

## **Module -1**

Module – I: Introduction to Principles of Management : Concept, functions and levels of Management, Skills and Roles of a Manager ; School of Management thoughts – Pre- Scientific , Classical, Behavioural and Modern ; Contributions in the field of Management – by Peter F. Drucker, Michael Porter, C.K Prahalad, Barnand, McGregor, Rensis Likert and McKinsey

### **MANAGEMENT: CONCEPT AND MEANING**

Management is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively. Management comprises planning, organizing, staffing, leading, coordinating and controlling an organization (a group of one or more people or entities) or effort for the purpose of accomplishing a goal. Resourcing encompasses the development and manipulation of human resources, financial resources, technological resources and natural resources.

Since organizations can be viewed as systems, management can also be defined as human action, including design, to facilitate the production of useful outcomes from a system. This view opens the opportunity to 'manage' oneself, a pre-requisite to attempting to manage others.

The term 'management' is used extensively in business. It is the core or life giving element in business. We expect that a business unit should be managed efficiently. This is precisely what is done in management. Management is essential for the conduct of business activity in an orderly manner. It is a vital function concerned with all aspects of working of an enterprise.

### **DEFINITIONS OF MANAGEMENT**

According to George R. Terry, "Management is a distinct process consisting of planning, organising, actuating and controlling, performed to determine and accomplish stated objectives by the use of human beings and other resources".

According to Henry Fayol, "To manage is to forecast and to plan, to organise, to command, to coordinate and to control".

According to Peter Drucker, "Management is a multi-purpose organ that manages business and manages managers and manages workers and work".

According to Harold Koontz, "Management is the art of getting things done through and with people in formally organized groups".

According to Mary Parker Fallett, "Management is the art of getting things done through people".

### **Characteristics of Management**

1. Management is universal – The principles & techniques of management have universal application. They are not rigid. They can be modified & applied in different situations.
2. Management is goal oriented – The basic goal of management is to ensure efficiency & economy in the utilization of human, physical & financial resources. Managerial success is measured by the extent to which the objectives are achieved. Thus management is purposeful.
3. Management is an intangible force – Management is an unseen force which cannot be seen but its presence can be felt in the form of results, targets achieved according to plans, satisfied employees & orderliness in the organization.
4. Management is pervasive – Management is an essential element of every organised activity irrespective of the size or type of organization i.e. Government, business, sports, university or
5. Management is a continuous process – Management functions are continuous & never ending. These functions are simultaneously performed by all managers all the time i.e. planning, organizing, staffing, directing & controlling.
6. Management is a dynamic function – Management is a dynamic function as it has to adopt the changes according to the need of the environment & growth of the business.
7. Management is multi-dimensional – It is multidimensional as it involves management of work, people & operations hospital. It is also prevalent in all the levels of the organisation, and in the entire department

### **NEED OF MANAGEMENT**

Direction, coordination and control of group efforts: In business, many persons work together. They need proper direction and guidance for raising their efficiency. In the absence of guidance, people will work as per their desire and the, orderly working of enterprise will not be possible. Management is needed for

planning business activities, for guiding employees in the right direction and finally for coordinating their efforts for achieving best/most favorable results.

Orderly achievement of business objectives: Efficient management is needed in order to achieve the objectives of business activity in an orderly and quick manner.

Performance of basic managerial functions: Planning, Organising, coordinating and Controlling are the basic functions of management. Management is needed as these functions are performed through the management process.

#### **Effective communication at all levels:**

Management is needed for effective communication within and outside the Organisation. Motivation of employees: Management is needed for motivating employees and also for coordinating their efforts so as to achieve business objectives quickly.

Success and stability of business enterprise: Efficient management is needed for success, stability and prosperity of a business enterprise. Modern business is highly competitive and needs efficient and capable management for survival and growth. Management is needed as it occupies a unique position in the smooth functioning of a business unit. This suggests the need of efficient management of business enterprises.

Profitable/successful business may not be possible without efficient management. In this sense, "No management, no business" is true. Survival of a business unit in the present competitive world is possible only through efficient and competent management.

#### **MEANING OF MANAGEMENT PROCESS**

The term management is explained in different ways. For example, it is said that management is what management does. Here, management is explained with reference to its basic functions which include planning, organising, coordinating and controlling.

Similarly, management is described as a process which involves various elements. Management process is a continuous one and is run by the managers functioning at different levels. Management is now recognised as a distinct process in which managers plan, organise, lead, motivate and control human efforts in order to achieve well defined goals. In fact, process means a series of activities/operations undertaken/conducted for achieving a specific objective. Process is a systematic way of doing things. For example, in a factory there is a production process. Similarly, in the management process, resources and human efforts are used in an orderly manner for achieving specific objectives. The management process suggests functions to be performed by the managers.

#### **FUNCTIONS/ELEMENTS OF MANAGEMENT**

The essential elements/components of Management Process are four.

- Planning
- Organising
- Directing and
- Controlling.

The elements in the management process are actually the basic functions of management these functions constitute the management process in practice. Management process is in fact, management in practice. This process suggests what a manager is supposed to, do or the basic functions that he has to perform while managing the job assigned to him.

Luther Gulick gave a new formula to suggest the elements of Management Process i.e. basic functions of management. According to him, management process may be indicated by the word "PODSCORB". Here, 'P' states for 'planning', 'O' for 'organising', 'D' for 'directing', 'S' for 'Staffing', 'CO' for 'Coordinating', 'R' for 'Reporting' and 'B' for 'Budgeting'. Gulick coined the word "PODSCORB" to suggest seven functions of management.

The following figures show the management process and the elements involved:

**(A) Management Process:**



**(B) Elements of Management Process (Functions of Management):**



**Planning:** Planning is the primary function of management. It involves determination of a course of action to achieve desired results/objectives. Planning is the starting point of management process and all other functions of management are related to and dependent on planning function. Planning is the key to success, stability and prosperity in business. It acts as a tool for solving the problems of a business unit. Planning plays a pivotal role in business management. It helps to visualize the future problems and keeps management ready with possible solutions.

**Organising:** Organising is next to planning. It means to bring the resources (men, materials, machines, etc.) together and use them properly for achieving the objectives. Organisation is a process as well as it is a structure. Organising means arranging ways and means for the execution of a business plan. It provides suitable administrative structure and facilitates execution of proposed plan. Organising involves different aspects such as departmentation, span of control, delegation of authority, establishment of superior-subordinate relationship and provision of mechanism for co-ordination of various business activities.

**Staffing:** Staffing refers to manpower required for the execution of a business plan. Staffing, as a managerial function, involves recruitment, selection, appraisal, remuneration and development of managerial personnel. The need of staffing arises in the initial period and also from time to time for replacement and also along with the expansion and diversification of business activities. Every business unit needs efficient, stable and cooperative staff for the management of business activities. Manpower is the most important asset of a business unit. In many organisations, manpower planning and development activities are entrusted to personnel manager or HRD manager. 'Right man for the right job' is the basic principle in staffing.

**Directing (Leading):** Directing as a managerial function, deals with guiding and instructing people to do the work in the right manner. Directing/leading is the responsibility of managers at all levels. They have to work as leaders of their subordinates. Clear plans and sound organisation set the stage but it requires a manager to direct and lead his men for achieving the objectives. Directing function is quite comprehensive. It involves Directing as well as raising the morale of subordinates. It also involves communicating, leading and motivating. Leadership is essential on the part of managers for achieving organisational objectives.

**Coordinating:** Effective coordination and also integration of activities of different departments are essential for orderly working of an Organisation. This suggests the importance of coordinating as management function. A manager must coordinate the work for which he is accountable. Co-ordination is rightly treated as the essence of management. It may be treated as an independent function or as a part of organisations function. Coordination is essential at all levels of management. It gives one clear-cut direction to the activities of individuals and departments. It also avoids misdirection and wastages and brings unity of action in the Organisation. Co-ordination will not come automatically or on its own Special efforts are necessary on the part of managers for achieving such coordination.

**Controlling:** Controlling is an important function of management. It is necessary in the case of individuals and departments so as to avoid wrong actions and activities. Controlling involves three broad aspects: (a) establishing standards of performance, (b) measuring work in progress and interpreting results achieved, and (c) taking corrective actions, if required. Business plans do not give positive results automatically. Managers have to exercise effective control in order to bring success to a business plan. Control is closely linked with other managerial functions. It is rightly treated as the soul of management process. It is true that without planning there will be nothing to control It is equally true that without control planning will be only an academic exercise Controlling is a continuous activity of a supervisory nature.

**Motivating:** Motivating is one managerial function in which a manager motivates his men to give their best to the Organisation. It means to encourage people to take more interest and initiative in the work assigned.

Organisations prosper when the employees are motivated through special efforts including provision of facilities and incentives. Motivation is actually inspiring and encouraging people to work more and contribute more to achieve organisational objectives. It is a psychological process of great significance.

**Communicating:** Communication (written or oral) is necessary for the exchange of facts, opinions, ideas and information between individual's and departments. In an organisation, communication is useful for giving information, guidance and instructions. Managers should be good communicators. They have to use major portion of their time on communication in order to direct, motivate and co-ordinate activities of their subordinates. People think and act collectively through communication. According to Louis Allen, "Communication involves a systematic and continuing process of telling, listening and understanding".

## **Levels of management**

### **Three Levels of Management**

Generally, there are Three Levels of Management, viz.

1. Top Level
2. Middle Level
3. Lower Level

At each level, individual manager has to carry out different roles and functions.

#### **1. Top Level of Management**

The Top Level Management consists of the Board of Directors (BOD) and the Chief Executive Officer (CEO). The Chief Executive Officer is also called General Manager (GM) or Managing Director (MD) or President. The Board of Directors are the representatives of the Shareholders, i.e. they are selected by the Shareholders of the company. Similarly, the Chief Executive Officer is selected by the Board of Directors of an organisation.

The main role of the top level management is summarized as follows :-

- A. The top level management determines the objectives, policies and plans of the organisation.
- B. They mobilises (assemble and bring together) available resources.
- C. The top level management does mostly the work of thinking, planning and deciding. Therefore, they are also called as the Administrators and the Brain of the organisation.
- D. They spend more time in planning and organising.
- E. They prepare long-term plans of the organisation which are generally made for 5 to 20 years.

- F.** The top level management has maximum authority and responsibility. They are the top or final authority in the organisation. They are directly responsible to the Shareholders, Government and the General Public. The success or failure of the organisation largely depends on their efficiency and decision making.
- G.** They require more conceptual skills and less technical Skills.

## **2. Middle Level of Management**

The Middle Level Management consists of the Departmental Heads (HOD), Branch Managers, and the Junior Executives. The Departmental heads are Finance Managers, Purchase Managers, etc. The Branch Managers are the head of a branch or local unit. The Junior Executives are Assistant Finance Managers, Assistant Purchase Managers, etc. The Middle level Management is selected by the Top Level Management.

The middle level management emphasize more on following tasks:

- A.** Middle level management gives recommendations (advice) to the top level management.
- B.** It executes (implements) the policies and plans which are made by the top level management.
- C.** It co-ordinate the activities of all the departments.
- D.** They also have to communicate with the top level Management and the lower level management.
- E.** They spend more time in co-ordinating and communicating.
- F.** They prepare short-term plans of their departments which are generally made for 1 to 5 years.
- G.** The middle Level Management has limited authority and responsibility. They are intermediary between top and lower management. They are directly responsible to the chief executive officer and board of directors.
- H.** Require more managerial and technical skills and less conceptual skills.

## **3. Lower Level of Management**

The lower level management consists of the Foremen and the Supervisors. They are selected by the middle level management. It is also called Operative / Supervisory level or First Line of Management.

The lower level management performs following activities:

- A.** Lower level management directs the workers / employees.
- B.** They develops morale in the workers.
- C.** It maintains a link between workers and the middle level management.
- D.** The lower level management informs the workers about the decisions which are taken by the management. They also inform the management about the performance, difficulties, feelings, demands, etc., of the workers.
- E.** They spend more time in directing and controlling.
- F.** The lower level managers make daily, weekly and monthly plans.
- G.** They have limited authority but important responsibility of getting the work done from the workers. They regularly report and are directly responsible to the middle level management.
- H.** Along with the experience and basic management skills, they also require more technical and communication skills.



**Skills of Managers**

### **(i) Technical Skill:**

It is knowledge of and proficiency in activities involving methods, processes, and procedures. Thus, it involves working with tools and specific techniques. For examples, mechanics work with tools, and their supervisor should have the ability to teach them how to use these tools. Similarly, accountants apply specific techniques in doing their job.

## ii) Human Skill:

It is the ability to work with people; it is cooperative efforts; it is teamwork; it is the creation of an environment in which people feel secure and free express their opinions.

(iii) **Conceptual Skill:** It is the ability to see the 'big picture' to recognize significant elements in a situation, and to understand the relationships among the elements.

## Role of a Manager:



Fig. 27.1

### Interpersonal Roles:

- (1) The figure head role organisation's representative
- (2) The leader role and
- (3) The liaison role (communicating particularly with outsiders).

(performing ceremonial and social duties as the

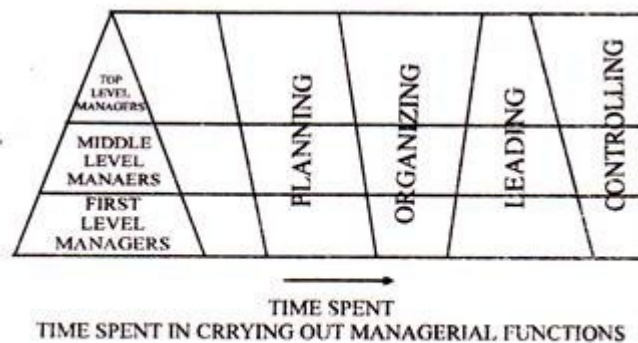


Fig. 27.2

### Informational

- (1) The recipient the operation of
- (2) The formation to
- (3) The information to those outside the organisation).

### Roles:

role (receiving information about an enterprise)  
disseminator role (passing in-subordinates) and  
spokesperson role (transmitting

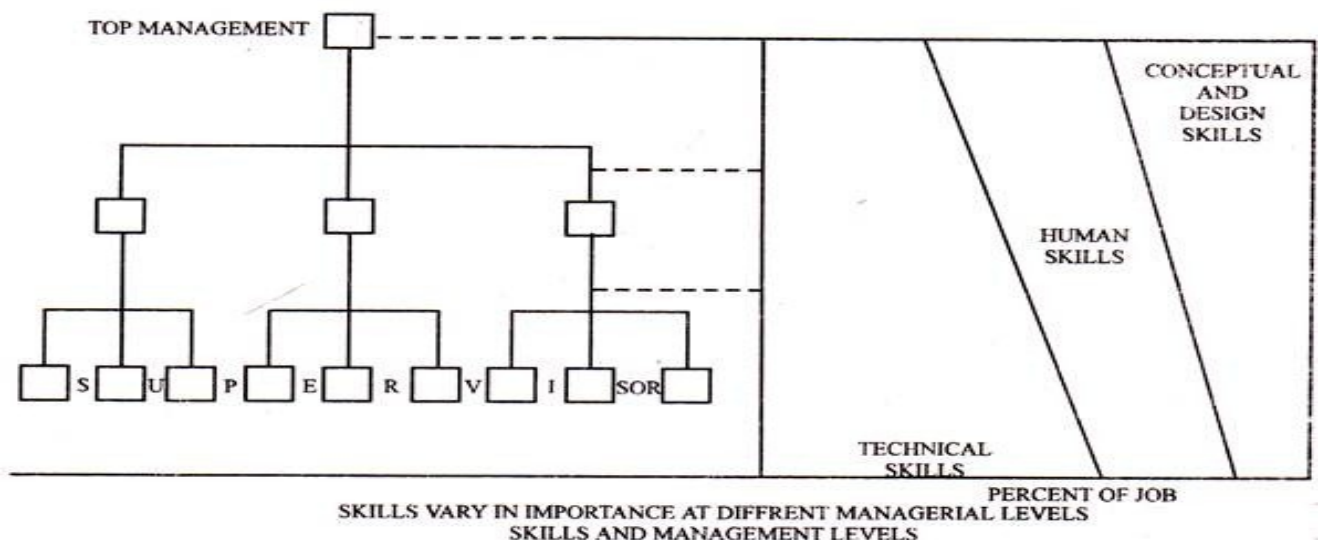


Fig. 27.3



**Decision Roles:** 1) The entrepreneurial role. (2) The disturbance handler role. (3) The resource allocator role. (4) The negotiator role.

### **Functions of Managers**

Managers just don't go out and haphazardly perform their responsibilities. Good managers discover how to master five basic functions: planning, organizing, staffing, leading, and controlling.

- **Planning:** This step involves mapping out exactly how to achieve a particular goal. Say, for example, that the organization's goal is to improve company sales. The manager first needs to decide which steps are necessary to accomplish that goal. These steps may include increasing advertising, inventory, and sales staff. These necessary steps are developed into a plan. When the plan is in place, the manager can follow it to accomplish the goal of improving company sales.
- **Organizing:** After a plan is in place, a manager needs to organize her team and materials according to her plan. Assigning work and granting authority are two important elements of organizing.
- **Staffing:** After a manager discerns his area's needs, he may decide to beef up his staffing by recruiting, selecting, training, and developing employees. A manager in a large organization often works with the company's human resources department to accomplish this goal.
- **Leading:** A manager needs to do more than just plan, organize, and staff her team to achieve a goal. She must also lead. Leading involves motivating, communicating, guiding, and encouraging. It requires the manager to coach, assist, and problem solve with employees.
- **Controlling:** After the other elements are in place, a manager's job is not finished. He needs to continuously check results against goals and take any corrective actions necessary to make sure that his area's plans remain on track.

All managers at all levels of every organization perform these functions, but the amount of time a manager spends on each one depends on both the level of management and the specific organization.

### **Roles performed by managers**

A manager wears many hats. Not only is a manager a team leader, but he or she is also a planner, organizer, cheerleader, coach, problem solver, and decision maker — all rolled into one. And these are just a few of a manager's roles.

In addition, managers' schedules are usually jam-packed. Whether they're busy with employee meetings, unexpected problems, or strategy sessions, managers often find little spare time on their calendars. (And that doesn't even include responding to e-mail!)

In his classic book, *The Nature of Managerial Work*, Henry Mintzberg describes a set of ten roles that a manager fills. These roles fall into three categories:

**Interpersonal:** This role involves human interaction.

**Informational:** This role involves the sharing and analyzing of information.

**Decisional:** This role involves decision making.

Table 1 contains a more in-depth look at each category of roles that help managers carry out all five functions described in the preceding “Functions of Managers” section.

**TABLE 1 Mintzberg's Set of Ten Roles**

Category	Role	Activity
Informational	Monitor	Seek and receive information; scan periodicals and reports; maintain personal contact with stakeholders.
	Disseminator	Forward information to organization members via memos, reports, and phone calls.
	Spokesperson	Transmit information to outsiders via reports, memos, and speeches.
Interpersonal	Figurehead	Perform ceremonial and symbolic duties, such as greeting visitors and signing legal documents.
	Leader	Direct and motivate subordinates; counsel and communicate with subordinates.
	Liaison	Maintain information links both inside and outside organization via mail, phone calls, and meetings.
Decisional	Entrepreneur	Initiate improvement projects; identify new ideas and delegate idea responsibility to others.
	Disturbance handler	Take corrective action during disputes or crises; resolve conflicts among subordinates; adapt to environments.
	Resource allocator	Decide who gets resources; prepare budgets; set schedules and determine priorities.
	Negotiator	Represent department during negotiations of union contracts, sales, purchases, and budgets.

Not everyone can be a manager. Certain **skills**, or abilities to translate knowledge into action that results in desired performance, are required to help other employees become more productive. These skills fall under the following categories:

**Technical:** This skill requires the ability to use a special proficiency or expertise to perform particular tasks. Accountants, engineers, market researchers, and computer scientists, as examples, possess technical skills. Managers acquire these skills initially through formal education and then further develop them through training and job experience. Technical skills are most important at lower levels of management.

**Human:** This skill demonstrates the ability to work well in cooperation with others. Human skills emerge in the workplace as a spirit of trust, enthusiasm, and genuine involvement in interpersonal relationships. A manager with good human skills has a high degree of self-awareness and a capacity to understand or empathize with the feelings of others. Some managers are naturally born with great human skills, while others improve their skills through classes or experience. No matter how human skills are acquired, they're critical for all managers because of the highly interpersonal nature of managerial work.



**Conceptual:** This skill calls for the ability to think analytically. Analytical skills enable managers to break down problems into smaller parts, to see the relations among the parts, and to recognize the implications of any one problem for others. As managers assume ever-higher responsibilities in organizations, they must deal with more ambiguous problems that have long-term consequences. Again, managers may acquire these skills initially through formal education and then further develop them by training and job experience. The higher the management level, the more important conceptual skills become.

