co-operation in the enterprise and remains confined between persons within a chain of command. The flow of this communication is either upward or downward. Communication between managers of two parallel departments involves general communication in this sense, not personal communication as they do not come under the same chain of command.

Two-way personal communication. Communication between persons implies both transmission and reception of a message. As

[1] Chester I. Barnard, *The Functions of The Executive* (Cambridge: Harvard University Press, 1938), p. 226.

a vehicle for message, communication involves two minds and has a two-way effect in the course of its transmission. The sender of communication conveys something which may or may not be properly understood by the receiver. Even when it is properly understood, the receiver may either take the desired action or develop certain reactions in response to such communication. Communication fails in those cases where the content is misunderstood by the receiver and where some adverse response emanates from him. To make the communication complete and effective, there should be clear understanding on the part of the receiver without the growth of any unfavourable reactions in him. This two-pronged concept of communication is vital for the successful operation of any enterprise. In communication with his subordinates, the manager must study both their understanding and reaction. Without considering responses or reactions of employees to the communication, the managerial task of guiding and directing people remains unfulfilled.

Methods of communication. Communication can be effected through several methods, such as spoken words, written words, physical expressions or significant gestures. The receiver may also indicate his understanding, acceptance and reaction through any one of the methods or through the maintenance of silence. Whatever might be the method adopted, there are four important steps in all communication. *First,* the communicator should have clear vision about the facts, opinions or information he wants to convey. That is, he must get his ideas crystallized by thinking through the purport and purpose of the communication. *Secondly,* for making the communication understandable and acceptable to the receiver, the wording, timing and manner of communication demand serious considerations on the part of the communicator. *Thirdly,* actions and behaviour of the communicator should be consistent with his words. The old saying "Actions speak louder than words" is self-explanatory. Accordingly, managers have to insure that their actions and behaviour carry the same message as their words. *Finally,* to ascertain understanding and acceptance of the receiver, a follow-up to communication is to be arranged by the communicator.

Distortion in communication. In the course of transmission, distortion in communication takes place for a number of reasons. Semantic difficulties, organizational distance, inadequate attention and inferred meanings appear as potential barriers to authentic communication. (*a*) The same words do not always convey the same meaning to both parties. (*b*) Organizational distance is responsible in many cases for causing alterations in communication. As the message passes through several points in the communication channel, certain details may be omitted or changed. In the upward communication, subordinates try to make the message favourable for creating a good impression of superiors about themselves. In the downward communication, superiors suppress part of the message on confidential grounds or on considerations of irrelevancy. (*c*) Managers are forced under circumstances to pay inadequate attention to communication. Because of their dealing with a vast amount of communication, managers make selection between important and unimportant messages or between usual and unusual information. (*d*) Pre-conception and emotion always colour one's understanding and interpretation of communication and result in inferred meanings of such communication.

IMPORTANCE OF COMMUNICATION

1. *Promotion of managerial efficiency.* In pointing out the importance of communication, George R. Terry says, "It serves as the lubricant fostering the smooth operation of the management process."[2] As management is a task of getting the work accomplished through efforts of other people, it is communication that can keep people working in accordance with desires of managers. Management members deal with people in giving orders and instructions, in allocating jobs and duties, in approving work and recognizing performance, in explaining objectives and policies, and in seeking their effective co-operation. In all positive and negative actions, managers have to move with the help of communication in their dealing with human beings. Accordingly, the efficiency of a manager lies in his ability to communicate with other people.

2. *Co-operation through understanding.* Good communication induces human beings to put forth greater efforts in their work performance. The importance of the work is required to be mentally accepted before the doing of such work. That is, the will-to-do must precede the actual doing. To provide this will-to-do, communication creates understanding and acceptance on the part of employees. As there can be no faith in an activity without understanding it clearly, communication results in satisfactory performance through creating this faith. In short, effective communication increases understanding of employees, gains their willing acceptance and leads them to greater efforts.

3. *Basis for leadership action.* Leadership action is impossible without communication between the leader and his followers. The leader can exert his influence only through conveying ideas, feelings, suggestions and decisions to his followers. The followers too can

[2] George R. Terry, *Principles of Management* (Illinois: Richard D. Irwin, Inc., 1960), p. 423.

convey their responses, feelings, attitudes and problems to the leader through the medium of communication. The two-way personal communication is essential for maintaining man-to-man relationship in leadership. Accordingly, effectiveness of leadership is greatly determined by the adequacy and clarity of communication.

4. *Means of co-ordination.* Communication helps in securing desired co-ordination of enterprise operations by communication network throughout the organization. As teamwork is essential for the accomplishment of jobs in many cases, co-ordination appears to be of paramount importance. For the purpose of co-ordination, managers keep the group fully informed of all facts and situations relating to the work. Secrecy creates suspicion and separates people; common understanding of common problems unites them for showing a better record of their performance.

5. *Provision of job satisfaction.* Mutual trust and confidence between management and operatives can be increased by the communication of what the manager wants and what the employees perform. A clear-cut understanding provides job satisfaction to employees, creates their confidence in the ability of managers and promotes their loyalty towards the enterprise. That is to say, effective communication satisfies personal and social needs of human beings and stimulates their job interest and enthusiasm.

METHODS OF COMMUNICATION

There are three important methods of communication, *viz.,* (*a*) verbal communication, (*b*) written communication, and (*c*) gestural communication. Of them, gesticulation is often used as a supplementary method of communication. A handshake, a pat on the back or like other method of encouragement is an attractive and powerful means of communication. A good sense of humour may be worth a thousand words in obtaining employee acceptance of communication.

Verbal communication is more effective than the written in conveying feelings and non-standard problems. Moreover, opportunities are available for ascertaining immediate response, calling further explanations and having added considerations. Where the time for communication is short and the content is abridged, verbal communication is used for near-by subordinates. In emergency situations, verbal communication becomes the natural one. But where the receivers are distantly placed from the communicator, or where the content of communication is lengthy and meant for a large number of persons, written communication has to be adopted for the purpose. Other difficulties of verbal communication are that real meaning is conveyed by manner or tone of voice and facial expressions or accompanying attitudes, that receivers' attention and perception are guided by their self-interest and that receivers' understanding is coloured by emotions and attitudes.

Written communication constitutes the greatest medium for conveying information in an organization structure. Standing orders and instructions, progress reports and returns and many other standardized forms and official bulletins are made out in writing, and they are widely used in almost all enterprises. Written communication can be transmitted to numerous persons. It can also be used for record and reference purposes. Unauthorized alterations in content can be prevented through the use of written communication. Briefly, written words suit physical objects and standard situations and are common for general communication between chains of command, while personal communication between superiors and subordinates is mostly carried on by spoken words. Written communication to achieve its purpose must be drafted clearly, simply, accurately and convincingly. In other words, each written communication must be based upon four essential c's—clear, correct, complete and concise. Communication should be written in such a language as it becomes easily intelligible to those for whose benefit the writing is made. It must use known words and familiar phrases and avoid official jargons or ambiguous terms. That is, communication is to be sent out always with an eye to receivers' understanding.

BUILDING COMMUNICATION NETWORK

Need for multiple channels. Prompt and accurate flow of information throughout an organization is crucial for co-ordinated operations of any enterprise. For this, the sole reliance on the chain of command for funnelling all information is not practicable. There are a number of shortcomings of the single channel of communication. *First,* the sheer mass of information that is to be exchanged in most business calls for direct communication between operators without managerial attention. An executive becomes a potential bottleneck for the flow of essential information if he attempts to transmit all communication including the routine and standard information. Expediency demands in such situations that managers should allow standard information to flow between operators without their intervention. *Secondly,* in the process of transmitting communication from link to link in the chain of command, errors creep into the message because of the deficiency of human beings as a poor transmitter of ideas. This shortcoming can be overcome by allowing people of different departments or sections to make direct communication among themselves or by cutting down levels and social distance of status distinction. *Thirdly,* superior-subordinate relationship is a very sensitive one and a protective screening takes place in communication between them. Because of the subordinates' dependence on superiors for reward and need satisfaction, every communication that passes from subordinates to superiors is sweetened, brightened or otherwise made favourable. Likewise, the superior withholds part of the information in communicating with his subordinates through his own interpretation of the message as useless for them or as confidential one.

As communication through the single channel of command is slow, burdensome and distorted, companies are compelled to establish numerous channels of communication for funnelling information in several directions. Standard procedures are designed for distributing operating facts throughout the organization in much the same way as bloodstream carries oxygen through numerous arteries to all parts of the human body. These standard procedures indicate *what* to communicate, and they also specify *when* and to *whom* the information is to be sent. Keeping the chain of command reserved for flowing formal orders, instructions and other essential information, both command and communication have been made effective in modern businesses. Multiple channels serve as the avenue for communication and they are supported by standard forms, summarized reports, official bulletins, surveys, audits and other formalized techniques for carrying information.

Integrated data processing through computers. Management information systems have been designed on a new outlook with the introduction of electronic computers. The computer centres collect data or raw information from several sources, store such data in memories, combine new data with others held in store, process data through mathematical computations and finally distribute the required information to different decision points. Because of their startling speed and dazzling means of handling information, computers have modified the communication system to some extent in large-sized enterprises which have set up these costly devices for centralized handling of information. With a view to providing every manager with better and faster information at a cheaper cost, the new communication system calls for ascertaining who needs what information. However, the basic character of communication networks will not be changed by this device and companies as yet have made a limited use of integrated data processing through computers.

Use of the grapevine. One of the important functions of informal associations is to communicate official information and messages among their members. Informal associations in the role of communication are referred to as grapevines. The grapevines supplement and amplify formal communication emanating from official sources. As a matter of fact, much of what any organization member knows is gathered from the grapevine. A grapevine works with surprising speed in transmitting information to its members. Being spontaneous in its growth, the grapevine has no stable membership. It spreads rumours as well as correct information. Since a manager cannot eliminate grapevines, it is prudent to use them constructively in three ways. (*a*) The best method to stop rumours and half-truths is to furnish complete and accurate information to members of the grapevine. (*b*) As grapevine is more effective in transmitting some information than formal channels, it can be utilized for spreading any information informally. If leaders of informal organization can be recognized, they can be kept well-informed for assuring accuracy of communication. (*c*) By listening to what grapevine says, managers can keep themselves in closer touch with the feeling, thinking and attitudes of subordinates.

PERSONAL COMMUNICATION AND USE OF ORDERS AND INSTRUCTIONS

Personal communication between superiors and subordinates takes place in both upward and downward directions. Downward communication is mostly concerned with giving orders and instructions and has been subjected to much study and thought. But upward communication often proves more troublesome and remains greatly neglected. Peter F. Drucker points out, "keeping top management informed is the most elusive administrative problem of the big organization."[3] According to him, formalized techniques are inadequate for the purpose, because top management needs to get the *feel* as well as the *facts*.

Orders. Managerial orders form an important part of downward communication. Orders contain directives as to what is to be done or not to be done in the execution of work for realizing objectives. Command authority is exercised in the organization through the medium of orders. Irrespective of their levels, all managers have to give orders to their subordinates.

Types of orders. Orders given by top managers are general orders or directives. These general orders are broken down into specific orders through interpretation and judgment on the part of managers at the middle level of the organization. Supervisors receive these specific orders which, in turn, are translated into definite orders

[3] Peter F. Drucker, "Big Business and the National Purpose" in *Harvard Business Review*, Vol. 40, No. 2, March-April 1962, p. 55.

for their execution by non-management members of the enterprise. The chain of orders is thus completed with three links—*general orders, specific orders and definite orders.* However, orders can be divided in several ways from other standpoints.

Requisites of good order. Like other communication, orders must be precise, accurate and complete. If orders are not given in a clear way, they cannot serve as directives to be acted upon. The receiver cannot be blamed for faulty execution of an order which he does not clearly understand. The clarity and intelligibility of orders must be ascertained thoroughly prior to the giving of an order. With this end in view, managers of many companies ask their subordinates to repeat back the verbal orders so as to gauge their understanding. Moreover, verbal orders are usually confirmed in writing to vouchsafe the accuracy of directives. Orders to be effective for execution must be complete in all respects. Apart from *what* is to be done, each order should indicate *when, how,* and *where* it is to be executed. *Who* is to do it, and a statement explaining *why* it is to be done become necessary in some cases and add to the understanding of the order receiver.

Enforcement of orders. The test of an order lies in its successful execution. The order is not executed properly in many cases either because of lack of understanding or because of deliberate flouting of authority. The order giving does not ensure that directives will be followed by subordinates. Subordinates may be forced to execute orders by holding out the threat of punishment or actual punishment ; but such threats are not productive in those cases where faulty execution is deliberately made by employees. For the effective execution of orders, managers are to arouse the interest of employees and to win over their co-operation. Employee interest and co-operation can be obtained from a broader approach to the task of order giving. The order giver should explain the importance of orders and of their execution in the context of background information and contributory situations. Moving in this way, employee understanding and acceptance of orders can be secured for arousing faith and belief in them. Of course, some employees are accustomed by their temperament to obeying orders if the order is within their comprehension and ability. No difficulty is encountered in dealing with such people. But there are some recalcitrant members who are to be influenced and guided in the enforcement of an order.

Instructions. Management guidance of people implies the provision of managerial help and assistance to employees. Such help or assistance is provided to operating people through the use of instructions. A series of instructions is issued by managers, particularly at the supervisory level, to pilot the work to its logical conclusion. Any deviation from the standardized pattern is set corrected by remedial instructions. In the case of new jobs or new methods of operation, it is instructions that can coach and train employees about the manner of doing jobs. The follow-up to work execution is an important managerial responsibility. And this responsibility can only be discharged by issuing instructions to working people as to how they can improve their performance.

The communication of instructions has become very important in all progressive enterprises. The constant search for improvements has resulted in making innovations in products or services, in simplifying work or process of production, and in standardizing methods of operation. The adoption of new practices becomes easy in those cases where employees can be informed quickly and made accustomed to such practices with the help of instructions. The application of uniform methods by a thousand employees throughout the enterprise can be readily secured by instructions. Instructions guide the employees to direct their efforts towards the attainment of company objectives. Moreover, instructions help operators to become familiar with all work problems and difficulties that may appear at the time of executing the work.

Chapter 18

Supervision

NATURE AND IMPORTANCE OF SUPERVISION

Meaning and significance. Supervision means overseeing employees at work. Overseeing is to be done at all levels of management from top to bottom. Supervisory management oversees the work of operators, while top and middle managers remain busy in overseeing the work of management members. Thus supervisors alone, of all management members, are concerned with directing and guiding non-management members of the organization. Because of their exclusive dealing with workmen, the supervisors are known as first-line managers. These first-line managers are to be witnessed not only in the sphere of production, but in all other activities as well. Supervisors are known by different names, such as foremen, chargehands, overseers, chief clerks, head assistants or section chiefs.

Position and functions of supervisors. Supervisors are line executives with command authority. They are entrusted with the task of securing work accomplishment from employees in accordance with predetermined standards of performance. For purposes of such work accomplishment, supervisors give orders, issue instructions, prescribe methods, determine procedures, explain company policies and inspire human beings. In other words, they are to exercise leadership and communicative skill for obtaining the desired performance from the side of employees. Duty and authority for the work are delegated to them by the superior line executive, and supervisors remain accountable for performance to the delegator. The process of delegating managerial work is stopped with the supervisory level of management. And supervisors are to see that work is executed in the best possible way by operators. The supervisor provides employees with all necessary help or assistance in executing their jobs properly. For the provision of these facilities and assistance, supervisors are aided by a number of staff services like engineering, cost accounting, inspection, production planning, personnel, etc.

