

PREFACE

In the curricular structure introduced by this University for students of Post-Graduate degree programme, the opportunity to pursue Post-Graduate course in Subject introduced by this University is equally available to all learners. Instead of being guided by any presumption about ability level, it would perhaps stand to reason if receptivity of a learner is judged in the course of the learning process. That would be entirely in keeping with the objectives of open education which does not believe in artificial differentiation.

Keeping this in view, study materials of the Post-Graduate level in different subjects are being prepared on the basis of a well laid-out syllabus. The course structure combines the best elements in the approved syllabi of Central and State Universities in respective subjects. It has been so designed as to be upgradable with the addition of new information as well as results of fresh thinking and analysis.

The accepted methodology of distance education has been followed in the preparation of these study materials. Co-operation in every form of experienced scholars is indispensable for a work of this kind. We, therefore, owe an enormous debt of gratitude to everyone whose tireless efforts went into the writing, editing and devising of proper lay-out of the materials. Practically speaking, their role amounts to an involvement in invisible teaching. For, whoever makes use of these study materials would virtually derive the benefit of learning under their collective care without each being seen by the other.

The more a learner would seriously pursue these study materials the easier it will be for him or her to reach out to larger horizons of a subject. Care has also been taken to make the language lucid and presentation attractive so that they may be rated as quality self-learning materials. If anything remains still obscure or difficult to follow, arrangements are there to come to terms with them through the counselling sessions regularly available at the network of study centres set up by the University.

Needless to add, a great part of these efforts is still experimental—in fact, pioneering in certain areas. Naturally, there is every possibility of some lapse or deficiency here and there. However, these to admit of rectification and further improvement in due course. On the whole, therefore, these study materials are expected to evoke wider appreciation the more they receive serious attention of all concerned.

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NETAJI SUBHAS OPEN UNIVERSITY

Post-Graduate Degree Programme

Master of Business Administration (MBA)

Course Code : CP-101

Course Title : Principles and Processes of Management

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**Netaji Subhas
Open University**

**Master of Business
Administrative
(MBA)**

Course : Principles and Processes of Management

Course Code : CP-101

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Unit 1 □ Introduction to Management

Structure

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1.0 Objective

After going through this introductory Unit you will learn that management is a practical, not a normative, social science. Being knowledgeable about the distinctive features of several key terms you will have a brief idea of the routes of management principles. For better understanding of the materials dealt with in Module II you will have a glimpse of various management functions and the approaches to management. Also you will acquire a good idea about coordination in management.

1.1 Introduction

Management is a Practical social science. It is deeply concerned with *what ought to be done* to attain a desired state of affairs in future. Management as a practical social science is both normative and teleological—normative because it recommends or rejects some types of action as such and teleological as it recommends or rejects some types of action as proper or improper means to the assumed ends. As practical social science it is fundamentally preoccupied with inventing procedures for attaining the desired goals.

Management deals with complex phenomena about which too little is known beforehand. Managers as men of action deal with complex phenomena. Their success is measured in terms of how far they have been able to attain the desired purpose of their organised enterprise. Management started taking form as a result of observations of the perceptive practising managers like Taylor, Fayol, Mooney, Alvin Brown, Sheldon, Barnard and Urwick. They attempted to develop Principles of Management. Bit by bit they developed a theory of action by conceptualising and formalising the regularities of complex phenomena occurring in an organised enterprise.

Practical men by their very nature are distrustful of theory. Practising managers spend a large proportion of their time and energy in dealing with men and women as individuals. A theory of management demands generalisation of human nature whereas a man of action particularises as he has to deal with an actual situation. Administrators instead of objectively assessing the theory quickly review the probable response, ideas and sentiments of men and women under their charge. If the result is unfavourable they would be inclined to reject the theory. As a student of management you should discard the attitude of theory vs. practice and try to integrate the two but remain always as a man of action. As leader you must be scholar doer.

1.2 Terminologies

As the present course of study is titled as **Principles and Processes of Management** you as a student of management are required to understand clearly the meaning of the terms "Principle" and "Practice".

A principle means a fundamental truth as the basis of reasoning, a primary element, a general law. It is commonly understood in this sense in the world of science or any other field of systematic knowledge, in its purest form, a principle embodies an independent variable and a dependent variable. The relationship between the two variables is expressed in the form of proposition. The proposition that establishes a causal relationship between the variables becomes a meaningful Principle.

Interrelated Principles when systematised, become a theory. The task of a theory is to tie together, to give a framework to significant knowledge. Scattered data are not information unless the observer has a knowledge of a theory which explains their relationships. With this knowledge he can tie them together and probably comprehend what they mean. "In its lowest form" a theory is "a classification, a set of pigeon holes, a filing cabinet in which fact can accumulate" (Homans the Human Group.P.5)

Correctly interpreted, theory means a basic doctrine in which are enshrined the essential features underlying effective accomplishment of certain purpose; it is a thought process underlying action and deduced from a systematic study of previous action.

Principle may be descriptive and prescriptive or normative. A principle is descriptive if it merely describes a relation between the two variables, a prescriptive or normative principle indicates what should be done in a situation. The distinction between the two types of principle is analogous to the distinction between Physiology (that describes the normal functions of living organisms and their parts) and Medicine (that prescribes drug to cure or prevent disease), or the distinction between Physics and Engineering. A further distinction between the two is that normative principle is applied against some scale of values. For instance, a manager's main purpose is to attain his organisation's goals effectively and efficiently. Thus he has a value of effective and efficient goal attainment." The principle he applies for his objective is a normative one.

You must not confuse between methods and principles. The term method points always to a way in which Principles are carried into effect. Methods are not universal; so any given principle of management can be carried into effect in different organisations through different methods. Methods are for the better practice of management. Principles are necessarily couched in general terms and shun any suggestion for specific method by which they are to be implemented.

1.3 Routes of Management Principles

During the early years of industrial revolution the entrepreneur-owner as manager of the organised enterprise felt the need acutely of managing the internal affairs. They fulfilled in one person the functions of capitalist, financier, works manager, merchant and salesman. In the absence of any tradition of large productive organisation and no personal experience to fall back upon the success or failure of the enterprise depended on the distinctive characteristics of the entrepreneurs at that time. Besides the technical and commercial problems, the new factory organisations faced a peculiar situation created by the labour force. The owner-manager had to deal with "a recalcitrant, hostile working force whose morale, whose habits of work and whose culture had to be broken in order to fit them for a form of employment in which they had to become obedient servants of the machine of the owners and of crude monetary incentives." Since "their character did not fit the new industrial system" men in charge of the factories had to reform their character. (Sidney Pollard ; *The Genesis of Modern Management*, P.297) The founder-managers who could develop right kind of practice concomitant with the prevailing situation brought success to their industrial enterprises. Development of good practices, as was perceived at that time, depended heavily upon individual character. Genesis of modern management lies in the practices adopted by the pioneers of industries.

These practices were not drawn from any well laid principle or theory. Through trials and errors the practices were developed. As these practices were practitioner-centric and event-centric they could not be applied by another manager to handle a different event. The experiences of the practitioner were too much personal that defied any sort of generalisation. Nonetheless these experiences were one route to the development of principles of management. Before F.W. Taylor there were sporadic attempts to develop management principles by generalising individual experiences, but real theorising of the management phenomenon based on investigation was pioneered by Taylor. During the first half of the twentieth century most of the management principles were the outcomes of the distilled experiences gathered while running industrial enterprises. Though these principles were not formulated on the basis of data derived from questionnaires, controlled interviews, laboratory experiments, but in no way can they be called armchair principles. (Koontz and O'Donnel : Principles of Management, 5th Ed., P.10) These principles had some scientific basis.

During the second half of the last century researchers trained in behavioural and social sciences took up vigorously the responsibility of developing theories that could explain management behaviour. These theories were not merely a deduction from *a priori* reasoning about the nature of the process of management but also tested against practice. This is the second route of management principles.

The value of principles of management lies in the foundation that they provide for its effective conduct, by marking out the essential features that must characterise the practice of management, irrespective of where it is occurring. A full set of principles must relate to the total process of management in action and so to the essential elements which constitute it, i.e., the elements of planning, control, motivation etc. under no circumstances should the principles embody any specific method.

Acceptance of a body of principles leads naturally to the establishment of a basic theory of management. "The pioneer formulators of organisation theory often characterised their major ideas as "principles" (Pfiffner and Sherwood : Administrative Organization, P.59). So Fayol's "Principles of Management" are in reality theory of management. As "the basic task of management can be considered as the organisation of individuals behaviour in relation to the physical means and resources to achieve the desired goals" (D.S. Pugh. Ed.: Organization theory, P.10), the theory of management can be labelled as organisation theory.

1.4 Management : What is it and what does it do?

You have not yet been acquainted with the meaning of management. There are many approaches to management such as (1) management process approach,

(2) empirical approach, (3) human behaviour approach, (4) social system approach, (5) decision theory approach, (6) communications centre approach, and (7) mathematical approach. (Koontz and O'Donnell : P.35). The course design informs us that management be analysed and discussed in the line of process approach. Also called operational, traditional or Universalist the process school was fathered by Fayol. The approach regards management as a universally applicable body of knowledge with principles and theory applicable to all types and levels of enterprise. At the same time, the approach recognises that actual environment and problems faced by managers may vary between enterprises and levels and that application of science by a perceptive practitioner must take these into account.

The process school defines management as management is what managers do. Thus the domain of managerial functions constitute management. Basically planning, organising, communicating, motivating, leading and controlling are the functions that managers do. Managers belong to a special group of people whose job it is to direct efforts of other people towards common objectives; they seldom actually perform the activities themselves. At this point it will suffice if you have a bird's eye view of the domain of management functions.

- **Planning :**

Organised enterprises operate in a world of at least some uncertainty and one in which the ability to anticipate problems is of considerable value. A predetermined course of action to be undertaken in some future time, if developed, keeps the enterprises adapted to their ever changing environment. It involves forecasting the future as well as selecting the objectives of the enterprise. Planning process does not stop with targets setting. It extends to setting up strategies, policies, programmes and procedures to achieve the target. In fact planning is decision making, since it involves selecting among alternatives

- **Organising :**

Any organised endeavour depends on the collaborative efforts of the involved people to attain the target they have set themselves. Without clear knowledge and understanding of the roles required to be played they will either work at cross-purposes or fail to do their tasks. A well-defined system of roles guides all the activities without interpersonal conflict. Designing and maintaining the system of roles is essentially the managerial function of organising.

Organising as a process involves assigning participants to various tasks for ensuring collaborative efforts, grouping them into sections, departments and divisions assigning such sections, departments or divisions to managers, formalising the hierarchy of authority, delegating the formalised authority to carry the tasks and

provision for coordinative relationships horizontally and vertically. The totality of such activities and authority relationships constitute the organising function. Sometimes these sub-functions of organising are included in the term organisation structure.

You should note that organising encompasses not only designing the organisation's structure but also dealing with individuals fairly and humanely. Individual participants with their desires, needs and feelings find that many of their psychological and social needs remain unfulfilled within the formalised organisation structure. For gratifying them they often form groups or cliques that may work at cross-purposes to the structure. Organising also embraces the aspect of informal group.

● **Communicating**

Simply speaking communicating is transmitting and receiving information. In the absence of exchange of information between levels of management and various departments/units and also between organisation and its external environment organisation fails to exist. The reason is apparent. Without communication with organisational participants managers cannot inform them of the work they want get done, how they want it done, when they want it done, who they want it to do, and so on.

Exchange of information becomes useless without transference of meaning of it. It is only through transmission of meaning from one person to another that information is conveyed. Communication is, however, more than merely imparting meaning. The meaning implied in the information must also be understood by the recipient. Thus, communication includes both the transference and understanding of meaning in the same way by both the sender and the receiver.

The basic reason for any kind of communication is to get some form of action, i.e., behaviour. In the context of organisation, the behaviour desired is usually related, either directly or indirectly, to the efficient performance of tasks that contribute to organisation goals. In addition to concrete physical behaviour, action resulting from communication may take the form of an attitudinal response.

The primary purposes of communication include decision-making, instruction, motivation, feedback and evaluation, control, information exchange, social needs and political goals. Communicating as a managerial function has been recognised in recent years. The responsibility for information transference lies in every person in an organised enterprise. It is not only a top manager who may initiate while all others receive, nor is it only the subordinate who originates while his superior listens. It is a fact that everyone is both an originator and a receiver of information, depending upon the authority relationships, functional relationships and cooperative relationships which exist in any organised group.

● **Motivating**

Effective utilisation of human resources of the organisation ensures attainment of desired results. People do not work for the organisation out of their volition, rather they need effective persuasion. Every manager is responsible, within his authority, for inducing people to act in a desired manner through persuasion. Inducing people in this manner is motivation. Managers using various processes and techniques of motivation can cause others to act in particular ways.

Why would people respond to persuasion in the way desired? Behaviouralists have provided the answer. They say people act to satisfy their needs. Managers who know what these needs are can motivate them by satisfying, or keeping from satisfying these needs. Human needs embrace the need for preserving life, for social relationships, for status. They cause the behaviour. Managers cannot afford measures for satisfying all the human needs; they are primarily interested in those that can be gratified within the enterprise structure.

Human needs cause motivation in people whether they are managers or nonmanagers. **You as a student of management should not remain concerned with motivation of managers only.** The traditional claim that managers are self-motivated is not always true, they have to be motivated like the nonmanagers. The behavioural scientists have formulated a plethora of theories of motivation. The people responsible for attaining the organisation's desired results need to choose the appropriate theory for the purpose of motivating people within their authority area commensurate to the specific situation to which the theory would be applied. However, the managerial motivating function should create an internal environment which make people to join and to remain in the organisation to perform dependably in the organisation and to engage in innovative and cooperative behaviours : (Katz and Kahn : The Social Psychology of Organizations, PP. 337-340)

● **Leading**

Managers responsible for maintaining the effectiveness of organisations combine resources to accomplish certain objectives. By means of authority they can obtain and allocate resources and put the work process in operation. They will get some results. But they are likely to be close to lowest level of performance in terms of quantity, quality and timeliness.

An employee who for the first time reports for work, his first concern is how hard he must work to achieve minimum performance that is the level at which he will not jeopardise his employment and which is acceptable to his superior. Even when he intends to work above this level, he is often restrained from doing so by output restrictions imposed by trade unions or by the norms of his group. Managers are

required to remove the barriers so that he works upto his maximum capability. High order of leadership ability, not authority, enables managers to raise productivity towards maximum capability.

Leadership skill is made up of two major ingredients—the ability to invent and use appropriate motivators, and the ability to inspire. Needs as stimuli motivate an individual person. Needs differ from person to person. Even in case of an individual the need pattern changes over time. Further the degree of the state of being motivated also differs among individuals. Leader is required to identify the specific needs of every one under his charge and the primacy of that need, to define the way to satisfy the need, and to administer the motivator in a manner that will ensure the desired response. Without being an objective discerner leader fails to invent and use appropriate motivators.

People will be inspired to act in particular ways as directed by the leader if they are convinced that such behaviour would serve their best interests. Having realised that the course of action suggested by leader is for their own good, the followers trust their leader's judgment and follow his or her wishes. Internalising the opinions or values of the leader because of their high trust in the leader's judgement and expertise the employees inspiredly do whatever needs to be done. Followers gradually become self motivated.

Behavioural scientists have offered a good number of leadership theories. An experienced leader can choose an appropriate theory keeping in mind nature of follower, leader himself and the situation to which the theory will be applied.

● **Controlling**

If all the managerial functions that have been discussed up to now were perfectly effective, there would be no need for control. Every individual and work group within an organisation would find a place and develop an organisationally appropriate mode of behaviour that would contribute to the organisational objectives. You can guess that this is obviously not the case.

For ensuring the appropriate behaviour pattern, control function monitors the organisation system, keeps things in line, and facilitates the integration of activities. Control is intertwined with planning. Planning provides a framework against which the control process works. On the other hand, feedback from the control phase often identifies the need for new plans or at least adjustments to existing ones. Typically, individual, group and organisational behaviour involves a continuing sequence of planning-implementing-controlling cycles.

Organisational process demands objectives be set, programmes planned, resources allocated and work performed. Actual performance is then compared with the plan.

Such comparison generates feedback that requires adjustment of work loads and allocation of resources. This type of comparison relates primarily to the means used to accomplish objectives. Another comparison is made between actual achievements and the programme originally planned. At this stage information is fed back to the programme planning phase and fed forward to a comparison with the original objectives. Such comparison leads to a reaffirmation of existing objectives or readjustments for the future.

The basic purpose of the two phase comparisons is to take corrective measures whenever deviations are identified. But what is corrected? Events or activities? Events like high rate scrap, failure to buy according to specifications, or low volume of sales cannot be made to conform to plans until personal responsibility for deviations has been determined. Events are controlled by controlling what people do. However, managerial control makes it possible to make things happen as desired.

There are many controls that organisations use. It has many dimensions. It can be simple or sophisticated, extensive in coverage or directed at only a few organisational activities, remedial in intention or punitive, arbitrarily imposed or developed through members' consent and participation.

At this stage you face an issue : is coordination a separate managerial function in the scheme of process management? The issue assumes significance since Fayol and subsequent authors claim it to be a separate function. They say that goal orientation of organisations leads to the existence of goals and this fact in turn creates the necessity for differentiated functions (through division of labour and grouping of tasks); the combination of goals and differentiated functions leads to a situation where the functions become dependent on each other, thus creating the need for coordination if organisation goals are to be achieved. Without coordination, differentiated functions lead, if not to chaos, at least to end results that are less than what could be achieved by individuals acting alone.

The course writer takes the view that coordination is the essence of managership for synchronising the efforts of individuals towards organisation goals achievement. "Each of the managerial functions is an exercise in coordination." (Koontz and O'Donnell, 4th Ed., P.50)

The course design requires a few of these functions, viz., Planning, Organising, Communicating and controlling be elaborately discussed. The rest of the functions you will learn in Paper CP-201 : Organisational Behaviour.

1.4.1 Critique of Management Process

In recent times questions are being raised about the adequacy of the description of the management process by resorting to Planning, Organising, controlling and the rest.

It is felt that these labels do not adequately capture the reality of what managers do. (Henry Mintzberg : The Nature of Management work). He suggests that instead the manager should be regarded as playing some ten roles. He distinguishes between the roles that an individual manager plays and the functions discharged by the managerial system in an organisation. In other words, the output of various roles played by managers may be the major organisational functions of Planning, Organising and the rest. Thus planning and other provide an inadequate description of managerial behaviour. They, at best, provide a reasonable description of what functions management system serves in an organisation.

Management process school strongly believes in the Universality of management principles and practice. It also claims that managerial functions are universally operative in all countries irrespective of varying educational, sociological-cultural, legal-political and economic situation. Comparative Management challenges this belief and stresses that environmental factors affect managerial functions. It cites examples. The quality of planning function depends on the technical capability for budgets, schedules and basic policies (pertaining to educational level), view of time and change, use of new knowledge and statistical data, population growth (relating to sociological-cultural aspect), national planning by Central Government (legal-political aspect), and inflationary-deflationary tendencies (economic environment). Organising function is influenced by the availability of functional specialists groomed by the education system (educational environment), view of authority, group decision-making, interorganisational cooperation (sociological-cultural situation), predictability of legal actions and political influences (legal-political situation), and division of labour and factor endowment (economic situation) (Joseph L. Massie : Essentials of Management, 2nd Ed., P.39-40). In the view of comparative management, practice of management functions is not universal, but culture bound.

1.5 Coordination

Management theorists belonging to classical approach considered coordination as a separate and distinct function of management. Fayol included coordination in his definition of management. His definition reads "To manage is to forecast and plan, to organize, to command, to *Co-ordinate* and to control." By the term coordinating he meant "binding together, unifying and harmonising all activity and effort." Luther Gulick and Lyndal Urwick, the most prominent systematisers and popularisers as the classic theory of management of organisations, included coordination in their list of management functions, acronymed as PODSCORB (planning, organising, directing, staffing, coordinating, reporting and budgeting). Many authorities think otherwise.

They regard coordination as “the essence of managership” and they argue that lack of harmony in the individual employees efforts fail to contribute to organisation’s goals the accomplishment of which is the purpose of management. Hence, each of the managerial functions is an exercise in coordination.

Whether we accept coordination as a separate managerial function or the “essence of managership” the fact remains that it is crucial for the success of the organised enterprise. So a detail deliberation on coordination is warranted. You as initiating students of management will face certain terminologies which may be confusing. These are ‘division of work’, ‘differentiation’ and ‘integration’. The total work of the organisation is divided into small parts to take full advantage of highly specialised skill of employees. The process of dividing the work is referred to as division of work. Each element of the work is referred to as division of work. Each element of the work is performed by one individual thus resulting in task differentiation. Lawrence and Lorsch introduced the term ‘differentiation’ for ‘division of work’. The two authors use ‘integration’ instead of coordination to designate the degree to which various organisational units work together in a unified manner. Integration of differentiated tasks without reducing the differences is essential for goal attainment.

1.5.1 Definition and Meaning

Coordination is harmonisation, synchronisation, integration, tying together of group efforts in an enterprise for the purpose of accomplishment of group goal. The idea of coordination can be illustrated by examining the annual boat race on Pongal in Kerala. Several boats take part in the annual race. Each boat has a large number of oarsmen who work under the direction of the man at the hull. The oarsmen are required to dip and pull their individual oars and the same time with equal quantity and quality of force if they desire to improve their competitive edge. They chant “Dip, Dip, Oarsman, Dip” for the collective effort. Similarly, orchestra fails to produce the intended music if there is lack of timing, balancing and integrating of the efforts of the individual instrumentalists.

The hullman, the orchestra conductor, for that matter, a manager must coordinate by balancing, timing and integrating the group efforts (of the oarsman, the instrumentalists or subordinate employees). Balancing means that enough of one thing is provided to support or counterbalance another. Timing requires that different activities, proceeding under their schedules, are brought into phase so that both advance in such a manner as to reinforce one another. Integration refers to the unification of all unrelated or diverse interests which must be brought together if purposeful work is to be accomplished effectively.

You should be careful in distinguishing coordination from cooperation. Coordination necessarily requires cooperation but also something more. In cooperation collective efforts lack balancing, timing and integration. The essence of the difference will be palpable from a story. The son was to avail of an early morning flight. The airport is an one hour's journey away from his home. He went to bed early to have a good sleep and timed his clock's alarm bell to have one hour's preparation time before setting out for the airport. Neither of the parents had any knowledge of son's clocking of the alarm bell. Father to cooperate with the son put the alarm bell one hour back. So did the mother, consequently, the son missed two hour's sleep. Abundant cooperation flowed voluntarily but for the lack of timing, balancing and integration there was no coordination. To have coordination cooperation is needed but cooperation itself is not coordination.

Coordination in organisations is a *process* of integrating the activities of different people within a department and of separate departments in order to reach the organisational goals. Without coordination, individuals and departments would lose sight of their roles within the total organisation and be tempted to pursue their personal or departmental goals at the expense of organisational goals.

You have noted earlier that division of work or task differentiation is an inherent feature of organisation. Differentiated function simply means that everyone does not do the same thing. If differentiated functions constitute one aspect of organisations, their inevitable twin is rational coordination or integration. The former creates the need for the latter. Rational coordination refers to the putting together of the activities or effort of individuals in such a way that it makes sense to members of the organisation, particularly to those who are most influential in the allocation of its resources. Although it is people who perform the activities, coordination is *centered on only certain things a person does, not all of his behaviour*. Even in the most totalitarian organisations only certain activities of individuals are coordinated, not the entire behaviour of the person.

The other point to stress in the definition of coordination is the emphasis on its *conscious nature*. In any organisation at any time, coordination may fall apart due to unexpected events in the environment or poor planning or other factors, yet what is attempted in organisation is a conscious effort to put together activities in a meaningful way. In this sense, coordination is intendedly rational whether or not it is successful in an ultimate sense. It is nonrandom even though it is surrounded by many events that are random.

Rational coordination is the twin of differentiated functions because of the fact that the two must exist together if we are to have an organisation. One is inextricably linked to the other. The goal orientation of organisations leads to the existence of goals,

and this fact in turn creates the necessity for differentiated functions; the combination of goals and differentiated functions leads to a situation where functions become dependent upon one another, thus creating the need for rational coordination if organisational goals are to be achieved. Without rational coordination, differentiated functions lead to, if not to chaos, at least to end results that are less than what could be achieved by individuals acting alone. Thus coordination is an aspect of organisation structure.

Coordination is also an aspect management function. Managerial functions include interdependent elements of planning, organising, coordinating, motivating, controlling and operating work. The elements are *reciprocal* of each of the other. Plans are developed, not only for operations but also for organising, coordinating, motivating and controlling. The organisation must provide for and encompass planning, coordinating, controlling and operating work. Coordination must proceed with respect to plans, organisation, motivation, controls and operations. Motivation is the energizing force behind all other activities of management. Controls must be established for plans, organisation, coordination, motivation and operations. There is also an operating phase to each of the management activities. Plans must not only be established but also carried out. Organisation must be implemented. Coordination, motivation, and controls also have their operating aspects. Thus, every management function includes the element of coordination. However good the coordination of the pattern of functions in definition, it can be utterly negated in the action and attitude of managers within the structure of organisation. There is a useful analogy here in the position of an orchestra : it could be left to the individual players, who are skilled in their own instruments, in the reading of the music for their instruments, and in the interpretation of the composer's intentions, to act in their own right and to attain coordination by mutual individual responsibility; but it has been proved from experience that a better result will be attained if special provision for coordination is made by the allocation of specific responsibility to a conductor. Yet, this provision does not detract from the coordination responsibility of each member of the orchestra, working under the direction of the conductor. The implication is that the responsibility for coordination may be specifically provided for in the organisation structure, but it must also be found in the personal responsibility of each individual manager.

1.5.2 Need for Coordination

Coordination is the natural outcome of the organisation structure and practices of management. An insight into the matter will clear the deck.

- Attainment of organisation goals requires performance of various activities. Particular activities are assigned to particular individuals and groups to reap the benefit

of specialisation. When these individuals and groups occupy the same or roughly the same authority and responsibility level the assignment is done horizontally. Horizontal differentiation creates various sections, departments, and divisions within an organisation. Horizontally differentiated works are performed independently in different organisational units. At the same time work is vertically differentiated along such dimensions as the amount of authority an individual has to influence organisational actions, the degree of responsibility he has for these actions, and the number of men he supervises. Vertical differentiation results in levels—top, middle, lower and rank-and-file.

The very characteristics of organisation create a pyramidal structure within which there are several organisational units. Goal orientation of organisations urgently requires some mechanism for coordinating activities, authority and responsibility. Coordination thus becomes a complement or counterbalance to horizontal and vertical differentiation.

- It is claimed that the first test of management should be whether all the parts of the organisation are so coordinated, so moving together in their closely knit and adjusting activities, so linking, interlocking, interacting, that they make a working unit—that is, not a disorderly connection of separate pieces, but a functional whole or integrative unity. This principle of integrative unity applies to the relation of men, the relation of services, the relation of departments.

For attaining the integrative unity every manager from the foreman level to the president level should endeavour. The foreman should have his production schedule on time and necessary materials available when he needs them. People with the proper skills accomplish his objectives. The president tries to make his company's product meets standards of quality which are not too high or too low, the sales department informs the engineering department the quality acceptable to the customer, the engineering department contacts the manufacturing department while redesigning the existing product and finally the manufacturing department contacts the sales department to ascertain the market response to the redesigned product. Without coordinated relation among the interdependent departments the business becomes crippled.

Further, the manager encounters differences of opinion among his subordinates. He mediates to iron out the differences and when failed he may resort to establishing new objectives, policies or procedures, delegate new authority or responsibility or withdraw authority and centralise authority, interpersonal relations are thus established.

- Individuals have their egotism that creates barrier to attaining cross-functional unity in the organisation. Egoistic individuality spurs people to be jealous of others

and gives rise to organisational power game. Unit manager with bigger budget allocation and larger number of subordinates to supervise is considered to be important in the organisation. This tendency of empire-building keeps the unit isolated from other units making the organisation an aggregate of isolated independent departments. Lack of cross-functional relations weakens the effectiveness of the organisation. Coordinative unity can save the organisation.

- Organisation evolves through several phases during its lifetime. Till now organisational analysts have identified five such phases. During each life stage the organisation encounters a specific type of crisis and its continuation depends upon how the crisis is resolved. During the first phase the new organisation faces the crisis of leadership and during the next three phases it sequentially meets the crisis of autonomy, control, and red tape. The strategies available to the organisation to come out of crisis respectively are growth through creativity, direction and coordination. The analysts have not yet been able to find the nature of crisis during the fifth phase. The current trend in corporate management indicates, though faintly, large organisations are facing the crisis of teamwork which might be overcome through collaboration. It can be claimed that for maintaining the organisational growth and development in the fourth phase coordination is the only escape route. Coordination at this stage can be short circuited at the peril of organisation's extinction.

1.5.3 Reasons for not obtaining Coordination

There is much talk of coordination yet it is not obtained. Why?

First, because of its advantage, its necessity is not seen with sufficient clearness. Individual's egotism debar them to appreciate and recognise the cruciality of coordination in management practice.

Secondly, the system of organisation in an organised enterprise is often so hierarchical, so ascending and descending, that it is almost impossible to provide for cross-relations; the notion of horizontal authority has not yet assumed the same significance as the vertical authority. Managers cannot hope to succeed in running the organisation effectively by always running up and down the ladder of authority.

Thirdly, the usefulness of cross functioning is recognised only when difficulties arise or when it is obvious that joint consultation on some specific problems would be desirable. But the necessity for such consultation as a continuous practice is rarely acknowledged.

1.5.4 Principles of Coordination

The management process needs coordination, adjusting. But the process of adjusting cannot be imposed from outside, it is essentially, by its nature a process of auto-controlled activity. No one can dictate how you get adjusted; only you can help yourself to be adjusted. Management should plan for self-coordination within the enterprise. Four principles have been suggested for the process of self-adjustment. These are :

1. Coordination by direct contact of the responsible people concerned.
2. Coordination in the early stage
3. Coordination as the reciprocal relating of all the factors in a situation
4. Coordination as a continuing process.

The principle of *direct contact* implies Contact between those who exercise responsible authority in the matters concerned, that is, between departmental heads. Management should provide for direct contact between responsible heads of departments. Cross-relations between heads of departments, instead of up and down the line through the chief executive, creates the opportunity for direct contact.

The principle of Coordination in the *early stage* means that the direct contact must begin in the earliest stages of the process. Take an illustration from the domain of Policy making. If the head of the production department meets the heads of sales, Finance and personnel with a finished policy and is confronted by them each with a finished policy, agreement will be found difficult. But if the head of production, while forming his policy, meets and discusses with other heads the questions involved, a successful coordination is far more likely to be reached. As policy forming and policy adjusting are two separate processes, policy adjusting cannot begin after the separate policies have been completed. Policy adjusting requires some sort of bargaining and compromise for the interpretation of policies. So coordination of policies must begin before they are complete, while they are still in the formative stage.

The principle of Coordination as the *reciprocal relating* of all factors in a situation shows just what this process of coordination actually is. Think for a moment what happens between the heads of departments in an enterprise. You cannot envisage the process accurately by thinking of A adjusting himself to B and to C and to D. A adjusts himself to B and also to a B influenced by C and to a B influenced by D and to a B influenced by himself. Again he adjusts himself to C and also to a C influenced by B and to a C influenced by A himself and so on and so on. This sort of reciprocal relating, this interpenetration of every part by every other part, and again by every other part as it has been permeated by all, should be the goal of all attempts at

coordination. This process of reciprocal relating is seen in an enterprise not only in the correlation to departmental policies, but in many minor adjustments. As the process of coordination one of interpenetration, it cannot be enforced by an outside body, it should always be self-imposed.

These three principles of direct contacts early stages and self-adjusting applied to business would give the management coordination as a horizontal, not a vertical process—a horizontal coordination between different departments.

The last principle is coordination as a *continuing process* while you are going through the process at a given adjustment the situation concerned is changing. As situations change, you must keep up with the situation, keeping up with the situations changes the situations further. In other words, the process of adjustment changes the things to be adjusted. For ensuring the continuousness of the process a permanent coordination machinery needs to be set up.

These principles underline the chief executive's responsibility to ensure coordination at lower levels as well as at his own, and they confirm that real coordination is attained amid operation and supervisions, not just in the manager's conference.

1.5.5 Mechanisms for Achieving Coordination

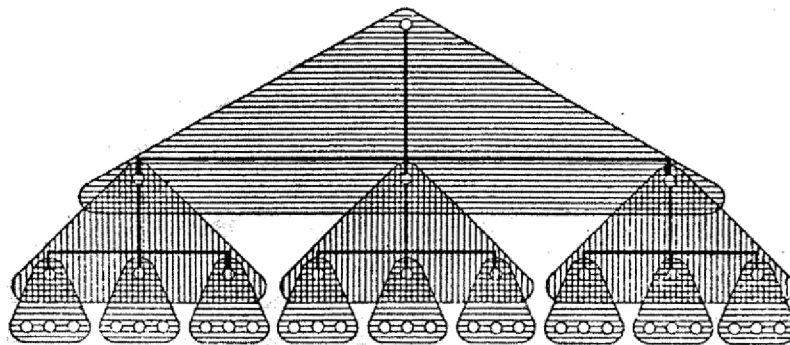
To achieve coordination, the organisation relies on a variety of mechanism. Some of these devices are elaborated below.

- **Subgoal specification.** The more tangible and specific subgoals of the organisation can be made, and the greater the acceptance of them that can be obtained, the more likely it is that individual organisation members will be able and willing to coordinate their activities with each other. Uncertainty on the part of members as to specific objectives is likely to interfere with any attempts to bring about orchestration of individual effort towards common ends.

- **Hierarchical Authority structure.** As already talked about, vertical differentiation of functions involving the creation of functions that differ in terms of the amount of authority involved. In organisations, such vertically differentiated functions are arranged in such a way that individuals occupying certain positions have authority over the activities of others and hence can attempt to achieve coordination of such activities. In an organisation, authority exists in a hierarchy because some individuals are given more authority than others and each individual stands in some kind of authority relationship to every other individual. In this kind of Pyramidal structure there is one central position occupied by the chief executive which is the central authority for coordination of all the activities. In more complex organisation

with many hierarchical levels and numerous specialised departments hierarchical coordination becomes difficult.

● **Linking Pins.** In organisations with multiple overlapping group structure that includes functional group, product group and service group hierarchical authority structure does not ensure coordination of activities. Likert suggests one device for achieving coordination is by having people to serve as "linking pins" between various units in the organisation. Horizontally, there are certain organisational participants who are members of two separate groups and serve as coordinating agents between them. On the vertical basis individuals serve as linking pins between their own level and those above and below. A figurative illustration is given below.



The overlapping group form of organization. Work groups vary in size as circumstances require although shown here as consisting of four persons.

● **Roles.** As a means for bringing about coordination, organisation develop stabilised expectations of behaviour, particularly in relation to organisational positions. Such sets of expectation are called roles. The existence of roles provides a coordinative device both for the members who occupy the positions to which roles are attached and for other member of the organisation who come into contact with them. For the occupants, the role helps to define the limits of the activities to be performed by providing a basis for deciding what should be done, what is permissible to do, and what should not be done. If others who come into contact with the occupant are aware of the occupant's role—and hence of the activities expected, permitted and prohibited—they in turn can adjust their own efforts to mesh with the occupant's

● **Committee.** In complex and decentralised organisations one approach to integrating activities is the committee. Committees typically are made up of members from a number of different departments or functional areas and are concerned with problems of Coordination. Such a committee may be set up both at top and intermediate levels of the company. A management committee or operating committee reporting to the chief executive committee is commonly found.

● **Task forces, teams and project office.** Organisations using a technology which requires not only highly differentiated and specialised activities but also major degree of integration among them have been found to be using task force, for effecting Coordination. Collectively they are referred to as matrix structure. The essence of these structures are that they involve units that cut across segments of both vertical and horizontal dimensions of the organisation, with relatively more emphasis on lateral relationships than vertical superior-subordinate relationships

● **Communication.** Organisations depend upon communication to facilitate the coordination of activities of members. Particularly where unanticipated environmental circumstance are encountered, communication is an essential device for achieving rational coordination.

● **Individual Self-Control.** Individual self-control is the final type of coordinative mechanism. If organisation had to rely entirely on external means (like hierarchical authority) of establishing coordination it is unlikely that integration would be effected. Individuals bring to the organisation certain values, needs and expectations that serve to aid the coordination process. Many of these belief systems and motivators that a person brings to the organisation will contribute to coordination, almost as a matter of course without the individual having to pay attention specifically to the problem. Others will contribute to deliberate coordination by the individual. And, still others may, of course, hinder or impede the process of coordination. Despite the latter possibility, the fact remains that organisations are dependent to a larger degree on individual self-control to achieve coordination. That is why, in many organisations, attempts are made to increase the individual's identification with, and commitment to, the organisation. The presumption is that where identification and commitment are obtained, it is easier to achieve coordination of individual's effort.

1.6 Exercise

1. What kind of science is management?
2. What is a Principle? When is a principle is termed as a theory?
3. Give an idea of the routes through which management developed.
4. Enumerate the various approaches to the analysis of management.
5. Discuss critically the process school of management analysis.
6. Briefly outline the various functions of management.
7. What is coordination? Why is it important for effective management?
8. Why is it difficult to obtain coordination in organised enterprise?
9. Discuss the principles of coordination.
10. Give an idea of the devices for achieving coordination.

1.7 Further Reading

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Unit 2 □ Traditional Management Theory

Structure

- 2.0 Objective**
- 2.1 Introduction**
- 2.2 Classical and scientific management theory**
 - 2.2.1. Bureaucracy**
 - 2.2.2. Administrative management theory**
 - 2.2.3. Scientific management**
- 2.4 Major assumptions of traditional theory**
- 2.5 A Critique of traditional view**
- 2.6 Exercise**
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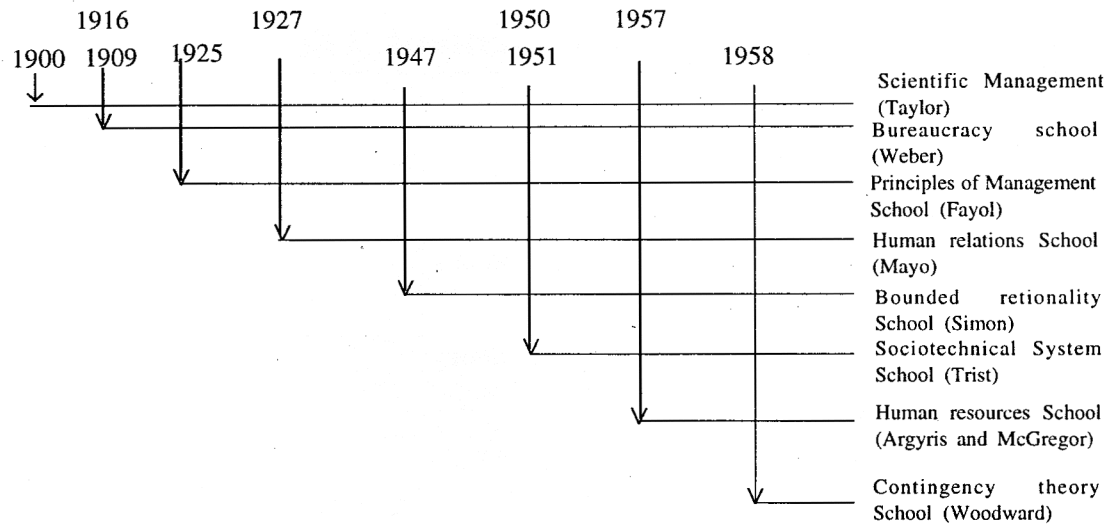
2.0 Objective

After pursuing this Unit you will have a fair conception of the traditional theory of organisation and management. The traditional theory comprises bureaucracy; administrative management chronologically though scientific management surfaced earlier to bureaucracy but the latter was the first proper theory as organisation and management by the standard of the time.

2.1 Introduction

Earlier you have noted that principles of management can be labelled as theory of organisation. Organisation theories that are found in the contemporary literature are the outcomes of a long evolution. With the advent of the 19th century, with the vigorous growth of capitalism in Western Europe and America, firms became the object of lively scrutiny, but the development of organisation theory proper began in the first decade of the twentieth century with the work of the German sociologist, Max Weber. Since then, organisation theory has shown remarkable vitality and many sided growth. The following figure shows growth history of contemporary organisation theory.

These major orientations of the theory of organisation and management are clubbed together under the subject of Traditional theory. They are discussed in the following pages.



Major Schools in Organisation Theory

(adopted with modification from Pradip N. Khandwalla)

2.2 Classical and Scientific Management Theory

Classical theory contains ideas of Weber and of Fayol and Scientific Management bears the stamp of Taylor. Some authors are inclined to put all the three streams of thought under the heading of classical or traditional theory. Whatever label is attached to these streams of thought the fact remains they laid the foundation of modern management thought.

Classical theory emphasises functional distribution of work, hierarchy of positions with clearly defined spheres of responsibility and authority, unity of direction and command, planning and coordination which are separated from operating positions. Henry Fayol defined the functions of management as to plan, to organise, to command, to coordinate and to control. Weber hoped that bureaucracy will avoid arbitrariness in decision making and enable management to bring rational bases of work and relationships. Fayol also laid principles of management that would bring rational bases in managing the rapidly growing organisation.