Although all three categories contain skills essential for managers, their relative importance tends to vary by level of managerial responsibility.

Business and management educators are increasingly interested in helping people acquire technical, human, and conceptual skills, and develop specific competencies, or specialized skills, that contribute to high performance in a management job. Following are some of the skills and personal characteristics that the American Assembly of Collegiate Schools of Business (AACSB) is urging business schools to help their students develop.

**Leadership** — ability to influence others to perform tasks

**Self-objectivity** — ability to evaluate yourself realistically

**Analytic thinking** — ability to interpret and explain patterns in information

**Behavioral flexibility** — ability to modify personal behavior to react objectively rather than subjectively to accomplish organizational goals

**Oral communication** — ability to express ideas clearly in words

**Written communication** — ability to express ideas clearly in writing

**Personal impact** — ability to create a good impression and instill confidence

**Resistance to stress** — ability to perform under stressful conditions

**Tolerance for uncertainty** — ability to perform in ambiguous situations

## EVOLUTION OF MANAGEMENT THOUGHT

This evolution of management thought can be studied in the following broad stages:

The Classical Theory of Management (Classical Approach): It includes the following three streams of thought: (i) Bureaucracy, (ii) Scientific Management; and (iii) Administrative Management

The Neo-classical theory of Management: It includes the following two streams: (i) Human Relations Approach (ii) Behavioral Sciences Approach.

The Modern Theory of Management: It includes the following three streams of thought: (i) Quantitative Approach to Management (Operations Research);

(ii) Systems Approach to Management and (iii) Contingency Approach to Management.

It is rather difficult to state the exact period of each stage in the evolution of management thought. Experts, in general, agree with the following period for each thought/school.

Classical School/thought: 1900 to 1930.

Neo-classical School/thought: 1930 to 1960.

Modern School/thought: 1960 onwards.

The development of management thought is the result of contributions made by pioneering management thinkers and experts from other social sciences such as economics and psychology.

## CONTRIBUTION OF F.W.TAYLOR TO MANAGEMENT THOUGHT

F.W. Taylor is one of the founders (the other two are Max Weber and Henry Fayol) of classical thought/classical theory of management. He suggested scientific approach to management also called scientific management theory. F.

W. Taylor (1856-1915) is rightly treated as the father of scientific management. He suggested the principles of scientific management. His concept of scientific management developed into a movement and dominated the industrial management for several decades after him. His concepts and principles were refined and popularized by several of his followers, notable among them being Henry Gantt, The Gilberts and Emerson.

According to Taylor, scientific management in its essence consists of a philosophy which results in a combination of four important underlying principles of management. First, the development of a true

science, second, the scientific selection of the workers, third, their scientific education and development, Froth, intimate co-operation between management and their men. The basic principles of Taylor philosophy of scientific management are as noted below. These principles of scientific management are most crucial aspects of scientific management. The development of 'One best way' of doing a job. This suggests the task of finding out the best method for achieving the objectives of a given job. The standards are decided scientifically for Jobs and incentive wages were paid for all production above this standard. Here, job analysis and standardization of tools, equipment, machinery, etc. are required.

Scientific selection of workers and their development through proper training.

Scientific approach by management. The management has to develop a true science in all fields of work activity through scientific investigation and experiments.

Close co-operation of managers and workers (labour management relations) for better results and understandings.

Elimination of conflict between methods and men. The workers are likely to resist to new methods. This can be avoided by providing them an opportunity to earn more wages.

### **Features of Scientific Management**

Scientific task setting: F. W. Taylor suggested the introduction of standard task which every worker is expected to complete within one day (working hours) the task is to be calculated through careful scientific investigation. For this, work study (i.e. method study and work measurement study) is essential. Taylor suggested time study, motion study, fatigue study and rate-setting for the introduction of scientific task. Time study is the art of observing and recording the time required to do each detailed element in an industrial operation. Motion study refers to the study and analysis of the movements of an operator while performing a job so that attempts can be made to remove useless/unwanted movements from the process. Both the studies together help in determining the best method of performing a job and the standard time allowed for it. This replaces the old rule-of-thumb knowledge of the workers. The workload, the best method of performing the same and the time within which it must be performed are suggested in this feature of scientific management by Taylor.

Planning the task: For performing the task by every worker, Taylor suggested the need of planning the production activity accurately. This idea of planning is Taylor's gift to the science of management. Planning of task gives answers to the following questions. What has to be done, how it is to be done, where the work shall be done and when the work shall be done.

Scientific selection and training of workers: Taylor suggested the need of scientific selection of workers for the plant/production activities. The procedure of selection must be systematic so as to select the best and the most suitable persons for different types of jobs. Correct placement of workers is equally important. He also suggested the need of training of workers so as to raise their ability or efficiency. Training is to be integrated with the promotion policy. He also suggested differential piece wage plan for compensation payment to workers. He also suggested the importance of cordial relations between management and workers.

Standardization: Taylor suggested the importance of standardization of tools and equipment, materials, conditions of work and speed of machines. This brings co-ordination in different activities and all workers will be able to perform the task assigned easily. The workers will have satisfactory working conditions for work due to such standardization.

Specialization: Taylor suggested specialization in the administrative and organizational setup of the plant. He suggested functional foremanship. Taylor recommended eight functional foremen for different activities and functions. The foremen suggested by him are like route clerk, instruction card clerk, speed boss etc. Such specialization is useful for raising efficiency of the whole organization.

Mental revolution: The techniques suggested by F. W. Taylor in his scientific management are different as compared to traditional techniques and methods. Naturally, these techniques can be used only when workers supervisors and managers accept them in theory and also in practice. For this, Mental revolution on their part is essential. The success of scientific management rests basically on the attitude of management and workers. They must give up their old ideas and methods and must accept new scientific methods. For this, mental revolution on the part of both is essential. Cooperation from workers and management for the introduction of scientific management depends on this mental revolution.

### **Benefits / Advantages of Scientific Management**

Application and use of scientific methods.

Wide scope for specialization and accurate planning.

Minimum wastages of materials, time and money.

Cordial relations between workers and management.

Benefits to workers (higher wages and less burden of work), management (cost reduction, better quality productions) and consumers (superior goods at lower prices)

Scientific management not only developed a rational approach to solving organisational problems but also contributed a great deal to the professionalization of management. Time and motion studies, scientific selection of workers, work design and one best way to doing a job are some new ideals suggested by Taylor and are responsible for the introduction of Many positive changes in the field of industrial/ production management.

### **F.W.Taylor's Contribution to the Development of Management Thought / Science**

The contribution of F. W. Taylor to management thought is as explained below:

Emphasis on rational thinking: Taylor suggested rational thinking on the part of management for raising efficiency and productivity. He wanted managements to replace old methods and techniques by Modern methods which will raise productivity and offer benefits to all concerned parties. He was in favour of progressive, scientific and rational thinking on the part of management on all managerial problems. Such progressive outlook is essential for the introduction of new techniques and methods in the Management.

Introduction of better methods and techniques of production: F. W. Taylor suggested the importance of improved methods and techniques of production. Work-study techniques are his contribution to management thought. He suggested new methods after systematic study and research. Taylor recommended the use of new methods for raising overall efficiency and productivity.

Emphasis on planning and control of production: Taylor suggested the importance of production planning and control for high production, superior quality production and also for low cost production. He introduced the concept of production management in a systematic way.

Importance of personnel and personnel department: Taylor suggested the importance of manpower in management. He was in favour of progressive personnel policies for the creation of efficient and satisfied labour force. He suggested the need of personnel department and its importance. He favored incentive wage payment to workers.

Industrial fatigue and rest pauses: Taylor noted the nature of industrial fatigue and suggested the introduction of suitable rest pauses for removing such fatigue of workers. He wanted to reduce the burden of work on workers through the use of scientific methods.

Time and motion study: Taylor introduced new concepts like time study, motion study and work study in the field of industrial management such concepts are for the introduction of new methods which will be more quick, scientific and less troublesome to workers.

The positive view of scientific management was described by Taylor as "Science, not rule of thumb; Harmony, not discord; Co-operation, not individualism; maximum output in place of restricted output. The development of each man to his greatest efficiency and prosperity".

F.W. Taylor a rightly treated as father of scientific management. In fact, through his concept of scientific management, Taylor actually developed a new science of management which is applicable not only to management of industrial units but also to the management of all other business units. He suggested certain techniques which can be applied purposefully to all aspects of management of business activities. This is treated as Taylor's unique contribution to management thought. The fundamental principles suggested by F. W. Taylor in his scientific management can be treated as his contribution to management thought. In fact, Taylor suggested scientific attitude and a new philosophy for discarding old and outdated ideas and techniques. He was instrumental for the introduction of new ideas and techniques in the science of management. These ideas aid techniques are now accepted in theory as well as in practice.

### **Criticism of Scientific Management or Opposition to Scientific Management**

Scientific management has wider economic and social significance. It has succeeded in revolutionalising the very concept of management by offering a novel approach to the managers in managing men, materials and methods. In spite of several benefits, Taylor's scientific management concept has widely been criticized by

employers, workers, trade unions and also by theorists. They oppose Taylor's scientific management on different grounds. The points of criticism are as explained below:

### **Criticism from Employers**

**Huge investment required:** Heavy investment is necessary for reorganization of preliminary standardization of tools, machines and equipment and conduct of time and motion studies and other research activities for the introduction of scientific management. Such investment may not be possible in small and medium size enterprises.

**Sudden change may disturb existing working arrangements:** Sudden change due to the introduction of scientific management may paralyze the existing arrangement of work and will bring the entire Organisation in difficulties. There will be loss due to reorganization, if scientific management is to be introduced.

**Unsuitable to small units:** Small manufacturers argue that the concept of scientific management is not suitable to their units due to financial and other difficulties.

**Benefits after a long period:** The benefit of scientific management will be available only after a long period and the business unit may come in financial and other difficulties during the process of introduction of new changes as suggested in the scientific management.

**Huge overhead expenses required:** Introduction of scientific management involves huge overhead expenses which may erode profitability.

### **Criticism from Workers and Trade Unions:**

**Why did Trade Unions Oppose Scientific Management?**

**Heavy burden on workers:** Workers feel that they will have to share more burden of work as a result of introduction of scientific management. They also fear that the benefits will be shared by the employer alone and that they will be at a loss from all sides. Workers and their unions feel that it will lead to their exploitation and they oppose scientific management on this ground.

**Reduces initiative among workers:** Workers and trade unions argue that scientific management will destroy their initiative and they will be converted into machines in the production process with no freedom, initiative and choice. Similarity, over-specialization (excessive specialization) will lead to monotony and mental fatigue. Hence, they oppose Taylor's scientific management.

**Possibility of unemployment:** Workers and their unions also feel that scientific management will lead to unemployment and that workers will be removed due to the use of labour-saving devices. This will lead to loss of employment and income to workers. This is likely to make trade unions weak and hence they oppose scientific management.

**Exploitation of workers:** Workers argue that they will be exploited under scientific management as they will have to share more burden of work without corresponding increase in the wage rate. Trade unions also oppose to scientific management as it is likely to put more burden of work on the workers without corresponding monetary benefit.

**Possible adverse effects on workers unity:** Trade unions also oppose scientific management as they fear that the unity among workers will be adversely affected. Workers will be divided into efficient and inefficient categories. In addition, different piece rate plans will be introduced in place of uniform wage rate. As a result, workers will be divided. Workers getting high salary will not be interested in the union activities and this will make their union weak and ineffective. Even more unions and rival unions will be formed. In brief, trade unions strongly criticize scientific management as it breaks solidarity of workers.

The criticism of scientific management by employers and workers/trade unions is not based on sound reasoning. Their arguments are not based on realities. It is possible to give counter-arguments to every point of criticism noted by them. For example, employers object scientific management on the ground of huge investment for its introduction. It is true that huge investment will be necessary but it is likely to give greater return in due course. In addition, scientific management will bring down the cost and thereby enhance the profits.

### **Contribution of Henry Fayol to Management Thought**

Henry Fayol (1841-1925) is rightly treated as the father of modern theory of general and industrial management. The credit of suggesting the basic principles of management in an orderly manner goes to Henry Fayol. After obtaining an engineering degree, Henry Fayol, joined as chief executive in a coal mining company. He developed his management principles and general management theory and published them in

the form of a book (in French) "General and Industrial Administration" in 1916. It was translated into English in 1930. In due course of time, Henry Fayol came to be recognised as the founder of modern management theory. His analysis of management process acts as the foundation of the whole management theory and the present super-structure of management has been built on it.

Henry Fayol suggested important qualities of managers and stressed the need for raising such qualities. He developed fourteen principles of management out of his practical experience. These principles are universal in character and are applicable to all types of organisations. Each principle suggested by him has specific meaning and significance. According to him, managers in all organisations need to follow these principles/guidelines while managing the affairs of their business units. The management principles suggested by him in 1916 are universally accepted by modern authorities on management and are treated as valid even to this day. This is because these principles are practical in nature and also result-oriented. In fact, these principles are the outcome of his long experience as a practicing manager. These basic principals are useful for effective management of business activities. They are related to the basic components of management process such as planning, organizing, staffing, leading, coordinating and controlling. He incorporated these principles in the management theory suggested by him. The principles of management suggested by him are useful not only in business/industrial enterprises but also in other organisations such as colleges, hospitals, charitable institutions and government departments. Due to his contribution to management theory and principles, Henry Fayol is rightly treated as the Father of Modern Management Thought. Fayol is the first management thinker who provided the conceptual framework of the functions of management in his book -General and Industrial Management.

The functions of management according to Fayol are,

- Planning
- Organising
- Staffing
- Commanding
- Coordinating
- Controlling

The fourteen principles of management suggested by him are related these basic functions of management process and are universally accepted. Fayol has given adequate details of every principle suggested by him. He also made them easily acceptable by others. According to Henry Fayol, managers should be flexible in the application of these principles.

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**Fayol divided general and industrial management into following six groups:-**

- Technical activities (production, manufacture, adaptation).
- Commercial activities (buying, selling and exchange).
- Financial activities (search for and optimum use of capital).
- Security activities (protection of property and persons).
- Accounting activities (stock taking, balance sheet, cost, and statistics).
- Managerial activities (planning, organising, command, coordination and control).

**Henry Fayol also suggested 14 principles of management.**

These principles are:-

1. Division of work,
2. Authority and responsibility,
3. Discipline,
4. Unity of command,
5. Unity of direction,
6. Subordination of personal interest to organizational interests,
7. Remuneration,



8. Centralization,
9. Scalar chain,
10. Order,
11. Equity,
12. Stability of tenure,
13. Span of co-operation and
14. Initiative

Henry Fayol's contribution to management theory is certainly remarkable. He gave overall concepts of general management and suggested the basic functions of management. He recommended the selection and training of workers and managers. He also advocated the use of organisation charts. He suggested certain qualities of manager's which include physical, mental, moral, educational technical and experience. Fayol's theory of management was the first complete theory of management as we understand today. It incorporated proven principles, elements, procedures and techniques based on his practical experience.

### **Contribution of Elton Mayo to the Development of Management Thought**

Elton Mayo (1880-1949) is recommended as the Father of Human Relations School. He introduced human relations approach to management thought. His contribution to the development of management thought is unique and is also treated as human relations approach to management. It was Mayo who led the team for conducting the study at Western Electric's Hawthorne Plant (1927-1932) to evaluate the attributes and psychological reactions of workers in on-the-job situations. His associates included John Dewery, Kurt Lewin and others. Mayo and his associates came to the following conclusions from their famous Hawthorne experiments:

The amount of work to be done by a worker is not determined by his physical capacity but by the social norms. Non-economic rewards play a significant role in influencing the behavior of the workers. Generally the workers do not react as individuals, but as members of group. Informal leaders play an important part in setting and enforcing the group norms.

Mayo discussed the factors that cause a change in human behavior. He concluded that the cause of increase in the productivity of the workers is not a single factor like rest pauses or changing working hours but a combination thereof and several other factors such as less restrictive supervision, giving autonomy to workers, allowing the formation of small cohesive groups of workers and so on. Today, as a result of the efforts of Mayo and his associates, the managers in different organisations recognize that workers' performance is related to psychological, sociological and physical factors. Thus, Hawthorne Study was an important landmark to study the behavior of worker and his relationship to the job, his fellow workers and the organisation. It proved that informal work groups and the opportunity to be heard and participate in decision-making have an important impact on the productivity of the workers.

Mayo is one leading management thinker and also a leading advocate of neo-classical theory. The concept of participative management style was suggested in the neo-classical theory. The human relations approach suggested

by Mayo has special importance in the present period. He rightly suggested the importance of democratic leadership and participative management style for running business activities efficiently. The role of people (workers) is clearly suggested by Mayo. He rightly suggested that management is not a mechanical process but a study of people involved in the production activities. Management will get positive response from its employees when their actions, sentiments and expectations are given due attention.

Mayo is best known for his work on the project commonly referred to as the Hawthorne Studies. They were conducted in the Hawthorne plant of Western Electric Company in the USA between 1927 and 1932. It is said that Mayo applied psychological approach to management for the first time. He used clinical and diagnostic methods. Mayo has drawn various conclusions from these studies. The Hawthorne Studies have had a shattering impact on management thinking. Mayo is regarded as revolutionary thinker because of his contribution to the management thought in the recent period. The credit of humanization of management with a view to achieve common interest of management and workers goes to Elton Mayo.

Some of the major findings of Hawthorne Studies we as noted below:

Employee's behavior is influenced by mental attitudes and emotions including prejudices.

The workers in a group develop a common psychological bond uniting them as a group in the form of informal organisation.

In managing and motivating employee groups, human and social motivation plays greater role than financial incentives.

Management must understand that a typical group behavior can dominate or even supersede individual propensities and preferences.

When workers are given special attention by management, the productivity is likely to increase irrespective of actual changes in the working conditions.

Hawthorne Studies are primarily responsible for consideration of non financial incentives in improving productivity. Mayo pointed out that the organization is a social system and informal organisation is a reality. The knowledge of human nature can solve many problems of management. He emphasized that successful human relations approach can easily create harmony in an organisation, higher employee satisfaction and great operational efficiency. Central to this approach was an increased understanding of the individual worker with emphasis on motivation, needs, interpersonal relationships and group dynamics Mayo believed that a factory is not only a workplace but also a social environment in which the employees interact with each other. This gave rise to the concept of the 'social man' whose interaction with others would determine the quality and quantity of the work produced.

Mayo developed his Human Relations Theory of Management on his Hawthorne experiments. He introduced human relations approach to management and is rightly considered as one of the pioneers of the Human Relations Theory of Management.

### **Features of Human Relations Approach**

A business organisation is not merely a techno-economic system but also a social system and involves human element. An individual employee is motivated not merely by economic incentives but also by non economic incentives, psychological and social interests, needs and aspirations. The informal groups in the organisation are more important than individuals and play an important role in raising productivity. In place of task-centered leadership, the employee-centered, humanistic, democratic and participative style of leadership should be introduced as it is more effective / productive.

Employees are not necessarily inefficient or negative in their approach. They are capable of self-direction and control. Employees performance can be raised by meeting their social and psychological needs. Cordial atmosphere at work place is also useful for raising productivity. Management needs social skills along with technical skills in order to create a feeling (among the employees) that they are a part and parcel of the organisation and not outsiders. Employees need respect and positive feeling from the management. For this, employees should be encouraged to participate and communicate freely their views and suggestions in the concerned areas of decision- making. The management has to secure willing cooperation of employees. The objective before the management should be to secure cooperative effort of its employees. For this, employees should be made happy and satisfied.

The features of human relations school (noted above) are important as they were introduced in the management theory for the first time. At present, these features are well recognised but were unique when suggested by 1930. Human relations approach is a progressive development as compared to classical approach. Here, productivity is not treated merely as an engineering problem. Cooperation of employees, team spirit and their satisfaction are treated as factors useful for raising productivity. The human relations approach has put special stress on social needs and the role of management in meeting such needs.

### **Limitations of Human Relations Approach**

Too much importance to employees, and social needs: Human relations approach to management has given too much importance to employees, their needs and satisfaction. It has given undue stress on the social side of management as compared to technical side. It is another extreme as compared to classical theory where employees were neglected considerably. Human relations approach has also neglected many other aspects such as organizational issues, environment at the work place, labour unions, structure of the organisation and so on.

Employee-oriented approach to a limited extent: It is argued that human relations approach is apparently employee-oriented but in reality it is organisation-oriented. Many measures are suggested for the happiness and satisfaction of employees. Measures are suggested to satisfy employees in order to achieve

organizational objectives and not for meeting the real needs of workers. Their participation in management or upward communication with the management, etc. is outwardly employee-oriented and gives them a false sense of happiness. In brief, the human relations approach is employee-oriented but only to a limited extent. Faulty assumption in the theory: The human relations approach is based on a wrong assumption that satisfied workers are more productive. After 1950s, it was proved that productivity improvement, as a result of better working conditions and the human relations skills of manager's did not result in productivity improvement as expected. Thus, workers satisfaction is one but not the only factor which raises industrial productivity. Limited importance to economic incentives: The human relations approach has given limited importance to economic incentives in motivating employees. They prefer informal groups and cordial relations among them. However, their interest and loyalty to the organisation largely depends on monetary incentives. Low wages lead to Labour turnover even when the good treatment is given to employees.