Role of supervisors. Supervisors are in constant daily touch with operators and hold the key to effective direction of human beings. Through their influence on work environment and their adoption of wholesome attitude, supervisors can tremendously contribute towards enlisting full support and collaboration of employees. On the contrary, supervisors may destroy the will-to-do and enthusiasm on the part of workers. Even the sincere efforts and splendid work of top management may go unrewarded if supervision is faulty. The supervisor represents management ideas, thoughts and desires to working personnel, because the entire managerial duty in regard to work performance flows through supervisors. The supervisor forms the link between management and operators, and accordingly, has a two-fold obligation for satisfying the company as well as employee needs in the organization.

CHANGING PATTERN OF SUPERVISORY RESPONSIBILITIES

Status reduction. The extent of supervisory responsibilities has varied from time to time in different periods of industrial history. Up to the end of the nineteenth century, supervisors were granted wide authority over people under their command. All personnel matters relating to hiring, firing, compensation and disciplining were handled by them in the absence of a separate personnel department. It was also within the powers of supervisors to take decisions for training, placement and promotion of employees. But from the beginning of the present century, supervisors have been divested of their powers through the introduction of several specialists or staff men. Personnel matters are mostly handled nowadays by the personnel manager, works organization is settled by the methods study man or industrial engineer, production routing and scheduling are effected by the production controller, and inspection and quality control are ensured by the staff specialist. At present the supervisor is supposed to reissue orders issued by the works manager with a view to inspiring employees and getting the work accomplished according to the schedule.

Anomalous position. Supervisors are line managers, and as such they are directly accountable for the attainment of company objectives. For the proper execution of work by people under their command, supervisors are provided with necessary staff advice and service. From the overall organizational standpoint, the personnel officer, the industrial engineer, the cost accountant, the production controller, inspection specialists and others are staff men who should confine their activities to giving service and tendering advice to the line position of the supervisor. But in actual practice, supervisors have been overshadowed and degraded by mystic power of staff men. As if the work would be better accomplished by the mere perfection of staff advice and service. The reason for this unhappy situation is to be found in the poor position and status enjoyed by supervisors in the organization. In comparison with supervisors, staff men are highly qualified, well paid and better placed in the organizational set-up. As a result, staff men control the supervisor rather than giving him necessary aid in the accomplishment of work. The power of the supervisor has been seriously curtailed. Supervisory management is asked to discharge the major responsibilities of work performance without the support of corresponding authority. This is an organizational anomaly. Under this system of management, performance is bound to come down to a mediocre or low level in spite of excellent services rendered by staff executives and service departments.

Recognition of supervisory role. Progressive enterprises have become awakened to realities of the situation and have taken steps to restore the pristine glory of supervisory management. Recognition of the key role of supervisors has been amply justified by better results of human efforts. Supervision, in the main, involves human problems and can be best effected by the exercise of leadership. To make supervisors leaders of the working teams, they must be vested with requisite authority, power and status. To arouse willing and spontaneous collaboration from the side of employees, an atmosphere of mutual trust and belief is to be created by a spade-work on the part of supervisors. Failure to provide leadership at the supervisory level has resulted in making the employees frustrated, indisciplined and unruly.

FACTORS OF EFFECTIVE SUPERVISION

a. Human relations skill. Supervision is mainly concerned with instructing, guiding and inspiring human beings towards greater performances. For purposes of direction, the supervisor has to rely on leadership, communication, counselling and other determinants of human relations. There is no other better stuff than leadership for influencing the group work of human beings. Personal and social needs of employees can be merged in, and harmonised with enterprise needs by the permeating effect of leadership. Human emotions, feelings, or sentiments are moulded by leadership for obtaining peak performance from employees. Counselling imparts a feeling of individual recognition on the part of employees and keeps them informed about all developments. Likewise, communication solves some of the human problems. As communication is based upon employee understanding and acceptance, the supervisor is required to prepare the ground through asking, listening and ascertaining individual problems of operators. Briefly, human relations is mostly determined by activities and attitude of supervisory management.

b. Technical and managerial knowledge. Familiarity with the technical aspect of work increases the supervisory competence. Without the technical knowledge about the work, whether such work relates to production, sales or office activities, no supervision can become thorough and satisfactory. Guidance implies a complete understanding of all work problems. Besides the technical knowledge, the supervisor must have managerial vision to comprehend company policies and practices in their correct setting. The greater the management experience and skill of a supervisor, the more effective will be the result of supervision.

c. Leadership position. The supervisory job is to be organized on such a basis that a real position and status can be given to the supervisor. Supervisors are to be vested with necessary authority for enabling them to exercise leadership over the group and to influence and direct employees. The duty of supervisors must be made commensurate with their authority so as to make the job of supervision a satisfying, rewarding and challenging one.

d. Improved upward relations. Top management must pay adequate attention and thought on supervisory jobs to ensure a good quality of supervision. Problems of supervision usually arise from omissions, mistakes and negligence on the part of superior managers. Hence, for any improvement in supervisory position, supervisors' upward relations must be well established, and they should be regularly allowed to present their views and suggestions to top executives in regard to people and work performance. As the matter stands to-day in most cases, supervisors are refused to have any direct access to managers of the upper level. This isolation between top management and supervisory management has made the two-way communication ineffective in many enterprises.

e. Relief from non-supervisory duties. To make the supervisory duties purposeful, supervisors are to be relieved of many routine activities that divert their attention from the real job. Submission of numerous reports and returns by supervisors is, to say the least, unnecessary for the job of supervision. On the one hand, the number of returns or reports can be reduced, and on the other, essential reports can be secured by top management through the employment of staff assistants. Moreover, job training of employees is done by the supervisor in many cases ; this duty may also be assigned to job instructors for permitting supervisors to concentrate on directing function of management. However, many personnel functions that are discharged by the personnel officer are to be reassigned to supervisors for giving them *power with people* or *power through people.* Functional authority of personnel executives is to be kept confined within a limited sphere.

f. General and loose supervision. The attitude of the supervisor must be compatible with the job of supervision. It is inconsistent to exercise leadership and to effect excessively close supervision at the same time. Leadership implies mutual understanding and confidence between the leader and his followers. The leader must allow individual freedom and initiative for pursuing a common course of action. Obviously, when the supervisor tends to rely on close supervision, leadership must be wanting in such situations. Experience of companies shows that general and loose supervision is more productive than close supervision wherever supervisory leadership exists. The supervisory attitude gives tone to such leadership. A wholesome attitude on the part of the supervisor makes him a dependable, honourable and elevated leader before the eyes of employees. Last but not the least, the supervisor must demonstrate his impartiality and integrity of character in all decisions and actions, orders and instructions, words and examples.

SELECTION AND TRAINING OF SUPERVISORS

Supervisory qualifications. Varied and numerous are the qualities required of a supervisory candidate. Technical knowledge, human relations know-how, communicative skill, analytical ability, judgment and emotional stability are some of the important attributes of the supervisor. The first and foremost attribute must, however, be leadership skill. As leadership attribute cannot be fully acquired by training and experience, the supervisory candidate must be endowed with the qualities of a leader. The supervisor is a manager, rather a key management member, who is required to undertake the doing functions of management. The actual work is accomplished under the direct care and control of the supervisor. All managerial efforts percolate through supervisors and are distilled into supervisory performance. Hence, for the selection of supervisors, the same considerations that are necessary in the case of other managers are equally applicable.

Methods of training. There are several methods of supervisory training, e.g., conferences and lectures, study courses and case studies, apprenticeship and role playing, supervisory letters and manuals, etc. Of the different methods, *conferences and study courses* are designed for making the candidates familiar with supervisory duties, human relations know-how and the management process. The candidates are given a broader understanding of expected problems and a background knowledge of work situations. *On-the-job training* through apprenticeship is rather indispensable for grooming new candidates into successful supervisors. Supervisory candidates are placed in charge of senior supervisors who give instructions, answer queries and explain the techniques of work. The job training becomes very effective in those cases where it is coupled with *role playing*. In the presence of candidates, senior supervisors play out different roles of supervision. Role playing demonstrates clearly requirements and technicalities of the job of supervision and prepares the candidates for acquiring insights into the problems of supervision. Role playing is usually followed by group discussion for obtaining better results of training.

Supervisory letters and manuals. For the newcomers as well as for the oldtimers, *supervisory letters and manuals* serve as useful methods of training. Supervisors can be made acquainted with all topics of supervisory interest through the medium of specially written letters. These supervisory letters are distributed among supervisors for keeping them informed about all current developments and for improving their specialized knowledge. Relevant subjects are included in the letters and are presented in a variety of ways for easy understanding and remembering on the part of supervisors. *Supervisory manuals* are also used by some companies for the purpose of giving a written account of supervisory duties. These manuals contain objectives and policies, rules and regulations of the company as well as authority and organizational relationships of supervisory positions. Manuals, as position guides, help supervisors in becoming familiar with their specialized field of work within a short period.

T. W. I. programme. A comprehensive programme for Training Within Industry (T. W. I.) has been developed during World War II for the systematic, planned and analytical instructions of supervisors. The T. W. I. programme comprises four different courses in respect of the job—*Job Instruction Training* (J.I.T.), *Job Methods Training* (J.M.T.), *Job Relations Training* (J.R.T.) and *Job Safety Training* (J.S.T.). The J.I.T. course is intended for making the task of job learning simple on the part of supervisors. The J.M.T. course equips them with a knowledge of improving methods through the breakdown of the job into component parts. The J.R.T. course guides supervisors in maintaining proper relations for securing teamwork and group efforts from the workers. The J. S. T. course seeks to arouse safety consciousness and train supervisors for detecting dangers and dealing with them.

Employee Training by Supervisors. Job instructions to employees are a part and parcel of supervisory duties. Although employee training is usually arranged by the personnel manager, the supervisor has no escape from this responsibility for the sake of improved work performance. *Training on-the-job* adds to employee interest, satisfaction, encouragement and confidence. Accordingly it helps in the maintenance of employee morale. Besides, there are many advantages of employee training. Better utilization of machines and materials, increased production of quality goods, reduced amount of supervision and overhead cost, and effective co-operation are some of the important benefits. Consequently, training has long been a recognized practice in industrial enterprises.

Chapter 19

Discipline

NATURE OF DISCIPLINE

Discipline means working in accordance with certain recognized rules, regulations and customs, whether they are written or implicit in character. Such orderly working may be the result of *self-imposed discipline* and *command or enforced discipline*. In the case of self-imposed discipline, employees regulate their own activities for the common good of the organization. Employees uphold common interests over their individual interests and adopt helpful and co-operative attitude for the accomplishment of their assigned jobs. This spontaneous desire for collaboration springs from their acceptance of such disciplinary rules as are believed to be necessary in any joint and co-operative venture. As a result, human beings are induced to work for a peak performance under self-imposed discipline. As opposed to it, enforced or command discipline is the result of imposition from the top. The manager exercises his authority to compel employees to behave in a particular way. By the use of penalty or the threat of penalty, the manager secures individual compliance with established rules and regulations. Discipline obtained by fear is not a successful way of doing things and has an inimical effect on the morale of workers. Enforced discipline establishes a poor spirit in the organization and secures the minimum work performance.

Self-imposed discipline is by and large more desirable than enforced discipline. But there may be occasions for using enforced discipline in an enterprise. Recalcitrant employees may not be influenced by logic and facts of the situation. So long as emotions and sentiments play a greater part in human performance, managers will need the assistance of enforced discipline. However, the lesser the extent of enforced discipline, the better for the enterprise.

IMPORTANCE OF DISCIPLINE

a. Creation of favourable environment. Human performance is greatly influenced by the state of discipline in an organization. For the smooth running of affairs and prosperity of an enterprise, discipline is absolutely essential. Good discipline permits human beings to make their maximum contribution for the attainment of ultimate objectives. Discipline creates a climate under which individual excellence is encouraged, group performance is improved, and harmonious working is developed. In the absence of discipline, productivity goes down and chaos prevails in the organization.

b. Establishment of code of conduct. Discipline sets a pattern of acceptable behaviour and performance on the part of human beings. It provides a code of conduct for the guidance of the group. It facilitates individual performance, but limits one's freedom in interfering with the activities of others. Individual job satisfaction, employee co-operation and proper working relations are the usual aims of discipline. Violation of discipline is dealt with by disciplinary actions. These disciplinary actions help the wrongdoer to rectify his faults and inform others as to what acceptable and desirable standards of performance are. Formalities of discipline are spelled out in order to regulate human conduct in such a way that it becomes compatible with group working for a common purpose.

c. Morale building. Discipline is necessary for an ordered way of life in all groupings of human beings. Human nature is not averse to discipline; on the contrary, most individuals work better and feel happier under disciplinal conditions. Good discipline promotes individual growth, develops human capacity and stimulates the will-to-do. The modern conception of discipline is not based on chastisement, castigation or penalty. Rather it is based on complete mutual understanding and co-operative attitude. Imposition of punishment like fines, suspensions, demotion or dismissal is kept as a potential threat against wrongdoing. The lesser the reliance upon actual punishment, the better will be the morale of human beings. Punishment fails to secure the willing support and greater performance from human beings; it results in obtaining a certain minimum work so as to get by with the situation and to avoid the imposition of further penalty in future.

CAUSES OF INDISCIPLINE

The statement that "discipline is what leaders make it" is the succinct observation of Fayol on managerial responsibility for discipline. Indiscipline stems in most cases from managerial faults and lapses. Even where indiscipline results from faulty attitudes and behaviour, the responsibility lies with the manager because of his power of influencing, controlling or eliminating attitudes. The common causes of indiscipline may be stated as follows:—

1. *Varying disciplinary measures.* Disciplinary actions must be consistent enough to provide equal justice to all concerned. At different times and for everyone in the organization, the same stan-

dards of disciplinary measures are to be taken ; otherwise disciplinary actions may give rise to growing indiscipline in the future. Taking of a disciplinary action involves judicial function on the part of managers. It is also a stricture on the nervous system of the human organization. Accordingly, managerial actions in regard to discipline must be free from any bias, privilege or favouritism.

2. *Deferring settlement of employee grievances.* Employee grievances cannot be staved off by deferring or neglecting their solutions. The known grievances are to be enquired into and settled by managers within a reasonable period. Neglect of grievances often results in reduced performance, poor morale and serious indiscipline among employees. Strikes or work stoppages stem in many cases from the utter neglect of employee grievances.

3. *Misjudgment in promotion and placements.* Misjudgement in personnel matters of promotions, placements or remunerations contributes to the growth of indiscipline in an enterprise. Cases of misjudgment are widely circulated, hotly debated and carefully noted by employees. Misruling people and expecting discipline from them are obvious contradictions; it goes against the basic human needs of employees. Furthermore, sometimes an employee is placed in a job much below his capacity or intelligence ; such wrong placements make the employees discontented, thus giving rise to the disciplinary problem.

4. *Lack of a well-defined code of discipline.* The requirements and formalities of discipline are to be communicated to all employees in a clear and simple language. The code of discipline should encompass sufficient rules, regulations or customary practices for the guidance and information of employees. To be effective, the code of discipline is to be adopted through the joint consultation between managers and the managed. Adequate employee informing of disciplinary rules promotes the development of self-imposed discipline on the part of human beings. In the absence of a code of discipline, disciplinary actions emanate from personal whims and temperaments. As a result, disciplinary actions vary between periods of time or between managers. Under such a situation, employees cannot work in conformity with disciplinary rules unless they appease the individual manager.

5. *Misrule through dividing people.* Henri Fayol has pointed out that "dividing enemy forces to weaken them is clever, but dividing one's own team is a grave sin against the business." The managerial efforts in securing teamwork and in establishing team spirit are entirely wasted by sowing seeds of dissension among subordinates through the use of secret-police method. Many managers obtain secret information about other employees through the help

of their trusted assistants. This spying on employees is only productive of a vicious atmosphere and of undesirable discipline in the organization. No amount of management skill is necessary for dividing people, but integrating people into a team is the challenging task of sound management.