Frederick Taylor advocated scientific management of factory production involving time and motion study, the standardisation of parts and processes and attempted to establish a fair day's work and a fair compensation to the employee for his efforts. He separated mental work from manual work and particularly emphasised that planning was management's function just as "doing", was the function of workers.

These theories were postulated in the early years of the twentieth century at a time when industry was growing and some pattern had to be ordered from the chaos. The main concern of the time was about productivity and search for practices that would induce better understanding between management and labour. The overall background of the development of these theories is important as many of the conditions exist now in India.

2.2.1 Bureaucracy

At the beginning of the last century Weber asked himself what form of organisation can service the increasingly more complex needs of an urbanising, industrialising society. In competitive capitalism organisational performance was highly important for attracting society's scarce resources. For servicing the society prevailing during his time he developed the concept of ideal bureaucracy. Bureaucracy as an ideal type of organisation, was meant by Weber to imply not a perfect organisation, but only a type of an organisation with certain desirable properties that might be particularly suitable for operating institutions.

A bureaucracy is a form of organisational structure in which people can be held fully accountable for their actions because they are required to act in accordance with well-specified and agreed upon rules and standard operating procedures. Weber's bureaucratic principles offer clear prescriptions for how to create and differentiate organisational structure so that task responsibility and decision-making authority are distributed in a way that maximises organisational effectiveness.

Weber suggested that bureaucracy was the best administrative form for the rational or efficient pursuit of organisational goals. His ideal type comprised various elements, such as a high degree of specialisation and a clearly defined division of labour, with tasks distributed as official duties; a hierarchical structure of authority with clearly limited areas of authority and responsibility; establishment of a formal body of rules to govern the operation of the organisation; administration based on written documents; impersonal relationships between organisational members and with clients; recruitment of personnel on the basis of competence and technical knowledge; long term employment, promotion on the basis of merit of seniority, a fixed salary. In Weber's mind these discrete elements were tied together into a coherent totality by one overarching phenomenon-rationality. Rationality, in turn, implies calculability, which minimises uncertainty in risk-taking activities. Such calculability also involves mass democracy, which makes every one equal before law, so that arbitrary treatment diminishes.

However, over the years since Weber's theorisation, bureaucracy has acquired four distinct meanings. Bureaucracy can refer to the set of people who perform the administrative functions in the manner described by Weber; the network of relationships in which they are enmeshed; the amount of power they wield as a body; and the various kinds of malfunctioning of the administrative machine.

Characteristics of Bureaucracy

Weberian approach held that an ideal organisation should have the following characteristics :

- **Division of labour based on functional specialisation.** Division of labour and specialisation are enormously productive as demonstrated by Adam Smith.

- **Well-defined hierarchy of authority.** Since, in an organisation with a great deal of division of labour, coordination of activities becomes a problem, some differentiation between those who give orders (managers) and those who carry them out (operatives) will be necessary, and indeed managers will have to have others (superior managers) in turn to order them. In other words, the organisation will need to have a hierarchy of authority.

Each position in the hierarchy covers an area over which it has complete jurisdiction in terms of division of work, competence, authority and responsibility. Power and authority are delegated downward, beginning at the top, from each supervisor to his subordinates.

- **A system of rules and procedures.** Rules and procedures are intended to aid task performance. Since organisation engages in repetitive tasks, it will be economical to develop rules and standard operating procedures so that work may become habitual. Also, rules and procedures preclude arbitrary supervisory behaviour and erratic responses of subordinates to work situation. The rules cover the rights and duties of the organisational members and the procedures deal with work situations. Consistent operation of rules and procedures ensures objective rationality through the impersonal means of rules and procedures.

- **Professional qualifications and expert training.** Qualifications and competence are the sole criteria for all recruitments. Skills are learnt through training and experience. Rules ensures job security. Promotions are based on merit, knowledge of rules requires a special training within the organisation.

- **Paper work.** Every decision and the process thereof is recorded and the documents are preserved in their original and draft form so that any doubt or controversy arising in future can be settled by consulting the original documents. The documents work as the memory of the organisation.

In this connection you need to note two things. One, bureaucracy implies rationality, and this in turn implies calculability, which minimises uncertainty in risk-taking activities. Two, despite the formidable impersonality in bureaucracy, Weber allowed it to have a nonbureaucratic, even charismatic head. Such a chief will hold the organisation together because of the loyalty he will evoke and also he will command legitimacy for the organisation.

The foregoing characteristics, pertain to Weber's ideal or normative organisation. It is difficult to distinguish precisely how the functioning organisation differs from the ideal. Nevertheless, it can be said that all organisations have some or all of these features and the difference between one organisation and the other is one of degree only.

Functional and dysfunctional aspects of bureaucracy

Bureaucratic form of organisation inherits both functional and dysfunctional dimensions.

Functional aspects

Some of the principal, prescriptive, normative functions that bureaucracy serves have positive significance to organisation. Whether and to what extent these positive features really obtain in an organisation depends on the actual practice which often falls short of expectations. Subject to this limitation the following may be considered as the functional aspects of an ideal bureaucracy.

- **Specialisation.** The emphasis on specialisation in bureaucratic organisation can be compared with an assembly line in which every number performs his special functions in predictable manner. At every level of the organisation routinized work is assigned with fixed responsibilities and jurisdictional limits, providing scope for specialisation.
- **Structure.** By structuring the duties and responsibilities in a command hierarchy the organisation is provided with a structure. Structure sets the pace and framework for organisation processes.
- **Predictability and Stability.** The rules, procedures, training, specialisation, structure impart predictability and thereby ensure certainty and stability to an organisation. The insistence on conformity to rules of a given structure, procedures and jurisdictional limits bring some order to cope with complexity and provide for certainty in the midst of uncertainty.
- **Rationality.** Since the criteria for decision-making in routine situations are prescribed ahead of events emphasising consistency in dealing with organisational problems, a means of objectivity is ensured in the organisation.

- **Democracy.** Bureaucracy makes an organisation more democratic by laying stress on qualifications and technical competence for purposes of recruitment and promotion and by highlighting the jurisdictional roles of people at all levels in a hierarchy. The top echelon may have acquired the position through election, appropriation or succession but down the level in the hierarchy the processes are guided by laid down rules, regulations, policies and practice rather than by patronage other privileges.

Dysfunctional aspects

Unintended consequences in bureaucracies, particularly in large complex organisations are referred to as dysfunctional aspects. Some of the more prominent among them are as follows :

- **Rigidity.** Critics of bureaucracy argue that rules are often rigid and inflexible. Rigidity encourages status quoism and breeds attitude to resist change. Compliance with rules may provide cover to avoid responsibility for failures.

- **Impersonality.** Bureaucracies put more emphasis on mechanical way of doing things, giving primacy to organisational rules and regulations than on individual's needs and emotions. Contractual obligations receive primacy, and human relations are relegated to the back seat. The office a person holds is more important than the person *per se*.

- **Displacement of organisational goals.** Bureaucratic rules and impersonality are meant for producing high degree of reliability and predictability. But too much conformity can be detrimental as it reduces flexibility. Rules and regulations become so emphasised that they take on a symbolic meaning of their own. The rules become more important than the ends that they were designed to serve, the result being goal displacement and loss of organisational effectiveness.

- **Compartmentalisation of activities.** Division of task, specialisation and jurisdictional limitation are encouraged in bureaucracies to improve organisational effectiveness. But the resulting categorisation breeds the notion of watertight compartmentalisation of jobs, restricting participants from performing tasks that they are capable of performing. It would also encourage a tendency for perserving existing jobs even when they become redundant. The sequential flow of work may actually have an element of idle time at almost every level. The bickering over respective jurisdictions based on specialisation and categorisation may also generate dysfunctional conflict instead of coordination and cooperation among various subunits of an organisation.

- **Empire building.** A common tendency in bureaucracies is to relate power and prestige with the number of subordinates a person has. So the effort is to increase

the number of subordinates under one's control. With the increasing size of one's Unit he commands more and more power and privileges. Once an empire is built the head develops a tendency to use his position and resources to perpetuate self interests or his unit's interests to the detriment of the organisation's interests.

● **Red tape.** Bureaucratic procedures involve much paper work and routing through proper channel that in turn cause inordinate delay and frustration. The procedures though valued are perpetuated and multiplied for their own sake as well as to pass the buck to others in the chain of hierarchy as far as responsibility for failures go.

Despite all the dysfunctional aspects bureaucracy cannot be ignored. It is everywhere. The vast majority of large organisations are predominantly bureaucratic in structure but for all but a few, bureaucracy represents the most efficient way for organising them.

A Critique of Bureaucrasy

On several counts bureaucracy has been criticised. Some these criticisms are as follows :

1. Bureaucracies can cease to be efficient, in terms of the purposes for which they are intended when personnel proliferate beyond what is needed for the task in hand, when responsibilities are shunned and passed around the structure; when rules, procedures, and files proliferate beyond what is necessary; and members adhere to the rules in a ritualistic manner and elevate these above the goals they are designed to realise.

2. Excessive emphasis on specialisation often fosters a narrow outlook which cannot solve new problems. Colleagues within specialised departments develop feelings of loyalty to each other and their departments instead of the organisation, and promote these group interests whenever they can. Groups of colleagues attempt to maximise their freedom of action by paying lip-service to the rules but ignoring the spirit behind the rules and bending them when they can.

3. The various specialised groups are able to withhold or distort information for enhancing their group interests keeping senior managers ignorant about what is going on. Senior managers realise that something is amiss, but cannot take arbitrary or personal action against those they suspect of failing to promote organisational goals. For regulating what goes on below them senior officials create more rules. These rules make the organisation more and more rigid but may still fail to control subordinates making the organisation less efficient.

4. Critics point out that some tasks within organisations involve unpredictable events for which standardised rules are inappropriate. Bureaucratic organisations functioning in an unstable environment where predictability is less, become less effective.

2.2.2 Administrative Management Theory

Administrative management theory is another stream of thought in the classical mould. This theory has been developed by practical managers since the early years of the last century. Prominent among them are Fayol, Mooney and Reiley and Urwick. They with their interests in problems of practical management accepted management as a process of planning, organising, commanding, coordinating and controlling. The practitioner-theorists codified their experiences in the form of general principles of management. The principles are :

1. *Division of work.* Management should aim to achieve a degree of specialisation designed to attain the goals of the organisation in an efficient manner.
2. *Authority and responsibility.* Attention should be paid to the right to give orders and to exact obedience; an appropriate balance between authority and responsibility should be achieved. It is meaningless to make one responsible for work if he is not given appropriate authority to execute that responsibility.
3. *Unity of Command.* An employee should receive orders from only one superior.
4. *Scalar chain.* The line of authority from superior to subordinate runs from top to bottom of the organisation; this chain, which results from the unity-of-command principle, should be used as a channel for communication and decision-making.
5. *Span of Control.* The number of people reporting to one superior must not be so large that it creates problems of communication and coordination.
6. *Centralisation (of authority).* It is always present in some degree; it must vary to optimize the use of faculties of personnel.
7. *Staff and line.* Staff personnel can provide valuable advisory services, but must be careful not to violate line authority.
8. *Discipline.* Obedience, application, energy, behaviour and outward marks of respect in accordance with agreed rules and customs ensure discipline.
9. *Subordination of individual interest to general interest.* Through firmness, example, fair agreements and constant supervision help such subordination.
10. *Equity.* Based on kindness and justice, it encourages personnel in their duties; and fair remuneration encourages morale yet does not lead to overpayment.
11. *Stability of tenure of personnel.* For facilitating development of abilities stable tenure is necessary.
12. *Teamwork Spirit.* It facilitates harmony as a basis of strength.

When these principles are implemented the familiar Organisation chart is created. The chart depicts a pattern of precisely defined jobs organised in a hierarchical manner through precisely defined lines of command or Communication. Through these principles the classicists were, in effect, trying to design the organisation exactly as if they were designing a machine. They conceived organisation as a network of parts: functional departments, such as production, marketing, finance, personnel and so on, which are further specified as net works of precisely defined jobs. Job responsibilities interlock so that they complement each other as perfectly as possible and are linked together through scalar chain of command expressed in the dictum "one man one boss".

The motions of the organisational structure thus produced are made to operate as precisely as possible through patterns of authority; for example, in terms of job responsibilities and the right to give orders and to exact obedience. Patterns of authority serve as points of resistance and coordinate activities by restricting activity in certain directions while encouraging others. By giving detailed attention to patterns of authority and to the general process of direction, discipline, and subordination of individual interest to general interest, the classical theorists sought to ensure that commands issued from the top of the organisation would travel throughout the organisation in a precisely specified way to create precisely determined effect.

These principles determine the degree of centralisation of authority. Since activities are carried on throughout the organisation complete centralisation is not a practical proposition; rather some degree of decentralisation is basic to organisational function. As centralisation and decentralisation pull the organisation to opposite directions the classicists recognised the necessity of reconciling the contradictory requirements of them to preserve an appropriate flexibility of different parts of large organisations.

The basic tenet of the classicists' administrative management theory is to consider the organisation as a machine. Thus, the whole thrust of the theory suggests that organisations can or should be rational systems that operate in efficient manner as far as possible. Theorists forgot that they were dealing with people, not with cogs and wheels and consequently paid little attention to human aspects at organisations.

Appropriate Management system

In the classical point of view the manager responsible for the organisation plans a set of tasks that presumably include all of the activities necessary for accomplishing organisational objectives. The executives use employees as means through whom they desire to attain the objectives. People are taken as individuals (not as members of work

groups) who have relations among them that are provided by the organisation. They are expected to perform their assigned jobs exactly as specified. The managers assume that through selection, training, just treatment and pay, or a combination of them, people can be brought to the point of filling the jobs exactly as specified. Under the dispensation of classical thought managers hope that by following the principles strictly they can make people behave rationally, coordinate their efforts, maintain organisational efficiency and ultimately achieve organisational objectives.

This management system is flawed by giving little attention to human aspects of the organisation. While the classicists frequently recognised the need for leadership, initiative, benevolence, equity, esprit de corps and other factors that might influence human motivation, organisation as such was understood as a technical problem. They recognised the importance of achieving a balance between the human and technical aspects of organisation, especially through appropriate selection and training but the main orientation was to make humans fit the requirements of mechanical organisation.

Contribution of Administrative Management Theorists

Although serious questions have been raised regarding the appropriateness of the approach and principles of the administrative management theorists, many of the concepts from this school of thought are currently applied in organisations. The pyramidal structure, the scalar principle, the concept of unity of command, the exception principle, the delegation of authority, limited span of control, and departmentalisation principles are currently being applied in the design of many organisations. Although the administrative management theorists have been criticised for their rigid approach with little recognition of human and sociological factors, their ideas still have applicability in the structuring of organisations and in providing general guidelines.

Many current management authors retain as their basic framework the classical approach and have integrated recent developments from the behavioural and management sciences into their views. They utilise the classical viewpoint as a first approximation in their development of organisation and management concepts and then make substantial modifications based upon current empirical research and theory. The conception of the administrative management theorists has become one of the foundations of theoretical constructions, formulating all-embracing principles of the management of organisations and forming the bedrock for standard conceptions of the formal structure of management. The foundation laid by the school provided the link in the development of modern theory. One of their most fundamental contributions

was the emphasis on management as a distinct field which should be observed, studied and improved and which is therefore an important scientific and academic endeavour.

2.2.3 Scientific Management

Taylor sought a new legitimacy and discipline for management by basing his ideas on the authority of science—time and motion studies. His goal was to use the rather inefficient human organism in the productive process in the best possible way. The driving force in scientific management was the concern for a growth of labour productivity and an increase in the rate of production. The theory considered the tasks performed at the shop floor to be largely repetitive and do not require complex problem solving activity by the worker. The characteristics of human organism, as considered in scientific management, follow from the types of tasks. So neurophysiology of the workers got prominence. For accommodating such task and neurophysical variables Taylor suggested a type of organisation which is analogous to machine that rejects all relations not evolving from its functional content.

After years at conducting experiment with work, Taylor proposed four principles of scientific management that would result in significant increases in productivity : (1) the replacement of the rule-of-thumb methods for determining each element of a worker's job with scientific determination; (2) the scientific solution and training of workers; (3) the cooperation of management and labour to accomplish work objectives, in accordance with the scientific method; and (4) the more equal division of responsibility between managers and workers, with the former doing the planning and supervising, and the latter doing the execution.

When restated in more practical language the principles look like :

(1) Use scientific method to determine the most efficient way of doing the work; design the worker's repetitive task to fit his neurophysical behaviour and specify the precise way in which the job is to be performed.

(2) Select the best person to do the job thus designed and train him to perform the job efficiently.

(3) Monitor worker's performance to ensure that appropriate work procedures are followed and that appropriate results are achieved.

(4) Shift all responsibility for organisation of work from the workers to the managers. Managers should do all the thinking relating to the planning and design of work, leaving the workers with the task of implementation.

In applying these principles Taylor advocated the use of time and motion studies as a means of analysing and standardising work activities. Scientific management

approach called for detailed observations and measurement of even the most routine work to find the most optimum mode of performance. For finding out one best method of doing the work Taylor called for the standardisation of instruments and maximum centralisation of initiative (i.e., authority). Taylor further suggested that workers might be motivated to perform consistently if they were given incentives in the form of money that would satisfy their physiological needs.

The leadership alone, he emphasised, could and should bear the responsibility for the introduction and operation of a scientific system. The scientific system gave rise to new functions for the foreman and superintendents. The then existing “linear” system of organisation under which every worker was subordinated to only one direct superior was found wanting in introducing the scientific system. His system divided the work of the foreman and superintendent into eight component parts, better known as functional foremanship. Four of the functional bosses would work at the shop level and the remaining four in the planning department.

Review of Scientific Management

Taylor and his associates spread the gospel of scientific management. It became a movement with wide application and many spokesperson. The system had a major impact upon industrial practice, not only in the United States but in Europe as well. It even attracted the notice of Lenin who exhorted “we must organise in Russia the study of Taylor system and systematically try it out and adopt to our ends”. It not only affected the task performance at the worker level, but also created many changes in industrial organisation structures. The system became influential because it increased productivity manifold. Productivity increase was achieved at great human cost by reducing workers to automatons. The most pernicious and far-reaching element in Taylor’s approach to management was his principle of separating the planning and design of work from its execution. In effect, the principle splits the worker by separating hand and brains. Men were no more than hands or manpower, the energy or force required to propel the organisational machine. The jobs were simplified to the ultimate degree so that workers would be cheap, easy to train, easy to supervise and easy to replace. Scientific management treated workers like cogs in a well-oiled machine and destroyed humanistic practices in industry. This remains the primary criticism today.

Scientific Management and Organisation Theory

Taylor and his followers were most concerned with efficient work performance. Though not organisational theorists, they proffered a number of implicit concepts

concerning management and organisation which were important in the development of a general theory of organisation. Taylorists provided many of the ideas for the conceptual framework later adopted by administrative management theorists discussed immediately before this section. These included separation of planning from operations, clear delineation of authority and responsibility, the functional organisation, use of standards in control, the development of incentive systems for workers, the principle of management by exception, and task specialisation. Many of the concepts from scientific management were similar to those in Weber's bureaucratic model. This was particularly true of Taylor's view that management itself should be governed by rational rules and procedures.

2.4 Major Assumptions of Traditional Theory

Traditional theory—bureaucratic model, administrative management theory and scientific management—share certain common threads and similarities.

The basic premise of a rational economic man (complete knowledge and maximising behaviour) was integrated by the traditional management into their views of the organisation. Through specialisation in a well-defined hierarchical relationship, work could be organised so as to accomplish the goals of the organisation most efficiently. The organisation was viewed as a mechanistic system which was planned and controlled by the legitimate authority of management.

The primary emphasis was upon increasing efficiency through structuring and controlling the human participants. People were assumed to be motivated primarily by economic incentives. It was necessary to specialise tasks and to provide detailed instructions and controls. In order to ensure cooperation in meeting organisational goals the participants had to be closely supervised. Management was the primary integrative force and the formal hierarchy was the mechanism for achieving coordination.

The traditional management theory thus evolved into the development of concepts such as pyramidal structure, unity of command, span of control, management by exception, specialization by function, line-staff dichotomy, and other generalised management principles which were appropriate for all organisations.

2.5 A Critique of Traditional View

One of the major criticisms of the traditional theory is that it employed closed system (a system that does not interact with its environment) assumptions about organisations which were unrealistic. For the purpose of having control over the

organisation and removal of uncertainty in achieving goal, traditionalists viewed organisation as closed system.

Another major criticism of the traditional view concerns its unrealistic assumption about human behaviour. Humans in this theory was assumed to be cogs to the machine. In the traditional value orientation of organisation people were considered to be resource base in which the employees are outsiders. Being outsiders these people are potential exploiters. Such assumptions indignify humans.

Many of the “principles” derived from the traditionalists have been questioned as being truism or plain common sense and so general that lack specific guidelines for application. It has been suggested that many of these principles are internally contradictory. Simon cites, for example, that the principle of specialisation is frequently in conflict with the principle of unity of command. Instead of developing conditional principles of management they have been stated as unconditional statements of what to be done in all circumstances. For example, it makes little sense to say that a manager’s span of control should be no greater than six. But it could make sense to say that if the work the subordinates of a boss do is fairly uniform, then for greater efficiency or coordination, the span of control should be larger than six, and if the work they perform is varied, say scientist’s work in the R & D departments, then span should be smaller than six. Again, the principle of specialisation that requires each person to perform only a single function is in conflict with Herzberg’s prescription of job enlargement and job enrichment for motivating people.

The basic premise of authority related to classical hierarchical structure has been questioned by Thompson. He sees a major conflict between the institution of hierarchy based upon position within the organisation and the growing importance of technological specialisation with its authority of knowledge. In organisations using high technology authority of knowledge swamps the authority of position. Two principles—strict hierarchy and explicit specification of the duties, responsibilities and authority of each employee make no sense at all in organisations facing technologically turbulent environment.

Another criticism of the traditional concepts is that they were formulated by practitioners in management and were based only upon personal experience and limited observation rather than on rigorous empirical research.

The primary focus of dissent concerns the view of man in the organisation. In the machine model of the traditionalists organisation are “without people”; employees are brawn without brain.

2.6 Exercise

1. Name the various theories of management developed during the 20th century.
2. What are the constituent theories of the classical mould? What commonality does exist among these theories including scientific management?
3. Explain bureaucratic theory of organisation and management. Give a critical view of it.
4. Write about in detail the basic characteristics of bureaucracy.
5. Discuss the principle of management as laid down by the administrative management theorists. Explain how these principles develop a structure of administrative organisation.
6. Give an idea of the management system appropriate to the classical theory.
7. Discuss the contributions of the administrative management theorists to the development of organisation theory.
8. Give an idea of scientific management theory of Taylor.
9. Critically review scientific management and its contributions the later day's organisation theory.
10. After stating the major assumptions of the traditional theory of organisation and management give a critical review of it.

2.7 Further Readings

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Unit 3 □ Behavioural Orientation in Organisation and Management : Human Relations Approach

Structure

- 3.0 Objectives**
- 3.1 Introduction**
- 3.2 Human Relations approach**
 - 3.2.1 Group Dynamics**
 - 3.2.2. Informal Organisation**
 - 3.2.3 Style of management**
- 3.3 Human Relations and Organisation Theory**
- 3.4 A Critique of Human Relations**
- 3.5 Exercise**
- 3.6 Further Readings**

3.0 Objectives

On the completion of the study of this Unit you will be acquainted with Behavioural Orientation to organisation and management. By emphasising the Psycho-social aspects of people working in organisation this orientation attempted to help understanding how do organisations operate, and in the process enriched traditionalists' view of organisation and management. Out of three strands of behavioural orientation you will learn about only human relations approach. From Hawthorne studies this approach originated and later on behavioural scientists provided the keys for understanding group processes. A good number researcher suggested a style of management appropriate to the approach that was considered to be of practical use to men of the work world. However the approach is not free from blemishes.

3.1 Introduction

In the previous Unit our emphasis was on the organisational structure and task-known as traditional approach to organisation and management. This approach underemphasised the human element influencing the behaviour of organisations. Reacting to the neglect of people in the organisation, behavioural scientists emphasised the Psycho-social system with primary consideration of the human component. They were concerned with studying how organisation and management operate in the real

world. Using an open-system approach, they considered many variables which were excluded from the closed-system models of the traditional school. Behavioural scientists stressed on human factors and the way people behave in actual organisations. Typically they have a humanistic view which substantially differed from the mechanistic orientation of the traditionalist.

Behavioural orientation comprises three strands—human relations orientation that emerged in 1930s, human resource orientation that took root in mid-1950s and bounded rationality orientation that originated in late 1940s. Behavioural orientation, also referred to as Neoclassical approach, accepting the organisation structure as given, demonstrated how the structure is modified by the interactions and cooperation of people working in organisations. However, the present course of study requires discussion of human relations strand only.

3.2 Human Relations Approach

The human relations movement in industry started with the discovery of group processes affecting motivation and productivity by the Hawthorne Experiment by Elton Mayo and his associates. The experiment was conducted at the Hawthorne plant of the Western Electric Company between 1927 and 1932.

Human relation movement has the following three aspects :

Group dynamics : it studies how groups in organisation function and how they affect human behaviour in organisations.

Informal Organisation : the activities, norms, relationships and patterns of communication (outside officially sanctioned channel) that arise spontaneously in organisations.

Style of management : a management style that lay emphasis on being employee oriented and participative.

3.2.1 Group Dynamics

Organisations achieve their goals by allocating tasks to groups of people who are held responsible for accomplishing them. Such groups are christened as work groups and they can be described as a collection of individuals working towards a common goal and who are interdependent to a significant degree as they relate to, and interact with each other while performing their tasks. Groups behave in their own way which is different from individual behaviour. Group dynamics, a term introduced by Kurt Lewin in 1930s, is used to explain the group behaviour. Another term Group Processes is also used. Both the terms carry the implication that groups are to be considered as entities characterised by change and on-going activities. The nuances of the on-

going group operations are described by the term group dynamics. It encompasses the dynamics of interaction patterns within the group, the subtle and not-so-subtle pressures exerted by group members, the manner in which decisions are made in the group, how tasks get done and member's needs are met. Dynamics occurs within a group (intra-group dynamics) and between groups (inter-group dynamics).

When the Hawthorne experimenters found that despite poor working conditions (reduction in illuminating which is an element of working condition) productivity increased, they felt that group processes had something to do with this curious phenomenon. They felt that subjects (with whom the experiment was conducted) valued their membership in the work group, and since the work group had high performance norms, its members worked hard even in uncongenial working condition. In other parts of the company, the researchers uncovered group pressures that depressed the productivity of group members.

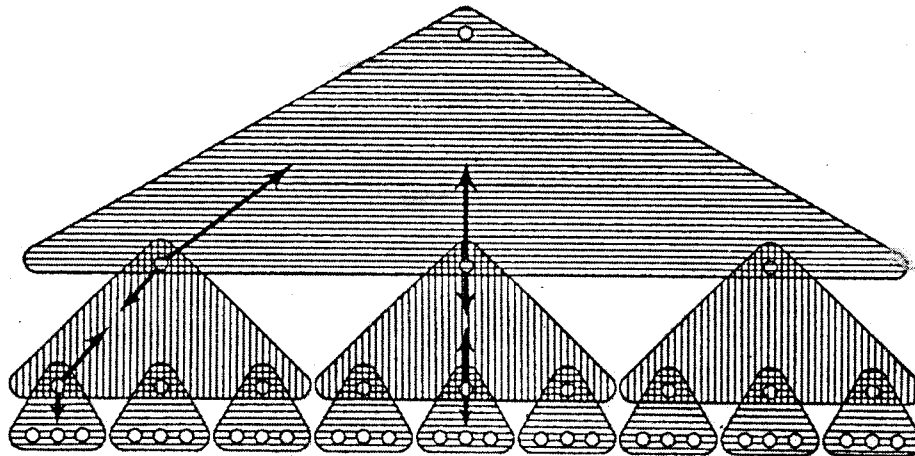
The researchers found that carefully designed jobs and selected equipment and employee training cannot guarantee greater efficiency. They advocated the notion that the work group is a source of satisfaction for its members. It satisfies their social needs such as the need to be wanted by others, the need for friendship, the need to communicate with peers. It also satisfies their security needs (Protection against hostile supervisor), and knowledge needs (advice for the on-the-job problem). Since the individual needs the group, the group strongly affects the behaviour of the individual. Whatever the incentive system, if the group pressurise its members to go slow the chances are that each member will slow down the work pace. For the same reason, whatever be the individual's inclination, if the group norm is high productivity, the chances are that the individual member will strive to produce high.

Many intensive researches were conducted in the field sites and in laboratory for purpose of better understanding of the workings of the work group, that is group dynamics. Their findings can be summarised as follows :

- Groups have a Psychological reality. Group divisions often modify individual behaviour in greater degree than those that normally result from attempts to change behaviour of individuals as isolated individuals.
- Groups are inevitable and widespread. They are found everywhere in the society.
- Groups generate powerful forces, such forces impinge upon individual members. Variables such as the extent of interaction among members, the degree of group cohesiveness, identification of members with the group, and competition between members themselves and with other groups affect strength of the group's pressure on individual members that ultimately influence the choices each considers and the decisions each makes.

● Groups can produce both positive and negative consequences. When cohesive groups accept management's goals, such as high productivity, low wastage, and high quality, productivity of individual members is likely to be high because of group pressure. But, if the cohesive group opposes management's objectives the cohesiveness will work against management. Further, a group can be a better problem solver than individuals acting alone, because of the interaction within the group, consideration of many alternatives, and the convergence of many skills on the problem situations. However, a group can turn into a faction, intolerant of deviant opinion and this can lead to disaster.

Rensis Likert in his attempt to integrate the group goals and management goal advocated the idea of the linking pin (Figure below).



The linking pin.

For the proper functioning of the organisation, it is necessary to have, not only cohesive work groups, but work groups whose goals are mutually congruent and consistent with the goals of the management. This can be achieved by having groups linked together by competent, trained group coordinators, or linking pins, with membership in more than one group. These linking pins communicate the determined preferences of one group to the members of any other groups that have work interface with the first group. In turn preferences of the other groups are communicated by the linking pin to the first group. The linking pin, i.e., the coordinator, performs three functions (a) He helps the group to achieve consensus on any issue, (b) He communicates this consensus to the other interfacing group or groups of which is a member, (c) Lastly, in case of inter-group conflict, he makes effort to resolve the conflict. The coordinator has a problematic role to play in conflict situations.

3.2.2 The Informal Organisation

Discovering the informal organisation* was the most significant achievement of Hawthorne studies. The researchers suggested that informal organisations exist in all formal organisation, rather they are the creations of formal organisation.

Traditionalists were importantly concerned with the creation of an ideal organisation structure in order to fulfil specific goals and carry on specific tasks which are clearly related to the total organisational mission. The members of the organisation are formally called upon to provide certain activities to fulfill their organisational roles. The formal organisation depicted in the organisation chart is inefficient to show the true picture of a living-organisation. Informal organisation serves the purpose.

By the term informal organisation we mean the pattern of interpersonal relations that develop within formal organisation but these relations are not specified in the blueprint of the formal organisation. It is the natural grouping of people in the work organisation. It includes cliques and friendship groups.

Why do people in formal organisation naturally and spontaneously form groups? Because the whole man actually joins the organisation and because man has needs beyond the minimum ones of doing his job, he will seek fulfillment of some of these needs through developing a variety of relationships with others of the organisation. If work situations permit these informal relationships will develop into informal groups. In other words, tendency towards informal groups can almost always be assumed to exist because of the nature of man. How this tendency works itself out in the actual creation of groups, however, depends very much on the physical location of people, the nature of their work, their time schedules and so on (discussed later). Informal organisations, therefore, arise out of the particular combination of 'formal' factors and human needs.

When formed, how does the informal group behave? Let us have a look into the Bank-wiring case of Hawthorne studies. The study team found that the employees under observation restricted their output; the group had a standard for output and this was not exceeded by any individual member. The attitude of the members of the group towards the company's financial incentive scheme was one of indifference. The group was highly cohesive with its own social structure (i.e., relationships) and code of behaviour which clashed with that of the management. Essentially, this code was

*Informal Organisation and small group are often used synonymously. However, they differ in some respects. The term informal organisation includes something larger and more inclusive than one group. A person can be and, in fact, is a member of more than one small group. In that case a member of an informal organisation is influenced by more than one small group. However, the two terms have been used here interchangeably.

composed of solidarity on the part of the group against the managements. There was little recognition of the organisation's formal allocation of roles. This was the confirmation of the importance of informal social groupings in determining levels of output.

As noted earlier there may arise more than one social groups. In the Bank-wiring room of Hawthorne studies two major informal cliques were found—the 'group in the front' of the room and the 'group in the back'. This pattern arose out of the actual job-related interactions as well as slight differences in the work performed in the two parts of the room. The man in the front considered them superior as they were performing difficult task though they were not actually paid more for it.

Determinants for the appearance of informal Organisations

So far we have stated that informal organisation appears in response to the social need—the need of people to associate with others. Research has produced the following, more specific determinants underlying the appearance of informal organisation.

1. The *location* determinant simply states that in order to form into groups of any lasting nature, people have to have frequent face-to-face contact. Thus, the geography of physical location in a plant or office is an important factor in predicting who will be in what group.

2. *Occupation* is a key factor determining the rise and composition of informal groups. There is a tendency for people performing similar jobs to group together.

3. *Interests* are another determinant for informal group formation. Even though people might be in the same location, performing similar jobs, differences in interest among them explain why several small, instead of one large, informal organisations emerge.

4. *Special issues* often result in the formation of informal groups, but this determinant is set apart from the above three. In this case, people who do not necessarily have similar interests, occupations, or locations may join together for a common cause. Once the issue is resolved, then the tendency is to revert to the more natural group forms. Thus special issues give rise to a rather impermanent informal association; groups based on the other three determinants tend to be more lasting.

Characteristics of informal organisations

When informal organisations come into being they assume the following characteristics :

1. *Informal organisations act as agencies of social control.* They generate a culture based on certain norms of conduct which, in turn, demands conformity from group

members. These norms may be at odds with the values set by the formal organisation. So a member may very well find himself in a situation of conflicting demands.

2. *Informal Organisations have status and communication systems peculiar to themselves*, not necessarily derived from the formal systems. For example, informal networks of communication, known as grapevine, that intersect at several points circumventing formal channel, link organisation members in any combination of directions—horizontal, vertical and diagonal.

3. *Since informal organisations are there in order to fulfil members' Psycho-social needs only socio-emotionally equipped leaders can lead them*. Generally speaking, task leader mostly successful in formal group is not necessarily the same person who emerges as the socio-emotional leader in informal group.

4. *The informal groups maintain a relationship with the formal ones* of either antagonism, cooperation or neutrality. Where antagonism dominates, the informal group is exceedingly cohesive. When cooperation occurs, the informal group works to meet management expectations. In a neutral informal group members' private interests have no relationship to the work of the organisation.

3.2.3 Style of Management

The traditionalists put much faith in authoritarian coercion-compromise style of supervision that relied heavily upon internal systems at command on authority and obedience, and upon bureaucratic relations for governing the actions of participants. In contrast, human relationers believed in the efficacy of employee-oriented supervision. If the employees can be made to feel that their opinions mattered and that they can freely communicate them to their superiors, and if they realise that management cares for their needs, they will reciprocate by giving loyalty to the company and by working more productively. This democratic or participative style is termed as collaboration consensus style of supervision. However, you will know more about participative style in organisational behaviour course.

For the effectiveness of organisations management should recognise that informal organisation exists, nothing can destroy it, and so the executive might just work with it. Working with the informal organisation involves not threatening its existence unnecessarily, listening to opinions expressed for the group by the leader, allowing group participation in decision-making situations, and controlling the grapevine by prompt release of accurate information. An honestly conceived effort by managers to establish a working relationship with the informal organisation could result in an association where both formal and informal views would be reciprocally modified.

3.3 Human Relations Orientation and Organisation Theory

The human relations viewpoint by no means represents a comprehensive theory of what organisations are and how they function. But it did make some useful contributions to organisation theory. These may be summarised as follows :

The human factor in organisations is of the highest importance. The needs, feelings, beliefs, and attitudes of organisational members should be taken into consideration for understanding how do organisations operate, for they quite dramatically modify formally approved operations. They give rise to informal organisation.

Ego needs and social needs of employees have great impact. If these needs are gratified, employees may reward the organisation with higher productivity, lower absenteeism and turnover, and greater cooperation with management. Employee-oriented, group-centered, participative supervision and management can satisfy the ego and social needs .

Further, a strategy of change should concentrate on achieving consensus within a relevant group as to the desirability and mechanics of change. This too calls for an employee-oriented, participative management. Since an organisation consists of interfacing groups, it is necessary to have competent linking Pins (coordinators) for integrating and coordinating the operations of the organisation.

This theoretical perspective led Rensis Likert to develop four models of organisational design. They are the exploitative authoritative, the benevolent authoritative, the consultative and participative. These models cover a number of organisational functions, such as leadership, motivation, communication, interaction and influences decision-making, goal setting and controlling. The exploitative authoritative and participative models are poles apart, the benevolent authoritative is closer to the exploitative authoritative and the consultative is closer to the participative model.

3.4 A Critique of Human Relations

The neglect of human resources by the traditionalists and their overemphasis on the technical and structural aspects, the human relationists corrected the situation by emphasising the Psycho-social aspects in organisations. And for this they have been criticised on several counts. They are briefly indicated below :

1. Human relationists dealt only with internal variables but ignored the environment, saw work as a static process which virtually did not change with time. Such a view was taken because they assumed organisation as a closed system.

2. The role of unions in the industrial society was not taken seriously and adequately by the school. It was impliedly indicated that unions are unnecessary, provided management does its functions effectively.

3. Human relations concept failed to focus work adequately. It instead placed undue emphasis on interpersonal relations and the group. In their view it is not the job that determines employee happiness, only the employee's relations to fellow workers. Critics claim that the functions that people perform in an organisation is a major determinant of their happiness; job is the sensible source of positive motivation.

4. Neglect of the economic dimension of work satisfaction by this school has been criticised. Critics urge that economic motivation is exceedingly strong and in many cases, economic explanations are quite appropriate for understanding human behaviour in organisations. Human relationists' claim "Social and Psychological satisfactions have been found to be more important to employees than money" is true so long bread is available in plenty.

5. The school's methods of manipulating the workers and imposing upon them the views of the supervisors are considered unjustified as they refuse to recon with the dignity of man.

6. The concept overemphasises the benefits of human relations and under emphasises its costs. Moreover, there is no systematic theory as to the circumstances under which the benefits outweigh the costs or vice-versa.

7. The approach undervalues, often ignores, necessary managerial qualities other than initiating structure and consideration.* Surely initiative, drive, imagination, the ability to make tough decisions, psychological resourcefulness, and the ability to play politics are equally important attributes of a leader/supervisor.

8. The conception of the individual utilised by human relationists over-emphasises the need for security and self-actualisation, though it assumed an organisation as a "total institution" that can satisfy all the needs of its members. Further, it virtually ignores human minds limited information-processing and problem-solving abilities.

*Initiating structure means the extent to which a supervisor/leader is likely to define and structure his and subordinates' role in the search for goal attainment.

Consideration means the extent to which a supervisor/leader is likely to have job relationships characterised by mutual trust, respect for subordinates' ideas and regard for their feelings. You will know about them while you will read leadership.

3.5 Exercise

1. Explain group dynamics in the context of Human Relations approach.
2. How does Likert's linking pin help to integrate individuals' goals with organisational goals? Answer with a figurative view of the linking pin.
3. (a) What do you understand by the concept of informal organisation?
(b) Does it exist within or without formal organisation?
4. What are determinants of informal organisation?
5. Explain the characteristics of informal organisation.
6. Outline the style of management appropriate to human relations model.
7. How does human relations orientation help in understanding organisations at work?
8. Give a critical review at human relations approach.

3.6 Further Readings

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Unit 4 □ Behavioural Orientation in Organisation and Management : The Carnegie Model

Structure

- 4.0 Objectives**
- 4.1 Introduction**
- 4.2 Preliminaries to the Carnegie model**
 - 4.2.1 Cognitive limitation of human beings**
 - 4.2.2 Organisational Programmes visa-vis Decision-making**
 - 4.2.3 Organisational Decision-making**
- 4.3 A Critique of the Carnegie model**
- 4.4 Exercise**
- 4.5 Further Readings**

4.0 Objectives

Unit 4 after informing you that Carnegie model is in behavioural mould proceeds to explain the role of limited rationality of human beings in their decision-making activities. Because of it managers fail to strike the best decisions and remain satisfied with good enough solutions to problems. With their limited capacity for information processing, essential for making decisions, managers use heuristic procedure of arriving at a decision. Prediction of human behaviour in organisation being their important concern they attempt to develop programmes with a view to reduce the frequency of decision-making. After suggesting how organisations make decisions a critique of Carnegie model is suggested.

4.1 Introduction

Another behaviour oriented theory of organisation and management was developed by the Carnegie Theorists in the late 1940s. Herbert Simon is the founder of this orientation.

Individuals and organisations make adaptive decisions continually to remain in a dynamic equilibrium with their environment. Information flow is essential for decision-making process. It involves knowledge of the past, estimates of the future and timely feedback concerning the current activity. Management's task is implementing

this information system to coordinate efforts and maintain dynamic equilibrium assuming organisation as an open system.