The human relations movement is based on the experiments conducted in the Hawthorne Plant in Cicero (USA). The major conclusion (of Hawthorne Experiments) was that the workers respond to their work situation as a whole and their attitudes and social relations constitute an important part of the total situation. In addition, the attitudes of workers and their relations with each other and with the management would play a role in forming their attitudes towards the total work situation. Elton Mayo conducted a series of pioneering studies at the Hawthorne plant they proved to be of much use in associating employees with the management for achieving organizational objectives.

It is rightly pointed out that F. W. Taylor in his contribution to management thought suggested rationalizing work for greater labour productivity while Elton Mayo recommended/ advocated humanism work for enhanced efficiency and personal satisfaction. The basic purposes of both the approaches are identical. However; the approaches of Taylor and Mayo are different. Taylor's approach was purely engineering while may referred to social needs of employees and their satisfaction. Taylor's approach to scientific management lacks human elements in the production process. He treated employee as a cog in the wheel emphasizing on efficiency at all costs as if there is no difference between workers and machines. Mayo applied psychological approach to management. He recommended humanization of management for better results in terms of production and productivity. He rightly suggested that workers are human beings and not machines. They should be treated with dignity and honour while on job.

Both the approaches (of Taylor and Mayo) are supplementary in the present management thought. At present, stress is on scientific management principles as well as on human approach to management. Efforts are being made to create favorable organisation climate for achieving organizational goals. Taylor's approach is comparatively old and was popular in the early decades of 19th century the human relations approach (suggested by Elton Mayo) is comparatively new and got popularity by 1930s.

### **Systems Approach to Management Thought**

Contributions to management thought/theory after 1960s are covered by modern management theories. Modern theories are based on classical and neo- classical theories but consider the management problems as they developed in the recent years. There are three streams under modern management theory. These are:-

Quantitative / Mathematical Approach to Management,

Systems Approach to Management, and

Contingency Approach to Management.

Systems Management School

A system is an organised entity i.e. a company or a business enterprise made up of parts connected and directed to some purpose. Each system has an input, a process and an output. It acts as a self sufficient unit. Every system is interlinked with its subsystems. Any organisation is looked upon as an artificial system, the internal parts of which work together to achieve established goals and the external parts to achieve interplay with the environment including customers, the general public, suppliers and government. The manager integrates available facilities to achieve a goal by means of systems that relate activities required for the end result. The system serves as the media through which the manager operates. An integrated system can be used purposefully for the conduct of production, marketing, distribution and other activities relating to business in an orderly manner. A manager can conduct various activities in an orderly manner with the help of the systems established. A system is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. Almost anything can be viewed as a system.

As per systems management school, an organisation is looked upon as an artificial system. Its internal parts work together to achieve established goals and the external parts to achieve interplay with the environment including customers, the general public, suppliers and government. The manager integrates available facilities to achieve a goal by means of systems that relate activities required for the end result. In this way, the systems management school helps in achieving the established goals of the organisation.

It is possible to establish such systems management organisation in a business enterprise. For this authorities, departments, etc. will be created. The work will be properly distributed and various departments (sub-systems) will operate as per the work assigned under the project. The computer can be used extensively for the execution of systems management Data processing work will become easy and quick. Systems management enables a manager to work more efficiently because of easy availability of information in different aspects of business.

**Features Of Systems Approach to Management** **Open or Closed Systems:** Systems may be either open or closed. An open system is one that is dependent on the outside environment for survival e.g., human body as a system is composed of many subsystems. This is an open system and it must depend on outside input and energy for survival. A system is considered closed if it does not interact with the environment. Physical and mechanical Systems are closed system because they are insulated from their external environment. Traditional organisation theorists regarded organisations as closed systems while according to the modern view organizations are open systems, always interacting with the environment.

**Interdependent parts:** A system is a set of interdependent parts which together form a unitary whole that perform some function. An organisation is also a system which consists of four interdependent parts viz., task, structure, people and technology.

**Consideration of whole system:** No part of the system can be precisely analyzed and understood apart from the whole system. Conversely, the whole system cannot be exactly evaluated without understanding all its parts. Each part is related to every other part. It means rather than dealing separately with the various parts of one organisation, the systems approach attempts to give the manager a way of looking at the organisation as a whole. For example, in order to understand the operations of the finance or production or marketing departments, he must understand the company as a whole. It is because activity of any one part of the company affects the activity of every other part.

**Information, energy and material:** Generally, there are three basic inputs that enter the processor of the system viz., information (technology), energy (motive power) and materials to be transformed into goods. If the output is service, materials are not included in the inputs. If we have manufacturing company, output is goods or materials. If we have a consultancy firm, output is information or advice. If we have a power generating company, output is energy.

**Defined boundaries:** Each system including an organisation has its own boundaries which separate it from other system in the environment. For open systems the boundaries are penetrable whereas for closed systems, they are not. The boundaries for closed systems are rigid. In a business organisation, it has many boundary contacts or 'interfaces' with many external system like creditors, suppliers, customers, government agencies etc. The system is inside the boundary, the environment is outside the boundary'.

**Synergy:** Output of a system is always more than the combined output of its parts. This is called 'synergy'. In organizational terms, synergy means when separate departments within an organisation cooperate and interact, they become more productive than if they had acted in isolation e.g., it is certainly more efficient for each department to deal with one secretarial department than for each department to have a separate secretarial department of its own.

**Feedback mechanism:** A system can adopt and adjust itself to the changing environment through the feedback mechanism. As operations of the system proceed information in feedback to the appropriate people. This helps to assess the work and if need be, to get it corrected.

**Multidisciplinary approach:** Systems approach integrates and uses with profit ideas emerging from different schools of thought. Management freely draws concepts and techniques from many fields of study such as psychology, sociology, ecology, economics, mathematics, statistics, operations research, systems analysis etc.

Important contributors to systems school of management include Chester Barnard, Ludwig Von Bertalanffy, Russell Ackoff, Kenneth Boulding and William Scott.

From 1960s onwards, the management theorists and practitioners are referring management concepts in a systems phraseology. A system means to bring together or to combine. When viewed from the systems angle, the organisation is seen as operating in an open system constantly interacting with its environment. It receives external inputs in a continuous manner and transforms them into outputs. Suitable adjustments and rectifications are also made as per the feedback available.

An organisation which is not adaptive and responsive to its environment will not survive or grow. An organisation will have individuals, groups, formal structures, goals and resources. A manager has to see that all these parts work in co-ordination in order to achieve organizational goals. Absence of co-ordination will hamper the performance of the organisation. The systems approach suggests that the total performance of the organisation will be effective only when the different systems/units/activities are coordinated and integrated in an efficient manner. For example, efficient manufacturing division needs the support of efficient marketing division for achieving organizational objectives. If not, the total performance of the organisation will be jeopardized. The managers, as decision-making entities, have to regulate the sub-systems of the Organisation. They should not work in isolation but operate in co-ordination with others.

This will avoid shortfalls in different components and bring success to the organisation. The emphasis of systems approach is on interrelatedness of the parts of an organisation. The introduction of integrated approach is treated as major contribution of systems theory.

The systems approach developed only after 1950 and is the recent contribution to management thought. It stresses the interrelatedness and interdependence of all activities within an organization. The systems theory considers organisation as an open, adaptive system which has to adjust changes in its environment. It defines organisation as a structured process in which individuals interact for attaining objectives.

### **Merits of Systems Approach**

Systems approach to management is comparatively new to the management thought. This approach represents a refreshingly new thinking on organisation and management. It stresses that managers should avoid analyzing problems in isolation but should develop the skills for integrated thinking on management problems. The systems approach provides a unified focus to organizational efforts. It provides a strong conceptual framework for meaningful analysis and understanding of organisations. Systems approach provides clues to the complex behavior of organisation.

The systems theory suggests to practicing manager to study/analyze a particular element by taking into consideration its interacting consequences with other elements. A variety of systems concepts and perspectives have been developed for managers.

The systems approach rightly points out the role of 'synergy' in management. Each subsystem derives strength by its association and interaction with other sub-systems. As a result, the overall outcome is more than the sum total of individual contributions. The other contribution of systems theory is its treatment of organisation as an open system. The Organisation exhibits a 'holistic' character.

### **Limitations of Systems Approach**

The systems approach is criticized on the ground that it is too abstract and vague. It is difficult to apply it to practical problems directly and easily.

The systems theory/approach fails to provide specific tools and techniques for the practicing executives/managers.

The systems approach does not recognize differences in systems. It fails to clearly identify the nature of interactions and interdependencies between an Organisation and its external environment it also fails to offer a unified body of knowledge.

### **Contingency Management School / Contingency Approach to Management / Situational Approach**

A common deficiency of the classical, behavioral and quantitative schools is that they have stress one aspect of the organisation at the cost of others. The classical approach emphasizes on 'task' while behavioral approach emphasizes on 'people'. The stress of quantitative approach is on 'mathematical decision-making'. However, it is difficult to understand precisely which aspect is most useful and appropriate in a given practical situation. This brings the need to develop a broad conceptual framework that can help a manager diagnose a problem and decide which tool or tools will best do the job. The systems approach as well as contingency approach provide one integrated approach to management problems. The



contingency/situational approach is the second approach (the first being the systems approach) which attempts to integrate the various schools of management thought in an orderly manner. The contingency management approach is similar to known leadership theory called situational leadership theory. The contingency approach is applicable to leadership as well as to business management. This situational management approach is relatively a new approach to management and is an extension of systems approach. The basic theme of contingency approach is that organisations have to deal with different situations in different ways. There is no single best way of managing applicable to all situations. In order to be effective, the internal functioning of the organisation must be consistent with the needs and demands of the external environment. In other words internal organisation should have the capacity to face any type of external situation with confidence.

### **Features of the Contingency / Situational Approach**

Management is entirely situational. The management has to use the measures/techniques as per the situation from time to time.

Management should match its approach as per the requirements of the situation. The policies and practices used should be suitable to environmental changes. The success of management depends on its ability to cope up with its environment. Naturally, it has to make special efforts to anticipate and comprehend the possible environmental changes. Managers should realize that there is no one best way to manage. They have to use management techniques as per the situation which they face.

According to contingency approach, management principles and concepts of different schools have no universal/general applicability under all situations. This means these schools have not suggested one best method of doing things under all situations and at all times. The contingency approach has provided a solution to this situation.

As per the contingency approach, the task of managers is to try to identify which technique or method will be most suitable for achieving the management objectives under the available situation. Managers have to develop a sort of situational sensitivity and practical selectivity in order to deal with their managerial problems as they develop from time to time.

Contingency approach views are applicable in designing organizational structure and in deciding the degree of decentralization in establishing communication and control systems and also in deciding motivational and leadership approaches. In brief, the contingency approach is applicable to different areas of organisation and management it is an attempt to integrate various viewpoints and to synthesize various fragmented approaches to management. The contingency approach is the outcome of the research studies conducted by Tom Burns and G. W. Stalker, James Thompson and others.

### **Merits of Contingency Approach**

Contingency approach is pragmatic and open minded. It discounts preconceived notions, and universal validity of principles.

Theory relieves managers from dogmas and set principles. It provides freedom/choice to manage to judge the external environment and use the most suitable management techniques. Here, importance is given to the judgment of the situation and not the use of specific principles.

The contingency approach has a wide-ranging applicability and practical utility in, organisation and management. It advocates comparative analysis of organisations to bring suitable adjustment between organisation structure and situational peculiarities.

The contingency approach focuses attention on situational factors that affect the management strategy. The theory combines the mechanistic and humanistic approaches to fit particular/specific situation. It is superior to systems theory as it not only examines the relationships between sub- systems of an organisation but also the relationship between the organisation and its external environment.

### **Contributions in the field of management**

#### **Peter F. Drucker**

Contemporary thinker

#### **Contribution**

A-Nature of management

1. Management as a discipline which has its own tools, skills, techniques and approaches
2. He does not advocate treating management as a strict profession but only a liberal profession.

3. Managers should not only have skills and techniques but should have right perspective putting the things into practice.
4. They should be good practitioners so that they can understand the social and cultural requirements of various organizations and countries.

#### B-Management functions

1. The basic functions of managers' are
2. The specific purpose and mission of the institution, whether business hospital or university.
3. Making work productive and the worker achieving
4. Managing social impacts and social responsibilities
5. All these 3 functions are performed simultaneously within the same managerial action.
6. A manager has to act as administrator.
7. A manager has to perform several functions like- setting of objectives
  - Decision making
  - Organizing
  - Motivating

#### c- Organization structure

1. It emphasised on 3 basic characteristics of an effective organization structure
2. Enterprise should be organized for performance
3. It should contain the least possible number of managerial levels.
4. It must make possible the training and testing of tomorrow's top manager.

#### d- Federalism

1. Refers to centralised control in decentralised structure
2. Decentralised structure goes far beyond the delegation of authority.
3. It creates a new constitution and new ordering principles.
4. He has emphasised the close links between the decisions adopted by the top management on the one hand and by the autonomous unit on the other.
5. Federalism has certain positive values over other methods of organizing.

#### e- Management by objectives (MBO)

MBO includes method of planning, setting standards, performance appraisal and motivation.

Prominent Management **Scholar # 2. Michael E. Porter:**

#### **Introduction:**

Born in 1947, Michael E. Porter is an authority on competitive strategy. According to Porter, "**Strategy is not a subject of poets**". It is a set of ideas which give competitive advantage to business units.

#### **Important books authored by Porter include:**

Competitive Strategy; Cases in Competitive Strategy; Competitive Advantage; Competition in Global Industries; the Competitive Advantage of Nations etc. Some of Porter's books have been included in the course curriculum of management programmes of institutes and universities, throughout the world.

#### **Contributions by Porter:**

#### **Two most important contributions by Porter include:**

- (i) Value chain analysis
- (ii) Generic strategies driven by five force analysis

#### **Following is a brief account of these concepts:**

#### **(i) Value Chain Analysis:**

For a strategic analysis of internal resources, Porter suggests the use of 'value-chain' as a framework. According to Porter, there are two categories of value activities: primary activities and support activities. In his view, competitive advantage lies not in activities themselves; but the way the activities relate to each other, forming a value chain for competitive advantage.

#### **I. Primary Activities:**

Primary activities are connected with physical creation of a firm's product or service, its marketing and after-sales support.

#### **Following are the primary activities:**

### **1. Inbound Logistics:**

Activities associated with procurement, storage and flow of inputs like receipts, handling, warehousing, inventory control etc.

### **2. Operations:**

Activities connected with turning inputs into finished goods like, machining, assembling, packaging, equipment maintenance etc.

### **3. Outbound Logistics:**

Activities connected with collection, storage and physical distribution of goods like, order processing, scheduling deliveries, operation of delivery vehicles etc.

### **4. Marketing and Sales:**

Activities inducing customers to buy and ensuring that products are available like, advertising, sales promotion, sales force management, channel selection etc.

### **5. Service:**

Activities connected with maintaining or enhancing products' value like, installation, repairs, warranty services etc.

## **II. Support Activities:**

Support activities are those which provide infrastructure for primary activities to be performed.

### **Following are the support activities:**

#### **1. Procurement:**

Activities including purchase of materials and service inputs, equipment and machinery etc. In fact, every activity in the value chain needs to use purchase inputs of some kind.

#### **2. Technology Development:**

Activities to be performed for perfection and up-gradation of technology involved in product designing, equipment designing, servicing procedures, manufacturing processes etc.

#### **3. Human Resource Management:**

Activities connected with recruitment, training, development, and compensation etc. of manpower. Manpower is needed for every activity in the value chain.

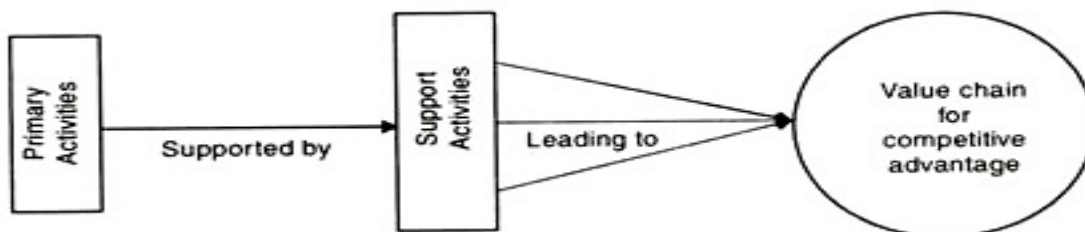
#### **4. Company's infra-structure:**

Activities relating to general management practices, finance, accounting, legal affairs etc. These activities are essential to the entire chain of value activities.

### **Point of Comment:**

To survive amidst competitive conditions, the company must link all value chain activities together; as weakness in any of the activities will have impact on the entire value-chain and affecting competitiveness adversely.

**We can depict the concept of value-chain through the following chart:**



## **(ii) Generic strategies driven by five force analysis:**

The bases on which an organisation may seek to achieve a lasting position in environment are known as generic strategies.

**According to Porter, there are three fundamental generic strategies:**

1. Cost leadership strategy
2. Differentiation strategy
3. Focus strategy

Cost leadership strategy implies achieving the lowest cost in production and marketing to gain a large market share compared with competitors, over time. Differentiation strategy implies differentiating the

product in terms of physical and psychological attributes, making the product unique which is valued by customers.

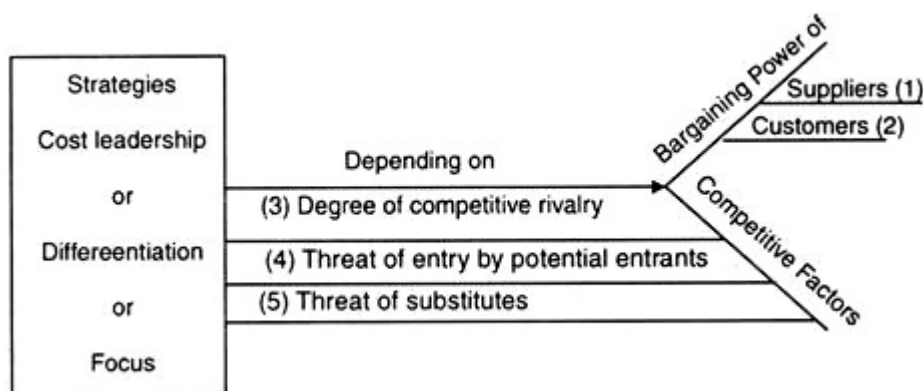
Such a product commands a premium price. Focus strategy implies narrowing competitive scope by selecting a market segment; and tailoring strategy for serving the segment (niche market) to the exclusion of others.

**Further, these three generic strategies are driven by five competitive forces; which are:**

1. Degree of competitive rivalry among competitors
2. Threat of entry posed by potential entrants
3. Threat of actual or potential substitutes
4. Bargaining power of suppliers
5. Bargaining power of customers

The skill of a firm lies in choosing the right strategy at the right time, in view of the five-force analysis.

**The idea of generic strategies and five forces analysis is illustrated below through a chart:**



**Prominent Management Scholar # 3. C.K. Prahalad:**

***Introduction:***

Born in 1941, C.K. Prahalad, entered management sphere from the world of physics – one of the most precise sciences. C .K. Prahalad is regarded as a very influential thinker on strategy; giving strategic concepts much different from traditional strategic thinking.

His outstanding work on strategy is contained in a book ‘Competing for the Future’, written in association with Gary Hamel. Prahalad and Hamel coined the term ‘core-competence’ a fountain head from which stronger competitive advantages keep sprouting.

Developing core-competence is a process of competence – building; which even enables smaller rivals to face against much larger and richer organisations. In a way, Prahalad has given a new shape and orientation to strategic thinking; and his work has been widely acknowledged, specially in the U.S.A.

***An Account of Prahalad’s Thinking on Strategy:***

**C.K. Prahalad and Gary Hamel define core competence as follows:**

“A core competence is a bundle of skills and technologies that enables a company to provide a particular benefit to the customers”.

Some examples of core competence include: Sony’s competence in miniaturization (a very small model); Philips optical-media expertise; Du Pont’s core competence in chemical technology; Honda’s core competence in engines, giving it an advantage in diverse products like two-wheelers, three-wheelers, generators and the like. Many more examples of core competence may be cited.

***Point of Comment:***

Core competency theory of Prahalad leads to the concept of Business Process Outsourcing; which advises business enterprises to identify their core competencies and focus only on the them and getting everything else done through outside agencies.

***Salient features of the concept of core competence:***

**Some salient features of the concept of core competence may be summarized as under:**

(i) Core competence is that strength of a firm which competitors cannot easily match or imitate i.e. core competence cannot be copied easily by others. However, it is a dynamic concept, rather than an absolute and static one.

