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School of Management Studies

BCOC-132
Business Organisation and Management

Management, Organisation and Control

3

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Block

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MANAGEMENT, ORGANISATION AND CONTROL

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BLOCK 3 MANAGEMENT, ORGANISATION AND CONTROL

You have learnt about foundation of Indian business in Block 1 and Business enterprises in Block 2. This block discusses in detail about the importance, process and principle of planning, the process of decision making, process and structure of organisation, bases of departmentation, delegation and decentralisation of authority and techniques of control.

Unit 9 deals with the nature and importance of planning, the process of planning, types of planning, essential principles of planning, and decision making.

Unit 10 describes the importance and structure of organisation, the concept of formal and informal organisation, the span of supervision, organisational charts and manuals.

Unit 11 deals with the concept of departmentation, bases of departmentation and the forms of authority relationships.

Unit 12 explains the process and principles of delegation of authority and the concept of centralisation and decentralisation.

Unit 13 discusses the characteristics and importance of control, stages in the control, effective control and techniques of control.

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UNIT 9 PLANNING AND DECISION MAKING

Structure

9.0 Objectives
9.1 Introduction
9.2 What is Planning?
9.3 Nature and Characteristics of Planning
9.4 Importance of Planning
9.5 Limitations of Planning
9.6 The Process of Planning
9.7 Forecasting as an Element of Planning
9.8 Types of Planning
9.9 Principles of Planning
9.10 Decision Making
9.11 Let Us Sum Up
9.12 Key Words
9.13 Answers to Check Your Progress
9.14 Terminal Questions

9.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning, nature and importance of the managerial function of Planning
- discuss various steps of the planning process
- describe the major types of planning-such as strategic planning, tactical planning, long-range planning and short-range planning
- enumerate and explain the principles on which planning is based; and
- discuss the process of decision making.

9.1 INTRODUCTION

Planning is recognised as a key function of managers at all levels in the organisation. Of late, there has been a vigorous surge of interest in planning all over the world-especially corporate, long-range and strategic planning. In this Unit, you will learn the fundamentals of planning i.e. its meaning, nature, characteristics, importance and limitations. You will also learn the elements and steps in the planning process, and the role of forecasting in planning. You will further learn the concepts of strategic planning, tactical planning, long-range planning, short-range planning and the essential principles of planning as well as the process of decision making.

9.2 WHAT IS PLANNING?

Most of us are fairly familiar with the meaning of planning in our everyday life. We do often decide in advance about the things to be done on a busy working day. Parents make advance decisions on the education of their children. As students, you may think in advance how to go ahead with the preparation for your examination? How to make use of your time in the best possible manner and so on? Laymen understand planning as some systematic way of deciding about and doing things in a purposeful manner.

However, in the context of formal organisations and their management, the concept of planning has a specific connotation. It means deciding in advance what is to be done in the future for a specific period and then taking the necessary steps to do the things decided upon. It means looking ahead into the future and trying to anticipate what is it likely to be, how will it affect the organisation, what direction the organisation should take, and how to cope with the future events? Planning also implies determination of courses of action from among alternatives to achieve the goals of the organisation, both in the immediate future and in the long run. The very notion of planning brings to mind such images as neat, orderly and disciplined approach to work, goal-oriented behaviour, thinking about and arranging things in advance, careful allocation of scarce resources, and so on. In short, planning may be defined as the process of setting future objectives and deciding on the ways and means of achieving them.

9.3 NATURE AND CHARACTERISTICS OF PLANNING

The managerial function of planning has certain unique characteristics of its own, which distinguish it from the other managerial functions. It also shares a few characteristics with other managerial functions. All the characteristics together reflect the nature of the planning function. They are discussed as below:

i) **Primacy of planning :** Planning precedes all other managerial functions. The process of management begins with planning. Planning provides the basis for the subsequent functions of organising, staffing, directing and controlling, though all the functions are highly interrelated and are equally important. Planning is the prime function from which the other functions get the necessary base.

ii) **Planning as a process :** Planning is a process involving a few stages or steps. It is a sub-process of the process of management. The planning process begins with identification of mission and goals of the organisation and ends with making arrangements for implementation of plans.

iii) **Pervasiveness of planning :** Planning is a pervasive function of managers at all levels of the managerial hierarchy, right from the chief executive down to the first line supervisor. However, the content and quality of the function differ from level to level. The time devoted to planning also differs. Typically, the chief executive and other top level managers concentrate on corporate-wide planning function. Their decisions on planning have far-reaching effects on the organisation. Managers at middle and lower levels have more limited planning functions.

Planning is also pervasive across the various organisational functional areas. In a manufacturing enterprise, for example, we come across such planning activities as production planning, materials requirements planning, manpower planning, financial planning, and so on.

iv) **Future orientation :** Planning is invariably future-oriented. Henri Fayol defined planning as the process of looking ahead (thinking ahead) and making provision to tackle future events and situations. The concern for future makes sense to the extent that planning is intended to cope with uncertainties and unknowns which unfold themselves as one marches into the future.

It is needless to state that planning cannot be anything other than future-oriented; one does not plan for the past and the present. Of course, while planning for the future, managers consider the relevant events and situations of the past and the present within and outside the organisation.

v) **Information base :** Planning is backed by information. Without information, planning exists in a vacuum. Information on the past trends, current conditions and future possibilities are essential for planning. Information is needed to diagnose planning issues and problems, to develop alternative courses of action, to evaluate them and to make final choice of plans.

vi) **Rationality :** Planning is a rational managerial activity. It implies that planning is a purposeful and conscious managerial function. It is backed by adequate information, knowledge and understanding. Managers who are planners are somewhat objective and fair in their approach to planning. They have a reasonably clear idea of the planning issues and know how to tackle them. They make planning decisions with some awareness of their consequences.

vii) **Formal and informal nature :** Planning has both formal and informal elements. Formal planning refers to a systematic and rigorous process of arriving at planning decisions through investigation and analysis of the various factors. Formal planning is more explicit, and open; responsibility for various aspects of planning is pinpointed among managers. Plans are put into writing and are communicated through the organisational channels of communication to the various managerial levels.

Informal planning is done by managers through an intuitive process. Managers carry plans in their heads in the form of specific but flexible intentions and communicate them to others through word of mouth. Informal planning may also be viewed as a trial and error, fragmented, intermittent process as against a systematic step-by-step and logical process of formal planning.

viii) **Intellectual process :** Planning is an intellectual process and requires certain conceptual skills. It requires abilities to think both in abstract and concrete terms, to visualise and look ahead into the future and to form ideas and images of future expectations and desires. Planning also calls for intellectual abilities to anticipate opportunities and threats in the environment, to diagnose problems, develop alternative courses of action, and analyse them for choosing the right course.

ix) **Pragmatic, action-orientation :** Although planning is an intellectual thinking activity, it is primarily pragmatic and action-oriented. Planning precedes action and is often described as action laid out in advance. To think before acting and to decide before doing are part of the discipline and culture of planning. The focus is on action ability of plans, i.e., their quality of being implementable. Planning is also reality-oriented.

x) **Planning as a form of decision making :** Planning involves problem solving and decision making. It is a process of identification of issues and problems needing decisions, collection of relevant information, evaluation of alternative courses and choices of the most appropriate alternative. Decisions are made on organisational objectives, strategies, policies, programmes, procedures and other plans. They are all choices from alternatives. They also involve mobilisation, allocation and commitment of resources and efforts in specific ways.

xi) **Planning premises :** Planning is based on certain assumption and estimates about the future behaviours of events and situations in the environment. These are formally known as planning premises which are derived through the process of forecasting. Without such assumptions planning becomes an empty speculative exercise. Managers make promises or assumptions about the future events for purposes of planning, in order to have a sense of security and certainty in the midst of grave uncertainties and complexities of the environment.

xii) **Dynamism :** Planning is a dynamic process. It is a process of making the organisation selectively move and change in tune with relevant changes in the external environment. It is a process of building flexibility and adaptability into the functioning of the organisation. It is a process of making continuous assessment and reassessment of the goals, resources, directions, opportunities and problems of the organisation and converting them to serve its needs.

xiii) **Levels of planning :** Planning is often divided into a few levels on the basis of their scope, significance and time span. On the basis of scope, there are two levels: (1) corporate planning covering the entire organisation, and (2) sub-corporate or functional planning carried on within the various functional units or divisions. On the basis of significance, we may divide planning into strategic planning and tactical or operational planning. On the basis of time span, there are two levels: (1) long-range planning covering periods of more than one year in general, and (2) short-range planning covering a period of one year or less.

The division of planning into various levels facilitates analysis of the dimensions and critical elements of planning. Even so, planning is an integrated function. Thus, different levels of planning should be balanced and coordinated so that they support one another.

xiv) **Types of plans :** The process of planning produces several types of plans which may be viewed as a series or hierarchy of decisions and 'action packages'. They include: objectives or goals, strategies, policies, programmes, budgets, schedules, procedures, methods, rules and so on. Some of the plans such as objectives and budgets serve as integral elements

of the planning process while others such as policies, procedures, rules and methods serve as facilitating tools for smooth planning. All the plans are categorised into two broad groups: (i) single use plans, and (ii) standing plans. Single use plans are those which are designed to meet specific, non-repetitive and unique situations, while standing plans are those which are fairly stable and are meant to handle a wide range of repetitive situations over a period of time.

9.4 IMPORTANCE OF PLANNING

The importance of the planning function should have been clear after all that you have read about it till now. We may outline the importance of planning function as follows:

i) **Provides direction :** Planning provides a clear sense of direction to the activities of the organisation and to the job behaviour of managers and others. It strengthens their confidence in understanding where the organisation is heading and what for, how best to make the organisation move along the chosen path, and when should they take what measures to achieve the goals of the organisation.

ii) **Provides opportunity to analyse alternative courses of action :** Another source of importance of planning is that it permits managers to examine and analyse alternative courses of action with a better understanding of their likely consequences. If managers have an enhanced awareness of the possible future effects of alternative courses of action, for making a decision or for taking any action, they will be able to exercise judgement and proceed cautiously to choose the most feasible and favourable course of action.

iii) **Reduces uncertainties :** Planning forces managers to shake off their inertia and insular outlook. It induces them to look beyond those noses, beyond today and tomorrow, and beyond immediate concerns. It encourages them to probe and cut through complexities and uncertainties of the environment and to gain control over the elements of change.

iv) **Minimises impulsive and arbitrary decisions :** Planning tends to minimise the incidence of impulsive and arbitrary decisions and adhoc actions. It obviates exclusive dependence on the mercies of luck and chance elements. It reduces the probability of major errors and failures in managerial actions. It injects a measure of discipline in managerial thinking and organisational action. It improves the capability of the organisation to assume calculated risks. It increases the freedom and flexibility of managers within well-defined limits.

v) **King-pin function :** As stated earlier, planning is a prime managerial function which provides the basis for the other managerial functions. The organisational structure of task and authority roles is built around organisational plans. The functions of motivation, supervision, leadership and communication are addressed to implementation of plans and achievement of organisational objectives. Managerial control is meaningless without managerial planning. Thus, planning is the king-pin function around which other functions are designed.

vi) **Resource allocation :** Planning is a means of judicious allocation of strategic and scarce resources of the organisation in the best possible manner for achieving strategic goals of the organisation. The strategic resources include: funds, highly competent executives, technological talent, good contacts with government, exclusive dealer network, and so on. If the organisation enjoys a distinct advantage in possession of such resources, a careful planning is essential to allocate them into those lines which would strengthen the overall competitive position of the organisation.

vii) **Resource use efficiency :** For an ongoing organisation, planning contributes towards a more efficient functioning of the various work units. There is better utilisation of the organisation's existing assets, resources and capabilities. It prompts managers to close gaps, to plug loopholes, to rectify deficiencies, to reduce wastage and leakages of funds, materials, human efforts and skills so as to bring about an overall improvement in resource use efficiency.

viii) **Adaptive responses :** Planning tends to improve the ability of the organisation to effectively adapt and adjust its activities and directions in response to the changes taking place in the external environment. An adaptive behaviour on the part of the organisation is essential for its survival as an independent entity. For a business organisation, for example, adaptive behaviour is critical in technology, markets, products and so on.

ix) **Anticipative action :** While adaptation is a behaviour in reaction and response to some changes in the outside world, it is not enough in some situations. In recognition of this fact, planning stimulates management to act, to take bold initiatives, to anticipate crises and threats and to ward them off, to perceive and seize opportunities ahead of other competitors, and to gain a competitive lead over others. For the purpose, some enterprises establish environmental scanning mechanism as part of their planning systems. Thereby such enterprises are able to direct and control change, instead of being directed and controlled by the pervasive external forces of change.

x) **Integration :** Planning is an important process to bring about effective integration of the diverse decisions and activities of the managers not only at a point of time but also over a period of time. It is by reference to the framework provided by planning that managers make major decisions on organisational activities, in an internally consistent manner.

Check Your Progress A

1) Which of the following statements are **True** and which are **False**?

   i) Among other things, planning implies determination of concern of action from among alternatives?

   ii) Planning follows all other managerial functions.

   iii) Planning cannot be future-oriented as the future is always uncertain.

   iv) Planning has both formal and informal elements.

   v) Planning reduces the probability of major errors in management.

2) Fill in the blanks:

   i) Planning is the process of setting ..... objectives.

   ii) ..... and ..... of planning functions differ from level to level of management hierarchy.

   iii) Informal planning is done through the .... process.

   iv) As planning requires certain conceptual analytical skills, it is regarded as all . . . . . process.

   v) Assumptions and estimates about the future events are known as planning.....

   vi) Plans which are drawn to meet specific, unique situations are known as.....

   vii) Planning is a means of judicious ..... of resources.

   viii) Planning stimulates management to take .....

9.5 LIMITATIONS OF PLANNING

You have learnt the nature and importance of planning. Let us now discuss its limitations.

i) Based on certain assumptions : Planning is based on certain assumptions or premises derived from forecasts about the likely behaviour or relevant future events and variables. If such assumptions or premises turn out to be wide off the mark, the very basis of plans get affected. Afterall, forecasting is not an exact science.

ii) Incomplete information : The information needed for planning is often incomplete. It may not be available in time and its reliability tends to be doubtful. In several situations, managers are forced to make planning decisions on the basis of partial knowledge because of time lags and credibility gaps in information.

iii) Lack of control : Managers have little knowledge and less control over several elements of external environment. There is often go way to bring external situations under the discipline of planning. Several external events tend to influence organisational activities and plans in random and perverse ways, as for example, natural calamities, sudden strikes, government policy changes, and so on.

iv) Difficult to change with the changing environment : Planning, under conditions of rapid changes in the external environment tends to be a tough job. Plans would become quickly outdated and irrelevant even before they are implemented. Though flexible plans would be of some help under such conditions, there are also limits on injecting flexibility into organisational plans.

v) Fluid process : Planning is essentially a fluid process in the sense that it is always in a state of flux. This is because of the march of the times and the subtle changes which characterise the future as it unfolds. Future is always a moving target. It is not easy to visualise an integrated and composite view of the past, present and future for planning purposes.

vi) **Delay in action :** Since planning means thinking and deciding before doing things, it is likely to delay action. For one thing, thinking and deciding are somewhat slow intellectual exercises. Many managers may not have the time or taste for such exercises. For another, managers attach more importance to action and that too timely action wherein lies much activism and dynamism.

vii) **Rigidity :** The plans produced through the planning process tend to introduce rigidity into the functioning of the organisation. Managers are likely to insist on strict compliance with pre-determined plans. This may sometimes mean foregoing new opportunities and better options. A faithful conformity with plans would stifle initiatives beyond the established ways and routines.

viii) **Plans might remain on paper :** At the other extreme, it is also likely that plans remain on paper as some sacred documents worthy to be respected and preserved are not followed or implemented. They may be far removed from realities such that managers regard them as "untouchables'. Alternatively, managers may be too busy in struggling with crises to find time for going along planned courses.

ix) **Difficult to implement at unit level :** It may be easy to formulate broad plans at the corporate level. Problems are likely to arise when managers try to prepare more detailed plans in physical and financial terms at functional and unit levels for purposes of implementations. The detailed plans, if and when prepared, may not reflect the intents of the broad plans in a consistent manner.

9.6 THE PROCESS OF PLANNING

We have stated earlier that planning is a process consisting of certain steps or series of sequential activities. There is no generally accepted or standard format of the planning process. Different authors have their own ways of conceptualising the planning process. Let us discuss one of the conceptual schemes of the process of planning.

i) **Planning to plan :** Planning does not just occur on its own or with the issue of an order from the chief executive. It has to be properly and carefully decided upon and planned. The management of the organisation has to inject a culture of planning at all the levels of management by highlighting the imperatives and virtues of planning as also the philosophies and techniques embedded in it. It has to educate the managers in various departments by arranging training programmes and conferences on the methodology of planning so as to improve their competence to plan. The required planning system has to be designed and activated. This is especially so with regard to a new organisation.

ii) **Appraisal of internal situation :** In this step, top management in collaboration with other managers, have to make an analysis of the current state of affairs with the organisation; its existing plans, processes, activities, performance levels, achievements and problems. It is essential to review in detail the specific strengths and weaknesses of the organisation in its sphere of operations. For example, products and services it supplies,

financial position, manpower and managerial resources, competitive position, profitability levels, market image, manufacturing and other facilities, R&D advantages, capital structure, and so on. Management has also to make forecasts and projections of the likely future position and trends of the organisation's activities in all the above areas.

iii) **Appraisal of the external environment :** Top management of the organisation is vitally concerned with the analysis of external environmental conditions for planning purposes. This facilitates them in understanding the elements and events in the world outside the organisation which affect its present and future functioning. Appraisal of environmental trends in economic, social, technological and other means of relevance for the organisation is to be continuous process. Not only the present but also the likely future trends have to be appraised through systematic scanning and forecasting mechanisms. This will enable the organisation to identify the present and future opportunities and threats in the various external elements with which the organisation is directly concerned.

iv) **Definition of key areas and issues for planning :** The appraisal of internal and external environmental conditions gives to the management an idea about what tentative planning the organisation needs. Managers have to ask themselves whether, in the light of external appraisal, the existing businesses, products, markets, processes and practices are relevant, and which aspects of them have to be retained, strengthened, refined and modified. The analysis also may reveal the need for new directions to strengthen the competitive position of the organisation, and to bring about a better alignment between the organisation and the external environment. It may also unearth the possibilities of going into new businesses, new technologies, new products and new markets. An important outcome of the above appraisal is identification of possible measures necessary to cope with environmental opportunities and threats, which are likely to help or hinder, as the case may be, the performance and progress of the organisation.

v) **Development of alternative plans for evaluation and choice :** In this stage, managers have to apply their creative and innovative skills to generate alternative plans, missions, objectives, strategies, policies and programmes, etc., on the basis of assessment of planning needs. They are generally of corporate-wide and long-range in character, ranging from 5 to 10 years ahead, depending on circumstances. Development of alternative plans calls for an intensive thinking and search on the part of managers. For example, a business enterprise has several options to increase its economic power and profitability by increasing the sales of its existing products in the existing markets, by exploring new markets, by going in for new products, by acquiring outside enterprises and so on. The objective of improving its economic power could be achieved by one or a combination of some of the above alternative strategies.

An important part of this stage is the evaluation of alternative plans by reference to their comparative merits and demerits whereupon choices have to be made from among the alternatives on the basis of certain predetermined selection criteria. The choices are the decisions of managers which will chart the long-range directions of the organisation for a specified period of time.

vi) **Formulation of medium range and short-range plans :** The long-range set of organisational plans provide the basis for formulation of more specific medium range and short-range plans. Medium-range plans have a time span of more than one year but upto three years in general. Short-range plans have a duration of one year or less. Medium-range plans and short-range plans are progressively more specific than long-range plans. Short-range plans are also called operational plans and the process of formulating them is called 'Operational Planning. Medium range plans and short-range plans are generally formulated in such functional management areas like manufacturing, marketing, purchase, personnel, finance, R&D and so on. They are further de-composed into more detailed sectional and unit plans valid for basic units of operations in the organisation.

vii) **Arrangements for implementation of plans :** Effective implementation of plans and decisions is the crux of the planning process. Since plans are implemented by managers and others at various levels of the organisation, it is essential for top management to enlist their co-operation, participation and commitment for the purpose. Authority and accountability have to be pinpointed specifically among the various managers for implementation of plans, for acquiring and allocation of resources and tasks, for making day-to-day decisions and taking initiatives and for activating the communication system in the organisation.

9.7 FORECASTING AS AN ELEMENT OF PLANNING

We have stated earlier that forecasting is an essential element of the planning process. The term forecasting refers to the process of making systematic but tentative appraisal of future conditions and events for a specified period of time - whether for a few months or, a few years ahead. It is a process of predicting relevant future situations which are likely to affect the activities of the organisation. It is an attempt to look ahead and make tentative estimates and projections of the behaviour of relevant variables in the environment.

Since planning is future-oriented, forecasting is a basic ingredient of the planning process. Forecasting provides vital clues to managers on what the future problems and prospects are likely to be for the organisation. By means of forecasting, managers generate information on several dimensions and aspects of the environment, i.e. economic, social, technological, and political. These are directly relevant to the functioning and fortunes of the organisation and which directly influence the planning and other decisions, initiatives and responses of managers. Forecasting is necessary to enable managers to get important inputs for planning and to make informed judgement about the likely impact of the external forces on the organisation's present and future courses of action. Organisational plans are based on proper and reliable information generated by managers through forecasting and other means.

For a business enterprise, for example, several aspects of future trends should be understood through forecasting. They include: future sales trends of the products and serivices of the enterprise based on an assessment of future demand, supply, cost and competitive conditions, likely levels and trends of profitability,

future technological changes, general economic and industry trends, likely emergence of new products, new processes and new markets, probable changes in population characteristics, their levels of income, life styles and buying patterns and so on.

The individual enterprises may be able to get part of the above information on the basis of forecasts made by other agencies like government, trade associations, academic and research organisations, consultancy firms and so on. But forecasts on internal variables like sales, profits, market share, cost trends etc. have to be made by the enterprise itself.

Forecasting and Premising : For purposes of formulating plans, managers have to convert the appraisals, estimates and projections about the future events into certain meaningful assumptions, which are known as planning Premises. This conversion process is called Premising, which is an essential follow-up action after forecasting. Planning premises form the foundation of organisational plans. They are in the nature of informed guesses of managers with respect to specific future trends. A few examples of planning premises are given below :

a) The enterprise will maintain its competitive strength over the next four years.

b) There will be revolutionary developments in TV technology during the next five years.

c) There will be future liberalisation in the economic and industrial policies of government with respect to big business enterprises.

Planning premises are categorised in various ways. **External Premises** relate to general economic and business conditions, social, political, technological and other trends. **Internal Premises** are confined to the activities of the enterprise; for example, cash flow, cost of products and services, profitability and so on. **Tangible Premises** are quantitative in nature, as sales volume of Rs. 50 crores. **Intangible Premises** are qualitative, as for instance the competence and character of managerial personnel in the organisation. **Controllable Premises** are those which are manageable by the enterprises (example: advertising expenditure). **Uncontrollable Premises** relate to acts of god or man about which little can be done by the industrial enterprise (example: A big fire in the plant, government policies etc.)

Forecasts and planning premises are different from plans. The former outline what the future is likely to be. The latter underline what the enterprise should do in future. Further forecasts and planning premises do not reduce the complexity and uncertainty of the future. They only aid managers in understanding the state of complexity and uncertainty of the behaviour of future events and in going ahead with confidence to cope with them.

It is true that forecasting is most unlikely to be perfect and that it is in fact a hazardous exercise especially in a situation of rapidly changing external conditions. Forecasts are only approximations and estimates. Future events may not behave exactly according to forecasts and premises made by managers. But still forecasting before formulating plans is an inescapable exercise. Without intelligent and systematic forecasting, organisational plans would be mere expectations and pious wishes.