Decision-making is a fundamental process which relates to man's basic unit of behaviour. Behaviour is goal-oriented, and human beings move towards goals by making choices (decisions) from among alternative courses of action. All behaviour results from decisions. Organisational decisions can be described in the same way because individuals are involved in the decision-making process.

All managerial activity may be considered decision-making. Simon states "what part does decision making play in managing? I shall find it convenient to take mild liberties with the English language by using 'decision making' as though it was synonymous with managing". If all behaviour results from decision-making and if managing is a particular kind of behaviour, then managing is decision-making. Decision-making is one of the most important tasks of managers. It pervades the performance of all managerial functions. Planning involves numerous decisions concerning how goals should be pursued. Decisions are made with regard to the organisational arrangement required to implement the strategic and tactical plans. Control decisions are made in order to maintain organisational endeavour within the acceptable limits according to policies or standards which have been established (decided previously).

The basic to the Carnegie model is the recognition of the cognitive limitations of human beings. The term cognition covers all the modes of knowing-perceiving, remembering, imagining, conceiving, judging and reasoning. The cognitive function refers to the mental process of comprehension, judgment, memory and reasoning. It is the ultimate aspects of conscious life. Cognition implies a conscious or deliberate process towards acquiring knowledge. The term rational is used often in conjunction with cognitive processes in order to differentiate non rational acts. This suggests that only rational behaviour is cognitive in nature. Yet rational should be viewed in the context of the individual involved. An individual's cognitive system is affected by his physical and social environment, his physiological structure, his physiological process, his wants and goals, and his past experiences. (David Kresh, Richard S. Crutchfield, and Egerton L. Ballachey : Individual in Society, PP/17-18)

4.2 Preliminaries to the Carnegie Model

March and Simon in their book "Organizations" have made several propositions for the purpose of explaining human behaviour in organisation. They are : (a) Propositions that assume that organisation members are primarily passive instruments, capable of performing work and accepting directions, but are not capable of initiating

or exerting influence in any significant way. (Employees as passive instruments is prominent in scientific management writings).

(b) Propositions that assume that members bring to their organisation their attitudes, values and goals; that they be motivated to participate in the system of organisation behaviour; that there is incomplete correspondence between their personal goals and organisational goals; and that actual or potential goal conflicts make power phenomenon, attitudes and morale centrally important in the explanation of organisational behaviour. (Human relations model has dealt with it).

(c) Propositions that assume that organisation members are decision makers and problem solvers and that perception and thought processes are central to the explanation of behaviour in organisation. These propositions get emphatic prominence in the Carnegie model.

The explanation of the model proceeds in three stages.

- (1) Cognitive limitations (Bounded rationality)
- (2) Its impact on decision-making and programme development in organisations;
and
- (3) Organisation structures that consequently evolve.

4.2.1 Cognitive Limitation of human beings

Traditional economic theory postulates that an economic man is simultaneously 'economic' and 'rational'. This man of economic rationality is assumed to have knowledge of the relevant aspect of his environment. He is assumed also to have a well-organised and stable system of preferences, and a skill in computation that enables him to calculate, the consequences of alternative courses of action that are available to him. All these permit him to reach the highest attainable point on his preference scale.

Manager as rational economic man acts as a decision-making mechanism in an organisation. He spends a great deal of time and energy analysing all aspects of his organisation's specific and general environments to identify problems that call for solution. Then he seeks to develop a list of alternative solutions and courses of action to the problems he has identified. After the identification of alternatives the manager compares the likely consequences of each alternative and decides which course of action offers the best solution to the problem. The primary goal of the decision-maker is maximum solution of the problem. This process of decision-making is considered to be an ideal one but fails to portray adequately how decisions are actually made. The following assumptions underline the process :

- People have the capability to gather all necessary information for a decision;
- People are capable to store the information and can recall them accurately any time they require;
- People can manipulate the information in a series of complex calculations designed to provide expected values or utilities; and
- people can rank the consequences in a consistent fashion for the purposes of identifying the preferred alternative.

Simon viewed individual as intendedly and adaptively rational, having goals and seeking to attain these goals or having problems and attempting to find solutions to them. Drawing the parallels between human decision-making and organisational decision-making he argued that organisations can never be perfectly rational, because their members have limited information-processing abilities, people. (a) usually have to act on the basis of incomplete information about possible courses of action and their outcomes, (b) are able to explore only a limited number of alternatives relating to any decision, and (c) are unable to attach accurate values to outcomes. In contrast to the assumptions made in economics (as noted above) the maximising behaviour of the rational-economic man, he concluded that individuals and organisations settle for a “bounded rationality” of “good enough” decisions based on simple rules of thumb and limited search and information. The term bounded rationality implies a limited capacity to process information. Simon further states that the search for the alternative stops when an option is available that appears to be satisfactory rather than optimal or the best choice. Such a decision is a “satisfying” decision. The satisfying solution does not mean that managers will take the first acceptable solution that is available. Furthermore, bounded rational choice recognises explicitly that search is costly and that heuristic* procedures for decision-making arise that are based on experience and that economise on information-processing requirements.

Simon suggests that these limits of human rationality have to be institutionalised in the structure and modes of functioning of organisation. Such institutionalisation affects the organisation structure.

4.2.2 Organisational Programmes Vis-a-vis Decision-making

A programme is a sequence of activities and is evoked by some stimulus, such as a customer’s order or the failure of delivery truck to arrive in time. If the stimulus is one of those that keeps on recurring, a routine will be developed to handle the

*Heuristic procedures—A method of decision-making that proceeds along empirical lines, using rules of thumb, to find solutions.

situation promptly and efficiently whenever it occurs. Once such a routine is developed there is little problem-solving activity with regard to stimuli of the kind for which the routine is developed. A programme, this way, minimises cognitive strain, because solutions to recurring problems need not be discovered over and over again. A programme serves as a control device since it specifies what must be done in specific situations and also an important part of the mechanism by which activities in an organisation are coordinated. A programme has the property of making human behaviour in organisation predictable.

March and Simon make distinction predictable. Programmes with little or no discretionary content (such as cleaning and dusting the office floors within 8 in the morning, the punching of the time card when arriving at or leaving the factory premises, the ordering of a specified quantity of fresh inventory when stocks fall below a certain level) and those that do have substantial discretionary content (such as formulation of budget for the next year, the development of a number of new products). These involve problem-solving and choice—they are the occasions for genuine decision-making. They are discretionary performance programme.

The importance of programmes lies in the fact that they are the physiological counterparts of organisational structure. The positions on the organisational chart are nothing but roles. Each of these roles is a programme or a set of programmes, and each of these programmes is an element in the numerous programmes that describes the functioning of the organisation. The work flow of the organisation is nothing more than a congregation of individual programmes subject to a master (sequencing) programmes.

But the roles at the higher levels of the organisation have greater discretionary elements than those at lower levels. In other words, there is a greater frequency of problem-solving and decision-making at higher levels than at lower levels. This means that the design of the organisation at upper levels must differ substantially from that at lower levels—for example, greater use of staff expertise, greater consultative decision-making, more flexible and open communication channels will characterise the organisation at the upper levels.

4.2.3 Organisational Decision-Making

The rational model ignores the variation in managers' preferences and values, and the impossibility of developing decision rules that allow different managers to evaluate different alternatives in the same way. Carnegie model in contrast, explicitly recognises that the preferences and values of managers differ and that conflict between

managers and different stakeholder groups (like representatives of union, powerful customers, bankers, suppliers) is inevitable. It is impractical to force managers to agree to use the same set of criteria to make decisions.

Further the model views that an organisation is not managed by a single omniscient chief executive but by a shifting coalition* of a group of people who has stake in the goals the organisation would be pursuing.

Since an organisation is a coalition of differing interests, preferences and values and since coalition members are in conflictive relationships, decisions can be made either by compromise, bargaining or negotiation among them. But the inherent conflicts of interest of pressure groups in the fragile coalition imply that the organisation attends to the goals of the key decision makers at best sequentially, not simultaneously. Over time, as interests change, the making of the dominant coalition changes and so does decision-making. The Carnegie model recognises that decision-making is not a neutral process with objective decision rules but a process during which managers formulate decision rules as they pursue their goals and interests.

Despite "side payments" through compromise bargaining or negotiation to resolve the internal conflicts but because of the bounded rationality and limited information-processing capacity of decision-makers organisational decision-making is characterised by the following additional features :

- *Uncertainty absorption.* The organisation must reduce the highly varied, complex, and unreliable information coming to it from the environment into something that is recognisable, simple, and believable. The use of market forecasts is an example.

- *Uncertainty avoidance.* Since uncertainty makes planning difficult, organisations try to reduce uncertainty. For example, firms often integrate vertically to secure surer supplies and channels of distribution.

- *Problemistic search.* As said earlier, in cases of recurring problem standard operating procedures to face them are developed. But when a problem arises which defies routine solution the organisation undertakes search for a solution. The solution found after the search is local, superficial, and incremental more often than global and planned, and usually is closer to a solution that has worked in the past. For example, in a factory when a worker was crushed by a crane, the organisation set up a committee to look into the acquisition of newer, safer cranes, since it was known that there were readily available. The committee was not asked to look at all the alternatives such as the redesign of the workflow, additional training for crane operator and so on.

*Coalition—Cluster of individuals who temporarily come together to achieve specific goal.

- *Organisational learning.* Organisations learn from their past experience. They learn to modify their goals in the light of their past aspirations and achievement. They also modify their goals in the light of the achievements and expectations of their reference groups. (e.g., their competitors). Organisations also learn to change their search rules emphasising those rules that yield satisfactory solution and dropping those that do not.

To sum up, the Carnegie model recognises that decision-making takes place in an uncertain environment where information is often incomplete and ambiguous. It also recognises that decisions are made by people who are limited by bounded rationality, who satisfice, and who form coalitions to pursue their own interests. The Carnegie model offers a more accurate description of how decision-making takes place in organisation than does the rational model. Yet, Carnegie-style decision making is rational because managers act intentionally to find the best solution to reach their desired goal, despite uncertainty and disagreement over goals.

4.3 A Critique of the Carnegie Model

Carnegie model has been found to be weak on certain counts. First, from the literature it seems that organisations are assumed to have the same characteristics of decision-making irrespective of the size, nature of business, type of environment in which they are functioning. For example, conflict resolution and uncertainty absorption are two important features of organisational decision-making. The small organisations are less required to resolve internal conflicts and have a fewer mechanisms for predicting the future than the large ones. Organisations functioning in dynamic, turbulent environments are likely to have more of both than organisations functioning in static environments. The model fails to provide a theory for predicting the properties of an organisation's decision-making process given the properties of its size, business, environment.

Second, the model describes what organisations are really like, not what they should be like. It is descriptive, not normative. In this respect, the orientation of the model differs sharply from the orientation of human relations.

Third, with regard to model of the individual used in Carnegie model it is in some respects more sophisticated than the model utilised in human relations, and in other respects is less sophisticated than that of human relations. It is sophisticated in matters of cognition (Perception, information-processing, judgment, problem-solving, etc) but less in affective matters, particularly the structure and dynamics of human needs. Carnegie theorists do not adequately explore the implications of a hierarchy of needs.

4.4 Exercise

1. Why is Carnegie model considered to have behavioural orientation?
2. Some people claim that decision-making and management functions are synonymous. Explain the statement by arguing your case.
3. Discuss the propositions suggested by March and Simon for explaining human behaviour in organisations.
4. Explain the concept of "bounded rationality" after Simon.
5. Why do managers endeavour to develop programmes for as many areas as possible?
6. How decisions are made in organisations? Explain process after the Carnegie model.
7. Point out the areas of weakness of the Carnegie model.

4.5 Further Readings

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2. Khandwalla, Pradip N. The Design of Organizations
3. March; James G. and Herbert A Simon. Organizations, 1958
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Unit 5 □ Systems Approach

Structure

- 5.0 Objectives**
- 5.1 Introduction**
- 5.2 Open System Concept**
- 5.3 Organisation as an open system**
 - 5.3.1 Sociotechnical System**
 - 5.3.2 Contingency Theory**
- 5.4 Other recent theories**
- 5.5 Exercise**
- 5.6 Further Readings**

5.0 Objectives

On Completing Unit 5 you will acquire a working knowledge of what systems is, only to appreciate the intricacies of organisation theories that stem from it. Assuming Organisations as open systems that continuously interact with their environments lying outside their boundaries, systemic theorists focus on the mutual impact on each other. Further, the nature of interactions between the comprisable subsystems of a system and between them and the total system is also brought to light. The basic purpose of these interactions is to attain and maintain a dynamic equilibrium in the system. Having imparted required knowledge of systems the Unit introduces you to two theories of organisation and management—Sociotechnical and Contingency. Additionally the Unit contains a few recent organisation theories, viz., Population Ecology, Resource Dependence, Marxist, Transaction cost and Institutional

5.1 Introduction

Organisation theory and management practice have undergone substantial changes in the later half of the twentieth century. Being dissatisfied with the mechanistic view of organisation found in classical and scientific management approaches, organisation theorists looked around. Hawthorne studies by identifying the importance of social needs in the work place and of the informal group opened a new line of thought. These findings advocated the idea that individuals and groups operate most effectively only when their needs are satisfied. The studies dealt an important blow to traditional organisation theory and management practice. A new theory, human relations approach, emerged. The model of man as envisaged by human relations theorists was

modified and enriched to some degree by Carnegie model but still many issues remained unaddressed. This led many organisation theorists to look to biology as a source of ideas thinking about organisation. The theorists have likened organisation with organism that facilitates to make distinctions and establish relations between individuals and groups as are found in a living body's molecules, cells and complex organism, As the organism continuously interacts and adapts to the environment so does the organisation, they envisioned. This line of thinking is referred to as open systems approach to organisation and management.

Perhaps the spiritual father of this approach was Chester I. Barnard. In seeking fundamental explanations of the management process, he developed a theory of cooperation grounded in the need of the individual to offset, through cooperation, the biological, physical and social limitations affecting him and his environment. Herbert Simon at one time defined organisations as "systems of interdependent activity, encompassing at least several primary groups.....". Later, he viewed the organisation as a complex system of decision-making process.

5.2 Open Systems Concept

A system is an organised or complex whole; an assemblage or combination of things or parts forming a complex or unitary whole. It is a set of interrelated elements. The sequence of the terms is significant because the systems approach emphasises the wholeness first, then moves to the consideration of parts, and subsystems (elements), including interactions (inter relationships) among them and between parts and the total system has predetermined goals.

- **The components of a system are :**

- ✓ A number of parts or subsystems which when put together in a specific manner form a whole system;
- ✓ Boundaries within which it exists;
- ✓ A specific goal or goals expressed in terms of output which is achieved by receiving inputs and processing them to form outputs;
- ✓ Close inter-relationship and inter-dependency among the various subsystems.

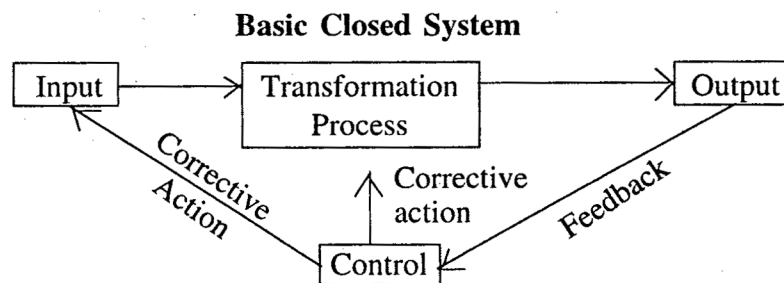
- **The inter-relationship among the sub-systems can be described in terms of:**

- ✓ The *flows* which exist among them, such as flow of information, materials, money, etc.
- ✓ The *structure* within which they relate to each other.
- ✓ The *Procedure* by which the subsystems relate to each other. Procedures here mean those planned activities which affect the performance of the entire system.

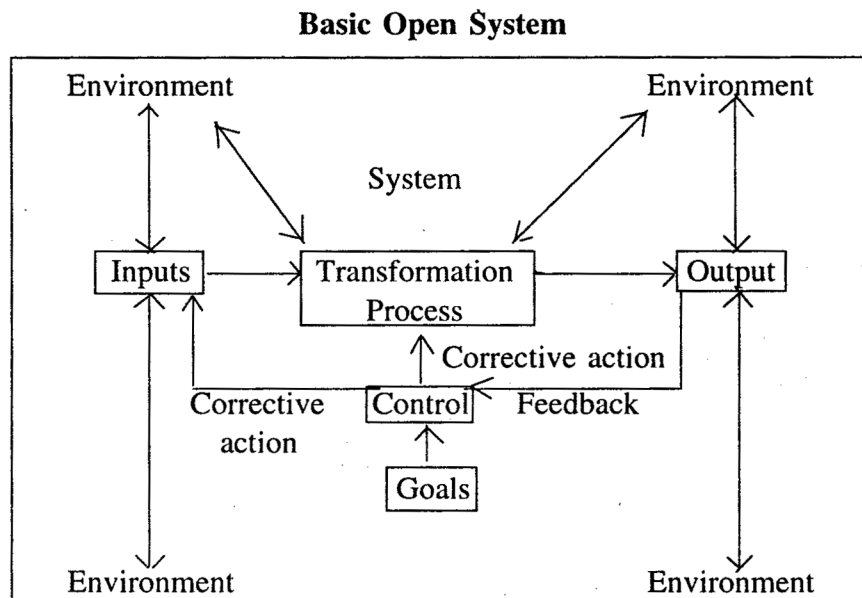
✓ The *feedback and the control process* which exist to ensure that the system as a whole is moving towards its predetermined goals.

A system may be biological (human body), Physical (machine) or social (business organisation). Social systems are humanly devised systems and the interrelationships of the sub-systems are the most critical elements. As the social systems involve human beings, their beliefs, values, attitudes and perceptions have important bearings on the operation of the system.

● **Types of systems.** Systems are classified as either closed or open. Closed system thinking stems primarily from Physical sciences and is applicable to mechanistic systems. It is a self-contained and ignores the effect of its environment. The following figure depicts it.



In Contrast, open system recognises the dynamic interaction of the system with its environment. A graphic representation of an open system is given below.



We can distinguish a closed system, which does not import inputs from outside or export outputs to the environment from an open system that does interact with its environment. A closed system disintegrates because it does not interact with its environment but an open system survives because it does so. Such interaction takes the form of taking energy (input) from the environment, transforming it and exporting energy (output) back to the environment usually in a form different from the form in which it was taken in.

● Properties of an open system

All systems have inputs, transformation processes (throughputs) and outputs. Open systems have some additional properties. They are :

1. *Environment awareness.* One of the most obvious properties of an open system is its recognition of interdependency between the system and its environment. There exists a boundary that separates it from the environment. Changes in the environment affect the system, and conversely changes in the system affects its environment.

2. *Feedback.* Open systems continually receive information from their environment across the boundary. This helps the system to adjust and allows it to take corrective actions whenever necessary. The information received from environment is called feedback.

3. *Cycles of events.* Open systems are cycles of events. The energy exchange is cyclical, and repetitive. The export of output makes import of input possible, which makes possible processing of output, which makes possible a fresh import of input, and add infinitum. Thus each event may be thought to have a cyclical activity.

4. *Negative entropy.* The term entropy refers to the natural process of decay, disorganisation and death. A system must counteract this process to keep itself afloat healthy and alive. Negative entropy is the process by which decay is arrested by importing more energy than exported by the system, that is, by storing energy. A closed system runs down because it does not import energy (input) from its environment. In contrast an open system as characterised by negative entropy—it can repair itself, maintain its structure, avoid disintegration, rather it even grows because it has ability to import more energy than it exports.

5. *Steady state and dynamic homeostasis.* Open systems that survive by importing energy to offset entropy is characterised by a steady state. However, this does not imply that the system does not change over time, with change of its environment, the system must also change, but it changes just enough to counteract the disruptive force in environmental change. Thus it usually does by preserving its character but allowing its form to change. For example, your body replaces most of its dying cells in any given year, but your physical appearance alters very little. Over time this process of

adjustment with the environment may be characterised as dynamic homeostasis*, we noted that in biological organism, the term homeostasis is applied to the organism's steady state, but a social organisation can never attain an absolute steady state. It attains a dynamic or moving equilibrium, one of continual adjustment to environmental and internal forces.

6. *Adaptive and Maintenance Mechanism.* Systems must have two mechanisms which are often in conflict. First, in order to maintain an equilibrium, they must have maintenance mechanisms which ensure that the various subsystem are in balance and that the total system is in accord with its environment. The forces for maintenance are conservative, and attempt to prevent the system from changing so rapidly that the various subsystems and the total system become out of balance. Second, adaptive mechanisms are necessary in order to provide a dynamic equilibrium which is changing over time. Therefore, the system must have adaptive mechanisms which allow it to respond to changing internal and external requirements. Both adaptive and maintenance mechanisms are required if a system is to survive.

7. *Growth through Internal Elaboration.* Open systems have a tendency towards increasing differentiation and specialisation of function; for example with specialised organs performing specific functions—which thus require more complex system of integration to maintain the system as a whole. The bodily sense-organs and nervous system over millenia have become more differentiated, elaborated and specialised. Their differentiated functions are coordinated through the operation of a brain.

8. *Equifinality.* In physical systems there is a direct cause and effect relationship between initial conditions and the final state. Biological and social systems operate differently. The concept of equifinality argues that final results can be achieved with different initial conditions and in different ways. This view suggests that the social system can achieve its objectives with varying inputs and varying internal activities. Thus social system is not restrained by the simple cause and effect relationship of closed systems.

5.3 Organisation as an Open System

Open systemic concept views organisation as an adaptive, social system striving for rationality in its environment. Organisation as an open system is in continual interaction with its environment and achieves a steady state or dynamic equilibrium

*Homeostasis is self regulating biological processes which maintains the equilibrium of the organism. For example, the human body is able to maintain a steady state of body temperature inspite of wide variations of it in the environmental temperature.

which still maintains its capacity to attain its goals. The survival of the organisation would not be possible without continuous inflow, transformation and outflow. A business firm receives inputs from the environment (i.e., society) in the form of people, money, materials and information; it transforms them into outputs of products, services, and rewards to the organisational members adequately to maintain their participation. For the business enterprise, money and market provide a mechanism of recycling of resources between it and its environment.

While the whole organisation, interacts continually with its environment to maintain dynamic equilibrium, its subparts or subsystem interact among themselves for the same purpose. These subsystems enable the organisation to function efficiently. These components are :

- ✓ a production or technical component,
- ✓ a production supportive component (purchasing, selling)
- ✓ a maintenance component (for preserving the productive capacity of personnel and machinery—the personnel department and the maintenance crews);
- ✓ an adaptive component striving to adapt the organisation to new processes and products & research and development department. Organisation and methods, market research, operations research, etc.);
- ✓ an institutional component for obtaining social support and legitimacy for the organisation.
- ✓ a managerial component that coordinates internal and external activities and resolves conflicts.

Since each subsystem has a fairly specialised function, each develops a distinctive set of operating procedures and values. For example, the production subsystem is geared to efficiency, rationalisation and programming of activities. The adaptive subsystem is change oriented and is oriented towards the environment and the future. The managerial subsystem is interested in growth, coordination, efficiency and quick decision-making. But since these subsystems are highly interdependent, conflict from differences in values and operating procedures is inevitable. Replacement of conflictive environment by collaborative climate would create a synergistic interaction among organisation subsystem. Synergistic interaction produces a combined effect greater than the sum of their separate effects.

Open system line of thinking has helped emergence of two theories of organisation, and management. They are :

1. Socio-technical System Theory and
2. Contingency Theory

5.3.1 Sociotechnical System

You have seen earlier that organisation of enterprises can be viewed as an open system which continually interacts with its environment. You have also noted that its subsystems specialise in the functions they perform. Emery Trist and Ken Bamforth at the Tavistock Institute of Human Relations, London viewed organisation as a sociotechnical system. Their concept of the sociotechnical system emerged from the consideration that “any production system requires both a technological organisation—equipment and process layout—and a work organisation—relating those who carry out the necessary tasks to each other. Technological demands limit the kind of work possible but a work organisation has social and psychological properties of its own that is independent of technology.” Technology is determined by the tasks to be performed and includes the equipment, tools, facilities and operating techniques. The social subsystem is the relationship between the participants in the organisation. The technological and social subsystems are in interaction with each other and are interdependent.

As a complex open system a business organisation is neither simply a technical nor a social system. Rather, it is the structuring and integrating of human activities around various technologies. The technologies affect the types of inputs into the organisation and output from the system. However, the social system determines the effectiveness and efficiency of the utilisation of the technology.

Technological subsystem is determined by the task requirements of the organisation and varies widely. The subsystem for the manufacturing of automobiles differs from that in an oil refinery, or in an electronics or aerospace company. Similarly, the task requirements and technology in a hospital are substantially different from those in a University. The technological subsystem is shaped by specialisation of knowledge and skills required, the types of machinery and equipment involved, and the layout facilities.

Technology frequently prescribes the type of human inputs required. For example, an aerospace company requires the employment of scientists, engineers, and other specially trained people. Technology also determines the organisational structure and the relationships between jobs.

In addition to the technical subsystem every organisation has within its boundaries a Psychosocial subsystem. It consists of the components of individual behaviour, motivation and group dynamics. It is influenced by the emotions, attitudes, interactions, expectations, sentiments and values of the participants. It is also affected by external forces. The climate produced by the interaction between individuals and groups is different in different organisations.

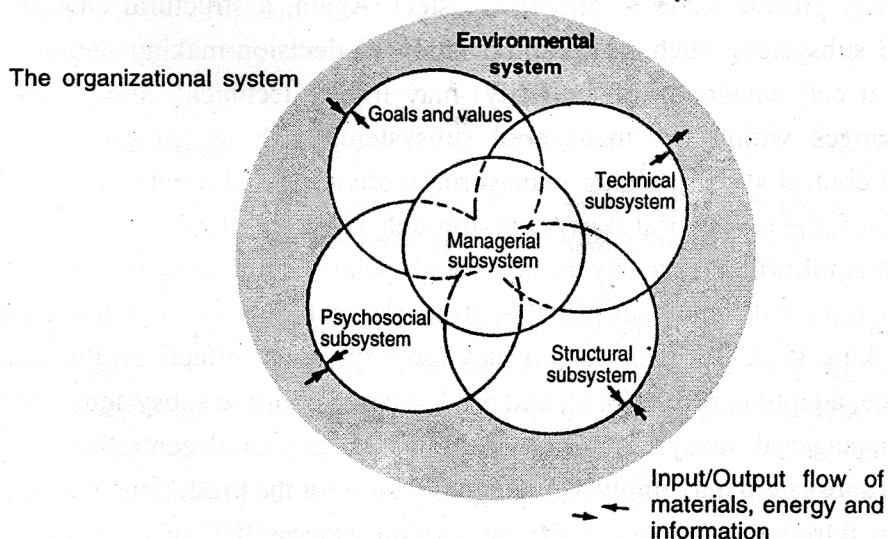
These two subsystems—the technical and the psychosocial—must be considered in the context of the total organisation, not singularly. A change in the technological subsystem has repercussions on the psychosocial subsystem and conversely.

The organisation structure is another subsystem interacting with the technical and the psychosocial subsystems. The task requirements and the technology have a fundamental influence upon the structure. Structure is concerned with the ways in which the tasks of the organisation are divided into operating units and with the coordination of the units. Structure is set forth formally by the organisation chart, by positions and job descriptions and by rules and procedures. It also concerns the pattern of authority, communications, and work flow. In a sense, the organisation structure provides for formalisation of relationships between the technical and Psychosocial subsystems. However, this linkage is by no means complete because many interactions and relationships occur between the technical and psychosocial subsystems bypassing the formal structure.

The organisational goals and values are another subsystem. The organisation takes many of its values from the broader sociocultural environment. A basic premise is that the organisation as a subsystem of the society must accomplish certain goals which are determined by the broader system, the society. The organisation performs a function for the society and if it is to be successful in receiving inputs, it must conform to social requirements.

Another subsystem is managerial. It spans the entire organisation and relates it to its environment and sets goals and plans, organises, and controls the necessary activities.

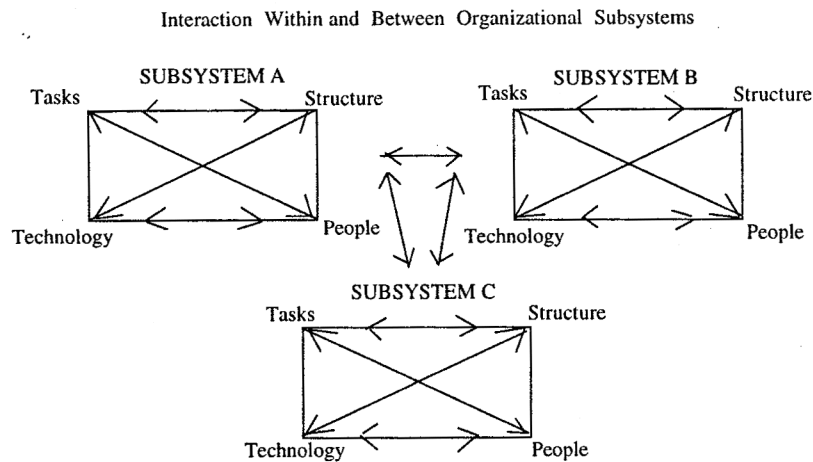
Organisation as a sociotechnical system can be visualised from the following figure.



The figure shows that the overall organisation (system) contains several interdependent subsystems. The figure is an aid to understand the evolutionary trend in organisation theory and management. The traditional management theory focussed on the structural and managerial subsystems and was concerned with developing principles. The human relationist emphasised psychosocial subsystem and concentrated on finding out work motivation of participants and the effect of group dynamics on their behaviour. The management science school emphasised the economic—technical system. Thus each of the earlier approaches emphasised a particular subsystem with little recognition of the importance of other subsystems. Sociotechnical system views organisation in a holistic manner and considers each of the primary subsystems and their interactions.

Sociotechnical perspective helps to understand interactions among the subsystems. It has proposed that any organisational change, whether it originates in a change in the organisation structure, or the tasks performed by it, or the techniques by which tasks are performed, or the organisation's human component, is likely to have repercussions for the other remaining subsystems. For example, the installation of a computerised information system represents a change in the techniques that replaces the hitherto manual system. The new information system has been necessitated for more effective attainment of organisational goals. This will have substantial structural and human consequences, such as the regrouping of certain work units, the elimination of certain clerical personnel, and a better quality of decision-making by managers (a computer can process more information faster). Again, a structural change in the managerial subsystem, such as decentralisation of decision-making authority (that traditionalist call delegation of authority) may trigger technical, human and goal-related changes within the managerial subsystem, such as greater reliance on impersonal control system, higher managerial motivation and greater diversification of goals. Thus, the managerial subsystem, through a process of dynamic homeostasis, reach a new equilibrium forged by the new set of social, technical and economic forces. It will now have a different set of tasks, structure, techniques and characteristics of people working in it. But then in turn may have spill-over effects on the technical, maintenance, adaptive, institutional, and productive-supportive subsystem interfacing with the managerial subsystems. For example, the greater decentralisation in the managerial subsystem may imply a greater autonomy for the production manager who feel free to introduce changes in the production process that in turn requires the

retraining of personnel. A figurative view of the interaction within and between the organisational subsystems is shown below.



An Appraisal of the Sociotechnical Theory

Sociotechnical theory of Tavistock Institute originating from open systems concept is too abstract for a practising manager. By drawing attention to the various forces operating within organisation; relationships with its environment and relationships among its subsystems the theory helps to view the organisation from a broader perspective. But it fails to indicate the precise relationships among these variables. It says, for example, technological change initiates changes in the Psychosocial, task, structural, managerial subsystems, but fails to tell what technological change brings what changes in the remaining subsystems. This lack of specificity or ambiguous takes away the shine of the sociotechnical theory. Contingency theory to a limited extent attempts to fill this lacuna.

5.3.2 Contingency Theory

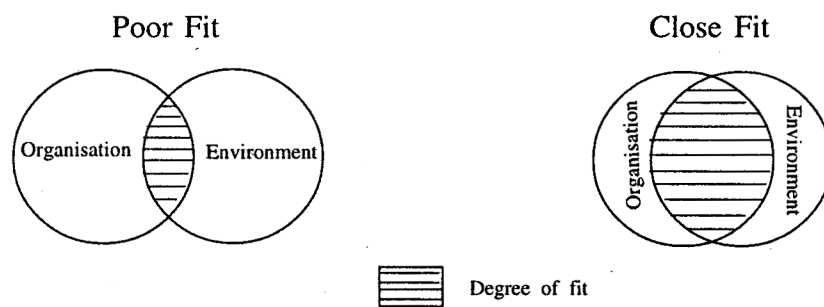
The contingency view is based upon systems concept of organisation. The view of the organisation as an open sociotechnical system in interaction with the environment provides a framework for the contingency theory.

The sociotechnical approach took up the study of the interfaces of the organisation and its subsystems with its environment which is its suprasystem. It focussed on the study the processes that contribute towards the maintenance of the dynamic balance of the interfaces of the organisation. The contingency theory also deals with the interface between the organisation and its environment but unlike the sociotechnical system theory its emphasis is not so much on the processes by which an organisation

adapts to the environment and maintains dynamic equilibrium. It directly focusses on the end results of the interface but is not concerned with the processes in interfaces. The theory deals with the differences in organisational situational context and systematises the emerging patterns in a wide variety of organisations. It views that situational and contextual factors lead to the differentiation in the structures of organisation. It has identified size, technology and nature of environment as the situational and contextual factor. These factors provide opportunities and constraints, facilitate functioning and create problems for the success of the organisation. Organisations go through the processes of adjustments and display their adaptation in the quality and the nature of structures they evolve. The contingency theory suggests the organisational structure that may be viable to different mix of contextual and situational aspects of the organisation.

Kast and Rosenzwing have described the contingency theory in the following language. "The contingency view of organisation and management suggests that an organisation is a system composed of subsystems and delineated by identifiable boundaries from its environmental suprasystem. The contingency view seeks to understand the interrelationships within and among subsystem as well as between the organisation and its environment and to define patterns of relationships or configurations of variables. It emphasizes the multivariate nature as organisations and attempts to understand how organisation operate under varying conditions and in specific circumstances. Contingency views are ultimately directed toward suggesting organisational designs and managerial actions most appropriate for specific situations."

Contingency approach is action-oriented as it requires designing of the structures of the organisations to fit with the environment in which it operates. In other words, an organisation must design its internal structure to control the external environment. A poor fit between structure and environment leads to failure; a close fit leads to success. The degree of fit is figuratively shown here.



The fit Between the
Organisation and its Environment

Support for contingency theory comes from several studies of which here we mention only two. Burus and Stalker study (1961) found that organisation needed different kinds of structure to control activities when they were required to adapt and respond to change in the environment. They recommended an organic, informal mode of management for organisations operating in turbulent environments and a more bureaucratic, mechanistic or machine-like organisation for stable environment.

Mechanistic structure is designed to induce people to behave in predictable and accountable ways. Decision-making authority is centralised, subordinates are closely supervised and information flows mainly in a vertical direction along a clearly defined hierarchy. In a mechanistic structure the tasks associated with role (organisational position) are also clearly defined. There is usually a one-to-one correspondence between a person and a task. Each person is individually specialised and knows exactly what he is responsible for and the behaviour inappropriate to his role is discouraged or prohibited. At the functional level, each function (such as production, marketing, financing etc.) is separate, and communication and coordination between functions are the responsibility of the superior. Thus, in a mechanistic structure the hierarchy is the principal integrating mechanism both within and between the functions. Mechanistic structures are appropriate for organisations operating in stable environments.

By contrast, organic structure promotes flexibility, so people initiate change and adapt quickly to changing conditions. Organic structure is decentralised that is, decision-making is distributed throughout the hierarchy, and people assume authority to make decisions as organisational needs dictate. Roles are loosely defined—people perform various tasks and continually develop skills in new activities. Employees from different functional areas work together to solve problems and become involved in each other's activities. As a result, a high level of integration is needed so that employees can share information and overcome problems caused by differences in departmental outlook. Coordination is achieved through mutual adjustment. In uncertain and turbulent environments organic structure works well.

Lawrence and Lorsch (1967) made a slightly different and sophisticated argument concerning the relationship between structure and environment. One basic idea of them was that different parts of an organisation face different subenvironments. For example, in a manufacturing firm, the subenvironment of the marketing unit is competition, market fluctuations, customer preferences; that of the research and development unit is technical innovation, innovation in product design, the development of new products. These authors then argued that each subunit would develop a structure matching its own sub-environment which would lead to a higher degree of specialisation within the organisation. For example, if the subenvironment of the production unit is more certain than that of the research and development unit, the former might be

more structured than the latter. Production people might have more formal interpersonal relations than the people of research and development unit. The higher degree of differentiation among the subsystems of the organisation would impose a more difficult task of integrating or coordinating the entire organisation. They found that the more effective organisations were those that had the requisite level of internal differentiation for different types of environment faced, but that also were able to integrate the diverse departments effectively.

Since the theorists of contingency mode stress on the congruence between structure and environment, this theory is often called as structural contingency theory. The structural contingency theory explicitly rejects the one-best-way of to organise and manage arguing that the appropriate design depends on the organisation's situational context. The theory also explicitly tells that the organisations whose structures closely fit with the requirements of the context are more effective than those whose do not. An overview of structural contingency theory is shown below

An Overview of structural Contingency Theory

Elements of Organisation's structure	Are Contingent upon	Aspect's of the Organisation's Context
Formalisation		Size
Differentiation		Technology
Vertical (number of levels)		Production
Horizontal (number of department divisions, subunits)		Information
Size of the management Component		Environment
Centralisation		Uncertainty
Complexity		Resource adequacy
Span of Control		Degree of Competition
Specialisation		

A critique of Contingency Theory

Contingency theory of organisation and management has been criticised on several counts. Some of these criticisms are pointed out here.

1. Critics say contingency theory ignores the way in which key decision makers can influence the environment that the organisation actually faces. They point out that strategic choices made by managers can directly influence the organisational environment. In deciding on the organisational domain (for example, the target

customers and how to serve them), the top management team is choosing the set of specific and general forces that the organisation will face when an organisation decides to serve only certain kind of customer or to use only a certain method of distribution, managers are determining which elements in the environment the organisation will have to respond to. The structure they eventually adopt may be one that best fits that particular environment but the choice of environment is theirs not the environment unilaterally shaping the structures.

2. The environment that managers respond to is the one they create out of their perceptions. Manager's past experiences of the environment are particularly important determinants of whether they consider the environment they currently face to be stable or uncertain. This explains why managers in different companies in the same industries who encounter the same set of faces in the environment respond differently to the environment. Thus the linkage between environment and structure is diminished through the operation of perceptual mechanisms and the various biasing effects that occur in such perceptions.

3. According to critics making a fit between structure and the environment is a two-way process, not a one-way process as the contingency theory makes us to believe. Organisations are not simply reactors to what the environment offers; they have the power to manipulate and control. For example, by merging with a competitor or by taking over input supplier's firm, the organisation can directly influence and change the environment. In these instances, top management team determines which structure it wants by shaping the environment it faces.

4. Contextual factors like the operating environment, ownership, size, technology, etc., are not God given. They represent past choices. The choice of a product market implies the choice of an environment to operate in, the choice of plant scale implies the choice of size, and so on. Thus, contingency view of organisation as a passive instrument of contingencies it faces is a flawed one.

5. An organisation may face several contingencies. Some of these require conflicting adaptive responses. How is the organisation going to cope with the conflicting contingences. For example, public accountability forces a public sector oil company to adopt bureaucratic structure but competition and market turbulence requires a flexible structure. In this kind of conflicting environment contingency theory can provide little help.

6. Contingency theorists tend to underemphasise, often ignore, the possibility of more than one feasible organisational response to the same task environmental stimulus. The prescription of one possible response to one stimulus exudes mechanistic flavour that robs away the very spirit of flexibility.

7. Some critics are not ready to recognise contingency theory as a theory of organisation. ".....Contingency theory is not a theory at all, in the conventional sense of theory as well as a well-developed set of interrelated propositions. It is more an orientating strategy or metatheory, suggesting ways in which a phenomenon ought to be conceptualized or an approach to the phenomenon ought to be explained. Although the overall strategy is reasonably clear, the substance of the theory is not clear." (Schoonhoven).

5.4 Other Recent Theories

In recent years a good number of theories of organisation and management have been preferred and they claim attention from the practising managers and the students of management. Some of these theories spoken of in few words.

Population Ecology Model. Population ecology theory seeks to explain the factors that affect the rate at which new organisations are born and die in a population of existing organisations. A population of organisations comprises the organisations that are competing for the same set of resources in the environment. The model is consumed with organisational firm. Organisational firm is an organisation's specific technology, structure, products, goals, and personnel, which can be selected or rejected by the environment. Each new organisation tries to find a niche (a domain of unique environmental resources and needs) sufficient to support it. The niche is usually small in the early stages of an organisation but may increase in size over time if the organisation is successful. If the niche is not available the organisation will decline and may perish. (M.T. Hannan and J.H. Freeman-Organizational Ecology, 1989)

Resource Dependence Theory. According to resource dependence theory, the goal of an organisation is to minimise its dependence on other organisations for supply of scarce resources in its environment and to find ways of influencing them to make resources available. Organisations succeed by striving for independence and autonomy. When threatened by greater dependence, organisations will assert control over external resources to minimise that dependence. Resource dependence theory argues that organisations do not want to become vulnerable to other organisations because of negative affects on performance. (J. Pfeffer and G.R. Salancik. The External control of Organization : A Resource Dependence Perspective 1978).

