

**Block**

# 3

## **MANAGEMENT CONCEPT-I**

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\*BTMC – 132 was adopted / adapted from Three Courses, namely – **BCOE 108, ECO – 01 and ECO – 03** of School of Management Studies. (SOMS)

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January, 2019

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ISBN :

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*Further information on Indira Gandhi National Open University courses may be obtained from the University's office at Maidan Garhi. New Delhi-110 068 or visit University's web site <http://www.ignou.ac.in>*

Printed and published on behalf of the Indira Gandhi National Open University, New Delhi by Prof Jitendra Kumar Srivastava, Director, School of Tourism,

Laser Typeset by : Tessa Media & Computers, C-206, A.F.E.-II, Okhla, New Delhi

Printed at :

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## **BLOCK 3 MANAGEMENT CONCEPTS-I**

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Management is the art of getting things done through others. It has been practiced since the dawn of civilization. Its importance has increased manifold in business with the emergence of large scale enterprises. Management has been able to simplify successfully the complexities of today's business environment. In fact, in the present day world, management is indispensable to all organisations whether business, social, political or religious. Block 3 and 4 of this course will acquaint the students with the Principles, functions and practice of management.

This block has five Units (Unit 10 to Unit 14) and provides an overview of the nature and scope of management, approaches to management thought and discusses in detail some of the basic functions and sub-functions of Management-Planning, Organising, Delegation of Authority and the concept of Centralisation and Decentralisation

Unit 10 deals with the concept of management, difference between management and administration, functions of management and social responsibility of management

Unit 11 explains the evolution of management thought and the various approaches adopted by different authorities.

Unit 12 deals with the nature and importance of planning, the process of planning, types of planning and essential principles of planning

Unit 13 describes the importance and structure of organisation, the concept of formal and informal organisation, the span of control, organisational charts and manuals.

Unit 14 explains the process and principles of delegation of authority, and the concept of centralisation and decentralisation

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# UNIT 10 NATURE AND SCOPE OF MANAGEMENT

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## Structure

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Concept of Management
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- 10.11 Let us Sum up
- 10.12 Key Words
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- 10.14 Questions for Practice

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## 10.0 OBJECTIVES

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After studying this unit, you should be able to:

- explain different meanings of the word management
- distinguish between management and administration
- define management and list out its features
- state the hierarchy of management as a profession
- describe the hierarchy of managers and their skill requirements
- enumerate the activities under each managerial function

- describe the direct and indirect elements of corporate environment and barriers to social performance.

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## 10.1 INTRODUCTION

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We often come across the word management referring to people who run enterprises organised as either sole trading or partnership or corporate firms. These organisations are either owner–managed or managed by professional managers. But in the evolutionary process all organisations having passed through certain phases of growth should require professionally trained people to manage them. The extent of success these managers achieve depends on their knowledge of management theory and its skilful application. In the transition from owner – managed enterprises to professional–managed enterprises, profit is no longer the sole indicator of success. The management is obligated to put up performance in areas which are concerns of groups other than owners. In this introductory Unit you will learn the different meanings of the word management, how it differs from administration, nature and scope of management, how management is both a science and art, the characteristic features of management as a profession. You will further learn managerial levels and the skill requirements of each level, managerial activities classified under functions and undertaken by all levels, and social responsibilities of management.

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## 10.2 CONCEPT OF MANAGEMENT

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Management is essential at all levels of an organisation. But the word management has been given different interpretations. It is used as a noun, a process, and a separate discipline.

### 10.2.1 Management as Noun

In general and popular usage, management refers to a distinct group of people who direct the activities of other people and material resources toward the attainment of predetermined goals. Giving a broader meaning to it, one can look at management as a resource, a system of authority, and class or elite.