Check Your Progress B

1) Fill in the blanks :

   i) The information needed for planning is often and may not be .....

   ii) One of the limitations of planning is that it is essentially a ..... process.

   iii) Appraisal of the external .... is an essential requirement in the planning process.

   iv) Forecasting provides vital ..... to manager about the future problems and prospects.

   v) The estimated sales for the future is an example of ..... premises for the managers of a company.

2) Which of the following statements are **True** and which are **False**?

   i) Planning leads to delayed action as it involves prior thinking.

   ii) Development of alternative plans is most essential for planning at the functional level.

   iii) Forecasting and premising for planning are one and the same thing.

   iv) Planning premises and forecasting reduce the uncertainties and complexities of the future.

   v) Medium-range plans have a duration of more than one year.

9.8 TYPES OF PLANNING

Planning may be categorised into several types on the basis of certain variables. Here we will divide the function of planning into four categories on the basis of two variables i.e. degree of comprehensiveness and time span. On the basis of degree of comprehensiveness, planning is divided into strategic planning and tactical planning. On the basis of time span, we may divide planning into long-range planning and short-range planning. Let us have a brief idea of the four types of planning.

Strategic Planning : The term strategic planning refers to the process of determining the integrated organisation-wide courses of action to achieve the major objective of the organisation. The term has a military origin where it is used to describe the process of formulation of military campaigns to achieve military goals of defending the home territory and defeating the enemy forces. In military parlance, strategic planning covers such aspects as how to attack the enemy and from how many fronts, the size and combination of ground forces, air forces and naval forces, the amount of resources to be deployed, the timing of the various moves, the areas to be fortified and defended and so on. The term acquired great significance in non-military situations also. We often hear of strategies to achieve the goals of Five Year Plans at the national and regional levels, strategies for solving rural drinking water problems, strategies to reduce the growth rate of population and so on. In the context of business enterprises, **strategic planning consists of formulation of strategies which are in the nature of critical and intelligent courses of action to gain upper hand over**

competitive and other complex external forces in the environment. It involves tentative chalking out of the major measures and moves necessary to perceive and exploit opportunities and to tackle threats and constraints, in the light of distinctive strengths and inevitable weaknesses of the enterprises.

The kinds of questions that top management of the enterprise asks itself and finds answers in strategic planning include: What are the most significant market and other opportunities and in what way they are relevant to the enterprise? What are the kinds and complexities of external problems, threats and constraints forced by the enterprise? How shared the enterprise take advantage of relevant opportunities and to tackle the threats and constraints (as for example: price cuts, aggressive advertising campaigns, introduction of new or improved products, and so on initiated by rival enterprises) in order to achieve the objectives. In what specific areas and businesses did the enterprise concentrate its efforts to gain or retain its competitive dominance? Into what new businesses should enterprise extend its activities?

Strategic planning is a means of improving the competitive position of the enterprises in relation to other existing and potential rivals in the industry. It is an attempt to design an action plan on how, where and when the strategic resources of the enterprise (investment funds, customer goodwill, and loyalty, distribution network, R & D facilities and so on) have to be deployed, and the combination, sequence and timing of various major decisions and initiatives necessary to achieve the enterprises goals of growth, diversification, high profitability, competitive power, good market share and so on.

Tactical Planning : Tactical Planning refers to the process of formulating more specific, functional, sub-plans to implement the strategies of the enterprise. Tactical Planning is more limited in its scope and consists of detailed decisions and actions initiated at lower managerial levels to exploit situations as and when they arise and to cope with local, operational problems. It is sub-corporate wide in nature. Tactical plans take the form of small, successive steps or moves taken in a concerted manner. Tactical decisions are concerned with what and how activities are to be carried out, what performance criteria are to be established, how scarce resources are to be utilised efficiently and so on.

Tactical Planning is carried out on the basis of more information under less risky conditions and in a more structured manner than strategic planning. Tactical Planning provides the basis for detailed specification of various activities to be carried out by the enterprise in a coordinated and time-bound basis.

To take an example, a major objective set by the top management of an enterprise manufacturing industrial goods is rapid growth by doubling the sales volume within a period of next four years. To achieve this objective, one of the strategies formulated by the enterprise is diversification into manufacture of consumer goods. To implement this strategy the enterprise formulated specific policies on make or buy, internal growth vs acquisitions or mergers, foreign collaboration and so on. Within the framework of the above strategy and policies, tactical plans and decisions on such aspects as size of operations, product types, sizes, quality ranges, customer services, distribution channels and so on are designed.

The distinction between strategic planning and tactical planning is one of scope and impact. In many cases, the two types of planning become indistinguishable. They are, however, inter-dependent.

Long-range Planning : The term long-range planning refers to the process of formulating the long-range objectives of an organisation and of determining the ways and means of achieving such objectives. The term long-range indicates the extent of future time horizon, the fairly long period of time which can be visualised and verbalised into tentative objectives by the organisation. The duration and limit of long-range differs from enterprise to enterprise and from situation to situation. For some enterprises, 3 to 5 years is a fairly longtime horizon, while for others, 25 to 30 years and even beyond is the relevant planning time frame. The long-range planning period is determined keeping in view the nature of the enterprise's business, its size and growth rate, the extent of variability of the environment, the time required for converting major decisions into tangible results and so on.

Long-range planning provides a framework for determination of such critical goals as the desired growth rate of the enterprise's assets or sales and profitability, new activities in the future, major new investments, areas of development, and disinvestment, and so on. As Peter Drucker stated, every enterprise should ask itself these and similar questions in the context of complex and dynamic nature of external environment. Business and other organisations cannot expect that their present businesses, product lines and activities, technology, profit levels and markets will continue to remain relevant in the future. Long-range planning is intended to induce such awareness and to enable managers to make current major decisions with a fairly good sense of future Outlook.

Short-range Planning : The term short-range planning refers to the process of formulating short-range objectives and of deciding on the courses of action or plans, to achieve them. Short-range planning is done for a time span of one year or less. In general, it is carried out within the framework of long-range planning, and for achieving long-range objectives, in a step-by-step manner. A short-range plan is an attempt to breakdown a long-range plan into compact and actionable programmes. Short-range planning is more action-oriented, more detailed, specific and quantitative. For example, if the long-range goal of an enterprise is to increase its sales volume by 50% during the course of next five years, it has to formulate its short range plan for the next one year to bring about an increase of say 20% in its sales turnover. It has to formulate a detailed budget of short-range goals, targets of performance, activities, and resource requirements in a time-bound manner. Short-range planning provides the basis for a coordinated performance of activities, allocation of resources, assignment of tasks and design of appropriate plan, implementation and programme evaluation system. Long-range plans are implemented by programming, budgeting and scheduling efforts and activities needed to achieve organisations goals.

It may be noted that tactical planning and short-range planning are also referred to as **Operational Planning** because they represent planning of detailed operations at the lower levels of management at middle and supervisory levels.

9.9 PRINCIPLES OF PLANNING

Since planning is a function of management, it must be based on certain principles to serve as guidelines for undertaking the function in right earnest. We may outline the principles of planning as below.

1) **Principle of top management interest :** The chief executive of the organisation must show genuine interest in planning, submit himself to the discipline of planning and must inspire his team to do the same.

2) **Principle of long-range view :** Every manager must plan decisions after a full analysis and understanding of their long-term future effects, and after considering all the available facts objectively.

3) **Principle of contribution to objectives :** Planning should be purposeful. It should directly contribute to the achievement of organisational objectives or desired ends.

4) **Principle of primacy of planning :** As stated earlier, planning holds the prime position in the process of management. It is logically regarded as the first function of managers from which all other functions flow.

5) **Principle of flexibility :** The principle suggests that flexibility in planning helps the organisation to cope with rapid and unforeseen changes in the external events. This can be achieved without abandoning the pre-determined plans or without inviting adverse consequences even if drastic.

6) **Principle of navigational change :** This principle is related to the principle of flexibility. It indicates that a regular process of monitoring the course of external events is to be combined with a review and revision of plans. This should be done in order to achieve desired goals just as a navigator negotiates his ship's way by making changes in his route in response to behaviour of the water mass.

7) **Principle of commitment :** This principle helps in the determination of the planning period. Planning should cover a period of time necessary to fulfil the commitments involved in a decision. For example, if a student makes a decision to join a three years B.Com. Course, his planning period is three years.

8) **Principle of the limiting factor :** A limiting factor is one which stands in the way of achieving the desired objective. Managers should pay due attention to tackle those limiting factors which hinder the smooth progress in achievement of objectives.

Check Your Progress C

1) Which of the following statements are **True** and which are **False**?

   i) Strategic planning consists of formulation of strategies for the organisation as a whole.

   ii) Tactical planning is carried out under more risky conditions than strategic planning.

   iii) Operational planning includes both long-range and short-range planning.

   iv) The principle of flexibility of planning suggests that plans should be changed as frequently as possible.

   v) The principle of commitment helps in the determination of the planning period.

2) Fill in the blanks :

   i) Strategic and tactical planning are defined on the basis of .....

   ii) Courses of action planned to gain upper hand over competitive and other external forces are known as .....

   iii) Tactical planning involves a more ..... approach than strategic planning.

   iv) Long-range planning provides a ..... for determining critical goals.

   v) Any factor which stands in the way of achieving desired goals may be called a ..... factor.

9.10 DECISION MAKING

Every body takes decision in life. You have to take admission in B.Com programme. For this purpose. You have to decide that which courses are to be taken, in which University/College to be admitted, what profession do you want to pursue, etc. Smilarly a manager has to take decision in all functional areas of management like planning, organising, directing, coordinating, controlling, etc. The success of business depends on the quality of right decision taken by the manager.

The leading management expert Peter Drucker has defined decision as "A decision is a choice whereby a person performs a conclusion about a situation. This represents a course of behaviour about what must or what must not be done". Mc Farland has defined decision as "A decision is an act of choice where in an executive forms a conclusion about what must be done in a given situation, A decision represents behaviour chosen from a number of possible alternatives".

The above definitions show that:

i) **Decision making is an act/choice:** This means that there may be an issue or problem to be resolved. As a manager, you are supposed to take an action considering various activities related to the decision.

ii) **Possible alternatives:** There may be various ways of finding a solution to the problem. You have to explore and examine the possible ways to take a decision.

iii) **Conclusion:** You have to select the best possible alternative. Thus, you conclude the decision by selecting the best alternative.

Therefore, the central theme in decision making is to select among the possible alternatives.

Decision Making Process

The steps involved in the process of decision making are discussed below:

1) **Identification of problem or opportunity:** As you set up the goal for your career and strive for the achievement of the goal. Similarly, the manager establishes the goal for the organisation. S/he makes the effort to realise the

goal. There may be number of internal and external factors influencing the achievement of the goal. The manager has to identify the exact problem or opportunity related to the organisation.

David B. Gleicher, a management consultant in Stoner, Freeman and Gilbert, (2000), stated that "problem as something that endangers the organisations, ability to reach its objectives, and an opportunity as something that offers the chance to exceed objectives". It is clear from this definition that the problem creates obstacle whereas the opportunity provides scope for the progress of the organisation. For example 'how to produce environmental friendly product' may be a problem for a manager. The redesigning of manufacturing unit for the production of environmental friendly products may provide opportunity to capture growing market of environmental friendly products. Therefore, the problem and opportunity have to be defined clearly.

2) **Exploration of possible alternatives:** In this stage, the manager explores various available possible alternatives for the solution of the problem. For example, if the sale of a company has been decreasing, S/he has to diagnose the causes of decreasing sale. Is it due to internal factors of the organisation or the external factors? Similarly, if the manager want to capture the new market, how will he manage the factors of production to enter into the new market. He has to explore all the internal and external factors for this purpose.

3) **Evaluation of alternatives:** In this stage, the manager has to evaluate all the alternatives. S/he examines the positive and negative aspects of each alternatives. If he finds more positive points in a particular alternative, he may think that this alternative may be suitable for his organisation. Based on the available resources, he examines how best the scarce resources may be used for the achievement of the objective of the firm.

4) **Selection of the best alternative:** After evaluating the positive and negative aspects of all the alternatives, S/he tries to select the best possible alternative for her/his organisation. Peter Drucker has suggested following four criteria for selection of the best way of performing the task.

   i) **Risk:** The meaning of risk has been danger, threat, harm, etc. The manager has to assess the situation considering the risk involved in the activity. He has to think about the minimisation of the risk. This may facilitate the probability of success.

   ii) **Economy of effort:** As you must be aware that the recourses are limited. Therefore, the factors of production should be used in such a manner that they provide the best result. All activities should be managed in such a way that with the application of less effort, you should get better result. There should be economy in terms of utilisation of resources, processing, timing, etc. The management of economy may lead to success to the ventures.

   iii) **Situation or Timing:** You must have heard that the right decision should be taken at the right time. For example, woollen clothes are demanded during the winter. Therefore, the decision related to manufacture and distribution of woollen clothes has to be taken in

such a way that these clothes are made available in the market during the winter.

iv) **Limitation of resources:** As you know that the resources are limited. Therefore, you have to use these resources in such a manner that you get the best result. The manager should reduce the wastages and enhance the productivity at each level to achieve the better result.

If the manager examines the above criteria minutely, he may be able to select the best possible alternative action for his organisation.

5) **Implementation of decision:** After selecting the best course of action, the manager has to implement the decision in his organisation. Sometimes, there may be resistance during the implementation of the decision. In order to facilitate implementation and minimise resistance, the manager may be required to convince the concerned stake holders about the positive consequences of the decision. If all parties related to the decision are convinced, the implementation of the decision may be facilitated. The manager has to put his best effort for the smooth implementation of the selected decision.

6) **Follow up:** The consequences of the implementation of the decision are examined and analysed frequently. The good result may be considered as an example for solving other related problems. The negative result may be considered for corrective action. Thus, the manager has to take feed back regularly for further improvement as well as correction.

9.11 LET US SUM UP

Planning is the process of setting future objectives and deciding on the ways and means of achieving them. It means deciding in advance what is to be done in the future for a specific period and then taking the necessary steps to do the things decided upon.

Planning precedes all other managerial functions. It is a sub-process of the process of management. It pervades all levels and all branches of management. Planning is invariably future-oriented but is backed by information relating to the past trends, current conditions and future possibilities. It is a purposeful conscious managerial function. It has both formal and informal elements. At the same time, planning is an intellectual process and requires certain analytical and conceptual skills. Even then, it is primarily a pragmatic and action-oriented function. Planning involves problem solving and decision-making. It is based on certain assumptions and is a dynamic process.

Planning may be divided into certain levels on the basis of scope, significance, and time span, e.g. corporate planning and functional planning, strategic planning and tactical planning; long-range planning and short-range planning. All types of plans may be broadly categorised into two groups. Single use plans and standing plans.

The importance of planning function stems from the following benefits of planning. Planning provides a clear sense of direction to the activities of the organisation and the job behaviour of managers and others. It permits managers

to examine alternative courses of action with a better understanding of their likely consequences. Planning forces managers to shake off their inertia and induces them to look beyond the immediate concerns. It minimises the incidence of impulsive and arbitrary decisions and adhoc actions. Planning provides the basis for all other managerial functions. It is a means of judicious allocation of strategic and scarce resources of the organisation, and also brings about an over all improvement in the efficiency of resource use. Further, planning improves the ability of the organisation to adapt effectively and adjust its activities in response to changes in the external environment. It stimulates management to take bold initiatives to anticipate crises or threats and to prevent them and to perceive and seize opportunities ahead of competitors. It is also an integrative process at a point of time as well as over a period of time.

The limitations of planning arise out of the following elements. The assumptions and forecasts which form the basis of planning may be wide off the mark. Information required may not be reliable or may not be available in time. Changes in external environment are often beyond the knowledge and control of management, particularly in the case of rapid changes. Further, planning is always in a state of flux, due to the continuous and subtle changes taking place in the environment. Besides, planning may delay action as it involves prior thinking and deciding. Often the plans formulated introduces rigidity in the functions of managers. On the other hand, plans may be far removed from reality and thus become difficult to implement, particularly with respect to detailed plans.

The process of planning involves: Planning to plan, appraisal of internal conditions and external environment, defining key areas and issues for planning, development of alternative plans for evaluation and choice, formulation of medium-range and short-range plans and implementation of plans.

Forecasting is an essential element of the planning process. It provides vital clues to managers through the generation of information on several dimensions of economic, social and technological environment. It also provides estimates and projections about the future events.

The appraisals, estimates and projections provided by forecasting are converted into meaningful assumptions known as planning premises. The premises may be of different categories: external, internal, tangible, intangible, controllable and uncontrollable.

Planning may be divided into four categories on the basis of degree of comprehensiveness and time span. These are : Strategic Planning, Tactical Planning, Long-range Planning and Short-range Planning. Tactical and Short-range Planning are also referred to as “Operational Planning”.

As a function of management, planning is best carried out on the basis of certain principles viz., principles of top management interest, long-range view, contribution to objectives, primacy of planning, flexibility, navigational change, commitment, and limiting factor.

The process of decision making involves : identification of problem of opportunity, exploration of possible alternatives, evaluation of alternatives, selection of the best alternative and fellow up.

Check Your Progress D

1) What is decision making?

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2) List the process of decision making.

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9.12 KEY WORDS

Forecasting : Estimating the future behaviour of variables affecting the business unit.

Long-range Planning : Formulating the long-run objectives and determining the ways and means of achieving those objectives.

Objectives : Goals or purposes towards which business activities and operations are directed.

Operational Planning : Planning of detailed operations at the middle and supervisory levels of management.

Planning : The process of setting future objectives and deciding on the ways and means of achieving them.

Policies : Guidelines for decision-making and action.

Strategic Planning : The process of planning which involves product, market decisions in the light of environmental changes and internal resources.

Strategy : Courses of action to gain upperhand over competitive and other environmental forces.

Tactical Planning : The process of formulating specific, functional sub-plans to implement the strategic plan.

9.13 ANSWERS TO CHECK YOUR PROGRESS

A) 1) i) True ii) False iii) False iv) True V) True

2) i) future ii) content, quality iii) intuitive iv) intellectual v) premises vi) single use plans vii) allocation viii) bold initiative

B) 1) i) incomplete, reliable ii) fluid iii) environment iv) clues v) tangible

2) i) True ii) False iii) False iv) False v) True

C) 1) i) True ii) False iii) False iv) False V) True -

2) i) comprehensiveness ii) strategies iii) structured iv) framework v) limiting

9.14 TERMINAL QUESTIONS

1) Define the concept of planning and explain its salient characteristics.
2) Comment on the following statements:
   a) Planning is a pervasive process.
   b) Planning is a useless exercise in a situation of rapidly changing environment.
   c) Planning and decision making are two sides of the same coin.
3) Do you think that planning is a guarantee for organisational success? Give reasons.
4) Is there any need for planning a plan? Explain.
5) The limitations of planning are too serious to make planning a credible function. Do you agree? Why?
6) What is the difference between strategic and long-range planning?
7) Discuss the process of planning.
8) What are planning premises? How are they relevant to planning?
9) Why is forecasting so important for planning?
10) Explain the principles of planning.
11) "Long-range planning is concerned with making today's decisions with a better sense of futurity". Comment.
12) What is the role of top management in the planning process?
13) Describe the process of decision making.

Note: These questions will help you to understand the unit better. Try to write answers for them. But, do not send your answers to the university. These are for your practice only.

References

Stoner, Freeman and Gilbert (2000). Management, Prentice Hall of India Pvt Ltd, New Dehli.

UNIT 10 ORGANISING

Structure

10.0 Objectives
10.1 Introduction
10.2. Nature of Organising Function
10.2.1 Characteristics of Organisation
10.2.2 Importance of Organisation
10.3 Organisation as a System
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10.5 Organisation Structure
10.5.1 Significance of Organisation Structure
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10.11 Let Us Sum Up
10.12 Key Words
10.13 Answers to Check Your Progress
10.14 Terminal Questions

10.0 OBJECTIVES

After studying this unit, you should be able to:

- state the importance of organising
- describe the different interpretations of the word organising
- distinguish between the different types of organisation structure viz. functional, divisional, and adaptive
- analyse the formal and informal dimensions of any organisation; and
- explain the significance of span of supervision, organisational charts and manuals.

10.1 INTRODUCTION

InUnit 9, You have learnt about various dimensions of planning. Organisation is another important function of managment. In this unit, you will learn the organising function of management and its integral aspects such as organisation structure, charts, manuals, formal and informal organisations forms of organisation and span of control.

10.2 NATURE OF ORGANISING FUNCTION

As a function of management, organising refers to the process involving the identification and grouping of activities to be performed, defining, and establishing the authority responsibility relationships. This enables people to work most effectively together in achieving the objectives of the enterprise. In a general sense, organising consists of determining and arranging for men, materials, machines and money required by an enterprise for the attainment of its goals. In a restricted and operational sense, the term organising means defining the duties and responsibilities of the people employed, and determining the manner in which their activities are to be interrelated. The end result of organising is the creation of a structure of duties and responsibilities of people in different positions, grouped according to the similarity and interrelated nature of activities. In other words, the outcome of the organising process is an "Organisation' consisting of a group of people working together for the achievement of one or more common objectives.

10.2.1 Characteristics of Organisation

The characteristics of an organisation are:

a) **Group of people:** An Organisation comes into existence when a group of people combine their efforts for some common purpose and willingly contribute towards their common endeavour.

b) **Division of work:** Setting of an organisation involves division of the total work into various activities and functions, and assigning the tasks to different persons according to their skill, ability and experience.

c) **Common purpose:** Every organisation comes into existence on the basis of goals of the enterprise which are separate from the personal goals of the people employed. It is the common purpose of the organisation which provides the basis of cooperation among the members of the organisation.

d) **Vertical and horizontal relationships:** An organisation creates cooperative relationships between different departments and divisions as well as between superiors and subordinates. Different functions and activities like production, marketing, financing etc. are integrated for the achievement of proper coordination. The duties and responsibilities of superiors and subordinates in each department or division are also unified so as to serve the purpose of their joint efforts.

e) **Chain of command:** The superior-subordinate relationships established in an organisation are based on the authority which flows from the higher

levels of management to the next lower levels, thereby forming a hierarchical chain. This is known as the chain of command, which also determines the line of communication.

f) **Dynamics of organisation:** Besides the structural relationships among people which are based on their activities and functions, there exists an organising interactions based on sentiments, attitudes and behaviour of individuals and groups. These aspects of relationship provide a dynamic element to the organisational functioning. They are subject to change from time to time.

10.2.2 Importance of Organisation

Sound organisation contributes greatly to the continuity and success of the enterprise. Its importance can be discussed below :

i) **Facilitates administration :** Sound organisation facilitates management to relate resource flows continually to overall objectives. It provides an appropriate platform from where management can perform the functions of planning, direction, coordination, motivation and control.

ii) **Facilitates growth and diversification :** It helps in organisational elaboration. Growth and diversification of activities is facilitated by clear division of work, proper delegation of authority etc. As the organisation expands to a reasonable proportion, the functional type can be replaced by a more flexible decentralised organisation.

iii) **Permits optimum use of resources :** Sound organisation permits optimum use of technical and human resources. The organisation can incorporate the latest technological improvements like computers, electronic data processing machines etc. It permits optimum use of human efforts through specialisation. It also develops people by creating appropriate training and promotion opportunities. Thus, organisation gives a company the greatest possible strength for meeting predicted needs-changing conditions.

iv) **Stimulated creativity :** Specialisation provides individuals with well-defined duties, clear lines of authority and responsibility. Sound organisation structure enables managers to turn over routine and repetitive jobs to supporting positions and concentrate on important issues where they can exploit their potential better. Thus, it encourages the creativity of the people.

v) **Encourages humanistic approach :** People can work in team and not like robots or machines. Organisation provides job rotation, job enlargement and enrichment. Jobs are designed to suit human needs and are made meaningful and interesting. Organisation adopts efficient methods of selection, training, remuneration and promotion of employees. Proper delegation and decentralisation, conducive working environment and democratic and participative leadership provide higher job satisfaction to the employees. It enhances the interaction among different levels of the management.