6. *Inappropriate supervision.* Supervisors have a direct contact with employees, and many disciplinary problems have their origin in faulty supervision. Through their everyday dealing with people, supervisors can influence employees in adopting co-operative attitudes, in working within the framework of disciplinary rules, and in contributing their mites towards the attainment of company objectives. As the maintenance of discipline is the core of supervisory responsibilities, indiscipline may spring from the want of the right type of supervision.

7. *Inattention to personal problems.* Actions or reactions of people are the direct outcome of their attitudes. The way of thinking and feeling about the job is expressed in attitudes of human beings. Attitudes influence human beings and their activities. Discipline also is a by-product of these attitudes. The attitude in turn is determined by the domestic or personal problems of employees. Understanding of the personal and surrounding circumstances of the individual as well as counselling with employees is necessary for the maintenance of discipline. Inattention to individual problems may thus give rise to indiscipline.

MEANS OF EFFECTIVE DISCIPLINE

For the maintenance of effective discipline, contributory causes of indiscipline are to be removed and favourable conditions are to be created. As they are basic to the maintenance of discipline, no amount of managerial efforts will prove successful unless attention is focussed on them. Particularly, the following four practices are vital for the maintenance of discipline.

A. **Condonation of Past Offences.** The real purpose of disciplinary actions is to prevent the recurrence of future offence on the part of the violator of discipline and to inform others as to what standards of discipline are. As a preventive measure, disciplinary actions do not call for any vindictiveness or demonstration of managerial authority. By the infliction of penalties, employees are never inspired for high performance. As a matter of fact, so long as past events are allowed to dominate the career of employees, they make the minimum performance just to escape any further penalty in future. On the other hand, highly beneficial results can be obtained by condoning past offences after a prescribed time limit. An opportunity must be given to employees to rectify their faults. To deny opportunity to improve one's performance results in demoralizing human beings. A good conduct and a high performance shown by the wrongdoer over a period should enable him to have a fresh start in life through the expunction of past offence from his service record.

B. **Agreements as to Disciplinary Rules.** Disciplinary rules should not be adopted by the unilateral action of management. As employees are vitally affected and they are supposed to have guidance from the rules, the code of discipline containing rules and regulations should be framed with the approval or knowledge of employees. Usually, labour unions represent employees in matters of collective bargaining, and trade agreements are drawn up through the joint discussion between managers and employees. These trade agreements include rules and regulations in respect of discipline and specify the grounds under which the company can take more serious disciplinary actions like dismissal, demotion or fines. Because of the employee participation in deciding rules, unhappy consequences of disputes can be avoided, and self-imposed discipline can be practised in the organization. The code of discipline cannot prescribe the actual disciplinary action that should be taken in a specific case. Each case is to be decided according to its peculiar circumstances and facts. But the code of discipline can give a broad indication of the disciplinary measures by mapping out general limits of punishment. To avoid troubles, the contents of the code of discipline should be communicated to employees so as to obtain their understanding and acceptance of rules.

C. **The Discipline Committee.** When the disciplinary action is more than a reprimand, rebuke or warning, a discipline committee should adjudge the case. Justice demands that there should be an appellate machinery for hearing the more serious cases after their being dealt with by first-line managers. Supervisors are charged with the duty of maintaining discipline among people under their charge. Because of their constant dealing with people and of getting the work done by workers, supervisors are primarily concerned with discipline. Minor cases of disciplinary actions are invariably decided by supervisors and other managers. But offences requiring a greater punishment should not be decided at the operating level. To ensure unbiased justice in an enterprise, a separate discipline committee exercises a tremendous and wholesome influence on the morale of employees. Like a court of law, the decisions of the committee are usually beyond reproach and do not give rise to any misgiving. What the employees want is not justice but equity from management. Being a combination of kindliness and justice, equity can be ensured by the well-chosen committee members who are detached from operating details.

D. **Investigations by the Personnel Department.** The discipline committee cannot work successfully without getting the full facts of the case. The committee device is not suitable for collecting facts, and it is subject to many other limitations. The discipline committee can satisfactorily discharge the judicial function concerning discipline provided facts and background information are made available to it. The personnel department has the specialized staff for rendering expert service and advice on personnel matters in the organization. Naturally, the task of collecting facts and offering suggestions falls upon the personnel department. That is to say, the personnel department acts as a safety-valve for the smooth operation of the discipline committee. Furthermore, by a thorough probe into the human problems, the personnel department can find out revealing situations that very often induce employees to adopt a particular attitude or to behave in a disorderly manner. To stress the emphasis on the preventive aspect of discipline rather than on the curative aspect, employee attitudes and behaviour must be enquired into with reference to workers' personal and social problems. This preventive measure with regard to discipline can be taken promptly and adequately by enlightened activities of the personnel department.

INFLUENCE OF ATTITUDE ON DISCIPLINE

Attitude represents the way of thinking, feeling or behaving towards a specific situation. Workers' attitude centres round the job and work situations. The intensity and duration of efforts for accomplishing work are mainly determined by the attitude of human beings. A constructive, positive or favourable attitude contributes towards high work performance, irrespective of the calibre of human beings. On the other hand, a destructive, negative or unfavourable attitude results in poor performance, no matter how brilliant the human beings are. The capacity or competency of human beings is thus determined by the combination of technical knowledge, experience and attitude. So far as workers are concerned, attitude represents a dominant factor of their capacity. Again, almost all disciplinary problems stem from unfavourable attitudes on the part of workers.

The workers' attitude in an enterprise is nothing but a reflection of the attitude of its management. If the manager suffers from any faulty attitude, it will be immediately mirrored into undesirable attitudes of his subordinates. As workers' unfavourable attitudes have their origin in management attitudes and as disciplinary problems arise from unfavourable attitudes, it is the managers who are to be blamed for the unsatisfactory state of discipline in an organization. In the light of this reasoning, Fayol's observation to the effect that "discipline is what leaders make it" is to be interpreted and understood.

Attitudes are embedded in temperamental outlook and mental feeling of an individual. As outlook of a man changes with time and situations, attitudes too are flexible in character. Attitudes can be moderated, improved or eliminated by managerial efforts and guidance. Leadership, counselling and supervision are the three main ways by which managers can develop the attitudes of employees for obtaining desirable performance. Because attitudes are acquired from the day-to-day working experience and surrounding circumstances managers focus their attention on financial, personal and social factors, both within and without the workplace, for developing the right kind of attitudes among employees.

For the maintenance of discipline, managers have to remove faulty attitudes harboured by employees. Effective discipline implies the introduction of self-imposed discipline among employees. For purposes of such discipline, individual responsibility is to be encouraged and developed by systematic managerial efforts and direction. The key factor for securing employees' co-operation, eagerness and willingness in work accomplishment is to be found in attitudes. As a result, direction of human beings remains incomplete without enquiring about their attitudes and taking positive measures for developing wholesome attitudes.

NATURE AND INFLUENCE OF RULES

Wherever several human beings are associated with an enterprise for the accomplishment of certain objectives, there must be certain rules and regulations controlling the behaviour, attitude and conduct of employees. In the absence of rules, the frictions and disputes detract the performance of human beings and result in the seepage of human energy. Rules provide a guide to conduct for ensuring teamwork in an orderly and harmonious manner. Rules supply specific future guides and are applicable again and again in controlling the conduct and performance of human beings.

Rules differ widely from policies. Policies are general guides to thinking and action on the part of management members. For the realization of objectives, policies are a part and parcel of the planning work, and they centre round the effective direction of work. In contrast, rules are specific guides to conduct of human beings, whether they are management members or not. Rules govern the conduct of all persons in an enterprise; they are not subject to interpretation like the policies. As opposed to work, rules focus attention on human beings and attempt at ensuring fair and equal justice to all concerned in the organization. Rules are established by managers of the top level for the use of both management and non-management members of the organization.

For the guidance and direction of human beings, rules exert a tremendous influence on their morale and willingness to work. As a code of conduct, rules protect the employees from whims and wraths of individual members. Many of the personal and social problems of employees are solved by the use of well-designed rules. Rules developed over a long period of time become standard practices in the company, and they supply tone to the morale of employees and determine the spirit of the organization. It is the spirit that dictates, in the ultimate analysis, effectiveness of human efforts in all organizations. Rigid adherence to rules is vital for the building up of employee morale in any enterprise.

PART FIVE
CONTROL

Chapter 20

The Control System

NATURE AND EXTENT OF CONTROL

Place of control in managing. Control is a fundamental managerial function that usually follows other functions. But like planning and other functions, control is a never-ending activity on the part of managers. By forcing events to conform to plans, control becomes intimately connected with planning and has the same characteristics of unity, continuity, flexibility and pervasiveness as are to be found in the case of planning. Plans are not capable of self-actuating and do not lead to automatic accomplishment. With a view to achieving organizational objectives and completing company plans, managers have to regulate work assignments, to review work progress and to check operations falling under their jurisdiction.

The process of control. Control is concerned with securing good individual performance and organizational performance. Good performance implies identification of some desirable characteristics of such performance and establishment of a level of par or expectation for each characteristic. This is effected through setting control standards which indicate expected results pertaining to all important aspects of business activity. Individual and organizational performance is measured and evaluated against these standards to insure that actual results tally with expected results. As actual results are known after the completion of work and involve post-mortem examination, the scope of control is extended to operations which are in progress for putting such operations on proper track by way of corrective action. Briefly, control as an executive process everywhere involves three elements—standards, evaluation and corrective action.

Feedback of Information. Managerial control is somewhat akin to the thermostat system of a furnace. The thermostat measures the actual temperature in the house, compares it with desired temperature and transmits this information to the furnace for making necessary adjustment by way of switching the heat off or on. Managers require a system like the thermostat for conforming operations to desired results through corrective action. Evaluation of performance is of little value unless the control information is promptly communicated to executives who can take corrective action before the completion of work. Performance information that flows back to managers is referred to as *feedback*. The feedback of information is effected in two different ways—informal feedback and formal feedback. In the informal feedback, personal observations and informal discussions are made through face-to-face personal contacts. In small conmpanies, the feedback of information is carried on by this method. Even in large-sized companies, the first-line supervisors depend heavily upon this method for controlling operations of their subordinates. But in large companies, informal feedback is to be supplemented with formal methods for keeping upper-level managers informed "how well the organization is performing". Top management lives in a world of formal feedback in the shape of financial statements, statistical analyses, sample surveys, audit reports and other written communication.

General versus close control. According to the design of managerial controls, the nature of controlling varies from company to company and it takes the form of either general and broad control or close and detailed control. When the philosophy of decentralization is adopted in any organization, top management has to rely on general control for permitting subordinates to enjov some freedom of action. Moreover, close control is always disliked by subordinates who are not motivated to make greater performance in such situations. Extensive studies made by the Institute for Social Research of the University of Michigan indicate the results of general supervision versus close supervision and employee-centred supervision versus job-centred supervision.[1] It was found from the above research studies that greater freedom allowed to subordinates under general supervision resulted in a higher level of productivity. Likewise, employee-centred supervision was associated with greater productivity. Peter F. Drucker has also strongly advocated the practice of general control.

> "The greatest advantage of management by objective is perhaps that it makes it possible for a manager to control his own performance. Self-

[1] Rensis Likert, *New Patterns of Management* (New York : McGraw-Hill Book Company, Inc., 1961), pp. 7-9.

control means stronger motivation : a desire to do the best rather than just enough to get by. It means higher performance goals and broader vision."[2]

Types of Control. William Travers Jerome III has classified the different types of control under the following heads :[3]

1. *Controls used to standardize performance* for increasing efficiency and reducing costs by way of time and motion studies, inspections, written procedures or work schedules.
2. *Controls used to conserve company assets* through allocation of responsibilities, separation of operational, custodial and accounting activities and adoption of proper authorization and record keeping.
3. *Controls used to standardize quality* by way of inspection, statistical quality control and product specifications.
4. *Controls used for providing free limits to the use of delegated authority* without further top management approval. Instruments for these controls include organization and procedure manuals, policy directives and internal audits.
5. *Controls used to measure on-the-job performance* by way of special reports, internal audits, budgets, standard costs and output per hour or per employee.
6. *Controls used for planning future operations* through sales and production forecasts, budgets, cost standards and other standards for measurement.
7. *Controls used to permit top management for keeping various plans and programmes in balance* through master budget, policy manual, organization manual and the use of co-ordinating committees and management consultants.
8. *Controls designed to motivate personnel* through promotions, rewards for suggestions, profit sharing and other methods of recognizing achievements.

BASIC STEPS IN THE CONTROL PROCESS

There are three elements, phases or steps involved in the control process :

Setting Standards. Standards provide the established criteria of desired performance for evaluating actual individual and organizational performance. Although the criteria of desired performance vary according to the nature of business activities, there are three

[2] Peter F. Drucker, *The Practice of Management* (New York : Harper & Brothers Publishers, 1954), p. 130.

[3] William Travers Jerome III, *Executive Control—The Catalyst* (New York : John Wiley & Sons, Inc., 1961), pp. 32-33.

common characteristics that permeate through all activities. These characteristics include *output, expenses and investment.* The output can be conceived of in terms of quantity, quality and time; expenses involve both direct and indirect ones; and investment is concerned with the amount of capital employed and the effective use of capital. Not only the characteristics of performance but also the levels of achievement or par for each characteristic are to be incorporated in control standards. Based on these characteristics, common standards for control include physical or quantity standard, quality standard, time standard, cost standard, revenue standard and capital standard. Upper-level management being concerned with evaluating organizational performance and the projected profits for the enterprise gives more stress on cost standard, revenue standard and capital standard for controlling operations. Lower-level management remains preoccupied with evaluating individual performance in the light of quantity standard, quality standard and time standard, and utilizes production targets, product specifications, sales quotas, work schedules, standing procedures, budgeted expenses and other goals as specific control standards in different areas of the business.

Controlling organizational performance through the projected profit figure and summaries of overall results is inadequate for the top level. For example, expense control for regulating profit requires both subjective and objective considerations. Not only the amounts of expense items are to be examined, but items of expenses are also to be scrutinized to see their justification. Accordingly, the overall profit standard is supplemented with a variety of other standards at the top level. Top management of the General Electric Company of the U.S.A. has identified the following eight key aspects of business for controlling operations of the company's decentralized divisions—(1) Profitability, (2) Market position, (3) Productivity, (4) Product leadership, (5) Personnel development, (6) Employee attitudes, (7) Public responsibility and (8) Balance between short-range and long-range goals.

Evaluating Performance. Actual results or performances are evaluated against the desired results. This evaluation of performance implies measurement of actual performance and comparison between planned and actual performances. Much ingenuity and resourcefulness are necessary for measuring and comparing performance against predetermined standards. As many standards involving staff work of advice or service as well as human behaviour, attitude, moral or opinion cannot be quantified, the measurement too cannot be effected in quantitative terms. It is rather desirable in situations like expense control or investment control that objective considerations be introduced in performance evaluation. Accordingly, in addition to evaluating results, the way of accomplishing results or the method of work performance is put under control through verifying the operation of policy directives, operating procedures, standing orders or work schedules. Controlling here is more concerned with control over methods rather than control over results.

Evaluation of final results on the completion of work has some usefulness no doubt, but it is inadequate for controlling operations in any organization. Controlling calls for directing managerial attention even when the work is in progress. As the work proceeds from stage to stage towards accomplishment, work progress is reviewed so as to make necessary adjustments for improving final results. Evaluation of both final results and work progress is made with reference to strategic control points. The evaluation of everything of everybody's work would make the control system burdensome and costly. Strategic control points refer to those vital stages or key aspects of work which reflect the total operation in some way. Moreover, measurement of output is limited to some selected cases by way of sampling. The basic guide for determining what portion of the work is to be measured and evaluated lies in balancing the cost of incremental measurements against the additional values derived from such evaluation. Again, the principle of management by exception calls for applying control efforts to out-of-line performance and leaving standard performance from the pale of control.