- 1) **Management as an economic resource:** The economist’s view of management is that it is a factor of production just like entrepreneurship, capital and labor .The managerial resource, to a large extent, determines organisational effectiveness and efficiency. Hence in a dynamic environment, managerial development is more important and its use must be more intensive.
- 2) **Management as a system of authority:** Management is a system of authority in the sense that it consists of a team of managers who are responsible for making decision and supervising the work of others. Managers at different levels possess varying degrees of authority. Higher level managers manage managers at middle levels. Middle and lower level managers supervise and control their subordinate managers and workers.
- 3) **Management as a class or elite:** Sociologist’s view management as a class and status system. Increasing complexity of management in the modern complex organisation has led to managers being regarded as a distinct class

in society, who possess knowledge and skill of a high order. Access to managerial positions is based on achievement criteria (i.e., on intellect and knowledge), rather than on ascriptive criteria (i.e.; on family and social origins). This development is viewed by some as managerial revolution in which the managerial class threatens to become autonomous group with increasing amount of power. Others view this development not with alarm because increase in power of managers attracts more of them, which prevents managerial autocracy.

### 10.2.2 Management as a Process

Interpreted as a process, management consists of a series of inter-related managerial activities classified into various function like planning, organising, staffing, leading and controlling. Managers undertake these functions with a systematic approach, so as to integrate physical and human resources into an effective operating unit. Management is, thus, regarded as the process by which a co-operative group direct action towards common goals.

### 10.2.3 Management as a Discipline

Another connotation of management is that it is a separate discipline having a systematized body of knowledge which managers use in performing their jobs. As a separate field of study, management includes the principles and practice of general management as well as of the various functions of management. It has developed its own techniques and approaches. The theoretical foundations of management have evolved on the basis of experience, observation and scientific investigations.

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## 10.3 MANAGEMENT AND ADMINISTRATION

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Management and administration are two terms which are given different interpretations as well as used as synonyms.

### 10.3.1 Management and Administration as Two Distinct Terms

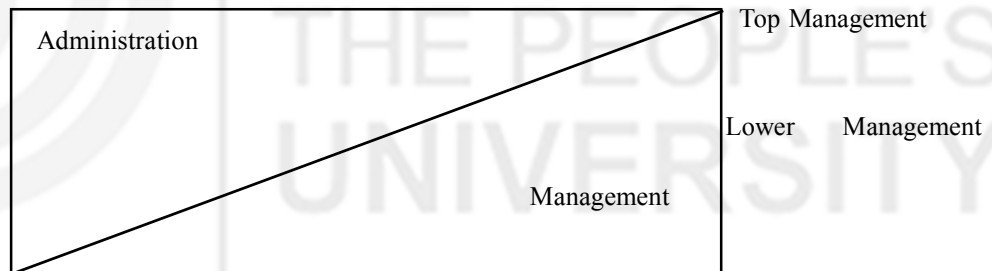
Distinction between the terms management and administration is often attempted with references to the nature of enterprises and managerial levels.

- 1) **Distinction based on nature of enterprises:** According to one view, it is more appropriate that the term management be used with respect to enterprise having an economic orientation. In other words, the term management should relate to economic enterprises (business enterprises) whose primary goal is generation of surplus. The term administration is preferred with respect to government enterprises pursuing social and political activities and whose primary objective is other than surplus generation.
- 2) **Distinction based on managerial levels:** Management and administration are used as two separate terms in the context of the single enterprise keeping in view managerial functions and hierarchy. Subscribing to this view, there are two schools of thought; (i) American School of Thought and (ii) British School of Thought.
  - i) **American School of Thought:** According to this school of thought,

administration is a broader concept than management. It sets objectives which management strives to realise, and lays down policies under which management operates. Management, on the other hand, is the force that leads, directs and guides the organisation in the accomplishment of predetermined objectives. Thus, according to this school, administration is a thinking function or a top level function involved in planning, setting objectives and policies. Whereas management is a doing function or lower level function engaged in execution of the plans.

- ii) **British School of Thought:** According to this school of thought, management is a wider concept than administration. Management is the rule making and rule enforcing body. It performs top level functions of the organisation. Whereas administrations handles the current problems which arises in carrying out the policies laid down by the management. This school emphasizes that management is an all-encompassing and operative term and administration is part of it.
- iii) **Reconciling the two Schools of Thought:** In an attempt to solve the terminological problem, management is categorised as administrative management and operative management. Administrative management is top management in-charge of planning function. Operative management is middle and lower level managements responsible for execution of the plans. Look at Figure 1.1 which shows both administration and operative functions of the management.