Marxist Approach. The Marxist or class based approach emphasises the accumulation of wealth, and economic and political power. Marxist analysis of organisation takes up two issues : the nature of employment relationship that prevails in an organisation of work, and the relationships among economic organisations and capitalist and political organisations. For the purpose of maximising accumulation of

wealth and power the capitalists establish a kind of employment relationship between employees and the organisation of work where employers (1) Seek a labour force that can be controlled, so that (2) it will work in concert with ownership interests. For achieving these two things (3) means of production (technologies) are selected that have the effect of deskilling the workers and ensuring social control over them; and (4) the employment relationship is structured so that the power of capitalists over workers remains largely hidden and control over workers and managers is achieved. As a consequence, (5) the work force produces resistance, lacks motivation and effort, resorts to absenteeism and turnover, collective action through labour union, and therefore (6) a cycle of conflict and change is generated by the struggle between capital and labour.

Another aspect of Marxist analysis is the patterns of cooperation that develop among members of the capitalist class and the relationship of that class and its business interests to other social organisations in the society. Such cooperation is needed to maintain wealth and transmit that wealth to defend itself from attempts by workers to redistribute income and seize power and ultimately to preserve class interests and class position. Various means, such as political, common educational background are used to achieve such cooperation (Jeffrey Pfeffer : Organization and organization Theory, 1982).

Transaction Cost Theory. Transaction cost theory states that the goal of an organisation is to minimise the costs of exchanging resources in the environment and the costs of managing exchanges inside the organisation. To build the theory transaction costs are defined as the costs of negotiating monitoring and governing exchanges between people. Whenever people work together, there are costs—transaction costs—associated with controlling the activities. Transaction costs also arise when organisations exchange resources or information. Organisations interact with other organisations to get the resources they require, and they have to control competitive inter dependences (Gereth R Jones. Organizational Theory, 1993)

Institutional Theory of Organisation

Institutional Theory studies how organization can increase their ability to grow and survive in a competitive environment by satisfying their stakeholders (Customers, investors, Government, Collaborating organisation, etc.) Organisations are highly interconnected. Just as organisations need efficient production to survive, the institutional view argues that organisations need legitimacy from their stakeholders. Organisations perform well when they are perceived by the wider environment to have legitimate right to exist. Thus, the institutional perspective describes how organisations survive and succeed through congruence between an organisation and the expectations from its environment. The institutional environment is composed of norms and values of

stakeholders. Thus the institutional view believes that organisations adopt structures and processes to please outsiders. The institutional environment reflects what the greater society views as correct ways of organising and behaving.

When an organisation's activities are perceived as desirable, proper and appropriate within the environment's system of norms, values, and belief, they are taken as legitimate. Institutional theory thus is concerned with the set of intangible norms and values that shape behaviour, as opposed to the tangible elements of technology and structure. Organisations must fit within the cognitive and emotional expectations of their environment. In case of a bank, people will not keep their money in it unless it sends signals of safety and compliance with norms of prudent financial management (Richard L. Daft. *Organization Theory and Design.*, 2001).

5.5 Exercise

1. Why did organisation theorists liken organisation with organism?
2. Define systems
3. Name the essential components of a system.
4. Explain the interrelationships among the subsystems of a system.
5. After mentioning the types of systems explain the properties of open systems.
6. Show that organisations are open systems.
7. Give a comprehensive view of sociotechnical system concept of organisation.
8. Describe structural contingency theory of organisation and management. How does it differ from sociotechnical system theory.
9. Explain the mechanistic structure of organisation.
10. Explain Organic structure.
11. Why do individual units of an organisation differ from one another? Answer after Lawrence and Lorsch study.
12. Give a critical assessment of the contingency theory of organisation and management.
13. Give a brief outline of some of the current organisation theories.

5.6 Further Readings

1. Daft. Richard L. *Organization Theory and Design*, 2001
2. Johnson, Richard A., Fremont E. Kast and James E. Rosenwing. *The Theory and Management of Systems*, 1973
3. Jones Gareth R. *Organizational Theory*, 1993
4. Kast, Mremont E and James E. Rosenweig. *Organization and Management*, 1970
5. Pfeffer, Jeffrey, *Organizations and Organization Theory*, 1982

Unit 6 □ Managerial Planning and Decision-making

Structure

- 6.0 Objectives**
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- 6.10 Management by Objectives**
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6.0 Objectives

Unit 6 acquaints you with the managerial function of planning and decision-making. This function kicks off other functions of management. Planning and decision-making are so much intertwined that without knowing one other cannot be appreciated properly and adequately. You will further know how do management operationalise the decisions made and plans establishment by familiarising with MBO

6.1 Introduction

Planning today is a household word. Students plan their career, parents plan family's future, politicians plan their political activities, government and also other organisations plan. Plan for what? To attain a desired state of condition in future. Future is most often unpredictable and forces affecting the future are most of the time beyond control. Unplanned future is a gamble. Thus, planning is conscious determination of future.

Planning presupposes the existence of alternative courses of action to attain the desired results. It involves deciding in advance what to do, how to do it, when to do it, and who is to do it. It makes things to occur which otherwise will not occur on their own. It bridges the gap between the present and the future.

Planning in business is a managerial function. It provides direction to all other managerial functions. All managers perform it. The nature, time frame, coverage of the plan depend on the level at which it is to be performed. Top management's plans generally are of long-term and cover the whole enterprise; middle level managers plan for their functional areas; and the first level managers' plans are meant for their narrow supervising areas.

Always there exist alternative courses of action to attain the goals in future, planning accordingly is a choosing action. Deciding which alternative to follow is at the heart of planning. Conscious decision-making is necessary for alternative selection. Planning heavily relies on forecasting. Failure to forecast in a fast changing world jeopardise the future of the enterprise. Globalisation has put the business in a turbulent situation. Changes offer both opportunities and constraints. Near accurate forecasts help the enterprise to avoid the constraints and avail of business opportunities.

Planning starts with the setting of objectives and the formulation of goals to be attained. Goals are derived from the analysis of the existing situation of an enterprise. Goals determine what to do, when to do it, how to do it and who will do it.

Planning starts at the top. Low level plans are formulated within the framework of the all-encompassing top level plan.

6.2 Definition

A plan is a predetermined course of action to be undertaken in some future time. Essentially, a plan has three characteristics. First, it must involve future. Second, it must evolve action. Third, there is an element of causation in the sense that someone must undertake the future course of action.

6.3 Significance and Limitation

The needs of a business enterprise that planning serves make it significant. For the following reasons planning is important :

1. **Uncertain future.** In the fast changing dynamic business world future is uncertain. The uncertainty can be encountered by forecasting the future. Forecast brings preparedness for the happenings in the future.
2. **Goal directed action.** Planning sets up the objectives and goals—both long-term and short-term of the enterprise. Resources are committed and actions are directed to attain the goals.
3. **Economy in operations.** Planning consciously selects the best possible course of action and so there is little possibility of mistake. Managerial mistakes are enormously costly. Economy in operations is achieved by planning.
4. **Coordination in operation.** Business operations are conducted by various groups of people located at different divisions. A well-considered plan embraces and unifies all the divisions and groups within divisions.
5. **Control through performance standards.** Plan provides the standards of performance. By comparing the actual performance with the set standards the possibility of goal achievement can be measured.
6. **Competitive edge.** Globalisation has thrown up opportunities and threats to business. The ability to cope with the threats and avail of opportunities are the real tests of managerial competence. Acute competition is the hallmark in globalised business world. A well-laid plan equips the management to face the challenge.

- **Limitations**

Planning also has several limitations. They are as follows :

1. **Complexity of the situation.** Plan is prepared by analysing relevant and not so relevant information. Obtaining the necessary information is not only difficult but also costly. Accurate information for the plan covering immediate or near future are easily available but not so for the long-term plan. This limitation is important, but not insurmountable.
2. **Curbing individual freedom.** Policy and procedure elements of plan curb individual freedom. Accordingly individuals are devoid of freedom of thinking and doing. Plans stifle individual initiative by making the jobs of straight jacket type. Consequently, Planning leads to internal rigidities.

3. ***Time consuming and expensive.*** Critics of planning argue that planning exercises are time-consuming and expensive. Planning may sometime be a costly fad. However, this limitation is not a real one.
4. ***Futility.*** In a fast changing business world planning exercise is futile. The predicted future, the basis of a plan, may not come by as thought of. All the resources and time invested in the implementation of plan are lost consequently.

6.4 Principles of planning

To plan well, to make plans that will succeed, planning must take place in the context of some fundamental principles. The following generalizations may be considered as a set of principles of planning :

1. ***Principle of contribution to objectives.*** The purpose of every plan is to facilitate the accomplishment of enterprise objectives, otherwise it has no need. The principle derives from the nature of organised enterprises which exist for the accomplishment of group interests through conscious cooperation.
2. ***Principle of coordinated and integrated plans.*** Plans made at different authority levels and for different time ranges (viz., short and long term plan) need integration. Unless the lower level and short-range plans contribute to the objectives of higher level and long-range plans the future of the enterprise will go astray. So need for the integration and coordination among all the current plans can not be overemphasised.
3. ***Principle of primacy of planning.*** Planning is the essential prerequisite to all other managerial functions. Since the organising, communicating, motivation, leading and controlling functions are designed to support the accomplishment of objectives planning logically precedes these functions.
4. ***Commitment principle.*** Decisions lie at the core of planning and a decision is a commitment of funds and direction of action for a length of time in future. As planning is an exercise for the future done at the present, enterprise commits fund for the plan period. So the commitment must be economically justifiable, that is, sunk costs should be recoverable. Commitment principle implies that "planning is not really planning for future decisions but rather planning the future impact of today's decisions".¹ This principle answers whether plan needs be made for a short or long period.

1. Koontz, Harold and O'Donnell, Principles of Management : An Analysis of Managerial Functions, 1972, P. 131

5. ***Flexibility principle.*** The ability to change a plan in a situation of environmental change adds strength to it. In-built flexibility is critical when commitment is great for longer time period. The more the flexibility build into plans, the less the danger of losses caused by unexpected events in the future.

Strategies

Strategy refers to decisions concerning the future of an organised enterprise by defining its direction and scope in the long run. Strategic decisions are primarily concerned with external, rather than internal problems of the enterprise and specifically with selection of the product-mix which it will produce and the markets to which it will sell. In usual management terms strategic problem is deciding what business the enterprise is in and what kinds of business it will seek to enter. Specific questions addressed in the strategic problem are : What are the firm's objectives and goals; should the firm seek to diversify, in what areas, how vigorously, and should the firm develop and exploit its present product-market position.

Regardless of the nature of business and the size of the firm, strategic decisions deal with a choice of resource commitments among alternatives; emphasis on current business precludes diversification, over-emphasis on diversification leads to neglect of present products. The objective is to produce a resource allocation pattern that offers the best potential for meeting the firm's objectives.

Thus strategy can be defined as the pattern of an organisation's response to its environment over time. Globalisation of business has radically changed the firm's environment; no longer firms operate in a stable or placid environment. Old industries are yielding place to new industries; technologies are being replaced very fast, consumers preferences and tastes are continuously shifting; environment consciousness and pressure from consumer rights group are putting pressure on business. In the process business environment changes demand adaptation to new situation on the part of firm. Such adaptation is not to the immediate change rather to changes that would come in long future. That is why time horizon for strategy is long and its formulation has a far reaching impact on the survival and growth of the business.

In its search for appropriate strategy the firm looks into its product–market scope, the growth vector and the competitive advantage. The first describes scope of search, the second the directions within the scope and the third the characteristics of a particular strategic divisions. This search starts after setting the firm's mission or long term objectives. The strategy devotes a general programme of action and commitment of resources to attain the mission.

However, strategy does not attempt to outline exactly how the enterprise is to attain its objectives. This task is taken care of by programmes. It is considered to be a type of plan because it provides guidance for planning.

The specific steps involved in strategy formulation are :

- **External-internal analysis.** Such an analysis helps to identify the really meaningful opportunities and threats arising out of changing environment. Opportunities and threats are assessed in the light of the enterprise's existing and potential strengths and weaknesses.
- **Generating alternative strategies.** All possible strategy alternatives are generated at this stage which can fulfil the objectives already set.
- **Evaluating the strategy alternatives.** Management evaluates the alternative strategies in the context of the firm's aspirations; internal strengths and weaknesses, and the environmental threats and opportunities.
- **Strategy choice.** The feasible strategy is chosen that helps the firm to achieve the objectives

Strategy has been discussed later in more details

Policies

Policies are also plans as they are guide to thinking and actions of the subordinates. They pertain either to internal operations or to those decisions which have to be made internally but vitally affect the implementation of strategy and achievement of objectives. Fundamentally they are aid to strategy implementation. Since they are guide to thinking in decision-making, policies must allow for some discretion, otherwise they would be rules.

Policies predecide issues by setting common parameters and criteria for decision-making in different situations at different levels of the management. Flexible and fully accepted policies are an important tool for management for ensuring smooth running of the day-to-day activities of the enterprise.

There is sharp distinction between policy and strategy. Policy is a guide to the thinking and action to those who make decisions. On the other hand, strategy is concerned with how to use available resources to secure the objectives in the face of uncertainties.

Programmes

A programme is a single-use plan that covers a relatively large set of repetitive activities. It outlines (1) the major steps required to attain an objective. (2) the organisation's unit or member responsible for each step, and (3) the order and timing of each step. It relates to activities rather than to decisions. It may help in making

strategic decisions but are not concerned directly with operating decisions. A specific programme constitutes a complete work set.

Procedures

Procedures are standing plan that lay customary methods of handling all future regular activities. Programme schedules activities and procedure establishes the specific method and sequence by which an activity has to be performed. They are guides to action, not to thinking. They aid implementation of a programme by ensuring that each operation be completed within the scheduled time. Procedures in management parlance are referred to as standard methods or standard operating procedure.

Rules

Rules are standing plans that detail specific and definite actions to be taken in a given situation. They are guide to actions but do not specify the time sequence like the procedures.

Budgets

Budgets are statements of financial resources allocated to specific activities for a given period of time. Making a budget is an exercise in planning. A budget is often called profit plan.

6.6 Types of Plan

There are several bases for categorisation of plans. Koontz and O'Donnell used "breadth of planning" for identifying the types of plans². The types identified are objectives, strategies, policies, programmes, procedures, rules and budgets. Kast and Rosenzweig used for classificatory purpose repetitiveness, level, scope and time³. Since Koontz and O'Donnell's types have been dealt with earlier as elements of planning, the second set of bases are used to indicate types of plan.

1. Repetitiveness

Firms face certain problems over and over again and some others once in a while. Using repetitive nature of problems plans may be classified. In the face of nonrepetitive problems, single-use plans are made to fit the specific situation and they become obsolete when the specific goal is reached. There is a hierarchy of single-use plans ranging from major programmes, projects and special tasks to detailed plans.

For repetitive problems plans are made to have continuous usefulness. Such plans are often called standing plans. They include policies, methods and standard operating

2. Koontz and O'Donnell, 1972, op. cit., P. 116

3. Kast, Fremont E. and James E. Rosenzweig, Organization and Management, 1970, P. 443

procedures. They are designed to cover the variety of repetitive situations which the firm frequently faces. Policies are the broadest of the standing plans; methods and procedures are less general than policies.

2. Time

Depending upon the time horizon of plans they can be classified as long-range, medium-range and short-range plans. The time period for plan varies from firm to firm—what is considered as a long-range plan in a firm may be a short-range one in another firm. Long-and medium-range plans provide a framework for short-range plans, which ordinarily refers to current operations.

3. Scope

The degree of complexity of variables taken into cognizance while making plans determines the scope of a plan. The broader and complex variables include societal elements such as, sociopolitical considerations, legal aspects, technological situation and cultural trend. The complexity of broader variables is one of increasing uncertainty. The plan that considers these variables are broader in scope and is termed as master plan. Within the framework of a master plan, other more detailed plans are made the scope of which is narrower. As the scope narrows, uncertainty also decreases. Using the scope plans are classed as comprehensive, project and functional plans.

4. Level

Managers of all levels make plans. Top-level manager's plans are broader in scope and cover longer time horizon. This comprehensive long-range plan circumscribes scope and time horizon of plans made at lower levels. Under a comprehensive institutional plan, subplans are made at levels down the organisational hierarchy.

6.6.1 Strategy

Considering the crucial role strategy plays in running the modern large complex firms it seems necessary to devote some effort to clarify the concept of strategy. The ancient Greek generals used the concept. To them concept of strategy had two components—planning component and action component. The two components together form the basis for the grand strategic plan.

The concept of strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals puts emphasis on two aspects of strategy—the long-term goals of the enterprise, and commitment of resources and determination of the courses of action suitable for goal accomplishment. Strategy does not outline how exactly goals would be reached which is taken care of by operational plans. Strategies are formulated at three levels—corporate, business-unit and functional.

Corporate Strategy

Corporate strategy of a company (1) determines, shapes and reveals its objectives, purposes or goals, (2) produces the major policies and plans for achieving these goals and (3) defines the business the company intends to be involved. Corporate strategy usually applies to the whole firm, remains effective over a long period of time and commits a significant part of the company's resources to expected outcomes. It probably defines the central character and image of the company. Some aspects of the strategy may remain unchanged over a long period of time, like commitment to high technology, and other aspects change along with the environmental changes, such as, manufacturing processes.

Business-Unit Strategy

Many companies operate several businesses. For example, Procter and Gamble of U.S. has several product lines, viz., detergents, tooth paste, bar soap and tissue paper. Each of these lines covers a good number of brands. Top management has difficulties in organising these varied activities. For effective management company identifies its strategic business-units for each line of product and makes strategic plan for each such units. Resources are assigned to them. Thus each line of business activities are grouped as independent business unit. The corporate level strategy provides a set of guidelines for the units which develop their own strategies. The corporate level then reviews the units' strategy and negotiates changes, if necessary.

Functional level strategy

Functional level strategy is formulated for each function such as, production or marketing associated with each business units. This is effected within the framework of business-unit strategy.

In conclusion it should be noted that since World War II the idea emerged that strategic planning and acting upon those plans constitute a separate management process—the process of strategic management. Strategy as a grand plan, it is believed, can help management in facing two difficult business situations—rapid changes in the interrelationship between the enterprise and its environment, and the rapid growth in. Size and Complexity of the organisation.

6.6.2 Strategy Implementation

Making strategic decisions at three levels is part of strategic management process, the other part being implementation of them. Strategy implementation has four dimensions. First, *structure—strategy match*: Most firms start small, usually with a single product and if successful grow big. Initially, a small firm develops an

organisation structure that suits a small business. With the entry into new markets and the introduction of new products the existing original structure fails to support the expanded business of the firm. The failure of the structure accentuates when the firm diversifies and enters into industries other than the original one. Each of the firm's life stage demands new strategies for further success and growth. This in turn puts pressure on the management for developing suitable structure that can push through new strategies. Without structure-strategy match, future success is limited.

Second, *strategy-organisation culture congruence*. Employees implement the strategy, without their acceptance its implementation is well-nigh impossible. Once the strategy is incorporated into a system of values, norms and roles, employees would bring out congruent behaviour to reach strategic goals. While implementing strategy management needs to create organisational culture concomitant with the strategy. Such exercise is termed as institutionalisation of organisation culture.

Third, *operationalising strategy*. As you have noted earlier that strategy is set in general broad terms. In organisation's day-to-day operation such broadly set goals and courses of action have little meaning. For implementation of the strategy goals and courses of action need be set in specific concrete terms. To this end operational plans come handy. They provide the details needed to incorporate strategic plans into the organisation's day-to-day operations. Operational plans fall into two general classes. Single-use plans are set for a specific, nonrecurring goals. Once the specific goals are attained they are dissolved. Standing plans, in contrast, are standardised approaches to dealing with recurrent and predictable situations.

Finally, *implementation facilitating procedures*. For facilitating strategy implementation and for obtaining commitment from employees, policies and procedures may be of good help. Annual objectives as a tool identify precisely what must be accomplished each year by each functional area in order to achieve organisation's strategic goals. They quantify the performance, so there can be little dispute over a functional departments results.

The procedure of management by objectives (MBO) sets performance goals for individual employees. Such performance goals for each individual are not set unilaterally by the manager but in a participative manner. In the end-means chain performance goals of the individuals, functional departments (set by annual objectives) and organisation (set by strategy) are linked.

Rewards and incentives by suitably shaping individual and group behaviour contribute to strategy implementation. Such reward systems need be consistent with the organisation's goals.

6.7 Process of Planning

Plans provide a means for both individuals and organizations to come to grips with the future and establish definite courses of action. A logical approach to business planning should include the following steps :

1. Perception of Opportunities

This is not strictly a step in the planning process, but the real starting point in planning. Plan determines a course of action to be acted upon today to obtain the desired results tomorrow. So what the future will unfold is to be looked at. It may throw up opportunities or threats or mix of both. Further the enterprise is required to be aware of its strengths and weaknesses. Planning requires realistic diagnosis of them.

2. Developing Objectives

Developing objectives for the entire enterprise and then for the subordinate units is the first step in planning. Objectives are the result expected to be accomplished by the network of strategies, policies, programmes, procedures, rules and budgets. Enterprise objectives are the master or major plans, which in turn govern the objectives of minor plans.

3. Appraisal of Planning Premises

Premises refer to forecast data of factual nature, relevant basic policies and the current plans. They are anticipated variables in which plan will operate.

Premises include basic forecast of population, costs, prices, production, markets and similar matters. Premises also emerge from the existing plans and policies. As one moves down the organisation hierarchy each higher level plan becomes planning premises for the next lower level plan. As the future environment of plans is very complex only the critical aspects of it should be considered as premises.

Premises can play the role of pivot if the same set of critical premises are used by all managers. So an agreement to that effect becomes necessary.

4. Identifying Alternative Courses of Action

The next step involves a search for and examination of alternative course of action. It is generally believed a specific objective or target can be reached following several courses. All these alternatives may not be always apparent : they are to be searched for. Several techniques are available for the purpose, such as brain storming, synectics, nominal grouping and so on. However, there is a limit to the number of alternatives that can be examined. So those alternatives are selected that promise to yield the expected results.

Generation of alternatives essentially requires creative thinking and creativity comes forth in congenial environment. The techniques mentioned above help in creating such environment. Take a close look into them.

Brain Storming. One of the best known techniques for stimulating creativity was developed by Alex F. Osborn. The technique emphasises group thinking. The group may have employees of the firm as members or outside experts in a particular field. Group members are presented with a problem and are asked to generate as many solutions as possible. Brain storming sessions generally involve six to eight participants and run for a half hour to one hour period. During such a session the following rules prevail :

- No ideas are criticised since criticism inhibits free flow of idea.
- The more radical ideas the better.
- The quality of idea production is emphasised as from the larger number of ideas outstanding solution can be identified.
- The improvement and combination of ideas by others are encouraged.

Brainstorming technique is based on the premise that interaction among group members in a free and uninhibited atmosphere stimulates creative ideas. As one member speaks of his idea others are stimulated to think and generate new ideas.

However, brainstorming has its limitations. It is time-consuming and hence costly. It is effective when the problem is simple and specific. It often produces superficial solution.

Synectics. Originally known as the Gordon technique (named after its creator william J. Gordon), this technique after modification has been named as synectics. The Greek word synectics means “fitting together of diverse elements” in order to stimulate novel and unusual alternatives by combining distinct but apparently irrelevant ideas. This is also a group exercise.

The members of a synectics group represent a variety of backgrounds and training. The group also includes a leader and a technical expert. After the group leader states the problem the members restate the problem as they understand it. After clearly understanding the problem the group members proceed to put forward their solutions. It is the task of the leader to structure the problem and to lead the ensuing discussion in such a manner as to force the group members to deviate from their traditional ways of thinking. The various methods like role playing, use of analogies, paradoxes, metaphors etc., are employed to “invoke preconscious mind”. The intended purpose is to induce fantasies and novel idea that will modify existing thought patterns in order to stimulate creative thinking. The technique involves a complex set of interaction from which solution emerges. The technical expert attached assists the group in

evaluating the feasibility of the ideas. It is frequently used to invent a new product. However, the technique suffers from limitations as brainstorming.

Nominal Grouping. Developed by Andre Dellbecq and Andrew Van de Ven, nominal grouping restricts interpersonal communication during the decision-making process, hence nominal. Group members are all physically present, as in brainstorming or synectics session but members operate independently. It has been demonstrated that interacting group members often censor themselves and pressure individual members towards conformity of opinion. The technique is free from the effect of groupthink (a phenomenon in which the norm for consensus overrides the realistic evaluation of alternative courses). It is particularly effective requiring a high degree of innovation and idea generation.

For generating creative ideas the technique generally follows several highly structured procedure moving through several stages.

Stage 1. Seven to ten individuals with different backgrounds and training are brought together and familiarised with the problem.

Stage 2. Each member being asked independently and silently writes down his idea on the problem.

Stage 3. After 15-20 minutes of stage 2 members present their ideas, one at a time, in turn. A group facilitator (not a leader) records the ideas on a blackboard for all to see. The recording in round-robin manner conceals the identity of the generator of ideas. No discussion takes place until all the ideas are recorded.

Stage 4. The group now openly discusses the ideas for clarity, and evaluation. At this stage ideas may be recorded, combined, deleted or added.

Stage 5. Each group member silently and independently rank orders the ideas in order of the perceived importance of them to him. This is a sort of voting. After a brief discussion of the vote, a final secret ballot is conducted. The group's preference is the arithmetical outcome of the individual votes. The meeting is concluded there after.

Though the technique scores on certain points but it is, like the earlier two techniques, time-consuming and hence, costly.

Delphi Technique. Delphi technique is similar to nominal grouping except it does not require the physical presence of the group's members; the member never meet face-to-face and so there is no direct interaction. The technique goes through several stages.

Stage 1. The problem is identified and members are asked to provide potential solutions through a carefully crafted questionnaire.

Stage 2. Each member completes the first questionnaire anonymously and independently.

Stage 3. Responses to the first questionnaire are centrally compiled, transcribed and reproduced.

Stage 4. A copy of the results is sent to each member with a request to redraft the solution on the basis of the copy received.

Stage 5. The copy of the results triggers new solution or causes change in the original position.

Stage 6. Until a consensus is reached stage 4 and 5 are repeated.

Delphi technique can be beneficially utilised for generating alternatives among geographically scattered groups and thus the cost of bringing experts together at a central place is avoided. It is also time-consuming.

5. Assessment of the Consequences of each Alternative

The fifth step is concerned with the task of finding out the consequence of each alternative. Each alternative is subject to various premises and objectives. One course may appear to be profitable but is constrained by some variables. So all the alternative courses are not equally yielding results. So by weighing their merits and demerits they are ranked.

6. Choosing an Alternative Course

Choice of an alternative is the sixth step. At this final step the plan is adopted. Depending upon the analysis of the consequences made at the fifth step more than one plan may meet the contingencies but only one is adopted.

Planning process as has been outlined above suggests that planning is simply a rational approach to the future. The truth of this suggestion has been evaluated later on in this module.

6.7.1 Planning premises

Planning premises provide the planning framework and the framework circumscribes the planning function. Such premises or variables are of two categories external and internal. Some premises are quantifiable, i.e., tangible and others are not quantifiable, i.e., intangible. Again, some are controllable and some are beyond control of the company's managers.

- ***External premises***

External premises fall into three groups : (i) the general business environment which includes economic, political, social, technological, legal, and cultural conditions; (ii) the product market which includes conditions that influence

demand for product and services; and (iii) the factor market that deals with land, labour, capital and other inputs.

Each of the components of the business environment influences planning either favourably or unfavourably. Better economic condition improves the purchasing power of the people. Political instability has undesirable impact, rapid technological change may spell doom for the enterprise using obsolete production process, government policies with regard to tax or control, change the business environment. Managers have to forecast, though difficult, external environment that will evolve during the plan period.

- ***Internal premises***

Internal premises include a host of elements such as, capital already sunk in fixed assets, strategies, policies, major programmes currently in place, approved sales forecast, organisation structure, values and ethos of top management, and many others.

Large investment made in fixed assets tends to have long-run influence on future plans as it cannot be recovered except through use. As already pointed out existing strategies, policies etc., delimit managers' sphere of decision-making. Sales forecast, projection of expected sales over a period of time, once approved and being in use also act as premises. Values, the standard of judging what is good and what is not, of top-management, immensely affect choice of alternative course of action and policies. Managerial ethos, the characteristics way of their behaviour, creates a specific organisational climate which has impact on planning. As effective implementation is constrained by the existing organisation structure, course of action to be chosen must be in conformity with the structure.

6.7.2 Forecasting

Premises, as noted earlier, are forecast data of factual nature. Premises pertain to external and internal environment. Forecasting the future state of the environment is a prerequisite for developing realistic premises. Techniques for the purpose are developing. Some such techniques are briefly indicated here.

Economic forecasting

Among the various techniques available for forecasting the markets in which the company operates, Input-Output Analysis appears to be most promising. Developed by W. W. Lontief in mid-forties of the last century, the Analysis shows the relationships of industries to one another and their sharing of gross national product

by calculating the purchases and sales made between industries. Experts normally assist the management to obtain economic forecast data following this technique.

Technological forecasting

Rapid change in technology makes product and production process obsolete within a short time period. Failure to use the latest technology will leave the company by the way side. Technological forecasting can be made in a better way by using Delphi technique.

Social and Political forecasting

Demographic forecasting is a part of social forecasting since demography is studied over a long period. Researchers now forecast population growth trend. But forecasting the other facets of social condition is difficult enough. Political forecasting is similarly tough. However, Delphi technique may be used here with profit.

Sales forecast :

Techniques used for forecasting sales are classified into five groups : (1) the jury of executive opinion method, (2) the sales force composite method, (3) consumers' expectation method, (4) statistical method, and (5) deductive methods.

- ***The Jury of executive opinion method***

Sales estimates are obtained from various officers and then are pooled. Based on these the chief executive or the president finally makes the forecast. This is the oldest and the simplest method.

- ***Sales force composite method***

Under this method salespersons are asked to make sales estimates for their territories. These estimates are reviewed by the area sales managers. Further more, head office sales managers check the estimates. The estimates thus found are useful and valuable inputs into the company's forecasting effort.

- ***Consumers' expectation method***

Under this method consumers' intentions to buy is surveyed. Intentions though are not actual orders, still provide a strong basis for sales forecasting. The method is feasible where the number of customers are not numerous and are concentrated over a small area, as in a cases of industrial goods.

- ***Statistical method***

Time-series analysis, correlation analysis and mathematical models are some of the variants of statistical methods. To make a time-series analysis the analyst summarises sales data in terms of unit or rupee of the last several years.

Using the year-wise data the forecaster projects the future sales volume by extrapolation. The extrapolated figure may be considered to be the sales forecast if the past trend continues without being disturbed by new market force. The analyst must correct his forecast if he anticipates emergence of an important market force that may influence the past trend.

Another variant of statistical method is correlation analysis. It attempts to establish relationship between company sales and one or more other factors. Such other factors may be gross national product, national income or either directly, or with a lag or lead of a given time period.

Mathematical model attempts to depict the relationship of a number of variables to the firm's sales. If the relationship is ascertained with reasonable accuracy a mathematical model can be constructed. One such model is econometric model, which is constructed with the help of economics, mathematics and statistics.

- ***Deductive method***

The method starts with the present sales volume, present buyers' profiles and the reasons for their buying. Then by using objective factors and subjective judgment underlying variables sales are analysed. Based on the indicators thus obtained sales are estimated. Such estimation though imprecise and intuitive can be a valuable input if done by an intelligent and experienced brain.

6.8 Planning Failures

Failure of a plan is known objectively during the controlling function. The root causes of such failure creep into the plan itself when it was being made. Unless adequate care is taken during the planning process the plan becomes weak from the beginning. The weak links in the chain of planning are as follows :

1. Planning communication

Plans are made at different levels of management. Every planner should have access to information affecting his planning function. Information relating to objectives, premises, strategies, policies and plans of others should be available to him. Such information should be as specific and thorough as possible.

2. Coordination of the planning programme

Coordination of all plans made for the firm is the key to success. Consistency should exist between objectives and plans; between plans and their premises; between

plans and strategies, policies, programmes. Such coordination is to be established not only in terms of contents, but also in timing. Such fitting together prevents planning failure.

3. Planning participation

When managers are given opportunity to contribute to formulation of plans affecting their area of authority, there is less likelihood of failure of a plan. Participation also opens access to information necessary for planning and encourages enthusiastic execution of the plan.

6.9 Managerial Decision Making

Decision-making refers to the process of identifying and selecting a course of action to solve a specific problem. The problem-solver is required to make out a choice of behaviour. Decision-making relates the organisation's conditions to actions that will take the organisation towards the future.

As decision-making deals with problems, a decision maker should possess the ability to recognize problems. A problem arises when an actual state of affairs differs from a desired state of affairs. The problem finding process is often informal and intuitive; but it is rarely straightforward. After the problem has been searched out and recognized, alternative courses of action are invented, developed and analysed. Analysis leads to the choice of a particular course of action and the decision is implemented. In this context decision-making sometimes is considered synonymous with managing. Numerous problems crop up while the managerial functions, viz., planning, organising, controlling and so on, are being performed. Managers must make decisions to solve them.

6.9.1 Rationality and Managerial Decision-making

Problem-solving requires a rational selection of a course of action. The rational process of selection is considered to be one based on reasoning, one which is objective rather than subjective, one which is logical and sensible. In management literature rationality implies reasonable, exhaustive and objective process, and an appropriate choice in the light of a well-defined goal. However, complete rationality can seldom be achieved particularly in managerial activities.

Rational choice behaviour presupposes the following :

All the probable solutions are known.

All information relating to these solutions can be recalled whenever required.

Decision maker can manipulate the information in a series of complex calculations designed to provide the desired solution.

Human brain is simply incapable of doing such transactions to arrive at a rational choice. Nowadays, computer can assist the decision maker in this matter. Nevertheless, a decision maker settles for limited rationality.

6.9.2 Bounded Rationality and Satisficing

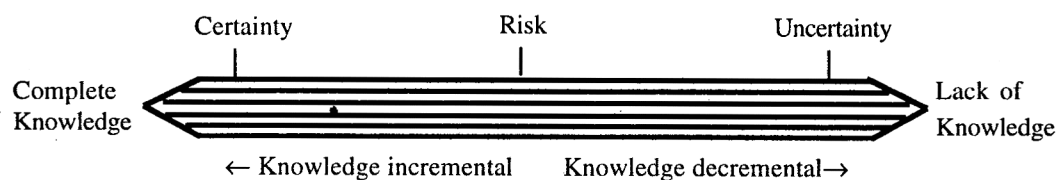
Herbert Simon among others proposed the concept of bounded rationality to describe the factors that affect decision-making. The concept asserts that a decision maker does not have complete information about the nature of the problem and its possible solutions, adequate time or money to compile more complete information, and ability to remember large volume of information and use them whenever he wishes. In such a situation, he makes a choice which moves him towards his goals to the best of his knowledge. Instead of searching for the best possible solution, the decision maker accepts the first satisfactory (in Simon's language 'satisficing') decision he uncovers. Because of the operation of bounded rationality a decision maker relies on heuristic principles or rules of thumb for easing decision-making.

6.9.3 Decision making under different states of nature

Decision maker encounters problems about which he may have nearly complete knowledge in terms of alternatives or no knowledge at all. The levels of knowledge are often labelled as states of nature. Three such states exist :

- ✓ decisions under certainty
- ✓ decisions under risk
- ✓ decisions under uncertainty.

These states of nature are on a continuous ranging from relative certainty, through risk, to uncertainty. Each state is ascertained by quantum of knowledge enabling the degree of predictability of the outcome. Thus figuratively shown below :



Decisions under certainty. Certainty prevails when the decision maker is reasonably sure about the outcomes of every alternative solution. Reliable information are available and the cause-effect relationships are known under certainty.

Decisions under risk. In risk condition decision maker knows the probability of outcome each alternative will lead to. Information are available but they may be incomplete. In such a situation, alternatives are recognised, but their outcomes are probabilistic and in doubt. Probabilistic because there may be more than one potential outcome, but the relative probability of each outcome is known.

Decisions under uncertainty. Under uncertainty an alternative may result in more than one potential outcome, but the relative probability of each outcome is unknown. Here, decision maker may not have access to key information or may face external situations that are either partially or entirely beyond his control.

6.9.4 Types of Managerial Decisions

Managerial decisions are broadly classified into

1. Personal and organisational decisions
2. Basic and Routine decisions
3. Programmed and nonprogrammed decisions

Chester I. Barnard suggested the classificatory categories based on personal and organisational decisions. Managers make organisational decisions to help organisation to achieve its goals, whereas they make personal decisions to achieve personal goals. However, personal decisions can affect the organisation also.

Basic and routine decisions are other two types. Basic decisions are unique one-time decisions usually made once in a while, relatively of permanent nature. Such decisions commit the firm's resources over a long period of time. Such as plant location, organisation structure, wage negotiations with trade union etc. Generally top management policy decisions are basic decisions. On the other hand, day-to-day, repetitive decisions affecting only a small segment of the organisation are routine decisions. Usually most of the first-line management decisions are of this type. Bulk of the decisions made in the organisation is routine decisions.

Decisions are also classified as Programmed and Non-programmed. Programmed decisions are of routine, repetitive nature while non-programmed ones are unique one-shot type. Programmed decisions are made following standard operating procedures and non-programmed decisions are made using available information and judgment.

6.9.5 Steps in Decision Making

All managerial decisions are made under condition of either certainty, risk or uncertainty. No approach to decision-making can guarantee a right decision.

But managers by following a rational, intelligent and systematic approach can expect a good solution to the problem at their hand. A rational model of decision-making involves the following steps :

1. Investigation of the problem
2. Development of alternative solutions
3. Evaluation of alternative solutions and choosing the best available
4. Implementation and monitoring the decision.

Step 1 : Investigation of the problem

Investigation has three aspects : problem definition, diagnosis and identification of objective.

Problem definition. Problem should always be defined in terms of organisational objectives. Problems block attainment of goals. What is the real problem that blocks goal achievement? Careless definition may focus on the symptoms instead of the problem. Deep search for the real problem will be rewarded if intuition and experiences are commissioned for the purpose

Diagnosis of causes. Cause of a problem may be more than one. Causes underlie the environment in which the problem arises. The factors that make up the environment may be either internal or external to the organisation. Seldom causes are apparent and the apparent causes are most of the time not the real ones. Again two managers seldom agree over the cause, if they judge the environment by using their experiences and intuition. So some one has to reconcile between causes diagnosed by others.

Identification of decision objectives. After completion of above two sub-steps decision maker decides an effective solution. A problem consists of several elements and one single solution is unlikely of solving all of them. The real test of an effective solution lies in its capacity to remove the blockage that the problem has created. In other words, will the solution contribute to goal achievement?

Step II : Development of alternative solutions

Theoretically, the number of alternative solutions could be infinite, but for all practical purposes only a finite number of solutions can be isolated and verbalized. If there seems to be one solution and that solution is probably wrong, a decision maker in such a situation has to force himself to consider other solutions. For programmed or routine decisions this step is reasonably simple but not so for non-programmed or basic decisions. Decision techniques mentioned earlier may be used to discover more alternative solutions.

Step III : Evaluation of alternatives and choosing the best available

Once a set of alternative solutions has been isolated, the next step is evaluation of them. The criteria to be used for the purpose are their feasibility, capability for quality solution and impact on the whole organisation. The feasibility is judged in terms of available resources, current strategy and internal power politics. Any solution is effective if it garners support within the organisation. A solution is satisfactory if it meets the decision objectives and has an acceptable chance of success. As organisation is considered to be a system, change in one part will have direct or indirect impact on other parts. Is that impact good or not in the present and the future? After evaluation the most feasible and satisfactory alternative solution is chosen.

Step IV : Implementation and monitoring

Once the best available solution has been selected, the manager makes plans to cope with the requirements and problems that may be faced in effecting it. He cannot remain complacent by issuing orders for implementation. He should see that resources are acquired and allocated. He should set up budgets and schedules, and assign specific responsibility for specific tasks. Procedures for reporting progress is also to be set up.

Monitoring of activities relating to implementation makes implementation a reality. Implementation changes the environment and may give rise to new problems not anticipated before. Close observation and on time measures ensure problem solution.

The step-by-step scheme is a simplification of the decision-making process. Managers do not necessarily approach all decisions via this framework. However, it is a useful guide for the purpose.

6.9.6 Models of Decision-making Process

For better understanding how decision-making processes move you need to examine three suggested models. They are economic man model, administrative man model and gamesman model.

1. Economic Man Model or Econologic Model

No approach to decision-making can guarantee that a manager will always make the right decision. But managers who use a rational, intelligent and systematic approach are more likely than other managers to come up with high quality decisions. This model known as economic man model is the earliest attempt to model decision process. This model is especially useful in making nonprogrammed decisions.