It gives advantage for a specific period; because new competitors may come out with still superior core-competence. However, it is true that by the time competitors come out with superior core competence; the company in question has taken the cream out of the opportunity.

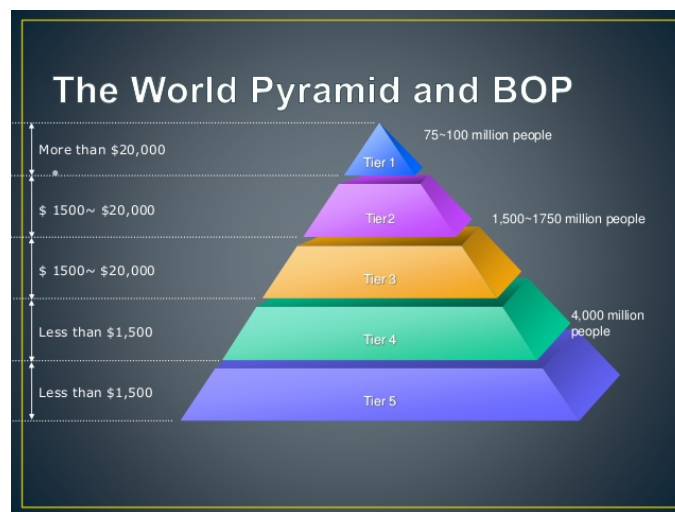
(ii) Core competence is largely a technological competence; because new products are an outcome of technology. However, core competence as a means of creating competitive advantage, may be developed in other areas also, such as marketing.

(iii) Core competence does not reside in one particular product; it underscores leadership in a wide range of products/services. Accordingly, core competence makes for or mars the success of a company.

It may lead to winning or losing the battle for competitive leadership in a particular field. Failure of one product built on the capitalisation of core competence may lead to failure of all products based on that core competence and vice-versa.

(iv) Development of core competence requires a learning organisation. In fact, core competence represents the sum of learning of individual skills and is unlikely to reside entirely in a single individual or a small team of individuals. Core competence is developed through collective learning of organisational members.

(v) Core competence requires corporate imagination, to realize its potential. Corporate imagination, according to Prahalad, implies visualizing new markets and leading customers rather than following them through making a search for innovative product concepts.



**Chester  
Chester**  
– June 7,  
public  
pioneering

**Irving Barnard**  
**Irving Barnard** (November 7, 1886  
1961) was  
an **American** business **executive**,  
administrator, and the author of  
work in **management** theory  
and **organizational studies**. His

landmark 1938 book, *The Functions of the Executive*, sets out a **theory of organization** and of the functions of executives in organizations. The book has been widely assigned in university courses in **management** theory and **organizational sociology**.<sup>[2]</sup> Barnard viewed organizations as systems of cooperation of human activity, and noted that they are typically short-lived. According to Barnard, organizations are generally not long-lived because they do not meet the two criteria necessary for survival: **effectiveness** and **efficiency**.

**Chester Irving Barnard** contribution

1-Concept of organization-

- defined organization as a system of consciously coordinated activities of two or more person.
- Organization is a social system that requires human cooperation.
- He highlighted 3 characteristics
  - a- The persons are able to communicate with each other.
  - b- They are willing to contribute to the action.
  - c- Common purpose



2-Formal and informal organizations- Formal organization has consciously coordinated interactions having a deliberate and common purpose. Informal organization has social interactions which does not have common purpose.

3-Elements of organization- every formal organization must have the following elements

a-specialise

b- incentive system

c- authority that will lead group members to accept the decision of executives.

d-Logical decision making.

4- Function of the executive-

a) the maintenance of organizational communication.

b) Securing essential services from individuals in the organization

c) Formulating and defining the purpose.

5- Authority-

- It is the character of communication in a formal organization.

- A person will accept the communication as authorities only when 4 conditions are satisfied.

a) He can understand the communication.

b) Consistent with organizational purpose.

c) Compatible with own personal interest as whole.

d) Mentally and physically able to comply with it.

Douglas McGregor

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**Douglas Murray McGregor** (1906 – 1 October 1964) was an American management professor at the MIT Sloan School of Management and president of Antioch College from 1948 to 1954.<sup>[1]</sup> He also taught at the Indian Institute of Management Calcutta. His 1960 book *The Human Side of Enterprise* had a profound influence on education practices.

McGregor was a student of Abraham Maslow. He has contributed much to the development of the management and motivational theory, and is best known for his Theory X and Theory Y as presented in his book 'The Human Side of Enterprise' (1960), which proposed that manager's individual assumptions about human nature and behavior determined how individual manages their employees

What is X-Y Theory of Management?

Douglas McGregor, an American social psychologist, proposed his famous X-Y theory in his 1960 book 'The Human Side Of Enterprise'. Theory X and Theory Y are still referred to commonly in the field of management and motivation, and whilst more recent studies have questioned the rigidity of the model, McGregor's X-Y Theory remains a valid basic principle from which to develop positive management style and techniques. McGregor's XY Theory remains **central to organisational development, and to improving organisational culture.**

McGregor's X-Y theory is a salutary and simple reminder of the natural rules for managing people, which under the pressure of day-to-day business are all too easily forgotten.

His ideas suggest that there are two fundamental approaches to managing people:

- Many managers tend toward **Theory X** and generally get **poor results**.
- Enlightened managers use **Theory Y**, which produces **better performance and results, and allows people to grow and develop.**

McGregor's ideas significantly relate to the modern understanding of the Psychological Contract, which provides many ways to appreciate the unhelpful nature of X-Theory leadership and the useful constructive beneficial nature of Y-Theory leadership.

Theory X - 'Authoritarian Management' Style

**Assumptions made under this theory:**

1. The average person dislikes work and will avoid it if he/she can.

2. Therefore most people must be forced with the threat of punishment to work towards organisational objectives.
3. The average person prefers to be directed; to avoid responsibility; is relatively unambitious, and wants security above all else.

What are the Characteristics of an X-Theory Manager?

Perhaps the most noticeable aspects of McGregor's XY Theory - and the easiest to illustrate - are found in the **behaviours of autocratic managers and organisations which use autocratic management styles.**

**Typically characteristics for an X-Theory manager are most or all of these:**

- Results-driven and deadline-driven, to the exclusion of everything else
- Intolerant
- Issues deadlines and ultimatums
- Distant and detached
- Aloof and arrogant
- Elitist
- Short temper
- Shouts
- Issues instructions, directions, edicts
- Issues threats to make people follow instructions
- Demands, never asks
- Does not participate
- Does not team-build
- Unconcerned about staff welfare, or morale
- Proud, sometimes to the point of self-destruction
- One-way communicator
- Poor listener
- Fundamentally insecure and possibly neurotic
- Anti-social
- Vengeful and recriminatory
- Does not thank or praise
- Withholds rewards, and suppresses pay and remunerations levels
- Scrutinises expenditure to the point of false economy
- Seeks culprits for failures or shortfalls
- Seeks to apportion blame instead of focusing on learning from the experience and preventing recurrence
- Does not invite or welcome suggestions
- Takes criticism badly and likely to retaliate if from below or peer group
- Poor at proper delegating - but believes they delegate well
- Thinks giving orders is delegating
- Holds on to responsibility but shifts accountability to subordinates
- Relatively unconcerned with investing in anything to gain future improvements
- Unhappy

#### How to Manage an X-Theory Boss

Working for an X theory boss isn't easy - some extreme X-Theory managers make extremely unpleasant managers, but there are ways of managing these people upwards. Avoiding confrontation (unless you are genuinely being bullied, which is a different matter) and delivering results are key tactics.

1. Theory X managers (or indeed Theory Y managers displaying Theory X behaviour) are primarily **results-oriented**, so **orientate your discussions and dealings with them around results** - i.e what you can deliver and when.
2. Theory X managers are **facts and figures oriented** - so cut out the incidentals, **be able to measure and substantiate anything you say and do for them**, especially reporting on results and activities.

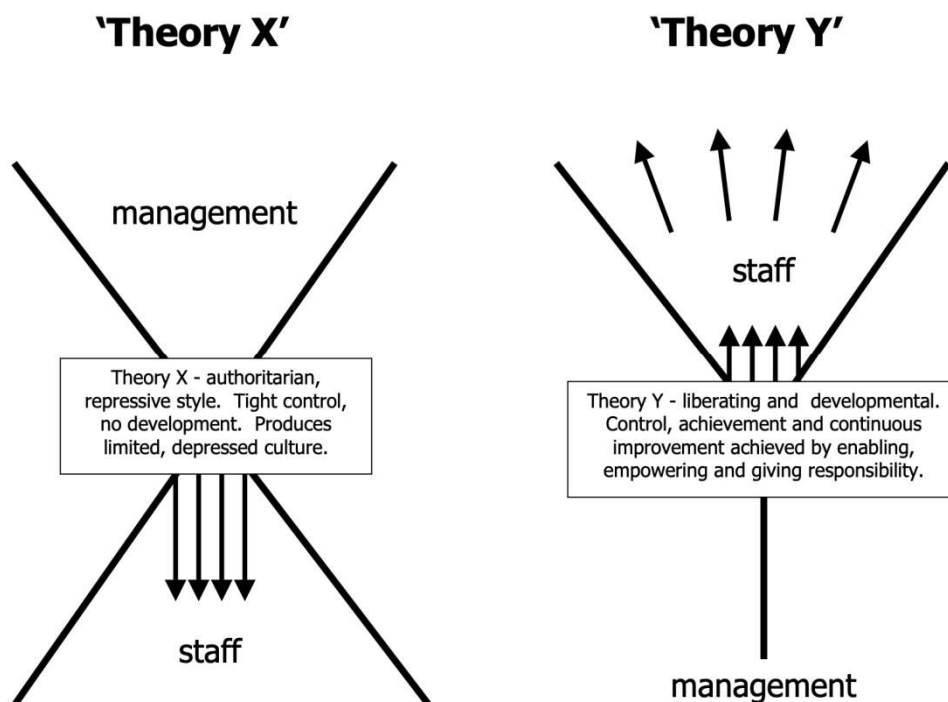
3. Theory X managers generally don't understand or have an interest in human issues, so don't try to appeal to their sense of humanity or morality. **Set your objectives to meet their organisational aims and agree on these with the managers;** be seen to X-Theory manager sees you are managing yourself and producing results, the less they'll feel the need to do it for you.
4. **Always deliver your commitments and promises.** If you are given an unrealistic task and/or deadline state the reasons why it's not realistic, but be very sure of your ground, don't be negative; be constructive as to how the overall The aim can be achieved in a way that you know you can deliver.
5. **Stand up for yourself, but constructively - avoid confrontation.** Never threaten or go over their heads if you are dissatisfied or you'll be in big trouble afterwards and life will be a lot more difficult.
6. If an X Theory boss tells you how to do things in ways that are not comfortable or right for you, then don't questioning the process, simply **confirm the end-result that is required, and check that it's okay to 'streamline the process' or 'get things done more efficiently' if the chance arises - they'll normally agree to this, which effectively gives you control over the 'how', provided you deliver the 'what' and 'when'.**

And this is the essence of **managing upwards** X-Theory managers - focus and get agreement on the results and deadlines - if you consistently deliver, you'll increasingly be given more leeway on how you go about the tasks, which amounts to more freedom.

Theory Y - 'Participative Management' Style

#### Assumptions made under this theory:

- Effort in work is as natural as work and play.
- People will apply self-control and self-direction in the pursuit of organisational objectives, without external control or the threat of punishment.
- Commitment to objectives is a function of rewards associated with their achievement.
- People usually accept and often seek responsibility.
- The capacity to use a high degree of imagination, ingenuity and creativity in solving organisational problems is widely (not narrowly) distributed among the population.
- In industry, the intellectual potential of the average person is only partly utilised.



Likert's Management Systems

Rensis Likert's Management Systems are powerful theories of leadership which highlight various organisational dynamics and characteristics.

#### The Four Management Systems

Social psychologist **Rensis Likert** first described his famous management systems in the 1960s, based upon his observations of employee-manager relationships in organisational settings. **His four systems are designed to highlight various organisational dynamics and characteristics built around interactions between individuals.** Notably, the systems explore various soft management skills such as **trust-building** and their effects on the broader dynamic of the organisation itself.

**The four management systems as identified by Likert were:**

1. **Exploitative Authoritative**
2. **Benevolent Authoritative**
3. **Consultative**
4. **Participative.**

In his view, **the closer the organisational characteristics are to the Participative system, the more satisfied and therefore more productive the employees will be.** On top of productivity, the organisation will receive numerous other benefits, including staff retention increased profitability and generally reduce costs over the long term.

#### *How Do You Identify these Systems in Your Organisation?*

As a leader, one can identify the system present in their organisation through observation, but also through interviews or questionnaires answered by employees.

##### 1. Exploitative Authoritative

**Exploitative Authoritative** systems are **extremely hierarchical, with power and responsibility lying at higher levels within the organisation.**

Individuals lower down the system (non-managers) do not influence the decision-making whatsoever and are not involved in the process by their superiors - this is due to a **lack of trust between managers and employees. Communication is delivered top-down and roles are dictated**, rather than it being a two-way conversation. Higher management considers themselves responsible for achieving organisational objectives but will hold employees responsible for any mistakes that are made at lower levels

- Decision-making and responsibility at upper levels of the organisational hierarchy
- Little to no trust in employees
- Decisions and roles are imposed on employees
- Employees cannot openly discuss decisions and roles with managers
- Employees may engage in counter-productive behaviour
- Motivation by punishments and threats - play on fear
- Teamwork and communication are minimal

##### 2. Benevolent Authoritative

In a **Benevolent Authoritative** system, **responsibility also lies at the upper echelons of the organisation.** However, instead of inducing performance through the threat of punishment, and therefore fear, **employees are instead motivated through a reward system.** Superiors have more trust in their employees than do managers in an Exploitative Authoritative system, and therefore are more willing to reward individuals for good performance.

There is **more two-way communication between employee and line-manager** however, upwards communication is more limited and tends towards only positive information, not queries or requests. Employees will **not suggest any new ideas or recommendations** which can make them more productive or satisfied and therefore the result is a lack of communication and teamwork.

**A summary of the key characteristics is as follows:**

- Decision-making extended to middle-managerial levels

- More trust towards employees, though somewhat condescendingly
- Responsibility still lies near the top of the hierarchy
- Limited employee consultation on decisions
- Employees still cannot discuss their roles with managers
- Team members may compete for rewards
- Rewards for performance, but also still a threat of punishment
- Teamwork and communication are minimal

### 3. Consultative

In a Consultative System, managers have yet greater trust in their subordinates and demonstrate as such by implementing ideas or beliefs that they share with their team members.

There is an open level of communication throughout the hierarchy of the organisation and team members are often consulted during the decision-making process, particularly when any changes will affect them substantially. However, the ultimate power of decisions still remains with those at the highest levels within the organisation.

Employee motivation is fuelled by incentives, including both rewards and the possibility of involvement or even responsibility for specific tasks. In this style, employees are given greater freedom and involvement in meaningful tasks are used to boost intrinsic motivation.

A summary of the key aspects:

- Decision-making extended to lower-levels when it significantly affects their role
- Substantial trust in employees
- Responsibility often shared with some team members
- Decisions can be formed through employee consultation processes
- Employees discuss job-related issues horizontally, and sometimes vertically
- Teams are more co-operative - communication and teamwork are good
- Motivation primarily through reward, but sometimes punishment

### 4. Participative

Likert considered the Participative System to be the most satisfying for lower-level employees. Upper management has full trust in their subordinates and actively works with them as part of the decision-making process. Employees are free to discuss any issues or ideas with their superiors, knowing full well that their discussions may be conducive to at least some kind of change. Rewards within a Participative System are common, and teams are happily co-operative with no direct competition between employees. The level of communication is high, both horizontally and vertically, and teamwork is regular. This system is generally more common in flatter organisations, or those which are smaller with lower tiers of the hierarchy, though it can be employed within any company.

**A summary of the key aspects:**

- Decision-making, responsibility and values are free-spread across all tiers
  - Complete confidence and trust in all employees
  - Decisions are formed through group participation and consultation
  - Communication is free and managers actively try to understand issues
  - Employees are co-operative and openly accountable
  - Motivation is provided through monetary rewards and involvement in goal-setting
  - Teamwork, satisfaction and therefore productivity, are high

### Key Concepts of Likert's Management Systems

There are several important concepts which form the basis of all of Likert's Management Systems, notably:

- Motivation
- Leadership
- Communication



- Influence
- Decision-making

#### Motivation

**Motivation can be used both positively (through rewards and incentives) and negatively (through punishment and threats).**

Both are generally implemented in Likert's systems, with Exploitative Authoritative and Benevolent Authoritative more primarily focussing on punishment, whilst Consultative and Participative are angled more towards a system of reward, though none is committed to any one approach.

#### Leadership

During the development of his systems, Likert also examined various leadership styles. These are highly variable and include autocratic leadership, servant leadership, authentic leadership, situational leadership, transactional leadership and transformational leadership, to name a few.

#### Communication

**The way in which communication is utilised is incredibly enlightening with regards to the way power and authority is distributed throughout an organisation.**

In Exploitative Authoritative Systems, communication is nearly entire one-way, with decisions being dictated directly from higher management to subordinates, whereas in Participative Systems, communications are horizontal, with employees being involved in the day-to-day decision-making process.

#### Influence

Related to the levels of communication within an organisation, **the levels of influence employees have can be indicative of the managerial system being employed.**

In Benevolent and Exploitative Authoritative Systems, subordinates are generally not consulted with regards to decisions, even those that relate to their role, whereas in Participative Systems, employees are actively encouraged to take part in discussions about the business, some of which may influence the direction of the organisation and their stance towards subordinates.

#### Decision-making

When employees are asked their opinions and ideas regarding the running of the business, they may indirectly influence the decision-making of their superiors, with their thoughts, ideas and values being included in any strategic planning.

However, in either of the Authoritative Systems, the final decision is made by individuals at the upper levels of the organisational hierarchy. Alternatively, in Consultative Systems, the employees are given a role in the decision-making process through consultation and in a Participative System, subordinates may have as much influence in decision-making and goal-setting as does their manager.

#### McKinsey 7S Framework

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The **McKinsey 7S Framework** is a management model developed by business consultants Robert H. Waterman, Jr. and Tom Peters (who also developed the MBWA-- "Management By Walking Around" motif, and authored In Search of Excellence) in the 1980s. This was a strategic vision for groups, to include businesses, business units, and teams. The 7 Ss are structure, strategy, systems, skills, style, staff and shared values.

The model is most often used as an organizational analysis tool to assess and monitor changes in the internal situation of an organization.

The model is based on the theory that, for an organization to perform well, these seven elements need to be aligned and mutually reinforcing. So, the model can be used to help identify what needs to be realigned to improve performance, or to maintain alignment (and performance) during other types of change.

Whatever the type of change – restructuring, new processes, organizational merger, new systems, change of leadership, and so on – the model can be used to understand how the organizational elements are interrelated, and so ensure that the wider impact of changes made in one area is taken into consideration.

#### Usage

- Improve the performance of a company

- Examine the likely effects of future changes within a company
- Align departments and processes during a merger or acquisition
- Determine how best to implement a proposed strategy

### **The Seven Interdependent Elements**

- The basic premise of the model is that there are seven internal aspects of an organization that need to be aligned if it is to be successful

#### **Hard Elements**

- Strategy - Purpose of the business and the way the organization seeks to enhance its competitive advantage.
- Structure - Division of activities; integration and coordination mechanisms.
- Systems - Formal procedures for measurement, reward and resource allocation.

#### **Soft Elements**

- Shared Values
- Skills - The organization's core competencies and distinctive capabilities.
- Staff - Organization's human resources, demographic, educational and attitudinal characteristics.
- Style - Typical behaviour patterns of key groups, such as managers, and other professionals.

Organization: Formal and Informal, Line and Staff Relationship, Centralization Vs. Decentralization, Basic issues in Organizing, Work Specialization, Chain of Command, Delegation, Span of Management, Organization Structure for Departmentalization. Organizational Culture: Cultural Diversity, Multi Ethnic Workforce, Organizing Knowledge Resource.

### **Introduction**

Organising as a function of management involves division of work among people whose efforts must be co-ordinated to achieve specific objectives and to implement pre-determined strategies. Organisation is the foundation upon which the whole structure of management is built. It is the backbone of management. After the objectives of an enterprise are determined and the plan is prepared, the next step in the management process is to organise the activities of the enterprise to execute the plan and to attain the objectives of the enterprise. The term organisation is given a variety of interpretations. In any case, there are two broad ways in which the term is used.

In the first sense, organisation is understood as a dynamic process and a managerial activity which is necessary for bringing people together and tying them together in the pursuit of common objectives.