Taking Corrective Action. Measurement and evaluation of performance, detection of deficiencies and deviations, and preparation of control reports are of little value unless they lead to managerial action for correcting existing weaknesses and mistakes. Corrective actions are more appropriate for the work in progress rather than completed work. Evaluation of final results for completed work helps in planning and organizing for future operations, but the wastage involved in the past operations cannot be avoided. Review of work progress gives an opportunity to managers for bringing performance back into line or for holding it in line with desired results. With a view to conforming actual performance to desired performance, however, the control information must be channelled back to responsible managers for enabling them to take prompt corrective action.

The nature of corrective action varies from case to case depending upon specific reasons for deviation from standard. Some deviations from standard are accepted by management because of inaccuracies in standard, imperfections in measurements or changes in operating conditions. In other cases, for example, delays and high cost involved in production may arise from faulty production planning, defective equipment or from inefficiency of operators. Inefficiency of operators in turn might result from a number of factors like bad selection of personnel, inadequate training, poor motivation, inappropriate supervision, lack of discipline, unsatisfactory work assignment or unfavourable working conditions. Corrective action calls for the removal or adjustment of causative factors with a view to putting the performance on the proper track. In some cases, however, corrective actions are taken on the basis of predictions. For extmple, a fall in sales may be predicted from customer enquiries ; a breakdown of the machine may be predicted from its vibration ; or a strike may be predicted from the extent of employee grievances. On the basis of these predictions, corrective actions may be taken as a preventive measure.

IMPORTANCE AND SHORTCOMINGS OF CONTROL

Importance. Control brings the following benefits for the organization :

1. *Insurance value of control.* The risk of non-conformity of actual performance with intended goals is largely eliminated by controlling. The major function of control lies in regulating operations in such a way as to insure the achievement of predetermined objectives. Continuous review of work progress and the making of necessary adjustments in operations go to bring performance back into line or to hold it in line with intended goals.

2. *Basis for future action.* Evaluation of final results on the completion of work supplies facts and information for future planning and organizing. Such evaluation helps in replanning for repetitive operations, in planning for the next step in non-repetitive operations, in organizing for introducing changes in work assignment as well as in rewarding, punishing or disciplining subordinates. As a matter of fact, long-range planning becomes impossible unless control information flows continuously between work projects for keeping such plans on proper track.

3. *Indication of managerial weaknesses.* Control keeps a check on other functions for ensuring successful management. The problems of control stem mainly from deficiencies of other management functions. Before accomplishing the work, there may appear too many unknown and unforeseen situations which cannot be covered by initial planning, organizing and directing efforts. It is the control function of management that reveals and feeds back necessary infor-

mation for indicating managerial weaknesses and taking suitable remedial actions.

4. *Facility of co-ordination.* Co-ordination is facilitated by the control function of management. In the context of predetermined goals, control keeps all activities and efforts within their fixed boundaries and schedules, and it makes them to move towards common goals through co-ordinated directives. Determining *who needs what information,* control calls for setting up procedures to provide for horizontal communication between chains of command through direct cross contacts. Managers oversee the work till its successful completion and make sure that orderly performance takes place in every segment of the enterprise. All wastes of time, money and efforts can be successfully avoided through the control function of management.

5. *Extension of decentralization.* The modern system of control has encouraged top management to extend the frontiers of decentralization without losing ultimate control in a number of ways. Despite decentralization, a consistent pattern of executive behaviour and action can be maintained by controlling the use and application of standing plans throughout the organization. Again, by requiring subordinates to exercise self-control for regulating their own performance and to refer only exceptional problems to the superior for information, top management has succeeded in finding time for concentrating on overall planning and control without being buried in minor details. For subordinates' significant decisions affecting the enterprise seriously, a control system of pre-action approvals is instituted in many cases.

Shortcomings. The control system is not an all-cure device and has a number of shortcomings :

a. Lack of satisfactory standards. There are many activities involving intangible performance for which no satisfactory standards can be established. For example, results of management development, human relations, public relations, research and a host of other activities cannot be accurately indicated by any predetermined standard. Staff activities of service or advisory nature and other activities concerning human behaviour do not lend themselves to quantification of their output and identification of their level of achievement.

b. Imperfections in measurement. Intangible performance creates difficulties not only in the case of setting standards, but it also complicates the task of measuring results for evaluation. Failing to measure performance in quantitative or qualitative terms, results of staff activities and behavioural activities are evaluated through managerial judgment and interpretation of results. Moreover, measurement of all results of everybody's work is not feasible on economy considerations.

c. Limitations of corrective actions. If all deviations and mistakes could have been corrected properly, no business enterprise would have incurred losses. To be sure, there are several limitations in taking corrective actions and avoiding mistakes. Operating conditions of a business sometime change by external factors or forces over which management has no control. Managerial mistakes of studying market demand are only known subsequently when products are put on the market. Within the organization, minor deviations are by-passed on the ground of practical expediency; all reasons for deviations are not ascertained because of cost and time involved in investigation; and persons accountable for bad results cannot be singled out in many situations. Moreover, lack of authority and of timely control information may make some corrective actions beyond the scope of controlling.

d. Human reactions to control. Of all functions of management, control invites greater opposition from subordinates because of its interference with their individual actions and thinking. The pressure of work put through controlling results in reducing quality of work, ignoring long-range goals in favour of short-range ones, evading censure through falsifying reports and covering up inefficiencies in other ways. If the control system is of the close and detailed type, it is likely to create adverse morale effects among lower-level managers.

REQUIREMENTS OF AN EFFECTIVE CONTROL SYSTEM

The following are the important requirements for making any control system effective in character and adequate in application :

1. *Control by objectives.* As objectives clarify the expected results in meaningful and realistic terms, they provide control standards against which actual performance is evaluated. For control purposes, however, individual and organizational objectives are to be refined and linked with individual accountability for serving as effective control standards. Accordingly, expected results of both managerial jobs and operating jobs are related to their individual accountability for performance. The more thorough the elaboration of objectives, the more accurate and specific become the control standards.

2. *Way of performing work.* Because of difficulties of setting standards and measuring performance in many situations, the way of performing work is subjected to control for covering up deficiencies

in the control process. Standing plans, operating orders and fixed work schedules provide definite guides to action for ensuring consistency in executive behaviour and action, and they too serve as control standards along with objectives for evaluating performance.

3. *Strategic control points.* For maintaining balance and economy in the control system, control is to be exercised on strategic points. Control action may be taken at the end of a work process, at its different stages or at multiple points in each stage. The best selection of strategic control points implies effective controlling at a minimum of cost and effort. To attempt to control everything is to betray the main purpose of controlling.

4. *Management by exception.* Economy and consistency of control efforts call for the application of the principle of *management by exception.* Significant deviations from standard, whether positive or negative, constitute the exceptions which require managerial attention and probe. When performance conforms to desired results, time and effort devoted to reviewing such operations are largely wasted. Out-of-line performance implying serious deviations demands managerial concentration for analysing reasons for deviations and taking corrective actions.

5. *Simple and balanced control.* Control must be made simple and balanced in nature by designing the formality and variety of controls. Control data must be presented in a simple way so as to permit managers to concentrate on their jobs. A mass of details and figures keeps the managers busy in studying and interpreting control information, and thus prevents them from taking prompt and effective action. For best results, control information is to be supplied in summary forms with an indication of "what is wrong". Besides simplicity in the design of control reports, forms and procedures, the control structure is to be balanced by weeding out too many controls and by studying the impact of all separate controls on business at any given time.

6. *Flexibility in control.* Control must be flexible so as to accommodate all changes or failures in plans. Owing to unforeseen circumstances when plans are changed, control should reflect corresponding changes to remain operative under new conditions. Control is not an end in itself. If plans are required to be revised for accomplishment of objectives, the control system must have the attribute of adjusting itself to changed circumstances. In fact, by ascertaining the reasons for a variation, control affects other managerial functions and is affected in turn by their influence.

7. *Managerial self-control.* Control is effected through managerial positions in the organization structure. Each managerial position must be vested with adequate authority for exercising self-control

and taking corrective actions. With this end in view, control is required to reflect the organizational pattern showing the assignment of tasks, the delegation of authority and the structural relationships between management positions.

8. *Forward-looking control.* Control should be forward looking in character for enabling managers to control operations before the completion of work. All deviations from standard are to be promptly informed so that corrective action can be taken before the completion of work. Unless control information relates to the future or to the current performance at best, it is of little value. After completion of the job, no action can be taken to improve such performance, whether it is faulty or unsatisfactory.

9. *Worker-focused control.* Modern system of control is worker-focused (or employee-centred) rather than work-focused (or job-centred). Control is exercised on people who handle material resources for making certain work results. If any corrective action is called for in controlling, the persons accountable for results are to be located for taking remedial action. That is, control of performance is effected through control of people. Research studies indicate that worker-focused control in associated with higher productivity because of allowing greater freedom to people and taking a special interest in people.

10. *Objectivity in appraising results.* Measuring and evaluating results demand an objective, unemotional and unbiased approach to control. Because of their face-to-face and close relationship, executives may not evaluate performance of their subordinates in an unbiased manner and their likes and dislikes for subordinates may be reflected in work evaluations. To ensure objectivity in appraising results, staff men who are detached from the work situation are usually entrusted with the task of measuring performance. To eliminate adverse reactions of subordinates to control, objectivity in evaluating results is of greater importance.

INTEGRATING CONTROL WITH OTHER MANAGERIAL FUNCTIONS

There are two reasons which dictate the need for integrating control with other functions of planning, organization and direction. *First,* control affects, and is affected by, other managerial functions. Just as the control function reveals weaknesses of other managerial functions and provides a test for their effectiveness, likewise effectiveness of control is greatly determined by other functions. *Secondly,* control among all managerial functions is disliked by subordinates and they object to control on a number of grounds like unreasonable standards of performance, inaccurate measurement of work, unsympathetic evaluation of results, and so on. This dislike for control is to be removed by creating positive responses to control. Otherwise, the effectiveness of control is destroyed by subordinates' opposition. To win over employee co-operation in matters of controlling, integration of control with other functions is of vital importance.

Control and Planning. Since control amounts to compelling events to conform to plans, it is evident that these two functions are intimately bound together. The planning function contributes to the smooth discharge of control by way of providing control standards through objectives, standing plans, programmes or budgets. In a reciprocal way, the control function contributes to the adoption of new plans. Planning is always tempered with control information from current operations and undergoes adaptation or adjustment in accordance with needs of the situation. Apart from their mutual contributions, plans are required to be modified for successful controlling or the control system is liable to modification for successful planning. Uncontrollable factors beyond the enterprise and unpredictable human behaviour within the enterprise call for this retreat in both planning and controlling.

Control and Organizing. Two phases of organizing have a great influence on the control function of management, viz., *decentralization and departmentation.* Greater decentralization elicits positive responses of subordinates to control, and greater centralization leads to their negative responses to control. But executives hesitate to extend decentralization though they realize the urgency of it. The real problem to executives appears to be "how to decentralize without losing control". The control system must be compatible with the needs of decentralization and is to be built on certain new steps which are different from the requirement of centralization. *First,* self-control is to be widely exercised by subordinates for regulating their own course of action. *Secondly,* abnormal cases which are not covered by standards and which imply danger signals are to be brought to the attention of the superior under the exception principle. *Thirdly,* subordinates' decision requiring investment of large funds or affecting the enterprise significantly are to be enforced after pre-action approvals of the superior. *Finally,* frequency and contents of control reports must also change. Monthly or fortnightly report of overall results along with certain key indicators of danger signals should replace daily or weekly report of detailed results.

Effectiveness of control also depends on the manner of grouping and assigning activities in departmentation. As pointed out in

Chapter 9, controlling units are to be created on the basis of those activities which are capable of a clean break or which require co-ordinated action under a common objective. Establishment of deadly parallel operating units like multiple shops is very helpful in exercising control. Briefly, organization providing the avenue for managerial performance must look to the facility of exercising effective control over all areas of the business.

Control and Directing. In the sphere of directing function, *leadership action and communication system* determine the effectiveness of control in any enterprise. No matter how accurate the control standards are, their efficiency rests on leadership action. If senior executives are not serious about the application of control standards in measuring and evaluating performance, subordinate managers are bound to follow their suit through the process of imitation. That is, standards are to be rigidly enforced for exercising control and they are not self-actuating in character. Leadership action gives tone and meaning to control standards in use. As regards communication system, the relevancy, timeliness and flow of feedback control information are vital contributory to successful controlling. To permit subordinates to exercise self-control and to take necessary corrective action, the required information must be timely supplied to them in the most direct way. For this direct informing of subordinates, the flow of information is to be short-circuited by horizontal communication between chains of command and direct cross contacts between subordinates of two departments without managerial intervention.

Chapter 21

Budgeting and Budgetary Control

NATURE AND SCOPE OF BUDGETING

Device for planning and controlling. Budgeting, though primarily recognized as a device for controlling, becomes a major part of the planning process in any organization. Budgeting is done for indicating expected results of the business and possible future lines of action to be followed for the attainment of such results. Expected results are projected either in financial terms or in other numerical terms like units of products, man-hours, machine-hours, etc. Budgets provide predetermined standards of performance for regulating efforts and activities in the enterprise. As budgets provide standards of performance, they usually become the basis for control. All results and performances are measured and appraised against budget standards which are developed through a comprehensive budgetary programme. Control exercised for the execution of budgets is known as budgetary control. Thus, budget making is concerned with the planning function of management, while budgetary control is associated with controlling in organization. The intimate connection between planning and controlling functions of management is nowhere better illustrated than in the relationship between budgeting and budgetary control.

Comprehensive versus limited budgeting. The scope of budgeting differs from one company to another. Some companies are accustomed to putting absolute faith in budgeting and making it the main instrument for planning. In those companies, budgeting becomes the entire programme covering all operations of the enterprise. Many individual budgets are developed in each segment of the enterprise and all such budgets are subsequently integrated into one master budget for the business as a whole. Planning in those cases implies mere budgeting and managerial control is confined to the evaluation of actual performance against the budget expectancy. But such an unshakable faith in budgeting is not placed by many companies since expected results of all operations cannot be reduced into numerical figures and since budgeting involves certain dangers or difficulties. In most enterprises, however, important activities are planned and controlled by means of budgets. Rather than being the entire planning programme, budgeting becomes an important adjunct to planning. Thus the scope of budget making varies from a comprehensive one to limited budgeting.

PURPOSE OF BUDGETING

a. *Aid to planning and controlling.* As budgeting is planning for a future course of action, it must contain all the formalities and requisites of planning. It is erroneously believed by some that budgeting merely calls for the preparation of revenue and expenditure budget. As a guide to action, business budgets require something more than mere estimates of revenue and expenditure. Budgeting is utilized for purposes beyond financial planning and control. To provide realistic guides to action, budgets are developed through a network of objectives and policies. There must be a modicum of planning in all budgeting activities for indicating the course of action to be followed. The revenue and expense budget is not, however, discarded in modern budgeting, but it provides the basis for preparing a budgeted income statement. To be effective, the revenue and expense budget, is required to be compiled from sales budget and different expenditure budgets. In contrast to the revenue and expense budget is required to be compiled from sales budget and data that provide some physical standards of performance. Accordingly, budgeting results in introducing financial as well as operational planning and control in the enterprise.

b. *Means of co-ordination.* In addition to its aid to effective planning and controlling, budgeting is useful in co-ordinating operations of various departments and sections for realizing enterprise objectives. As various budgets are integrated into a master budget for the enterprise as a whole, executives are compelled to look to the way in which subsidiary budgets are fitted into the overall budget. This budget co-ordination is effected through the use of a single common denominator—*rupee cost* and *rupee result* of diverse actions and operations, and as such, it provides the executives with a new sense of direction.

c. *Guide to action.* Budgeting is not an end in itself, rather it is a means to the end of work accomplishment. Budgeting is no substitute for profitable operations through individual judgment and initiative of operating managers. For the sake of achieving better results, managers in many cases are justified in ignoring budget directions to meet unexpected situations. As budgets in their quantitative terms cannot provide definite and dependable guides to action, the scope of individual judgment and discretion is rather wide in budgeting. Because of these limitations of budgeting, budget flexibility is taken to be the normal run of things.