Although we have discussed the importance of the organisation, a sound organisation structure by itself does not guarantee success. According to Prof. Drucker **good organisation structure does not by itself produce**

good performance-just as a good constitution does not guarantee great presidents, or good laws or a moral society. But a poor organisation structure makes good performance impossible no matter how good the individuals may be.

10.3 ORGANISATION AS A SYSTEM

Systems concept recognises that organisations are made up of components, each of which has unique properties, capabilities and mutual relationships. It further recognises the significance of system and emphasises that a whole composed of various parts may be quite different from the simple sum of its parts. There are many and varied definitions of the term 'system'. Most definitions involve such phrases as 'complex whole', 'set of entities', 'set of relationships', 'resources network', and 'conglomeration of interrelated parts'. For the purpose of our analysis, we may define system as an arrangement and set of relationships among multiple parts operating as a whole. An organisation viewed as a system is composed of many interdependent and interrelated parts known as sub-system. Every sub-system is itself a system composed of smaller interrelated parts of sub-systems.

Components of an Organisation System

An organisation as a social system consists of the following components :

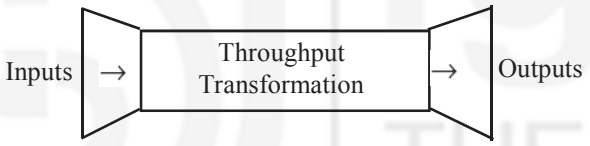


Fig. 10.1: Organisation as a System

a) **Inputs :** As depicted in Fig. 10.1, the system takes certain inputs from its environment. These inputs are human resources, material resources, energy and information.

b) **Processor :** The processor or throughput involves the utilisation of inputs within the organisation to produce the desired outputs. A number of sub-systems such as production, marketing, finance, personnel and research and development must be created for processing or transformation. There are further sub-systems within each sub-system. The individual employee is also a sub-system and he or she is composed of multiple physical and psychological sub-systems. Interrelatedness among all the sub-systems must be kept in mind all the time.

c) **Output :** The output of an organisation may be both intended and unintended. Intended outputs are usually labelled objectives. For instance, high productivity is an intended objective. The output may consist of goods and services. An unintended output may be informal relation among the group members.

d) **Management :** The management component of the system is concerned with the determination and implementation of processor activities in order to achieve intended outputs. Managing involves planning, organising,

staffing, directing and controlling. For managing, feedback of information concerning the quality, quantity, cost and time of system outputs is necessary. Standards concerning desired results must be established and enforced by management through the feedback initiation activity. If outputs are named improper or inadequate according to the predetermined standards, corrective measures such as guidance and warning of workers, improvement of planning and organising, revision of standards, etc. are initiated.

10.4 STEPS IN THE ORGANISATION PROCESS

Organising involves the following interrelated steps :

1) **Determination of objectives :** Organisation is always related to certain objectives. Therefore, it is essential for the management to identify the objectives before starting any activity. It will help the management in the choice of men and materials with the help of which it can achieve its objectives. Objectives also serve as the guidelines for the management and the workers. They will bring unity of direction in the organisation.

2) **Identification and grouping of activities :** If the members of the groups are to pool their efforts effectively there must be proper division of the major activities. Each job should be properly classified and grouped. This will enable the people to know what is expected from them as members of the group and will help in avoiding duplication of efforts. For instance, the total activities of an individual industrial organisation may be divided into major functions like production, purchasing, marketing, and financing, and each such function is further subdivided into various jobs. The Jobs then may be classified and grouped to ensure the effective implementation of the other steps.

3) **Allotment of duties :** After classifying and grouping the activities into various jobs, they should be allotted to the individuals so that they could perform them effectively. Each individual should be given a specific job to do according to his ability and made responsible for that. He should also be given the adequate authority to do the job assigned to him.

4) **Developing relationships :** Since so many individuals work in the same organisation, it is the responsibility of management to lay down structure of relationships in the organisation. Everybody should clearly know to whom he is accountable. This will help in the smooth working of the enterprise by facilitating delegation of responsibility and authority.

5) **Integration of these groups of activities :** Integration can be achieved in all activities in following ways-(a) through authority relationships - horizontally, vertically, and laterally and (b) through organised information or communication systems, i.e., with the help of effective coordination and communication. We can achieve unity of objectives, team work and team spirit by the integration of different activities.

10.5 ORGANISATION STRUCTURE

Organisation structure may be defined as the established pattern of relationships among the component parts of the organisation. Organisation structure in this

sense refers to the network of relationships among individuals and positions in an organisation. It describes the organisation framework. Just as human beings have skeletons that define their parameters, organisations have structures that define their parameters. It is like the architectural plan of a building. Just as the architect considers various factors like cost, space, special features needed etc. While designing a good structure, the managers too must look into factors like benefits of specialisation, communication problems, problems in creating authority levels etc., before designing the organisation structure.

The manager determines the work activities to get the job done, writes job descriptions, and organises people into groups and assigns them to superiors. He then fixes goals and deadlines and establishes standards of performance. Operations are controlled through a reporting system. The whole structure takes the shape of a pyramid. The structural organisation implies the following activities;

i) The formal relationships with well-defined duties and responsibilities;

ii) The hierarchical relationships between superior and subordinates within the organisation;

iii) The tasks or activities assigned to different persons and the departments;

iv) Coordination of the various tasks and activities;

v) A set of policies, procedures, standards and methods of evaluation of performance which are formulated to guide the people and their activities.

The arrangement which is deliberately planned is the formal structure of organisation. But the actual operations and behaviour of people are not always governed by the formal structure of relations. Thus the formal arrangement is often modified by social and psychological forces and the operating structure provides the basis of the organisation.

10.5.1 Significance of Organisation Structure

The organisation structure contributes to the efficient functioning of organisations in the following ways.

a) **Clear-cut authority relationships:** Organisation structure allocates authority and responsibility. It specifies who is to direct whom and who is accountable for what results. The structure helps an organisation member to know what is his role and how does it relate to other roles.

b) **Pattern of communication:** Organisation structure provides the patterns of communication and coordination. By grouping activities and people, structure facilitates communication between people centred on their job activities. People who have joint problems to solve often need to share information.

c) **Location of decision centres:** Organisation structure determines the location of centres of decision making in the organisation. A departmental store, for instance may follow a structure that leaves pricing, sales promotion and other matters largely up to individual departments to ensure that various departmental conditions are considered.

d) **Proper balancing:** Organisation structure creates the proper balance and emphasises on coordination of group activities. Those more critical aspect for the success of the enterprise may be given higher priority in the organisation. Research in a pharmaceutical company, for instance, might be singled out for reporting to the general manager or the managing director of the company. Activities of comparable importance might be given, roughly equal levels in the structure to give them equal emphasis.

e) **Stimulating creativity:** Sound organisation structure stimulates creative thinking and initiative among organisational members by providing well defined patterns of authority. Everybody knows the area where he specialises and where his efforts will be appreciated.

f) **Encouraging growth:** An organisation structure provides the framework within which an enterprise functions. If it is flexible, it will help in meeting challenges and creating opportunities for growth. A sound organisation structure facilitates growth of the enterprise by increasing its capacity to handle increased level of activity.

g) **Making use of technological improvements:** A sound organisation structure which is adaptable to change can make the best possible use of latest technology. It will modify the existing pattern of authority-responsibility relationships in the wake of technological improvements.

In short, existence of good organisation structure is essential for better management. Properly designed organisation can help in improving team work and productivity by providing a framework within which the people can work together most effectively. Therefore, an organisation structure should be developed according to the needs of the people in the organisation.

10.5.2 Types of Organisation Structure

Different types of Organisation structure can be distinguished on the basis of arrangement of activities. Accordingly, three broad types of structural forms are:

1) Functional,
2) Divisional, and
3) Adaptive

Functional structure: When units and sub-units of activities are created in an organisation on the basis of functions, it is known as functional structure. Thus, in any industrial organisation, specialised functions like manufacturing, marketing, finance and personnel are constituted as separate units of the organisation. All activities connected with each such function are placed in the same unit. As the volume of activity increases, sub-units are created at lower levels in each unit and the number of persons under each manager at various levels get added. This results in the interrelated positions taking the shape of a pyramid. The figure 10.2 shows the functional structure of a medium-size organisation.

The main advantage of the functional structure of organisation is that there is functional specialisation in each unit, which leads to operational efficiency of

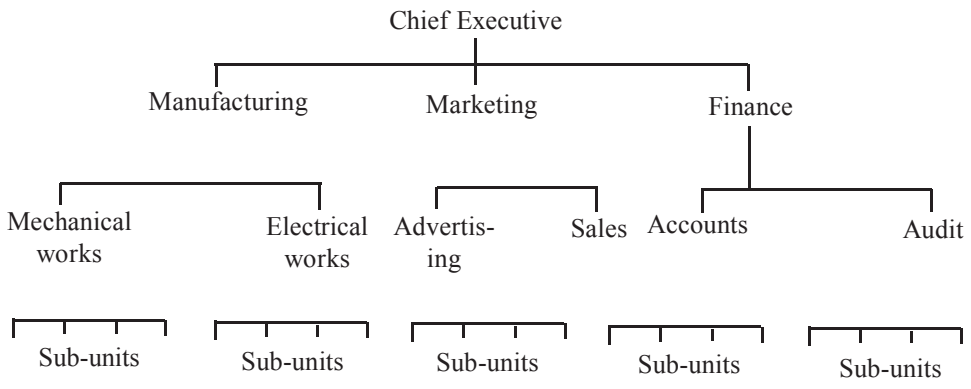


Fig. 10.2: Functional Structure

people engaged, and the organisation as a whole derives the benefit of specialised operations. The heads of the functional units are in direct touch with the chief executive who can sort out inter-functional problems, if any, and also coordinate the interrelated functions. The chief executive is also able to be in direct touch with lower level subordinates and thereby have full knowledge of the state of affairs in the organisation.

However, while the functional arrangement may be well suited to small and medium size organisations, it is incapable of handling the problems of an organisation as it grows in size and complexity. Problems of sub-units at lower levels do not receive adequate attention of higher level managers while some of the activities tend to be over-emphasised.

Functional units become unwieldy and difficult to manage when there are diverse kinds of activities performed in large number of sub-units. Personal contact between superiors and subordinates becomes rare, and flow of communication is slow leading to problems of coordination and control.

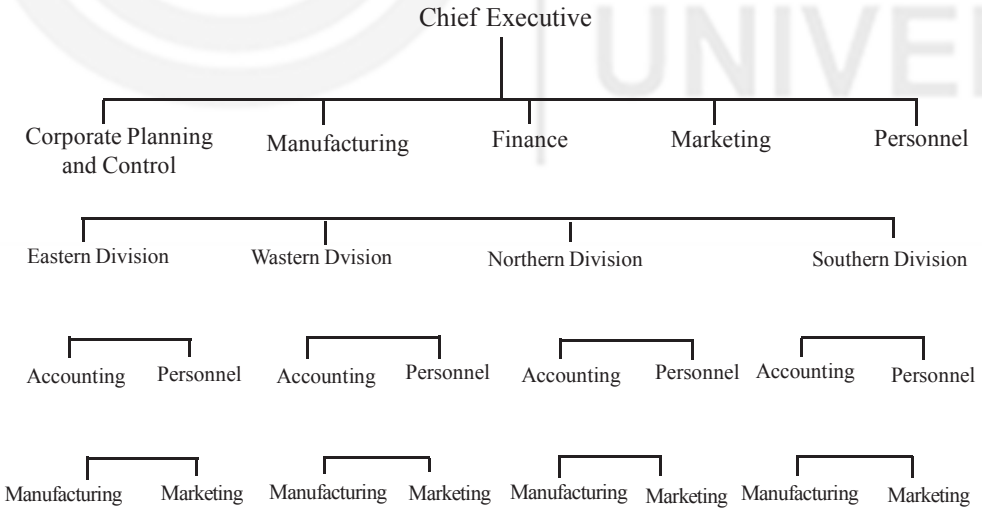


Fig. 10.3: Product Divisionalisation

Divisional structure : The divisional organisation structure is more suited to very large enterprise particularly those which deal in multiple products to serve more than one distinctive markets. The organisation is then divided into smaller business units which are entrusted with the business related to different products or different market territories. In other words, independent divisions (product divisions or market division) are created under the overall control of the head

office. Each divisional manager is given autonomy to run all functions relating to the product or market segment or regional market. Thus, each division may have a number of supporting functions to undertake.

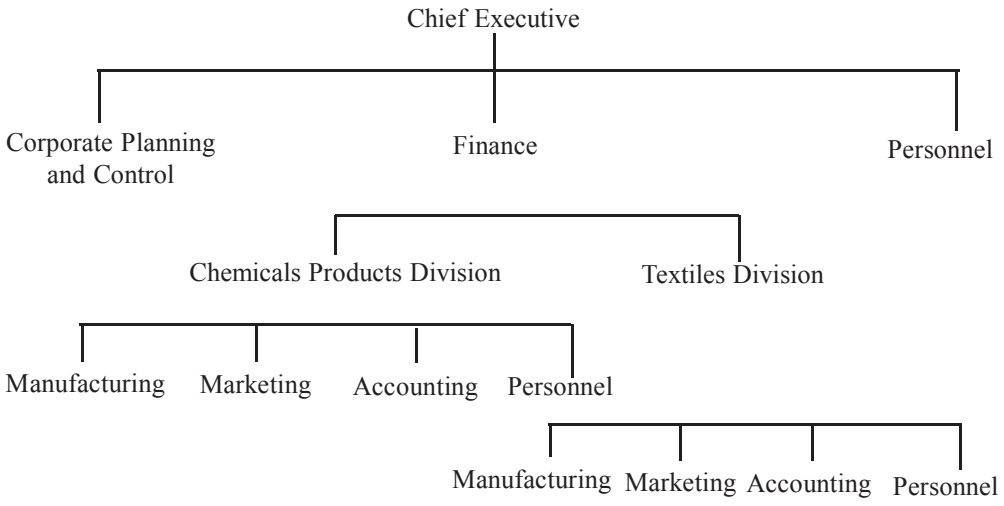


Fig. 10.4: Territorial Divisionalisation

A divisional structure may consist of two or more product divisions or market or territorial divisions as depicted in the Figure 10.3 and 10.4.

In a divisional structure, each division contributes planned profits to the organisation, but otherwise operates as an independent business. The functional units are headed by managers while the final authority vests in the divisional manager, who coordinates and controls the activities of the various functional units in the division. The top management of the organisation, besides providing funds, determines the organisational goals and formulates policies.

The divisional structure is characterised by decentralisation of authority. Thus it enables managers to take decisions promptly and resolve problems appropriate to the initiative in matters within their jurisdiction. But such a structure involves heavy financial costs due to the duplication of supporting functional units for the divisions. Moreover, it requires adequate number of capable managers to take charge of the respective divisions and their functional units.

Adaptive structure : Organisation structures are often designed to cope with the unique nature of the undertaking and the situation. This type of structure is known as adaptive structure. There are two types in structures.

i) Project Organisation, and

ii) Matrix Organisation.

i) Project organisation : When an enterprise undertakes any specialised, time-bound work involving one-time operations for a fairly long period, the project organisation is found most suitable. In this situation, the existing organisation creates a special unit so as to engage in a project work without disturbing its regular business. This becomes necessary where it is not possible to cope the special task or project. Within the existing system, the project may consist of developing a new project, installing plant, building an office complex, etc. A project organisation is headed by a project manager

in charge, who holds a middle management rank and reports directly to the chief executive. Other managers and personnel in the project organisation are drawn from the functional departments of the parent organisation. On completion of the project they return to their parent departments.

The main advantage of such a structural arrangement is that it leaves regular business undisturbed. It is exclusively concerned with the task of completing the project work on time and in conformity with the standards of performance relevant to its goal. There is better management and control over the project activities as the project manager enjoys necessary authority and is alone responsible for the results. But project organisations may create problems as well. Functional managers often resent the exercise of authority by the project manager in the functional areas and hence conflict arises. The stability of the functional departments is disturbed by transfer of personnel to project work from time to time. Shifting of personnel from project to project disrupts their development in the specialised fields.

ii) **Matrix organisation :** This is another type of adaptive structure which aims at combining the advantages of autonomous project organisation and functional specialisation. In the matrix organisation structure, there are functional departments with specialised personnel who are deputed to work full time in different projects. Sometimes in more than one project under the overall guidance and direction of project managers. When a project work is completed, the individuals attached to it go back to their respective functional department to be assigned again to some other project. This arrangement is found suitable where the organisation is engaged in contractual project activities and there are many projects to manager, as in a large construction company or engineering firm.

Matrix organisation provides a flexible structure ideally suited to the requirements of changing conditions. It facilitates pooling of specialised and technical personnel from different functional departments, who can be deputed to a number of projects. They acquire valuable experience of handling varied and complex problems in project work. There is speedy exchange of information and decision-making as they work under the coordinating authority of project managers.

The major drawback of matrix organisation is that the personnel drawn from specialised functional departments are subjected to dual authority, that of the functional heads and the project managers. The principles of unity of command is thereby sacrificed. This generates stresses and strains in project management, because there is simultaneous engagement of the same individual in a number of projects.

Check Your Progress A

1) Which of the following statements are **True** and which are **False**.

   i) The outcome of the process of organising is an 'organisation' consisting of a group of people working together for the achievement of common goals.

   ii) The chain of command does not indicate the time of communication.

iii) The formal structure of an organisation is not affected by social or psychological forces.

iv) The divisional structure of organisation is characterised by decentralisation of authority.

v) Project organisation is concerned with time bound one-time operations.

2) Fill in the blanks :

i) Viewed as a system, an organisation consists of ..... parts known as sub-systems.

ii) It is through the process of organising that the ..... and ..... of people are determined.

iii) The structure of organisation established hierarchical relations between ..... and .....

iv) As the volume of activity increases, a functional organisation requires addition of sub-units at ..... units.

v) The divisional structure of organisation is more suited to ..... enterprises.

10.6 PRINCIPLES OF ORGANISATION

The principles of organisation are guidelines for planning an efficient organisation structure. Let us discuss the important principles of organisation:

1) **Unity of objectives :** An enterprise strives to accomplish certain objectives. The organisation and every part of it should be directed towards the attainment of objectives. Every member of the organisation should be familiar with its goals and objectives. There must be unity of objective so that all efforts can be concentrated on the set goals. The principle requires objectives to be clearly formulated and well-understood.

2) **Division of work and specialisation :** The entire work in the organisation should be divided into various parts so that every individual is confined to the performance of a single job. This facilitates specialisation which in turn leads to efficiency and quality. However, each area of specialisation must be interrelated to the total integrated system by means of coordination of all activities of all departments.

3) **Definition of jobs :** Every position in the organisation should be clearly defined in relation to other positions in the organisation. The duties and responsibilities assigned to every position and its relationship with other positions should be so defined that there is no overlapping of functions.

4) **Separation of line and staff functions :** Whenever possible, line functions should be separated from staff activities. Line functions are those which accomplish the main objectives of the company. In many manufacturing companies, the manufacturing and sales departments are considered to be accomplishing the main objectives of the business and so are called the line functions. Other functions like personnel, plant maintenance, financing and legal are considered as staff functions.

5) **Chain of command or scalar principle :** There must be clear lines of authority running from the top to the bottom of the organisation. Authority is the right to decide, direct and coordinate. The organisation structure should facilitate delegation of authority. Clarity is achieved through delegation by steps or levels from the top position to the operating level. From the chief executive, a line of authority may proceed to departmental managers, to supervisors or foremen and finally to workers. This chain of command is also known as scalar principle of organisation.

6) **Parity of authority and responsibility or principle of correspondence :** Responsibility should always be coupled with corresponding authority. Each subordinate must have sufficient authority to discharge the responsibility entrusted to him. This principle suggests that if a plant manager in a multiplant organisation is held accountable for all activities in his plant, he should not be subject to seek orders from company headquarters for his day to day activities.

7) **Unity of command :** No one in the organisation should report to more than one line supervisor. Everyone in the organisation should know to whom he reports and who reports to him. Stated simply, everyone should have only one boss. Receiving directions from several supervisors may result in confusion, chaos, conflicts and lack of action.

8) **Unity of direction :** According to this principle, a group of activities that have a common goal should be managed by one person. There should be one head and one plan for a common objective of different activities. This facilitates smooth progression towards the achievements of overall organisational goals.

9) **Exception principle :** This principle suggests that higher level managers should attend to exceptional matters only. All routine decisions should be taken at lower level, whereas problems involving unusual matters and policy decisions should be referred to higher levels.

10) **Span of supervision :** The term 'span of supervision' means the number of persons a manager or a supervisor can direct. No manager should be required to supervise more subordinates than he can effectively manage within the limits of available time and ability. The exact number may vary according to the nature of the job and the frequency or intensity of supervision needed.

11) **Principle of balance :** There should be proper balance between various parts of the organisation and no function should be given undue importance at the cost of others. Balance should be maintained also between centralisation and decentralisation, span of supervision and lines of communication, and authority allocated to department and personnel at various levels.

12) **Communication :** A good communication network is essential to achieve the objectives of an organisation. No doubt the line of authority provides channels of communication downward and upward, still some blocks in communication occur in many organisation. The confidence of superior in his subordinates and two-way communication are the factors that unite an organisation into an effectively operating system.

13) **Flexibility :** The organisation structure should be flexible so that it can be easily and economically adapted to the changes in the nature of business as well as technological innovations. Flexibility of organisation structure ensures the ability to change with the environment without disrupting the basic design.

14) **Continuity :** Change is the law of nature. Many changes take place outside the organisation. These changes must be reflected in the organisation. For this purpose the form of organisation structure must be able to serve the enterprise to attain its objectives for a long period of time.

10.7 SPAN OF CONTROL

The term 'span of control' is also known as 'span of supervision' or 'span of authority'. Simply stated it refers to the number of individuals a manager can effectively supervise. Thus, it is expected that the span of control, that is, the number of subordinates directly reporting to a superior should be limited so as to make supervision and control effective. This is because executives have limited time and ability.

It is sometimes suggested that the span of control should neither be too wide nor too narrow. In other words, the number of subordinates should not be too large or too small. According to some experts, the ideal span is four at higher levels and eight to twelve at lower levels. But the number of subordinates cannot be easily determined because the nature of jobs and capacity of individuals vary from one organisation to another. Moreover, the actual span of supervision affects the organisation in different ways. A wide span results in fewer levels of supervision and facilitates communication. But it permits only general supervision due to the limited availability of time. Narrow span, on the other hand, requires multiple levels of supervision and hence longer time for communication. It is more expensive and complicates the process of communication. A narrow span, however enables managers to exercise close supervision and control.

Factors affecting Span of Control

Although there are certain limits to the span of control, the tendency in recent years has been to avoid specifying absolute numbers because it has been recognised that the ideal span depends on a number of factors. Some of the more important of these factors are discussed below :

i) **Nature of the work :** If the work is simple and repetitive, the span of control can be wider. However, if the work requires close supervision the span of control must be narrow.

ii) **Ability of the manager :** Some managers are more capable of supervising large numbers of people than others. Thus for a manager who possesses qualities of leadership, decision-making ability, and communication skill in greater degree the span of control may be wider.

iii) **Efficiency of the organisation :** Organisations with efficient working systems and competent personnel can have larger span of control.

iv) **Staff assistants :** When staff assistants are employed, contact between supervisors and subordinates can be reduced and the span broadened.

v) **Time available for supervision :** The span of control should be narrowed at the higher levels because top managers have less time available for supervision. They have to devote the major part of their work time in planning, organising, directing and controlling.

vi) **Ability of the subordinates :** Fresh entrants to jobs take more of a supervisor's time than trained persons who have acquired experience in the job. Subordinates who have good judgement, initiative, and a sense of obligation seek less guidance from the supervisor.

vii) **Degree of decentralisation :** An executive who personally takes many decisions is able to supervise fewer people than an executive who merely provides encouragement and occasional direction.

It should be clear that the size of the span of control is related to numerous variables, and no single limit is likely to apply in all cases. A variety of factors can influence the resulting number of employees comprising the optimum span of control in any particular organisation.