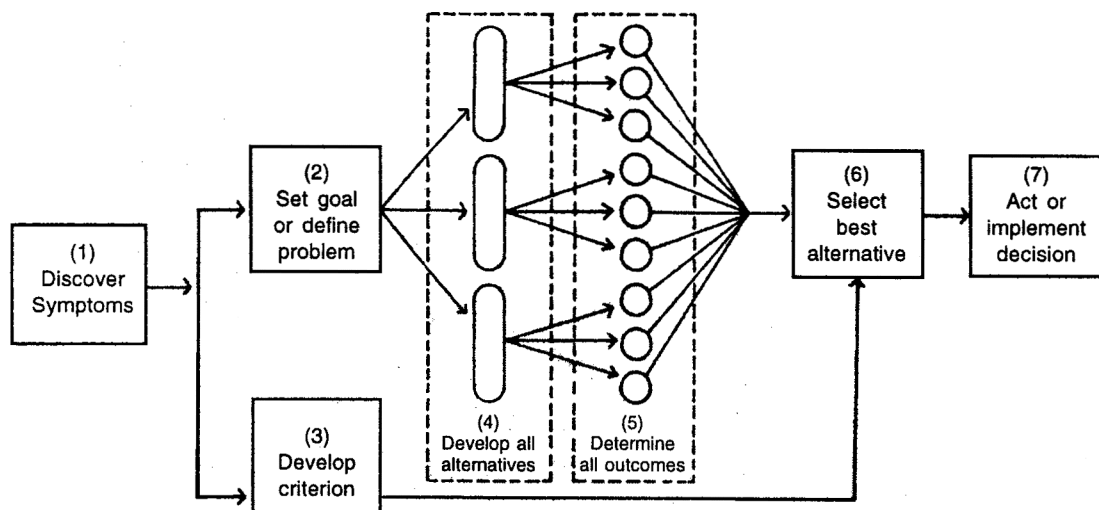
The model is based on two assumptions :(i) People are economically rational and (ii) People attempt to maximise outcomes in an orderly and sequential process.

Economic rationality exists when people attempt to maximise their gains that can be objectively measured, such as units of goods produced or the money value of the goods produced. The implication of economic rationality in terms of people's behaviour is that after assessing all the alternatives decision maker will select that action course that has the maximum pay-off.

A figurative representation of the basic model is shown here. The exhibit shows the following orderly steps in the decision-making process :

1. Discover the symptoms of the problem;
2. Determine aspired goal or define the problem to be solved;
3. Develop criterion or standard against which alternative solutions can be evaluated;
4. Identify alternative courses of action;
5. Examine the outcomes of each alternative as well as the likelihood of occurrence of each;
6. Choose the best alternative by comparing the outcomes of each alternative with the decision criterion; and
7. Implement the decision.

An econologic model of Decision Making



Econologic model is basically a normative prescriptive one and fails to portray how decisions are actually made. The model makes some assumptions about the capabilities of human beings which are palpably flawed.

First people possess all the necessary information relating to the problem or have the capability to obtain the information.

Second, people can store information in their brain and retrieve them any time they want.

Third, people can manipulate all this information in a series of complex calculations to make them useful.

Fourth, people can rank order the outcomes of all alternatives and select the most preferred solution.

However, the limitation of human mind has been removed to a certain extent with the introduction of computer that has facilitated to achieve economic rationality, but not yet fully.

2. Administrative Man or Bounded Rationality model.

The economic man model conjures up an image of decision maker as a super calculating machine. But you know that decision makers operate within tight time and cost constraints and with less information than they would like to have. An alternative model that is more behaviourally realistic has been presented by Herbert Simon. This is administrative man model or bounded rationality model. It the assumptions made under econologic model.

Decision makers for coping with the inadequacy of information about the nature of the problem and its possible solutions, time and cost constraints for compiling more complete information and their inability to store and handle large volume of information may profitably use bounded rationality models. Decision-making process according to the model proceeds through the following mechanism.

- *Sequential attention to alternative solutions.* Usually people consider solutions to a problem sequentially, rather than simultaneously. Possible alternative solution are identified and evaluated one at a time. If the first solution fails to work it is discarded and another solution is considered. The search for solution continues till an acceptable, not necessarily the best, solution is identified. Such a solution is considered as a 'good enough' solution.

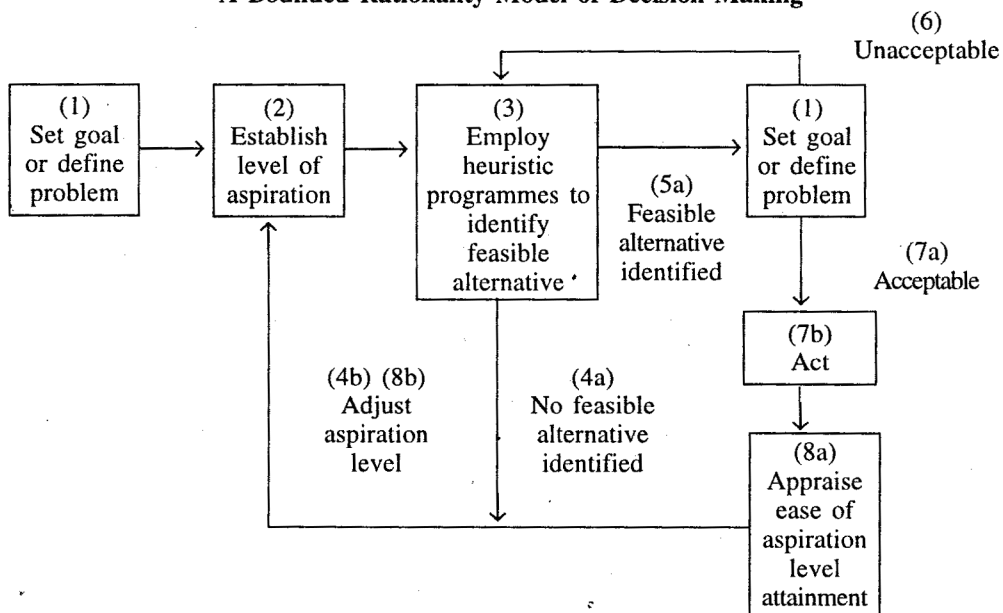
- *Employ heuristic.* While searching for alternatives, decision maker uses heuristic approach, the model suggests. Heuristic is a sophisticated trial-and-error approach in areas that have a high probability for yielding satisfactory solutions. The approach starts by eliminating some obviously inappropriate solutions and concentrates on several others which appear to be likely solutions. This trial-and-error may not yield on a solution but will cut down the magnitude of the problem-solving task significantly. Heuristic problem-solving techniques rely relatively highly on human judgement at various junctures in the decision—making process and hence is useful in relatively open systems. The weakness of the technique has been removed to some degree by developing systems. The weakness of the technique has been removed to some degree by developing programming for heuristic decision-making.

● *Content with satisficing solution.* Recognising the limitation of computational powers of people the model of bounded rationality requires that decision makers remain satisfied with a “good enough” solutions to problems. The goal of satisficing simplifies the choice problem. The key to the simplification of the choice process is the replacement of the goal of maximising with the goal of satisficing, of finding a course of action that is “good enough”. This substitution is an essential step in the application of the principle of bounded rationality. This substitution reduces by a large measure the magnitude of computational task.

You have already noted that in actual human decision-making alternatives are sequentially examined but the mechanism that determines the order of the sequence is not known. It is claimed by the model that the first satisfactory alternative is the actually selected one. An alternative is considered to be satisfactory when (1) there exists a set of criteria that describes minimally satisfactory alternatives, and (2) the alternative in question meets or excels all these criteria. The criteria are determined by the aspiration level of the decision maker. The expression level changes from point to point in the sequence of trials as and when the decision maker finds it easy to discover satisfactory alternatives, his aspiration level rises; and when it is difficult to discover satisfactory alternatives, his aspiration level falls. The ease or difficulty in exploring alternatives is influenced by the cost of obtaining relevant information or the magnitude of the computation.

A figurative expression of the model is exhibited below :

A Bounded Rationality Model of Decision Making



The model consists of eight steps :

1. Define the problem at hand or set the goal to be achieved.
2. Establish an appropriate aspiration level or criteria.
3. Employ heuristic to narrow problem space to a single promising alternative.
4. Failing to identify feasible alternative (a) lower the aspiration level and (b) start search for a new alternative solution.
5. Evaluate the identified feasible alternative to determine its acceptability.
6. Initiate search for a new alternative if the identified alternative is unacceptable.
7. Alternative to item no. 6, if the identified solution is acceptable, implement it.
8. Following implementation, evaluate the case with which goal was (or was not) attained and raise or lower aspiration level accordingly on future decisions of this type.

This decision maker's behaviour-oriented model describes how actually decisions are made in the context of organisation.

3. Gamesman Model or Implicit Favourite Model

Shoel's Implicit Favourite Model explains how individuals make important, difficult and highly judgemental decisions. The problems he chose to study were unprogrammed in the sense that decision makers were quite unfamiliar with the problems they faced; and they had, encountered few such problems before and did not expect to do so in the near future. He studied the course of job choice processes of the master and doctoral candidates of Sloan school of Management, MIT.

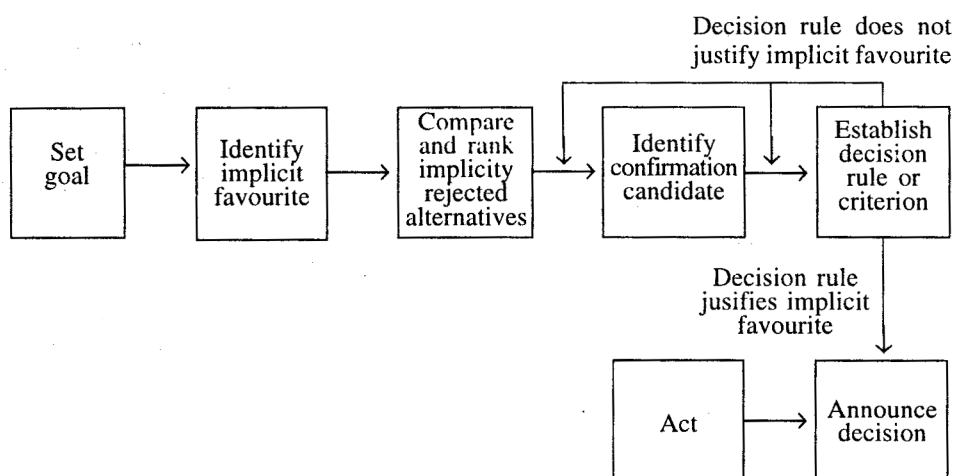
Instead of defining the problem first and then searching for alternative solutions as in the earlier two models, here the decision makers first found an ideal solution to their career problems and then defined the problem which in turn set the criteria for evaluating the alternatives. Evaluation of alternatives at hand started after making an implicit selection among alternatives. Such evaluation of alternatives took the form of screening each alternative but not weighting the viability of them. The process of screening continued till the decision maker had more than one single acceptable alternative.

The decision maker stopped his search for alternative as soon as he identified a favourite alternative. This is his choice candidate (i.e., job). At the point of search termination, the decision maker had not yet compared his alternatives with one another and did not have a ranked ordered list of alternative list of solutions (as in the Economic Man Model). Till now he refused to admit his implicit choice.

He declared his choice explicitly after comparing the alternative with his choice candidate for confirmation of his choice. In other words, during confirmation process he had two alternatives—choice candidate and the confirmation candidate. If there was only one alternative—choice candidate—he would try to identify another acceptable alternative in order to have something to compare with. Unlike Bounded Rationality Model where alternative solutions are sequentially examined here at least two alternatives—choice and confirmation candidates—are considered. The confirmation process is necessary to show that the choice candidate dominates the confirmation candidate. In order to demonstrate that the implicit favourite choice candidate was superior to the confirmation candidate the decision maker perceptually distorted the information about the two alternatives and designed the evaluation criteria to highlight the positive features of the implicit favourite.

The process of making decision according to the model is shown below figuratively. You will notice that the entire process is designed to justify to the decision maker that his non-programmed decision though made in an intuitive fashion has been arrived at rationally and logically.

An Implicit Favourite Model of Decision Making



6.10 Management by Objectives

After decisions have been made manager concerns himself with the improvement of the efficiency and effectiveness of the organisation as a whole and of himself. Management by objectives (MBO) is the right process in this direction. This approach was first proposed by Peter Drucker in 1954 and received immediate acceptance. It goes beyond setting objectives for organisational units and also involves setting

performance goals for individual employees. The goals and objectives provide the focal point. The objectives are set in the way that make them actionable.

6.10.1 Definition

"MBO is a result-oriented, non-specialist, operational managerial process for the effective utilisation of the material, physical and human resources of the organisation, by integrating the individual with the organisation, and the organisation with the environment"⁵ MBO is neither a tool, a theory nor a set of principle but a process that operationalises management activities. It focuses on the results rather than activities and no specialised knowledge is required for its implementation. The process makes optimum utilisation of all resources possible and integrates the individual with the organisation and the organisation with the environment.

6.10.2 Elements of the MBO system

MBO system attempts to improve organisation performance and to provide better results by converting distant, intangible organisational objectives into achievable, personalised objectives. MBO system contains several elements.

1. **Objectives for specific positions.** Objectives must be set for every managerial position at each level of managerial hierarchy in terms of results expected. This enables employees to understand clearly what they are expected to accomplish and to help each individual plan to achieve its targeted goals.

2. **Joint objective setting.** Organisation's overall objectives are broken down into specific objectives for each succeeding level, i.e., corporate objective into divisional, departmental and individual manager's objectives. Corporate objectives are set by the top level management and lower level goals are fashioned within the framework of them. Divisional managers participate with top level managers while fixing corporate objectives; departmental managers participate with divisional managers in setting divisional objectives; and departmental goals are set jointly by the departmental manager and his subordinates. The result is a hierarchy of objectives that links objectives at one level to those at the next level.

3. **Identification of key result areas.** As MBO is a result-oriented programme identification of critical result areas ensures organisation's success. Such critical areas vary from organisation to organisation depending upon the nature of the organisation and the industry it belongs to. Drucker has identified eight key result areas common to all firms. These are profitability, market standing, innovation, productivity, worker's

5. Chakravorty. S.K., Management by Objectives : An Integrated Approach, 1976, P.5

performance, financial and physical resources, manager's performance and development, and public responsibility.⁶ Identification of key result areas helps the manager and the organisation to focus its scarce resources on those activities that contribute to the critical results. Answer to the question "what is the unique contribution of any activity to the job" provides clue to identifying key result areas.

4. **Autonomy in implementation of plans.** Once the objectives or results have been agreed upon both managers and operators must enjoy wide discretion in choosing the means for achieving them. They require delegated authority to implement the objectives they have set jointly. Superiors should have confidence in their subordinates.

5. **Periodic review.** Managers and other employees must meet periodically to review progress towards the objective. The basic purpose of it is to review performance against the objectives. During review, the reviewers decide what problems exist and what they can do to resolve them. Even they review the validity of continuing with the current objectives and if necessary, may modify them.

6.10.3. MBO Process

Three steps are involved in the MBO process. These are objective setting, action planning and performance review.

1. **Setting of Objectives.** For each key result area there are specific objectives or expected results. So while installing an MBO programme, first task is to identify the key result areas and make individual position holders responsible for the results. This procedure should be followed for all the management levels. Thus key result areas, positions responsible for them and the result expected of the positions are put under a single heading—setting of objectives.

2. **Action planning.** Planning chalks out the way of achieving objectives. It spells out the various activities necessary for achievement of results. In such an action plan activities are arranged logically with completion time specified. Preparation of an action plan involves choosing of strategies appropriate to the objectives, assigning responsibility to individual positions, allocating resources necessary for achieving objectives and scheduling specific activities. Two action plans are necessary—one for individual and the other for the organisation unit.

3. **Performance review.** MBO system cannot function without a review system. Review system focuses on performance, improvement, future corrective measure, frequency of review and self-appraisal.

6. Drucker, F. Peter. The Practice of Management, Indian reprint, 1989, Chap. 7.

6.10.4. Benefits and limitations of MBO

Subordinates, superiors and the organisation derive the following **benefits** from an MBO programme :

- ***Benefits to subordinates.***

Role clarity — With the knowledge what he is to do the subordinate has a clear idea of his role.

Motivation — Regular feedback and measurement of performance against expected results work as a motivating force. Participation in goal setting also motivates subordinates.

Job satisfaction — Unbiased feedback about level of performance has potential for generating job satisfaction. Job satisfaction emanates from the feeling of having done a job well and the peers' recognition and approval for it.

- ***Benefits to superiors***

Superiors as individual persons derive all the benefits accruing to the subordinates. MBO also by increasing mutual trust and confidence of subordinates strengthens superior-subordinate relations. Joint goal setting and performance review provide opportunity for mutual trust building.

- ***Benefits to the organisation.***

Improved effectiveness — MBO's emphasis on effectiveness improves the effectiveness of the organisation in achieving the objectives.

Effort Coordination — Focus on objectives improves coordination of managerial effort and ensure optimum utilization of resources. It also makes possible to avoid conflicting pulls in opposite direction.

Employee's potentiality identification — Through periodic review employees' potential for advancement is identified.

Decentralisation —MBO programme leads to greater decentralisation of authority.

MBO has a number of shortcomings.

- **Difficulty in setting goal.** Truly verifiable goals are difficult to set. Joint goal setting assumes free, frank and open communication between superiors and subordinates. Status inequality hinders such open communication.
- **Difficulty in providing guidelines.** While setting goals, divisional managers require full knowledge about corporate goals and the departmental managers about divisional goals. Often such knowledge is short in supply. They also need information about planning premises and policies. These information do not percolate down the level.

- **Lack of freedom in setting personal goal.** Higher level objectives cascade to the lower level objectives. This implies that the lower level objective have already been looked in and lower managers have to fit in their objectives with the level higher to them. This process of goal setting curtails freedom of lower level managers.
- **Danger of inflexibility.** Goals are set for a period of time. If within that period they become meaningless, managers often hesitate to change on the belief that too often change would make them more meaningless.
- **Difficulty in implementing MBO programme.** MBO assumes a stable environment in which the goals once set will hold good till they are achieved. Unforeseen environmental change will render the goals invalid. So in a fast changing dynamic environment MBO is difficult to implement.

6.11 Exercises

1. Define the managerial function of planning. Why is it significant in a business enterprise? What are its limitations ?
2. While planning what principles are the managers required to follow ?
3. Give an idea of the various elements of planning.
4. Briefly discuss the various types of plans.
5. Define strategy, classify business strategy and make distinction between different strategies.
6. As a manager how do you propose to implement strategic plan in your area of activity?
7. Discuss the steps sequentially followed while making a plan.
8. What techniques are available for generating alternative solution.
9. Write briefly about planning premises.
10. What is forecasting ? What techniques are available for making forecast?
11. How to prevent failure of a plan ?
12. What is decision-making ? What is rationality ? Can a manager always behave as a rational human being ?
13. What is bounded rationality ?
14. Explain different state of nature under which decisions are made.
15. Classify the decisions made by managers.
16. Discuss the steps in the decision-making process ?
17. Give an outline of the (a) Economic Man Model of decision-making (b) Administrative Man Model of decision-making (c) Gamesman model of decision-making.
18. Give an overview of the elements of MBO system.
19. *Discuss the steps* involved in MBO process.

6.12 Further Reading

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Unit 7 □ Organising

Structure

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7.0. Objectives

For achieving the common purposes management requires a sort of vehicles or instrument which it has to consciously design a system of roles. This attempt results

into a formal organisational structure. While designing and creating the appropriate structure, management considers a host of principles. While the process involves grouping of activities into departments and putting the departments thus created under the supervision of some managers with differentiated authority. The roles at the different hierarchical levels must be manned by people. To that end management undertakes the staffing function.

7.1 Introduction

Business firms depend on the collaborative efforts of their people to achieve their goals. Without clear knowledge of the roles, these people are required to play, they will either work at cross-purposes or fail to do their tasks. A well-defined system of roles guides all activities without interpersonal conflict. Designing and maintaining the system of roles is basically the managerial function of organising. Organising as a process is grouping of activities necessary for goal achievement, assignment of the activity groups to managers with authority to supervise them, and provision for horizontal and vertical coordination for information flow.

While organising two factors are taken care of. They are (1) outlining the goals and the strategic plans to pursue them, and (2) the current and future environment the managers encounter. Thus organising follows from planning and incorporates the designing activities. The designing of the role system results into a pattern of relationships among the people. This pattern of relationship is called the organisational structure. The structure reflects objectives authority, environment and people. Organisational structure is not an end in itself, rather it is a tool for accomplishing firm's objectives. As it is instrumental in accomplishing objectives of the firm, application of principles while designing the structure is very important.

While proceeding to establish an organisational structure the manager may use a logical process by (1) setting objectives, (2) formulating derivative objectives, policies and plans, (3) identifying and classifying the required activities, (4) grouping these activities, (5) delegating authority to the head of each such group, and (6) horizontally and vertically tying the work groups through authority relationships and information system¹. Peter Drucker suggests that the organisational structure designer should analyse activities, decisions and relationships². Both the approaches are fundamentally the same.

1. Koontz and O'Donnell, op. cit., P. 245

2. Drucker, op. cit., P. 194-201

7.2 Definition

Based on what has been stated immediately before, an organisation can be defined as "the rational coordination of the activities of a number of people for the achievement of some common explicit purpose or goal, through division of labour and function and through a hierarchy of authority and responsibility".³ Understanding of the importance of some ideas included in the definition is crucial.

It is important to recognize that in an organisation a number of people make efforts for achieving some purpose. Coordination of individual efforts is basic to the concept of organisation. Coordinated individual activities are directed towards common goals the achievement of which is important. Achieving common goals is the second important idea underlying the concept of organisation. Common goals are achievable if different people do different tasks in a coordinated fashion. The notion of division of labour is the third underlying idea. Some means of controlling is necessary for coordinating individual efforts they put in to their assigned tasks. A hierarchy of authority is an indispensable part of the organisation.

The above definition takes the traditional approach to organisation. If systems approach is adopted for the analysis of organisation, the definition requires modifications in the following spheres. The organisation must be conceived as an open system, with many mutually interdependent subsystems; any change in one subsystem causes change in others, because the organisation considered as an open system continually interacts with the dynamic environment but at the same time maintains a sort of its boundary. Accordingly organisation can elementarily be defined as a sum total of individual but inter-related (sub-systems) which have been put together according to a specific scheme to achieve predetermined objective by having continuous transactions with the environment.

7.3 Significance of Organisation

Organisations are the creation of the society. They satisfy various needs of the society. Society has discovered through long experience that individual human being's ability is limited and as individual beings they cannot satisfy all their personal needs. So society needs organisation where people work as a group. Accordingly the importance of organisation needs to be examined from social point of view. Further, effectiveness of management largely depends upon the quality of organisation that is

³. Schein, Edgar H. Organizational Psychology, 1969, P. 8

being used. So from the management view point organisation plays important role. The significance of organisation is viewed below from these two stands.

From society's view point :

- ***A device for overcoming human limitations and increasing their abilities.*** Biological limitations and environmental factors curb human abilities. By organising, men increase their capabilities and overcome limitations. Organisation, by resorting to division of work and assigning task to individuals for which they are best fitted allows specialisation. This improves the efficiency of individuals.
- ***The means for psycho-social need fulfilment.*** Man does not live by bread alone. He works for bread but the quality of his performance largely depends upon the fact how his psycho-social needs are being satisfied. Organisation provides the opportunity for their fulfilment.

From managements view point :

- ***Organisation facilitates administration.*** A properly designed and balanced organisation facilitates both management and operators of the firm; inadequate organisation robs the efficiency of administration.

All the managerial functions are performed through the organisation. Inadequate organisation structure creates barrier for the performance of these functions.

The manner in which total work is divided and grouped into organisational units directly affects operating results. Non rational division and grouping of activities may result into overload. In some cases the load on the top man is such that he is overwhelmed with jobs of decision-making on routine matters and operating details. As a result the firm loses its competitiveness.

Poor organisation often results in duplication and waste motion. This may range from the preparation of duplicate records and reports to actual duplication of functions by managers and committees.

Sound organisation by facilitating delegation relieves managers from doing routine jobs. By proper division of labour, consistent delegation, and clear job definition the organisation structure transfers the routine duties to the lower positions. It frees executives so that they can devote most of their time and energies to planning and programming the work of their units and coordinating their efforts with other functions in the firm.

- ***Facilitates growth and diversification..*** Firms grow within the framework of organisation structure. Expansion and diversification are possible if the organisation structure permits. Some types of organisation are suitable for small firms in their early stages of growth, and the same may prove inadequate as growth and diversification occur.
- ***Provides for optimum use of technological improvements.*** Each technology has its own demands that must be accommodated by the organisation structure. Technology used in customised production system requires a type of structure which is totally unsuitable for continuous process production system. In the absence of right type of structure the technology remain under utilised.
- ***Encourages use of human beings.*** The organisation structure can profoundly affect the people of the firm. The structure unwaveringly emphasising specialisation leads to monotony, boredom, and frustration with accompanying psychological distress. The structure that allows people to work in teams leads to improvement of morale and productivity.

7.4 Formal and Informal Organisation

As stated earlier setting up a system of roles is basic to organising function. The role system is meant for the people working in the firm. The roles people expected to play set the pattern of relationships and duties. Formalisation of role related behaviour by laying formal rules, operating policies, work methods, control procedures and similar devices robs the autonomy and creativity of the people. Organisation in which formalized role system exists is called formal organisation.

Chester I Barnard refers to an organisation as formal when the activities of two or more persons are consciously coordinated towards a given objective. Conscious coordination is made possible by a system of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability. Individual must adjust to the formal organisation. It asks him to do certain activities in a specified manner, to obey orders from designated higher ups, and to cooperate with others. This circumscribes his areas of work, authority and responsibilities and does not allow encroachment on the work areas of others.

Thus, in the formal organisation, each individual performs his part of a larger task without knowing the beginning and end of the work he does. As he does not know how and where his part of the work fits in the overall plans and objectives of the organisation his tasks must be spelled out; he cannot determine it for himself.

Typically formal organisation is represented by Organisational Chart and Job Description. Although the formal structure does not comprise the total organisation system, it is of major importance.

While setting the structure organisers consider not only the individuals who will be holding the jobs, but also what is reasonable to expect of them. Individuals as human personalities act in terms of personal needs, emotion and attitudes, not always in terms of expectations. Such behaviour is necessitated when they find that formally laid rules and procedures fail to tackle the situations that have arisen. Thus beyond the well-defined role system spontaneous interactions among individual participants occur. This interaction pattern forms the informal organisation. Relationships among members of the informal group are different from those appearing on the Organisational Chart.

Thus informal organisation refers to those aspects of the organisation system that are not formally planned or arise spontaneously out of the activities and interactions of participants. Informal group has no existence outside the formal one but no principle of formal organisation applies to the formation or operation of such groups. However, informal organisation is found in all formal organisations and becomes an essential part of a formal organisation.

Distinction between Formal and Informal Organisation

Formal Organisation	Informal Organisation
1. Structured	1. Unstructured
2. Status bestowed on positions	2. Status acquired by persons
3. Official norms; often imposed from above	3. Unofficial norms; often evolved through consensus
4. Relationships prescribed	4. Relationships not prescribed; but sought
5. Interaction as demanded by roles or rules	5. Interaction voluntary
6. Communication flows horizontally or vertically	6. Communication flows in any or many directions.

7.5 Process in Organisation Design

Organisation structure is essential for effective conduct of managerial functions. There is no straight jacket structure that fits all types of business. The nature and purpose of the business have bearings on the structure. Every business requires

appropriate structure. So organisers consciously and rationally proceed to design the organisation structure

In determining what kind of structure is needed, the first task is to determine what kind of activities must be performed in the enterprise, the second task is how to arrange these activities for most effective performance and the third task is who has the authority to make decisions relating to the group of activities. This involves

- first, identification of primary activities of the enterprise in terms of its objectives;
- second, arrangement of the activities in properly grouped and balanced packages;
- third, Delegation of decision-making authority to the heads of groups of activities.

- ***Identifying activities in terms of objectives***

Activities are undertaken in an organisation not for activities' sake, but for goal attainment. If activities fail to contribute to objectives they are not necessary and should not be undertaken. Continuous analysis of activities shows which one contributes and which one fails to do so. The activities that are important now may not remain so in future. With increasing success and growth of business yesterday's important works become unnecessary and burden the business. They should be pruned at the appropriate time. So in the process of designing organisation structure the search for primary and major activities is to be conducted continuously and unrelentingly.

- ***Grouping of related activities together***

Grouping is the process of arranging related activities to form basic and derivative departments. These departments perform specific functions under the leadership of departmental heads. A specific activity is often related to several broad functions. So the problem in grouping is deciding what jobs belong to what functions. The best method of deciding what activities should be placed in a function is to ascertain how those activities are going to fulfil the purpose of the function.

One set of criteria suggested by Luther Gulick is stated below :

- The purpose served.
- The process used.
- The persons or things dealt with and
- The place where the service is rendered⁴.

4. Gulick, Luther and Urwick, Lyndall F., Papers on the Science of Administration quoted by Dale in Organisation, 1975, P. 135.

The criterion of purpose produces functional departments, of process creates equipment department, of thing dealt with yields product department, of persons handled brings out customer department, and of place where service is rendered makes geographical department. Details about them are discussed later.

Sound grouping is balanced grouping. Each function should be given its proper emphasis with respect to its basic purpose in the organisation. No primary function should be permitted to dominate.

- ***Delegation of decision-making authority***

Authority refers to a relationship among participants in an organisation. Such a relationship is called superior-subordinate relationship. This relationship comprises superior's right to command and subordinate's duty to comply with the order. The authority structure provides the basis for assigning tasks to various elements in the organisation and for developing control mechanism to ensure that these tasks are performed according to plan.

Each group is responsible for doing a particular job and each member of the group performs a specific task. Without decision-making authority, heads of groupings have to refer to their superiors for directions. Heads become post offices to convey superiors' order to their subordinates. So every head of the groups must have delegated decision-making authority. The pattern of delegated authority influences the organisation structure to make it either a centralised or decentralised organisation.

7.6 Determinants of Organisation Structure

Designing a structure that best suits the specific purpose is most welcome. What seems to be the ideal design today may tomorrow prove to be totally ineffective. The structure needs to be continually renewed as the environment changes. Several factors impinge upon the design of an organisation structure. Such determining factors are:

- ✓ Environment
- ✓ Technology
- ✓ Strategy
- ✓ Psychosocial characteristics of the participants

- **Environment**

The immediate operating environment of an organisation influences the structure. Operating environment refers to the set of conditions outside the organisation that have a direct impact on the day-to-day functioning of the organisation. The two aspects of the environment that are crucial for designing the structure are (1) the environment's relative stability versus its instability, and (2) the environment's relative simplicity

versus complexity. These two dimensions strongly influence the nature and amount of structured relationships that will exist within an organisation.

Relatively simple and stable environments permit the development of highly structured organisation – say bureaucratic organisation. On the other hand, environments which have many rapidly changing elements and involve uncertainty and unpredictability demand a fluidly designed structure and deemphasise structured relationships. The organisation's design must commensurate with the important features of its environments.

- **Technology**

Technology is another contextual factor that has effect on structure. Technology refers to the techniques used by organisations to transform inputs into outputs. The operation technology is applicable not only to manufacturing organisations but also to all types and kinds of organisation. All organisations, whether production-oriented or service-oriented transform things coming in into things going out.

Degree of routineness or nonroutineness of technology has differential impact on the structure. Routine activities are characterised by automated and standardised operations whereas nonroutine activities involve operations difficult to standardise. Routine tasks are associated with taller organisation (many levels and narrow span). Routineness rigidly formalises the role structure and promotes centralised structure. Nonroutineness is characterised by delegated authority and promotes decentralised structure.

- **Strategy**

Structure follows strategy. Strategy is defined as the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out the goals. Decisions to expand the volume of activities, to set up distant plants and offices, to enter into new business or to introduce product diversification involve new goals and resource allocation. Such strategic choices demand changes in the current structure. A fit between strategy and structure guarantees good performance.

- **Psychosocial characteristics of Participants**

Psychosocial characteristics of employees influence the organisation structure. Psychosocial system in any organisation is a mixture of many ingredients in which individual is the basic unit. This system means individual in social relationship and is understood in terms of motivation and behaviour occurring within an organisation. It includes :

- Status and role systems

- Group dynamics

- Influence systems

- Leadership.

Status systems serve to structure social relationships and provide a framework within which group (departmental) efforts can be coordinated towards objectives. Closely related to status systems, role relates to the behavioural patterns expected of a given position in the organisation. Departments as small groups provide a mediating mechanism between individuals and organisations. Group dynamics—activities, interactions and sentiments—play an important part in individual behaviour. Managers are interested in influencing individual's behaviour and hence provide leadership to the organisation. Leadership styles are related to influence system.

These human aspects along with technology and structure provide the framework within which the managerial system works. The structure that fits well with the psychosocial system of the work force keeps the organisation going. Otherwise, the possibilities of conflicts and chaos are great.

7.7 Principles of Organisation

The classical organisation theorists primarily concerned with the design of efficient organisation that would work as a means of achieving the designated goals and objectives set. They designed the structure for the most efficient allocation and coordination of activities. The position in the structure, not the position holder, had the authority and responsibility for getting tasks accomplished. Their structure was geared to stable environment and routine technology. They emphasised upon rigid structure with well-defined relationships and clearly established line of authority and communication. For the purpose classicists formulated a set of principles, called principles of organisation. These principles are not infallible laws, rather they are in the nature of criteria for good organising. To put them in a logical framework Koontz and O'Donnell have grouped the principles in some categories.

I. Purpose of organising

- **Principle of unity of objective.** An effective organisation structure facilitates individuals to contribute to the accomplishment of organisation's objectives. Unity of objective is possible if individual's objectives merge in organisation's objectives.
- **Principle of efficiency.** Individuals should be able to contribute efficiently. As the individuals work as members of work groups so individuals' efficiency implies group's efficiency. Accordingly every division, branch, department should be in a position to contribute efficiently and effectively.

II. Cause of organising

- **Principle of span of management.** The principle states that a manager can effectively supervise a limited number of subordinates but the exact number varies from situation to situation.

III. Organisation structure : Authority

- **The scalar principle.** The principle states that authority and responsibility should flow in a direct vertical line from the top manager to every subordinate position. It establishes the hierarchical structure of the organisation. It refers to the vertical division of authority and responsibility and assignment of job tasks along the scalar chain. It establishes superior-subordinate relationships.
- **Principle of delegation.** Authority delegated to an individual manager should be adequate so that he can accomplish the task assigned to him. Authority is the right to invoke compliance by subordinates. Authority and responsibility (of task accomplishment) should be directly linked. In other words., if a subordinate is made responsible for carrying out an activity, he should also be given the necessary authority. There must be parity between authority and responsibility. With delegated authority and responsibility a subordinate manager remains accountable for carrying out the responsibility and exercising authority to his superior. Accountability is not delegatable, it is absolute.
- **Principle of unity of command.** The principle states that an individual should receive command only from one superior to whom he also remains accountable for performing his tasks
- **Principle of authority-level.** The principle implies that a manager within the limit of his delegated authority must make decisions and should not refer the decision-issue upward in the organisation structure.

IV. Organisation structure : Departmentalised activities

- **Principle of division of work.** It is desirable to determine the necessary activities for the accomplishment of overall organisational objectives and then group them on a logical basis into departments which perform specialised functions. Various guides are available for activity groupings into departments that will be discussed later.
- **Principle of functional definition.** It is necessary that the results expected, activities to be undertaken, authority delegated should be clearly defined for each department. Authority and informational relationships with other departments should also be made known.

- **Principle of separation.** If one activity is designed to be a check on another, the responsibility of checking should invariably be assigned to a manager independent of the executive whose work is being evaluated.

V. **process of organising**

- **Principle of balance.** In every organisation structure there is need for balance. The inefficiencies or disadvantages arising out of the application of any or a set of organisation principles need be balanced or set off against the efficiencies or advantage gained through other principles
- **Principle of flexibility.** Every enterprise moves towards its goals in a changing environment. Structural inflexibility in organisation incapacitates the firm to meet the changes. Flexibility principle provides leeway to change the structure if necessity arises.
- **Principle of leadership facilitation.** The leadership quality is an important ingredient of effective managership. Organisation structure may promote or thwart the emergence of leadership. In this sense, organising is a technique of promoting leadership.

7.8 Departmentation

Organisation structure is created as managers group jobs and assign responsibility for coordination and decision-making. Most managers are guided in making grouping decisions by criteria they deem to be appropriate.

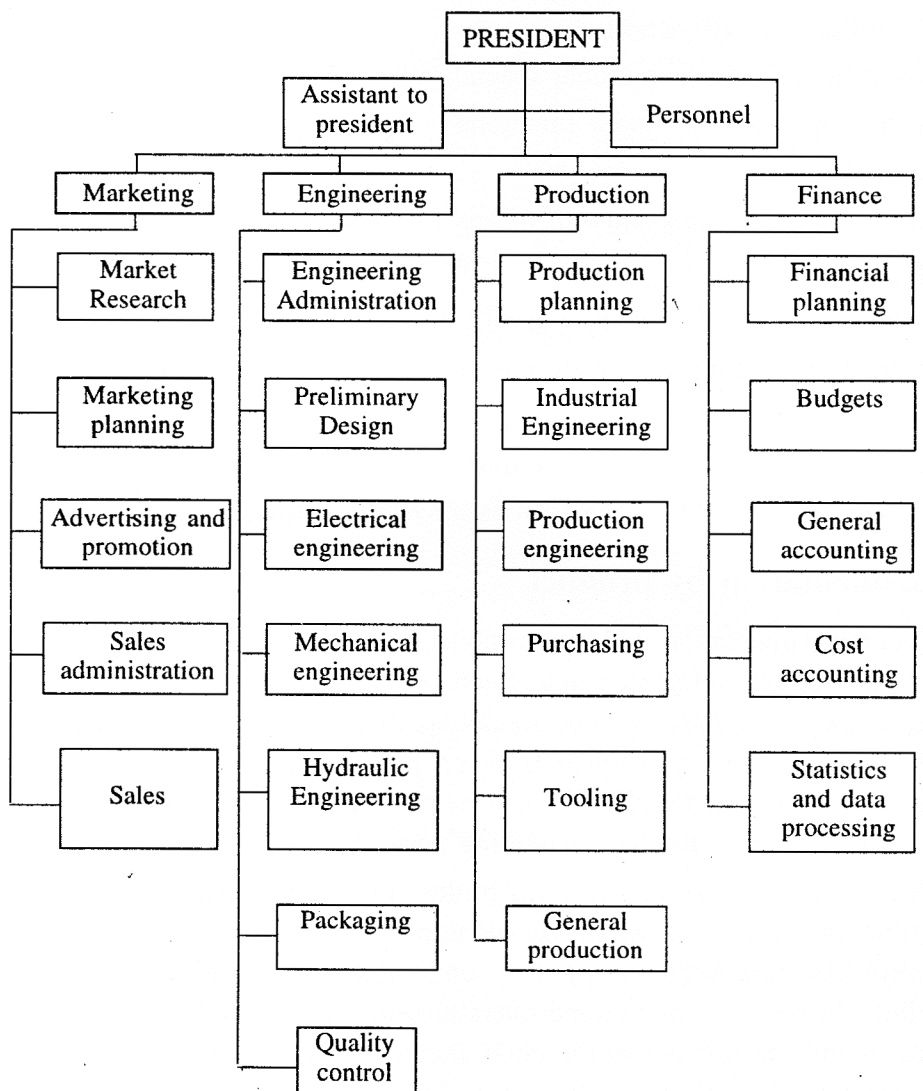
Total task of the organisation is divided or differentiated so that particular groups or units can be made responsible for the performance of specialised tasks assigned to them. This differentiation occurs in two directions – the vertical specialisation of activities, represented by the organisational hierarchy and the horizontal differentiation of activities, called departmentation. The vertical differentiation establishes the managerial structure, whereas horizontal differentiation sets the basic departmentation. Taken together, they set the formal structure of the organisation. We are now interested only in horizontal differentiation. By horizontal differentiation it is usually meant that the units of groups to which task is allocated are at equivalent hierarchical levels; for example, sales, manufacturing and engineering.

Departmentation decision critically influences organisational effectiveness. So the most appropriate base for departmentation must be selected very wisely out of the several bases available. Several of these bases are described below.

7.8.1 Departmentation by function

Functional departmentation is the most widely employed bases for organising activities and is used to some degree in almost every organisation. The designer using

this base groups together jobs that share common function under one coordinating head. At the lowest levels of the organisation the positions grouped together may be identical. Thus, all machinists are assigned to the machine shop foreman. At the higher levels, functional grouping pattern combines many different jobs but they all focus on some primary functions. Thus, the manufacturing manager will be responsible and accountable for all functions related to manufacturing including production, tooling, production engineering, and similar others carried out throughout the organisation. The machinists and their supervisors will be somewhere in this grouping.



Functional Departments

Commonly used major functions are engineering, production, marketing, finance, personnel, and research and development. It should be noted that engineering, production functions are not found in hospitals, banks or insurance. So these functions are used in generic sense. The figure gives an idea of functional departments of a manufacturing company.

Functional departmentation offers some advantages and suffers from some disadvantages.

- **Advantages**

- Logical reflection of function

- Follows principle of occupational specialisation

- Maintains importance of major functions

- Simplifies training

- Provides the top management with means for tight control.