When used in the other sense, organisation refers to the structure of relationships among positions and jobs which is built up for the realisation of common objectives.

### **Organising – The Process**

Organisation is the process of establishing relationship among the members of the enterprise. The relationships are created in terms of authority and responsibility. To organise is to harmonise, coordinate or arrange in a logical and orderly manner. Each member in the organisation is assigned a specific responsibility or duty to perform and is granted the corresponding authority to perform his duty. The managerial function of organising consists in making a rational division of work into groups of activities and tying together the positions representing grouping of activities so as to achieve a rational, well coordinated and orderly structure for the accomplishment of work. According to Louis A Allen, "Organising involves identification and grouping the activities to be performed and dividing them among the individuals and creating authority and responsibility relationships among them for the accomplishment of organisational objectives." The various steps involved in this process are:

#### **1-Determination of Objectives:**

It is the first step in building up an organisation. Organisation is always related to certain objectives. Therefore, it is essential for the management to identify the objectives before starting any activity. Organisation structure is built on the basis of the objectives of the enterprise. That means, the structure of the organisation can be determined by the management only after knowing the objectives to be accomplished through the organisation. This step helps the management not only in framing the organisation structure but also in achieving the enterprise objectives with minimum cost and efforts. Determination of objectives will consist in deciding as to why the proposed organisation is to be set up and, therefore, what will be the nature of the work to be accomplished through the organisation

**2-Enumeration of Objectives:** If the members of the group are to pool their efforts effectively, there must be proper division of the major activities. The first step in organising group effort is the division of the total job into essential activities. Each job should be properly classified and grouped. This will enable the people to know what is expected of them as members of the group and will help in avoiding duplication of efforts. For example, the work of an industrial concern may be divided into the following major functions – production, financing, personnel, sales, purchase, etc.

**3-Classification of Activities:** The next step will be to classify activities according to similarities and common purposes and functions and taking the human and material resources into account. Then, closely related and similar activities are grouped into divisions and departments and the departmental activities are further divided into sections.

**4-Assignment of Duties:** Here, specific job assignments are made to different subordinates for ensuring a certainty of work performance. Each individual should be given a specific job to do according to his ability and made responsible for that. He should also be given the adequate authority to do the job assigned to him. In the words of Kimball and Kimball, "Organisation embraces the duties of designating the departments and the personnel that are to carry on the work, defining their functions and specifying the relations that are to exist between department and individuals."

**5-Delegation of Authority:** Since so many individuals work in the same organisation, it is the responsibility of management to lay down structure of relationship in the organisation. Authority without responsibility is a dangerous thing and similarly responsibility without authority is an empty vessel. Everybody should clearly know to whom he is accountable; corresponding to the responsibility authority is delegated to the subordinates for enabling them to show work performance. This will help in the smooth working of the enterprise by facilitating delegation of responsibility and authority.

### **Principles of Organisational Structure**

The following are the main principles that a manager has to keep in mind while formulating an organisational structure.

**Consideration of unity of objectives:** The objective of the undertaking influences the organisation structure. There must be unity of objective so that all efforts can be concentrated on the set goals.

**Specialisation:** Effective organisation must include specialisation. Precise division of work facilitates specialisation.

**Co-ordination:** Organisation involves division of work among people whose efforts must be co-ordinated to achieve common goals. Co-ordination is the orderly arrangement of group effort to provide unity of action in the pursuit of common purpose.

**Clear unbroken line of Authority:** It points out the scalar principle or the chain of command. The line of authority flows from the highest executive to the lowest managerial level and the chain of command should not be broken.

**Responsibility:** Authority should be equal to responsibility i.e., each manager should have enough authority to accomplish the task.

**Efficiency:** The organisation structure should enable the enterprise to attain objectives with the lowest possible cost.

**Delegation:** Decisions should be made at the lowest competent level. Authority and responsibility should be delegated as far down in the organisation as possible.

**Unity of Command:** Each person should be accountable to a single superior. If an individual has to report to only one supervisor there is a sense of personal responsibility to one person for results.

**Span of Management:** No superior at a higher level should have more than six immediate subordinates. The average human brain can effectively direct three to six brains (i.e., subordinates).

**Communication:** A good communication sub-system is essential for smooth flow of information and understanding and for effective business performance.

**Flexibility:** The organisation is expected to provide built in devices to facilitate growth and expansion without dislocation. It should not be rigid or inelastic.

### **Formal and Informal Organisation**

The formal organisation refers to the structure of jobs and positions with clearly defined functions and relationships as prescribed by the top management. This type of organisation is built by the management to realise objectives of an enterprise and is bound by rules, systems and procedures. Everybody is assigned a

certain responsibility for the performance of the given task and given the required amount of authority for carrying it out. Informal organisation, which does not appear on the organisation chart, supplements the formal organisation in achieving organisational goals effectively and efficiently. The working of informal groups and leaders is not as simple as it may appear to be. Therefore, it is obligatory for every manager to study thoroughly the working pattern of informal relationships in the organisation and to use them for achieving organisational objectives.

1. Formal Organisation: Chester I Bernard defines formal organisation as -"a system of consciously coordinated activities or forces of two or more persons. It refers to the structure of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability." The essence of formal organisation is conscious common purpose and comes into being when persons:

- (a) Are able to communicate with each other
- (b) Are willing to act, and
- (c) Share a purpose.

The formal organisation is built around four key pillars. They are:

- (a) Division of labour
- (b) Scalar and functional processes
- (c) Structure, and
- (d) Span of control

Thus, a formal organisation is one resulting from planning where the pattern of structure has already been determined by the top management.

### **Characteristic of Formal Organisation**

- Formal organisation structure is laid down by the top management to achieve organisational goals.
- Formal organisation prescribes the relationships amongst the people working in the organisation.
- The organisation structures is consciously designed to enable the people of the organisation to work together for accomplishing the common objectives of the enterprise.
- Organisation structure concentrates on the jobs to be performed and not the individuals who are to perform jobs.
- In a formal organisation, individuals are fitted into jobs and positions and work as per the managerial decisions. Thus, the formal relations in the organisation arise from the pattern of responsibilities that are created by the management.
- A formal organisation is bound by rules, regulations and procedures.
- In a formal organisation, the position, authority, responsibility and accountability of each level are clearly defined.
- Organisation structure is based on division of labour and specialisation to achieve efficiency in operations.
- A formal organisation is deliberately impersonal. The organisation does not take into consideration the sentiments of organisational members.
- The authority and responsibility relationships created by the organisation structure are to be

honoured by everyone.

- In a formal organisation, coordination proceeds according to the prescribed pattern.

### **Advantages of Formal Organisation**

The formal organisation structure concentrates on the jobs to be performed. It, therefore, makes everybody responsible for a given task.

A formal organisation is bound by rules, regulations and procedures. It thus ensures law and order in the organisation.

The organisation structure enables the people of the organisation to work together for accomplishing the common objectives of the enterprise.

### **Disadvantages or Criticisms of Formal Organisation**

- (a) The formal organisation does not take into consideration the sentiments of organisational members.
- (b) The formal organisation does not consider the goals of the individuals. It is designed to achieve the goals of the organisation only.
- (c) The formal organisation is bound by rigid rules, regulations and procedures. This makes the achievement of goals difficult.

2 Informal Organisation: Informal organisation refers to the relationship between people in the organisation based on personal attitudes, emotions, prejudices, likes, dislikes etc. an informal organisation is an organisation which is not established by any formal authority, but arises from the personal and social relations of the people.

These relations are not developed according to procedures and regulations laid down in the formal organisation structure; generally large formal groups give rise to small informal or social groups. These groups may be based on same taste, language, culture or some other factor. These groups are not pre-planned, but they develop automatically within the organisation according to its environment.

### ***Characteristics of Informal Organisation***

- (a) Informal organisation is not established by any formal authority. It is unplanned and arises spontaneously.
- (b) Informal organisations reflect human relationships. It arises from the personal and social relations amongst the people working in the organisation.
- (c) Formation of informal organisations is a natural process. It is not based on rules, regulations and procedures.
- (d) The inter-relations amongst the people in an informal organisation cannot be shown in an organisation chart.
- (e) In the case of informal organisation, the people cut across formal channels of communications and communicate amongst themselves.
- (f) The membership of informal organisations is voluntary. It arises spontaneously and not by deliberate or conscious efforts.
- (g) Membership of informal groups can be overlapping as a person may be member of a number of informal groups.
- (h) Informal organisations are based on common taste, problem, language, religion, culture, etc. It is influenced by the personal attitudes, emotions, whims, likes and dislikes etc. of the people in the

organisation.

### *Benefits of Informal Organisation*

- (a) It blends with the formal organisation to make it more effective.
- (b) Many things which cannot be achieved through formal organisation can be achieved through informal organisation.
- (c) The presence of informal organisation in an enterprise makes the managers plan and act more carefully.
- (d) Informal organisation acts as a means by which the workers achieve a sense of security and belonging. It provides social satisfaction to group members.
- (e) An informal organisation has a powerful influence on productivity and job satisfaction.
- (f) The informal leader lightens the burden of the formal manager and tries to fill in the gaps in the manager's ability.
- (g) Informal organisation helps the group members to attain specific personal objectives.
- (h) Informal organisation is the best means of employee communication. It is very fast.
- (i) Informal organisation gives psychological satisfaction to the members. It acts as a safety valve for the emotional problems and frustrations of the workers of the organisation because they get a platform to express their feelings.
- (j) It serves as an agency for social control of human behaviour.

(k) ***Management's Attitude towards Informal Organisation:*** Formal organisation, no doubt is an important part of the organisation but it alone is not capable of accomplishing the organisational objectives. Informal organisation supplements the formal organisation in achieving the organisational objectives. If handled properly, informal organisation will help in performing the activities of the organisation very efficiently and effectively. In the words of Keith Davis, "An informal organisation is a powerful influence upon productivity and job satisfaction. Both formal and informal systems are necessary for group activity just as two blades are essential to make a pair of scissors workable". As both formal and informal organisations are quite essential for the success of any organisation, a manager should not ignore the informal organisation. He should study thoroughly the working pattern of informal relationship in the organisation and use the informal organisation for achieving the organisational objectives.

(l)

### *Line Organisation*

This is the simplest and the earliest form of organisation. It is also known as "Military", "traditional", "Scalar" or "Hierarchical" form of organisation. The line organisation represents the structure in a direct vertical relationship through which authority flows. Under this, the line of authority flows vertically downward from top to bottom throughout the organisation. The quantum of authority is highest at the top and reduces at each successive level down the hierarchy. All major decisions and orders are made by the executives at the top and are handed down to their immediate subordinates who in turn break up the orders into specific instructions for the purpose of their execution by another set of subordinates. A direct relationship of authority and responsibility is thus established between the superior and subordinate. The superior exercises a direct authority over his subordinates who become entirely responsible for their performance to their commanding superior. Thus, in the line organisation, the line of authority consists of an uninterrupted series of authority steps and forms a hierarchical arrangement. The line of authority

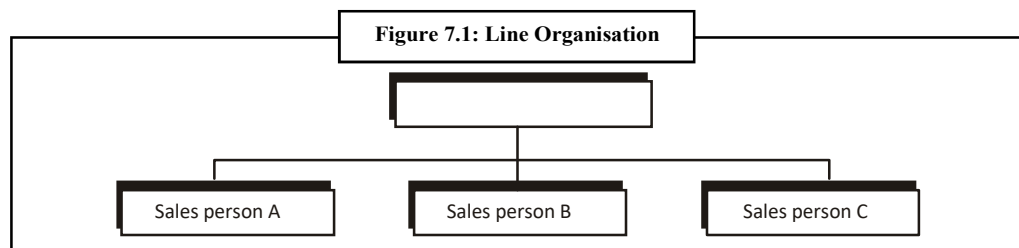


not only becomes the avenue of command to operating personnel, but also provides the channel of communication, coordination and accountability in the organisation.

Prof. Florence enunciates three principles which are necessary to realise the advantages of this system and the non-observance of which would involve inefficiency.

1. Commands should be given to subordinates through the immediate superior; there should be no skipping of links in the chain of command.
2. There should be only one chain. That is, command should be received from only one immediate superior.
3. The number of subordinates whose work is directly commanded by the superior should be limited.

The following depicts the line organisation:



### **Advantages or Merits of Line Organisation**

- It is the easiest to establish and simplest to explain to the employers.
- It fixes responsibility for the performance of tasks in a definite manner upon certain individuals.
- There is clear-cut identification of authority and responsibility relationship. Employees are fully aware of the boundaries of their job.
- It is most economical and effective.
- It makes for unity of control thus conforming to the scalar principle of organisation.
- It ensures excellent discipline in the enterprise because every individual knows to whom he is responsible. The subordinates are also aware of the necessity of satisfying their superior in their own interests.
- It facilitates prompt decision-making because there is definite authority at every level.
- As all the activities relating to one department or division are managed by one executive, there can be effective coordination of activities.
- This system is flexible or elastic, in the sense that, as each executive has sole responsibility in his own position and sphere of work, he can easily adjust the organisation to changing conditions.
- Under this system, responsibility and authority are clearly defined. Every member of the organisation knows his exact position, to whom he is responsible and who are responsible to him. Because of the clear fixation of responsibility, no person can escape from his liability.

### **Disadvantages or Demerits of Line Organisation**

- With growth, the line organisation makes the superiors too overloaded with work. Since all work is

done according to the wishes of one person alone, the efficiency of the whole department will come to depend upon the qualities of management displayed by the head of that department. If therefore, something happens to an efficient manager, the future of the department and of the concern as a whole would be in jeopardy.

- Being an autocratic system, it may be operated on an arbitrary, opinionated and dictatorial basis.
- Under this system, the subordinates should follow the orders of their superior without expression their opinion on the orders. That means there is limited communication.
- There may be a good deal of nepotism and favouritism. This may result in efficient people being left behind and inefficient people getting the higher and better posts.
- The line organisation suffers from lack of specialised skill of experts. Modern business is so complex that it is extremely difficult for one person to carry in his head all the necessary details about his work in this department.
- Line organisation is not suitable to big organisations because it does not provide specialists in the structure. Many jobs require specialised knowledge to perform them.
- If superiors take a wrong decision, it would be carried out without anybody having the courage to point out its deficiencies.
- The organisation is rigid and inflexible.
- There is concentration of authority at the top. If the top executives are not capable, the enterprise will not be successful.

## Line and Staff Organisation

In line and staff organisation, the line authority remains the same as it does in the line organisation. Authority flows from top to bottom. The main difference is that specialists are attached to line managers to advise them on important matters. These specialists stand ready with their speciality to serve line managers as and when their services are called for, to collect information and to give help which will enable the line officials to carry out their activities better. The staff officers do not have any power of command in the organisation as they are employed to provide expert advice to the line officers. The combination of line organisation with this expert staff constitutes the type of organisation known as line and staff organisation. The 'line' maintains discipline and stability; the 'staff' provides expert information. The line gets out the production, the staffs carries on the research, planning, scheduling, establishing of standards and recording of performance. The authority by which the staff performs these functions is delegated by the line and the performance must be acceptable to the line before action is taken. The following depicts the line and staff organisation:

### Types of Staff

The staff position established as a measure of support for the line managers may take the following forms:

1. **Personal Staff:** Here the staff official is attached as a personal assistant or adviser to the line manager. For example, Assistant to managing director.
2. **Specialised Staff:** Such staff acts as the fountainhead of expertise in specialised areas like R&D, personnel, accounting etc. For example, R&D Staff.
3. **General Staff:** This category of staff consists of a set of experts in different areas who are meant

to advise and assist the top management on matters called for expertise. For example: Financial advisor, technical advisor etc.

### Features of Line and Staff Organisation

1. Under this system, there are line officers who have authority and command over the subordinates and are accountable for the tasks entrusted to them. The staff officers are specialists who offer expert advice to the line officers to perform their tasks efficiently.
2. Under this system, the staff officers prepare the plans and give advice to the line officers and the line officers execute the plan with the help of workers.
3. The line and staff organisation is based on the principle of specialisation.

### Advantages or Merits of Line and Staff Organisation

1. It brings expert knowledge to bear upon management and operating problems. Thus, the line managers get the benefit of specialised knowledge of staff specialists at various levels.
2. The expert advice and guidance given by the staff officers to the line officers benefit the entire organisation.
3. As the staff officers look after the detailed analysis of each important managerial activity, it relieves the line managers of the botheration of concentrating on specialised functions.
4. Staff specialists help the line managers in taking better decisions by providing expert advice. Therefore, there will be sound managerial decisions under this system.
5. It makes possible the principle of undivided responsibility and authority, and at the same time permits staff specialisation. Thus, the organisation takes advantage of functional organisation while maintaining the unity of command.
6. It is based upon planned specialisation.
7. Line and staff organisation has greater flexibility, in the sense that new specialised activities can be added to the line activities without disturbing the line procedure.

### Disadvantages or Demerits of Line and Staff Organisation

- Unless the duties and responsibilities of the staff members are clearly indicated by charts and manuals, there may be considerable confusion throughout the organisation as to the functions and positions of staff members with relation to the line supervisors.
- There is generally a conflict between the line and staff executives. The line managers feel that staff specialists do not always give right type of advice, and staff officials generally complain that their advice is not properly attended to.
- Line managers sometimes may resent the activities of staff members, feeling that prestige and influence of line managers suffer from the presence of the specialists.
- The staff experts may be ineffective because they do not get the authority to implement their recommendations.
- This type of organisation requires the appointment of large number of staff officers or experts in addition to the line officers. As a result, this system becomes quite expensive.
- Although expert information and advice are available, they reach the workers through the officers and thus run the risk of misunderstanding and misinterpretation.

- Since staff managers are not accountable for the results, they may not be performing their duties well.
- Line managers deal with problems in a more practical manner. But staff officials who are specialists in their fields tend to be more theoretical. This may hamper coordination in the organisation.

### **Basic issues in organizing**

#### **Concepts of Organizing**

The working relationships — vertical and horizontal associations between individuals and groups — that exist within an organization affect how its activities are accomplished and coordinated. Effective organizing depends on the mastery of several important concepts: work specialization, chain of command, authority, delegation, span of control, and centralization versus decentralization. Many of these concepts are based on the principles developed by Henri Fayol.

Organisation structure may be considered as the core element around which various functions are performed and several processes operate. The structure of organisation is consciously designed by the management. “Organisational structure is the formal or quasi-formal net-work of reporting or controlling relationships in an organisation and powers and duties associated with each role in this net-work.” —Mr. Pradeep N. Khandwalla.

#### **Work Specialization**

- Work specialization describes the degree to which activities in the organization are divided, and then subdivided, into separate jobs.
- One popular organizational concept is based on the fundamental principle that employees can work more efficiently if they're allowed to specialize.
- **Work specialization**, sometimes called division of labor, is the degree to which organizational tasks are divided into separate jobs. Employees within each department perform only the tasks related to their specialized function.
- When specialization is extensive, employees specialize in a single task, such as running a particular machine in a factory assembly line.
- Jobs tend to be small, but workers can perform them efficiently. By contrast, if a single factory employee built an entire automobile or performed a large number of unrelated jobs in a bottling plant, the results would be inefficient.

#### **Chain of command**

A chain of command is an organizational structure that documents how each member of a company reports to one another. At the top of the chart would be the founder, owner or CEO, and the people who report to them would appear directly below. This pattern continues until every person or level of employment at the organization is accounted for. This hierarchy changes over time as employees join and leave.

A chain of command exists to distribute power and responsibilities, keep employees aware of company news and create a system for sharing knowledge. It also ensures each employee is responsible for their own work but also has a more senior leader to offer support, encouragement and motivation.

- The **chain of command** is an unbroken line of authority that links all persons in an organization and defines who reports to whom. This chain has two underlying principles:
- unity of command
- scalar principle.

#### **Unity of command**

- This principle states that an employee should have one and only one supervisor to whom he or she is directly responsible.
- No employee should report to two or more people.
- Otherwise, the employee may receive conflicting demands or priorities from several supervisors at once, placing this employee in a no-win situation.

#### **Scalar principle**

- The scalar principle refers to a clearly defined line of authority that includes all employees in the organization.

- The classical school of management suggests that there should be a clear and unbroken chain of command linking every person in the organization with successively higher levels of authority up to and including the top manager.
- When organizations grow in size, they tend to get taller, as more and more levels of management are added.
- This increases overhead costs, adds more communication layers, and impacts understanding and access between top and bottom levels. It can greatly slow decision making and can lead to a loss of contact with the client or customer.