TYPES OF BUDGETS

Within the framework of a *master budget* for the undertaking as a whole, a number of *supporting budgets* are compiled with respect to major aspects of business operations. The master budget is in the nature of a blueprint containing all departmental or supporting budgets in a summarized form. The master budget outlines expected performances in different areas of the business. The object of the master budget is to secure overall co-ordination in the budgetary programme, and accordingly it is utilized by top management for exercising effective control over the enterprise. For managers at the operating level, the master budget can neither provide guides to action nor supply measurable standards of performance. Consequently, the master budget must be supported, enlarged and clarified by the development of individual budgets in important segments of the enterprise. In fact, departmental budgets are first developed for integrating them into a master budget. The following are the basic types of budgets that are usually prepared in a manufacturing enterprise.

Sales Budget. The sales budget is the starting point in a budgetary programme, since sales are basic activities which give shape to all other activities in a business. Without planning sales, no future estimate can be made about auxiliary activities in the organization. Even between two basic activities of sales and production, it is sales that regulate the flow of production in all enterprises.

As forecasting is the precursor of all planning activities, the sales budget is the direct outcome of sales forecast. Sales forecast is based on the data available from market research, past business experience and current business conditions through a number of statistical and other methods. If factual information is not available, some amount of guesswork becomes inevitable in sales forecasting. In sales forecasting, the important factors that are taken into consideration include population trends, consumers' purchasing power, price trends of products, general business economy, extent of competition and available supply of products, amount of sales-promotion efforts, and the productive capacity of the enterprise. Where export markets are available, a critical estimate of the foreign demand is to be made in the light of Government policies and regulations. Briefly, all planning premises are utilized in making a sound sales forecast.

Sales budgets are compiled in terms of quantity as well as of value. Furthermore, large enterprises dealing in a variety of products are required to develop the sales budget in product-wise forms. Where the product line consists of a number of items, the overall total sales targets provide an ambiguous guide to action. Unbalanced selling of individual items is bound to appear unless definite targets are fixed in respect of each item. Because of this lack of detailed planning, some product items may be ousted from the market by the actions of competitors. Likewise, sales targets for each region are required to be stated separately in sound budgeting. In the absence of region-wise breakdown of sales figures, budgeting fails to provide any sensible standard of performance to regional sales personnel. Consequently, sales control becomes ineffective and arbitrary in character.

Production Budget. The production budget contains the manufacturing programme for future execution. Production being the other basic activity of a manufacturing enterprise, a detailed production budget is prepared showing the quantity of products to be manufactured at definite time intervals, the expected cost to be incurred, and the required facilities to be utilized in the manufacturing process. The preparation of production budgets involves production planning in the business. The production budget is always prepared as an answer to the sales budget, because production targets are fixed in accordance with requirements of sales targets. To ensure a steady supply of products for meeting expected sales, the production budget may be looked upon as the counterpart of sales budget.

The production budget aims at securing economical manufacture of products and maximizing utilization of production facilities. The cost of production is a vital question in manufacturing and determines the effectiveness of planning efforts. The manufacturing cost can be planned and controlled through the medium of factor costs, because it is the factor costs that are aggregated into the manufacturing cost. Important factor costs relate to men, machines, materials, money and methods. The principal way of reducing costs is to secure the maximum utilization of production facilities and to arrange for their perfect co-ordination. This is just what is done in production budgeting. Large enterprises often split the production budget into *several sectional budgets* for each of the production facilities. Within the ambit of one production budget, many sectional budgets like *materials budget, direct labour budget, equipments budget* and so on are prepared.

The production budget must also indicate the maximum and the minimum quantity of raw materials and finished products to be held in store by the production department. The two extreme limits of quantity are prescribed in respect of each item of materials and products. The purpose of the maximum limit is to prevent blocking of capital in unwanted materials or products that are not required for the time being. On the other hand, the minimum limit is required to keep the machines in constant motion or to feed the market with a continuous supply of products.

Revenue & Expense Budget. The revenue and expense budget is prepared for the use of top management to ascertain the profitability of a budgetary programme. This budget is expressed in financial terms and takes the nature of a proforma income statement for the future. The figures of sales budget and production budget are incorporated in the master budget which, in turn, is utilized for developing the revenue and expense budget. Because of the estimate of future profits, this budget helps top management in making well-informed decisions and in exercising effective control over the enterprise. As a tool for top-management control, this budget has no application in lower echelons of the organization. However, budgetary control cannot be exercised without the aid of the revenue and expense budget.

The revenue and expense budget may be prepared in a detailed form, or in an abstract statement showing items of profit and loss under classified headings. On the revenue side, sales constitute the major source of income. Other items of revenue may include various returns on investments. On the expense side of the budget, manufacturing expenses along with factory and office burdens are aggregated into the total cost of production. If the production budget is developed in details supported with a statement of manufacturing cost, the task of compiling this budget is simplified. For the sake of efficiency and economy, expense headings used in budgeting should correspond with the accounting classification of expenditures in the business. Otherwise, the preparation of this budget involves too much cost, and some important items may be left out so as to render the profit estimate a false one.

Capital Expenditure Budget. The capital expenditure budget is prepared for assuring planned and timely capital investments in the business. To ensure the availability of capital at the right time without any disruption to the normal working of the enterprise, this budget maps out future capital expenditures over a long period. Additional investments are required to be made for acquiring new equipments, machines and other production facilities by an enterprise. Capital expenditures in the years ahead are planned and provided for through the preparation of this budget. Like the revenue and expense budget, however, this budget also is meant for the guidance of top-management members.

Cash Budget. The cash budget is prepared for projecting the possible cash receipts and payments over the budget period. This budget analyses the cash position month by month or even week by week in some cases. The object of the cash budget is to ensure a steady supply of funds for meeting day-to-day requirements of working capital and for paying current obligations of the business. This budget assists materially in making some heavy payments for the purchase of fixed assets, the disbursement of interest and dividend, or the redemption of debentures and shares without causing any disturbance to the normal working of an enterprise. Because of the advance estimate of cash position, the cash budget aids in timely raising of funds through borrowing or other means and utilizing surplus funds for the bulk purchase of materials or for short-term investments.

Budget Summaries. Budget summaries depict the complete budgetary programme in quantitative as well as in financial terms. Three different documents, viz., the master budget, the budget income statement, and the budget balance sheet are utilized for making a summary of budgets. The master budget assembles together anticipated results of all supporting budgets and incorporates sales targets, production targets, and targets of other activities in quantitative terms. The budget balance sheet and the budget income statement are prepared from data incorporated in the master budget. That is to say, the master budget is translated down into an income statement and a balance sheet for the future, and these three documenuts taken together portray the budget summary for serving as a tool for top management control in the organization.

ESSENTIAL CONDITIONS FOR APPLYING BUDGETARY CONTROL

1. *Focus on objectives and policies.* As a planning programme, budgets must directly flow from objectives of a business and give realistic expression to the way of realizing such objectives. On the stage of planning, objectives provide the nucleus to all planning efforts. Policies are meant for elaborating and explaining objectives in greater details. Hence planning, whether through budgeting or other means, is not practicable without the establishment of objectives and policies. As these objectives and policies become control standards, budgetary control is dependent on them for measuring and evaluating budgetary performance.

2. *Consistent delegation.* The organization structure must be conducive to the execution of a budgetary programme. Fixed duties and responsibilities are required to be allocated to managers at different levels for framing and executing budgets. The overall budget is broken down into elemental parts in conformity with organizational components. By breaking down the budget into component parts, each management member can be informed as to that part of the total budget for which he is accountable and when he is required to accomplish the work. Furthermore, as the overall budget is a summarized statement of expected results in financial terms, it cannot serve as standards of performance at the operating level. Budgeting at lower levels must indicate the required contributions by the establishment of physical standards like product-units, man-hours, machine-hours, and so on.

3. *Proper target.* Budgeting demands an objective thinking and a realistic approach on the part of management members. In matters of setting budget targets, there should be adequate *checks and balances* against the adoption of too high or too low estimates. Both these extreme cases of budget estimates create difficulties in the organization and demoralize its human beings. Utmost care must, therefore, be taken for fixing targets so that initiative and individual responsibility can be aroused on the one hand and work performance can be improved on the other. In order to make reasonable estimates in budgeting, tentative budgets are developed at the departmental level from factual information, intensive study and research, and subordinates' suggestions. These tentative budgets are subsequently subjected to critical analysis and deliberation by members of the budget committee. As budgets are the outcome of relevant forecasts, forecasting results are taken into consideration by committee members for appraising tentative budgets. After making necessary adjustments and changes in proposed departmental budgets, top-management members finally approve budgets for execution.

4. *Appropriate period.* The budget period must be appropriate to the nature of the business and to the type of the budget. Every business requires some short-term budgets as well as some long-term budgets. The sales budget, the operating expenditure budget, the revenue and expense budget, and the cash budget are the usual short-term budgets. On the other hand, the capital expenditure budget, the research budget, and the management training and development budget are the common long-term budgets of a business. Parallel to the period of forecasting, some yearly, five-yearly or ten-yearly budgets are compiled in the business world. Yearly budgets are recognized as short-term budgeting, while five-

yearly or ten-yearly budgets are deemed as long-term budgeting. In short-term budgeting, a year is the common budget period. Budgets are prepared for a year and reviewed at the end of each month or quarter. Furthermore, businesses which have seasonal and irregular character of production or sales cannot reap the benefits of a budgetary programme from the compilation of yearly budgets. To be effective, budgets are split in those cases into two parts, the one for the busy and the other for dull periods of the year. In all cases, however, budgeting is a continuous process and requires perfect harmonization between long-term and short-term budgets.

5. *Communication of planning premises.* If departmental and subsidiary budgets are to be prepared and interpreted consistently throughout the organization, the communication of planning premises assumes importance. Subsidiary budgets which are mostly interrelated must be based on the same assumptions of planning for securing co-ordinated action. To assure this, budget making must receive the wholehearted support of top management through leadership action.

6. *Provision for flexibility.* Despite all attempts, budgets cannot be developed with pin-point accuracy in all cases. There are many unknown and unknowable circumstances which may falsify predictions contained in a budget. There should be nothing rigid in budgeting, and budgets must always be flexible to meet changed or changing conditions. 'Flexibility is one of the essential attributes of budgeting. This flexibility, however, should not be taken by operating managers as an excuse for lowering their performances. Unless there are sufficient reasons, budgets should not be changed during their currency.

Securing Budget Flexibility. As budgets contain prediction unanticipated events may falsify the prediction. In such situations, budgets fail to serve as standards of performance. For utilizing budgets as correct standards of performance, there are three means of adjusting budgets.

a. Variable budgets can be adopted for providing a range of volume levels by establishing a series of budgets pertaining to different levels. When the exact volume of production or sales becomes known, the appropriate budget can be applied for controlling expenses. Two or more expense standards are established for high, medium and low volumes of operation, and the actual expense standard for a particular volume of operation within these limits can be easily ascertained by interpolating figures of these cases.

b. Standard cost systems are applied when volume of operations cannot be measured because of handling different products of unequal value and nature. Variable or flexible budgets cannot be applied in these situations. Under the standard cost method, expense standards with their component parts for materials, labour and overhead are determined for each kind of product. At the end of the budget period when the actual units of different products are known, the aggregate materials cost, labour cost and overhead cost can be ascertained by multiplying the unit component cost by the number of units of different products and adding them separately under three heads of materials, labour and overhead. Such totals provide the expense standards for evaluating performance during the period. One serious weakness of standard cost is that it assumes the cost per unit to be fixed, irrespective of volume of production. But the unit cost, particularly overhead part, varies with the volume of operation.

c. Periodic revision of the normal budget is the most common method for introducing flexibility into budgetary standards. Under this method, a budget for twelve months in advance or the like of it is prepared but the actual budget estimate for a specific month is liable to adjustments on the basis of current information before the beginning of that month. This modified budget provides realistic standards of performance.

ADVANTAGES OF BUDGETARY CONTROL

The following are some of the advantages of a budgetary programme :

1. Since budgeting is an all-inclusive device for both planning and controlling in business, budgetary control integrates and ties together various activities. As a result, co-ordination is fostered by budgetary control. It provides the management personnel with an overall viewpoint for planning and scrutinizing all operations of a business concern.

2. Budgetary control secures the most effective functioning of the enterprise. Operations are measured against predetermined standards and any deviation calls for explanations and remedial actions. Weaknesses of the enterprise are revealed and eliminated on a continuous basis.

3. Budgets are mapped out after intensive study and careful consideration. Objectives are established in quantitative terms and made known to all members of the enterprise. Vigorous steps are taken to reach the scheduled targets. Consequently, the process of budgetary control develops a sense of responsibility, proportion and alertness on the part of executives.

4. Financial planning becomes an integral part of the budgetary programme. All the financial aspects of business are thoroughly examined and scrutinised by this process. Hasty and haphazard decisions are avoided that may result in useless spending.

5. When executives use budgets as a key management tool, such budgets facilitate clear directing and counselling for securing improved results. Moreover, delegation of duties and responsibilities for managerial work has to be clearly spelled out for realizing budget targets. As a result, jurisdictional disputes and misunderstanding are removed so as to permit executives to focus attention on budget execution. Briefly, budgetary control acts as a stimulant to good management practices.

DANGERS IN BUDGETARY CONTROL

Budgets are tools of management for planning, directing and controlling in the organization. Budgets become as effective as they are utilized in the business. Budgeting is no substitute for sound management and cannot ensure business success on its own merits. To obtain beneficial results of budgeting, managers are required to guard against possible dangers that may creep into it.

First of all, there is *the danger of overbudgeting*. In their excessive enthusiasm and zeal, managers are sometimes found to make the budgetary programme so comprehensive in coverage of activities and so detailed in presentation of figures that it becomes too expensive and fails to serve as a guide to action. Comprehensive budgeting appears as a curse rather than a boon in many cases. Unless subordinates are adequately trained and experienced, and the organizational machinery is perfected, comprehensive budgeting does more harm than good. In contrast to it, limited budgeting becomes simple for execution and operation, and at the same time, it secures full benefits of budgetary programme. In fact, sound budgeting implies the use of budgets as planning instruments for executing programmes.

Secondly, budgeting may give rise to the growth of precedents in *course of time*. Expenditures and targets of the preceding budget period are allowed to repeat themselves in the succeeding budget. In view of changing facilities and conditions of a business, it is idle to expect any improvement and progress through reliance on old figures of the previous budget. Budgeting in such cases brings stagnation to the business. In addition, the tendency for hiding inefficiencies behind old figures becomes rampant on the part of departmental managers. As departmental managers are to translate budgeted targets into action, it is to their interest to keep targets as low as possible and to plead for the relevancy of old figures, particularly when they are easy for execution.

Finally, budget co-ordination appears difficult in those cases where departmental managers are *guided by their own budgetary goals* rather than by enterprise objectives. Objectives provide a commonness of purpose and integrate different departments into one co-ordinated whole. Departmental budgets may not reflect the enterprise objectives in their proper significance. In view of this situation, rigid adherence to departmental budgetary goals may not be compatible with the realization of enterprise objectives.