Check Your Progress B

1) Fill in the blanks :

   i) The chain of command is based on the ..... principle of organisation.

   ii) Principle of correspondence suggests ..... of authority and responsibility.

   iii) Higher level managers should be required to attend to ..... matters only.

   iv) The organisation structure should be ..... so that it can be adapted to change.

   v) A wide span of control results in ..... levels of supervision.

2) Which of the following statements are **True** and which are **False**.

   i) A narrow span is less expensive than a wide span.

   ii) Unity of command means that a manager must issue the same instructions to all his subordinates.

   iii) Personnel functions are not line, but staff functions.

   iv) The size of the span of control can be broadened if there are more staff assistants.

   v) A department with all freshly recruited personnel must have a wide span.

10.8 ORGANISATION CHART

An organisation chart shows a diagrammatic representation of important aspects of an organisation including the major functions and their relationships. It is a

blue print of company organisation, its functions lines of authority and way positions. In other words, it is a graphic portrayal of positions in the enterprise and of the formal lines of accountability among them. It provides a bird's eye-view of the relationships between different departments of divisions of an enterprise as well as the relationships between the executives and subordinates at various levels. It enables each executive and employee to understand his position in the organisation and to know to whom he is accountable. Thus, it is obvious that an organisation chart has the following characteristics :

1) It is a diagrammatic presentation.
2) It shows principal lines of authority in the organisation.
3) It shows the interplay of various functions and relationships
4) It indicates the channels of communications.

The organisation chart should not be confused with the organisation structure. An organisation chart is merely a type of record showing the formal organisational relationships which management intends to prevail. It is, therefore, primarily a technique of presentation. It presents diagrammatically the lines of authority and responsibility among different individuals and positions. It may be either a personnel chart or functional chart. Personnel organisation chart depicts the relationship between positions held by different persons. Functional organisation chart depicts the functions or activities of each unit and sub-unit in the organisation.

Advantages of Organisation Chart

Following are the advantages of an organisation chart :

i) It is a tool of administration which indicates graphically to the employees how their positions fit into the total organisation and how they relate to each other.

ii) It shows at a glance the lines of authority and responsibility. It is a reliable, blue print of how the positions are arranged. From it, the individuals can have a sense of the limit of their authority, and can see who their associates are, to whom they have to report, and from whom they are to receive instructions.

iii) It serves as a valuable guide to the new personnel in understanding the organisation structure and the inter relationship between its units and sub-units.

iv) It provides a framework of personnel classification and evaluation systems.

v) It plays a significant part in organisational improvement by reflecting inconsistencies and deficiencies.

With an overview of the total organisation depicted in the chart management may discover unintended gaps, overlaps, etc., in the distribution of tasks and functions.

Limitations of Organisation Chart

While the organisation chart is an important tool of management, its existence alone does not ensure effectiveness of organisation because of the following limitations :

i) Organisation chart shows only the formal relationships and fails to show the informal relations within the organisations. In modern enterprises, informal relationships significantly effect the functioning of organisations.

ii) It shows the lines of authority, but it is notable to answer questions like the degree of authority that can be exercised by a particular executive, how far he is responsible for his functions, and to what extent he is accountable.

iii) It introduces rigidity in the relationships. Updating is not possible without disturbing the entire set up.

iv) Faulty organisation chart may cause confusion and misunderstanding among the organisational members. Moreover, it gives rise to a feeling of superiority and inferiority which causes conflicts in the organisation.

v) It does not show the relationships which actually exist in the organisation, but shows only the 'supposed relationships'.

10.9 ORGANISATIONAL MANUAL

An organisation chart shows who has authority over whom, but it does not show the extent of authority of the duties each person in the organisation is expected to perform, except in so far as duties are implied by job titles. For this reason, big undertakings prepare organisation manuals that include job descriptions and other information in addition to the charts. A job description includes factual statements of job contents in terms of its duties and responsibilities. An organisation manual is an authoritative guide to the organisational members. It consists of records of top management decisions, standard practices and procedures and the description of various jobs. With such information available in the manual, employees are not required to approach their superiors for instruction and guidance, causing interruption of work and resulting in wastage of time and energy of the superior and the subordinates.

10.9.1 Importance of Manual

A manual can be a valuable aid to management which more than justifies the amount of work and money involved in its compilation. The availability of a good manual helps individuals to determine the responsibilities of their jobs and their relationship with other jobs in the organisation. Jurisdictional conflicts and overlapping can be avoided. The sources and degree of authority are also made clear. Thus, it can help to make instructions definite and shows how each employee and his job fits into the total organisation and how he can contribute to the achievement of organisational objectives as well as maintain good relations with other employees. A reference to the manual can quickly remove misunderstandings. It relieves managers the necessity of repeating the same information time and again. It provides uniformity and consistency of procedures and practices. It facilitates training of new employees as it contains in writing the established routines and practices with respect to the jobs. Since manuals are revised periodically or after every major changes, they serve as effective refreshers for employees who have been on the payroll for some time. Both delegation of authority and management by exception are promoted by the use of manuals.

10.9.2 Types of Manual

Manuals may be prepared by an organisation with different contents and purposes in view, such as, (1) Policy manual, (2) Operations manual, (3) Organisation manual, (4) Rules and Regulations manual, and (5) Departmental manual. These are discussed below :

1) **Policy manual :** It is prepared to state the policies of the enterprise. It is a basic guide to action. Policy manual describes the overall framework within which activities are to take place and thus reveals the broad courses of managerial action likely to take place under certain conditions. It contains decisions, resolutions and pronouncements of the management of the enterprise.

2) **Operations manual :** The purpose of manual is to inform the employees of established methods, procedures and the desired standards of performance of work. It lists the authorised steps and supplements them by the use of diagrames sketches, charts, etc. of each department and division.

3) **Organisation manual :** It describes the organisational setup indicating the duties and responsibilities of various departments and their respective sub-divisions. It is a portrayal of the formal chain of responsibilities and authorities among different persons working in the enterprise. The levels of authority and responsibility of each executive is indicated in the manual so as to avoid conflicts in the organisation. Promotional charts may be included in the organisation manual showing the possible promotional avenues throughout the entire organisation.

4) **Rules and regulations manual :** This manual provides information relating to the operating rules and employment regulations. It contains regulations governing hours of work, timings, procedure for taking leave, etc. It is actually a handbook of employment rules. It may also indicate the various benefit plans for employees including rules regarding the use of library, cafeteria, recreation club, etc.

5) **Departmental manual :** This manual includes procedures to be adopted with regard to departmental work. It gives in detail the internal policies and operating rules of the department. It shows with the help of charts and diagrames the inter-departmental relationships. For instance, the filing manual contains the organisation of filing department responsibilities of various jobs, relationships between the employees, and the standard procedures for different operations. Similarly, other departments may also have such manuals.

10.9.3 Advantages of Manual

1) It contains procedural rules and regulations and various other information in a written form. These need not be explained to the employees time and again.

2) It provides a ready reference with regard to all important decisions relating to the internal organisation of the enterprise.

3) It presents jurisdictional conflicts by clear indication of the sources of authority.

4) It enables new employees to learn the standard procedures and practices in the shortest possible time. They have a clear understanding of the responsibilities of their jobs and their relationship with other jobs.

5) It enables quick decisions as instructions and policies are stated in definite terms.

10.9.4 Drawbacks of Manual

1) Small enterprises cannot afford to have a manual because its preparation is costly and a time-consuming process.

2) Manuals may cause rigidity of operations in the organisation by putting the standard procedures and practices in writing. It leaves little scope for individual initiative and discretion.

3) Manuals may put on record those relationships which no one would like to see exposed.

10.10 FORMAL AND INFORMAL ORGANISATIONS

Formal organisation is a planned structure which represents the officially established pattern of relationships among individuals, groups, sections, units, departments and divisions so as to accomplish the goals of the enterprise. Typically, it is represented by a chart and set forth in organisation manuals, position descriptions, and other formalised documents. The formal organisation provides a broad framework and delineates certain prescribed functions and the relationships between them. Formal organisation may be defined as a system of consciously coordinated activities of two or more persons towards a given objective. It is a group working together cooperatively under authority toward goals that mutually benefit the participants and the organisation. Moreover, stable and consistent relationships promote order and facilitate planning and controlling functions. Formal organisation may also be defined as (i) the pattern of formal relationships and duties, the organisation charts, job descriptions and positions guides; and (ii) formal rules, policies, work procedures and similar devices adopted by management to guide employee behaviour in certain ways within the structure of formal relationships.

The formal organisation facilitates the determination of objectives and policies. Communication, delegation of authority, and coordination take place according to a prescribed pattern. In fact, formal structure restricts and circumscribes the area of operations of individuals working within an organisation. Informal organisation refers to relationships between individuals in the organisation based on interest, personal attitudes, emotions, prejudices, likes, dislikes, physical location, similarity of work, etc. The informal organisation comes into existence because of the limitations of the formal structure. It represents natural grouping of people in working situation. The birth of small groups in an organisation is a natural phenomenon. The informal groups may also overlap because an individual may be a member of more than one informal group in many cases. Informal groups came into being to support and supplement the formal organisation indeed,

the formal and informal organisations are inextricably interlinked. The difference between the two aspects of organisational life is only analytical and it should not be given undue emphasis.

10.10.1 Difference between Formal and Informal Organisations

The formal and informal organisations differ from each other in the following respects :

1) **Origin:** Formal organisations are created by conscious managerial decisions. But informal organisations arise spontaneously within the formal organisation because of the natural tendency of the individuals to associate and interact. Management has no hand either in the emergence or abolition of informal groups.

2) **Purpose:** Formal organisations are created for realising certain well-defined objectives. But informal organisations are created by organisational members for their social and psychological satisfaction.

3) **Activities:** Activities in case of formal organisation are differentiated and integrated around the objectives of the enterprise and are formalised into work-units or departments on a horizontal basis. In case of informal organisation, there are no specific activities. They arise from time to time as a result of interactions and sentiments of the individuals. Informal groups may be based on common values, language, culture or any other factor.

4) **Structure:** Formal organisation is hierarchical, pyramid shaped in structure with well defined positions, roles and superior-subordinate relationships. It involves enforcement of organisational order through a set of policies, procedures and rules, emphasises on status differentiation based on authority, upward and downward oriented communication system, etc. On the other hand, informal organisation is non-hierarchical; it looks like a complicated social network of interpersonal relationships. Informal organisation is loosely structured, with only unwritten norms of behaviour enforced by consent. Communication is informal and multidimensional. There are no rigid status differentials.

5) **Membership:** In a formal organisation every individual belongs to one work group only and works under one superior. But in case of an informal organisation, a person can be a member of more than one group, according to his choice. He may be a leader in one group and a follower in another. There is no rigidity about group membership.

6) **Orientation:** In case of formal organisation, values, goals and tasks are dominantly economic and technical, and they concern productivity, profitability, efficiency, survival and growth. But in case of informal organisation values, goals, and tasks are predominantly psycho-social, centred around individual and group satisfaction, affiliation cohesiveness and friendship.

7) **Norms of behaviour:** In a formal organisation individuals are required to behave in the prescribed manner in their work situation. They are expected

to behave in a rational manner. Deviations from the standard are dealt with according to the organisational rules and regulations. There is also a system of rewards and punishments. But in case of informal organisation, individual behaviour and group behaviour influence each other. Moreover, behaviour is more natural and socialised. Informal groups develop their own norms of behaviour and system of rewards and punishments. Rewards take the form of a continuous membership of the group, social status, recognition etc. While punishments include censure by the groups, isolation from the group, etc.

10.10.2 Characteristics of Informal Organisation

In the informal organisation, authority-responsibility relationship, channels of communication, pattern of coordination, etc. are not predetermined. Such as, organisation operates without any structured set up. The informal organisation interacts with formal organisation quite frequently. It affects and is affected by the formal organisation. Following are the characteristics of the informal organisation :

1) **Authority:** There is a network of relationships in an informal organisation which may cut across the formally prescribed pattern of relationships. An informal organisation has its own code of conduct, system of communication, and system of reward and punishment. The authority in an informal organisation is personal rather than positional as in case of formal organisation. Power in informal organisation is earned or given by group members, rather than delegated; therefore, it does not follow the official chain of command. It is more likely to come from peers (equals) than from superiors in the formal hierarchy; and it may act across organisational lines into other departments. It is usually more unstable than formal authority, since it is subject to the sentiments of people. Because of its subjective nature, informal organisation cannot be controlled by management, in the way as formal organisation.

2) **Objectives:** Groups evolve their own goals reflecting their own special interests. Group members are dedicated to group goals. Group cohesiveness results in the group acting in a unified manner. This cohesiveness is the result of the degree to which the group goals help the satisfaction of individual needs. Therefore, the group objectives should be related to the individual needs of the members of the group.

3) **Communication:** Informal organisation comes into existence because of the deficiencies of the formal channels of communication. The formal channels of communication may be inadequate and they may be slow. The need for speedier communication may give birth to informal channels of communication. Informal communication is very fast but the greatest danger is that it may give rise to rumours. Rumours may prove to be detrimental to the interests of the organisation.

4) **Leadership:** The informal group has its own leader. An informal leader may not be the superior under whom the group members are working. An informal group leader performs the following functions: (i) he facilitates consensus among the group members, (ii) he initiates action, and (iii) provides a link with the outside world. If the formal leader is able to perform these functions, he may be accepted as an informal leader also. Workers

will go to him for their personal problems, counselling, etc. The important factors which determine informal leadership are age, seniority, work location, technical competence, etc. It may be noted that persons who emerge as informal leaders are perceived by other group members as being the best people who can satisfy the goals of the group. The group may have a number of leaders for different purposes. For instance, the group may have a task leader whose function is to drive the group towards its goals and a human relations leader who helps in promoting co-operation among the members.

10.10.3 Functions of Informal Organisation

Informal organisation is a psycho-social system and helps the organisation in the following ways.

1) **Filling in gaps in managerial abilities :** Informal organisation may fill in gaps if any in the abilities of managers. For example, if a manager is weak in planning his subordinates may help him informally in such a situation.

2) **Solving work problems :** Informal organisations help in solving work problems of members. It allows sharing knowledge and taking decisions which may affect a number of jobs.

3) **Better coordination :** Informal groups evolve short cuts and eliminate red-tapism. They facilitate smooth flow of information and quick decision making. All these ensure better coordination among various individuals and departments.

4) **Channel of communication :** Informal groups often fill up communication gaps which might arise in the organisation. Informal communication cuts across the hierarchical and departmental boundaries and transmits information with greater speed. Management can use informal channels, to share information with the workers and get their reaction to management proposal.

5) **Restraint on managers :** Informal groups do not allow managers to cross the limits of authority. They resist them from exercising unlimited power and correct using their power unjudiciously.

6) **Better relations :** A manager can build better relations with his subordinates through informal contacts. He can consult the informal leaders and seek their cooperation in getting the things done from the workers.

7) **Norms of behaviour :** Informal groups develop certain norms of behaviour which differentiate between good and bad conduct and between legitimate and illegitimate activities. These bring discipline and order among the employees of the organisation.

8) **Developing future executives :** Informal groups recognise talented workers as their leaders. Such leaders can be picked up by the management to fill vacancies at the junior executive level in future.

10.10.4 Problems of Informal Organisation

Informal groups have negative aspects too. They may create problems for the organisation as outlined below :

1) **Negative attitude of informal leaders :** The informal leader may turn out to be a trouble shooter for the organisation. In order to increase his influence, he may work against the policies of management, and manipulate the behaviour of his followers. Thus, he can be a source of conflict between the management and workers. He may induce the followers to work against the interests of the organisation. If such a leader is promoted to the rank of an executive, he may prove to be work shirker and an arrogant and autocratic boss.

2) **Conformity:** The informal group exerts strong pressure on its members for conformity. The members may become so loyal to their group that following the group norms become a part of their life. This implies that members become subject to wilful control of the group leader who may lead the group toward selfish ends. This may lead to dilution of the effect of organisational policies and practices on the group members.

3) **Resistance to change :** Informal groups generally have a tendency to resist change. Change requires new skills but groups want to maintain status quo. Sometimes, groups react violently to the changes proposed by management. This creates obstructions in implementing new ideas and thus organisation's growth.

4) **Rumour:** Informal communication may give rise to rumours which may create conflict and misunderstanding among the people. Rumour tends to change as it passes from person to person. Its general theme may be maintained, but not its details. The rumour gets twisted and distorted always when it passes from one mouth to another. It may originate due to employee's anxiety, insecurity and poor communication of the organisation. Rumours may prove very dangerous for the organisation.

5) **Role conflict :** Every member of the informal group is also a member of the formal organisation. Sometimes role conflict may arise because the ideas, expectation and requirement of both the organisation may be opposite to each other. For example an individual wants to follow the formal instructions of his boss, he may be compelled by the informal leader to follow informal norms. Thus organisational interests are likely to suffer in case of conflicts between formal and informal roles.

Check Your Progress C

1) Which of the following statements are **True** and which are **False**.

   i) An organisation chart indicates the lines of communication as well as lines of authority.

   ii) Both formal and informal relationships are depicted in the organisation chart.

   iii) The existence of organisation manual totally relieves managers of their responsibility of issuing instructions to subordinates.

   iv) The formal organisation is created by conscious managerial decision.

   v) Informal groups in an organisation consist of members drawn from the same department.

2) Fill in the blanks :

   i) Organisation manuals enable employees to quickly learn the standard ..... and .....

   ii) An organisational chart shows the .... of authority but not the ..... of authority with respect of the various managerial positions.

   iii) Formal organisation is typically reflected in the organisational .....

   iv) Informal organisation cuts across ..... and .....boundaries.

   v) In a formal organisation every individual belongs to only one .....

10.11 LET US SUM UP

As a function of management organising refers to the process involving the identification and grouping of activities to be performed and defining and establishing the authority responsibility relationships. This enables people to work most effectively together in achieving the enterprise objectives. The outcome of the organising process is the 'organisation' consisting of a group of people working together for the achievement of one or more common goals. The characteristics of an organisation thus are: Willingness of a group of people to willingly contribute their efforts towards a common endeavour, division of work, common purpose, vertical and horizontal relationships, chain of command and dynamic functioning.

An organisation provides the framework within which co-operative work can be carried out without friction, and people can perform their tasks more effectively. Organising is the process by which managers bring order out of chaos and create proper conditions for effective team-work. An organisation viewed as a system is composed of many interdependent and interrelated parts known as sub-systems. As a social system, components of an organisation consist of: inputs of human and material resources along with information, the processor (also known as throughput); and output consisting of goods and services.

Organising involves: (i) determination of objectives, (2) identification and grouping of activities; (3) allotment of duties; (4) developing relationships. The structure of organisation refers to the pattern of relationships formally established by top-management among various parts or components of the organisation. Three different types of organisation structure can be distinguished on the basis of arrangement of activities as 1) Functional, 2) Divisional, 3) Adaptive.

Principles of organisation which have been enunciated by management experts, are guidelines for planning an efficient organisation structure. These include: (a) unity of objectives; (b) division of work and specialisation, (c) definition of jobs; (d) separation of line and staff functions; (e) chain of command; (f) principle of correspondence; (g) unity of command; (h) exception principle: (i) span of supervision; (ii) principle of balance; (k) communication; (1) flexibility; and (m) continuity.

Span of control refers to the number of individuals a manager can effectively supervise. The ideal span depends on a number of factors like nature of work, ability of the manager, staff assistance, ability of subordinates, etc.

An organisation chart gives a diagrammatic view of the major functions, their relationships, as well as the positions and formal lines of accountability among them. It serves as a valuable aid to management and personnel. An organisation manual consists of records of top management decisions, standard practices and procedures, and job descriptions in terms of duties and responsibilities.

Formal organisation is a planned structure which represents the officially established pattern of relationships among individual groups, sections, units, departments and divisions. Informal organisation refers to relationship between individuals based on their social and psychological needs.

10.12 KEY WORDS

Chain of Command : The line of authority running from the top to the bottom of the organisation.

Departmentation : Grouping of various activities on some well defined basis.

Formal Organisation : A planned structure which represents the officially established pattern of relationship among individuals, groups, sections, units, departments and divisions.

Informal Organisations : A network of relationship among the participants of an organisation which arises spontaneously on the basis of social and psychological needs.

Organisation Chart : A graphical portrayal of positions in the enterprise and of the formal lines of accountability among them.

Organisational Manual : A recorded document containing job descriptions and other information in addition to the organisation chart.

Organisation Structure : The authority and responsibility relationships between various positions in the organisation showing who reports to whom.

Span of Control : The number of subordinates a manager can effectively supervise.

Structure : A framework of relationship among parts.

Systems : An arrangement and set of relationship among multiple parts operating as whole.

Unity of Command : The principle of every subordinate being under one supervisor.

10.13 ANSWERS TO CHECK YOUR PROGRESS

A) 1. i) True, ii) False, iii) False, iv) True, v) True

2. i) Interrelated, ii) tasks, responsibilities iii) superior, subordinates, iv) lower, v) large.

B) 1. i) Scalar, ii) parity, iii) exceptional, iv) flexible, v) fewer.

2. i) False, ii) False, iii) True, iv) True v) False.

C) 1. i) True, ii) False, iii) False, iv) True, v) False

2. i) Procedures, practices, ii) line, extent, iii) chart, iv) hierarchical, departmental v) workgroup.

10.14 TERMINAL QUESTIONS

1) What do you understand by organising? What are the important principles of sound organisation?

2) Explain the components of organisational system.

3) Discuss the important steps involved in organisation process.

4) Under what circumstances is a divisional structure of organisation superior to the functional structure? Compare their relative merits.

5) What do you mean by span of control? Discuss factors affecting span of control.

6) "Organisation chart provides a broad picture of positions of authority and their relationships in the organisation structure", Explain this statement and point out limitations of organisation chart.

7) What is meant by organisational manual? What are its uses? What information should it contain?

8) Beneath the cloak of formal relationship in every institution there exists a more complex system of social relationships, called the 'informal organisation'. Elucidate this statement and explain the nature of informal organisation.

9) Distinguish between formal and informal organisation. What should be the attitude of management towards informal organisation?

10) Write notes on: a) Organisation structure b) Project organisation.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the university. These are for your practice only.

UNIT 11 DEPARTMENTATION AND FORMS OF AUTHORITY RELATIONSHIPS

Structure

11.0 Objectives

11.1 Introduction

11.2 Definition of Departmentation

11.3 Need for Departmentation

11.4 Bases of Departmentation

- 11.4.1 Function
- 11.4.2 Product
- 11.4.3 Territory
- 11.4.4 Customers
- 11.4.5 Process or Equipment

11.5 Choosing a Basis of Departmentation

11.6 Benefits of Departmentation

11.7 Authority Relationships

- 11.7.1 Line Organisation
- 11.7.2 Line and Staff Organisation
- 11.7.3 Line Organisation vs. Line and Staff Organisation
- 11.7.4 Functional Organisation
- 11.7.5 Line Organisation vs. Functional Organisation

11.8 Let Us Sum Up

11.9 Key Words

11.10 Answers to Check Your Progress

11.11 Terminal Questions

11.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the concept and nature of departmentation
- describe and evaluate different bases of departmentation
- make an assessment of the significance and limitations of departmentation
- enumerate and outline the important forms of authority relationships in an organisation
- suggest measures for harmonising relationships among different line and staff position in any organisation.

11.1 INTRODUCTION

Grouping homogeneous activities into one organisational unit on the basis of special and continuous nature of activities is called departmentation. The

appropriate division of organisational activities into departments for the purposes of administration has been one of the fundamental concerns of management. In the previous unit, you have learnt about the nature of organisation, its elements, structural forms, the usefulness of organisation chart and manuals, span of control, and about informal and formal aspects of organisational relations. In the present unit, you will learn the bases of departmentation and selecting a suitable basis of departmentation. You will further learn the forms of authority relationship and their merits and demerits.

11.2 DEFINITION OF DEPARTMENTATION

Departmentation may be defined as the process of forming departments or grouping activities of an organisation into a number of separate units for the purpose of efficient functioning. This term vary a great deal between different organisations. For example, in business undertakings, terms are division, department and section; in Government, these are called branch, department and section; in military, regiment, battallion, groups and company.