- **Disadvantage**

- Responsibility for profits at the top only

- Overspecialises and narrows view points of key personnel

- Limits development of general manager

- Reduces coordination between functions

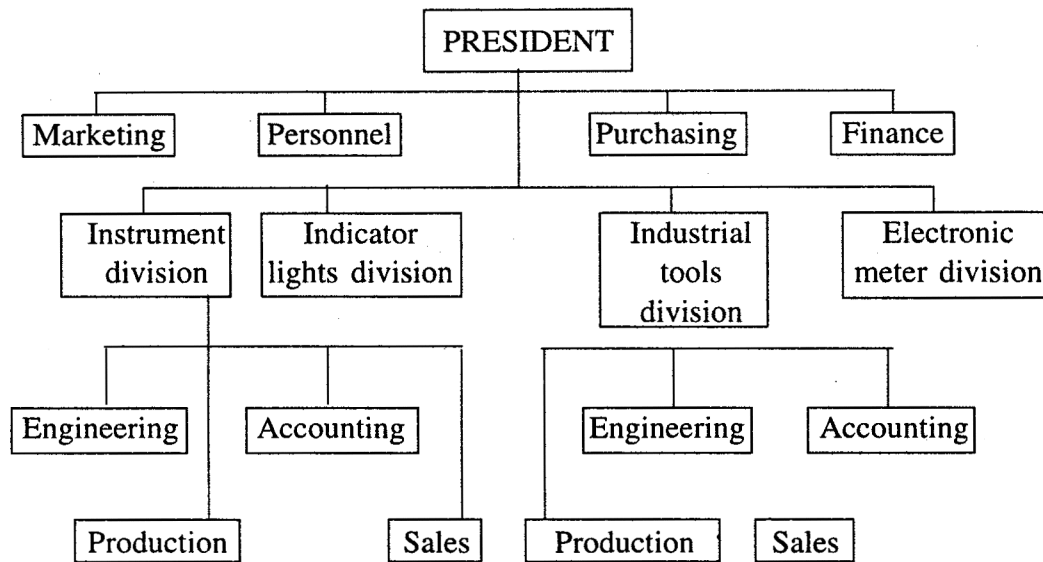
- Makes economic growth of the firm as a system difficult.

7.8.2. Departmentation by product

The product departmentation involves establishing each product or product line as a relatively autonomous integrated unit. Such primary functions as engineering, manufacturing, marketing, finance and personnel are dedicated to the interests of the product itself. The emphasis is changed from primary functions to products. The product departmentation is made self-sufficient by placing all the activities necessary from production to financing through marketing personnel.

Product departmentation usually evolves in the organisation that was originally structured by function but have grown in size and number of products has gone beyond manager's control. As more and more products and employees are added, functional lines of coordination and control become overstressed. The structural remedy is to appoint product managers just below the chief executive who are responsible for a given product or a line of products. Each product departmentation, in effect, becomes an autonomous smaller company.

An illustration of product departments is given below



Product Departments

- **Advantages**

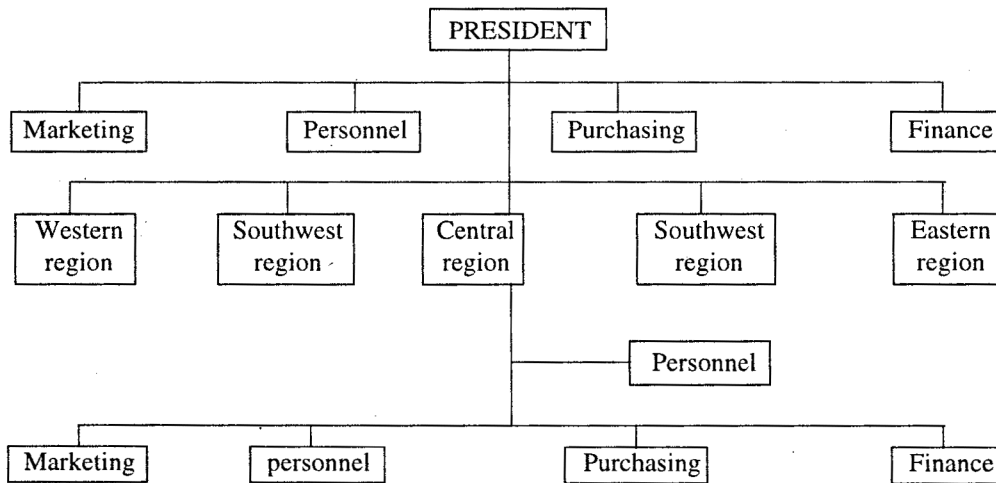
- Places attention and effort on product lines
- Places responsibility for profit at the department level
- Improves coordination of functional activities
- Furnishes training ground for general managers
- Permits growth and diversity of products and services

- **Disadvantages**

- Requires more persons with abilities of general manager
- Tends to make maintenance of economical central services difficult
- Presents increased problem of top management control.

7.8.3. Departmentation by territory

Departmentation based on geographical areas is a common method for physically dispersed enterprises. Such departmentation involves grouping of the primary activities of the business in terms of the territory to be served under the control of the territorial manager. It becomes a relatively complete administrative unit in itself. All the positions and activities at a given location are grouped under the control of the territorial manager. The territorial units work under the supervision and guidance of the corporate headquarters. Such departmentation is illustrated below :



Territorial Departments

- **Advantages**

Allows maximum utilisation of local resources and talents

Facilitates fast decision-making in response to changes in the local conditions

Economises transportation cost if heavy, large or perishable products are to be carried from a central plant.

- **Disadvantages**

Makes corporate control problematic

Require larger number of executives with general management skill.

7.8.4. Departmentation by customer

Activities and positions are sometimes grouped together to meet the unique needs of some specific groups of customer for instance, to handle effectively the professional purchasing agents working for other enterprises a separate industrial sales department may be created. Similarly the enterprise may set up another department to meet the needs of individual customers. Such departmentation arguably serves different groups of customer who characteristically differ between them. At the same time, it creates problems of coordination between departments.

7.8.5. Departmentation by process equipment

The jobs needed to operate a particular machine or to implement a given process are grouped together to form a department. Any common service shared by different groups are arranged on this basis for example, electronic data processing department. The most common reason for departmentalising on equipment basis is economics. It allows optimum utilisation of high-valued equipment.

7.9 Functional vs. Divisional Departmentation

In the above paragraphs several bases of departmentation have been briefly described. While selecting the most suitable structure the manager has two basic alternatives – the functional and divisionalised structure. Most of the enterprises begin with a functional structure when they are small, and are changed to divisional structure when they become large. While divisionalising is attempted; product, territory, customer etc., bases are adopted

You should further note that there is a small number of companies where only one base has been adopted. The functional format is frequently used at lower levels of divisionalised companies. As a hybrid of the functional and divisional forms of structure, the matrix structure has emerged.

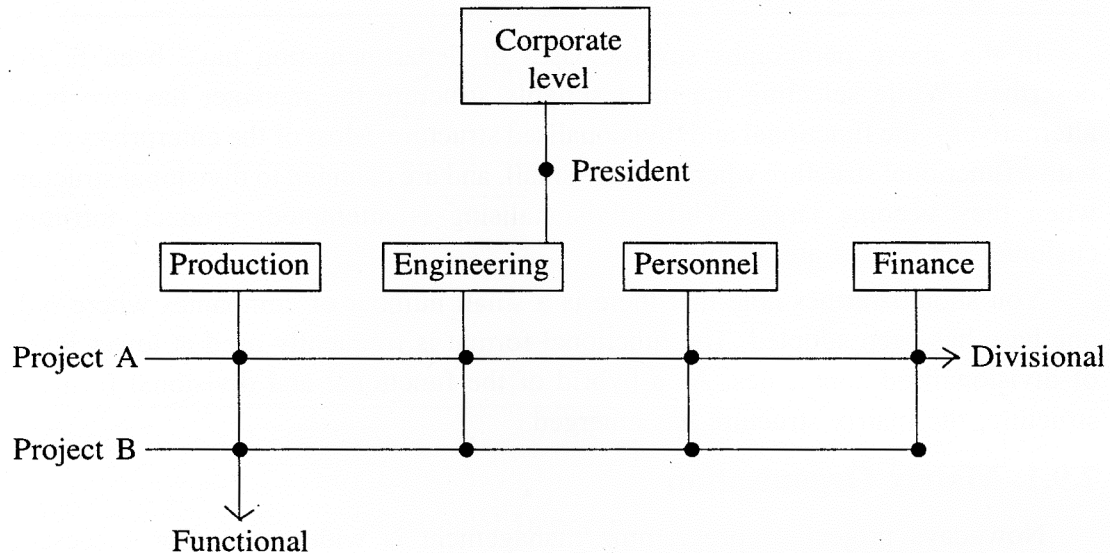
7.9.1. Matrix Organisation

Nowadays project or programme management is widespread. For successful completion of specific project traditional organisation structure—functional or divisional is not of much use; accordingly matrix structure has emerged to provide integrated management for project. Matrix structure is a combination of the product and functional structure. A project requires the skilled services of functional man as well as specialised knowledge of product man. The product man is responsible for organising and controlling all the activities of the project. He is usually super imposed upon the functional man. The project (or product) manager cannot operate effectively if he relies solely upon the formal authority of his position. His ability to influence others who are beyond his formal authority ensures success. Thus, his authority and influence flow in different directions unlike hierarchical authority. They flow horizontally across vertical superior-subordinate relationships existing within the functional structure. Thus, individuals work under two bosses – a functional boss and a product boss.

Thus, one of the distinguishing features of matrix structure is dual authority. This means that individuals have two bosses. An engineer, for example, is assigned to the engineering manager and also to a product (i.e., project) group manager. Dual authority violates the principle of unity of command but assists the project manager to exert his influence.

From the above feature the second feature arises. Without balanced power there is a great possibility of power clash between the project manager and the functional manager; so relative authority of the two managers should be more or less equal. Without balanced authority dual authority has little meaning.

A typical matrix structure is presented below



Activities relating to production engineering, personnel and finance require functional professionalism. So each of them is headed by a professionally skilled functional manager. Projects A and B are considered as product oriented structures. They require different combinations of functional activities. Project manager decides how and to what degree he will cooperate and collaborate with the functional managers. Thus, in matrix structure vertical line indicates functional dimension and horizontal line shows divisional or functional dimension.

7.10 Shape of Organisation : Span of Management

Organisation structure can be viewed in terms of its shape or configuration. The structure may be designed in a way that makes it tall with long chain of command. and long line of communication or makes it flat with short chain of command. Simply organisation may be tall or flat in shape. The shape depends upon the span of management adopted.

Simply stated span of management (also referred to as span of control/supervision) relates to the number of subordinates which a manager can supervise effectively. The idea of span is important not only in terms of superior-subordinate relationships but also in terms of its influence on the shape of the hierarchy. It does determine the number of levels in the organisation pyramid. For instance, if all the 20 departmental heads report to the president, the structure tends to become a flat one and it has two

levels. If, on the other hand, only three report to the president and the others report to the three, one more level is added to the structure. As the span is widened the levels are few and the structure is flat; narrow span creates many levels and the structure becomes tall. Flatness or tallness of structure has great influence on the effectiveness of communication.

7.10.1. The ideal span of management

There is a great deal of controversy regarding the optimum number of subordinates a manager can effectively supervise. V. A. Graicunas provided a mathematical formula to calculate the number of people for an ideal span, as early as 1933. Peter Drucker span of managerial relationships as an alternative term.

Graicunas' formula fails to specify the exact number of subordinates a manager can effectively supervise. There are many underlying variables that have influences on the ideal span; Graicunas takes only the total relationships between superior and subordinates and not the underlying variables. The following are the underlying variables :

- Ability and competence of managers
- Amount of personal contact or interactions
- Nature and importance of activities supervised
- Use of standing plans
- Training of subordinates
- Delegation of authority
- Rate of change
- Communication technique

As these variables differ from situation to situation there cannot be a generalized formula regarding optimum number of people whom a manager can supervise effectively. Rather the ideal span is situation-specific.

In this connection it should be noted that at present decentralisation of authority is favoured which is opposed to narrow span. Wide span at the top and middle levels enforces the management to delegate and decentralise authority⁶.

7.11 Pattern of Authority : Line and Staff

There is a direct interrelationship between organisation structure and the pattern of authority. Inasmuch as structure is concerned with establishment of positions and relationships between positions, it does provide the framework for authority allocation.

6. Pfiftner, John M. and Sherwood, Frank P., Administrative Organisation, Indian Reprint, 1968, P.160.

What kind of authority is to be allocated in the structure? The question relates to the nature of authority – the problem of line and staff. The department heads without authority cannot run their units smoothly for making contributions towards enterprise objectives.

A traditional base of differentiation of managerial activities has been in terms of line and staff functions. The line has direct command authority over the activities of the organisation and is concerned with the primary functions. In contrast, the staff performs an advisory role and is concerned with supportive activities. Line and staff concept is necessary to provide some means of integrating the primary functions and secondary supportive activities.

Organisationally, the line is the chain of command that extends from the board of directors through hierarchical levels to the point where the primary activities are performed. Once a line manager's job grows beyond a certain size, he needs help for performing it properly. Staff provides that service to the line. Actually, staff as best thought of in terms of a relationship. When one position exists primarily to provide advice and supportive service to another, it is in a staff relationship. And if the work of a department is predominantly that of advice and service to one or more other departments, it is classified as a staff department. Staff includes all elements of the organisation, which are not line.

7.11.1. Conflict between line and staff

Instances of frequent friction and conflict between line and staff abound in the real world. Both line and staff have their their viewpoints regarding the source of such conflicts.

- ***The line viewpoint***

The line managers complain against the staff on the grounds that :

- Staff assumes line authority
- Staff fails to give sound advice
- Staff steals credit
- Staff fails to see the whole picture

- ***The staff viewpoint***

The staff people's complaints against the line centre around the following :

- Line does not make proper use of staff
- Line resists new ideas
- Line does not give staff enough authority

Such conflict, if they persist, puts the organisation in disarray and it loses its effectiveness.

7.11.2. Resolution of line-staff conflict

The solution lies in making the line and staff work as a team. If effective teamwork is to exist the following points must be observed :

1. As the ultimate responsibility for successful operations of the firm lies with the line people, they must be responsible for operating decisions.
2. Staff elements should provide advice and service to the line in accomplishing the enterprise objectives.
3. Staff should provide advice service to appropriate line when requested to do so. Also, staff is responsible for proffering advice and service even if not requested, but believes it is needed.
4. The solicitation and acceptance of staff's advice and service is usually the option of the line elements. In some instances only top management has this option and once top management decides to use staff's services such decision is binding throughout lower levels.
5. If the staff's recommendations seem to serve the company's interest best line is responsible to consider them seriously and follow them. In other cases line managers should have authority to modify, reject or accept such advices.
6. Both line and staff should have the right to appeal to higher authority in case of disagreement on staff recommendations.

7.12 Distribution of Authority : Delegation of Authority

Organisation structure provides a stable, logical and clear-cut pattern of relationships without which managers and employees cannot work towards the organisation goals. But this is only a framework. It does not work by itself. People interacting through an organisation structure need rules by which they can make that structure work effectively. Managers decide to set and apply rules for people acting in an organisation structure by virtue of their formal authority.

How to distribute formal authority throughout the organisation structure is a key organising decision. Managers obviously cannot do everything that must be done to carry out the strategic plan for an organisation. Hence, they must decide how much authority to delegate to lower ranking managers or non-managers. Delegation involves the sharing of authority with others.

7.12.1. Delegation of authority

Delegation is handing over to a lower-ranking manager or non-manager formal authority for carrying out specific activities. It makes the organisation possible and

management dynamic. As one person cannot do all the activities necessary for accomplishing organisation goals, so it is impossible for one manager to exercise all the authority to make decisions in a large organisation. The principle of span of management suggests a limit to the number of subordinates a manager can effectively supervise and for whom he can make decisions. Beyond this limit authority must be delegated to subordinates who will make decisions relating to their assigned groups.

- **Elements of delegation**

As delegation is the entrustment of tasks and authority to another and the creation of obligation for task performance, it has three elements. viz., task or duties, authority and accountability or obligation. Different terms have been used while discussing these elements that have created a sort of confusion. By the term 'responsibility' some people mean 'task', 'duty', some others mean 'obligation', 'accountability'. But by responsibility we mean the obligation to perform the work assigned to a position. While authority is the sum of powers and rights entrusted to make possible the performance of the task entrusted, but accountability is the obligation to carry out responsibility and exercise authority in terms of predetermined performance standards. Responsibility creates obligation and accountability. Accordingly the prescriptions are authority is the right and power sanctioned i.e., delegated to be exercised by the subordinate. For the present module task, authority and responsibility have been identified as three elements of delegation. Task and authority can be delegated, but responsibility can not be as it is created rather than delegated.

- **Process of delegation**

The steps in delegation are the basic part of the process of management itself. The process of delegation involves :

- the determination of result expected
- the assignment of tasks
- the delegation of authority and
- the exaction of responsibility

Just as effective management can truly be said to be management by objectives; successful delegation can also be characterised as delegation by objectives. The delegator should have clear idea how much the delegatee is going to contribute to the organisation goals; in other words, he needs to determine the result expected of the

delegatee. The delegatee as an individual should also know what he is expected to accomplish. If the company sets goals for each manager at all levels, completion of this step becomes easier. While assigning the task the delegator should take care to lay out the contents of the task, otherwise delegatee's performance will not be maximum. For performing efficiently the delegatee should have adequate authority. Authority is the right entrusted to make possible the performance of the task delegated. Authority includes such rights as those of spending specified amounts of money, of using certain quantities of materials, of hiring and firing people. It may involve the right to decide or act. The authority should correspond to the responsibility, neither it should be greater than responsibility nor less than it. There must be parity or equality between the two. Responsibility is the obligation to carry out the assigned tasks and exercise authority in terms of performance standards. Responsibility arises as soon as task is assigned and authority is delegated. The person making the delegation always remains responsible to his superior for that which he has delegated. Since responsibility cannot be delegated, the responsibility of higher authority for the acts of subordinates is absolute. Delegation of task and authority is downward while responsibility is upward.

- **Effectiveness of delegation**

Delegation being a way of organisational life, effectiveness or ineffectiveness of it depends importantly upon the personal attitudes of the delegator towards delegation. The personal attitudes reflect the following things :

- a) **Receptivity.** Delegation implies that the delegatee has right to make decision about his tasks. The subordinate's decisions are not likely to be exactly the same as that of the superior if he would have made. The superior needs to consider the subordinate's decisions objectively and encourage him. Receptivity to ideas from subordinates encourages them to make decisions.
- b) **Acceptance of subordinate's right to make decisions.** One of the precepts of delegation is that a manager performs that part which only he, because of his unique organisational placement, can perform effectively. A tendency among managers who have moved up organisational hierarchy is found that they want to continue to make decisions for the positions they have left. For making delegation effective the delegator should restrict this tendency and remain willing to release the right to make decisions to his delegates.
- c) **Willingness to allow subordinates to learn decision-making.** Apprehending that subordinate manager may commit mistakes if superior manager denies decision-making authority to him, the very spirit of delegation is defeated.

Obviously, the delegatee should be allowed to make mistakes so that he can learn through experiences.

- d) **Trusting attitudes towards subordinates.** Delegation implies a trustful relationships between the two. Subordinate has not yet developed sound judgment, cannot handle men, or does not appreciate all facts bearing on a situation are pleas for not delegating. Faith and trust in the subordinate enable superior to delegate.
- e) **Fear of loss of control over subordinates.** Boss may fear that he will loose control over his subordinates. Such fearful attitude develops when the boss is deficient in establishing an effective control system in resourcefulness. As the superior manager fears the loss of control to compensate his deficiency in developing control system or resourcefulness he declines to share power and authority with his subordinates.

Thus effectiveness of delegation depends largely upon the willingness to delegate and the control system designed to ensure that delegated authority is properly used.

7.12.2. Distribution of authority : Centralisation and Decentralisation

Centralisation and decentralisation of authority are not related in 'Either-or' relationship. Authority is centralised to the extent it is not delegated. Absolute centralisation in one position implies no subordinate manager and therefore no structured organisation. So some degree of decentralisation characterises all organisations. On the other hand, there cannot be absolute decentralisation, because if a manager delegate all his authority his status as manager would cease; his position would be redundant; so again there would be no organisation. Centralisation and decentralisation are tendencies; the flow of authority may be either towards centralisation or towards decentralisation. The obverse of decentralisation is not centralisation but recentralisation

● **Centralisation of authority**

Centralisation is the systematic and consistent reservation of authority at certain point within the organisation. It is often found that a manager does the work that could be done by his subordinates, or that a manager makes decisions that could be made effectively by his subordinates. If the manager reserve the task, he necessarily reserves the authority; or he may delegate the task but not the requisite authority to carry it out effectively.

Centralisation denotes that a majority of the decisions related to the task being performed are not made by those who are doing it but at a point higher in the

organisation. Fayol aptly says "Everything that goes to increase the importance of the subordinate's role is decentralisation, everything which goes to reduce it is centralisation"⁸.

- **Factors making for centralisation**

There are certain factors that dictate centralisation of authority in an enterprise. Some of them are as follows :

- a) ***The chief executive officer himself.*** The extent to which he retains power to maintain his personal leadership, his subordinate managers are likely to imitate him. To the extent that he welcomes checking and consultations prior to making decisions with lower rank managers and depends on them, his subordinates are likely to do the same.
- b) ***Coordinative devices used.*** All coordinative devices used in the company foster centralisation. Such tools as Organisation and Policy Manuals. Methods and Procedure Manuals. Authority Statement (that limits authority) they actually take away more authority than they do confer. These manuals are in use in companies for dual purposes — for providing unity and integration of the total operations, and for promoting uniformity of action by all the units. The manuals in the end actually lead to more centralisation than decentralisation.
- c) ***Modern means of communication.*** The use of information technology makes it possible for the chief executive to issue direct orders to distant subordinates and to get feedback from them. This technical development, in a way, has eliminated the main reasons for decentralisation. If enough information can be brought to a central point quickly, there may no longer be a need to have problems settled at a point close to their sources. This may be one of the reasons for the current tendency to recentralisation.
- d) ***Emergency handling.*** When emergency decisions that affect all units of the company must be made, centralisation of decision-making is highly desirable. In emergency fastest decisions are essential for rescuing the company.
- e) ***Automation of production facilities.*** As automatic equipment takes over a larger and larger portion of the production activities, the need for operating personnel declines and the number of supervisors required is also reduced. The net effect is that many of the decisions previously made by lower and middle managers would be made by senior executives. So more the automation more is centralisation.

8. Fayol, Henri, General and Industrial Management, 1949, P. 34

● Decentralisation of authority

Managerial decentralisation means systematic delegation of decision-making authority by the superiors to their immediate subordinates and then to others further down the organisation hierarchy. It is concerned with the placement of authority with reference to tasks assigned. Managerial decentralisation as a concept involves establishing greater formal authority and official freedom at any level than would have been in its absence. It is an increasing, by superior, of the subordinate's authority to make decisions at any level throughout the organisation. In short it is the systematic delegation of authority to all units in an organisation-wide context.

Managerial decentralisation is done with the aim of furthering the goals of the enterprise; hence it is a means to an end. It is neither an ideal, a series of principles nor prescriptions that an executive ought to follow. It is not necessarily good or bad.

Managerial decentralisation is the extension of delegation but there is difference between the two. Delegation refers to the entrustment of tasks and authority from one individual to another individual whereas decentralisation applies to the systematic delegation of authority in an organisation-wide context. Delegation is a process while decentralisation is the end result of planned delegation. Moreover, delegation is a must for management as it creates an organisation but decentralisation is optional and appears on the scene only when an organisation is growing and becoming large and complex. However, decision-making is the basic ingredient in both.

The inverse relation between centralisation and decentralisation implies that increase of one leads to decrease of the other. This is best understood in terms of a continuum – absolute centralisation at one extreme and absolute decentralisation at the other extreme. In between the two extremes are varying combinations of centralisation and decentralisation. Thus a superior manager has four options :

1. absolute freedom to decide without restraint ;
2. freedom limited only by broad policy statements promulgated by superior levels in the organisation;
3. freedom to decide but with the proviso that once decision is made it must be reviewed immediately by the superior and is subject to revocation;
4. decision can be made only with the prior concurrence by the superior.

At each managerial level in the organisation, the superior must choose from among the four alternatives of authority provisions. Further, because of the difference in personal values and attitudes all superiors are not inclined to decentralise at the same rate. So it is observed that decentralisation proceeds at a different rate to different

levels. Decentralisation usually spreads level by level from the top. It is not unusual to find a company which has decentralisation from the chief executive to the division manager level, but the division manager has hoarded authority. The same may hold true at the next level.

- **Assessing the degree of decentralisation**

For knowing the degree of decentralised authority in a given company, it should be assessed. Tests are available for the purpose.

The locus or place of the decision-making authority in the management hierarchy is one such criterion. The lower the rank of the executives who make pertinent decisions, the greater is the degree of decentralisation.

The degree of decision-making power at the lower levels will be another factor. This can be determined by studying the authority which can be exercised (a) without any check from higher authority; (b) with a check or regular report after the decision is made and carried out; or (c) with a check before the decision is made or put into effect.

In assessing the degree of decentralisation in a company, moreover, both formal and informal aspects of decisions-making rules are to be considered. Official policy statement may prescribe one type of decision-making rule, but actual practice may be quite different. Thus there may be a high degree of formal centralisation, but if successful business conduct is not possible under such circumstance, decision may actually be made much lower down informally.

- **Factors leading to decentralisation**

At what level in the organisation the decision on any subject is actually made is the result of several factors. Some of them are described below, but they do not exhaust the list of the determining factors.

- a) **Size.** In larger firms more decisions are made at more points involving larger number of people. Consequently, decision-making takes time and becomes costly. To minimize cost, authority should be decentralised wherever feasible.
- b) **Geographic dispersion.** A close relationship exists between size and geographic spreading of activities. As the number of customers grows and spreads over an extensive area, facilities must be expanded to serve customers more satisfactorily. This dispersion makes communication difficult (now being overcome by information technology) and response to local needs unsatisfactory. Increased authority is therefore, often given to the local manager to enable him to cope with the local scene.

- c) ***Desire and need for training executive.*** Lack of managerial talent works as a limiting factor in growth in many firms. The development of capable managers comes not from training programmes but from giving managers a management job to do and delegating to them authority to make important decisions.
- d) ***Greater diversification.*** If an organisation grows to a size where the volume of its traditional products does not produce sufficient resources to sustain growth it resorts to diversification. Diversification is facilitated by divisionalised structure. And decentralisation must accompany divisionalisation if most effective diversification is to take place. In many situations, diversity, rather than size, is the impelling reason for decentralisation.
- e) ***Excessive burden on top executives.*** Lack of planning and control for the overall company, proliferation of personal staff and over dependence upon committees signal too much burden on top executives. These characterise centralised management. Decentralisation by easing burden allows the chief to relax and to think for planning, provides opportunities to delegate to subordinates and to forsake dependence on committees.
- f) ***Improving motivational level.*** Highly centralised management stifles employee initiative and willingness to participate. They passively do whatever they are asked to do. In other words, employee motivation level is low in such an eventuality. Their motivation level improves when they enjoy increasing amount of freedom and participate in solving problems and in suggesting satisfactory decisions. Decentralised management by allowing delegation improves motivation and thus releases employee creativity, ingenuity and energy.

- **Gaining the desired degree of decentralisation**

It is a rare case that every manager in an organisation believes in the philosophy of decentralisation; some one at some organisational level has the tendency to hoard authority who will not delegate. Decentralisation might have been decided at the top level but there is no certainty that the desired degree of decentralisation would be gained. The pertinent question, therefore, is how to realise and maintain the desired degree of decentralisation. Scholars and management practitioners have formulated certain measures to that end.

The first measure relates to the understanding the concept of decentralisation. The basic to the concept is the knowledge that decentralisation does not mean complete freedom. Further to it the following points to be kept in mind :

- it implies establishment of policies to guide decision-making along the desired courses;
- it requires careful delegation by managers who know how and what to delegate;

- it must be accompanied by controls to ensure proper use of delegated authority; and
- mere act of delegation is not enough to ensure decentralisation.

The second measure is concerned with the following techniques :

- circulation of a clearly written statement containing each manager's duties, the degree of authority delegated to him, and his responsibility;
- imparting education to subordinate managers in the rights of others for the purpose of restraining them from bullying others;
- widening the span of management, particularly at middle and lower levels so that managers are forced to delegate; and
- promoting managers when they have trained their subordinates to take the position of their superior.

These measures, it is expected, will help in obtaining and maintaining the desired degree of decentralisation.

7.12.3. Organisation structure and distribution of authority

You have noted earlier that organisation structure may basically be of two types – functional and divisional. Functional grouping of activities leads to functional structure and grouping activities in terms of product, territory etc., results into divisional structure. In functional structure distribution of authority seems to be limited. In other words, there is tendency to centralise authority at higher organisation points. Divisionalisation, almost by definition, bring with it more distribution of authority. In large functional organisation more authority delegation is noticed but less decentralisation; on the other hand, in divisional structure relatively more delegation and decentralisation are observed.

7.13 Staffing

Organisation structure creates various managerial positions or roles at different levels. These roles are to be manned by individual managers to keep the organisation going. The task of putting the right person to each position is referred to as staffing. Some writers on management include it as a phase of organising and many others consider it as a separate distinct managerial function. However, in the present course it is considered to be a part of organising function. Currently the term human resource management is frequently used instead of staffing. It involves several distinct tasks such as, identifying human resource requirements, inventorying (taking stock of) the people available, recruiting, selecting, placing, appraising, promoting career planning, training for developing peoples skill and competence. The purpose is the acquisition, utilisation, improvement and preservation of the human resources of an enterprise.

It ensures that the firm has enough of right kind of people at the right time. Each of the human resource management tasks is briefly introduced in the pages that follow.

- **Identifying human resource requirement.** The human resource management group is involved in identifying the overall manpower requirement both for the immediate and long future. For the purpose, forecasting of the number of job vacancies that will arise is required. The number of employees needed depends on factors like size of the organisation, its structural complexity, the plans for expansion and diversification, the rate of turnover of employees, while making manpower forecast along with the demand side (from organisation's view point) supply side of manpower is to be taken (use of supply side is dominated by the labour market. Organisation decides to employ certain number of people of certain kind but may meet short supply in the labour market.
- **Making an inventory Chart.** Required manpower can be obtained both from without and within with clear knowledge of the supply of internal promotable employees. The organisation can estimate the number and kinds of employees to be obtained from outside. Such a chart helps human resource manager to keep the flow of manpower and organisation going.
- **Recruiting.** The task of recruiting is plainly attracting candidates to fill in positions in the organisatioin structure. The recruitment process identifies prospective employees, stimulates and encourages them to apply for a particular job or jobs. The purpose is to have an inventory of eligible candidates from amongst whom proper selection of the most suitable person can be made. Suitable prospective candidates may be identified both from the internal sources and well as external to the organisation. Some kinds of preparation are essential before inviting people to apply for a job. So job specifications and man specification are necessary. The nature and requirements of a job are the basis of job specification. Physical, mental, emotional and social and behavioural characteristics of the prospective incumbents are crucial for recruitment process.
- **Selecting.** Selecting a person is a process of choosing from among the candidates the one that best meets the job or organisation's requirements. Most blue-collar and white-collar workers are selected for specific jobs. Executives often are selected not for specific jobs but for a career. That means that the job requirements and the criteria for success are nebulous than for other jobs. Blue-collar and white-collar workers require manual skills, whereas executive skills are generally in the areas of decision-making and human relations which can be defined vaguely.

Selection process involves choosing the best candidate and conversely rejecting the others. The process moves through several steps, such as :

✓ **Application scrutiny.** Job application containing details about the candidate works as a screening device. It is possible to reject candidates on the basis of scrutiny of the application as they lack relevant eligibility.

✓ **Initial screening interview.** Such interviews provide opportunity to identify the more promising candidates.

✓ **Testing.** Additional information may be obtained by testing the candidates qualification for the job. Several formal tests like aptitude test, performance test, intelligence test and personality test are readily available for the purpose.

✓ **Background information collection.** The information provided by the applicants are checked and verified independently

- **Depth interview.** Interview is an almost universal selection device. It enables the person responsible for hiring to appraise the candidate and his behaviour. The effective interview involve two-way communication. It permits interviewer to learn more about the candidates background, interests, values, motivation and interpersonal skills and it provides an opportunity for the applicant to ask questions about the job and organisation.

During interview the applicant is on guard, carefully presenting the best possible image of him and the interviewer attempts to draw him out. Depth interview is the most suitable device for unfolding the candidates background and thinking and for probing the knowledge into considerable detail on a particular subject of special interest to the job applicant. The theory behind it is that if the candidate is found good in his area of special interest, the chances are high that if given the job he would take serious interest in it. For selecting executives this interview method is often used.

- **Physical examination.** Physical examination of applicants who have successfully passed the above hurdles is done by the company's medical officer or by an outside physician. It ensures effective performance by the applicant, protects other employees against contagious disease if the candidate has it already, and helps the company in deciding its responsibility in the event of employee's compensation claim.
- **Final Selection.** Applicants who cross successfully all the hurdles are finally considered. If there are more persons than the number required for a job the one with the highest score is finally selected and the job offer is made.
- **Placement.** Finally selected candidate is to be assigned to the job for which he has been selected under a supervisor. Supervisor's prior approval is

necessary to accept the person. A proper placement reduces employee turnover, absenteeism and accident rates and improves his motivation and morale.

- **Induction.** Induction is introducing an employee to the job and to the organisation, the primary purpose being to 'sell' the company to the new employee so that he may feel proud of his association with the company. This is also called orientation or socialisation. Such socialisation is crucial for new executives.
- **Performance appraisal.** The manager has to have a sort of guarantee that all the available human resources are utilised fully through the individual employees under his supervision. Hence the need for monitoring and measuring the performance of employees.

Performance appraisal is the process for measuring and evaluating an individual employee's behaviour on the job and accomplishments for a fixed period of time. It is a systematic and objective way of assessing the relative worth or ability of an employee in performing his task. It helps to identify those who are doing their jobs well and improving their performance level and those who are not and reasons for performance. Reasons enhancing performance level need to be maintained and bettered and those hindering performance are to be removed. The result of the performance appraisal should be communicated to the individual concerned so that he can also make self-assessment and better his degree of promotability. However, making a performance appraisal is problematic.

- **Career Planning.** Career is defined as a sequence of separate but related work activities that provide continuity order and meaning to a person's life. It consists of a series of properly sequenced role experiences, leading to an increasing level of responsibility, status and power, and rewards. It represents an organised path taken by an individual over time. Career planning provides an answer to the employee's question as to where he will be in the organisation after five or ten years or what prospects of advancing in the organisation. Visible career path keeps the people bound with the organisation.

Career planning essentially is a managerial job. A well-laid career plan helps employees to plan their career. They can devise their career movement from entry point to retirement point.

The process of career planning consists at two components—career development programme and career planning activities. Developing a career programme requires three activities, viz. (a) assisting employees in assessing their own internal career needs, (b) developing and publishing available career opportunities in the organisations, and (c) aligning employee needs and abilities with career opportunities. Similarly,

career planning activities include (a) Preparation of personnel inventory, (b) building career paths for various categories of employees, (c) identifying employees with necessary potential for career planning, (d) formulation and implementation of appropriate plans for training and development of persons positioned at different steps of the career ladder. (e) maintaining age balance while taking the employees up the career path, and (f) review of career development path systematically.

● **Training and development.** Training programmes are directed towards maintaining and improving current job performance, while developmental programmes seek to develop competence for future jobs. Both managers and nonmanager may receive help from training and developmental programmes. Non managers are much more likely to be trained in the technical skills required for their current jobs, whereas managers often receive assistance in developing the skills required in the future jobs—particularly conceptual and human skills.

Usually within a training and development policy formulated by the top management Personnel Department chalks out details of the programme. Training is imparted by using either on-the-job method or off-the-job method. For conducting management development programmes various techniques can be used. Some of the techniques are planned progression, job rotation, creation of 'Assistant-to' position, under study, temporary promotion, sensitivity training, role playing, Transactional Analysis (T.A), and Management Games.

7.14 Exercise

1. Define Organisation. Why is it important to management and to society ?
2. Define formal organisation and distinguish it from informal organisation.
3. Discuss the steps in the process of organising.
4. What are the determinants of organisation structure? Give an overview of them.
5. Discuss briefly the principles of organisation.
6. What is departmentation ? Discuss the various bases of departmentation.
7. You have been asked by the management of a large manufacturing company with five products using sophisticated technology to suggest an appropriate base for departmentation. What will be your suggestion ?
8. What is matrix organisation ? Can it be profitably adopted for the completion of large project like Second Hooghly Bridge or Kolkata Metro Rail ?
9. What is span of management ? What variables do influence the span ?
10. Define line and staff. Why does conflict between the two arise ? How can it be resolved ?

11. What is delegation of authority ? What are its elements ? Give an idea how authority is delegated.
12. Why often does delegation become ineffective ?
13. Centralisation and decentralisation of authority are related in 'either-or' relationship. Do you agree with the statement ? Argue your case.
14. What forces do facilitate centralisation of authority ?
15. Distinguish between delegation and decentralisation of authority.
16. How can you assess the degree of decentralisation of authority ?
17. Discuss the variables that lead to decentralisation of authority.
18. How does an organisation obtain the desired degree of decentralisation ?
19. What is staffing ?
20. Briefly give an account of the tasks the management is required to undertake the staffing activity.

7.15 Further Readings

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Unit 8 □ Communicating with people

Structure

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8.0 Objectives

Unit 8 deals with the various aspects of communication in organisations. Unless the behaviours of participants conform to the organisational needs various difficulties arise and communication has potential to make the organisational communication congruent with management's needs. After having a fair idea about the different dimensions and networks of communication you become aware of the consequences of organisational communication and with this knowledge you can make effort to improve it.

8.1 Introduction

Communication, the process of transmitting and receiving information, is so fundamental to the practice of management that without it organisation could not exist. The reason for this is apparent. If managers could not communicate with employees

they could not inform them of the work they want done, how they want it done, when they want it done, who they want it to do, and so on. So it is difficult to imagine an organisation functioning without some means of communication and without some exchange of information among its members and between them and the external environment.

Exchange of information becomes useless without transference of meaning of it. It is only through transmitting meaning from one person to another that information is conveyed. Communication, however, is more than merely imparting meaning. It must also be understood by the recipient. In a work group where one member speaks only Bengali and others do not know Bengali the communication made by the Bengali speaking individual will not be fully understood by other members. Therefore, communication must include both the transference and understanding of meaning.

The basic reason for any kind of communication in organisation is to get some form of action (behaviour). In the context of an organisation, the action desired is usually related, either directly or indirectly, to the efficient performance of duties and responsibilities. In addition to concrete physical behaviour, action resulting from communication may take the form of the attitudinal response.

Although some form of response is the basic objective of communication in organisation, it must be acknowledged that the kind of response may not always materialise. One of the fundamental reasons why people sometimes fail to respond properly is because of various barriers to effective communication. Communication effectiveness is ensured when the transmitted information is the same as the received (interpreted) information. Not only communication be effective but it should also be efficient in terms of transmission time, money, effort and other resources.

In organisation, information is transmitted most frequently through the spoken and written words. Oral communication takes place primarily in a face-to-face situation, known as interpersonal communication. Whenever information concern many people, and is very complex and extremely important, written communication must always be used. As most often organisation resorts to oral and written media to get the information across, the message is received by listening and seeing.

What is the direction of communication? Should it be vertically downward or upward? Basically, direction of communications can be vertical, horizontal, and diagonal, as determined by the positions in the organisation chart of the sender and receiver. Vertical communications flow in two directions : upward and downward through the hierarchy. Horizontal communications consist in communications with peers in the same department and with people at the same level belonging to different departments. Diagonal communications are like the interdepartmental horizontal

communication except that they link people at higher or lower levels in the organisational hierarchy. All these types of communication flow through the official channel as set by the organisation chart. Besides them informal communication (sometimes called grapevine) is another direction of communication. The grapevine does not adhere to an organisational chart, yet it impacts almost everyone in the organisation.

8.2 Definition

Communication is defined as the process by which people seek to share meaning through the transmission of symbolic messages. This definition calls attention to three essential points : (1) that communication involves people, and that understanding communication therefore involves trying to understand how people relate to each other: (2) that communication involves shared meaning, which suggests that in order for people to communicate, they must agree on the definitions of the terms they are using: and (3) the communication involves symbols—gestures, sounds, letters, numbers, and words that can only represent or approximate the ideas that they meant to communicate.

This definition is true for both interpersonal and organisational communications excepting that factors influencing the effectiveness of organisational communication are different from those that influence interpersonal communication. In essence, communication is the process of passing information and understanding from one person to another with the intent to motivate and influence behaviour.

8.3 Significance of Communication

Barnard views communication as the means by which people are linked together in an organisation in order to achieve the common goal. He also observes that group activity is impossible without information transfer because without it coordination and change cannot be effected. The importance of communication can be gauged from the purpose it serves. The primary purposes of communication include control, instruction, motivation, decision-making, evaluation, feedback and information exchange, social need, and political goals.

- **Control.** Communication acts to control members behaviour in several ways. Organisations have organisation chart and standard operating procedures that employees are required to follow. When employees, for instance, are needed to first communicate any job-related grievance to their immediate boss, to follow their job description or to comply with company policies, communication performs a

control function. Even informal communication controls behaviour. When work groups harass a member who produces too much, they are informally communicating with and controlling the member's behaviour. Controlling communications create order in the organisation, so that multiple goals and tasks can be pursued.