Chapter 22

Costing and Cost Control

ROLE OF COST ACCOUNTING

Nature and scope. In contrast to general accounting which maintains records of manufacturing costs and other operational costs on an overall basis, the cost accounting system is designed to provide managers with information for determining the cost of products, processes or operations and for exercising cost control in many directions. The cost accounting system constitutes an extension or refinement of general accounting for supplying information to managers and assisting them in a number of ways with a view to improving managerial control over business operations. The cost accounting system has now become a major element in the controlling function of management. In the past, the system was concerned with analysing factory costs and determining profit and product pricing. Although these remain still important functions of the cost accounting system, the scope of the system has been broadened by the inclusion of many operational aspects of control in recent years.

Some of the important functions of the cost accounting system may be outlined as follows :

1. *Cost finding.* Cost finding or costing has been one of the major functions of the system from the very beginning. Costs are analysed in their elemental parts not only in the case of products or services, but also in respect of specific processes, operations, jobs or departments. As actual costs are known at the end of the accounting year, cost finding on a prior basis becomes a difficult task because of two estimates involved—expected volume of operations and probable overhead expenses for the whole year.

2. *Responsibility accounting.* Responsibility accounting has been evolved in recent years as an extension of direct costing. In contrast to traditional method of costing known as conventional or absorption costing, *direct costing* allocates only variable cost to products or departments concerned for determining their operational contribution margin and writes off fixed costs over the period from the pool of contributions. As variable costs of direct materials, direct labour and direct overhead are subject to control by the direct action of subordinate managers in the short run, they are separated from fixed costs which are affected more or less by the volume of

operations and by the direct action of top management. *Under responsibility accounting,* manager is charged with those costs which he can control by his direct action. Obviously, variable costs are only subject to managerial control at the lower level and fixed overhead costs not susceptible to control are assigned to higher management. Because of affixing responsibility for cost controlling on a definite and realistic basis, responsibility accounting has been instrumental for motivating subordinate managers and eliciting their positive responses to control as well as for evaluating performance and taking corrective actions in a better way by superior managers.

3. *Product pricing.* Product pricing presupposes a knowledge as to the accurate cost of producing products. The problem is complicated for the production of diverse products with varying values through the same facilities and by the requirement of quoting prices in response to tenders and orders on an estimate basis. By analysing the cost data into variable costs and fixed costs, a better method of product pricing has been developed nowadays through *profit-volume (PV) ratio.* Since variable costs can be identified separately for each product and fixed costs are allocated arbitrarily on the basis of expected volume level, there is always the risk that actual full cost at the end of the period may be either above or below the estimated cost. This difficulty can be largely eliminated by *cost-volume-profit analysis* which has been discussed in a later section of the Chapter.

4. *Profit determination.* Income determination is another function of the cost accounting system. Profit determination calls for computing total costs of doing business. Particularly in manufacturing enterprises, total production costs are to be divided between items still in inventory and those which have been sold. Through continuous inventory valuation and control, cost accounting data facilitate profit determination at any time of the year for managerial information.

5. *Aid to budgeting.* Cost accounting assists in framing budgets, since it supplies historical costs on the basis of which budgetary costs are projected into the future. In the process of executing budgets, again, the cost accounting system collects actual costs for comparison with budgeted costs and provides suggestions for taking necessary corrective actions. Accordingly, budgetary control is dependent upon the cost accounting system to a great extent.

6. *Cost control.* Cost control aims at reducing cost of operations. It is supposed to provide an idea about the possible extent of reduction and to indicate the main lines along which cost reduction can be effected. Cost control seeks cost reduction in materials through a closer check on purchasing, store keeping, handling and processing of materials. Reduction in labour costs is secured by

competent supervision, better training and placement, improved methods and processes of production, and satisfactory maintenance of equipments and working arrangements. Reduction in overhead expenses, whether factory or office, is sought through sound planning, organizing and directing efforts of management. In other words, cost control calls for maximum utilization of men, materials, machines and money, the optimum use of standarization, and the wise selection of relationship between volume and overhead cost.

THE PROBLEM OF COST FINDING

The price is determined by general demand for, and supply of the product in the market. To individual producers, the market price is more or less given in the sense that they cannot increase the price unless monopoly power is acquired by them. In the context of a given selling price, managers are required to control cost for keeping it within the limit of selling price. The excess of selling price over cost represents profit for the business. Hence, profitability of a business is dependent upon successful controlling of costs. Sales provide the major source of revenues from which all business expenses are to be covered and a margin of profit is to be allowed for the survival of the business. Although prices cannot be overcharged for fear of losing market standing, undercharging is a widely followed practice to forge ahead of other enterprises in a competitive economy. This undercharging of prices requires cost finding on a realistic basis. Thus profitability and the scope of possible price reduction cannot be ascertained without determining the cost of products or services.

Total expenses incurred within a certain period must be covered by the aggregate costs of all products manufactured in that period. For a particular year, actual total expenses can only be known from regular accounting at the end of the year. But these total expenses must be estimated on a prior basis and distributed over all possible units of products that may be produced within the year. At the end of the year, actual full cost of a product is a matter of simple arithmetic and can be obtained by dividing total expenses by total units of products. But the sale of goods, produced at the earlier part of the year or before the close of the year, cannot be deferred for non-availability of actual full costs. To overcome this difficulty, overhead costs are estimated beforehand in costing for making remunerative price quotations or profitable sales. In estimating overhead costs, however, two predictions are involved in costing, viz., the total overhead costs to be incurred and the total units to be produced during the whole year.

The total expenses are divided in costing into two categories—*variable costs and fixed costs.* Expenses on direct material, direct labour and direct overhead can be allocated to individual units on a definite basis as soon as products come out of the assembly line and such expenses go by the name of *variable costs, direct costs, volume costs or out-of-pocket costs.* But other expenses of indirect nature cannot be related to units on a basis of certainty and these expenses are called *fixed costs, constant costs, period costs or time costs.* Different methods are utilized for allocating fixed overhead costs over the units of products. The matter is further complicated by the existence of a variety of items in one or more product lines. Items of product lines often differ in size, shape, value or in importance from one another. The presence of diverse products requires considerations about proportional weights that should be attached to different items in allocating fixed costs.

ELEMENTS OF COST

Costing is always done with reference to some smallest measurable units in terms of which the entire production can be conveniently divided for allocation purposes. Quintals, kilogrammes, tons, kilometres, metres, litres, dozens, pieces and so on, are common units utilized in costing, and the cost per unit of products becomes the basis for cost calculation. Costing units form the building blocks in the cost structure of the enterprise. The unit cost of products is composed of several elements or constituent parts which are stated below:

ELEMENTS OF COST

<table>
<tr><td>1. Direct Materials</td><td rowspan="2">Prime Cost</td><td rowspan="3">Factory Cost or Manufacturing Cost</td><td rowspan="4">Total Cost</td></tr>
<tr><td>2. Direct Labour</td></tr>
<tr><td colspan="2">3. Factory Overhead or Works Expenses</td></tr>
<tr><td colspan="3">4. Office Overhead or Administrative & Selling Expenses</td></tr>
</table>

Prime cost is a direct charge which can be accurately ascertained for each unit of products, and it consists of direct materials and direct labour. Direct materials are those which enter into, and form part of the finished product. Likewise, direct labour represents wages paid to workers who devote their entire time and effort to the manufacture of specific products.

In contrast to direct materials and labour, there arises the necessity of indirect materials and labour. Indirect materials are not traceable in the finished product, though they are required for undertaking manufacturing operations. For cleaning machines and purifying raw materials, many indirect materials like refining flux, tallow, jute waste, oil, grease, etc., are used in the process of production. Indirect labour constitutes the workforce that is maintained for giving necessary aids to machine tenders and other workers engaged in the productive process. Costs of indirect materials and labour are lumped together under the heading of factory overhead. To the group of factory overhead expenses, all general and fixed expenses incurred within the four walls of the factory building are added. Some of the important items of factory overhead relate to expenses on supervision, inspection, production planning, storekeeping, materials handling, machine repairs, maintenance and depreciation, steam and power generation, factory rent, rates and electricity charges, cost accounting and personnel staff, and like other items.

Parallel to factory general expenses, there are office overhead expenses which are subdivided into administrative expenses and selling expenses. Financial expenses like interests, discounts, commissions or bad debts are also dumped in the pool of office overhead. Fixed overhead expenses, whether factory or office, cannot be directly allocated to units of products. Although several methods of allocation have been devised for distributing fixed overhead, it appears that allocation is made on the basis of guesswork, hunch or intuitive judgment.

ALLOCATION OF FIXED OVERHEAD EXPENSES

The allocation of fixed overhead poses to be a difficult problem and has made the costing system a target of criticisms. There are many imperfections and manipulations involved in allocating overhead expenses. Some of these imperfections can be cured by the cost-volume-profit analysis and by the calculation of profit-volume ratio.

Prime cost, factory cost and total cost are the three successive steps in cost compilation. Factory overhead expenses are usually allocated on the basis of prime cost or of its component items. Office overhead expenses are distributed on the basis of factory cost which is the summation of prime cost and factory overhead. The following are some of the important bases utilized in allocating fixed factory overhead expenses.

(1) Cost of direct materials becomes the basis for allocating factory overhead in those cases where materials constitute by far the large part of prime cost. A certain percentage of the cost of direct materials is taken to be the factory overhead charge per unit of output. (2) *Cost of direct labour* is also made the basis for allocating factory overhead. Like the cost of materials, a certain percentage of the cost of direct labour is added to the amount of prime cost for

arriving at factory cost. Where labour cost is the predominant part of prime cost, this method is preferred by small-scale producers for its simplicity. (3) *Prime cost,* as a basis for allocation, combines the effect of both materials cost and labour cost and may be regarded as an extension of the two bases. As in other cases, a certain percentage of prime cost is deemed to be the charge for factory overhead expenses. (4) *Direct-labour hours* are employed for distributing overhead expenses in those cases where labour cost constitutes the significant part of total costs. The charge for each labour hour is calculated through dividing overhead expenses by the number of direct-labour hours. But this fails to draw any distinction between skilled and unskilled labour or between efficient and inefficient labour. Because of its simplicity, however, this basis finds a wide acceptance. (5) *Machine-hour rates* are also used for allocating factory overhead expenses. Machine-hour rates are calculated on identical lines with man-hour rates. Where machines are extensively used in a concern, factory overhead expenses are divided by the number of total working hours of all machines so as to arrive at the hourly rate for each machine hour. Factory expenses which are directly related to the running of machines are no doubt allocated satisfactorily under this method, but difficulty arises in respect of those items which have no bearing at all with the working of machines. (6) *Departmentalization* is a refined form of machine-hour rate for allocating factory overhead expenses. Under this method, expenses are first of all distributed over various departments or production centres which accommodate a group of related machines. After departmentalization of expenses, allocations are made on the basis of machine hours of respective departments. Departmental distribution of expenses is made on a number of bases. For example, rent and rates are distributed on the basis of floor space, electricity and power on meter readings, canteen expenses on the number of departmental workers, and supervision and inspection expenses on the time devoted to each department. Each item of factory overhead is distributed on such a basis as the nature of expense warrants. The only defect of this method is that it involves excessive recordkeeping. (7) *Product-unit number* is also utilized for allocating factory overhead expenses by those enterprises which manufacture standardized products having a few items on the product line. By giving necessary weights to varying units of different products, equitable and proportional distribution of expenses is made practicable under this method. It is the easiest method by which overhead burden is distributed over the total number of units. Through the fixation of a relative weight or proportion between units of two or more products, the actual unit can be transformed into effective units for allocation purposes.

TYPES OF COSTING

Cost accounting has developed several types of costing to suit the varying needs of different enterprises. *Departmental costing, product costing, process costing and job-order costing* are the important methods of costing utilized in manufacturing enterprises. *In departmental costing,* each production unit is made the primary basis for cost compilation. In conformity with the organizational pattern, accounts are maintained in a columnar form so as to classify the expenses of each unit separately. Because of the unitwise breakdown of cost data, a greater degree of control can be exercised over the departments, and their comparative efficiency can be evaluated for effecting improvements in weak spots. *Product costing* is concerned with products, and all accumulated expenses are divided in terms of cost elements and allocated to individual units of products. For control purposes, product costing is not very helpful, although it indicates relationship between cost and price through cost determination. *Process costing* is applicable to those concerns in which the works department is organized with a number of sections for each product and each section is based on a distinctive productive process. It is ideal for control purposes, because it combines good features of three methods of costing, viz., departmental, product and process. *In job-order costing,* each job is treated as a distinct piece of work, and costs are allocated mostly on an actual basis. Cost determination is the obvious object of this method of costing.

STANDARDS FOR COST CONTROL

Cost control cannot be exercised unless adequate standards are developed for measuring and evaluating actual costs against desired costs. Standards provide the criteria with reference to which actual costs can be appraised for seeking improvement in operating results. For making cost reduction through cost control, physical conditions of the work must also be taken into consideration because they point out the way of effecting cost reduction. Accordingly, effective cost control calls for the establishment of cost standards and physical standards in the organization.

Common cost standards may be stated under the following three heads :

a. **Historical Cost.** Past accounting records of cost are used as standards for measuring performance. Past or historical cost becomes a basis for comparison and evaluation of future expectancies. The total cost per unit of output is usually split into elementary parts like direct materials cost, direct labour cost, factory burden and office burden so as to facilitate comparison between items of historical cost and actual cost.

Advantages. (*1*) For using as a standard, historical cost can be ascertained easily and economically from past accounting records. (*2*) The comparative efficiency of the business over a number of years is clearly indicated by it. (*3*) The standard is also easy and simple for understanding on the part of all subordinates and they can be induced to use the standard as a guide to their action. (*4*) Small companies use historical cost widely as their standard and even large companies have to depend upon historical cost for those areas in which no other cost standards are available.

Limitations. But historical cost suffers from a number of limitations. *First,* past working conditions and facilities that produced a certain result might not be present in subsequent years. Accordingly, past cost may fail to serve as a measure of performance in the years to come. *Secondly,* past cost might not represent a satisfactory cost that should be strived for. When historical cost is too high, it results in giving a premium on inefficiencies. *Thirdly,* cost data relating to overhead expenses are not available promptly. As accounting results are prepared and presented several months behind the time of operations, cost figures of last month or last year may not be obtained in time. *Fourthly,* historical cost fails to provide standards for all aspects of the business. As it depends on accounting records for obtaining cost data, cost control becomes synonymous with financial control and operational aspects are left out of control. *Finally,* historical cost can never prescribe what the cost should be under planned conditions of work. Routine performance of the past is allowed to repeat itself without improvement.

b. **Estimated Cost.** Estimated cost of future operations is used by many companies as standards against which actual costs are compared and appraised. Estimated costs are established from the result of past experience, the impact of present conditions and the interpretation of future trends and situations. For serving as control standards, estimated costs are the outcome of study, analysis and judgment on the part of managers. The value of estimated costs becomes as good as they are ascertained by an analyst. When prepared by an expert estimator, this cost is made to represent a realistic picture of the situation and becomes an accurate standard for control.

Advantages. Under certain circumstances, estimated costs provide the best available cost standard (1) In a business with rapidly changing situations as well as with non-repetitive character of activities, estimated costs supply the sensible and practical standard for control purposes. (2) Intangible operations like research, morale development, public relations and so forth, are not subject to control by any other standards except estimated costs. (3) Estimated costs are superior to historical costs as control standards. As estimated cost peers into the future and incorporates the results of forecasts, it provides a sound basis for evaluating actual costs.