The impact of departmentation is a delineation of executive responsibilities and a grouping of operating activities. Every level in the hierarchy below the apex is departmentalised and each succeeding lower level involves further departmental differentiation.

11.3 NEED FOR DEPARTMENTATION

The necessity of departmentation arises because of the anxiety on the part of management to achieve the organisational goals through coordinated efforts of the individuals working in the organisation. More specifically it is necessitated by the following considerations.

i) Departmentation permits an organisation to take advantage of specialisation.

ii) Departmentation enables each person to know the role he is expected to play in the total activities of the company.

iii) Departmentation facilitates communication, coordination and control and contributes to the organisational success.

iv) Departmentation provides a platform around which the loyalties of organisational members may be built.

v) It enables a manager to locate the sources of information, skills and competence to take certain vital managerial decisions.

11.4 BASES OF DEPARTMENTATION

Followings are the bases used for the departmentation of the business enterprises.

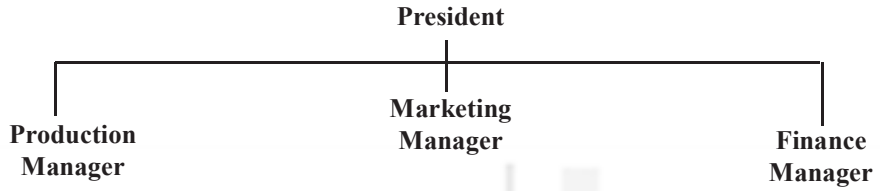
11.4.1 Function

The most common form of grouping activities prevalent almost in every enterprise is the functional departmentation. The word function refers to the principal

activities of an enterprise. It may be defined as any task involved in the performance of activities of an enterprise that can be clearly distinguished from any other task. In a manufacturing organisation, the important functions are production, sales, finance, and personnel.

Functional departmentation may also be carried out at the lower levels of the organisation. For example, activities in the marketing department may be classified and grouped into marketing research, sales and advertising. In other words, the process of functional differentiation may take place through successive levels in the hierarchy. The process can continue as long as there exists a sound base for further differentiation.

In the following figure this has been divided in to Production, Marketing and Finance, function



Advantages of functional departmentation: The advantages of functional departmentation are as follows:

i) It is the most logical and natural form of departmentation.

ii) It brings about specialisation which ensures optimum utilisation of manpower and other resources.

iii) It lays emphasis on each and every activity. Every department makes its contribution to the organisation's objectives.

iv) It facilitates delegation of authority and thus reduces the burden of the chief executive.

v) Specialists can be employed to perform various activities requiring specialised knowledge.

Disadvantages of functional departmentation: The disadvantages of functional departmentation are as follow:

i) There is too much emphasis on specialisation which hampers the broadening of outlook of various people. This might also discourage the organisation. They may think that they are insignificant parts of the total organisation.

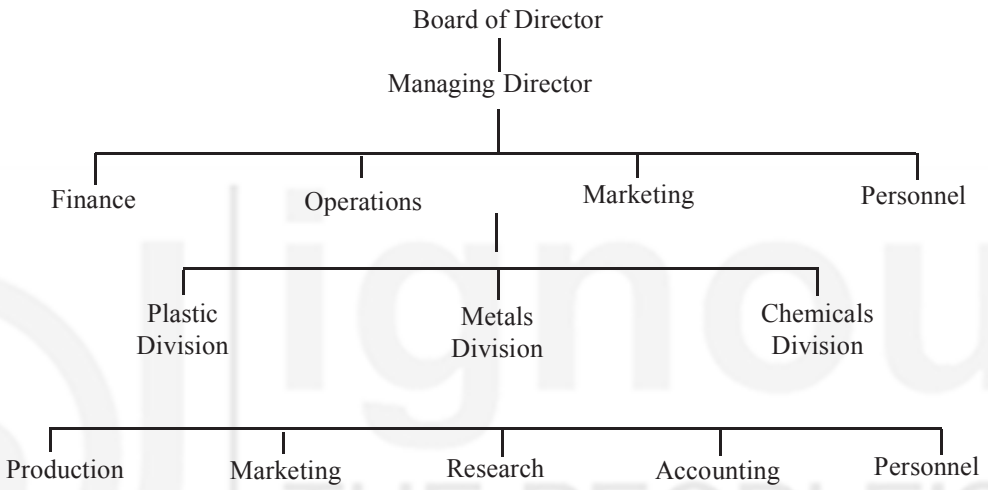
ii) There may be conflicts between different departments. For instance, delivery dates promised by the sales department may not be honoured by the production department.

iii) There may be difficulties in coordination and control of the activities of different departments.

iv) Functional specialisation may reduce costs through higher efficiency but such saving may not be sufficient to compensate for increased expenses resulting through departmentation. Managers may try to build their functional empires.

11.4.2 Product

In the case of product departmentation, departments are created on the basis of products. Each department is known as a Division. Product departmentation is useful when product expansion and diversification, and the engineering, manufacturing and marketing characteristics of the product are of primary concern. Under the product diversification, all activities related to a product line are grouped together under the direction of semi-autonomous divisional manager. The divisional manager has the authority to develop the product according to the nature of demand in the market. It is used when the product is relatively complex and a great deal of capital is required for plant and equipment such as in automobile and electronic industries. For instance, a big company may have metal division, chemical division and plastic division, as shown in the following figure.



Advantages of product departmentation : Following are the advantages of product departmentation:

i) Product departmentation reduces the coordination problems which are created under functional departmentation. There is integration of activities relating to a particular line of product. It facilitates product expansion and diversification.

ii) It focuses attention on each product line.

iii) It leads to specialisation of physical facilities on the basis of products which results in economy.

iv) It is easier to evaluate and compare the performance of various product divisions.

v) It keeps problems of production isolated from those of others.

Disadvantages of product departmentation : The disadvantages of product departmentation are given below :

i) There is duplication of physical facilities and many functions. Each products division maintains its separate facilities and functional personnel.

ii) Advantages of centralisation of certain activities like accounting, financing, marketing, etc., cannot be achieved.

iii) There may be under-utilisation of plant capacity if the demand of product is not sufficient.

iv) It may be difficult for a company to adapt itself to certain changes in demand technology, etc.

11.4.3 Territory

Departmentation by territory takes place when a company is organised into a number of divisions located in different areas. It is also known as geographical departmentation. Territorial departmentation is specially useful for banks, insurance companies, transport companies, etc. They can divide their activities into zones, divisions and branches. For instance, Life Insurance Corporation of India has followed territorial departmentation in the organisation of its activities. The organisation chart of Life Insurance Corporation is given below :

LIC
Head Office
(Bombay)

Eastern (Calcutta)	Central (Kanpur)	Northern (Delhi)	Southern (Madras)	Western (Bombay)
New Delhi	Jalandher		Chandigarh	Ajmer
Branch 1	Branch 2		Branch 3	Branch 4

Advantages of territorial departmentation: The adventages of territorial departmentation are as follow:

i) It helps in achieving the benefits of local operations. The local managers are most conversant with their needs and those of their customers. They can adapt to the local situation with speed and accuracy.

ii) A marketing division can meet local demands more effectively.

iii) There is better coordination of activities in a locality through the setting of a regional division.

iv) It facilitates the expansion of business in various regions.

v) It is beneficial from the point of view of country's economic development.

Disadvantages of territorial departmentation: The disadvantages of territorial departmentation are as follows :

i) There is duplication of physical facilities. It leads to uneconomical operations.

ii) There may be problem of integration between various regional offices.

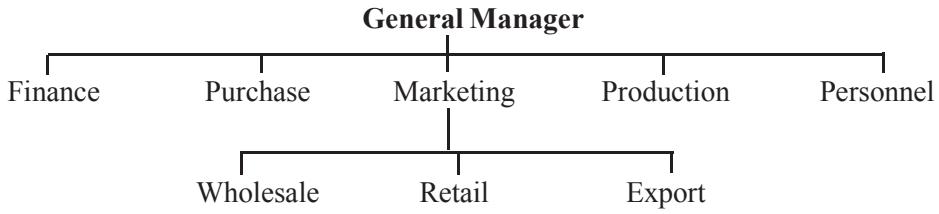
iii) There may be lack of talented personnel to take charge of regional departments.

iv) There will also be problems in providing centralised services to various departments which are located in different regions.

11.4.4 Customers

Under this basis of departmentation, separate departments are created to serve the needs of particular customers. Such an organisation helps managers to satisfy the customer's requirement more conveniently and successfully. A marketing

organisation may group its activities according to the classes of customers served by it, depending on their volume of demand, languages and liking. For example, a departmental store may have childrens department, ladies department, gents department, each catering to the various requirements of different classes of customers. Another organisation may organise its marketing activities into wholesale, retail and export as shown below.



Advantages of customer departmentation: The adventages are as follow:

i) An organisation can consider the needs of baffling variety of customers.

ii) Such organisation can concentrate on clearly identified and potential customers.

iii) It is easier to develop rapport with attractive and resourceful customers.

iv) It is highly useful in customer-oriented organisation.

Disadvantages of customer departmentation: The disadvantages are as follow:

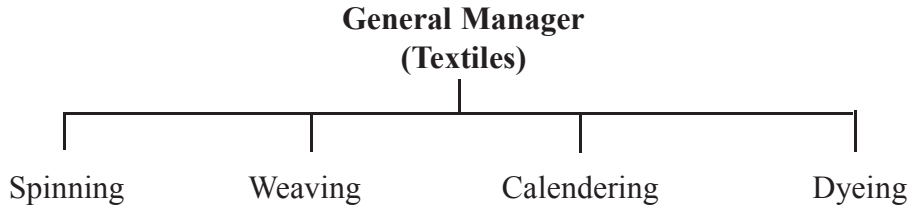
i) It is almost impossible to consider all the customers, their interests, habits and customs.

ii) Departmentation by customer leaves coordination problems between sales personnel and production people.

iii) Organisation may discriminate between rich and poor customers.

11.4.5 Process or Equipment

Under this departmentation, activities are grouped on the basis of various manufacturing processes. In this process, similar types of labour and equipment are brought together. A manufacturing enterprise may departmentalise its activities on the basis of production process of equipment involved. For example, a textile organisation may organise its departments into spinning, weaving, calendering and dyeing as shown below. Similarly, a printing press may consist of composing, proof-reading, printing and binding departments. This type of departmentation may also be followed in engineering and oil industries. The justification of a separate department around equipment is that it is not always possible to install a costly equipment in every department which needs its use. Moreover, skilled personnel are required to operate the equipment.



Advantages of process departmentation: The adventages are as follow:

i) This departmentation is very helpful when machines or equipment used require special operating skills.

ii) It enables the organisation to gain the advantages of specialisation, optimum maintenance of equipment and resources.

iii) It is better suited to manufacturing companies.

Disadvantages of process departmentation: The disadventages are as follow:

i) Departmentation by process makes coordination of various functions and products difficult.

ii) It results in conflicts between different managers at different levels.

Check Your Progress A

1) Which of the following statements are **True** and which are **False**.

   i) Departmentation does not take place at all levels of the hierarchy in an organisation.

   ii) The process of departmentation on functional basis is restricted to the top and middle levels of organisational hierarchy.

   iii) There is duplication of facilities and functions in the case of both product and geographical departmentation.

   iv) Customers cannot be the basis of departmentation if a firm deals in only a single product.

   v) Process departmentation is neither beneficial nor possible in all types of enterprises.

2) Fill in the blanks selecting the most appropriate words from those given within brackets.

   i) Departmentation enables the chief executive to locate the source of ..... for decision making. (raw materials/information/finished products)

   ii) Functional departmentation may reduce .... (efficiency/costs/authority of managers)

   iii) Expansion of business in various regions is facilitated by . . . . . departmentation. (product/process/territorial)

   iv) Textile mills generally organise departments on the basis of ..... (customers/territories/process)

   v) Product departmentation reduces ..... problems which are created under functional departmentation. (decision-making/control/coordination)

11.5 CHOOSING A BASIS OF DEPARTMENTATION

The following factors should be kept in mind while selecting a suitable basis of departmentation.

1) Specialisation: Specialisation brings about internal economies in the business. Therefore, it is an important consideration while choosing a particular basis of departmentation. The management should group various activities into units in such a way which leads to specialisation of work. Overspecialisation should be avoided because it may result in loss of motivation among the personnel.

2) **Economy:** This factor is of great relevance to the number of departments to be created. Creation of a new department increases various costs. This is because the new department requires additional personnel, space and equipment. Therefore, management should see that the departments created make the best possible use of these factors and maximum economy is achieved by creating the departments.

3) **Appreciation of key areas:** All the important areas of the business on which the success of the business depends must be given proper weightage. That is why, in practice, function is taken at the top of the organisation structure. Separate departments are created for important functions like production, financing, marketing etc. Sometimes, local conditions are very important. Therefore, the management should give necessary attention to the local conditions at the time of determining the basis of departmentation.

4) **Minimum conflicts:** The jurisdiction of the departments should be clearly laid down in order to avoid conflict among them. The authority of the managers of different departments should be clearly specified.

5) **Coordination:** The basic purpose of departmentation is the achievement of organisational goals. Coordination in the operations of different departments is essential to achieve the organisational goals. Therefore, departmentation should always facilitate coordination in the organisation.

6) **Control:** Control is an important function of management by which it guides and checks the activities of different departments and personnel. The selected basis of departmentation should ensure effective control to achieve the organisational goals more economically and efficiently. Departmentation should make easier for top management to ensure performance and to hold people accountable for results.

7) **Human consideration:** Departmentation should not only consider the technical aspects of the organisation but it should also give due attention to the human factor. The existence of informal groups, cultural pattern, value system, etc., should be given due weightage at the time of grouping the personnel.

In short, whatever may be the basis, the departmentation should be directed to promote the attainment of organisational objective economically and efficiently. Naturally, managers concerned with taking such a decision will consider the relative advantages and disadvantages of various types of departmentation. In practice, in many cases, it is not possible to follow a single basis in grouping the activities throughout the organisation. Most of the big organisations follow schemes of departmentation that are a composite of several basis. Thus, there is no ideal pattern to suit all occasions and situations. Therefore, the management has to be very careful and use high degree of imagination at the time of choosing a pattern of departmentation. Once the pattern is chosen, it is very difficult and costly to switch over to another pattern.

In India, the most commonly followed basis of departmentation at the top level of the organisation is functional departmentation. At the intermediate and lower levels, other bases are used wherever further functionalisation is not feasible.

11.6 BENEFITS OF DEPARTMENTATION

Departmentation helps in achieving the following benefits :

1) **Specialisation:** Departmentation leads to the benefits of specialisation as various organisational activities are grouped according to their relation with the specific functions or objectives. Every departmental manager specialises in the tasks assigned to him.

2) **Administrative control:** Departmentation helps in effective managerial control because the standards of performance for each and every department can be laid down precisely. Every department has a specific objective. This also facilitates keeping expenditure within limits.

3) **Fixation of responsibility:** Since organisation work is divided into manageable units and authority and responsibility are precisely defined, it is easier to fix the accountability of different managers for the performance of various tasks.

4) **Freedom or autonomy:** The departments created through departmentation are semi-autonomous units. Their heads are given a sufficient degree of authority to run their departments. This increases the efficiency of the departments.

5) **Development of managers:** Departmentation helps in the development of managerial personnel by providing them opportunities to take independent decisions and initiative. The executives can develop themselves for promotion to higher jobs.

11.7 AUTHORITY RELATIONSHIPS

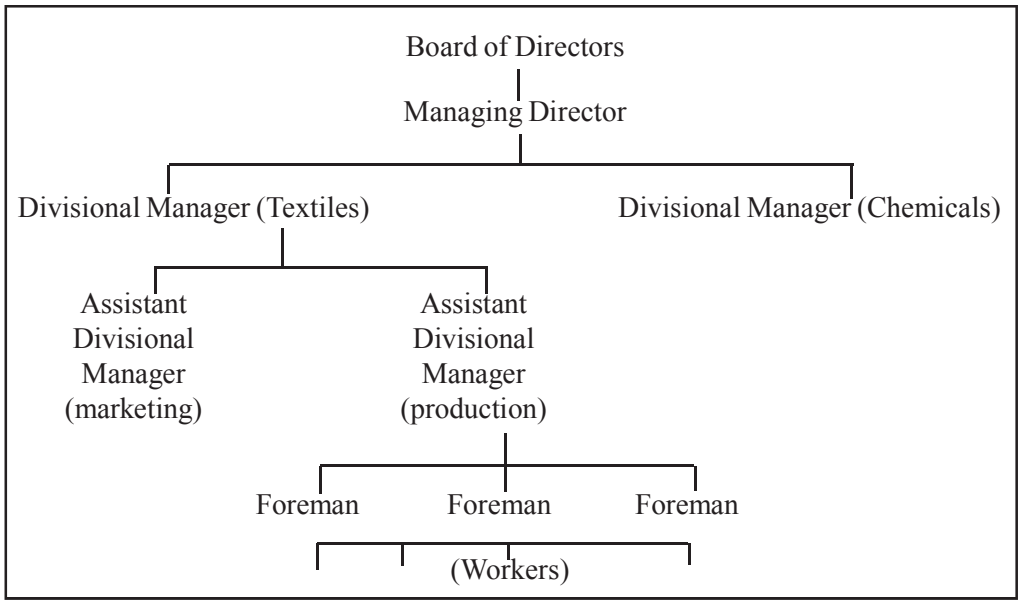
Creation of an appropriate structure is indispensable for any organisation. Organisation structure represents the hierarchical arrangement of various positions in the enterprise. It helps in allocating authority and responsibility formally. It also lays down the pattern of communication and coordination in the enterprise. Thus, the need for clear-cut authority/responsibility relationships has led to three different forms of administrative organisation as follows :

1) Line organisation/authority
2) Line and staff organisation/authority, and
3) Functional organisation/authority.

Let us learn them in detail.

11.7.1 Line Organisation

It represents a direct vertical relationship through which activity flows. It is also known as scalar or military organisation. The line of authority flows from top to bottom throughout the organisation. The quantum of authority is highest at the top and reduces at each successive level down the hierarchy. Every person in the organisation is in the direct chain of command as shown below. The line of authority consists of an uninterrupted series of authority steps and forms a hierarchical arrangement. The line of authority not only becomes the avenue of command to operating personnel, but also provides the channel of communication, coordination and accountability in the enterprise.



Merits of line organisation: Following are the merits of line organisation:

i) It is very simple to establish and can be easily understood by the employees.

ii) There is a clear-cut identification of authority and responsibility relationship.

iii) It ensures better discipline in the enterprise because every individual knows to whom he is responsible.

iv) It facilitates prompt decision making because there is definite authority at every level. An executive cannot shift his decision-making to others nor can the blame be shifted.

v) It facilitates unity of command and thus conforms to the scalar principle of organisation.

Demerits of line organisation : Following are the demerits of line organisation:

i) There is concentration of authority at the top. If the top level executives are not capable persons, the enterprise will not be successful.

ii) With growth, the line organisation makes the top executive overloaded with work.

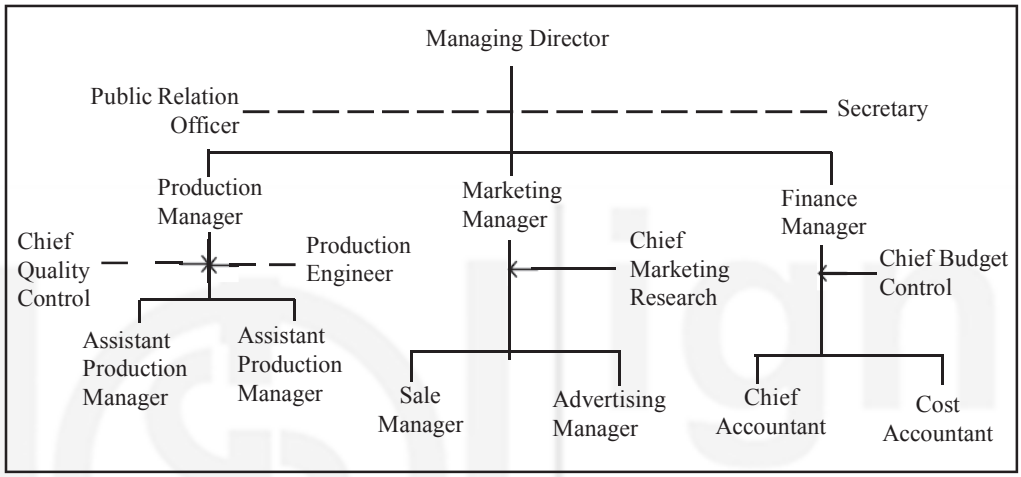
iii) There is practically no communication from bottom upward because of concentration of authority at the higher levels. If superiors take wrong decision, it would be carried out without anybody having the courage to point out its deficiencies.

iv) Line organisation is not suitable in a big organisation because there is lack of specialisation. Many jobs create problems of their own which may not be within the competence of the superior and require handling by specialists.

Despite these drawbacks, the line organisation is very popular. Particularly in small organisations where there are fewer levels of authority and a small number of people. A modification of this structure is line and staff organisation under which specialists are attached to line executives to provide them specialised assistance on matters of great importance to the organisation.

11.7.2 Line and Staff Organisation

In line and staff organisation, line authority moves down in the same manner as in the line organisation, but in addition, specialists (known as 'staff') are attached to line managers to advise them on important matters. Those specialists stand ready to advise and assist line men as and when required, which enable the line officials to carry out their activities better. The staff officers do not have any power of command in the organisation as they are employed only to provide advice to the line officers. Staff means a supporting function intended to help the line managers. In most organisations, the use of staff can be traced to the need for helping handling details, gathering data for decisions and offering advice on specific managerial problems. Staff investigates, supplies information and makes recommendations to managers who take decisions. Line and staff structure is shown below.



Merits of line and staff organisation: The line and staff organisation has all the benefits of line organisations. In addition, it has the following advantages.

i) Line managers get the benefit of specialised knowledge of staff specialists.

ii) Many problems that are ignored or poorly handled in line organisation can be properly resolved in the line and staff organisation with the help of staff specialists.

iii) Staff specialists relieve the line managers from the botheration of concentrating on the specialised functions like budgeting selection and training, public relations, etc.

iv) Staff specialists help the line executives in taking better decisions by providing them with adequate information of the right type at the right moment and render expert advice.

v) Line and staff organisation is more flexible as compared to the line organisation. General staff can be employed to help line managers at the various levels.

Demerits of line and staff organisation: The biggest drawback from which this form of organisation suffers is the conflict between line and staff. The major source of line owned staff conflict is the difference in their viewpoints and perception. Conflict arises when any of them fails to appreciate the viewpoint of the other. When a conflict between line and staff arises both the parties try to explain the causes of conflict in terms of behaviour of the others. The important causes of line and staff conflict as reported by line men are as follows:

i) Staff officers encroach upon the line authority. They interfere in the work of line managers and try to tell them how to do their work.

ii) Staff specialists may be profesionals and may not be well acquainted with the practical problems of the enterprise.

iii) Since staff men are not directly accountable for any result, they are generally overzealous and recommend a course of action which is not practical.

iv) Staff men generally fail to view the whole organisation objectively as they are specialists in particular areas.

v) Staff men have the tendency to take credit for the decisions which prove successful and lay the blame on line men in case the decisions do not prove successful.

The important causes of line and staff conflict as reported by staff men are discussed below:

i) Line managers generally do not make a proper use of the services of the specialists.

ii) Sometimes, staff advice is sought only as a last resort as line executives feel that asking for the advice is admitting defeat.

iii) The staff specialists should try to appreciate the difficulties in implementing new ideas. They should not consider it as a prestige issue if sometimes their advice is not followed.

iv) Line and staff people should try to understand the orientation of each other. They should try to achieve cooperation for the achievement of enterprise objectives.

Some people argue that the distinction between line and staff is an obsolete concept and should be done away with. They argue that it is meaningless to segregate organisation activities on the basis of their contribution to the achievement of goals. Moreover in recent years, the horizontal and diagonal relationships and work flows are gaining greater importance than the vertical relationships represented by the line authority.