#### **Advantage**

- Increase efficiency
- Clear Direction
- Stability
- Accountability
- Outside understanding

#### **Disadvantage**

- Less collaboration
- Slow communication
- Decreased employee empowerment

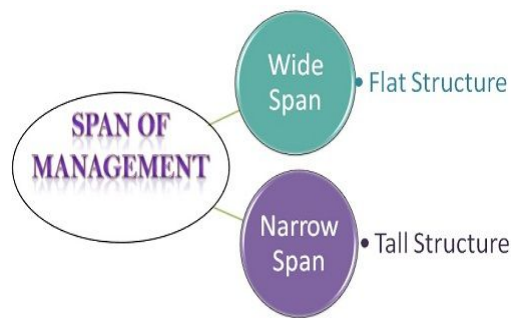
#### **Delegation of authority**

The delegation of authority refers to the division of labor and decision-making responsibility to an individual that reports to a leader or manager. It is the organizational process of a manager dividing their own work among all their people. It involves giving them the responsibility to accomplish the tasks that are delegated to them in the way they see fit. Along with responsibility, they also share the corresponding amount of authority. This ensures that tasks can be completed efficiently and that the individual feels actually responsible for their completion. On one level, delegation is just dividing work into tasks that others can do.

At its best, delegation is empowering people to do the work they are best suited to. It allows them to invest themselves more in the work and develop their own skills and abilities. It also allows the manager to do other important work that might be more strategic or higher-level. In other words, delegated authority is more than just parsing out work. It is truly sharing responsibility, ownership, and decision-making. Delegated authority is shared authority. Delegating authority can also improve efficiency by making more employees accountable for their own work and activities. Less time and energy is spent on monitoring and micro-managing employees who are capable and competent. Your team becomes more capable and able to achieve higher performance as a result.

#### **Elements**

##### **1. Authority**



In the context of a company, authority is the power and right of an individual to use and allocate their resources efficiently. This includes the ability to make decisions and give orders to achieve the organizational objectives and goals. This component should always be well-defined. Everyone with authority should know the scope of their authority. Essentially, it is the right to give a command, meaning the top-level management always has the greatest authority. There is a symbiotic relationship between authority and responsibility. So, authority, especially authority in management, should always be accompanied by an equal amount of responsibility if the task is to be completed successfully. Similarly, there has long been a relationship between power and influence. Learn what this relationship should look like in our article: Power versus influence: How to build a legacy of leadership.

## 2. Responsibility

This refers to the specifics and scope of the individual to complete the task assigned to them. Responsibility without adequate authority can lead to:

- Discontent
- Dissatisfaction
- Conflicts
- Frustration for the individual

While authority flows from the top-down, responsibility flows from the bottom-up. Middle management and lower-level management hold more responsibility.

## 3. Accountability

Unlike authority and responsibility, accountability cannot be delegated. Rather, it is inherent in the bestowment of responsibility itself. Anyone who sets out to accomplish a task and take on a job in a company becomes accountable for the outcome of their efforts. Accountability, in short, means being answerable for the end result. Accountability arises from responsibility. Authority flows downward, whereas accountability flows upward. The downward flow of authority and upward flow of accountability must be the same at each position of the management hierarchy.

### The importance of delegation

Delegating has been shown to improve task efficiency and benefit the organization in ways that aren't obvious at first. A study by Harvard Business Review determined that delegating can actually increase organizations' income and overall efficiency. Not only does delegation empower others in the organization, but it also helps optimize the performance of the group. Delegating empowers your team, builds trust, and motivates. Thoughtful delegation, with support, is also a way to stretch and develop people within the work. This is often more powerful than through periodic professional development. And for leaders, it helps you learn how to identify who is best suited to tackle tasks or projects.

### Span of Management

The **Span of Management** refers to the number of subordinates who can be managed efficiently by a superior. Simply, the manager having the group of subordinates who report him directly is called as the span of management.

The Span of Management has two implications:

1. Influences the complexities of the individual manager's job
2. Determine the shape or configuration of the Organization

The span of management is related to the horizontal levels of the organization structure. There is a wide and a narrow span of management. With the wider span, there will be less hierarchical levels, and thus, the organizational structure would be flatter. Whereas, with the narrow span, the hierarchical levels increases, hence the organizational structure would be tall.

Both these organizational structures have their advantages and the disadvantages. But however the tall organizational structure imposes more challenges:

- Since the span is narrow, which means less number of subordinates under one superior, requires more managers to be employed in the organization. Thus, it would be very expensive in terms of the salaries to be paid to each senior.
- With more levels in the hierarchy, the communication suffers drastically. It takes a lot of time to reach the appropriate points, and hence the actions get delayed.
- Lack of coordination and control because the operating staff is far away from the top management.

The major advantage of using this structure is that the cross communication gets facilitated, i.e., operative staff communicating with the top management. Also, the chance of promotion increases with the availability of several job positions.

In the case of a flatter organizational structure, where the span is wide leads to a more complex supervisory relationship between the manager and the subordinate. It will be very difficult for a superior to manage a large number of subordinates at a time and also may not listen to all efficiently. However, the benefit of using the wider span of management is that the number of managers gets reduced in the hierarchy, and thus, the expense in terms of remuneration is saved. Also, the subordinates feel relaxed and develop their independent spirits in a free work environment, where the strict supervision is absent.

### **Organization structure for Departmentalization**

Departmentalization refers to the formal structure of the organization, composed of various departments and managerial positions and their relationships with each other. As an organization grows, its departments grow and more sub-units are created, which in turn add more levels of management. This often creates less flexibility, adaptability, and units of action within the firm. Departmentalization is the efficient and effective grouping of jobs into meaningful work units to coordinate numerous jobs—all for the expeditious accomplishment of the organization's objectives. Two particular things need to consider before setting the formal structure of the organization or the Departmentalization. They are; basic organizational units and coordinating structure.

#### **Types of Departmentalization**

Departmentalization results from the division of work and the desire to obtain organization units of manageable size and to utilize the managerial ability. An organization structure and design are shaped significantly by the Departmentalization followed.

The means of Departmentalization are by

1. Functional Departmentalization.
2. Departmentalization by Territory.



3. Departmentalization of the organization by customer group.
4. Matrix departmentalization.
5. Planning Task Force.

An organizer is free to use any means of departmentalization in constructing an organization structure. In fact, in any given structure several means are typically used.

### **1. Functional Departmentalization**

Functional departmentalization groups together jobs which are involving the same or similar activities. It allows the organization to staff all important positions with functional experts and facilitates coordination and integration.

### **2. Departmentalization by Territory**

Departmentalization by Territory method is followed where; unless to local conditions appear to offer advantages, such as low cost of operation and opportunities to capitalize on attractive local conditions as they arise. Territorial departmentalization is especially popular for sales where division appears feasible according to some geographic market segregation.

### **3. Departmentalization of the organization by customer group.**

Customer departmentalization is where the organization's activities are ready to respond to and interact with specific customers or customer groups. This organizational form is used when the great emphasis is placed on effectively serving different customer types.

### **4. Matrix departmentalization**

Matrix departmentalization attempts to combine functional and task force (project) departmentalization designs to improve the synchronization of multiple components for a single activity (i.e., a moon launch), to improve the economics of scale, and to better serve the customer and company.

### **5. Planning Task Force**

The planning task force is most often formed when the organization requires addressing special circumstances. It is more preferable, and efficient than maintaining a different planning staff or department.

### **Organizational Culture**

#### **Meaning**

Organizational culture is the collection of values, expectations, and practices that guide and inform the actions of all team members. Think of it as the collection of traits that make your company what it is. A great culture exemplifies positive traits that lead to improved performance, while a dysfunctional company culture brings out qualities that can hinder even the most successful organizations.

#### **Organizational culture/corporate culture includes-**

- The ways the organization conducts its business, treats its employees, customers, and the wider community,
- The extent to which freedom is allowed in decision making, developing new ideas, and personal expression,
- How power and information flow through its hierarchy, and
- How committed employees are towards collective objectives.

#### **Characteristics of organizational culture are;**

- Innovation (Risk Orientation).
- Attention to Detail (Precision Orientation).

- Emphasis on Outcome (Achievement Orientation).
- Emphasis on People (Fairness Orientation).
- Teamwork (Collaboration Orientation).
- Aggressiveness (Competitive Orientation).
- Stability (Rule Orientation).

### **Role**

Roles of organizational culture are given below:

- Culture unites (brings together) employees by providing a sense of identity with the organization.
- An informal control mechanism.
- Facilitation of open communication.
- Culture enables organizations to differentiate themselves from one another.
- Culture often generates commitment, superseding personal interests.
- Culture sets organization norms, rules, and standards. Thereby, culture enables employees to function in an organization, by teaching them how to behave.
- A shared understanding.
- Culture becomes especially important in a program/project-based organization. In such an organization, the hierarchy is flat and decision-making is moved to the project/program purpose units and departments. In this context, culture provides the guiding light towards the achievement of goals and objectives.
- Enhanced mutual trust and cooperation.
- Fewer disagreements and more efficient decision-making processes.
- A strong sense of identification.
- Assisting employees in making sense of their behaviors by providing justification for behaviors.

### **Cultural Diversity**

- The term ‘diversity’ emphasises differences rather than inequalities. When we say that India is a nation of great cultural diversity, we mean that there are many different types of social groups and communities living here.
- These are communities defined by cultural markers such as language, religion, sect, race or caste.
- When these diverse communities are also part of a larger entity like a nation, then difficulties may be created by competition or conflict between them.

Diversity management is a following process:

- Establishing a business strategy for effectively managing diverse workforce.
- Creating a positive work environment
- Promoting personal and professional development.
- Empowering all people to reach their full potentials
- Attracting talent.
- Removing barriers that hinder progress.

Types of diversity management

#### **1- Intra-national diversity management –**

- Intranational diversity management refers to managing a workforce that comprises citizens or immigrants in a single national context. Diversity programs focus on providing employment opportunities to minority groups or recent immigrants.
- For example, a French company may implement policies and programs with the aim of improving sensitivity and providing employment to minority ethnic groups in the country.

## 2. Cross-national diversity management

- Cross-national, or international, diversity management refers to managing a workforce that comprises citizens from different countries. It may also involve immigrants from different countries who are seeking employment.
- An example is a US-based company with branches in Canada, Korea, and China. The company will establish diversity programs and policies that apply in its US headquarters, as well as in its overseas offices.
- The main challenge of cross-national diversity management is that the parent company must consider the legislative and cultural laws in the host countries it operates in, depending on where the employees live.

### Characteristics of Diversity Management

#### 1. Voluntary

Unlike legislation that is implemented through sanctions, diversity management is a voluntary organizational action. It is self-initiated by organizations with a workforce from different ethnicities, religions, nationalities, and demographics. There is no legislation to coerce or government incentives to encourage organizations to implement diversity management programs and policies.

#### 2. Provides tangible benefits

Unlike in the past when diversity management was viewed as a legal constraint, companies use the diversity strategy to tap into the potential of all employees and give the company a competitive advantage in its industry. It allows each employee, regardless of his/her race, religion, ethnicity, or origin to bring their talents and skills to the organization. A diverse workforce enables the organization to better serve clients from all over the world since diverse employees can understand their needs better.

#### 3. Broad definition

While legislation and affirmative action target a specific group, diversity management uses a broad definition since the metrics for diversity are unlimited. The broad definition makes diversity programs more inclusive and has less potential for rejection by the members of the majority group or privileged sections of the society.

#### Multi Ethnic workforce organizing

A multicultural organization is one that has a workforce that includes people from diverse backgrounds across all departments, and which offers them equal opportunity for input and advancement within the company.

#### Understanding Multicultural Organizations

A multicultural organization recognizes that the contributions of its employees include perspectives based on culture, gender, and other unique characteristics. Few companies in our times want to make their products or services available only to one narrow slice of the population. A multicultural workforce helps them create products that meet the needs and expectations of a broader population. An emphasis on diversity also may attract a better talent pool. In a survey by Glassdoor.com, fully 67% of job-seekers said that a diverse workforce was an important factor in their decision to accept or reject a job offer. Moreover, a multicultural workforce is seen as essential for any business considering going global. "As national politics and discourse seem to grow more inward-looking and divisive across America and Europe, successful businesses must continue to think inclusively and globally," notes a blog for Hult International Business School. "Embracing cultural diversity in the workplace is an important first step for businesses that want to be competitive on an international scale."

#### Organizing Knowledge resource

## Introducing Organizational Knowledge

In an earlier section we identified the three different types of knowledge that can exist in an organization. Knowledge management is the process of capturing, developing, sharing and effectively using organizational knowledge.

### Organizational Knowledge Resources

Business knowledge can exist on several different levels:

**Individual:** Personal, often [tacit knowledge](#)/know-how of some sort. It can also be explicit, but it must be individual in nature, e.g. a private notebook.

**Groups/community:** Knowledge held in groups but not shared with the rest of the organization. Companies usually consist of communities (most often informally created) which are linked together by common practice. These [communities of practice](#) (Lave & Wenger 1991) may share common values, language, procedures, know-how, etc. They are a source of learning and a repository for tacit, explicit, and [embedded knowledge](#).

**Structural:** Embedded knowledge found in processes, culture, etc. This may be understood by many or very few members of the organization. E.g. the knowledge embedded in the routines used by the army may not be known by the soldiers who follow these routines. At times, structural knowledge may be the remnant of past, otherwise long forgotten lessons, where the knowledge of this lesson exists exclusively in the process itself.

**Organizational:** The definition of organizational knowledge is yet another concept that has very little consensus within literature. Variations include the extent to which the knowledge is spread within the organization, as well as the actual make-up of this knowledge. Hatch (2010) defines it as: "When group knowledge from several subunits or groups is combined and used to create new knowledge, the resulting tacit and [explicit knowledge](#) can be called organizational knowledge. A very common solution is to use something like Microsoft Sharepoint or Helpjuice's [Internal Knowledge Base Software](#)"

Others present a broader perspective: "individual knowledge, shared knowledge, and objectified knowledge are different aspects or views of organizational knowledge" (Ekinge & Lennartsson 2000). As always, texts emphasizing an IT based outlook once again offer shallower, information-based definitions, e.g. Virvou & Nakamura 2008, "Information internalized by means of research, study or experience that has value to the organization".

For the purpose of this site I will adopt a broad, knowledge-based perspective. *Organizational knowledge is therefore defined as: all the knowledge resources within an organization that can be realistically tapped by that organization.* It can therefore reside in individuals and groups, or exist at the organizational level.

**Extra-organizational:** Defined here as: Knowledge resources existing outside the organization which could be used to enhance the performance of the organization. They include explicit elements like publications, as well as tacit elements found in communities of practice that span beyond the organization's borders.

### Implications for KM

In order to enhance organisational knowledge, KM must therefore be involved across the entire knowledge spectrum. It must help knowledge development at all levels and facilitate & promote its diffusion to individuals, groups, and/or across the entire firm, in accordance with the organization's requirements. KM must manage organizational knowledge storage and retrieval capabilities, and create an environment conducive to learning and knowledge sharing. Similarly it must be involved in tapping external sources of knowledge whenever these are necessary for the development of the organizational knowledge resources.

## Module – III

### Introduction to Planning

Planning is a rational action mixed with a little of forethought. It is seen everywhere. In a business, planning is the primary of all managerial functions as it involves deciding of future course of action. Thus, planning logically precedes the execution of all managerial functions. Planning is the process of deciding in advance what is to be done, where, how and by whom it is to be done. Thus, it is basically a process of „thinking before doing“. All these elements speak about the futurity of an action.

Koontz and O'Donnell have defined planning in terms of future course of action. They state “that Planning is the selection from among alternatives for future courses of action for the enterprise as a whole and each department within it.

“Planning involves defining the organization's goals, establishing overall strategy for achieving goals, and developing a comprehensive set of plans to integrate, coordinate organizational work.”

The process of establishing goals and a suitable course of action for achieving those goals. The necessity of planning arises because of the fact that business organizations have to operate, survive and progress in a highly dynamic economy where change is the rule, changes gives rise to the problems and throw countless challenges

### FEATURES OF PLANNING

- Planning is goal-oriented
- Planning is primary function
- Planning is all-pervasive
- Planning is mental exercise
- Planning is continuous-process
- Planning involves decision making
- Planning is forward looking
- Planning is flexible
- Planning is an integrated process
- Planning includes efficiency and effectiveness dimension

### Nature of Planning

The nature of planning can be highlighted by studying its characteristics. They are as follows

Planning is a mental activity. Planning is not a simple process. It is an intellectual exercise and involves thinking and forethought on the part of the manager.

Planning is goal-oriented. Every plan specifies the goals to be attained in the future and the steps necessary to reach them. A manager cannot do any planning, unless the goals are known.

Planning is forward looking. Planning is in keeping with the adage, “look before you leap”. Thus planning means looking ahead. It is futuristic in nature since it is performed to accomplish some objectives in future.

Planning pervades all managerial activity.

Planning is the basic function of managers at all levels, although the nature and scope of planning will vary at each level.

### Importance of Planning

(a) Minimizes uncertainty: The future is generally uncertain and things are likely to change with the passage of time. Planning helps in minimizing the uncertainties of the future as it anticipates future events.

(b) Emphasis on objectives: The first step in planning is to fix the objectives. When the objectives are clearly fixed, the execution of plans will be facilitated towards these objectives.

(c) Promotes coordination. Planning helps to promote the coordinated effort on account of pre- determined goals.

Facilitates control. Planning and control are inseparable in the sense that unplanned actions cannot be controlled. Control is nothing but making sure that activities conform to the plans.

Improves competitive strength. Planning enables an enterprise to discover new opportunities, which give it a competitive edge.

Economical operation. Since planning involves a lot of mental exercise, it helps in proper utilization of resources and elimination of unnecessary activities. This, in turn, leads to economy in operation.

g) Encourages innovation. Planning is basically the deciding function of management. Many new ideas come to the mind of a manager when he is planning. This creates an innovative and foresighted attitude among the managers.

(h) Tackling complexities of modern business. With modern business becoming more and more complex, planning helps in getting a clear idea about what is to be done, when it is to be done, where it is to be done and how it is to be done.

## **TYPES OF PLANNINGS**

- Group or sectional planning
- Departmental or divisional planning
- Corporate planning
- Long term planning
- Medium term planning
- Short term operational planning

## **Learning Organisation**

A learning organization should support the development process skills and attitudes to improve performance in a competitive business situation. Learning develops organizational intellectual capital, which is the only sustainable competitive strength for any organization.

Organizational learning involves individual learning, and those who make the shift from traditional organization thinking to learning organizations, develop the ability to think critically and creatively. These skill-transfers match the values and assumptions of the organizational development (OD) process. OD is a continuous, long-term effort to effect improvement in all spheres of organizational activities and to set the premises for organizational change.

Organizational learning is the most important intervention tool for OD. Learning reinforcement develops people and makes them capable of solving problems. Thus, a learning organization evolves in developing the organizational capability to respond to changes.

Theoretically, learning organizations have two dimensions. The first dimension views it as a process for individual and collective learning within an organization. The second dimension, on the other hand, considers it as a specific diagnostic and evaluative tool to identify, promote, and evaluate the quality of learning processes inside organizations.

### **Definition and Concepts:**

A learning organization learns and encourages learning among its people, promoting exchange of information, and making people adaptable to new ideas and changes through a shared vision. Going back in history, we find references to such learning organizations even in the work of the Chinese philosopher, Confucius (551-479 B.C.). Confucius believed that 'without learning, the wise become foolish; by learning, the foolish become wise'. He believed that everyone should benefit from learning.

This means that organizations need to be aware of both the company as a whole as well as the individuals within the company. Before the introduction of this concept, companies used to concentrate on their own needs and not on the needs of their workers. The systems approach to management suggested that organizations should also include the ambitions of the individual workers and not just focus on the business goals.

For example, the decision support systems (DSS) are used by corporate executives to help them take decisions for the future. The benefit of DSS is that it makes implicit knowledge explicit. This makes extra knowledge available to the organization and allows the organization to learn better because explicit knowledge tends to spread faster through an organization.

## Characteristics

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There are many definitions of a learning organization as well as typologies of kinds of learning organizations.

Peter Senge stated in an interview that a learning organization is a group of people working together collectively to enhance their capacities to create results they really care about. Senge popularized the concept of the learning organization through his book *The Fifth Discipline*. In the book, he proposed the following five characteristics:

### **Systems thinking**

The idea of the learning organization developed from a body of work called systems thinking. This is a conceptual framework that allows people to study businesses as bounded objects. Learning organizations use this method of thinking when assessing their company and have information systems that measure the performance of the organization as a whole and of its various components. Systems thinking states that all the characteristics of a learning organization must be apparent at once in an organization for it to be a learning organization. If some of these characteristics are missing then the organization will fall short of its goal. However, O'Keefe believes that the characteristics of a learning organization are factors that are gradually acquired, rather than developed simultaneously.