Limitations. Like historical cost, estimated costs also fail to prescribe what the cost should be under scientifically determined conditions. *Secondly,* determination of accurate estimated cost is a difficult task and depends upon the knowledge and experience of the analyst.

c. **Standard Cost.** It is standard cost which alone determines what the cost *should be* under satisfactory conditions of work and efficient operations of plant. Standard cost considers the available physical facilities, working conditions and plant capacity so as to arrive at an idea about the expected cost of products or services. It seeks to make all possible cost reductions through the application of improved methods and procedures. For the establishment of improved methods and procedures, standard cost takes the help of time study, motion study and work study. Standard cost is thus the result of detailed study and analysis and is very helpful for control purposes. Standard costs, however, need not be *idealistic in character.* They should be *tailor-made* to meet the needs and situations of a company. Standard costs should represent cost which can be obtained at a reasonable and attainable level of efficiency.

Advantages. Standard costs offer many advantages as a standard for control and serve as a guide to many operations. (1) As standard costs are developed from the study of past operations and existing conditions, they become a pointer to the weaker aspects of operation. (2) Standard costs are prepared from set-up physical standards in respect of materials, labour and overhead burden. Thus standard costs provide both physical standards in quantitative terms and cost standards in financial terms. (3) Because of comprehensive character of standards, cost control exercises a permeating influence on all aspects of operations. Measurement and evaluation of current performance as well as of current expenses become much more effective in character. (4) Since the standard cost provides the desirable cost to be achieved under satisfactory conditions and since most actual costs are higher than the standard cost, the performance can be measured quantitatively by expressing the gap as a percentage of the standard cost. (5) As the standard cost is set up from work study as well as time and motion study, it provides the basis for work simplification, piece-rate wage fixation and methods standardization. (6) Standard costs give aid to budgetary control, particularly for introducing flexibility therein.

Limitations. (1) Standard costs are expensive to set up and difficult to operate in many cases. (2) Standard costs may require frequent revisions of cost standards and physical standards along with changes in operating conditions or processes. Accordingly, standard costs are confined to those enterprises which operate under more or less stable conditions and which carry standardized mass production for a wide market. (3) Standard costs may provide an illusory definiteness to the cost standard. Translation of physical standards into financial terms is likely to become arbitrary and doubtful in many cases. (4) Standard costs have the danger of being outdated very quickly, and to guard against this danger, there arises necessity of continuous study and analysis of cost factors.

COST-VOLUME-PROFIT ANALYSIS

The technique of cost-volume-profit analysis has been developed and thoroughly explained by Spencer A. Tucker.[1] The cost-volume-profit analysis calls for separation of variable cost from fixed cost with a view to understanding the anatomy and structure of profit of a company. *Variable costs* vary directly with the volume of operation, and accordingly, they are also known as volume costs. Variable costs are comprised of direct materials, direct labour and such items of direct overhead as supplies and electricity. *Fixed costs* are static in nature and have no relation with the volume of operation. As fixed costs are incurred with the passage of time over a period, they are also referred to as time costs or period costs. Although the total variable cost varies with the volume, the unit variable cost remains fixed for any volume. Conversely, the total fixed cost does not change with the volume, but the unit fixed cost varies with the volume of operation. In between variable and fixed costs, there are some costs which are partly variable and partly fixed. Again, items of variable cost vary in different proportions and items of fixed cost have varying degrees of fixedness depending upon time. As Robert Y. Durand points out, "If time is short enough, all costs are fixed; . . . . If time is long enough, all costs are variable."[2] Leaving aside these exceptional cases, we may consider the impact of variable and fixed costs on profits.

Profit-volume ratio (PV). The cost-volume-profit analysis leads to the supply of vital information about the marginal ratio, the con-

[1] Spencer A. Tucker, *The Break-Even System : A Tool for Profit Planning* (Englewood Cliffs, N. J. : Prentice-Hall, Inc. 1963), Chapter I.

[2] Robert Y. Durand, *Business : Its Organization, Management and Responsibilities* (Englewood Cliffs, N. J. : Prentice-Hall, Inc., 1958), p. 361.

tribution ratio or the profit-volume ratio (PV). The difference between sales income and variable cost is called the total contribution. The contribution ratio or PV per rupee is obtained when total contribution is divided by sales income. The total contribution and the contribution ratio are explained by the following example:

Total Sales		Rs. 1,200
Variable Cost	Rs. 600	
Fixed Cost	„ 400	
Profit		Rs. 200

The total contribution being the difference between sales and variable cost comes to Rs. 600 in the above example and the contribution ratio or PV becomes 50 paise per rupee by dividing the total contribution by sales (Rs. 600/Rs. 1,200).

Importance of the Analysis. Cost-volume-profit data along with PV calculation are of great significance to companies for controlling and adjusting their operations towards higher profits. Some important uses of this analysis may be indicated as follows:

1. *Results of additional business.* Taking the same example given in the case of PV calculation, results of Rs. 300 additional sales may be considered. The contribution from Rs. 300 @ 50 paise per rupee comes to Rs. 150. As the total fixed cost has been fully recovered, the entire contribution of Rs. 150 goes to swell the profit. In other words, 25 per cent increase in sales from Rs. 1,200 to Rs. 1,500 results in 75 per cent increase in profits from Rs. 200 to Rs. 350.

2. *Evaluation of profit margin.* In a company having two or more products in the product line, profit margin of products cannot be measured and evaluated from the absolute amount of profit per unit or from the percentage of profit on sales. Cost data for two products of a company are presented in the following example:

	Product A Rs.	*Product B* Rs.
Unit Selling Price ..	12	15
Variable Cost ..	6	10
Fixed Cost ..	4	2.50
Profit	2	2.50
Contribution	6	5
PV	.50	.33

Our eyes sometime play tricks on us. The product B appears to be a better one. Product B earns higher profit per unit and the percentage of profit on sales remains the same in both the cases. But PV goes to the heart of the problem and explains that Product A is superior to Product B by contributing 17 paise more for every rupee of sales.

3. *Competitive pricing.* In a competitive economy, companies are sometimes forced to sell products below the total or full cost of production. In such situations, the question arises as to that how far down the price can be reduced. To illustrate the case from the previous examples of Product A and Product B, prices can be reduced from the existing selling price up to the full limit of unit contributions of Rs. 6 and Rs. 5 respectively. So long as contributions last, it would be advantageous to the company to carry on production for minimizing loss.

4. *Improvement in product mix.* Product mix refers to different varieties and quantities of products made and sold by a company during a specified period. In companies having several products in the product line, higher profits depend upon the selection of proper product mix. The following example containing two sets of data for a company having two products explains the problem :

	Product A	Product B	Company Total
Unit Selling Price	Rs. 12	Rs. 14	—
Unit Variable Cost	Rs. 6	Rs. 10	—
Total Fixed Cost	—	—	Rs. 40,000
Unit Contribution	Rs. 6	Rs. 4	—
Case I			
Units Sold	4,000 (No.)	6,000 (No.)	10,000 (No.)
Sales Income	Rs. 48,000	Rs. 84,000	Rs. 1,32,000
Total Contribution	Rs. 24,000	Rs. 24,000	Rs. 48,000
Case II			
Units Sold	6,000 (No.)	4,000 (No.)	10,000 (No.)
Sales Income	Rs. 72,000	Rs. 56,000	Rs. 1,28,000
Total Contribution	Rs. 36,000	Rs. 16,000	Rs. 52,000

That total sales, whether volume or amount, of several products are no indicator of profit measurement is revealed in the above two cases. Total sales are Rs. 1,32,000 in case I and Rs. 1,28,000 in case II. But profits are Rs. 8,000 in case I (Rs. 48,000–Rs. 40,000) and Rs. 12,000 in case II (Rs. 52,000–Rs. 40,000). That is, larger sales do not always imply higher profits. The contribution ratio provides a reliable guide to product mix for selecting the right volume of operations.

Chapter 23

Control of Overall Performance

DEVICES FOR CONTROLLING OVERALL PERFORMANCE

In spite of exercising many and varied controls in various areas and segments of the company, the need for overall control arises from realizing the enterprise objectives, co-ordinating the operations of functional, territorial or product units, regulating divisionalized units with separate profit centres and assuring the financial soundness of the company by way of reviewing capital expenditures and influencing profits.

Important devices for controlling overall performance include the following:

1. Break-even system.
2. Budget summaries.
3. Profit and loss control.
4. Return on investment.
5. Internal audit.
6. Management self-audit.

BREAK-EVEN SYSTEM

Significance of break-even system. Originally invented by Walter Rautenstrauch at the beginning of the century, the break-even chart has been developed into a comprehensive system through the cost-volume-profit analysis (explained in the last section of the previous chapter) for understanding and controlling the profit structure of a company under varying conditions. The break-even system has become an excellent tool for profit planning and controlling by studying the effects of changes in costs, volume, prices and product mix. The system not only furnishes the break-even point, but also provides management with a number of vital information for decision making on profit variables. The mere finding of break-even point pales into insignificance once the other data are available for selecting the best course of action to maximize profits. The break-even point, however, represents the point or level of sales at which fixed and variable costs are just equalized by the amount of sales revenues with neither any profit nor any loss. Sales below this point bring loss to the business and sales over this point generate profit.

Construction of break-even chart. Two prerequisites for constructing the break-even chart are the classification of all expenses into fixed and variable costs and the determination of proper unit for measuring the volume of operation, whether production or sales. The common unit for measuring volume includes the amount of sales, the quantity of output, the percentage of plant capacity or the machine hours used. Basically, there are two lines on a break-even chart, one is the sales or revenue line and the other is the expense or cost line. The two lines intersect at the break-even point.

The break-even chart in Figure 8 is based on certain data —Rs. 40,000 fixed expenses, Rs. 60,000 variable expenses, Rs. 1,20,000 sales revenues and 50,000 units of output at full capacity of the plant. The horizontal axis indicates the scale of production volume in both units of output and percentage of plant capacity. Both sales and total expenses are indicated on the vertical scale with identical rupee values. The parallel line to the horizontal axis shows the amount of fixed expenses by intersecting the vertical scale at Rs. 40,000. Since fixed expenses are incurred even at zero level of operation, the total expense line starts from the fixed expense level and proceeds diagonally for intersecting the expense scale (vertical) at Rs. 1,00,000. The sales line starts from zero value of sales scale and becomes a diagonal one by the intersection of two perpendicular lines, one drawn at Rs. 1,20,000 on the sales scale (vertical) and the other drawn at 50,000 units or 100 per cent capacity level on the horizontal scale. By the intersection of expense line and sales line, the break-even point is arrived at the level of Rs. 80,000 sales, 33.3 thousand units of output or 66.7% of plant capacity.

Break-even Analyses and Formulas. The analysis of break-even chart begins with the determination of break-even point, not ends with it. As profits or losses represent the difference between expenses and sales, the space on the chart enclosed by the expense line and sales line indicates the profit or loss area. For any sales volume within the scale on the chart, measurement of profits or losses can be effected by measuring the vertical perpendicular distance between two lines of sales and expense. Again, for determining the rate of profitability on sales above the break-even point, there arises the necessity of calculating break-even wedges which give an insight

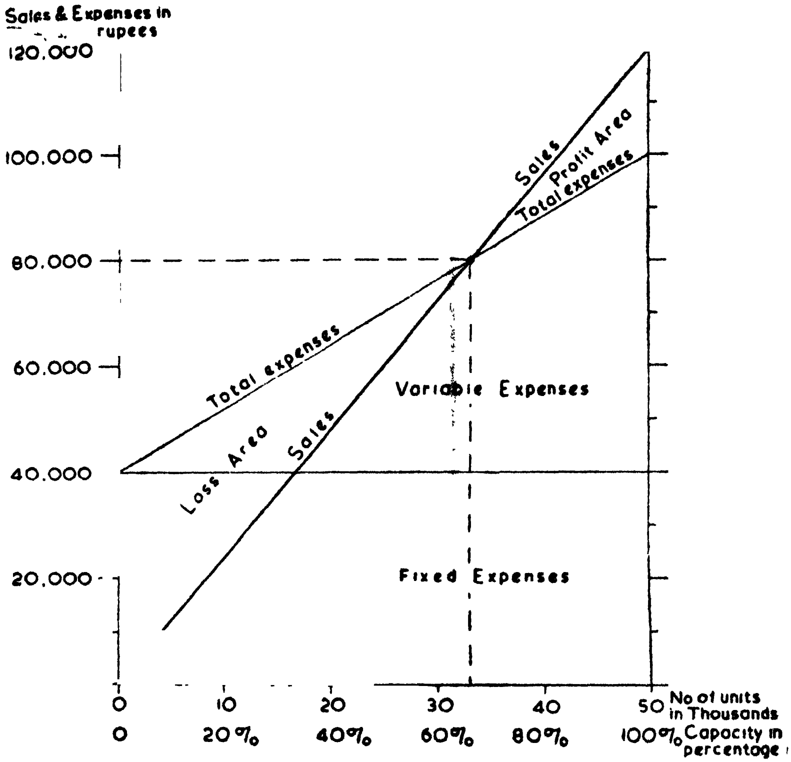

Figure 8. Chart Analysing Break-even Point.

into the profit structure of a company. Break-even wedges are calculated by finding out the slope of the expense line towards the horizontal axis and measuring the angle which the cost line forms with the sales line. Any downward slope widens the angles between expense line and sales line and enhances the rate of profit. In contrast, upward slope of the expense line reduces the rate of profit by closing the angle between expense line and sales line.

For calculating break-even point from any data and making useful analyses, the following are some of the formulas developed by Spencer A. Tucker :[1]

[1] Spencer A. Tucker, *The Break-Even System : A Tool for Profit Planning* (Englewood Cliffs, N. J. : Prentice-Hall, Inc., 1963), pp. 49-52.

a. The contribution being the difference between sales and variable costs (Sales—variable cost), the contribution ratio or profit-volume ratio (PV) can be calculated by dividing the contribution by selling price. The PV provides the convenient yardstick for measuring break-even wedges, i.e., the rate of profitability on sales over break-even point. (PV=Contribution/Selling Price).

b. Once PV is calculated, the break-even point can be found out by dividing fixed expenses by PV (B/E=Fixed Expenses/PV).

c. Since sales=variable cost plus fixed cost (total cost) plus profit (or minus loss), we can find out any one determinant of profits if the other three are given in any situation. Changes in fixed cost affect the break-even point and changes in variable cost affect both the break even point and the PV. As variable cost and selling price which are determinants of PV are more controllable than fixed cost by the direct managerial action, the analysis of PV provides vital information for guidance.

d. Margin of safety indicates the closeness of a level of sales to the break-even point before the starting of actual loss. The formula for the margin of safety is to divide profit by the contribution. (MS=Profit/Contribution).

Benefits. The break-even analysis renders many benefits for managerial guidance and action :

1. *Tool for profit planning and controlling.* Cost, volume, price and product mix being the four variables affecting profit, planning and controlling of profit are better effected by the break-even system which shows the interplay and mutual relationship of these variables. Spencer A. Tucker points out, "The break-even analysis, like a business calculator, can be considered to be a desk-top tool for management with which it can plan, control, pretest, decide and co-ordinate all of its business activities."[2]

2. *Basis for budgeting.* As budgeting calls for marshalling anticipated costs and budgeted revenues for realizing optimum profits, the break-even method can only show the most profitable path for projecting budgets. Historical data are of little use in budgeting because of changes in future costs caused by volume and some non-volume factors. Moreover, as larger sales do not always result in higher profit for the reason of product mix, sound budgeting is not practicable without break-even analysis.

3. *Objectivity in cost controlling.* The break-even analysis introduces objectivity in cost control by indicating the way of controlling costs. Although changes in fixed cost affect the break-even point, it is not susceptible to control by managerial action in the

[2] *Op. cit.*, p. 17.

short run. But variable costs along with selling price are subject to managerial control for improving the PV for better results. As more profits can be earned by enlarging the PV rather than by reducing the cost, the cost accounting system fails to see the forest in the midst of trees without break-even analysis.