Superiority of line and staff organisation over line organisation : Line and staff organisation structure has gained popularity because certain problems of management have become so complex that in order to deal with them expert knowledge is necessary which can be provided by the staff officers. For instance, personnel department is established as a staff department to advise the top executives and other line executives on personnel matters. Similarly, accounts, law and public relations departments may be set up to advise on problems relating to accounting legal issues and public relations.

11.7.3 Line Organisation vs. Line and Staff Organisation

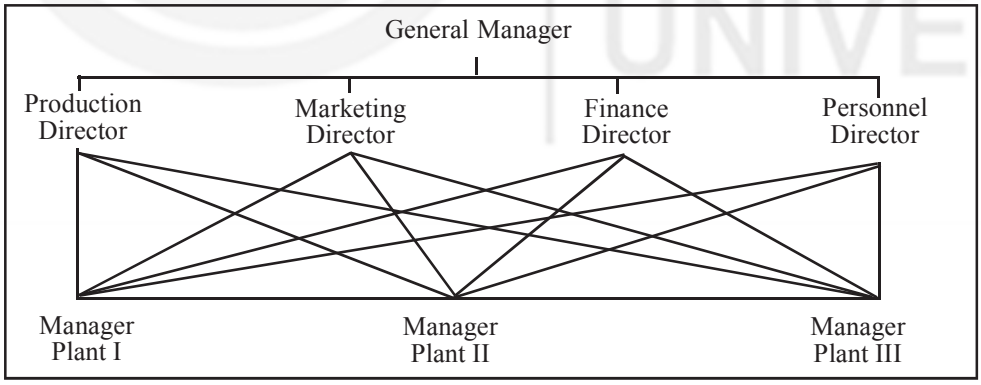
Line Organisation	Line and Staff Organisation
Line refers to those positions which have the responsibility of achieving the primary objectives of the organisation.	Staff refers to those positions which have the responsibility of providing advise and service to the line in attainment of organisational objectives.

There are no experts to assist and advise the line officials.	There are experts known as staff to assist and advise the line officials.
There is no scope of friction between line and staff.	There is always a risk of friction between line and staff people over their respective roles.
It is not based upon planned specialisation.	It is based upon planned specialisation.
Certain line men become key men as they occupy those positions on which the survival of the organisation depends.	This is not possible in case of line and staff organisation as staff officials share credit with line officials.

11.7.4 Functional Organisation

Functional authority occupies a mid-way position between line and staff authority. It is a means of putting the specialists in top positions throughout the enterprise. It confers upon the holder a limited power of command over the people of other departments concerning their function. Functional authority remains confined to functional guidance of different departments. It helps in maintaining ability and uniformity of the performance of functional areas throughout the organisation.

Under functional organisations various activities of the enterprise are classified according to certain functions like production, marketing, finance, personnel, etc. and are put under the charge of functional specialists. A functional head directs the subordinates in his particular areas. That means the subordinates receive instructions not from one superior but from several functional specialists. In other words, the subordinates are accountable to different functional specialists for the performance of different functions.



It was F.W. Taylor who evolved functional organisation for planning and controlling manufacturing operations on the basis of specialisation. But, in practice, functionalisation is restricted to the top levels of the organisation structure and is not carried down to the lowest level in the organisation as recommended by Taylor.

Merits of functional organisation: The merits of functional organisation have been discussed below :

i) **Specialisation:** Functional organisation helps in achieving the benefits of specialisation of work. Every functional incharge is an expert in his area and can help the subordinate to perform better in his area.

ii) **Executive development:** A functional manager is required to have expertise in one function only. This makes it easy to develop executive.

iii) **Reduction of work-load:** Functional organisation reduces the burden on the top executives. There is point supervision in the organisation. Every functional incharge looks after his functional area only.

iv) **Scope for expansion:** Functional organisation offers a greater scope for expansion as compared to line organisation. It does not face the problem of limited capabilities of a few line managers.

v) **Better control:** The expert knowledge of the functional manager also facilitates better control and supervision in the organisation.

Demerits of functional organisation : Functional organisation suffers from the following drawbacks:

i) **Double command:** Functional organisation violates the principles of unity of command since a person is accountable to a number of bosses.

ii) **Complexity:** The operation of functional organisation is too complicated to be easily understood by the workers. Workers are supervised by a number of bosses. This creates confusion in the organisation.

iii) **Problems of succession:** Functional organisation develops specialists rather than generalists. This may create problem in succession of top executive positions.

iv) **Limited perspective:** A functional manager tends to create boundaries around himself and thinks only in terms of his own departments rather than the whole enterprise. This results in loss of overall perspective in dealing with business problems.

v) **Delay in decision making:** There is generally lack of coordination among the functional executives and delay in decision making when a decision problem requires the involvement of more than one specialist.

11.7.5 Line Organisation vs. Functional Organisation

Line Organisation	Functional Organisation
The line of authority is vertical as it follows the principle of scalar chain.	The line of authority is functional or diagonal. The functional manager has authority over his function wherever it is performed.
Line managers are generalists.	Functional managers are specialists in their respective areas.
There is unity of command.	Unity of command is not followed as each subordinate gets instructions from his line boss and the functional bosses.
There is strict discipline.	There is loose discipline.
It is suitable for small scale operations.	It is suitable for large scale operations where experts knowledge in certain fields is a must.

Check Your Progress B

1) Fill in the blanks :

   i) Specialisation should be kept in view but ..... should be avoided while choosing the basis of departmentation.

   ii) The ..... of departments to be created must be clearly laid down to minimise inter-departmental conflicts.

   iii) Not only technical aspects of the organisation but also ..... factors should be given due attention in departmentation.

   iv) In the line organisation ..... flow from top to bottom and forms a chain of command.

   v) Line and staff conflict is mainly due to difference in their .....

2) Which of the following statements are **True** and which are **False**.

   i) Functionalisation is restricted to the top levels of the organisation structure.

   ii) Departmental heads are given full autonomy to run their departments as they like.

   iii) Different basis may be adopted for departmentation in the same organisation.

   iv) Functional organisation increases the workload of top executives.

   v) Staff specialists do not have authority to implement their ideas.

11.8 LET US SUM UP

Departmentation, the process of grouping activities on certain basis, is an important element of organisation. It can be done on the basis of function, product, territory, customers, process, or project. But, whatever may be the basis, the departmentation should be directed to promote the attainment of organisational objectives economically and efficiently.

In choosing the basis of departmentation several factors like specialisation, economy, appreciation of key areas, minimum conflicts, coordination, control and human consideration should be kept in mind.

Departmentation is a means of dividing the large and complex organisation into smaller, flexible, administrative units. By doing so, the organisation achieves the benefit of specialisation, administrative control, fixation of responsibility, freedom or autonomy and development of managers.

Another concept related to organisation is that of the form of authority relationships which lays down the pattern of communication and coordination in the enterprise. There are three basic types of forms, viz., line organisation, line and staff organisation and functional organisation. Though line and staff are sometimes argued to be obsolete concepts, they are still used.

There are occasions when the line and staff are in conflict because of the differences in viewpoints and perceptions of the two. Efforts should be made to minimise the conflict in the interest of the organisation. Functional organisation should be restricted to the top levels of the organisation.

11.9 KEY WORDS

Authority : It denotes certain rights granted to a position holder in an institution. It includes rights to take decisions and get them executed.

Departmentation : It is the process of grouping activities on certain well defined basis.

Functional authority : It confers upon the holders a limited power to command over the people of other departments concerning their function.

Line authority : It refers to those positions and elements of the organisation, which have responsibility and authority and are accountable for the accomplishment of primary objectives.

Staff authority : Staff refers to those elements which have responsibility and authority for providing advise and service to line - in attainment of objectives.

11.10 ANSWERS TO CHECK YOUR PROGRESS

A) 1. i) False ii) False iii) True iv) False, v) True

2. i) information, ii) costs, iii) territorial, iv) processes, v) coordination.

B) 1. i) over-specialisation, ii) jurisdiction, iii) human, iv) authority, v) perception/ points of view.

2. i) False, ii) False, iii) True, iv) False, v) True.

11.11 TERMINAL QUESTIONS

1) Discuss the meaning and importance of departmentation.

2) Suggest a scheme of departmentation for a large business enterprise with a field network of sales all over the country. Discuss its merits and demerits.

3) Distinguish between product departmentation and process departmentation. Outline the respective advantages of the two.

4) What are the benefits derived from departmentation of activities? Discuss.

5) What are the factors which have to be considered while selecting a suitable bases of departmentation?

6) The chief executive of a large manufacturing enterprise is upset over frequent conflicts between the production department and the personnel department. The enterprise is organised on line and staff pattern. What can be the possible causes of this conflict and what steps can be taken to reduce and overcome it?

7) Compare line, functional and line and staff organisation. Which of these will be appropriate for a large manufacturing enterprise?

Note : These questions will help you to understand the unit better. Try to write answers for them. But, do not submit your answers to the university. These are for your practice only.

UNIT 12 DELEGATION OF AUTHORITY AND DECENTRALISATION

Structure

12.0 Objectives
12.1 Introduction
12.2 Delegation
12.2.1 Delegation of Authority
12.2.2 Elements of Delegation
12.2.3 Principles of Delegation
12.2.4 Importance of Delegation
12.2.5 Barriers to Effective Delegation
12.2.6 Means of Effective Delegation
12.3 Decentralisation
12.3.1 Distinction between Delegation of Authority and Decentralisation
12.3.2 Merits and Limitations of Decentralisation
12.3.3 Factors Determining the Degree of Decentralisation
12.4 Let Us Sum Up
12.5 Key Words
12.6 Answers to Check Your Progress
12.7 Terminal Questions

12.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the concept and process of delegation of authority and importance of delegation
- describe the principles of delegation
- identify the barriers to delegation and suggest how to make delegation effective
- analyse the implications of centralisation and decentralisation and differentiate between delegation and decentralisation
- identify the merits and demerits of decentralisation
- describe the factors determining the extent of decentralisation of authority in an organisation.

12.1 INTRODUCTION

Delegation is one of the important requirements of successful management. Delegation is a concept as well as a process. As a concept, it refers to manager's sharing of work with his subordinates. However, the manager's sharing of the burden of his work with subordinates is different from division of labour. It is also different from the routine of giving order. The special kind of work sharing

in delegation involves planning, assessment of subordinates, interpersonal communication and relationship of trust between the manager and his subordinates. In this unit, we shall discuss the meaning and process of delegation, its importance, the principles of delegation, and how delegation can be made effective. You will also learn the concepts of centralisation and decentralisation of authority, the difference between delegation and decentralisation, and the merits and limitations of decentralisation.

12.2 DELEGATION

In any organisation no individual can perform all duties and accomplish all tasks by himself. It is physically impossible for a single individual to look after the affairs of a large business. His skill lies in his ability to get things done through others. As an organisation grows in size and the manager's job increases beyond his personal capacity, his success lies in his ability to multiply himself by training his subordinates and sharing his authority and responsibility with them. The only way he can achieve more is through delegation, through dividing his work load and sharing responsibilities with others. Thus, the sharing of power or authority with another for the performance of certain tasks and duties is known as delegation.

To delegate means to grant or confer, hence the manager who delegates grants or confers (authority) on others (subordinates) to accomplish certain duties in the form of work.

According to O. Jeff. Harris it is an authorisation to a subordinate manager to act in a certain manner independently. The delegation of authority is the delivery by one individual to another of the right to act, to make decisions, to acquire resources and to perform other tasks in order to fulfil job responsibilities.

L.A. Allen has defined delegation as "the entrustment of a part of the work, or responsibility and authority to another, and the creation of accountability for performance". Responsibility is the work assigned to a position. Authority is the sum of powers and rights entrusted to make possible the performance of the work delegated. Accountability is the obligation to carry out responsibility and exercise authority in terms of performance standards established. It is the obligation of an individual to render an account of the fulfilment of his responsibilities to the boss to whom he reports.

12.2.1 Delegation of Authority

Just as no one person in an enterprise can do all the tasks necessary for accomplishment of goals so it is impossible, as an enterprise grows, for one person to exercise all the authority for making decisions. As you know that, there is a limit to the number of persons, managers can effectively supervise and for whom they can make decisions. Once this limit is passed, authority must be delegated to subordinates, who will make decisions within the area of their assigned duties.

Then the question is how is authority delegated when decision-making power is vested in a subordinate by his superior. Clearly, superiors cannot delegate authority they do not have. It is equally clear that superiors cannot delegate all their authority without, in effect, transferring their position to their subordinates. The entire process of delegation involves four steps. They are:

1) The determination of results expected from persons in a position ;
2) The assignment of tasks to persons;
3) The delegation of authority for accomplishing these tasks;
4) The holding of people responsible for the accomplishment of these tasks.

Thus, delegation is the process that a manager follows in dividing the work assigned to him so that he performs that part, which because of his position he can perform effectively.

But there is a difference between delegation and work assignment. Delegation constitutes a master agent relationship while work assignment constitutes master servant relationship. An employee's work assignment may be reflected in his job description while delegated duties may not form the part of the employee's normal duties.

Delegation is legitimate authorisation to a manager or employee to act in specified ways. It enables him to function independently without reference to the supervisor but within the limits set by the supervisor and the normal framework of organisational objectives, policies, rules and procedures.

From the above discussion, it is clear that delegation involves; a) entrustment of work to another for performance b) grant of power, right or authority to be exercised to perform the work, c) creation of an obligation on the part of the person accepting delegation.

12.2.2 Elements of Delegation

There are three distinct elements of delegation : a) assignment of task or duties, b) conferment of powers or authority, and c) creation of obligation, responsibility or accountability. These are discussed below.

a) **Assignment of task or duties:** In the first step, the delegator (superior) assigns duties to delegate (subordinate). While assigning the duties, the delegator must be clear in his mind as to what tasks should he assign to subordinates. Thus, the work or task to be assigned is identified and clearly defined before it is assigned. For example, when a sales manager asks his subordinate to set up a divisional sales office, he must explain clearly the objectives, the sales territory, etc.

b) **Conferment of power of authority:** Granting of authority is the second step in delegation. Authority may be defined as the powers and rights granted to another to perform the delegated work. These powers may include the authority to acquire necessary resources for the performance of the assigned work. Without adequate authority, the subordinate (delegate) cannot be expected to perform his task or duties. For example, in the above case when the sales manager asks his subordinate to set up a divisional office he has to give him the right to procure and use necessary resources.

c) **Accountability:** Once the duties are assigned and authority is given to a subordinate, the delegator creates an obligation/accountability to perform the tasks. The obligation to carry out the task and bear responsibility in terms of the standards established and specified is known as accountability. Thus, accountability is the obligation of an individual to render an account

of the fulfilment of his responsibilities to the principal to whom he reports. The subordinate is always answerable to the superior for the task assigned to him. He cannot shift his responsibility to anyone else, that is accountability is fixed to the position. Thus, the superior can control the performance of his subordinate through accountability. The delegatee is accountable to his delegator through reports, meetings and evaluation.

Check Your Progress A

1) Which of the following statements are **True** or **False**?

   i) Delegation takes place when one person gives another a free hand to perform all types of work on his behalf with no responsibility.

   ii) The purpose of delegation is to share work with another, which means division of work.

   iii) Delegation involves entrustment of work, grant of authority and creation of obligation.

   iv) A manager can control the performance of his subordinate through his accountability.

   v) Delegated duties are always a part of the subordinate's normal duties.

2) **Fill in the blanks choosing the appropriate word from those given within brackets.**

   i) Delegation constitutes a ..... relationship (master-servant/ master-agent/master-worker).

   ii) As a process, delegation implies the transfer of a portion of superior's ..... to his subordinate (activities/authority/obligation)

   iii) The obligation to carryout the delegated task in terms of specified standards in known as ..... (responsibility/ accountability)

   iv) Accountability is fixed to the ..... (person/position/ superior)

   v) The delegatee must function within the limits set by the ..... (job description/superior/subordinate)

12.2.3 Principles of Delegation

Delegation is one of the most important elements in the organising process. It is through delegation that interrelationships are created in any organisation. There are certain principles which may be followed as guidelines for effective delegation. These principles are:

Principle of delegation by results: The purpose of delegation is to get work done through another more effectively and efficiently than it may be accomplished by the delegator himself in a given situation. It is, therefore, essential that the assignment of task or duty and the entrustment of authority should be done keeping in view the results expected.

Delegation by result implies that goals have already been set and properly communicated to the delegatee and understood by him and that the job assigned fits the objectives.

Principles of competence: The person selected as a delegatee should be competent for the task assigned to him.

Principle of trust and confidence: It is necessary that there is an atmosphere of trust and confidence in the organisation as a whole and that there is a feeling of trust between the delegator and the delegatee. The delegatee should enjoy mental freedom in his work. He would be able to use his initiative and drive in work if he is mentally free.

Principle of parity between authority and responsibility: Authority delegated should be adequate in relation to the responsibility. It is logical that the responsibility for actions cannot be greater than the authority delegated, nor should it be less.

Principle of unity of command: The principle of unity of command describes the authority-responsibility relationships. The principle stresses that each subordinate should have only one boss to whom he should be accountable to avoid confusion and conflict. In delegation, it is assumed that the right of discretion over a particular activity will flow from a single superior to a subordinate.

Principle of absolute responsibility: Responsibility is an obligation which can neither be delegated nor be temporarily shifted. No superior can escape the responsibility for the activities of his subordinates through delegation, because it is the superior who has delegated the authority and has assigned duties. Similarly, the responsibility of the subordinate to his superior for performance of the delegated duties is absolute and cannot be shifted.

Principle of adequate communication: There should be free flow of information between superior and subordinate.This enables the subordinate to take decisions and interpret correctly the nature of the task to be completed with the nature and degree of authority vested in him.

Principle of effective control: As the delegator delegates his authority but not the responsibility, he should ensure that the authority delegated is properly used.

Principle of reward: Effective delegation and proper exercise of authority should be rewarded. A rational rewarded system of reward would act as an incentive to subordinates to willingly take the responsibility and assume authority and also create a healthy environment within the organisation.

Principle of receptiveness: Delegation needs and it also creates an understanding between the superior and subordinate. Decision-making involves some discretion. This means that no two decisions or two persons can exactly be the same. It is therefore, necessary that the superior who delegates authority accommodates the ideas of his subordinates.

12.2.4 Importance of Delegation

Delegation of authority is one of the most important element in the process of organisation. Organisations are characterised by a network of activities and roles. Delegation is the process through which the interrelationships are created among individuals in their different roles in the organisation.

Delegation is necessary because it is physically impossible for a single man to look after the affairs of a large organisation. The success of a manager lies in his ability to multiply himself through other people. The organisations of today are not only large but also complex in character. No manager can claim to have all the skills and expertise to perform all the diverse kinds of jobs. Again, large scale business activities are not confined to one place. It may have several branches and units at several places. Delegation becomes a necessity for running these branches.

An organisation is a continuity. Managers may go and come but the organisation continues. Delegation provides continuity of operations in the organisation. The process of delegation helps managerial development in an organisation.

Thus, delegation is important for any organisation because it reduces the burden of the manager and leaves him free to look after important matters of the organisation. It is a method by which subordinates can be developed and trained to take up higher responsibilities. It provides continuity to the organisation and creates a healthy organisational climate by creating better understanding among the employees.

Check Your Progress B

1) Fill in the blanks with appropriate words from those given within brackets:

   i) Delegation by result implies that goals have been properly ..... (assigned/communicated/discussed).

   ii) Responsibility can be neither delegated nor shifted. It is ..... (fixed/absolute/rigid).

   iii) Subordinates often avoid responsibility due to fear of ..... (penalty/criticism for mistakes/discharge)

   iv) Subordinates should be ..... to accept delegation (forced/ordered/trained).

   v) Managers are reluctant to delegate when they have no confidence in the ..... of subordinates (morality/sense of responsibility/integrity).

2) Which of the following statements are **True** or **False**?

   i) The responsibility of the delegatee cannot be greater than the authority delegated to him.

   ii) Delegation is not possible if the managers are younger than the subordinates.

   iii) Delegation provides continuity of operations in the organisation.

   iv) Objectives have nothing to do with the effectiveness of delegation.

   v) For effective delegation managers must have trust in their subordinates.

12.2.5 Barriers to Effective Delegation

The problem of delegation is essentially one of human leadership. Delegation is not only a technique of management; it is a part of the attitude of business itself. As such what is necessary is the atmosphere of giving and taking responsibility in the organisation. This is possible by creating an atmosphere of mutual trust

and confidence. The reluctance of the superior to delegate and the reluctance or avoidance of the subordinates to accept delegation are the major barriers to delegation which are discussed below.

Why are managers reluctant to delegate?

Managers are sometimes reluctant to delegate authority due to the following reasons :

1) **Lack of confidence in the capability of subordinates:** A manager may not have confidence in the capability and competence of subordinates. He may consider that he can do the job better than his subordinates.

2) **Lack of confidence in the subordinate's sense of responsibility:** The manager's lack of confidence in the sense of responsibility of subordinates may also stand in the way of delegation of authority to others.

3) **Fear of loss of power:** Managers who feel insecure and fear that if the subordinates perform well they may lose their power, are usually reluctant to delegate.

4) **Lack of self confidence:** Some managers may lack self-confidence or may be too conscious of their own incompetence, and therefore, reluctant to delegate authority. This is true in organisations where professional management is lacking.

Why subordinates avoid delegation?

Subordinates are also found to avoid delegation under certain circumstances discussed as below:

1) **Reluctance to bear responsibility:** Researches have shown that many subordinates prefer controlled existence with minimum responsibility. Such employees are unwilling to accept responsibility which goes with delegation of authority.

2) **Fear of criticism:** Another factor which prompts subordinates to avoid responsibility is the fear of criticism for inefficiency or mistakes.

3) **Fear of inadequacy of resources:** Many subordinates hesitate to accept responsibility for fear of inadequacy of necessary resources for completion of the task and uncooperative attitude of the delegator.

4) **Lack of motivation:** In many cases, the organisational climate is not motivating enough. It prevents subordinates in accepting responsibility. Some studies undertaken in India show that delegator's love for authority, the tendency on the part of the superiors to hold back information needed by subordinates and delegators' lack of confidence in the subordinate are important reasons for the reluctance of the subordinate in taking up delegated tasks.

12.2.6 Means of Effective Delegation

Effectiveness of delegation is governed largely by the general attitude of business which depends on various factors, like management policies, organisational culture, professional outlook and willingness on the part of key managers to

delegate authority and the willingness as well as competence of the subordinates to accept delegation. The studies undertaken have shown that poor or inept delegation is one of the most prominent causes for the lack of delegation or failure of delegation. For effective delegation, the following measures may be taken.

1) **Improvement in the organisational climate and general management policies:** The organisational climate depends on several factors, the most important of which is the general attitude of the key managers and the overall personnel policy of the organisation. A forward looking, progressive organisation believes in the development of its people and as such throws open more and more opportunities for the younger managers to develop.

2) **Trust in subordinates:** If the key managers create an atmosphere of trust and repose their confidence in the subordinates, the subordinates will be motivated to take responsibilities. Once trust prevails, the feeling of fear disappears.

3) **Establish clear objectives:** Effective delegation depends on clarity of objectives. The delegatee should clearly know what has he to achieve.

4) **Define responsibility and authority:** The delegatee should know the degree of authority he enjoys to perform the job, and its adequacy in relation to his responsibilities.

5) **Motivate subordinates:** Motivation is the moving force in delegation. About the best leader, the Chinese philosopher Lao-tzu said when their task is accomplished, their work done, the people feel "we have done this ourselves'." It is difficult to say what would motivate people. The true motivation is internal. What clicks in motivating an individual is not easy to know. Yet it is for the superior to know as to what the urgent needs of their subordinates are. Research studies have shown that group recognition and group cohesiveness encourage participative management. The introduction of participative management in the organisation must be encouraged at all levels i.e. lower, middle and top levels.