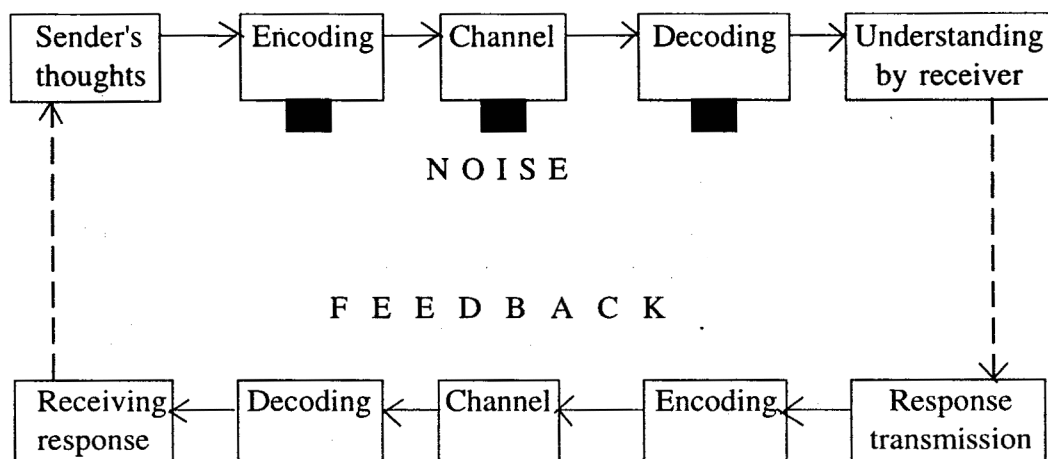
- **Instruction.** Instruction communications are used to let people know what they must do in their jobs. When routine problems arise, instructions can help to solve them. And when an employee moves to a new job or is asked to perform a new task or to do a job in a different way, there is need for instruction communication.
- **Motivation.** Communication fosters motivation by clarifying to employees what is to be done, how well they are doing, and what can be done to improve performance if it is below the desired level. Simply speaking, motivation communications are used by managers to encourage and stimulate employees to work towards the accomplishment of organisational goals. The formation of specific goals, feedback on progress towards goals, and reinforcement of desired behaviour all stimulate motivation and require communication.
- **Decision-making.** Communication facilitates decision-making. Most of the decisions relate to problems that do not have easy solutions. Managers and subordinates through interpersonal communication, i.e., give-and-take discussion determines what to do in such situations. Interpersonal communication facilitates pooling of knowledge and experiences of the participants in the discussion and a way out if found.
- **Feedback and evaluation.** Feedback and evaluation communications let people know how they are doing on the job. Often feedback and evaluation are linked together with instruction and motivation communications. For example, a manager explains a new task to an employee. The manager then checks to see how the employee is doing on the task. If the person does it properly, the manager may praise the progress. And the manager may also evaluate performance and explain what need to be done to improve. (This example illustrates the use of instruction, motivation, evaluation and again, instruction communications, in a sequence that improves the competence of the employee).
- **Information exchange.** Information exchange is the basis of all communication purposes. Communication always have an information purpose of some description.
- **Social needs.** Social needs communication relate to the emotional and nontask-oriented interactions that occur in every work group. Such communications are fundamental mechanism by which members show their frustration and feelings of satisfaction. Employee need to talk about cricket, weather, politics, and so forth. And while such communications do not directly affect performance of the group's

tasks, they serve the need for employees to feel connection with others at work. Often such communications include discussions of pay, treatment on the job, the boss's personality, politics being played in the organisation, and so on. Though these communication are not directly related to their jobs, they manifest their feelings and these feelings influence their performance on the job.

- **Political goals.** Political communications serve either the organisation or the individual members. People in organisation engage themselves in political communications when their individual goals and organisational goals are not compatible. When such communications are directed towards accomplishing personal goals they are negative communication. In negative communications people may distort information, give poor feedback, and fail to use the positive aspect of the communication purposes.

8.4 The Communication Process

Communication is considered to be a process of flow; messages flow between the source and the destination. It can be shown as a model. The essential elements of communication process are sender, receiver and the message that is exchanged between them. If any one of them is missing, communication does not take place. However, communication process is a much more complex phenomenon consisting of five elements, which are subject to various influences. The model can be put as follows :



A Model of Communication Process

Source. In the model the first element is the source (sender) of the communication where the communication originates. The initiator (sender) determines the need for

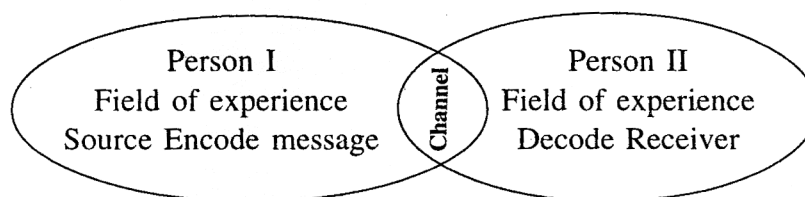
information to be transmitted to a person (receiver). It may be that the sender needs to tell the other person to do something, to ask a question of other person, or to communicate a variety of other purpose. The sender must first decide what message is to be transmitted to the receiver.

Encoding. The sender then decides how the message is to be translated into a set of words, gestures, signals, or nonverbal symbols. This step in the communication process, called encoding, involves the sender's choice of media to be used in transmitting the message to the receiver. The sender may choose a written message, verbal contact, telephone contact, computer network, video-conference, or other high and low-tech media. Effective encoding depends upon sender's skill, attitudes, knowledge and the social-cultural system. Inadequate writing skill of the sender may create problem for the receiver to understand the meaning of the message. People hold predisposed ideas on many topics and their communications are affected by these attitudes. Further, communicative activity is restricted by the extent of knowledge of the particular topic. Receiver may not understand the message sent by a source whose knowledge is too extensive. Finally, social and cultural background of the sender and receiver also creates problems for understanding the message. These factors are crucial because without mutuality of meaning there will be no worthy communication.

Channel. Once the sender transmits the message, it enters the channel that connects the sender to the receiver. Channel carries the message from the source to the destination. It may be air waves between two people as they communicate face-to-face. The channel may be the telephone lines connecting two people, video-conferencing connecting a group of people, or interoffice mail or postal service. Outside the organisation the channel may be letters, circulars, magazines, radio programmes, TV shows and so forth. The appropriate channel is selected by the sender. Channel may be formal or informal. Formal channels are established by the organisation and transmit message that pertain to the job-related activities of members. They traditionally follow the authority network within the organisation. Other forms of message, such as personal or social, follow informal channels in the organisation.

Decoding. Decoding is the process by which the receiver interprets the message and translates it into meaningful information. It is a two-step process. The receiver must first perceive the message, then interpret it for getting its meaning. Decoding is affected by the receiver's past experience, personal assessment of the symbols and gestures used, expectations (people tend to hear what they want to hear), and the mutuality of meaning with the sender. All these tend to bring about a divergence between the intended meaning and perceived meaning. In order that this does not happen, it is necessary to develop greater degree of homogeneity between the sender

and the receiver, both of whom have their own fields of experience. The field of experience constitutes an individual's attitudes, experience, knowledge and social-cultural background. The greater the overlap of the source's and receiver's fields of experience, the greater is the probability of successful communication. An individual engaged in communication with another person of a significantly different cultural background will have to put in greater effort to ensure effective communication. This is shown figuratively below :



The greater the overlap of the two persons' fields of experience, the higher is the probability of effective communication. The shaded area shows the overlap

Feedback. "If a communication source decodes the message that he encodes, if the message is put back into his system" there is feedback. Through the feedback element the sender receives back from the receiver an indication of whether or not the message was received and understood as intended. The feedback may be a behaviour that the receiver emits; it may be something said; or it may be a written message. Feedback loop reverses the communication process. That is, the original receiver becomes the sender and the original sender becomes the receiver. And in this sense, the process may go through a number of cycles of sending and receiving, as it happens when people carry on a conversation.

Noise. The last element in the communication process is noise. Noise is anything that inhibits or distorts the flow of information between the source and destination. Most of the components in the process model have the potential to create inhibition or distortion and, therefore, impinge on the goal of communicating perfectly. These sources of noise explain why the message that is decoded by the receiver is rarely the exact message the sender intended. The noise may be physical like that encountered on the floor of the factory, or time pressure can cause a sender to abbreviate a message, making it difficult for the receiver to understand. The poor choice of symbols and confusion in the content of the message are frequent areas of problem. Of course, the channel can distort a communication if a poor one is selected or if the noise level is high. Receiver's prejudices, knowledge, perceptual skills, attention span and care in decoding are all factors that can result in interpreting the message somewhat differently than envisioned by the sender.

8.5 Dimensions of Communication

Two dimensions of communication – the media used and the direction – are discussed.

6.5.1 Media

There are many media, people can use, to convey their message, and the list has been growing as technology advances. There are four basic media categories : written, verbal, nonverbal, and high tech. Within each of these categories are several different types of media.

1. Written media :

Written communications can take the form of the procedures manual, report, memo, letter, handwritten note or file. The basic advantage of written communications is that they can be thought out and carefully prepared to serve the sender's purpose. Furthermore, the senders need not be present when the receiver reads the message. But herein lies the major disadvantage of written communications – they are basically one – way in nature. Feedback is often limited, so the sender has little chance to know how the receiver interprets the message.

In transmitting any written message, the sender must decide which written form to use in a given situation. A letter is more formal than a memo, and a typed message is more formal than a handwritten one. The signature on a letter also is an important indicator : first name (e.g., Bimal) only is less formal; full name is more formal. Addressing a letter "Dear Mr. Bose" is more formal than is "Dear Subhas". Sending a letter by speed post or courier indicates urgency. And with the advent of electronic mail, messages can be sent almost instantly. Managers must be aware of these subtleties of the written communication if they are to effectively communicate in organisations.

2. Verbal Media :

Verbal media can also take many forms. For example, there are formal and informal one-to-one conversations, formal and informal meetings, telephones and cellular phones. The most important advantage of verbal communications is that they permit immediate feedback as to whether the message had been received as intended. They allow for a two-way form of communications. Verbal communications are particularly useful in dealing with complex and ambiguous problems. One disadvantage to verbal communications is that they may be less well planned than written communications and there is no record of the exchange of information.

Managers should consider several factors in deciding which type of verbal media to use in a given situation. A formal group meeting can be very similar to written communications in terms of preparation, but meeting can more easily involve several people simultaneously. A formal one-to-one meeting, such as performance review session, can be a good way to document the issues of concern and make plan for future action. Of course, formal meeting can consume a great deal of time. Informal meeting and impromptu one-to-one conversations can be used effectively to transmit information, solve problem, and stimulate action.

Telephone is widely used as a verbal medium. The telephone can make it very easy to reach someone quickly, even though the sender and the receiver are not in the same building, or even in the same city, state or country. And the telephone answering machines, voice mail, and portable cellular telephone have made it easier to reach person in a relatively short time period. Teleconferencing makes meetings possible among people who are in different cities, states and countries.

3. Nonverbal media :

Nonverbal communications do not involve the use of words. Nonverbal media include head, face, and eye behaviour (say, eye contact and facial expressions); postures and body language; distance between sender and receiver; gestures; tone of voice; voice volume; silence; colour (say blushing); touch; smell; time; signals; objects; office layout; and clothing. Managers need to develop their skills for reading these signals in other people, so that they can get beyond the words people say. A few more words about nonverbal media may be helpful

Facial expressions are the primary means by which people transmit emotions, such as happiness, anger, disgust, and surprise.

Body language refers to signals given by such actions as standing versus sitting, open versus crossed legs and arms, facial expressions, and eye contact or lack thereof.

- ✓ Silence also conveys message. By not answering someone's question, a person transmits a message. For example, if an employee ask for a pay increase and the boss say nothing, the employee has received his answer.
- ✓ Physical distance between the sender and the receiver has meaning. What is considered proper spacing largely depends upon cultural norms. For example, what is "businesslike" distance in some European countries would be viewed as "intimate" in many parts of North America. However, more closeness than is considered appropriate may indicate aggression or sexual interest. If further away than usual, it may mean disinterest or displeasure with what is being conveyed.

- ✓ The colour of office walls and carpet could convey harshness if they were red, whereas a pale blue would convey more warmth.
- ✓ Smell includes body odour, bad breath and nice cologne, each of which conveys a message the sender may or may not intend.
- ✓ Clothing conveys things about a person. A manager wearing a conservative business suit is seen as more powerful than a man wearing a sport coat.
- ✓ Signals include such things as fire alarms, horns indicating lunch break or shift change in a plant, the beeps of a watch reminding a meeting.

It is important for the receiver to be alert to these nonverbal aspects of communication. He should look for nonverbal cues as well as listen to the literal meaning of a sender's words. He should be particularly aware of contradictions between the verbal and nonverbal message. The boss may say he is free to talk about something important to the employee but nonverbally signals that this is not the time to discuss the subject. Regardless of what is being said, an individual who frequently glances at his wristwatch is giving the message that he prefers to terminate the conversation.

4. High-tech media :

High tech media include personal computers, artificial intelligence or expert systems, satellites, telecommunications. Video cameras, and fiber-optic cables.

- ✓ Personal computers networked together create easy means to store and communicate vast amounts of information. Unless carefully used this medium may simply flood people with information without transmission of their meaning.
- ✓ Artificial intelligence or expert systems are essentially computer programmes that store knowledge and thinking of experts. Any one can access it like talking to the experts themselves.
- ✓ Video-conferencing can allow companies to simultaneously transmit messages to thousands of people in a variety of locations. It can also allow groups to communicate live with each other via cameras and cable transmission of the picture and sound, even though the groups are thousands of miles apart.

8.5.2 Directions of Communication

Direction of communication takes into account the people, who are engaged in communication. More specifically, directions of communication help people to focus on the organisational roles of the sender and the receiver. Communications can be horizontal and diagonal as determined by their relationship to the Organisational Chart.

1. Vertical Communication :

Vertical communications consist of communications up and down the organisation's chain of command. Downward communications are used for control, instruction motivation and evaluation. Problems in downward communications exist when managers do not provide employees with the information they need to carry out their tasks effectively. Managers are often optimistic about the accuracy and completeness of their downward communications. Sometimes deliberately they withhold information to keep employee dependent on them. Downward communications do not have to be oral or face-to-face contact.

Upward communication flow to a higher level in the organisation. It is typically used for information regarding what is happening at the lower levels, how employees feel about their jobs, coworkers and organisation in general. It is used for problem solving and is obtained as a response to downward communications. Such communications include progress reports, suggestions, explanations and requests for new ideas. Upward communications are likely to be filtered, condensed or altered by middle managers to see that nonessential data originating at the lower levels do not go up. In addition, middle managers may keep information that would reflect unfavourably on them from reaching their managers. Thus upward communications are often partially inaccurate or incomplete.

2. Horizontal communication :

Horizontal or lateral communications usually follow the pattern of work flow in an organisation, occurring between members of a work group, between one work group and another, between members of different departments, and between line and staff. Typically, communications between members of the work group are for information exchange, minor problem solving and social need satisfaction. Interdepartmental communications are for the purposes of control, information exchange, problem solving and emotional need satisfaction. Despite the effectiveness of the organisation's vertical communications, lateral communications are often necessary to save time and facilitate coordination.

3. Diagonal Communication :

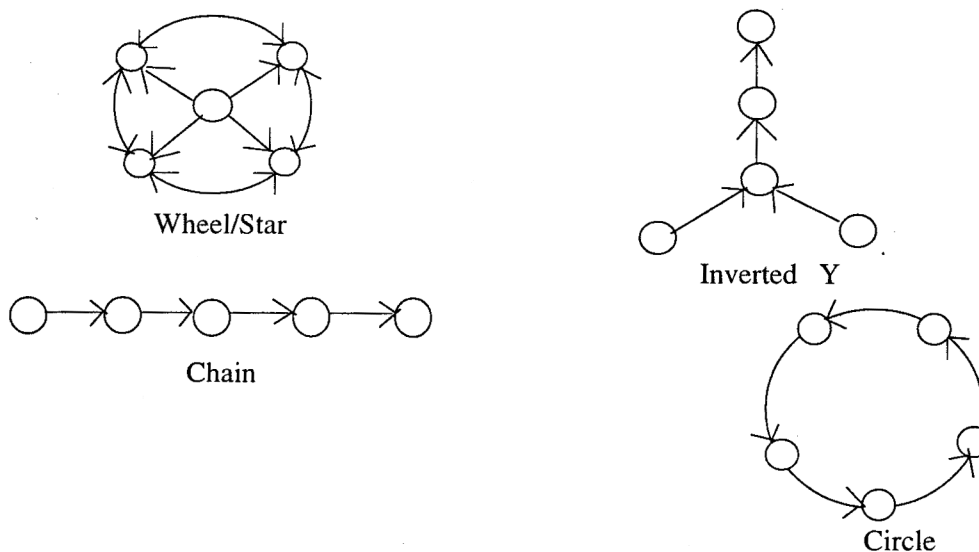
Diagonal communications are like the interdepartmental horizontal communications except that they link people at higher or lower levels in an organisational hierarchy. For example, a supervisor may need to get a particular new procedure initiated in another department of the plant. In order to do this, it might be necessary for the supervisor to talk directly with that department head, who is two levels up in the hierarchy. The supervisor could talk directly to the other department head instead of requesting his own department head to settle the issue with the other department head. Such diagonal communications prevent delay in initiating actions. Such communication paths often do not trace the lines connecting people on an organisation chart.

8.6 Communication Networks

Communication networks define the channels by which information flows. These channels are of two varieties – either formal or informal.

8.6.1. Formal networks

Formal networks are typically vertical, follow the chain of command and are limited to task-related communications. These networks are designed to keep the flow of information in an orderly manner and to protect the higher-level managers from an overload of unnecessary information. However, the way in which they are designed and work can affect the speed and accuracy of information as well as the task performance and satisfaction of members of the group. So the organisation structure and the formal network should match each other to meet the communication requirements. Although formal networks may assume many forms, the most frequently discussed are four, known as the wheel or star, inverted Y, chain and circle, as shown in the diagram below :



Formal Communications Networks

All these forms of network can well be looked at as an organisational structure made up of five members.

The Wheel or star represents a manager and four subordinates with whom he interacts. There is no interaction among the subordinates. Star networks are highly centralised, with the manager occupying the central position.

In Inverted Y network two subordinates report to the boss who has two levels above him. It may be regarded as a four-level hierarchy and centralised where the boss acts as a gatekeeper.

The Chain can represent a five-level hierarchy, in which communication can take place only upward or downward and horizontally. Here one person transmits information to another as per the chain in the organisational hierarchy. The Chain networks are decentralised with no member being able to influence all other members.

The Circle network represents a three-level hierarchy in which there is communication between the superiors and the subordinates and cross communication at the operative level, (i.e., each subordinate communicates with the adjoining member). It is also a decentralised network.

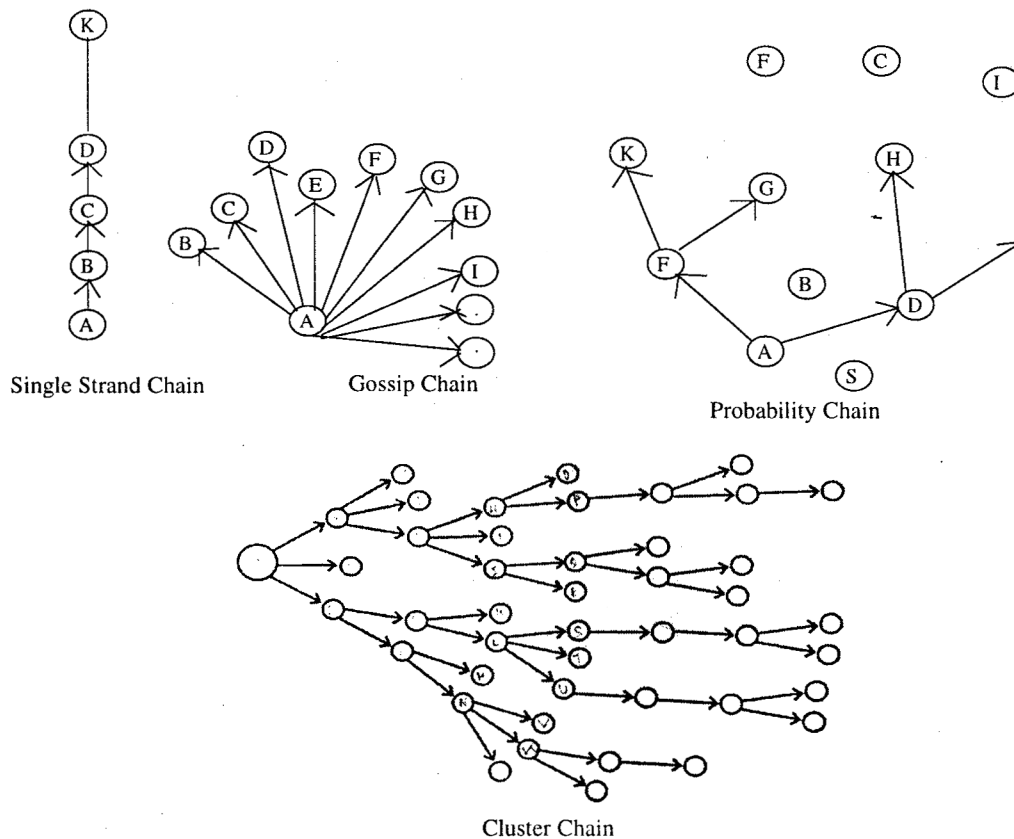
8.6.2. Informal networks

Communication that flows not through the officially sanctioned formal networks is said to be informal communication. This network is not created by management and is usually not under the control of management. An informal network is generally referred to as the 'grapevine' because it spreads throughout the organisation with its branches going out in all directions in utter disregard of the levels of authority and linking members of the organisation in any direction. The grapevine within an organisation is made up of several informal networks that overlaps and interact at a number of points that is some individuals having the latest news or gossip are likely to belong to more than one informal network. Others gravitate to these individuals instead of their bosses to find out what is going on in the organisation. Grapevine can link organisation members in any combination of directions – vertical, horizontal, and diagonal. Grapevine flows wherever people get together in groups like around the water coolers, in the halls, in the tea and lunchrooms.

The grapevine has three main characteristics. First, it is not controlled by management. Second, it is perceived by most employees as more believable and reliable than formal communications issued by top management. Third, it is largely used to serve the self-interests of those people within it.

The grapevine arises as a result of employee needs for information which are not met by the formal channels. Problems relating to work and unfavourable reactions to various organisational practices are transmitted through the grapevine. Since the channels are flexible and establish contacts at personal levels, the grapevine spreads information faster than the formal network. And since a great deal of important information is transmitted via this informal network, it is probably safe to say that organisations would be less effective without it.

Four types of grapevine chains have been identified - single strand chain, gossip chain, probability chain, and cluster chain. They are exhibited in the following diagrams :



In the Single Strand Chain, person A tells something to person B, who tells it to person C, and so on up or down the line. This line is least accurate at passing on information. In the Gossip Chain, person A seeks out and tells everyone the information he has obtained. This chain is often used when information of an interesting but non job-related nature is being conveyed. In the Probability Chain, individuals are indifferent about whom they offer information. They tell people at random, and those people in turn tell others also at random. This chain is likely to be used when the information is mildly interesting but insignificant. In the Cluster Chain person A conveys information to a few selected individuals, some of whom then inform a few selected others. The cluster chain is the dominant grapevine pattern in organisation. Usually, only a few individuals, called "liaison individuals" pass on the information they have obtained, and are likely to do so only to people they trust or from whom they would like to have favours. They are most likely to pass on information that is interesting

to them, job-related, and, above all, timely. The informal networks, in most cases, carry information both helpful and harmful to the formal organisation. The manager's responsibility, therefore, lies in utilising the positive aspects of the informal channel of communication and in minimising the negative aspects of it. In order to do this, what the manager can do is to identify the members who usually seek and spread information. It is possible that different individuals are active at different times but usually it will be found that some individuals tend to be more active carriers of information than the others. After identifying such people a manager can use them as sounding boards. If it is discovered that misleading rumours are doing the rounds, it may be a desirable policy on the part of the manager to release the official information in order to clarify the situation. At times management may even find the grapevine useful in transmitting information than the formal networks. A common method of using the informal networks is by 'planned leaks' or strategically planned "just-between-you-and-me" remarks, which would obviously reach all parts of the organisation much faster than any kind of communication via formal network.

8.7 Outcomes Associated with Communication

There can be many outcomes of communications in an organisation – some positive and some negative. As noted earlier, communications are the primary vehicle by which leadership is activated, employees are motivated and interpersonal relationships are developed. At its basic level, communications help manager to influence people in organisation. Communications by managers can result in (1) compliance of others, (2) a calculated response designed to get something in return, or (3) total lack of compliance. These outcomes concern managers on an almost daily basis. Besides there are also some long-term outcomes that are of concern to managers.

- **Socialisation.** A new member of an organisation or one who is transferred to a new department learns through communications how to become effective in the new position. He undergoes a socialization process. The job is learned, as are norms of the organisation and expectations of peers, subordinates, and superordinates. If communications are open in an organisation, it is possible that good relationship can develop with other members. A feeling of support and honesty can develop that will make working together both a pleasure as well as a real success in terms of organisational goals. If, however, communications are guarded the person will not become properly socialized to the organisation and will be less effective on the job.
- **Liking and respect.** Communications make it possible to develop liking and respect for others. Most managers want their subordinates both to like and respect them.

If managers develop communication that convey a sense of warmth, trust, and closeness with their employees, liking will develop. If managers convey a sense of aloofness and distance, liking probably will not develop.

Managers must also have the respect of their people. Indeed, respect may be more important than likely for getting a task done. If communications convey a sense of a manager's competence and a respect for the employees abilities, that respect will be returned. If, on the other hand, a manager convey a sense of superiority and disrespect for the subordinates abilities, the subordinates probably will not respect the manager much.

- **Trust.** Closely associated with the outcomes of liking and respect is the trust that can develop via communications. If liking and respect are present, trust probably is, too. In interpersonal relationships, trust is something that develops slowly over time, usually it requires that one or both people involved take risks with each other and the manager plays a key role in creating a climate that promotes trust. Supportive exchanges are essential in building trust. A certain level of trust is necessary for any organisation to flourish.
- **Perception alignment.** Communication is important in aligning perception held by different people. If messages are clearly sent and received, perceptual errors are more likely to be detected and corrected. And when perceptions are aligned, working to achieve the organisation's goals will be more unified. Indeed, research has shown that accuracy of communications and related perceptions are associated with improved performance. And research has shown also that communications can increase participative decision-making, cohesiveness and morale in a group, But if communications are not handled well in a group, they can lead to increases in conflict and distrust.

8.8 Factors Inhibiting Communications

Communications quite often fail to convey the meaning or develop an understanding of the communications sufficient enough to bring about a change in the behaviour of the receiver. Certain barriers between the sender and the receiver cause failure in communications. The barriers that interfere with the understanding of the communication are of three kinds : semantic, psychological, and organisational.

- **Semantic barriers.** An the originator of a communication, the sender has the responsibility of ensuring that the message is transmitted in such a way that the receiver has the greatest chance of receiving and understanding it. A primary problem can occur in choosing the words or symbols while encoding the message.

Words, which are in reality symbols representing a thing, an action, or a feeling, can have several meanings. In fact, "The meanings of words are not in the words; they are in us". Age, education, and cultural background are three of the more obvious variables that influence the language a person uses and the definition he gives to words. Words which represent concrete things like a "house" tend to be understood in the same way, while abstract words like "merit", "effectiveness" or "responsibility" tend to be interpreted by different persons in different ways. In an organisation employees come from diverse background and, therefore, have different patterns of speech that give rise to semantic problem. Additionally, the grouping of employees into departments creates specialists who develop their own jargon or technical words. If message is encoded in jargons the receiver may encounter difficulty in understanding it.

Semantic barrier may further be created by the inconsistency between the verbal communication and the body language. A manager by praising the sincerity and honesty of his subordinate in a sarcastic tone creates doubts in the mind of the subordinate as to the course of action he should adopt in a given situation in future. The same kind of barrier is created by a divergence between the verbal language and the action language of the superiors. When actions and language are used jointly, the actions often have more powerful influence on other's actions than do words. Management may, for example, profess its belief in being guided solely by the merit of employees while deciding promotions. Yet, if employees observe that in actual practice promotions are made on considerations other than merit, the management's professed policy is bound to be affected by a semantic barrier as the action language contradicts the verbal language.

Psychological barriers. Psychological barriers are the prime blockages in interpersonal communication. The meaning that is ascribed to a message depends upon the psychological status of both the parties concerned. As such the psychological barriers may be put up either by the sender or the receiver.

Perception of meaning very much is affected by the mental frame of the receiver at the time the message is being received. Emotions and past experiences influence perception. Emotions which dominate the receiver's mood at the time, e.g., anger, anxiety, fear, happiness etc., will affect his interpretation of the message. Past experiences of the receiver in such situations would also lead to the same effect. Thus receivers in the communication process selectively see and hear what they want to hear and listen because of their needs, motivations, experiences, background and other personal characteristics. Receivers also project their interests and expectations into the communications when they decode them.

The receiver's perception of the meaning of the communication is coloured by his own value judgment about the source of communication. This is called Halo Effect.*

Because of it, the receiver's mind gets tied up with the personality and credibility of the source. Thus if a message is received from a person whom the receiver admires, he is more likely to agree with it and acts accordingly. On the other hand, he will disagree with a message that has been received from a person he distrusts or disregards.

Perceptual errors occur because of Stereotyping.** People communicate to some extent through stereotypes. As more women have the ranks of management, the old stereotypes of differences between the sexes have created barriers to communication. For instance, touch, while generally having a friendship connotation, can suggest other thing when it occurs between a man and woman on the job. Or say, a new idea for revamping the current work process that has potential for cost effectiveness from a manual operator often is brushed aside by a manager; the operator is stereotyped as non-intelligent and non-creative.

A receiver of the communication suffers from Cognitive Dissonance.***Every person has his own beliefs, attitudes and judgment. In organisation setting individuals are fed with too much of information from different sources. Information that conform to his attitudes he will accept but those that contradict his viewpoint tend to be ignored. Often other points of view may not only be ignored, it might be regarded as unfriendly or even hostile. As a consequence, much of unfavourable information of criticisms of organisation policies would never be reported to higher levels until the problem has assumed the form of a crisis.

Information filtering acts as a communication barrier. Filtering refers to a sender manipulating information so that it will be seen more favourably by the receiver.

* Note : Halo effect is the tendency to perceive all the attributes of a person in a similar manner, based on one characteristic of the individual. For instance, if a woman is kind, she may also be perceived as good, able, helpful, cheerful, nice, intelligent and so forth. On the other hand, if a man is harsh, he may be perceived as bad, awful, unkind, aggressive, harmful, deceitful and wicked. Halo effects, whether they be in the positive or negative direction, cloud perceptions and act as a screen blocking the realistic judgment of the trait being judged.

** Note : Stereotyping is the process of assigning attributes to people on the basis of a category to which they belong. In other words, a person is looked upon as type instead of a person. Stereotyping leads to attributing favourable characteristics to the individual based on a widely held generalisation about the group. Sex-role stereotypes and age-stereotypes often affect perception.

*** Note : Cognitive dissonance refers to any incompatibility that an individual might perceive between two or more of his attitudes, or between his behaviour and attitudes. In a state of cognitive dissonance the person experiences discomfort and hence tries to reduce it. It doing that he may change behaviour or attitudes by accepting or ignoring the information.

Filtering effect is produced when the communication flows through a large number of person along the organisational hierarchy. Each individual through whom the information is passed interprets facts differently, judges from his own point of view what is important or relevant, and transmits it with his own interpretations. In the process the original information gets altered. The process of filtering involves a biased choice of what is communicated on the part of either the sender or the receiver. Thus filtering refers to the process of "selective telling" or "selective listening". Large organisations are particularly prone to the filtering effect since there is large number of filtering points in each of them. Filtering effect is also produced in a grapevine.

- **Organisational barriers.** Some organisational variables influence the effectiveness of organisational communications. They include formal communication channels, authority structure, job specialisation and information ownership.

Formal communication channels endorsed and controlled by managers influence communication effectiveness in two ways. First, the formal channels cover an ever-widening distance as organisations develop and grow. For example, before introduction of computer inter-net, nationalised Indian banks with thousands of branches spread all over the country experienced inter-branch communication blockages. Second, the formal channels of communication can inhibit the free flow of information between organisational levels. While such restriction keeps higher-level managers free from getting bogged down in detail information, but sometimes deprives them of receiving information they should have.

Authority structure in organisations influences communication effectiveness. Power and status differences affect communication in two ways. First, authority difference result in dependency syndrome of the subordinates. Subordinates are generally dependent on their superiors for career advancement. Subordinates then are unwilling to communicate unfavourable information and communicate only the positive aspects of their performance. Second, status differences create problems for developing close superior-subordinate relationships. For maintaining status differences status symbols are created. Such symbols may be in the form of separate parking space, separate toilets, cabins with stylised furniture, carpets etc. Such symbols accentuate the distance between different hierarchical levels and tend to widen the communication gap.

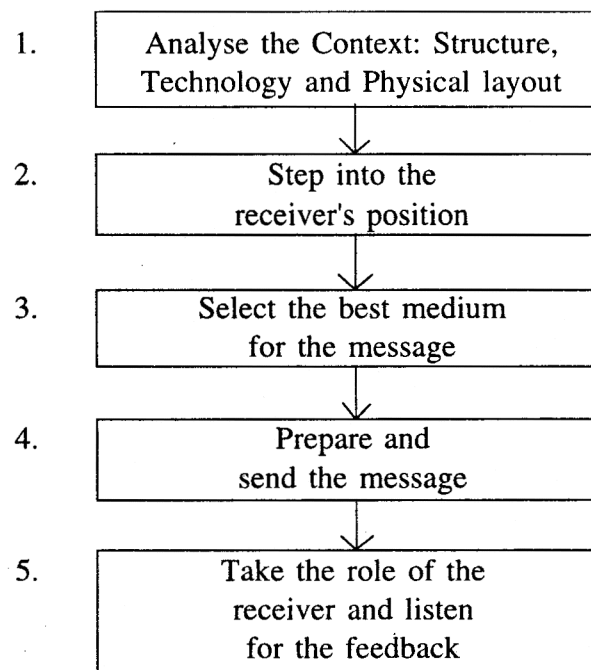
Job specialisation influences the way employees perceive the organisation and their role in it; as well as the way they relate to others. This creates a number of differentiated work groups in the organisation. Members of the same work group are likely to share the same jargon, time horizons, goals, tasks and personal styles. Communication between highly differentiated work groups tend to be hindered.

Information ownership is the final organisational barriers to communication. Information ownership means that individuals possess unique information and knowledge about their jobs.

For example, a darkroom employee may have found a particularly efficient way to develop photo print. A salesman may know who the key decision-makers are in firms he deals with. Such information is a form of power for the individuals who possess it. They are able to function more effectively than their peers. Many individuals with such skills and knowledge are unwilling to share this information with others. As a result, completely open communication within the organisation does not take place.

8.9 Ways to Improve Communication in Organisations

Considering the complexity of the communication process, the dimensions of the process, the contextual variables (technology, physical layout etc.) The blockages to communication, it is no wonder that it is difficult to have effective communication in an organisation. However, several ways to improve communication can be explored. The figure below outlines some of the steps in this direction.



Steps to improve communication in an organisation

Step 1 : Analyse the context

The first step in improving communications in organisations is to understand the context in which communications must occur. The constituents of the context are structure, technology and the physical layout. Changes in this context can be used to improve communication. For example, use of computer-based information systems can improve communications provided the managers possess the computer skills.

Structural change occurs, for example, when companies hire communication specialists and special work units. When a situation becomes very complex or rapidly changes, the hierarchical order of communication may need to be altered. The use of task forces, special ad hoc committees, and special project groups can particularly be helpful in linking departments in an organisation, when strong differences make it difficult for the departments to communicate. It may also be possible to link machinery to computers to reduce the need for communication among people in an organisation. As physical layout has impact on communication flows, careful relocation of employees may improve communication effectiveness.

But managers may not always be able to use technology, structure and physical layout to their advantage. Instead, they may actually constrain a manager's behaviour. Managers need to understand these constraints in order to maintain effective communication.

Step 2 : Step into the receiver's position

Communication being basically a marketing concept : the dictum is if the sender does not transmit in an appropriate language and manner, and in time when the receiver can hear the message, the chances of effective communication is greatly reduced. A supervisor dealing with a relatively uneducated worker on the shop floor if he does not choose his words differently than when communicating with his boss, his message will be lost. Likewise, if a receiver is very angry, the sender must communicate differently than when the receiver is calm. Perhaps when the receiver is angry, the sender should wait until the person calms down.

For stepping in receiver's position the sender should analyse the position. Ideally, the receiver should get not only the content of the message, but also the sender's feelings by attending to all the cues, especially the nonverbal ones. The sender can infer the receiver's active listening from the feedback sent by the receiver.

Step 3 : Select the best medium for the message

Once the context of the message and the receiver's position have been analysed the sender should think about the best medium for communicating the message. Written communications have the advantage of thoughtful presentation. Moreover the receiver can keep privacy of the message. In case of complex message a two-way process of

verbal communication is most effective. Of course, several media can be used together, for example, a phone call to make a request, followed by a memo repeating the request. New high-tech media offer other options. Nonverbal media help to make verbal communication more effective.

Step 4 : Prepare and send the message

With all the information in hand from steps 1 through 3, it is now time to actually formulate and send the message. At this time, the sender should rethink the message to be sure that he still wants to send it.

After analysing the situation and the receiver and after receiving the feedback he may decide to change the message originally planned. For example, a manager has intended to reprimand an employee for poor performance. But after analysing the situation, the manager felt that poor performance was due to the context, not for the employee, Hence, manager has to change the message. Depending upon how the situation unfolds during the two-way process of communication the guiding principle in this regard is that the message transmitted shows respect for the receiver.

Step 5 : Become the receiver and listen for feedback

When the message has been sent, the sender needs to switch roles and becomes the receiver of feedback. The sender must listen to be sure that the message got through and was understood as intended. Part of the sender's responsibility is to ensure that the feedback loop is completed. Such a feedback may be verbal or written, as in a request for information. Or it may be behavioural. That is when the sender asks the receiver to do something, the sender can watch what the receiver does. When the feedback indicates that the message was not received, the sender may go back to step 1 and begin a follow-up cycle to transmit the intended communication.

By following these five steps managers may become better communicators. It should be kept in mind that as the sender, a manager is responsible for transmitting a message that the receiver can understand and for ensuring that the manager receives feedback. As the receiver, a manager is responsible for understanding a message that is sent to him and for ensuring that feedback is received by the sender.

8.10 Exercise

1. Define communication.
2. Why communication is considered to be important by the management?
3. Explain the process of communication.
4. Give a brief idea of the dimensions of communication.
5. What media are used in communicating message?

6. Write notes on (a) Written media
(b) Verbel media
(c) Nonverbal media
(d) High-tech media
7. What are the directions of communication?
8. Write brief notes on – (a) Vertical Communication
(b) Horizontal communication
(c) Diagonal communication
9. What do you understand by the term communication network?
10. Write few words about (a) formal networks and (b) informal networks
11. Make an elaborate discussion about the outcomes associated with communication in organisation.
12. What are the barriers to communication in organisation?
13. Explain what do you understand by (a) Semantic barriers,
(b) Psychological barriers and
(c) Organisational barriers
14. Propose steps that may help management to remove the communication barriers.

8.11 Further Reading

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Unit 9 □ Controlling Performance

Structure

- 9.0 Objectives**
- 9.1 Introduction**
- 9.2 Definition**
- 9.3 Significance of Controlling function**
- 9.4 Steps in Control Process**
- 9.5 Designing a control system**
 - 9.5.1 Identifying key performance areas**
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- 9.6 Requirements of an effective control system**
- 9.7 Control techniques**
 - 9.7.1 Budgetary Control : a traditional device**
 - 9.7.2 Break-even Point Analysis : a traditional non-budgetary device**
 - 9.7.3 Programme Evaluation and Review Technique: a special device**
 - 9.7.4 Control of Over-all performance**
- 9.8 Behavioural dimensions of control system**
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9.0 Objectives

Unless the actual performance is regularly and continuously measured you are not sure whether your enterprise is going to achieve its goals. This unit will equip you to design and instal an effective control system in your organisation. Your knowledge of different quantitative techniques will make you competent enough to control performance of different functional areas as well as of the overall performance. Beside the quantitative aspect of control there is a behavioural dimension about which you will be made aware by the present unit

9.1 Introduction

Controlling, a managerial function, to a great extent closes the loop in the system of managing. A manager who does not understand management control cannot be

expected to exercise it in the most efficient and effective manner. Nor can staff men whose duty is to design systems and procedures for their organisations design efficient systems unless they possess a clear understanding of management control. And certainly any one who is subject to control by others has to understand clearly what that means if he is to remain contented in that relationship. Indeed, when management control is not understood, good management is a very improbable result.

Understanding control really means understanding three principal things about it: What is control? What is controlled? And who controls?