### **Personal mastery**

The commitment by an individual to the process of learning is known as personal mastery. There is a competitive advantage for an organization whose workforce can learn more quickly than the workforce of other organizations. Learning is considered to be more than just acquiring information; it is expanding the ability to be more productive by learning how to apply our skills to work in the most valuable way. Personal mastery appears also in a spiritual way as, for example, clarification of focus, personal vision and ability to see and interpret reality objectively. Individual learning is acquired through staff training, development and continuous self-improvement; however, learning cannot be forced upon an individual who is not receptive to learning. Research shows that most learning in the workplace is incidental, rather than the product of formal training, therefore it is important to develop a culture where personal mastery is practiced in daily life. A learning organization has been described as the sum of individual learning, but there must be mechanisms for individual learning to be transferred into organizational learning. Personal mastery makes possible many positive outcomes such as individual performance, self-efficacy, self-motivation, sense of responsibility, commitment, patience and focus on relevant matters as well as work-life balance and well-being.

### **Mental models**

Assumptions and generalizations held by individuals and organizations are called mental models. Personal mental models describe what people can or cannot detect. Due to selective observation, mental models might limit peoples' observations. To become a learning organization, these models must be identified and challenged. Individuals tend to espouse theories, which are what they intend to follow, and theories-in-use, which are what they actually do. Similarly, organizations tend to have 'memories' which preserve certain behaviours, norms and values. In creating a learning environment it is important to replace confrontational attitudes with an open culture that promotes inquiry and trust. To achieve this, the learning organization needs mechanisms for locating and assessing organizational theories of action. Unwanted values need to be discarded in a process called 'unlearning'. Wang and Ahmed refer to this as 'triple loop learning'. For organizations, problems arise when mental models evolve beneath the level of awareness. Thus it is important to examine business issues and actively question current business practices and new skills before they become integrated into new practices.

### **Shared vision**

The development of a shared vision is important in motivating the staff to learn, as it creates a common identity that provides focus and energy for learning. The most successful visions build on the individual visions of the employees at all levels of the organization, thus the creation of a shared vision can be hindered by traditional structures where the company vision is imposed from above. Therefore, learning organizations



tend to have flat, decentralized organizational structures. The shared vision is often to succeed against a competitor; however, Senge states that these are transitory goals and suggests that there should also be long-term goals that are intrinsic within the company. On the other hand, the lack of clearly defined goals can negatively affect the organisation, as it cannot attain its members trust. Applying the practices of a shared vision creates a suitable environment for the development of trust through communication and collaboration within the organization. As a result, the built shared vision encourages the members to share their own experiences and opinions, thus enhancing effects of organizational learning.

### **Team learning**

The accumulation of individual learning constitutes team learning. The benefit of team or shared learning is that staff learn more quickly and the problem solving capacity of the organization is improved through better access to knowledge and expertise. Learning organizations have structures that facilitate team learning with features such as boundary crossing and openness. In team meetings members can learn better from each other by concentrating on listening, avoiding interruption, being interested and responding. In such a learning environment, people don't have to hide or overlook their disagreements, so they make their collective understanding richer. Three dimensions of team learning, according to Senge, are: "the ability to think insightfully about complex issues", "the ability to take innovative, coordinated action", and "the ability to create a network that will allow other teams to take action as well". In a learning organization, teams learn how to think together. Team learning is process of adapting and developing the team capacity to create the results that its members really want. Team learning requires individuals to engage in dialogue and discussion; therefore team members must develop open communication, shared meaning, and shared understanding. Learning organizations typically have excellent knowledge management structures, allowing creation, acquisition, dissemination, and implementation of this knowledge in the organization. Teams use tools such as an action learning cycle and dialogue. Team learning is only one element of the learning cycle. For the cycle to be complete, it has to include all five characteristics which are mentioned above.

### **Development**

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Organizations do not organically develop into learning organizations; there are factors prompting their change. As organizations grow, they lose their capacity to learn as company structures and individual thinking becomes rigid.<sup>[1]</sup> When problems arise, the proposed solutions often turn out to be only short-term (single-loop learning instead of double-loop learning) and re-emerge in the future. To remain competitive, many organizations have restructured, with fewer people in the company. This means those who remain need to work more effectively. To create a competitive advantage, companies need to learn faster than their competitors and to develop a customer responsive culture. Chris Argyris identified that organizations need to maintain knowledge about new products and processes, understand what is happening in the outside environment and produce creative solutions using the knowledge and skills of all within the organization. This requires co-operation between individuals and groups, free and reliable communication, and a culture of trust.

For any learning to take place, also in organizations, there needs to be diffusion of knowledge. Diffusion is not always easy to perform, since it depends on the recipient's willingness to accept the new knowledge, their need of the new information and the relationship of their existing knowledge to the new information. The most useful knowledge is rarely something that is formed in one's head and then diffused to others. Useful knowledge generally consists of different pieces of information which are then combined. For the gathering of information, organizations need some sort of a content repository for all the information. These repositories are nowadays usually built with the aid of information technology. With a repository of information and a knowledge infrastructure, that simplifies the creation of knowledge in a practical form, an organization will have all its knowledge available for everyone in the organization, which will further help the learning in the organization.<sup>[19]</sup>

## Benefits

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One of the main benefits being a learning organization offers is a competitive advantage. This competitive advantage can be founded on different strategies, which can be acquired by organizational learning. One way of gaining a competitive advantage is strategic flexibility. The continuous inflow of new experience and knowledge keeps the organization dynamic and prepared for change. In an ever-changing institutional environment this can be a key factor for an advantage. Better management of an organizations explorative investments and exploitative acting can be a benefit of a learning organization, too. Next, a competitive advantage of a company can be gained by lower prices and better quality of products. Through organizational learning both cost leadership and differentiation strategies are possible. The ability to reconfigure actions based on needs and environment avoids the trade off between the two. Overall the customer performance of learning organizations might be better, which s the direct and measurable channel, that establishes a competitive advantage. Another important aspect is innovation. Innovation and learning are closely related. While encouraging people to learn and develop, a more innovative environment is commonly generated, innovative ideas coming from e.g. communities of practice can result in greater overall organizational learning.

Other benefits of a learning organization are:

- Maintaining levels of innovation and remaining competitive
- Having the knowledge to better link resources to customer needs
- Improving quality of outputs at all levels
- Improving corporate image by becoming more people oriented
- Increasing the pace of change within the organization
- Strengthening sense of community in the organization
- Improving long term decision making
- Improving knowledge sharing

## Management by objective (MBO)

It is also called as appraisal by result, planning by objective, goal management, work planning and review etc. Is overall philosophy of management that concentrates on measurable goals and end results it provides a systematic and rational approach to management and helps prevent management by crisis. The principle behind Management by Objectives (MBO) is to make sure that everybody within the organization has a clear understanding of the aims, or objectives, of that organization, as well as awareness of their own roles and responsibilities in achieving those aims. The complete MBO system is to get managers and empowered employees acting to implement and achieve their plans, which automatically achieve those of the organization.

### Definition

MBO is "a process whereby superior and subordinate managers of an Organization jointly define its common goals, define each individual's major areas of responsibility in terms Of results expected of him and use these measures as guides for operating the unit and assessing the contribution of each of its members."George Odiorne MBO is "a dynamic system which seeks to integrate the company's needs to clarify and achieve its profits and growth goals with the manager's need to contribute and develop himself. It is a demanding and rewarding style of managing a business."

John Humble

### MBO Strategy: Three Basic

- Parts - All individuals within an organization are assigned a special set of objectives that they try to reach during a normal operating period.
- Performance reviews are conducted periodically to determine how close individuals are to attaining their objectives.
- Rewards are given to individuals on the basis of how close they come to reaching their goals.

## Principles of MBO

- Cascading of organizational vision, goals and objectives
- Specific objectives for each member
- Participative decision making
- Explicit time period
- Performance evaluation and feedback

## Benefits

- Clear goals
- Better planning
- Facilitates control
- Objective appraisal
- Motivational force
- Better morale
- Result orientated philosophy

## Limitation

- Time consuming
- Increase paperwork
- Goal setting problems

## Management by Expectation (MBE)

What is MBE?

- ☐ Management by Exception is an employee empowerment and management style, policy or philosophy wherein **managers intervene only when their employees fail to meet their performance standards or when things go wrong.**
- ☐ The idea behind it is that management's attention will be focused only on those areas in need of action
- ☐ If the personnel are performing as expected, the manager will take no action.
- ☐ MBE normally involves substantial delegation by the manager to his team.

**Advantages** of MBE would include:

- ☐ The process focuses management time and attention on the most critical variances, which should be a more efficient use of time.
- ☐ The process allows staff to handle daily operations per the business plan independent of management; managers only step in when variances reach the threshold. This should give management more time for other functions, such as strategic planning.

**Disadvantages** of MBE would include:

- ☐ The process assumes the budget is well designed, and that there are no issues that need to be addressed if results match the budget.
- ☐ The process assumes staff cannot handle variances; instead management must be brought in.
- ☐ The process assumes that management's attention should be focused on 'mistakes'. When staff manages to the defined plan, nothing happens. When things vary, management swoops down to fix them. This can be very un-motivating to staff.

## **What is Planning premises?**

The process of planning is based upon estimates and predictions of the future. Though past guides the plans in present, plans achieve the goals in the future. Therefore, the forecast of future events leads to efficient plans. Since future events are not known accurately, the assumption is made about these events. These events may be known conditions (even changes in the tax laws as announced in the budget) or anticipated events which may or may not happen (entry of a competitor in the same market with the same product). Though these assumptions are primarily based on scientific analysis and models, managers also use their intuition and judgment to make assumptions about future events. By identifying the factors (assumptions) that affect plans is called premising and the methods used for making premises are called forecasting. The done forecast or the assumptions about the future which provide a base for planning in present are known as planning premises. This is the expectation or forecasts made for achieving the goals.

### **Decision Making Under Risk and Uncertainty**

Decision making under risk and uncertainty is a fact of life. There are many ways of handling unknowns when making a decision. We will try to enumerate the most common methods used to get information prior to decision making under risk and uncertainty. We'll also look at decision rules used to make the final choice. Making decisions under certainty is easy. The cause and effect are known, and the risk involved is minimal. What's tough is making decisions under risk and uncertainty. The outcome is unpredictable because you don't have all the information about the alternatives. Before we learn deeper about decision-making under risk and uncertainty, let's look at each of these situations:

#### **1. Certainty**

Sometimes we have enough facts and evidence to know the possible results of a decision. These are the most conducive situations for decision-making because the outcomes are quite obvious. For instance, if you drop a glass full of milk, the milk will definitely spill. Such an environment is known as certainty.

#### **2. Risk**

Risk is where you are unsure of what can happen, but you know the likelihood of a particular outcome. Let's say you invest in a promising stock and the stock market is on a surge. In such a scenario, you see a higher chance that your investment will grow. However, you don't know the extent to which it can grow. It might double or increase by 10% and in the worst-case scenario, you might even lose money if the market crashes. Taking a decision under such circumstances is known as decision-making under risk.

#### **3. Uncertainty**

In case of an uncertain environment, you can't predict the outcomes as you have no information or data available. You have no control over what might happen and don't even know the options you have. It is like driving blindfolded where you know you need to move but don't know the type of vehicle or the road you will be taking. Such a scenario will lead to decision-making under uncertainty.

### **Now Let's Take A Look At The Process Of Decision-Making Under Risk And Uncertainty:**

#### **1. Decision-Making Under Risk**

There are times when you need to make decisions even when you don't have adequate or credible information or when the information obtained from different sources doesn't match up.

This happens when you don't know for sure how each of the alternatives will pan out and whether you will be able to achieve the goal by taking a particular decision. However, you have enough understanding to know how likely each option is to be successful.

It is this likelihood or probability of each of the options that a manager needs to take into account and apply experience, expertise, and gut feeling to the process of decision-making.

#### **2. Decision-Making Under Uncertainty**

Despite all the data crunching and predictive technology, businesses these days have to deal with a lot of uncertainty and the 'what if' scenarios.

The recent pandemic outbreak has dramatically altered the business landscape globally. Today, decision-making has become more complicated due to the uncertainty all around us.

Let's say you want to open a couple of new stores for your retail chain, and you have an idea about the average footfall or the earning that an average outlet generates. Yet, there is a lot of uncertainty as the operational procedures and customer behavior has become unpredictable.

Hence, you are compelled to undertake decision-making under uncertainty.

However, decisions under uncertainty are different from decision-making under risk. In the latter case, you are not even aware of all the options you have, the risks that each alternative poses, and the outcomes of all of these options. In fact, you are not even aware of the probabilities when you opt for decision-making under risk.

It becomes imperative for managers to use their experience and make assumptions about the situation and the outcomes while making decisions under uncertainty. However, they have to rely less on their individual judgment while indulging in decision making under risk.

### **Conclusion**

Risk and uncertainty in decision-making are integral to modern business operations. However, by opting for a specialized course on decision-making under risk and uncertainty, Harappa Education's Making Decisions course, you can learn the art of making better decisions at all times. The course has a section on The Uncertainty Toolkit which provides insights and information about various techniques that you can adopt in an environment of risk and uncertainty in decision-making. The module uses a mental model that specifically prepares you for the uncertainty about decision-making. It is an easy-paced online course that you can complete from your home's safety and become an efficient decision-maker. Sign up now and sharpen your decision-making skills.

### **Decision Trees**

A decision tree is a type of supervised machine learning used to categorize or make predictions based on how a previous set of questions were answered. The model is a form of supervised learning, meaning that the model is trained and tested on a set of data that contains the desired categorization. The decision tree may not always provide a clear-cut answer or decision. Instead, it may present options so the data scientist can make an informed decision on their own. Decision trees imitate human thinking, so it's generally easy for data scientists to understand and interpret the results.

### **Types of Decision Trees**

There are two main types of decision trees[External link:open\\_in\\_new](#): categorical and continuous. The divisions are based on the type of outcome variables used.

#### **Categorical Variable Decision Tree**

In a categorical variable decision tree, the answer neatly fits into one category or another. Was the coin toss heads or tails? Is the animal a reptile or mammal? In this type of decision tree, data is placed into a single category based on the decisions at the nodes throughout the tree.

#### **Continuous Variable Decision Tree**

A continuous variable decision tree is one where there is not a simple yes or no answer. It's also known as a regression tree because the decision or outcome variable depends on other decisions farther up the tree or the type of choice involved in the decision.

The benefit of a continuous variable decision tree is that the outcome can be predicted based on multiple variables rather than on a single variable as in a categorical variable decision tree. Continuous variable decision trees are used to create predictions. The system can be used for both linear and non-linear relationships if the correct algorithm is selected.

### **What Are the Applications for a Decision Tree?**

Decision trees are useful for categorizing results where attributes can be sorted against known criteria to determine the final category.

Decision trees map possible outcomes of a series of related choices. Some applications for decision trees include:

#### **Customer Recommendation Engines**

Customers buying certain products or categories of products might be inclined to buy something similar to what they're looking for. That's where recommendation engines come in. They can be used to push the sale of snow gloves with a purchase of skis or recommending another holiday movie after you've just finished watching one.

Recommendation engines can be structured using decision trees, taking the decisions made by consumers over time and creating nodes based off of those decisions.

### **Identifying Risk Factors for Depression**

A study conducted in 2009 in Australia tracked a cohort of over 6,000 people and whether or not they had a major depressive disorder over a four-year period. The researchers took inputs like tobacco use, alcohol use, employment status and more to create a decision tree that could be used to predict the risk of a major depressive disorder.

Medical decisions and diagnoses rely on multiple inputs to understand a patient and what may be the best way to treat them. A decision tree application like this can be a valuable tool to health care providers when assessing patients.

### **Advantages and Disadvantages of a Decision Tree**

A decision tree visually represents cause and effect relationships, providing a simple view of complex processes. They can easily map nonlinear relationships. They are adaptable to solve both classification and regression problems. With a decision tree, you can clarify risks, objectives and benefits.

Because of the tree structure's simple flowchart structure, it's one of the fastest methods to identify significant variables and relationships between two or more variables. If a data scientist is working on a problem with hundreds of variables, the decision tree will help identify the most significant ones. They're also considered easy to understand even for people without an analytical background. The visual output means statistical knowledge is not necessary. It's usually easy to see the relationships between the variables. Sometimes, however, decision trees have limitations. Understanding the advantages and disadvantages of decision trees can help make the case for using one.

#### **Advantages**

- Works for numerical or categorical data and variables.
- Models problems with multiple outputs.
- Tests the reliability of the tree.
- Requires less data cleaning than other data modeling techniques.
- Easy to explain to those without an analytical background.

#### **Disadvantages**

- Affected by noise in the data.
- Not ideal for large datasets.
- Can disproportionately value, or weigh, attributes.
- The decisions at nodes are limited to binary outcomes, reducing the complexity that the tree can handle.
- Trees can become very complex when dealing with uncertainty and numerous linked outcomes.

### **What is Controlling?**

Controlling is regarded as one of the most important management functions. In fact, without the presence of a control function, the entire management function will become obsolete. The management will not be able to determine if the plan is working properly or not, or if it is properly implemented or not.

The main objective of the control process is to make sure that the activities within an organisation are going as per the planning. Control process helps the managers in determining the level of performance of their respective organisations.

### **Steps involved in Control Process**

The following are the steps involved in the control process:

1. Establishing standards and methods or ways to measure performance
2. Measuring actual performance
3. Determining if the performance matches with the standard
4. Taking corrective action and re-evaluating the standard

**Establishing performance standards:** Although setting of goals and standards are part of the planning process, it also plays an important role in controlling. The main objective of controlling is to guide the business towards the desired target. Therefore, if the employees or members of a business are well aware of the target, it will result in more awareness about the target. The managers must communicate the goals and

objectives clearly to the employees without any ambiguities. An organisation in which everyone is working towards a common objective has a better chance to grow and prosper.

**Measuring actual performance against the set standards :** The immediate action that managers need to take after being made aware of the goals, is to measure their actual performance and compare that with the standards already set. This helps in identifying if the plan is actually working as was thought to be. Once a plan is implemented, the task of managers is to monitor the plans and evaluate. Managers must be ready with an alternative plan or suggest corrective measures in case the plan is not going as was intended. This can be done only when managers are measuring their actual performance. The way performance can be evaluated is to measure it in monetary terms, hiring financial experts. This step of controlling is helpful in detecting future problems and issues and is essential for taking decisions immediately so that the company is able to recover from the losses.

**Determining if the performance matches with the standard:** Checking if the performance matches with the standards is very important. It is an important step in controlling. In this step, the results are measured with the already set standards.

**Taking corrective action and re-evaluating the standard:** Corrective measures need to be taken when there is a discrepancy. Correct actions provide protection against loss and stop them from reappearing in future.

### **Bench marking**

A benchmark is a predetermined standard, and benchmarking is the process of setting those standards. To determine benchmarks, you need to measure your work against something else. There are a variety of things you can set benchmarks against, including:

- **Competitors.** Comparing your work or desired results against your competitors shows you what's normal in the industry and what customers expect. Once you know this, you can adjust your business, product, or messaging to remain competitive.
- **Previous results.** Using previous results as your benchmarks shows you if you're improving internally and helps you identify gaps in your processes and workflows. If you're improving, you can double down on what you're doing (because it's working). If you're not, this is a great opportunity to make changes.
- **Goals.** Using goals as a benchmark shows if your results are what you expected or initially wanted when you began. If you're falling short, you might need to adjust your goals to make sure they're achievable.

### **Step-by-step benchmarking**

Benchmarking is a simple, but detailed, five-step process:

1. Choose a product, service, or internal department to benchmark
2. Determine which best-in-class companies you should benchmark against – which organizations you'll compare your business to
3. Gather information on their internal performance, or metrics
4. Compare the data from both organizations to identify gaps in your company's performance
5. Adopt the processes and policies in place within the best-in-class performers

Benchmarking will point out what changes will make the most difference, but it's up to you to actually put them in place.

### **Coordination**

#### **Meaning of Coordination:**

Coordination is very essential in management. Business has various functions. These functions are performed by different individuals. Moreover, performance of these functions requires division of work and grouping of activities and making decisions at different levels. All these necessitate co-ordination for



attaining the desired goals. Co-ordination is concerned with synchronizing, integrating or unifying all the group actions in an enterprise to achieve its objectives.

It is a process by which the manager achieves harmonious group efforts and unity of actions through balancing the activities of different individuals and groups of individuals and reconciling their differences in interest or approach, for the attainment of common goals.

In the words of Mcfarland, **“Co-ordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of actions in the pursuit of a common purpose.”**

In an organisation, a number of persons work and every individual work is related with others. Since all persons in the organisation contribute to the same end result, their contributions should be maximum. Therefore, it is the task of the manager to put together all the group efforts of the enterprise, and harmonies them carefully so as to give them commonness of purpose.

This managerial function is known as ‘co-ordination’. He is to ensure that everybody in the organisation understands the main objectives of the enterprise and works towards their fulfillment in active co-operation with others. Co-ordination is like the team spirit of a football match or the harmonious symphony of an orchestra.

In a football match, the individual players may be good at games and may put forth their best efforts to win the match. But unless there is team spirit and co-operative efforts, the game may not be won. Similarly, in an orchestra, everyone may be excellent instrumentalists, but their individual work may take the turn of a disorder, if they are allowed to play on their instruments independently.