6) **Improve communication:** Communication is an effective tool for promoting better understanding and improving the organisational climate. There should be a free flow of information about the policies and programmes of the organisation.

7) **Provide necessary training:** Subordinates should be trained to accept delegation and the manager should master the skill of delegation.

8) **Establish adequate controls:** Effective delegation requires a system of controls to free the manager from routine inspections and yet enable him to maintain accountability.

12.3 DECENTRALISATION

Delegation of authority is closely related to the concepts of centralisation and decentralisation of authority. Let us learn them in detail.

Centralisation: Centralisation is the reservation or withholding of authority by individual managers within the organisation. According to Henry Fayol, 'everything that goes to increase the importance of the subordinates role is decentralisation, everything which goes to reduce it is centralisation" In centralisation little delegation of authority is the rule; power and discretion are concentrated in a few executives. Control and decision making reside at the top levels of management. However, absolute centralisation is untenable because it would mean that subordinates have no duties, power or authority.

Centralisation may be essential in small organisations to survive in a highly competitive world. But as the organisation becomes more complex in terms of increasing size, interdependence of work-flow, complexity of tasks and spatial physical barriers within and among groups, a function requisite for efficiency is to move decision-making centres to the operating level. Thus, the larger the size of an organisation, the more urgent is the need for decentralisation. This does not mean that decentralisation is good and centralisation is bad.

Decentralisation: Decentralisation is the systematic effort to delegate to the lowest levels, all authority - except that which can be exercised at central points. It is the pushing down of authority and power of decision-making to the lower levels of organisation. The centres of decision-making are dispersed throughout the organisation. The essence of decentralisation is the transference of authority from a higher level to a lower level. It is a fundamental principle of democratic management where each individual is respected for his inherent worth, and constitution.

As you know, decentralisation is a correlate of delegation; to the extent that authority is not delegated, it is centralised. Absolute centralisation decreases the role of subordinate managers which in turn encourages decentralisation. Absolute decentralisation is also not possible because managers cannot delegate all their authority. If he does so, his status as manager would cease and his position would be eliminated. The degree of centralisation and decentralisation is shown in Figure 12.1

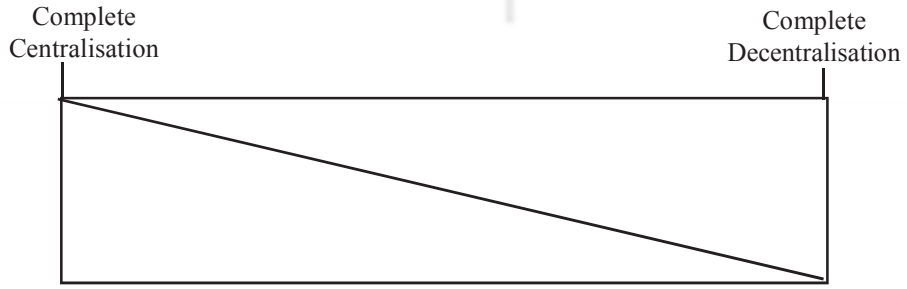


Fig. 12.1: Degree of Centralisation and Decentralisation

12.3.1 Distinction between Delegation of Authority and Decentralisation

Although decentralisation is closely related to delegation, there are some differences between decentralisation and delegation which are discussed below.

1) Delegation is a process of systematic transfer of authority while decentralisation is the end result of planned delegation.

2) Delegation refers to the transfer of authority from one individual to another. Decentralisation refers to the systematic delegation of authority to all units in an organisation-wide context.

3) Delegation can take place from one person to another and be a complete process. But decentralisation is complete only when the fullest possible delegation is made to all or to most of the people.

4) Delegation is between a superior and a subordinate while decentralisation is company-wide delegation as between top management and divisions or departments.

5) Delegation is necessary for effective management because no individual manager can afford to look after everything. But decentralisation is optional, necessitated by the growth of the organisation.

6) In delegation, operational control is exercised by the delegatee but in, decentralisation, the overall control is by the top management.

12.3.2 Merits and Limitations of Decentralisation

Centralisation and decentralisation are extensions of delegation. The belief that complete decentralisation is always desirable is fallacious. Equally fallacious is the belief that complete centralisation is good. The merits and limitations of decentralisation are discussed below.

Merits

1) **Facilitates growing and complex organisation :** Centralisation of authority may be desirable under certain special circumstances to accomplish specific results or when the company is small. But when organisation grows in size and becomes complex, even a hardcore autocratic manager is forced to delegate some authority and bring about decentralisation.

2) **Reduces the burden of executives:** Decentralisation is always preferable when an organisation has grown in size and complexity, and there is a need to reduce the burden of the top executives.

3) **Facilitates diversification:** Decentralisation is required when business needs to be expanded by diversifying its activities or product lines.

4) **Quick decision making:** Decentralisation facilitates consultative as well as quick decision-making at the action point. This promotes interaction among the different functionaries giving them an opportunity for self development and training and stimulating them to put in their best effort in the growth and development of the organisation as whole.

Limitations

1) **Leads to disintegration:** Extreme decentralisation, however, may not be a cure. It may lead to looseness and also ultimately to the disintegration of the organisation. It may bring about the diseconomy of scale with the increase in the overhead expenses of each decentralised unit. The duplication in functions may further add to the total cost.

2) **Does not suit specialised services:** For specialised services like accounting personnel, research and development etc., decentralisation is unwarranted.

Moreover, there are certain areas of control and responsibility like setting up overall organisational objectives, long-term planning, formulation of policy, capital investment etc. which need to be under central control only.

3) **Conflict:** Decentralisation puts increased pressure on divisional heads to realise profits at any cost. This encourages the managers to become department conscious. Sometimes the top management deliberately encourages competition between different departments to increase the profitability. This competition results in bitter inter-divisional rivalries and conflict.

Thus neither extreme centralisation nor decentralisation is desirable. What is required is a golden means i.e. a balance between centralisation and decentralisation. The question before managers, therefore is, not whether an organisation should be decentralised but to what extent it should remain centralised.

12.3.3 Factors Determining the Degree of Decentralisation

Decentralisation helps in achieving the organisational objectives more efficiently. Following factors are usually considered in determining the degree of decentralisation.

1) **Size of operations:** As an organisation grows in size and complexity, need for decentralisation tends to increase. More decisions are taken at different places and coordination of a large number of departments becomes difficult. Thus as the size increases, decentralisation becomes inevitable.

2) **Cost and risks of decision-making:** As the organisation grows in size the decisions involving heavy costs also multiply. With decentralisation of authority, the high cost and high-risk decisions may be taken at the top level but routine decisions can be taken at lower levels. Thus decentralisation helps and quickens decision-making process.

3) **Top management philosophy:** The attitude of top executives and their philosophy have an important influence on the extent to which authority is decentralised.

4) **Availability of managerial resources:** The extent of decentralisation is limited to the extent of availability of trained and competent managerial personnel.

5) **Environmental influence:** The most important environmental forces affecting the degree of decentralisation are: Government controls, tax policies, and unionism.

For example, where prices of a product are controlled, the sales manager's freedom is curtailed. Similarly, labour legislations and the decisions of worker's unions may limit the authority of managers.

Check Your Progress C

1) Which of the following statements are **True** or **False**?

   i) Decentralisation of authority and delegation of authority are closely interrelated.

ii) Delegation is essential for management but decentralisation is optional.

iii) Decentralisation of authority is not good for large organisations.

iv) Centralisation of authority is bad under all circumstances.

v) Delegation is not possible in all units of an organisation.

2) Fill in the blanks :

i) Decentralisation is the ..... or planned delegation in the organisation-wide context.

ii) Centralisation may be desirable when the organisation is .....

iii) When business needs expansion by diversifying the product line, the organisation should be .....

iv) As ..... of a business increases centralisation is not preferable.

v) For specialised services like accounting ..... is unwarranted.

12.4 LET US SUM UP

Delegation may be defined as assigning formal authority and responsibility to another person for the performance of certain activities. As a process, it is followed by managers in dividing up work with subordinates by entrusting a part of their duty and assigning them the necessary authority to accomplish it. Delegation involves entrustment of duties and responsibilities, assignment of authority and creation of accountability.

Delegation facilitates effective utilisation of resources, relieves top executives of their extra work-load, improves decision-making and encourages initiative and self-development.

The superior executives are often reluctant to delegate and the subordinates hesitate to take responsibility. These constitute barriers to effective delegation.

Managers may be reluctant to delegate authority due to lack of confidence in the capability of subordinate's or in the subordinate's sense of responsibility, fear of loss of power, or lack of self-confidence. Subordinates are often reluctant to accept delegation on account of their preference to avoid responsibility, fear of criticism for mistakes or inefficiency, inadequacy of resources, and lack of motivation.

Effective delegation can be possible by improving the organisational climate, creating an atmosphere of trust in the subordinates, establishing clear objectives, precisely defining authority and responsibility, motivating the subordinates to accept delegation, improving communication, providing necessary training, and establishing adequate a golden mean i.e. a balance between the two.

Centralisation is the withholding or reservation of authority by individual managers within an organisation. Decentralisation refers to the systematic delegation of authority to all units in an organisation-wide context. It is complete only when the fullest possible delegation is made to all or most of the people lower down the level in an organisation.

Centralisation of authority may be desirable under special circumstances to accomplish specific results or when the company is small in size. Decentralisation is always preferable when an organisation has grown in size and complexity and there is a need to reduce the burden of the top executives.

Delegation is closely related to decentralisation. Delegation leads to decentralisation. The degree of decentralisation in any organisation is determined by several factors like the size of organisation, the rate of growth and the nature of organisation. It is influenced by the management philosophy and the environment in which an organisation operates. Whatever may be the size of the organisation there is nothing like a complete centralisation or complete decentralisation in an organisation. Neither complete centralisation nor complete decentralisation is desirable. What is required is a golden mean-a balance between the two.

12.5 KEY WORDS

Absoluteness of responsibility : The principle that responsibility can neither be delegated nor shifted to another person.

Accountability : Subordinate's responsibility to account for the performance of the task delegated to him.

Chain of command : Superior-subordinate relationship in an organisation which follows a hierarchical order of ranks from top to bottom.

Centralisation : The systematic and consistent reservation of authority to make major policy decisions at one or a very few central points within the organisation.

Decentralisation : Systematic delegation of authority pushing down the decision-making process to lower levels in the organisation.

Delegation : The act of assigning formal authority and responsibility to a subordinate for the achievement of specific objectives.

Parity of authority and responsibility : The principle that grant of authority should be at par with the responsibility of the delegatee.

Responsibility : The obligation owed by subordinates to their superiors for exercising authority delegated to them to accomplish a given task.

Unity of command : The principle of each subordinate being responsible to only one superior.

12.6 ANSWERS TO CHECK YOUR PROGRESS

A) 1. i) False ii) False iii) True iv) True v) False

2. i) master-agent ii) authority iii) accountability, iv) position v) superior.

B) 1. i) Communicated ii) absolute iii) criticism for mistakes iv) trained v) sense of responsibility.

2. i) True ii) False iii) True iv) False v) True

C) 1. i) True ii) True iii) False iv) False v) False

2. i) end result ii) small iii) decentralised iv) size v) decentralisation.

12.7 TERMINAL QUESTIONS

1) Define delegation. What are the elements of delegation?
2) Discuss the principles of delegation of authority.
3) What are the barriers to effective delegation? How can they be overcome?
4) Distinguish between delegation and decentralisation.
5) What do you understand by centralisation and decentralisation? What are the advantages of decentralisation?
6) Extreme decentralisation is as bad as extreme centralisation. Discuss.
7) What are the factors that determine the degree of decentralisation of authority in an organisation?
8) What is the importance of delegation of authority? How is it related to decentralisation of authority?

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the university. These are for your practice only.

UNIT 13 CONTROL

Structure

13.0 Objectives
13.1 Introduction
13.2 Definition of Control
13.3 Characteristics of Control
13.4 Importance of Control
13.5 Stages in the Control Process
13.6 Requisites of Effective Control
13.7 Limitations of Control
13.8 Areas of Control
13.9 Traditional Control Techniques
13.9.1 Budgetary Control
13.9.2 Standard Costing
13.10 Modern Techniques
13.10.1 Break-Even Analysis
13.10.2 PERT (Programme Evaluation and Review Technique)
13.10.3 CPM (Critical Path Method)
13.10.4 Statistical Quality Control
13.10.5 Management Audit
13.11 Let Us Sum Up
13.12 Key Words
13.13 Answers To Check Your Progress
13.14 Terminal Questions

13.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the nature and characteristics of control function
- describe the importance of control in management
- enumerate and analyse the stages in the control process
- explain the requisites of effective control, and
- outline the various types of control.

13.1 INTRODUCTION

In the preceding units you have learnt in detail, the planning of management. Controlling is another very important function of management. The study of management practices cannot be complete unless this function is also examined in detail. In this unit, we shall discuss the nature and importance of the control function of management, analyse the stages in control process, outline the types of control, and explain the requisites of an effective control system.

13.2 DEFINITION OF CONTROL

Control may be defined as the process of analysing whether actions are being taken as planned and taking corrective measures to make them conform to the plan of action. Control is the essence of good management. It is concerned with ascertaining that planning, organising and directing functions result in attainment of organisational objectives. In fact, control precipitates bad decisions and their consequences and restores effectiveness and efficiency. It is a continuous process which helps a manager to get the performance of his subordinates correspond to the standard fixed. It also defects the variations as soon as they occur and takes corrective steps to prevent them in future.

According to Henri Fayol: "Control consists in verifying whether everything occurs in conformity with the plan adopted, instructions issued and principles established."

The control function of management involves determining what is to be accomplished (the standard); what is being accomplished (the performance), and, if necessary, applying corrective measures so that performance takes place according to plans i.e. in conformity with the standard.

In other words controlling involves:

a) Knowing exactly what work is to be done as to quantity, quality and time available

b) Checking whether work has been or is being carried out with the resources available, within the time available, at a reasonable cost and in accordance with the required standard of quality

c) Analysing deviations, if any, from the planned targets and standards to ascertain the causes thereof

d) Adopting remedial measures to correct the deviations, and

e) Suggesting revision of plans and targets, if necessary.

13.3 CHARACTERISTICS OF CONTROL

Control is a device or a procedure which keeps the manager informed as the activities for which he is responsible and which assures him that his plans and policies are being carried out according to schedule. The nature of control function will be clearly understood from the following characteristics of control:

1) **Control is all pervasive function:** Control is essential at all levels of organisation. It is a follow-up action to the other management functions. Every manager performs the control function irrespective of his rank and nature of job. Control is the essential counterpart of planning. It is the control function which completes the management process.

2) **Control is a continuous process:** Control is an ongoing and dynamic function of management. It involves continuous review of performance and revision of standards of operations. As long as an organisation exists, control continues to exist. It is amenable to change with the external environment. Therefore, it is a highly flexible process.

3) **Planning is the basis of control:** Control can be exercised only with reference to and on the basis of plans. Effective control is not possible unless the management spells out clear objectives of the organisation. In fact, measurement of performance requires certain standards which are laid down under planning. Planning sets the course and, control ensures that actual action conforms to the planned action.

4) **Action is the essence of control:** Control is an action-oriented process. A manager initiates action which guides the operation within the sphere of plans. In order to prevent a recurrence of deviations, a manager modifies or improves the existing plans.

5) **Control is a forward looking process:** Control aims at future. Although past experience is the criteria for future standards, control is concerned with checking the current performance and providing guidelines for the future. Therefore, control is both backward-looking and forward-looking. It looks at future through the eyes of past.

6) **Delegation is the key to control:** Effective control requires adequate delegation of authority. An executive can perform the control function properly if he enjoys the authority to take remedial action and is to be held accountable for results.

7) **Control allows the organisation to cope with uncertainty:** Control helps in regulating the uncertain events of the organisation. It anticipates any shift in task and preferences of consumers and directs the organisation to modify its process in order to meet the contingencies of the future.

13.4 IMPORTANCE OF CONTROL

The necessity of control in business organisation cannot be over-emphasised. Proper control smoothens the working of an organisation. Absence of control leads to lowering of efficiency of the employees, since there is no check on their performance. Existence of an efficient system of control creates an atmosphere of order and discipline and helps greatly in minimising the chances of work being defective or being delayed. The importance of control function also arises from the following benefits derived from it.

1) **Adjustment in operations:** A control system acts as a device for adjustment of organisational operations. There are various objectives which serve as the basis of control. It is through the control function that these objectives are achieved. Control provides the means of determining whether plans are being implemented and there is progress towards the achievement of objectives. It facilitates measures to be taken, if necessary, to correct any deviations.

2) **Managerial responsibility:** In every organisation, managerial responsibility is created through assignment of activities to various individuals. This process starts at the top level and then goes to the lower level. While manager assigns work to be carried out by his subordinates, he remains responsible for the performance of their activities. It is quite natural that when a person is responsible for the performance of his subordinates, he

must exercise some control over them. Thus, controlling enables managers to discharge their responsibilities.

3) **Psychological effect:** The process of control induces individuals towards better performance. The performance of individuals is evaluated in the light of targets set for them. A person is likely to act according to the plan, if he is aware that his performance will be evaluated against the planned targets. Thus, he is more inclined to achieve the results according to the standards fixed for him, particularly when there is provision of reward or punishment on the basis of the performance. Since performance measurement is one of the basic elements of the process, it ensures that every person in the organisation contributes to his maximum ability.

4) **Coordination in action:** Though coordination is the essence of management and is achieved through the proper performance of all managerial functions, control affects this aspect significantly. Controls are designed in such a way that they focus not only on the operating responsibility of a manager, but also on his ultimate responsibility. So this forces a manager to coordinate the activities of his subordinate in such a way that each of them contributes positively towards the objectives. Since this follows throughout the organisation, coordination is achieved in the organisation as a whole.

5) **Organisational efficiency and effectiveness:** If the control function is carried out properly, it results in organisational efficiency and effectiveness. By making manager responsible, motivating them for higher performance, and achieving coordination in their performance, control ensures that the organisation works efficiently. As regards effectiveness, the organisation is effective if it is able to achieve its objectives. Since control focuses on the achievement of organisational objectives, it necessarily leads to organisational effectiveness.

13.5 STAGES IN THE CONTROL PROCESS

Controlling is the final step in the process of comparing actual performance with the plans and taking steps to initiate corrective action. The basic control process, wherever it is found and whatever it controls, involves the following steps:

1) **Setting standards:** The total workload of the business is broken down into departments, sections and individuals. Each of them has specific objectives for detailed operation. These objectives are set in physical terms, such as quantities of products, units of service, labour-hours, speed or volume of rejections.They may be expressed in monetary terms, such as volume of sales, costs, capital expenditures or profits or it may be expressed in any other verifiable qualitative terms. These standards must be clear so that the checking of performance becomes possible. At the same time, it is essential that the responsibility should be identified with definite individuals in the organisation and he is accountable for the lapse, if the performance varies from the standard laid down.

   Establishment of standard may be discussed with S-O-G-P chain. Standard is a measuring rod for the attainment of organisational objectives. These objectives aim at accomplishing the organisational goals, which is the ultimate purpose of every organisation.

Standards - Objectives - Goals - Purpose

As shown above, standards are used to control objectives, objectives are used to control goals, and goals are used to control purpose.

2) **Measurement of performance :** The second step is to measure actual performance of various individuals, groups or units in the light of standards. Management should not depend upon the guess that standards are being met. It should measure the performance and compare it with the standards. Quantitative measurement is done in those cases where standards have been set in numerical terms. This makes evaluation easy and simple. In all other cases, the performance is measured in terms of qualitative factors. For instance, performance of Industrial Relations Manager may be measured in terms of attitudes of workers, frequency of strikes, and morale of workers. Attitude and morale of workers are not capable of being measured quantitatively. They have to be measured qualitatively. If standards are appropriately drawn and if means are available for determining exactly what subordinates are doing, appraisal of actual or expected performance is fairly easy.

3) **Comparing performance with standards and ascertaining the causes of difference, if any:** The responsibility of a manager does not end with measuring the performance. Deviations from the standard, if any, must be noted and the causes of deviation ascertained. Comparing performance with the standard and ascertaining the causes of deviation involve the third stage of control. The causes of factors responsible for deviations may be defective material, machinery, process, slackening of efforts, etc. The comparative analysis should be done as close to the point of performance as possible. It assists in quick location of defects and results in correction with minimum losses.

4) **Adopting corrective measures:** The final step in the control process consists of remedial actions so that deviations may not occur again and the objectives of organisation are achieved. Towards that end, managers must take appropriate decisions so as to meet immediate needs, or revising the existing targets and standards, or changing the methods of selection and training of workmen, or even drawing up revised plans.

The above stages in the control process are shown in the Figs. 13.1 and 13.2.

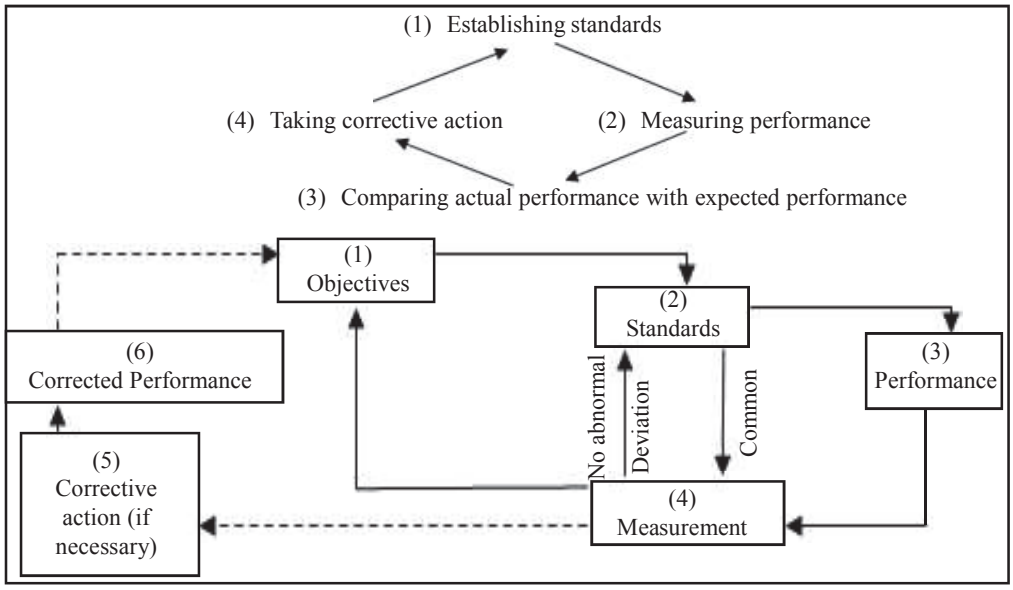


Fig.13.1: Control process

Check Your Progress A

1) Define 'Control' as a function of management.

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2) Which of the following statements are **True** and which are **False**.

   i) Control relieves managers of their responsibilities.

   ii) Control is necessary only when there is deviation of performance from standards.

   iii) Organisational efficiency is ensured with the help of controls.

   iv) Controlling mainly involves punishing people and putting pressure on employees for efficient performance.

   v) The process of control is relevant at all levels of management.

3) Enumerate the stages in control process.

   i) .....

   ii) .....

   iii) .....

   iv) .....

13.6 REQUISITES OF EFFECTIVE CONTROL

To be effective and to serve its purpose, the system of control must satisfy certain requirements. These may be regarded as the prerequisites of effective control. The requirements of an effective control system may be enumerated in brief as under:

1) **Definition of objectives:** Before planning a control system, it is essential to clearly define the objectives of the organisation. The control system must be directed towards the potential or actual deviations from plans early enough to permit corrective action.

2) **Efficiency of control techniques:** Control techniques are said to be efficient when they detect deviations from plans and make possible corrective action at an early stage with the minimum of unsought consequences.

3) **Responsibility of control:** The primary responsibility for the exercise of control should rest with the manager charged with the implementation of plans.

4) **Direct control:** Any control system should be designed to maintain direct contact between the controller and the controlled.