The essence of control is action which adjusts operations to predetermined standards, and its basis is information in the hands of managers. Objectives, plans and programmes, and policy statements help in setting the standards of performance. People can know from objectives what they are trying to do. Without them, people may work quite industriously yet, working aimlessly, accomplish little. Plans and programmes complement objectives, since they propose how and according to what schedule the objectives are to be reached. A policy statement is useful in economising the time of managers equitably and consistently. Essentially, control is checking to determine whether plans are being observed and suitable progress towards the objectives is being made, and acting, if necessary to correct any deviations.

The basis of control is information in the hands of managers. Information reach the managers through the reporting system. Reporting includes special reports and routine reports; written, oral, and graphic reports; staff meetings and conferences, and any other means whereby information is transmitted to a manager as a basis for control function. If it is to be the basis for control information, it should be compiled with the objective in view. It should exclude materials extraneous to the problem of control and must be placed at the disposal of managers quickly so that operations do not deviate any further from the desired norm.

Standards against which operations are adjusted are set by objectives, plans and programmes. An objective is static until revised: a plan or programme is static until abandoned. They are in force until superseded. Because of their semi-permanence the standards set by them are also of temporary durability. But in real organisation situations standards are dynamic in character, for they are constantly altered, modified or revised. So instead of linking control action to the semi-permanent standards, managers should control adherence to the objectives, plans, programmes, policies and procedures which have been laid down.

The person who is responsible for results should undertake control action. Results include not only profits and costs, but conformity of all operations with standards. Hence, whoever has responsibility for specifying and establishing a particular standard

has to be ultimately responsible for controlling adherence to it and responsible, therefore, for such corrective action as is necessary. Of course, those below him in the chain of command may help him, but they cannot relieve him of the final responsibility for control. Therefore, authority for managers to establish standards should be delegated as far down in the organisation as seems practicable. It then becomes their responsibility to control adherence of operations to the system they establish.

9.2 Definition

More than a century back Fayol defined control. In his view, "In an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established. It has for object to point out weaknesses and errors in order to rectify them and prevent recurrence. It operates on everything, things, people, actions". In the light of the above the managerial function of controlling has been defined as "the measurement and correction of the performance of activities of subordinates in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished".

It is a function of every manager to make sure that what is done is what is intended. Any manager executing a plan is responsible for exercising control action, whether he belongs to higher or lower echelon of the organisation hierarchy.

Control implies the existence of objectives, plans, policies, programmes and procedures. Manager cannot control without them. He cannot measure whether his subordinates are operating at the desired level or not.

Management control should mean one thing and one thing only. It means that control action is directed towards bringing operations into conformity with predetermined goals and standards. Because of this precept most controls are partial; they concentrate on one facet of operations – quality of product, cash flow, costs or some other narrow aspect. However, over-all control has also been developed to check on the progress of the entire organisation or territorial division or an integrated product.

9.3 Significance of Controlling Function

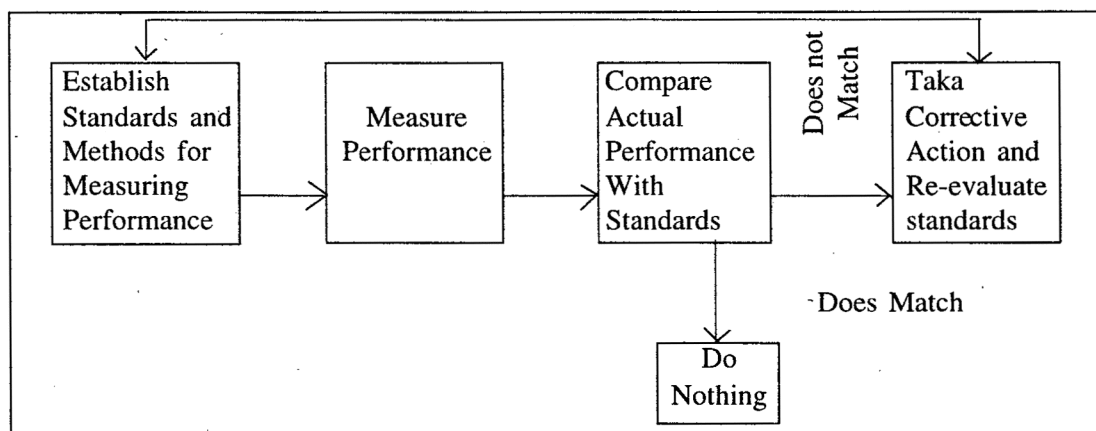
Controlling function in various ways helps business enterprise to maintain the current business level and create business potentiality. A good system of control provides against undesirable surprises, capable of degenerating into catastrophes. It is as well always to be able to give an exact answer. The need for control is outlined in the following paragraphs :

- **Saving plan from failure.** Plans, even the best formulated ones, are susceptible to going awry. If managers become complacent after handing over the best possible plans to his people for implementation and do not keep track of the progress of the plan they may encounter an undersirable surprise. Control function provides pre-warning about the success or failure of the plan.
- **Coping with change.** Organisation's environment changes. Markets shift. Competitors offer new products and services that capture the public imagination. New materials and technologies emerge. Government regulations are enacted or amended. The control function aids managers in responding to the resulting threats or opportunities, by helping them to detect changes that are affecting their organisation's products and services.
- **Creating better quality.** To try quality in everything that an organisation does require a change in philosophy. An unwavering focus on an organisation's mission and goals coupled with quality control will drive ever-improving quality forward and lower costs. Focus on quality as an objective followed by control function helps to spot the process flows and to correct the process.
- **Creating faster cycles.** Today's customers demand for customised products, improved design, better quality and faster delivery. From creation of such products or services to delivery of them to customers constitutes a cycle. Control action helps enterprises to personalise the cycle. Such personalisation via control makes the products or services more reflective of individual needs.
- **Adding value.** Speedy cycle times are one way to gain competitive edge. Adding value is another way. Trying to match every move of a competitor can be both expensive and counter-productive. Instead, an organisation's main objective should be to add value to its product or services so that customers will buy it in preference to a competitor's offer. Most often, this added value takes the form of above-average quality achieved through exacting control procedures.
- **Facilitating delegation and teamwork.** Participative management and teamwork are the current slogans in management. Participative management increases the need to delegate authority and encourages employees to work together as teams. This does not reduce manager's ultimate responsibility. Rather, it changes the nature of the control process. Under the traditional autocratic system of management, the manager would specify both the standards for performance and the methods for achieving them. Under the new participative system, a manager communicates standards, but lets the employees, either as individuals or as teams, use their own creativity to decide to solve certain problems blocking the achievement of the standards. The control process lets the manager monitor workers' progress without

hampering employees' creativity or involvement with the work. This current trend in management cannot make control insignificant.

7.4 Steps in Control Process

Control systems and techniques are essentially the same for all things and people, say cash, product quality, office procedure, profits, costs, morale and so forth. The basic control process, wherever it is found and whatever it controls, involves four steps as illustrated in the following figure :



Basic steps in the Control Process

- **Establishment of Standards and Methods for Measuring performance**

Standards are established criteria against which actual results can be measured. They represent planning goal of the enterprise or of the department and are expressed in such precise and concrete terms that the actual accomplishment of assigned duties can be measured against them. They may be physical and represent quantities of products, sales man-hours, speed, volume of rejections etc; or may be stated in monetary terms, such as costs, revenues, or investments; or they may be expressed in any other terms which can measure performance.

In service industries, standards and measurement may include the length of time customers have to wait in line at bank, the amount of time they have to wait before the telephone is answered, the number of new clients attracted by a revamped advertising campaign.

In some intangible areas, such as employee loyalty and morale, or public relations programme it is difficult to establish quantitative standards for such goals. Nevertheless there are verifiable means of determining whether action is towards or away from such intangible goals.

- **Measurement of Performance**

If means are available for determining exactly what subordinates are doing, appraisal of actual or expected performance is fairly easy. The ease or difficulty of measuring performance to a large extent depends upon the possibility of setting up concrete standard. Establishment of man-hour standards for the production of a mass-produced item is made possible by the techniques of time and motion study. This makes appraisal of performance easier.

Again, in the less technical kinds of task, not only may standards be difficult to develop but measurement may also be hard. For example, to control the performance of the finance director or the industrial relations director is not easy, because definite standards cannot easily be developed or performance accurately measured. Often in these areas appraisal relies on vague standards, such as the financial health of the business, the attitude of trade unions, the absence of strikes, the loyalty of subordinates and the overall success of the department. These measurements are often equally vague.

As measurement is an ongoing, repetitive process, at what frequency it should be taken up is an important question. In a manufacturing plant, levels of pollutants in the air will be continuously monitored for safety of the workers, whereas progress on long-term expansion objectives will be reviewed by top management only once or twice a year. As controlling function tries to see that activities are going on as intended managers should not allow long time gap between two measurement time.

- **Comparing actual performance with standards**

In this step actual performance is compared with the established targets or the standards previously set. If performance matches the standards, managers may assume that everything is under control. If it fails to match the standards managers are required to take appropriate corrective measures.

- **Taking corrective action and reevaluating standards**

Performance may either fall short of standards or over-step standards. If analysis of the situation indicates that some action is required this step is undertaken.

Correction of deviations in performance is the point at which control coalesces with other managerial functions. The manager may correct action by redrawing his plans or by modifying his goal. Or he may correct deviation by exercising his organising function, through reassignment or classification of duties. He may correct, also, by additional staffing, by better selection and training of subordinates, by providing effective leadership or by setting an efficient reporting system. The corrective action may as well involve a change in the original standards rather than

a change in activity. However, the correcting action according to some authors is not included in controlling function.

9.5 Designing a Control System

Managers face a number of challenges in designing a control system that provides accurate feedback in a timely, economical fashion that is acceptable to organisation members. Most of these challenges can be traced back to decisions about what needs to be controlled and how often progress needs to be measured. Trying to control too many elements of operations too strictly can annoy and demoralize employees, frustrate their managers, and waste valuable time, energy, and money. Furthermore managers may focus on easy-to-measure activities, and ignore harder-to-measure activities. Most of these problems can be avoided by an analysis that identifies key performance areas and strategic points.

9.5.1 Identifying key performance areas

Every managerial position has to attain certain results but all the activities that a manager performs do not equally contribute to the achievement of results. Rather some activities contribute more than others. Similarly, in case organisation certain activities, contribute more to its effectiveness. These areas are known as key performance or result areas (KRAs). For instance, the various result areas for a production manager or department may include quality, quantity, adherence to delivery schedules, rejects, wastage, inventory, labour costs, material costs, machine down time, and so forth. Depending on the nature of his organisation and industry, the production manager will identify his KRAs. In an industry, where raw material and machinery are the major cost contributors, the manager's KRAs may be raw material cost, wastage, and machinery utilisation. On the other hand, in an industry, such as T.V. manufacturing, where assembly is the major operation, labour costs critical component costs, and quality may be the KRAs. In the functional area of marketing KRAs may include sales expenses, advertising expenditures and individual salesperson's performance, new customers, new markets etc. Just as KRAs can be identified for different functional areas, these can also be identified at the organisational level. Individual level KRAs should be linked with divisional level KRAs, and divisional level with the corporate level KRAs.

There are KRAs which are common to all enterprises and all managerial positions irrespective of the functional area or industry. Peter Drucker has identified eight such KRAs common to all firms. These are profitability, market standing, innovation, productivity, worker performance, financial and physical resources, manager's

performance and development, and public responsibility. W.J. Reddin has identified five KRAs which are common to all managerial positions. These are subordinate development, innovation, project implementation, managerial development and systems implementation.

Indexes of standards for all the KRAs are developed, modified from time to time and used to measure performance level.

9.5.2 Identifying strategic control points

In addition to key performance areas, it is also important to determine the critical points in the system where monitoring or information collecting should occur. Once such strategic control points are located the amount of information that has to be gathered and evaluated is also reduced considerably.

The most important and useful method of selecting strategic control points is focusing on the most significant elements in a given operation. Usually, only a small percentage of the activities, events, individuals or objects in a given operation will account for a high proportion of expenses or problems that managers will have to face. For example, 10 percent of a plant's products may yield 60 percent of its total sales; 2 percent of an organisation's employees may account for 80 percent of its employee grievances.

9.6 Requirements of an Effective Control System

To make it effective the control system must be designed for the task it is intended to perform. While the basics of control systems are universal, the actual system requires special design. But tailoring of control systems, there are certain requirements that the managers should keep in mind whether he is a top executive checking new products that are being developed as planned, or a supervisor, checking the operations of his work force.

- ***Controls must reflect the nature and needs of the activity.*** All control systems should reflect the job that are to be performed. Controls of the production department will surely differ from those of the marketing department. Techniques available and widely used are not suitable for all occasions. Managers after due considerations of the strategic factors in his plans and the nature of operations to be controlled, should choose the appropriate control technique.
- ***Controls should be capable of reporting deviations promptly.*** The ideal control system detects projected deviations before they actually occur. Operating information must reach the manager in a timely manner so that he can prevent the failures.

- ***Control should be forward looking*** Between the deviation and corrective action a time lag is sure to exist but ideal control is instantaneous. A forward-looking control mechanism can effectively handle the time lag. It will permit manager to detect potential deviations from plans early enough to take effective corrective action.
- ***Control should point up deviations at strategic critical points.*** Deviations at strategic critical points are more serious than other areas. As already pointed out strategic control points are crucial for appraising performance against an individual plan. The more a manager concentrates his control efforts on deviations at strategic critical points, the more efficiently effective will be the results of his control.
- ***Control should be objective.*** Subjective judgment gives a coloured picture of a situation. A subordinate's performance should not be judged subjectively. An objective appraisal of performance against well-laid standards provides the true picture. Such objective control should be definite and determinable in a clear and positive fashion.
- ***Control should be flexible*** Changes are facts of managerial life. Control systems are formulated on the basis of some forecasts. As changes occur in the business environment forecasts lose their foundations. Control systems need be designed in such a way that they can handle the changed situations. So if controls are to remain effective despite unpredicted changes, flexibility is required in their design. In fact, flexible control is normally best achieved through flexible plans.
- ***Control should reflect the organisation structure*** Organisation structure is another means for maintaining controls. Because of his position in the organisation structure, a manager assigns tasks and delegates authority; but is held responsible for controlling subordinate's performance. The more controls are designed to reflect the place in the organisation structure where responsibility for action lies, the more they will facilitate correction of deviations from plans.
- ***Controls should be economical*** Cost is a limiting factor of control systems. The cost of control that a large size enterprise can afford is unaffordable by a small one. Also an elaborate control system is not necessary for a small firm. For making the control system worthy of its cost, managers should select only the strategically critical points. If tailored to the job and to the size of the firm, control will probably be economical.

- ***Control should be understandable*** The manager responsible for control action needs to understand the system. Some newly devised complex control systems are difficult to understand.
- ***Control should lead to corrective measure*** The job of an effective control system is simultaneously to detect deviations from plans and to show the way to corrective action. An adequate system discloses where failures are occurring, who is responsible for them and what is required to be done about them.

9.7 Control Techniques

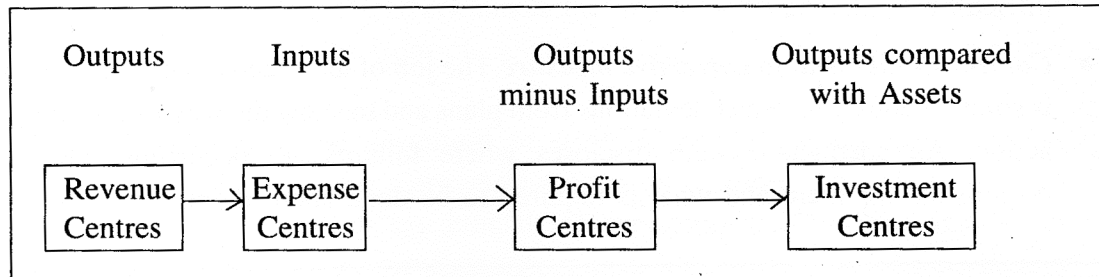
A good number of control methods and systems are available to managers to deal with the differing problems and elements of their organisations. The methods and systems can take various form and each form is intended for controlling activities of various groups. Keeping the users of the present course of study in view only a few of the methods and systems have been elaborated. The discussion includes traditional control techniques that include budgetary and non-budgetary control devices, special control technique like PERT/CPM and finally devices for controlling overall performance of the organisation.

9.7.1 Budgetary control : a traditional device

Budgets are widely used for managerial control. Essentially, budgets are plans for a given future period in quantitative terms. They are prepared to indicate the expected results of the business and also the possible future lines of action to be pursued for the attainment of such result. Budgets provide predetermined standards of performance for regulating activities in the enterprise. These standards usually become the basis of control. All results and performances are measured and appraised against budget standards which are developed through a comprehensive budgetary programme. Control exercised for the execution of budget is referred to as budgetary control.

Every managerial position in the organisational structure is in a sense, a responsibility centre. The manager in charge of a division in a multi-divisional organisation is responsible for his unit. Similarly, a production manager, a marketing manager, or a supervisor is responsible for his unit. All responsibility centres use resources (inputs or costs) to produce something (outputs or revenues). Inputs entail

costs and outputs result in revenues. Typically, responsibility is assigned to revenue, expense, profit and/or investment centres as exhibited in the figure below.



Budgeting System for controlling functions

Budgets for every major operation of the responsibility centre can be made. Responsibility centre budgets include revenue budget, expense budget, profit and/or investment budget. The decision to make such budgets depends upon the activity performed by the organisational unit and on the manner in which inputs and outputs are measured for the control purpose.

Revenue budgets are meant for measuring marketing and sales effectiveness. They consist of the expected volume of sales multiplied by the expected unit selling price of each product. The revenue budget is the most critical part of a profit budget, yet it is also the most uncertain one because it is based on the projected sales.

Expense budgets take care of expenses incurred by the concerned responsibility centre in forms of estimated material, labour and overhead costs. Such expense budgets relate to manufacturing units. Expense budgets for units like legal, accounting or research are different from those of manufacturing responsibility.

Profit budgets combine cost and revenue budgets in one statement to be used by managers who have responsibility for both the expenses and revenues of their units. Such managers head an entire division, such as production, marketing or finance division. The profit budgets consist of a set of projected financial statements and schedules for a given future period. Thus, they serve as profit plans for the period.

Investment budgets outline specifically capital expenditure for plant, machinery, equipment, and other items. For ensuring the availability of capital at the right time without any disruption to the normal working of the responsibility centre, this budget maps out future capital expenses over a long period. Like the revenue and expense budgets, this budget is also meant for controlling the responsibility centre.

Mechanism of budgetary control

As shown in the figure above budgetary control is operationalised via the responsibility centres, viz., revenue centre, expense centre, and profit and/or investment centre. The mechanism of control is briefly discussed below :

As organisational units, revenue centres measure outputs in monetary terms but desist from comparing sales proceeds with input costs. A sales department is such a centre. The effectiveness of the centre is not appraised by the extent to which revenue (in the form of sales) exceeds the cost of the centre (in salaries, rent etc.). Rather, budgets in the form of sales targets are prepared for the revenue centres and the targets are compared with sales orders or actual sales. Such a comparison provides a useful picture of effectiveness of the centre.

Expense centres or cost centres measure the input in monetary terms, but not the outputs. These centres do not yield revenues. Departments of maintenance, administration, service, or research and development are examples of expense centres. Budgets of these centres include only the input cost portion of their operations. Actual input costs are appraised against the budgeted costs to judge the effectiveness of these centres.

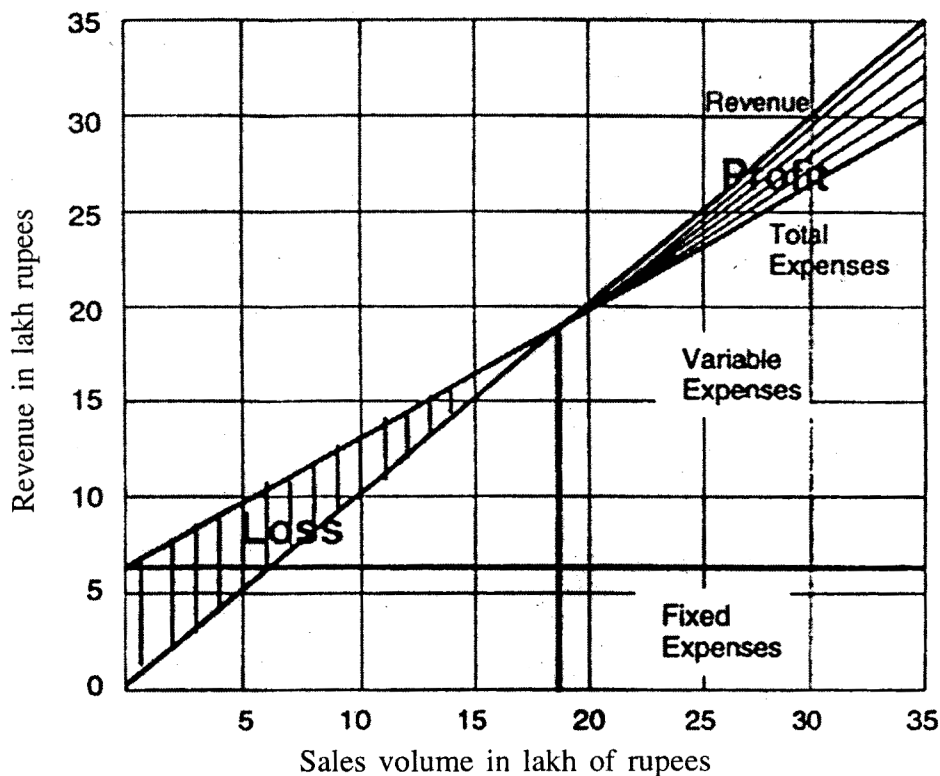
Profit centres measure performance of responsibility centres by comparing revenues (outputs) with expenditure (inputs). Such a measure is used to determine how well the centre is doing economically and how well the manager in charge of the center is performing. A profit centre is responsible for generating its own profit and its budget sets the target profit. In a multi-divisions organisation each division is responsible for its own product line and functions as a profit center.

The control system in an investment centre primarily measures the return on investment. Capital investment is required to produce the outputs. In addition, it also measures the monetary value of inputs and outputs: For example, with a capital investment of Rs. 50 lakh in land, building, machinery, equipment and working capital a new plant in its first year spent Rs. 2.5 lakh on labour and other inputs, and had Rs. 5 lakh revenue. The profit of the plant's investment centre is not just the difference between the input costs and the revenue realised. While calculating the profit, first, allowance must be made for the depreciation of the fixed assets. Secondly, the investment centre manager must account for the interest that could have been earned from alternative investments (i.e., opportunity cost). By assessing these factors as well, the centre obtains a much more accurate picture of its profitability.

9.7.2 Break-even Point Analysis : a traditional non-budgetary device

The break-even chart shows the relationship between volume of sales and expenses in such a manner that a manager can easily find out what volume of sales proceeds exactly cover expenses. Less sales volume than required means loss to the company and greater volume than required brings profit. The required sales volume acts as the standard.

The chart helps in finding out a point where sales revenue equates with expenses. This point is known as break-even point. A simple break-even chart is shown below:



The chart depicts the level of expenses and revenues for each volume of sales. The expenses have two elements – fixed costs and variable costs. Fixed costs do not vary with volume, particularly in short period. Among these are depreciation property taxes and insurance, plant and equipment maintenance, and the costs of maintaining a minimum of supervisory staff and other key personal for keeping the facilities ready.

Variable costs are expenses that vary directly with the quantity of work being performed. Examples are raw materials, selling expenses, factory wages etc.

The simplest break-even chart makes use of straight lines that represents revenue, variable costs and fixed costs. The construction of the chart requires only that the costs

and revenue for different output volumes are known at two points because only two points are required to draw a straight line. All the three straight lines representing revenue, fixed cost and variable costs start at some points on Y-axis. Revenue line starts at zero volume; fixed costs line will be a given level on the Y-axis because by definition they will continue even if there is no production, variable costs line starts at the Y-axis where from fixed costs line starts. All other points on the lines are the result of assumption of linear relationships for both revenue and costs.

The construction of the charts is based on certain assumptions. These assumptions are :

1. The linear revenue line indicates that the price at which any quantity of the output can be sold is fixed and does not change with output. For example, points along the line indicate that price P (say Rs. 6.00 per unit) is multiplied by the number of units sold Q (say 100 units) to obtain Revenue R (Rs. 600/-).
2. Variable costs vary proportionally with output quantity.
3. The product remains constant.
4. The relationship between revenue and costs is for a given output volume.
5. Fixed costs and variable costs are clearly distinguishable.

The interpretation of the break-even chart begins with the determination of the break-even point, a point at which variable cost line cuts the sales (revenue) line. In the figure Rs. 18 lakh sales enable the company to earn Rs. 18 lakh revenue that cover the total expenses. At this point company earns no profits and also incurs no loss. If the company's sales slide down it faces loss and if move up beyond the point it earns profit.

Break-even chart helps manager to predict profit at differentiated sales volume. It is useful in planning and controlling as it shows the most profitable path. It also introduces objectivity in cost control by indicating the way of controlling cost. By using the projected costs and revenues as standards a manager can effectively perform his controlling function.

9.7.3 Programme Evaluation and Review Technique: a special device

Programme Evaluation and Review Technique, better known as PERT, is essentially an attempt at quantification of programme planning and control. An important characteristic of PERT is the attempt to systematize and mechanise the planning and control process.

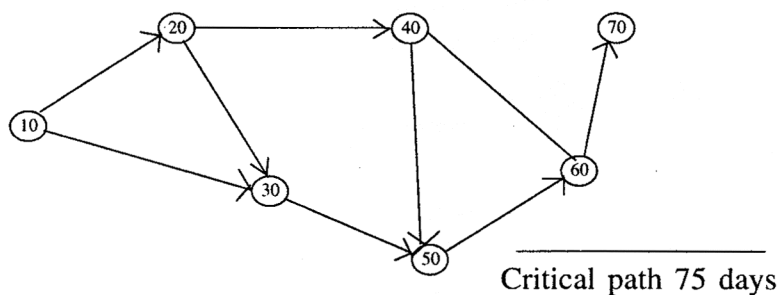
The fundamental tool used in the PERT approach is the network or flow plan. The composition of the network is a series of related *events* and *activities*. Events,

(required sequential accomplishment points), are most frequently represented by circle symbols. Activities are the time consuming elements of the programme and are used to connect the various events. They are shown in the flow plan as arrows. Each arrow represents elapsed-time required to accomplish an event. A simplified model of the flow plan is illustrated in the figure depicted in the next page.

The number of events shown on any flow plan should reflect significant programme accomplishments. It should also be noted that some events may depend only on one single prior event, while in other situations there may be an interrelationship of several events leading to the accomplishment of an ultimate objective.

To determine the elapsed time between events responsible programme personnel evaluate the situation and submit their estimates using three possible completion assumptions: optimistic completion time, most likely completion time and pessimistic completion time. Optimistic time estimate is based on assumption that everything goes exceptionally well; most likely time represents the most accurate forecast based on normal developments and pessimistic time is estimated on maximum potential difficulties.

A simple formula based on the three-time estimates will give the activity time to be used in the system flow plan. The application of the formula gives a time with a 50% chance of realisation.



Flow plan

10. Programme Go Ahead
20. Design Release Completion
30. Material Procurement
40. Model Testing
50. Fabrication Prototype
60. Full Scale Testing
70. Programme Prototype completion

Activity Time

O = Optimistic Completion Time

M = Most Likely Completion Time

P = Pessimistic Completion Time

Assuming O = 6 weeks, M = 8 weeks and P = 16 weeks, the activity time can be computed, using the formula :

$$\frac{O + 4M + P}{6} = \frac{6 + 32 + 16}{6} = 9 \text{ weeks}$$

Once the network has been established and all activity times computed, the information on activities and events can be translated into dates based on a programme start time.

The next step is to compute the critical path. It is established by the longest possible time span along the system flow plan. For determining the critical path, data and events are organised in sequence. The starting point for starting the critical path is the final event in the total network. From the final Event (in the illustration event 70), related events are placed sequentially, working back ward, until the present (Event 10) is reached.

If the proposed final completion date is to be bettered, indicated by Event 70, reappraisal and curtailment of activity time must take place along the critical path.

Since the critical path takes the longest time and is the determinant for the project completion, other events may conceivably be completed before the time they are actually needed. The time differential between the scheduled completion of the non-critical events and time that they are actually required is called the Slack Time. Where excessive Slack Time exists in the programme, a reevaluation should take place. It should be determined which resources, and in what amount, could be transferred to other activities. This, in turn, could shorten the critical path or better balance the allocation of resources assigned to the project.

Once the schedule has been established, frequent review by programme participants is required to assess the actual progress against the planned accomplishment. Inputs are then assembled and programmed into the computer, which prints out the status report of time interval estimates versus actual reported progress.

Reporting can be done bi-weekly, for example, on all items shown in the flow plan. The currency and frequency of the reporting promptly alerts management to the events which are deviating from the basic programme plan. When corrective action is not possible and the scheduled date of an objective event has been changed, it

becomes necessary to recompute the entire programme to determine the current anticipated completion dates of all events.

The above description of PERT is called PERT/TIME. From it PERT/COST has been developed with the application of costs to activities in the PERT network.

PERT does not make control automatic, but it establishes an environment where sound control principles may be appreciated and used.

9.7.4 Control of Over-all Performance

Control technique discussed so far are meant for controlling specific things like costs, production volume, wages and so forth where performance must conform to plans. They apply to a part of an enterprise and do not attempt to measure total accomplishments against total planned goals. Techniques have been developed to measure over-all performance. These techniques are essentially financial. State of health of business and its survival and growth largely depend on its capacity to generate financial surplus. Financial measures by indicating total expenditure of resources in attaining the projected enterprise goals provide an effective instrument for over-all control of performance. Such an instrument is applicable to the total enterprise.

There are several such techniques of which only two will be taken up for discussion. They are Budget Summaries and Reports, and Return of Investment.

Budget Summaries and Reports :

A summary of budgets is a widely used device for controlling over-all performance. A budget summary is a compendium of all the individual budgets. The summary contains the gist of projected goals of all departmental or segmental budgets and, as such, provides an excellent basis or standards for exercising over-all control by top-level managers. The top managers are required to communicate the relevant standards to their concerned subordinates. The standards are always expressed in financial terms.

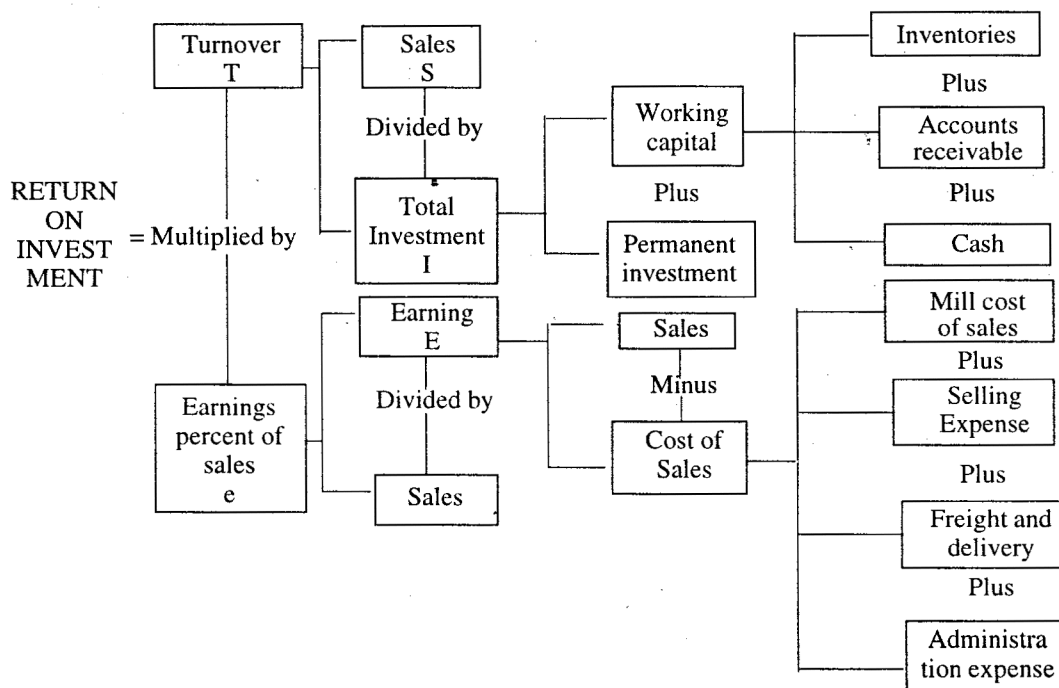
While tasks are being performed top management is fed with budget reports. Budget reports indicate variations between budgeted and actual results, reasons for their variations as well as suggestions for correction of deviations. Unaccompanied by explanation of significant differences between budget and actual costs budget reports are of little use for control. Budget reports help top management to measure and evaluate performance. Thus, Budget Summaries and Budget Reports become the principal devices for control of over-all performance.

Control Through Return on Investment :

The absolute and/or relative success of a company or a large division of a company can be profitably measured by the ratio of earning to the investment of capital. This

ratio is the rate of return of a company on its invested capital. Instead of concentrating on profit optimization the device lays emphasis on optimization of rate of return on employed capital.

Instead of going through a round about process of computing return on capital as shown in figure below it can simply be found out by dividing earnings by investments ($R = \frac{E}{I}$).



The relationship of factors affecting Return on Investment.

Return is computed on the basis of capital turnover multiplied by earnings as percentage of sales ($R = T \times e$). Turnover is computed on the basis of total sales divided by total investment ($T = \frac{S}{I}$). Investment includes both investment in permanent production facilities and the working capital.

In respect of valuation of fixed capital there are two sets of opinion. One opinion holds the view that fixed capital be taken at its gross value without consideration of depreciation. This view is based on the assumption that fixed assets at the original value provide a stable basis for computing returns. The other opinion refers to value fixed assets at their net value arguing that revenue earning capacity of fixed assets diminishes as time passes on. This situation is offset as the depreciation reserves are reinvested in the business.

Earnings as percentage of sales (e) are computed by dividing earning by sales ($e = \frac{E}{S}$). Earnings (E) are calculated aftermaking allowances for depreciation. The two ratios, $\frac{S}{I}$ and $\frac{E}{S}$ when multiplied $R = \frac{E}{I}$.

Management has scopes to improve rate of return by increasing either (i) the turnover, (ii) percentage of earning on sales, or (iii) both, Again, turnover can be improved either by (i) increasing sales volume, of (ii) reducing investment via slashing working capital and fixed capital. Furthermore, management can try to increase total earnings (E) by enhancing sales.

A firm's over-all performance whether improving or otherwise over the years can be measured with the help of rate of return on investment. For the purpose the rate of a particular year is taken as a benchmark. The rates of the subsequent years are compared and an impression is formed whether the firm is doing well or not. If found necessary, additional measures may be undertaken to improve turnover, or percentage earnings of sales. It is also applicable if management desire to compare the over-all performance of two divisions of the company for which it is responsible.

9.8 Behavioural Dimensions of Control System

Control – measuring and maintaining performance relative to organisational objectives – is clearly one of the basic functions of management. Behaviouralists point out that management has not been concerned with the impact of controls on people. They argue that inattention to behavioural consequences results in control designs which frequently do not achieve improved performance – which in fact may hinder accomplishment of organisational objectives.

In any control system, actual performance is measured against pre-established goals, such as, standards, budgets, quotas etc. Behaviouralists point out that control system designers unintentionally commit mistakes in evaluating performance.

Designers of control system have great faith in and emphasize on measurement of performance in quantitative terms. Quantitative measures of performance are useful tools. But research indicates that indiscriminate use and undue confidence and reliance in them result in insufficient knowledge of the full effects and consequences. They have side effects and reactions that may outweigh benefits of control. Quantitative performance measurements are seen to have undesirable consequences for over-all performance. Measurement of performance itself has important implications for the motivation of behaviour.

In addition to quantitative measures in any control system evaluation is often narrowly programmed. There is typically no explicit provision for analysing and specifying the degree to which performance falls below or exceeds the preset goals. Performance is either at or above standards and therefore acceptable, or else it is below standards and requires corrective action. The actual performance may exceed or fall below some desired level, and management may well be concerned with raising the average level of performance.

The principal flaw in the control system according to the behavioural scientists, is the assumption that control is exercised downward in the organisation by the superiors. These control devices depict organisation as machine. Control procedures are designed to monitor the machine's performance along a number of dimensions and to transmit various reports to upper level officials. Managers, in this model, as controllers remain alert to evidence of negative deviations from pre-established standards and procedures and ready to take actions to enforce compliance at any point at which such deviation may occur.

The individual member of an organisation actually exercises control—who accepts or rejects standards, who does or does not exercise care in the performance of duties or who accepts or resists efforts to change his behaviour to achieve some objectives. Individuals not only can, but do actively resist the imposition of standards which they do not understand or consider illegitimate.

Chris Argyris in a field study identified human problems that arose out of the process of imposition of budgets. He carved out four major areas where budgetary control affects human behaviour. They are as follows :

- ***Budget as a pressure device.*** People who are being controlled assume that budgets are used as a pressure device to increase production efficiently. Assuming that employees are inherently lazy, top management keeps this pressure on employees constantly. The pressure raises human efficiency but concurrently gives birth to counter forces to keep production down. People and groups now try harder to keep production at the current level and prevent it from rising again. In this situation, tension begins to mount. People become uneasy and suspicious. They increase the informal pressure to keep the production level at the present level.
- ***Measure of success and failure of budget.*** In the measurement of success or failure of budget, two individual organisational members are involved – budget and factory supervisors. And both supervisors want to feel a sense of achievement. The success of budget supervisors lies in finding errors, weaknesses and faults in the

factory supervisors' department. After singling out the guilty party they report to their boss in the finance division to prove their success. In such a situation, the guilty foreman experiences the negative feelings and realises that he will be placed in an undesirable position. This feeling of failure will make the foreman apathetic and careless about his work, he will lose confidence in himself and subordinates, and trust no body in the work place. Thus the success of the budget supervisor is the failure of the plant supervisor.

- ***Appearance of department-centred supervision.*** Budgets foster a philosophy that urges every supervisor to worry about his department. It is based on the management's assumption that if each supervisor is made primarily responsible for the production aspect of his part of the whole plant, no problems will arise. Such a philosophy overlooks an extremely important point. An organisation is something different from the sum of the individual departments. The departments of an organisation exist in certain relationships with each other and it is these relationships which create the difference. Thus by overemphasising the individual departments the important relationships between departments are disregarded. If every foreman does his utmost to make certain that his own department is functioning correctly the organisation will be populated by department-centred supervisors who will pay no attention to the functioning of their departments in relation to others. The departments in relation to others. the department-centred supervisor to save his skin from any fault, blame other departments and conflict between departments ensues.
- ***Budget as means of leadership expression.*** Budgets are composed of cold, nonhuman quantitative symbols. When the budget controllers and factory officials use these nonhuman figures, they project on themselves all their emotions and feelings. Thus budgets become a medium of personality and leadership expression. As people's personalities and leadership patterns are different, methods of using budgets may be either aggressive or humanly.

Argyris concluded by pointing out the following behavioural problems that arise out of budgetary control :

Budget pressure tends to unite the employees against management, and tends to place the factory supervisor under tension. This tension may lead to inefficiency, aggression, and perhaps a complete breakdown on the part of the supervisor. The finance staff can obtain feelings of success only by finding fault with factory people. These feelings of failure among factory supervisors lead to many human relations problems.

The use of budgets as measures of success/failure by top management tends to make each factory supervisor see only the problem of his own department.

Supervisors use budgets as way of expressing their own patterns of leadership. When this results in people getting hurt, the budget, in itself a neutral thing, often gets blamed.

Behavioural problems briefly detailed above are related to budgetary control. Such problems also arise when other control devices are used in organisation. For softening the intensity of problems behaviouralists desire that the following conditions must be present in the organisational environment and the following requirements must be met by management control system :

1. Standards must be established in such a way that they are recognised as legitimate. This requires that the method of deriving standards must be understood by those affected, and that standards must reflect the actual capabilities of the organisational process for which they are established.
2. The individual organisation member should feel that he has some voice of influence in the establishment of his own performance goals. Participation of those affected in the establishment of performance objectives helps in establishing legitimacy of these standards.
3. Standards must be set in such a way that they convey "freedom to fail". The individual needs assurance that he will not be unfairly censured for an occasional mistake or for variations in performance which is outside his control.
4. Feedback, recognised as the essential aspect in control designs must be expanded. Performance data must not only flow for analysis to higher management, but they must also be summarised and fed back to those directly involved in the process.

9.9 Exercise

1. What is managerial control? What is the essence of control? Indicate the basis of control.
2. Why is controlling considered to be significant for management?
3. Discuss the basic steps in controlling.
4. While designing a control system what factors assume importance?
5. Discuss the requirements what an effective control system should satisfy.
6. Explain Budgetary Control with special reference to the mechanism used by this technique.

7. Give an idea of Break-even Point Analysis.
8. Explain how does Programme Evaluation and Review Technique (PERT) operate?
9. For what purpose in view is the control technique of Return on Investment used?
10. Explain the method used to control the Over-all performance of a large company.

9.10 Further Reading

1. Hampton, David R. Modern Management Issues and Ideas 1974
2. Koontz, Harold and Cyril O'Donnell. Principles Management, 1972
3. Stoner James R.F., R. Edward Freeman and Daniel R. Bilbert, Management, 1996