It is the duty of the captain of the team and the conductor of the orchestra group to maintain team spirit and unity of action for perfect harmony. So the function of co-ordination is also to maintain this unity of action among the workers in order to realise the business objectives.

Co-ordination eliminates conflict between the head office and branches as well as between departments of an organisation and removes difficulty in communication. Instead of regarding co-ordination as a separate function of management, it must be considered as the essence of management.

### **Features of Coordination:**

**The principal features of co-ordination may be stated as follows:**

#### **1. Co-ordination is concerned with the integration of group efforts and not individual effort:**

It involves the orderly arrangement of the activities of a group of people. However, individual performance is related to the group performance. Co-ordination makes the individual efforts integrated with the total process.

#### **2. Co-ordination is the concerted efforts of requisite quality and quantity given at the proper time:**

In other words, co-ordination denotes co-operation i.e. collective efforts, plus time element and direction element. According to Haimann : “Co-ordination is the orderly synchronization of efforts of the subordinates to provide the proper amount, timing and quality of execution so that their unified efforts lead to the stated objective, namely the common purpose of the enterprise.”

#### **3. Co-ordination is a continuous and dynamic process:**

It is a continuous concept in the sense that it is achieved through the performance of functions. And it is dynamic in nature because the functions themselves are dynamic and may change over the period of time.

#### **4. Co-ordination has three important elements, namely, balancing, timing and integrating:**

Co-ordination of different activities becomes possible only when different duties are performed in the right time and in the right quantity. As for example, if the purchase department of an enterprise buys the required raw material in right time and in right quantity and supplies them to the production department, the production department produces the commodities in right time and in proper quantity; and the sales department of the enterprise can execute the order placed by a customer within the specified time.

#### **5. The task of co-ordination and co-operation do not mean the same thing:**

Cooperation simply means that two or more persons are associated voluntarily in the performance of some work through collective efforts. But it has no bearing with time, amount and direction-dimensions in group efforts. In contrast, co-ordination implies application of requisite amount of group efforts in the right time at the right direction through deliberate executive action.

## **6. Co-ordination is the responsibility of every manager:**

Co-ordination is the responsibility of every manager in the organisation, because he tries to synchronize the efforts of his subordinates with others.

## **7. Co-ordination may be internal or external:**

Co-ordination, as a blending factor of all activities and efforts, is to be exercised both within and outside the enterprise. That is to say, co-ordination may be internal and external. Internal co-ordination means the co-ordination of activities between the employees, between the departments and managers at different levels inside the enterprise. Outside the enterprise, the work of co-ordination is extended to bring about a harmonious relationship with the activities of the competitors, suppliers and customers; the technological and technical advances of the time, the regulatory measures of the government, the national and international inter-dependence as well as with the wishes and wants, likes and dislikes of the consumers, employees and owners.

## **8. Co-ordination may be horizontal and vertical:**

Horizontal co-ordination refers to co-ordination between the horizontal departments of the same level in the managerial hierarchy. For example, co-ordination is necessary between the sales manager, works manager, finance manager and the buyer, so that when the sales department is ready to sell the new product, the production department will be in a position to fill the orders; and the financial arrangements have been made so that the necessary funds are available to have the suitable raw material and other factors. Co-ordination of various functions between the independent managers calls for a greater ability on the part of the superior manager. He has to ensure greater understanding between the departmental managers so that they may co-operate. On the other hand, vertical co-ordination takes place between the various links of the different levels of the organisation. For example, take the case of production department where we have the works manager and under him the superintendent and then the foreman, and, lastly, the workmen.

In this situation, the activities assigned to the different levels must be co-ordinated. This vertical co-ordination is secured by delegating authority, together with the means and manner of directing, supervising and controlling.

## **Importance or Necessity of Coordination:**

Co-ordination is regarded nowadays as the essence of management function. Need for co-ordination arises out of the fact that different elements and efforts of an organisation are to be harmonized and unified to achieve the common objectives. Without proper coordination among all the members of a group, management cannot bring together the diverse elements into one harmonious whole.

## **Its significance can be indicated by pointing out its importance or necessity in the following points: 1.**

Co-ordination is necessary to ensure harmonious and smooth working of an enterprise with its several departments, divisions or subdivisions:

For example, to ensure harmonious functioning of an organisation, it is essential that the functions of purchasing, production and sales departments are co-ordinated. If the sales manager procures a huge order to be executed within a specified time, without reference to the production manager and the purchasing manager, it may turn out that the goods cannot be produced in quantities ordered within the specified time. Therefore, the inter-relationship among the functioning of purchase department, production department and sales department demands the establishment of co-ordination.

According to Henry Fayol – “**to co-ordinate is to harmonies all the activities of a concern to facilitate its working and its success.**”

## **2. Co-ordination ensures unity in direction in the midst of diversified activities:**

By bringing together the different divisions and parts into oneness of the enterprise, coordination enables the management authority to see the enterprise as one unified whole from its different segments. So, co-ordination is necessary to link the functions of different departments, divisions, sections and the like together and assure their contribution to total result.

## **3. Co-ordination removes the conflict between personal interest of the employees and general interest of the organization:**

Individuals join the organisation to fulfill their needs. Many times, these needs may be different from the group needs and goals. In such situations, organisational and individual goals are not fully achieved. More the number of individuals in an organisation, the higher will be the degree of such incompatibility.

It is essential for the organisational efficiency that both these goals are brought to a level of conformity and the managers tries to integrate the individual and group goals through co-ordination.

**4. Co-ordination can produce something greater out of the collective efforts of the individuals:**

Properly co-ordinated group efforts achieve a greater result than what is possible from the isolated efforts of the individuals.

**5. Co-ordination provides a balance between the people of different capacities and abilities:**

It compensates the shortcomings of one by the strength of the other.

**6. Co-ordination reconciles the impact of internal and external forces in the organisation and ensures smooth running of affairs:**

Internally, it combines the various resources of the business—money, materials, machinery and methods—for the attainment of common goals of the organisation. Externally, the environment is made more favourable to the business by giving due consideration to customers, employees, financiers and the government. In this manner, co-ordination helps in producing better results and becomes the essence of management.

**7. Co-ordination ensures voluntary co-operation of the different members of the group:**

Besides simplification of the organisation process, co-ordination harmonizes and integrates the different programmes and policies of the business. Well-planned methods of co-ordination not only strengthen supervision but ensures voluntary co-operation of the different members of the group.

**8. Co-ordination is a basic element in all effective organisations and is said to be the first principle in organization:**

It makes planning more purposeful, organisation more well-knit and control more regulated.

**Principles of Coordination:**

**For achieving effective co-ordination, the following fundamental principles are to be followed:**

**1. Direct Contact:**

Co-ordination should be attained by direct contact with the parties concerned. Direct personal communications bring about agreement on methods, actions and ultimate achievement. It also eliminates red-tapeism and ensures prompt action. Direct contact is an effective means of co-ordination.

**2. Early Beginning:**

Co-ordination can be achieved more readily at the initial stages of planning and policy-making. Therefore, direct contact must begin in the very early stages of the process. If an order for the supply of a particular goods has been booked and the raw materials to produce them are not available, there will be trouble. Contact among the purchasing manager, production manager and sales manager at an early stage would have made it possible to know whether the order could be executed.

**3. Continuity:**

Co-ordination must be maintained as a continuous process. It starts from planning and ends when the objective is accomplished. Whenever there is division and distribution of functions among the managers and departments, co-ordination is necessary. Every time a new situation arises, a fresh effort of co-ordination is needed. So, the manager must constantly work at it until the purpose is served.

**4. Reciprocal Relationship:**

Co-ordination should be regarded as a reciprocal relating to all factors in a situation, viz. production, sales, finance, men, and management. For example, when 'P' works with 'Q' and 'Q' in turn, works with 'R' and 'S' each of the four finds himself influenced by the others.

**5. Pervasiveness:**

Co-ordination is an all-embracing activity in every management function. It is required in all the activities at every level of the organisation. It is to be exercised both within and outside the organisation.

**6. Leadership:**

Leadership is the most effective instrument of co-ordination. A leader in a group is the coordinator of the group activities. He harmonizes all efforts of persons in the group. A manager does not himself produce anything nor does he sell anything in the market. He gets the commodities produced by the workers and gets them sold in the market by the salesmen. In fact, he provides leadership and co-ordinates various functions.

### **7. Timing:**

Timing is an important element of co-ordination. This principle points out that all functions in the enterprise are to be done at the same time and at the same speed. If the purchase department purchases and supplies materials timely to the production department, and if the production is done timely, then the sales department can deliver the commodities to the customers within the scheduled time.

### **8. Balancing:**

This principle refers to the quantitative element of co-ordination. It means that all works are to be done in right quantity. For instance, if a department produces half, another one-third and the third the full quantity, their activities cannot be balanced. They have to perform their job in right quantity for achieving co-ordination of their jobs.

### **9. Integrating:**

All activities, decisions and opinions are to be integrated to achieve the enterprise objective. For integration what is necessary is that all men and departments must perform their jobs at the right time. For example, if all the parts of a machine are manufactured by the different departments at the right time, they can be assembled within the specific time. Assembling the parts of the machine is a coordinating function.

### **Techniques of Coordination:**

**The following measures or techniques have to be adopted in practice as tools for securing better co-ordination in the working of an organisation:**

#### **1. Simplified Organisation:**

In large organisations, there is a tendency towards over- specialisation. The organisation gets divided into a whole series of units each one of which concentrates just on its own task. In fact, each unit tends to be bureaucratic and its activities become ends in themselves instead of being means to the overall ends of the organisation. This creates problems of co-ordination. The remedy for this lies in placing the closely-related functions and operations under the charge of an executive who functions as a coordinator. Re-arrangement of departments may also be considered to bring about a greater deal of harmony among the various wings of the organisation. Furthermore, clear-cut organisation structure and procedures that are well-known to all concerned will ensure co-ordination. Organisational procedures should cover all activities and each person must be given to understand what he is responsible for and how his work is related to that of other individuals.

#### **2. Harmonized Programmes and Policies:**

The ideal time to bring about co-ordination is at the planning stage. The plans prepared by different individuals or divisions should be checked up to ensure that they all fit together into an integrated and balanced whole. The coordinating executive must ensure that all the plans add up to a unified programme. Moreover, co-ordinated activities must not only be consistent with each other, but also be performed at the proper time.

#### **3. Well-designed Methods of Communication:**

Good communication brings about proper co-ordination and helps the members of a business organisation to work together. Flow of communication in all directions will facilitate co-ordination and smooth working of the enterprise. The use of formal tools like orders, reports and working papers, and informal devices like the grapevine will provide adequate information to all concerned.

Continuous, clear and meaningful communication provides every member with a clear understanding of the nature and scope of his work as well as that of other persons whose responsibilities are related to him. This aids the executives in coordinating the efforts of the members of their teams.

#### **4. Special Coordinators:**

Generally, in big organisations, special coordinators are appointed. They normally work in staff capacity to facilitate the working of the main managers. A co-ordination cell may also be created. The basic responsibility of the cell is to collect the relevant information and to send this to various heads of sections or departments so that inter-departmental work and relationship are co-ordinated.

#### **5. Co-ordination by Committees:**

Co-ordination in management by committees is achieved through meetings and conferences. Sometimes different committees are appointed to look after different areas of management, namely, Purchase

Committee, Production Committee, Sales Committee, Finance Committee, etc. These committees take the group decision by exchanging their views and ideas and so it has coordinating elements.

#### **6. Group Discussion:**

Group discussion is the other tool for co-ordination. It provides opportunities for free and opens exchange of views and inter-change of ideas, problems, proposals and solutions. Face-to-face communication enables the members to attain improved understanding of organisation-wide matters and leads to better co-ordination.

#### **7. Voluntary Co-ordination:**

In ideal conditions, co-ordination should take place through voluntary co-operation of the members. The basic principle of voluntary coordination is the modification of functioning of a department in such a way that each department co-ordinates with other departments.

Each department or section or individual affects others and is also affected by others. Therefore, if those departments, sections or individuals apply a method of working which facilitates others, voluntary co-ordination is achieved. This can be done by horizontal communication.

#### **8. Co-ordination through Supervision:**

The supervising executives have an important part to play in coordinating the work of their subordinates. Where the work-load of an executive is so heavy that he cannot find adequate time for co-ordination, staff assistants may be employed. They may recommend to the senior official the action that he may take for ensuring co-ordination.

The cardinal principle involved in co-ordination is the balancing and keeping together the different activities for a well-knit aggregate function, and its effectiveness depends upon satisfactory delegation of authority, sharing of responsibilities and accountability, and proper supervision—keeping in view the oneness of the organisation.

#### **Change Management**

Change management is a systematic approach to dealing with the transition or transformation of an organization's goals, processes or technologies. The purpose of change management is to implement strategies for effecting change, controlling change and helping people to adapt to change.

To be effective, the change management strategy must take into consideration how an adjustment or replacement will impact processes, systems and employees within the organization. There must be a process for planning and testing change, communicating change, scheduling and implementing change, documenting change and evaluating its effects. Documentation is a critical component of change management -- not only to maintain an audit trail should a rollback become necessary, but also to ensure compliance with internal and external controls, including regulatory compliance.

#### **How does change management work?**

To understand how change management works, it helps to apply its concepts and tools to specific areas of business. Below are examples of how change management works for project management, software development and IT infrastructure.

#### **Change management for project management**

Change management plays an important role in project management because each change request must be evaluated for its impact on the project. Project managers, or the senior executives in charge of change control, must examine how a change in one area of the project could affect other areas and what impact that change could have on the project as a whole. Project areas that change control experts should pay particular attention to include the following:

- **Scope.** Change requests must be evaluated to determine how they will affect the project scope.
- **Schedule.** Change requests must be assessed to determine how they will alter the project schedule.
- **Costs.** Change requests must be evaluated to determine how they will affect project costs. Labor is typically the largest expense on a project, so overages on completing project tasks can quickly drive changes to the project costs.



- **Quality.** Change requests must be evaluated to determine how they will affect the quality of the completed project. An acceleration of the project schedule, in particular, can affect quality as defects can occur if work is rushed.
- **Human resources.** Change requests must be evaluated to determine if additional or specialized labor is required. When the project schedule changes, the project manager may lose key resources to other assignments.
- **Communications.** Approved change requests must be communicated to the appropriate stakeholders at the appropriate time.
- **Risk.** Change requests must be evaluated to determine what risks they pose. Even minor changes can have a domino effect on the project and introduce logistical, financial or security risks.
- **Procurement.** Changes to the project may affect procurement of materials and contract labor.

When an incremental change has been approved, the project manager documents the change in one of four standard change control systems to ensure all thoughts and insight have been captured with the change request. Changes that are not entered through a control system are labeled *defects*. When a change request is declined, this is also documented and kept as part of the project archives.

### **Types of organizational change**

Change management can be used to manage many types of organizational change. The three most common types are the following:

1. **Developmental change.** Any organizational change that improves on previously established processes and procedures.
2. **Transitional change.** Change that moves an organization away from its current state to a new state to solve a problem, such as implementing a merger and acquisition or automating a task or process.
3. **Transformational change.** Change that radically and fundamentally alters the culture and operation of an organization. In transformational change, the end result might not be known. For example, a company may pursue entirely different products or markets.

### **Popular models for managing change**

Best practice models can provide guiding principles and help managers align the scope of proposed changes with available digital and nondigital tools. Popular models include the following:

- **ADKAR.** The ADKAR model, created by Prosci founder Jeff Hiatt, consists of five sequential steps:
  1. **Awareness** of the need for change;
  2. **Desire** to participate and support the change;
  3. **Knowledge** on how to change;
  4. **Ability** to implement desired skills and behaviors; and
  5. **Reinforcement** to sustain the change.
- **Bridges' Transition Model.** Change consultant William Bridges' model focuses on how people adjust to change. The model features three stages: a stage for *letting go*, a stage of *uncertainty and confusion* and a stage for *acceptance*. Bridges' model is sometimes compared to the Kübler-Ross five stages of grief -- denial, anger, bargaining, depression, and acceptance.
- **IT Infrastructure Library (ITIL).** The ITIL framework offers detailed guidance for managing change in IT operations and infrastructure. It is owned by Axelos, a joint venture between Capita and the U.K. Cabinet Office.

- **Kotter's 8-Step Process for Leading Change.** Harvard University professor John Kotter's model has eight steps:
  1. Create a sense of urgency.
  2. Build a guiding coalition.
  3. Form a strategic vision and initiatives.
  4. Enlist a volunteer army.
  5. Enable action by removing barriers.
  6. Generate short-term wins.
  7. Sustain acceleration.
  8. Institute change.
- **Lewin's Change Management Model.** Psychologist Kurt Lewin created a three-step framework that is also referred to as the Unfreeze-Change-Refreeze
- **McKinsey 7-S.** Business consultants Robert H. Waterman Jr. and Tom Peters designed a model to look holistically at seven factors that affect change:
  1. shared values
  2. strategy
  3. structure
  4. systems
  5. style
  6. staff
  7. skills

### **What are the benefits of change management?**

As laid out in other sections of this definition, taking a structured approach to change management helps organizations mitigate disruption, reduce costs, reduce time to implementation, improve leadership skills, drive innovation and improve morale.

In addition, here are some ways that change management can help add structure to IT and operations:

- improved documentation of enterprise systems;
- greater alignment between suggested change and what gets implemented;
- better starting point for automation initiatives;
- understanding of why systems were made;
- ability to reverse-engineer changes made to existing business processes and infrastructure; and
- better ability to identify what can be safely eliminated or updated.

### **What are the challenges of change management?**

Companies developing a change management program from the ground up often face daunting challenges. In addition to a thorough understanding of company culture, the change management process requires an accurate accounting of the systems, applications and employees to be affected by a change. Additional change management challenges include the following:

- **Resource management.** Managing the physical, financial, human, informational, and intangible assets and resources that contribute to an organization's strategic plan becomes increasingly difficult when implementing change.
- **Resistance.** The executives and employees who are most affected by a change may resist it. Since change may result in unwanted extra work, ongoing resistance is common. Transparency, training, planning and patience can help quell resistance and improve overall morale.
- **Communication.** Companies often fail to consistently communicate change initiatives or include employees in the process. Change-related communication requires an adequate number of messages, the involvement of enough stakeholders to get the message out and multiple communication channels.
- **New technology.** The application of new technologies can disrupt an employee's entire workflow. Companies can improve adoption of new technology by creating a network of early learners who champion the new technology to colleagues.
- **Multiple points of view.** In any change initiative, success factors differ for people based on their roles in the organization and incentives. Managing these various priorities is challenging.
- **Scheduling issues.** Deciding whether a change program will be long or short term and clearly defining milestone deadlines are complicated. Some organizations believe that shorter change programs are most effective. Others believe a more gradual approach to change reduces resistance and errors.

#### **Importance and effects of change management**

- As a conceptual business framework for people, processes and the organization, change management increases the success of critical projects and improves a company's ability to adapt quickly.
- Business change is constant and inevitable, and when poorly managed, it has the potential to cause organizational stress, as well as unnecessary and costly rework.
- By standardizing the consistency and efficiency of assigned work, change management assures that the people side of an organization is not overlooked. As changes to work occur, change management helps employees understand their new roles and build a more process-driven culture.
- Change management also encourages future company growth by enabling it to remain dynamic in the marketplace.

#### **Principles of change management**

Three principles of change management build on the three stages of change management introduced by Kurt Lewin in his seminal book, *Principles of Topological Psychology*:

- **Unfreeze the current state.** Change agents need to identify what precisely they want to change. At this stage, they need to formulate a "why" that other participants are likely to buy into. In essence, they need to reverse-engineer the future state and translate this benefit to other possible participants. Then, they need to enroll people who can participate in the new idea. This could include executive sponsorship for a big change or co-workers for a departmental change.
- **Change the system.** At this stage, change agents and any collaborators can begin to put the change into practice. The change agents need to work with collaborators to communicate the idea and bring other participants on board. It is important to pay attention to any pushback and find areas of shared understanding to either help move the change forward or shift its implementation in response to feedback. Tensions might be high as everyone gets used to the new system. It's important to be respectful of their feelings and ideas.
- **Refreeze.** Eventually, people get used to the new system, or they revert back to what was working before. At this stage, it is important to declare that the change is over -- whether the change was accepted



or rejected. Even if the change was rejected, declaring it over gives everyone a chance to relax. It is also helpful at this stage to document what happened for future reference.

### **Overcoming resistance to change**

In general, no one likes to change, even it is for the better in some way. Here are some best practices to help mitigate this resistance to change:

- Clarify the goal of the change being made, and identify how it can benefit others.
- Listen to objections, and find ways to address them.
- Take the time to build consensus rather than bulldoze dissenters.
- Consider feedback as a guide rather than an obstacle.
- Celebrate success at the end to plant the seeds for further change.
- Be willing to backtrack when the change does not meet desired goals.