5) **Organisation suitability:** Controls should be tailored to fit the organisation. The flow of information concerning current performance should correspond with the organisational structure. If superior is to control overall operations, he must find a pattern that will provide control for individual parts.

6) **Flexibility:** A good control system must keep-pace with the continuously changing pattern of a dynamic business world. It-must be responsive to changing conditions. It should be adaptable to new developments including the failure of the control system itself. Plans may call for an automatic system to be backed up by a human system that would operate in an emergency; likewise, an automatic system may back up a human system.

7) **Self-control:** Units may be planned to control themselves. If a department can have its own goals and control system, much of the detailed controls can be handled within the department. These sub-systems of self-control can then be tied together by the overall control system.

8) **Strategic point control:** Effective and efficient control can be achieved if critical key or limiting points can be identified and close attention can be directed to adjustment at those point. This is known as **'Control by exception'**. It is called control by exception because according to this principle only significant deviations from standard, whether positive or negative, require management's attention as they constitute exceptions. An attempt to go through all deviations tends to increase unnecessary efforts and to decrease attention on important problems.

9) **Corrective action:** Merely pointing out deviations is not sufficient in a control system. It must lead to timely corrective action to be taken to check deviations from standards through appropriate planning, organising and directing.

10) **Forward-looking control:** The control system should be directed towards future. It should report the deviations from the plans quickly in order to safeguard the future. If the control reports do not relate to the future, then the reports are of no use as they will not be able to suggest the type of measure to be taken to rectify the past deviations.

11) **Human factor:** A good system of control should be worker centred rather than work centred as the control is exercised on the workers who do the work. It must find the persons accountable for results whenever large deviations take place and they must be directed accordingly. So the human factor must be given proper attention while controlling. A 'technically fit' well-designed control system may fail because the human beings may react unfavourably to the system.

12) **Economical:** The system of control must be worth its cost. The controls must justify the expenses involved. A control system is justifiable if the savings anticipated from it exceed the expected costs in its working. Small-scale production units cannot afford elaborate and expensive control system.

13) **Objective standards:** As far as possible, standards should be objective, that is based on factual information. If they are subjective, a manager's or subordinate's personality may influence judgement of performance

inaccurately. Effective control requires objective, accurate and suitable standards. Objective standards may be quantitative or qualitative. However, in either case, the standard should be factually determinable and verifiable. Although we have explained how the 'Control Function' can be effective with various requirements as mentioned above, even then there are some limitations of control. Let us now examine the limiting factors.

13.7 LIMITATIONS OF CONTROL

The limitations of control are discussed below.

1) **No control over external factors:** Control is intended to be exercised on factors which are internal to an enterprise. But there are external factors like government action, change of market conditions, discovery and invention of new techniques and material of production, innovation and so on, which are often beyond the control of management. So, controls may be ineffective in the face of changing external factors.

2) **Want of satisfactory standards:** Satisfactory standards help control operations. But there are many areas and activities with intangible nature of performance which do not permit accurate measurement. No satisfactory standards can be established for them, e.g. results of management development, public relations, human relations, advice of staff service, loyalty of workmen, and such other human behaviour.

3) **Measurement of imperfections:** Intangible performance presents difficulties in setting up standards. It is also a complicated matter to measure its results in quantitative or qualitative terms. It is then left to managerial judgement and interpretation which cannot be taken as perfect measurement. Moreover, results of day-to-day activities involving uneconomic expenditure cannot be evaluated or measured properly on grounds of economy.

4) **Limitations of corrective actions:** Business can be run on an even keel if all deviations and mistakes can be corrected properly in time. This will guard against losses. Control operations are carried out in assumption of fixed personal responsibility and the person concerned is expected to adopt necessary corrective and remedial actions. It is not uncommon that many deviations occur, but nobody in particular can be held responsible for them. Control becomes ineffective in such cases.

5) **Adverse reaction against control:** Control operations as a rule are not liked by the subordinates over whom they are exercised. Such operations curtail their freedom of action and interfere with their individual thinking and initiative. Control thus invites opposition and adverse reaction of the subordinates.

6) **Practical impediments to application:** Control involves analysis of deviations to find out their causes. But it faces great obstacles in such analytical work. First of all, it involves considerable expenditure. Secondly, it requires skilled and experienced staff to cope with the situation. Thirdly, corrections and deviations may require some time and even stoppage of work which may result in loss to the concern.

13.8 AREAS OF CONTROL

For effectiveness, it is important to decide on the critical areas where control should be exercised. There are many advantages of identifying these areas of control (also known as types of control) so as to enable management to:

i) Delegate authority and fixing responsibility;

ii) Reduce the burden of supervising each activity in detail; and

iii) Secure means of achieving satisfactory results.

Controls are actually needed in every area where performance and results directly and vitally affect the survival and prosperity of the organisation. These areas need to be specially mentioned. In this connection, Peter Drucker has identified eight key result areas where objective should be set and controls should be exercised. These are:

1) Market standing
2) Innovation
3) Productivity
4) Physical resources
5) Financial resources
6) Profitability
7) Manager's performance and attitude
8) Public responsibility

Apart from the identification of key areas, control may be distinguished on the basis of their nature and purpose. Let us discuss them one by one.

1) **Physical and Financial Control:** Physical controls refer to controls over the safety and maintenance of properties and assets, stocks of materials, stores, spare parts, and other articles on the task of quantitative and numerical measures. Financial controls include control over cash receipts and payments, fixed and working capital, income and expenditure as well as profits and the value of assets and liabilities.

2) **Control Over Actual and Anticipated Performance:** Day-to-day operations need to be controlled to achieve the short-run objectives, targets and standards as well as continuing goals. This is another category of controls.

3) **Control Over Activities or Areas of Operations**

   i) **Control over policies and procedures:** Policies are formulated, procedures laid down to govern the behaviour and action of personnel in the organisation. These are generally controlled through manuals which are prepared by top management. Each individual in the organisation is expected to function according to manuals.

   ii) **Control over organisation:** Organisation Charts and Manuals are used to keep control over organisation structure. Organisation manuals attempt at solving organisational problems and conflicts, making long-range organisational planning possible, enabling rationalisation of the

organisation structure, helping in proper designing and clarification of each part of the organisation, and conducting periodic check on facts about organisation practice.

iii) **Control over personnel:** Generally the Personnel Manager or Head of the Personnel Department, whatever his designation may be, keeps control over personnel in the organisation. Sometimes, a personnel committee is constituted to act as an instrument of control over key personnel.

iv) **Control on wages and salaries:** Control over wages and salaries is exercised through job analysis and job evaluation. The functions are carried out by personnel and industrial engineering departments. Often, a wage and salary committee is constituted to provide help to these departments.

v) **Control over costs:** Control over costs is exercised through making comparison between standard costs and actual costs. Standard costs are set in respect of different elements of costs. Cost control is also supplemented by budgetary control system which includes different types of budgets. The Controller's department provides information for setting standard costs, calculating actual costs, and pointing out differences between these two.

vi) **Control over methods and manpower:** Control over methods and manpower is required to ensure that each individual is working according to schedule. For this purpose, periodic analysis of activities of each department is conducted. The functions performed, methods adopted, and time consumed by every individual are studied to eliminate non-essential functions, methods and time. Many organisations create a separate department or section known as 'Organisation and Methods' to keep control over methods and manpower.

vii) **Control over capital expenditure:** Control over capital expenditure or acquisition of fixed assets exercised through the system of evaluation of projects and ranking of projects on the basis of their importance, generally on the basis of their earning capacity. A capital budget is prepared for the business as a whole. The budget is reviewed by the budget committee or appropriation committee. For effective control over capital expenditure, there should be a plan to identify the realisation of benefits from capital expenditure and to make comparison with anticipated results. Such comparison is important in the sense that it serves as an important guide for future capital budgeting activities.

viii) **Control over service departments:** It is effected:

a) through budgetary control within operating departments,

b) through putting limits upon the amount of service an individual department can ask for, and

c) through authorising the heads of service departments to evaluate the request for service made by other departments and to use discretion about the quantum of service to be rendered to a

particular department. Sometimes, a combination of the methods may be used.

ix) **Control over line of products:** Control over line of products is exercised by a committee whose members are drawn from production, sales and research departments. The committee controls the product-mix on the basis of studies about market needs. Efforts are made to simplify and rationalise the line of products.

x) **Control over research and development:** Control over research and development is exercised in two ways:

1) by providing a budget for research and development, and

2) by evaluating each project keeping in view savings, sales or profit potentialities.

Research and development being a highly technical activity is also controlled indirectly. This is done by improving the ability and judgement of the research staff through training programmes and other devices.

xi) **Control over foreign operations:** Foreign operations are controlled in the same way as domestic operations. The tools and techniques applied are the same. The only difference is that the chief executive of foreign operations has relatively greater amount of authority.

xii) **Control over external relations:** External relations are regulated by the public relations department. This department may prescribe certain measures to be followed by other departments while dealing with external parties.

xiii) **Overall control:** Control over each segment of the organisation contributes to overall organisational control. However, some special measures are devised to exercise overall control. This is done through budgetary control, project profit and loss account and balance sheet. A master budget is prepared by integrating and coordinating budgets prepared by each segment. The budget committee reviews such budget. This budget acts as an instrument for overall control. Profit and loss account and balance sheet are also used to measure the overall results.

Check Your Progress B

1) Which of the following statements are **True** and which are **False**.

i) Control techniques may be said to be efficient if subordinates like them.

ii) Past deviations can be corrected only if controls are forward looking.

iii) Expenses on control should not matter because control relieves the manager of their worries.

iv) Manager having no control over external factors should not try to control internal disturbances.

v) Identifying critical areas of control enables manager to delegate authority.

2) Enumerate the critical or key result areas where control should be exercised by managers.

i) …….. v) …….....

ii) …….. vi) ……

iii) …….. vii) …….....

iv) …….. viii) ……..

13.9 TRADITIONAL CONTROL TECHNIQUES

The control function of management is a systematic effort to set performance standards with planned objectives, to compare actual performance with the predetermined standards, to determine whether there are any deviations and to adopt suitable measures to ensure that performance is in conformity with the plans.

A variety of tools and techniques have been developed and used over the years for purposes of managerial control. Some of these techniques are termed as traditional and others as modem. The traditional techniques of control have been found useful for a long period of time in the past and some of these are still used by organisations. Two such techniques commonly used are: Budgetary Control and Standard Costing. Let us discuss about them in detail.

13.9.1 Budgetary Control

Simply stated, a budget refers to the plan of an enterprise expressed in financial or physical terms. It lays down financial estimates relating to various programmes or activities for a defined period on the basis of given objectives. These estimates are intended to serve as targets or standards for the purpose of controlling actual performance. For a business firm, budgets generally include plans to produce and sell goods at costs and prices which will bring the desired profit. Thus, budgeting consists of formulation of plans for future activity. It lays down objectives and programmes of action. It also provides yardsticks by which deviations from planned achievements can be measured.

Budgetary Control, as a technique of managerial control, refers to the principles, procedures and practices of achieving given objectives through budgets. Thus, budgetary control involves preparation of budgets, relating the responsibilities of managers to budgeted activities, and the continuous comparison of actual with budgeted results. It aims at securing the objectives as per the budget and providing a basis for its revision, if necessary.

The commonly used budgets are: Expense budget, Revenue budget, Cash budget, Capital budget, Sales budget, Production budget, Purchase budget, Labour budget, Master budget, etc.

13.9.2 Standard Costing

Standard costing as a technique of control may be defined as a system which involves the use of predetermined ‘standard costs’ relating to each item of cost and for each line of product, manufactured or service rendered.

Standard cost refers to a predetermined estimate of cost which can be used as a standard or yardstick. It suggests what the cost should be under given conditions. Standard costs form the basis of control under standard costing. Actual costs are compared with the standards, variations, if any, are analysed, and suitable action is taken to correct adverse tendencies. Thus, standard costing may be regarded essentially as a tool of cost control.

Standard costing is an essential part of budgeting and budgetary control. It may be noted that budgetary control is a broader function. It consists of setting objective and planning business activities for all departments; it lays down standards of cost and expenses as well as targets of sales income. Standard costing provides the basis of framing the expense budgets particularly in respect of direct material and labour costs.

13.10 MODERN TECHNIQUES

Besides the traditional techniques of budgetary control and standard costing, there are several other techniques of control which have been developed in modern times. These techniques may also be called non-budgetary techniques. One or more of these techniques may be adopted alongwith budgetary control and srandard costing. Let us discuss the more important techniques in detail.

13.10.1 Break-Even Analysis

Break-even analysis as a technique of control consists of the analysis of costs in relation to changes in the volume of sales and its impact on profit. It is basically concerned with determining the relationship between cost, volume of sales and profit. One of the major concerns of the management of an enterprise relates to the impact of changes in the volume of sales on profits. It is of interest to them to know the volume of sales at which costs will be fully covered and beyond which profits will be earned. For this purpose, two types of costs are distinguished. Variable costs (like direct material cost, direct wages, etc.) and Fixed costs (like factory and office rent, managers' salary, etc.). If production and sales increase, variable cost per unit remains constant but fixed cost per unit decline. Suppose, the direct materials cost of a product is Rs. 10 per unit and direct wages per unit comes to be Rs. 5, whereas fixed cost upto the total production capacity is Rs. 400. Then, for 100 units produced and sold, the variable cost will amount to Rs. (10 + 5) × 100 i.e., Rs. 1500. For 200 units, the variable cost will be double the amount i.e., Rs. 3000 Fixed cost remains the same. Total cost for 100 units will thus be Rs. 1900, and for 200 units it would be Rs. 3400, not Rs. 3800. Hence, the total cost is found to rise less than proportionately to the increase in sales revenue. If the volume of production and sales decrease, there is a reverse effect. Thus, for 50 units the total cost will be Rs. (15 × 50) + 400 i.e. Rs. 1150. It will not be half of Rs. 1900 (total cost of 100 units). In other words, the total cost decreases less than proportionately to the decrease in sales revenue.

Further, suppose the selling price of the product per unit is fixed at Rs. 17. In that case, for each unit sold there will be a margin of Rs.2 after meeting the variable cost of Rs. 15. To recover the fixed cost of Rs. 400, the firm must sell at least 200 unit. The total sale price (200 × Rs. 17) will then be equal to the total cost i.e. Rs. 3400.

Thus, sale of 200 units (or Rs. 3400 sales revenue) may be regarded as the volume at which there is neither any profit nor any loss. This is known as the **break-even** volume. It indicates the-number of units that must be sold if the business is to be run without loss. Each unit of product sold above the break-even volume is expected to yield profit. If 250 units are sold, the profit earned will be Rs. 100 (50 x Rs. 2). This is because, the variable cost will increase by Rs. 15 per unit while sales revenue will rise by Rs. 17 per unit and there being no increase in fixed costs, there will be a margin of Rs. 2 per unit on 50 units as the profit.

The difference between the selling price and variable cost per-unit is known as the contribution margin. The amount of this difference contributes towards the recovery of fixed costs. Hence, the break-even volume of sales in units can be calculated by dividing the total fixed cost by the contribution margin. In the above example, the contribution margin is Rs. 2 (Rs.17 - Rs. 15), and the fixed costs are Rs. 400. So, the break-even volume is Rs. 400 ÷ 2 i.e. 200 units.

13.10.2 PERT (Programme Evaluation and Review Technique)

The key to success of most organisations is to clearly examine the projects or activities for the achievement of an objective within stipulated time and cost. Management is then required to determine detailed activities and their interrelationships, to estimate resources required and the time needed to complete these activities as per schedule, and to monitor and control the time and cost of the project.

Network analysis is a technique which is concerned with minimising the total completion time of the project, as well as minimising the over-all project costs. The network analysis is eminently suitable to projects which are not routine or repetitive and which may be conducted only once or a few times, such as construction of buildings, dams, research and development, marketing of new products, building a ship, construction of factories, missile production, etc. PERT and CPM are the two very popular types of network analysis used in modem management.

PERT is basically a technique of project which is useful in the following managerial functions related to planning, scheduling, controlling, etc.

The first and most important condition for using PERT is the breaking up of the project into jobs or activities and determining the order of precedence for these jobs, that is, deciding which jobs are to be completed before another can be started.

13.10.3 CPM (Critical Path Method)

CPM was developed by the engineers of the Du Pont Company in the 1950s for its application in all scheduling work, construction projects, research and development programmes and in many other situations that require estimates of time and performance. It calls for dividing a programme or project into its elementary parts in their chronological order of sequence. By breaking a project into interconnecting parts, the CPM technique is helpful in finding out the more strategic elements of a plan for the purpose of better designing, planning, coordinating and controlling the entire project.

Let us examine the concept of critical path to appreciate the significance of the critical path method as a technique of control.

In a network of activities one can enumerate a number of sequences of operations (paths) from starting event to end event of the project. Each sequence contains different combinations of activities with different durations. The study of the duration of various paths in a project can tell us the minimum time in which a particular project can be completed. The sequence of activities (path) for which the duration is the maximum indicates the minimum duration for the completion of the project.

This path is known as the 'Critical Path' being the path of maximum duration and reflects the minimum time necessary for the completion of the project. The critical path is so called **because any delay in the completion of the activities lying on this path would cause a delay in the whole project**. To finish the project in time, the activities lying on the critical path should be given top priority.

13.10.4 Statistical Quality Control

The purpose of quality control is to ascertain whether the quality of a product or service is being maintained or if there is any variation in size, weight, finish etc. In every production process there are always some standard specifications laid down either by the producer or the consumer. A good quality item is one which conforms to these specifications. However, variation in the quality of a product is inherent in every production process due to a number of factors. So, it is necessary to ascertain the variation which may be quantitative and qualitative. Quantitative characteristics are those which can be directly measured, e.g. weight, height, diameter etc. and such variations can be noted with the help of specific instruments. On the other hand in qualitative characteristics, direct quantitative measurement is not possible, e.g. cracks, breakage, colour etc. These can be determined by inspection only or by distinguishing between defective and non-defective items. But variation in the quality of products being an inherent characteristic of manufacturing process, irrespective of all possible precautions and measures, there are possibilities of random disturbances responsible for deviations in the quality of the product from the set standards.The sources of these disturbances are known as chance causes, e.g. changes in machine speed due to sudden changes in temperature or voltage of power supply etc. The presence of these causes in the system is due to multitude of reasons which are difficult to identify and uneconomic to eliminate. There may be other sources of variations which further cause the product to deviate from set standards. These causes are individual and can be identified and eliminated economically. The magnitude of variability due to these causes varies with the conditions of the production process, nature of raw material, behaviour of operation etc. These causes are known as assignable causes.

Statistical quality control refers to the technique of ascertaining whether the variation in the quality of the product is due to chance causes or due to assignable causes. If the variation is due to assignable causes, it is detected and some corrective action is planned to improve the quality of the product. Statistical quality control is carried out with the help of control charts. To prepare a control chart the whole production line is divided into a number of sub-groups. The basis of selecting these sub-groups is such that variation in the quality of items within each sub-group is attributed due to chance causes, whereas the

corresponding variation between various sub-groups can be due to assignable causes. The variation of quality characteristic within and between the sub-groups is analysed by some method to identify whether the process is in control or not.

Briefly speaking, statistical quality control is based on statistical estimation of errors or possible variation from the average (normal) proportion of errors. In its simple operation it involves specifying the quality levels and limits on control, and then plotting the variations.

13.10.5 Management Audit

Management audit is a systematic and impartial examination, analysis and appraisal of management's overall performance. It is basically a procedure of appraisal of management's total performance by means of an objective and comprehensive examination of the organisation structure, its objectives, plans and policies, its operation and its use of physical and human resources, and methods of operation. Thus 'management audit' signifies a critical assessment of management of the enterprise from the broadest point of view. It may be undertaken by the management itself or it may be carried on with the help of management consultants.

One very important feature of management audit it that instead of comprehensive audit, company may even apply it to a specific section of the organisation. As regards its scope, 'production efficiency' or 'investment appraisal' may be the subject matter of 'management audit'. It may even be used to provide guidance on critical assessment of capital budgeting or profit performance.

Check Your Progress C

1) What do you mean by standerd costing?

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2) What is break-even analysis?

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3) Distinguish between PERT and CPM

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13.11 LET US SUM UP

The study of management practices cannot be complete unless the controlling function is clearly understood. Control may be defined as the process of analysing whether actions are being taken as planned and taking corrective measures to make these conform to the plan of action. It is a continuous process which helps a manager to get the performance of his subordinates correspond to the standards fixed, to detect the variations as soon as they occur, and to take corrective steps to prevent them in future.

The characteristic features of control include: Control is all pervasive function, control is a continuous process, planning is the basis of control, action is the essence of control, control is a forward-looking process, delegation is the key to control and control allows the organisation to cope with uncertainty.

Proper control smoothens the working of an organisation. Existence of an efficient system of control creates an atmosphere of order and discipline and helps greatly in minimising the chances of work being defective or being delayed. The importance of control function also arises from the various benefits derived from it. Like adjustment in operations, managerial responsibility, psychological effect, coordination in action and organisational efficiency and effectiveness.

The process of control involves (l) establishing standards (2) measurement of performance (3) comparing performance with the standards and ascertaining the causes of differences, if any, and (4) correcting deviations by remedial action.

To be effective and to serve its purpose, the system of control must satisfy certain requirements, which includes: (1) Definition of objectives in clear terms: (2) Efficiency of control techniques; (3) Assigning responsibility for control; (4) Direct contact; (5) Suitability of the system to the organisation; (6) Flexibility; (7) Encouragement of self-control; (8) Strategic point control; (9) Timely corrective action; (10) Forward-looking control; (11) Attention to human factor; (12) Economical; and (13) Specifying objective standards .

Despite all precautions, controls are not always perfect since there are several limiting factors which restrict the effectiveness of controls.

Controls may be distinguished on the basis of the key result areas where controls should be exercised. Controls may also be distinguished on the basis of their nature and purpose. Thus, controls may be divided into several categories, such as: (1) Physical and financial controls (2) Control over actual and anticipated performance, and (3) Control over activity or areas of operation.

The traditional control techniques are: Budgetary control and standard costing. The modern control techniques are: Break-even analysis, PERT, CPM, statistical quality control and management audit.

13.12 KEY WORDS

Control : Process of verifying whether performance of work is in conformity with plan and correcting it where necessary.

Control by Exception:		Attending only to significant or exceptional deviations in the process of control.
Financial Control	:	Control over cash flows, capital, income, expenditure and profits.
Forward-looking Control	:	Correcting deviations to safeguard the future operations in the concern.
Physical Control	:	Control over the safety and maintenance of properties, assets and physical quantifiable objects.
Standards	:	Norms of work performance.
Strategic Point Control	:	Identifying and directing closer attention to key or limiting factors and points in the process of control.

13.13 ANSWERS TO CHECK YOUR PROGRESS

A) 2. i) False ii) False iii) True iv) False v) True

3. i) Establishing standards of performance.

ii) Measuring performance.

iii) Comparing performance with standards and ascertaining the causes of differences, if any.

iv) Adopting corrective measures.

B) 1. i) False ii) True iii) False iv) False v) True

2. i) Market standing ii) Innovation iii) Productivity

iv) Physical resources v) Financial resources

vi) Profitability vii) Manager's performance and attitudes

viii) Public responsibility.

13.14 TERMINAL QUESTIONS

1) What do you mean by controlling function of management? Describe salient characteristic features of control.

2) "Control is a fundamental management function that ensures worth accomplishment according to plans." Discuss.

3) Explain the importance of control in a business enterprise. What are the requirements of an effective control system?

4) Explain in detail various stages in the control process.

5) Enumerate the various requisites of an effective control system and outline the limitations of control.

6) Discuss various types of control or control areas.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not send your answers to the university. They are for your practice only.

SOME USEFUL BOOKS

Basu C. R. (2017), Business Organisation and Management, Mc Graw Hill India.

Tulsian. P.C. (Recent Edition), Business Organisation and Management, Pearson.

Gupta C.B. (2018), Business Organisation and Management, Sultan Chand and Sons.

Singh B. P. and T. N. Chhabra, Business Organisation and Management, Dhanpat Rai and Co.

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