4. *Indication of safety margin.* The break-even system not only points out the level of sales at which the company breaks even on expenses, but it also indicates the extent of nearness of sales to the break-even point before losses occur. By providing this information about safety margin, management is forewarned for taking remedial action.

Limitations. The conventional break-even charts tend to be rigid for some limiting assumptions involved therein. Assumptions which are supposed to be valid for the period of the chart include the following:

1. Either one product is made or a group of products having the same volume and contribution margin are dealt in by the company.
2. Selling prices are not affected by the volume and the industry's general price level does not change.
3. Variable costs vary directly with volume of output and sales, fixed costs remain static and semi-variable costs are divided proportionately between variable and fixed costs.
4. There is no time lag between production and sales, and the entire production is sold out.

Changing conditions are the facts of business life and the profit factors which are liable to changes by external forces and internal action include costs, selling prices, volume and product mix. The limiting assumptions of conventional break-even charts can be overcome when changes are reflected and handled correctly by break-even analysis. Rather than being a rigid tool, the break-even system is "as flexible as erasing one line and drawing another."[3] Although the break-even point is valid only for one set of conditions prevalent during the time of preparing the chart and data, the break-even system becomes more useful by providing a precise frame of reference for managerial action and decision making rather than picturing a company's past profit structure. As Tucker says, "break-even system, in effect, sits management at the monitors of a closed-circuit television system which pictures the moving changing state of its profit structure."[4]

[3] *Op. cit.,* p. 48.
[4] *Op. cit.,* p. 95.

BUDGET SUMMARIES

Like any control system, control through budget summaries involves three distinct steps, viz., establishment of standards, evaluation of performance and adoption of corrective actions. Standards of performance prescribed in budgeting are available in handy form in budget summaries. For control purposes, the manager is only required to communicate appropriate standards to subordinates concerned.

Measurement and evaluation of performance are made through budget reports with reference to strategic control points. In budgetary procedure, budget summaries provide all factual information that can be utilized in exercising managerial control over the enterprise. Budget summaries contain the gist of expected results of all departmental budgets, and as such they furnish an excellent basis for exercising overall control by top-management members. As to subsequent steps of measurement and evaluation in controlling, budget reports are the means of measuring and evaluating actual performance in the organization. Budget reports indicate the variations between budgeted and actual results, the reasons for their variations as well as the suggestions as to what should be done for correcting deviations. Thus, budget summaries and budget reports become the principal devices for budgetary control in an enterprise.

Advantages. (1) As a tool for overall control, budget summaries provide an effective means of clarifying and integrating both departmental objectives and enterprise objectives into a hierarchy of objectives. (2) Budget reports of actual results in different areas of the business point out clearly all negative deviations, and thereby they help in taking corrective actions for conforming events to plans. (3) The use of one common monetary unit in evaluating both costs and results in all segments permits an easy comparison between operations in a summarised and understandable form. It enables executives to examine the relevancy of any operation in the light of profit objectives.

Limitations. (1) The most serious limitation in using budget summaries for overall control is an unbalanced emphasis on tangible and intangible factors. (2) Figures in budget summaries may be manipulated for forcing revenues and expenses to conform to plans, and thus the outward form of control is maintained without its substances. (3) Numerical standards of budget summaries lead to symptomatic diagnosis of problems and authoritarian action on the part of executives. Being engrossed in the game of numbers, executives fail to ascertain facts that lie behind the numbers.

PROFIT AND LOSS CONTROL

Profit and loss control indicates the amount of profit which a particular unit is expected to contribute to the enterprise. This form of control is applicable to an entire enterprise or to the self-sufficient unit of an enterprise which alone can contribute a separate profit of its own to the business. To be precise, in a divisional organization structure with distinct profit centres for its autonomous divisions, profit and loss control becomes the tool in the hands of top management for controlling overall performance. As a matter of necessity, this control must be supplemented by budgetary control, cost control and other forms of operational control at the divisional level.

Profit and loss control implies the preparation of a proforma income statement by offsetting probable expenses against expected revenues. That is, a tentative profit and loss account pertaining to the business under control is prepared for the future. The figures of expenses and revenues become the standards, with reference to which operations are controlled. The introduction of profit and loss control must be preceded by a delegation of adequate authority to the divisional or branch manager so as to permit him to exercise some controlling influence on expenses, revenues, and hence on profits. Like other means of control, profit and loss control must not limit good performance by attaching undue sanctity to figures of expenses and revenues.

Advantages. (1) Profits being embedded in the survival objective of the business and serving as the common measuring rod of business performance, profit standards for control prove very useful in evaluating results. (2) The necessity of greater decentralization for introducing this control brings a number of benefits in its wake and promotes development of managerial personnel. (3) When deadly parallel operating units can be established as in the case of product or territorial divisions, this control tool provides an excellent basis for setting standards and evaluating results.

Limitations. (1) Profit and loss control involves too much accounting and recordkeeping in the organization. High expenses required for accurate allocation of overhead expenses between divisions and for detailed recordkeeping of intra-company sales prevent many companies from adopting this form of control. (2) Where adequate authority cannot be delegated to divisional managers, this control becomes inapplicable. In a functional organization structure with several basic and service departments, profit and loss control has a limited use. (3) It cannot be exercised over service activities that are better controlled by budgeting of expenses. (4) For those enterprises in which organization structure has not been perfected and co-ordination is lacking, profit and loss control may do more harm than good by sowing seeds of dissensions and allowing destructive competition between units. (5) It is not a self-sufficient tool for control. Many qualitative and development aspects of operations are required to be kept under strict control through policies.

RETURN ON INVESTMENT

As a control device, return on investment is well designed for controlling operations of large organizations. The performance of decentralized units with separate assets and physical facilities can be evaluated in a significant manner by means of return on investment. An absolute amount of profit is no measure of business success in many cases. Capital utilized to earn profit must be taken into consideration for judging adequateness or otherwise of profits in a business. The percentage of profit earned on invested capital is expressed by return on investment. Besides indicating the profit position of a company, the return on investment provides a basis for comparing efficiency of one business with another.

Reduced to its simplest form, the return on investment means the *ratio of earnings to total investment* in a business. Sales minus cost of sales represent net earnings and total investment consists of fixed capital and working capital of the organization. As the major part of fixed capital lies invested in fixed assets, difficulty arises for calculating the amount of fixed capital. For valuing fixed assets, opinion is equally divided between two schools of thought. According to one group, the gross value of assets, without depreciation, should be taken for calculating investment, since fixed assets continue to earn revenue unless they are disposed of. Moreover, fixed assets at their original value provide a stable basis for comparing returns. On the other hand, many companies prefer to take the net value of fixed assets, for reasons that depreciation reserves are reinvested in the business and that revenue-earning capacity of fixed assets decreases as years roll by.

The chart in Figure 9 explains how return on investment affects many key operating factors of a business. For linking different factors, the chart proceeds in a round about way rather than stating simply that return on investment is equivalent to *earnings divided by investments* ($R=\frac{E}{I}$).

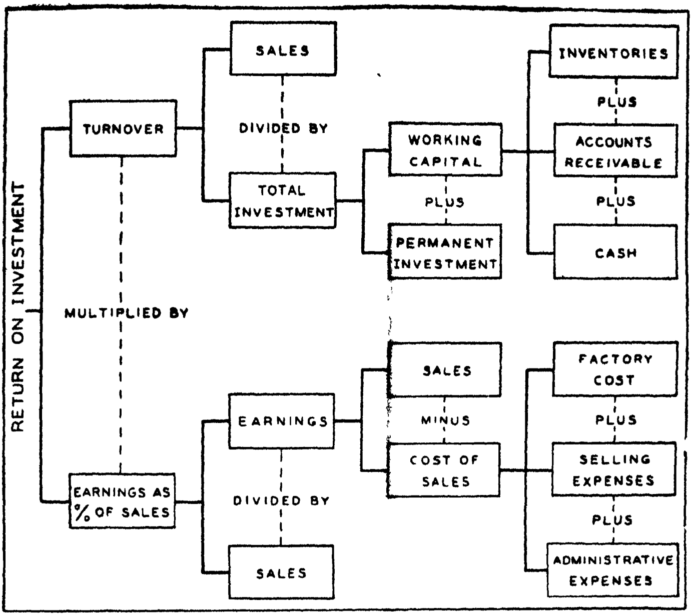

Fig. 9. Chart Explaining Return on Investment (Adapted from *DuPont Company chart appearing in AMA, Financial Management, series No. 94*).

The chart shows that return on investment is equal to *turnover multiplied by percentage earning on sales* ($R=T\times e$).

In the second step, the chart shows that turnover is equal to *sales divided by investments* ($T=\frac{S}{I}$) and percentage earning on sales is equal to *total earnings divided by sales* $e=\frac{E}{S}$)

By equating two formulas involved in the second step ($\frac{S}{I}\times\frac{E}{S}$), one can easily find that $R=\frac{E}{I}$.

The analysis of return on investment through the chart clearly reveals the way of improving investment return by several methods. From the first step of analysis, it is apparent that return can be improved by increasing either turnover or percentage earnings as well as by doing both. In the second step, turnover can be increased by expanding sales or reducing total investment, and percentage earnings can be increased by enhancing total earnings. In the remaining two steps, total investment can be reduced for inproving return by curtailing working capital, permanent investment or components of working capital, and total earnings can be increased for improveing return by reducing cost of sales or components of cost of sales.

Advantages. Return on investment has a number of advantages :—

1. Effective utilization of capital or facilities is stressed as the criterion of control throughout the organization. In large enterprises, the task of securing balanced use of facilities poses a difficult problem. But such problem can be easily overcome by the introduction of return-on-investment control, and subordinate managers can be made accountable for developing a greater sense of responsibility

2. By linking income with assets, the return on investment reveals weak areas of the business and provides opportunity for taking managerial action at an early date. Decline in sales, rise in inventories and extra expenses will be immediately reflected on the reduced rate of return. In tracing out contributory factors of lower rate, unsatisfactory aspects of operation can be brought to light and set right by managerial actions.

3. Moving a step further from profit and loss control and linking profits with capital investments, it compels executives to focus attention on end results of business in terms of profits after considering many other aspects of operation.

4. It provides an effective means of control over decentralized units or divisions. Apart from giving a complete guide to efficiency, it permits to study the comparative efficiency of units within the company or with other enterprises.

Limitations. There are several limitations of this control device :—

1. Irrespective of the basis for valuation, there remains the issue of changing price levels. Assets acquired before the war cannot portray the correct value in either of the methods. To provide for such situations, the original value is required to be adjusted in the light of current price levels.

2. The use of return on investment calls for fixing a standard rate of return. What constitutes an ideal rate is a debatable and questionable one.

3. The return on investment is a financially based control. Too much emphasis on financial factors cuts short the scope of development, progress or innovation by research, management development and public relations. As profits can be inflated by curtailing expenses, these managed expenditures become the first victim of an attempt towards profit maximization.

4. It involves too much paperwork and calculation, and results are not worth the trouble so far as small businesses are concerned.

INTERNAL AUDIT

Internal audit is a means of controlling overall performance in the organization. Internal audit is carried on regularly by managers themselves or by a special staff appointed for the purpose. The object of internal audit is to appraise financial and operational aspects of a company's work on a continuous basis. As opposed to external financial audit which remains aloof from operational aspects of business, internal audit is much broader in scope and encompasses the whole range of business operations. In contrast to external audit, internal audit not only provides checks in the organization, but also maintains balance between activities on the basis of *checks and balances principle.*

Benefits. (1) Internal audit feeds managers with a perennial source of information for exercising effective control. By measuring performances, evaluating results and recommending suggestions for remedial actions, internal audit may be instrumental for forcing events to conform to plans. (2) The plan itself may be subjected to a critical study under an internal auditing programme so as to find out its appropriateness and effectiveness in the organization. Particularly, policies and procedures are appraised to see their relevancy and contribution towards the attainment of enterprise objectives. Briefly, internal audit may be utilized as the keeper of managerial conscience in the organization. (3) The introduction of an internal auditing programme tones up morale fibres and working efforts of all members in the organization. The risk of being exposed before the eyes of managers induces persons to keep within the track and to avoid errors of omission or commission. (4) Internal audit scrutinises accounting and financial data to screen facts from the mountains of figures and statistics. Thus accounting for management information can be made to prevail under a programme for internal audit.

Limitations. Despite these benefits of internal audit, there are some limitations. (1) The installation and operation of internal audit involve extra expenditures which cannot be met by many small concerns. As a matter of fact, internal audit is confined to larger business. (2) Internal audit is as good as the use made of it. There are occasions when managers cannot accept the finding of internal audit and take consequent actions. This defect arises mainly from deficiencies of the internal auditing staff. Because of their advisory staff position, unfamiliarity with operating aspects of work and accounting bias, internal auditors fail to be of any real help to the manager in many cases.

Internal audit becomes vibrant and pulsating in action when it is entrusted to a *centralized control unit.* In the field of control, the centralized control unit has made its debut in recent years for elevating the system of internal audit to a new height and supplying greater and wider control information to managers. *Integrated data processing through computers* has brought about revolutionary changes in the communication system and made the centralized control unit indispensable for large enterprises. Determining who needs what information, new data are fed into the centralized computer centre for being processed through combination with other stored-up data into required information.

MANAGEMENT SELF-AUDIT

It is management that can keep a business running and thriving in the midst of endless difficulties. All facilities in the form of men, machines, money and materials are utilized by management for achieving certain results, and they produce as much results in any organization as they are directed and controlled by its management. In a sense, management represents the whole business, because decisions of an enterprise mean decisions of its management, performances of the organization imply managerial performance, or leadership of the concern stems from leadership of its management. Accordingly, failures of the enterprise must also be ascribed to its management team.

Self-audit is an insurance against complacence and illusions on the part of management members. Self-audit is an audit conducted by the managers themselves along certain recognized lines of approach. Appointed auditors, whether internal or external, provide a poor check on managerial performance. Their business is to see that performances are neither below par nor deceptive in character. Strictly speaking, what is wanted by sound management is not normal performance, but it expects high performances, superb performances rather unique performances. Evidently, it is beyond the powers and capacity of the auditing staff to look for this type of managerial performance in the organization.

Self-audit is a means of ascertaining the present position of the enterprise and studying how it has progressed over years, and where it will be five years hence or ten years hence. The ever-changing social, political, economic and technical conditions force the enterprise to operate under a dynamic climate. To be in tune with this dynamic situation, management too must become dynamic in its functions. The planning programme is to be reviewed periodically for replacing old objectives, policies and procedures by their new varieties. Likewise, techniques of organizing, directing and controlling are to be oriented in the light of changing conditions. In addition, work facilities are to be renovated to keep pace with the progress of time. It is through the medium of self-audit that managers can verify where the company stands presently and where it is heading along. Put in brief, self-audit is the hall-mark of sound management in any enterprise.

Self-audit is conducted periodically at an interval of two years, three years, or even five years. It examines the position of the company from a broader setting of things. The position of the industry in which the company is engaged is first ascertained for comparative evaluation purposes. Of the industrial total, the percentage share of company's business provides a good index for measuring success. In view of these findings, objectives are redefined and policies restated to achieve a greater success in the years to come. Focusing managerial attention on long-term objectives is the special contribution of self-audit. In their preoccupation with short-term objectives and day-to-day operations of the business, managers are apt to become unmindful of the importance of long-term objectives. But it is in the mould of long-term objectives that short-term objectives are cast. Consequently, forgetting long-term objectives amounts to providing an aimless guide to operations in the organization.