Figure 1.1: Title: Administration Vs Management



### 10.3.2 Management and Administration as Synonyms

Another viewpoint is that administration and management are synonymous terms. Any attempt to distinguish between them is misleading. All managers, irrespective of their level in the organisation, perform the same managerial functions. Hence no two sets of personnel are required to discharge administrative and managerial functions in a single enterprise. In fact, top management is chiefly concerned with performing administrative activities, whereas managers at lower are predominantly concerned with executive functions.

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## 10.4 DEFINITION OF MANAGEMENT

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Management is the art of getting things done through people. In a broader sense, it is the process of planning, organising, leading and controlling the efforts of organisation members and of using all other organisational resources to achieve



stated organisational goals. The definition of management can be broadly classified into four groups: 1) Process school, 2) Human Relations School, 3) Decision school, and 4) System and Contingency school.

- 1) **Process School:** The Process School defines management in term of functions undertaken by the manager in an integrated way to achieve organisational purposes. According to Henri Fayol, **to manage is to forecast and plan, to organise, to command, to coordinate and to control.** All other definitions of management related to this school are either marginal additions, or elaborations of the functions listed out in the above definition
- 2) **Human Relations School:** This school emphasises the human aspect of organisation and conceives it as a social system. It is a social system because managerial actions are principally concerned with relations between people. In fact, management is concerned with development of people and not the direction of things. The essence of this school is well reflected in the definition of Lawrence Appley to whom **management is the accomplishment of results through the efforts of other people.**
- 3) **Decision School:** The Decision School defines management as rule-making and rule-enforcing body. In fact the life of a manager is a perpetual choice making activity and whatever a manager does, he does through his decisions. Moreover, decision making power provides a dynamic force for managers to transform the resources of business organisation into a productive and cooperative concern.
- 4) **System and Contingency School:** According to this School, organisations like any living organism must adapt themselves to their environments for survival and growth. Thus, management involves designing organisations adaptable to changing markets, technology and other critical environmental factors. The systems theory of organisations are organic and open systems consisting of interacting and interdependent parts and having a variety of goals. Managers are supposed to maintain balance among the conflicting objectives, goals and activities of members of the organisation. He must achieve results efficiently and effectively. According to Contingency School there is no best way to design organisations and manage them. Managers should design organisations, define goals and formulate policies and strategies in accordance with the prevailing environmental conditions.

Different school of thought defined management differently due to three reasons:

- 1) difference in perspectives of management and organisation theories,
- 2) shifts in emphasis in the study of the organisation from economic and technical aspects to conceptual and human aspects, and
- 3) focus on internal and external environments of the organisation.

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## 10.5 NATURE AND SCOPE OF MANAGEMENT

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So far you have learnt the definition of management, management as a noun, process and discipline and difference between administration and management.



Let us now discuss the nature and scope of management.

### 10.5.1 Nature of Management

The essential features of management reveal its nature and importance. These are discussed below.

- 1) **Universality:** Management is an universal phenomenon in the sense that it is common and essential element in all enterprises. Managers perform more or less the same functions irrespective of their position or nature of the organisation. The basic principles of management can be applied in all managerial situations regardless of the size, nature and location of the organisation. Universality of managerial tasks and principles also implies that managerial skills are transferable and managers can be trained and developed.
- 2) **Purposeful:** Management is always aimed at achieving organisational goals and purposes. The success of management is measured by the extent to which the desired objectives are attained. In both economic and non-economic enterprises, the tasks of management are directed towards effectiveness (i.e, attainment of organisational goals), and efficiency (i.e, goal attainment with economy of resource use).
- 3) **Social process:** Management essentially involves managing people organised in work groups. It includes retaining, developing and motivating people at work, as well as taking care of their satisfaction as social beings. All these interpersonal relations and interactions make the management as a social process.
- 4) **Coordinating force:** Management coordinates the efforts of organisation members through orderly arrangement of inter-related activities so as to avoid duplication and overlapping. Management reconciles the individual goals with the organisational goals and integrates human and physical resources.
- 5) **Intangible:** Management is intangible. It is an unseen force. Its presence can be felt everywhere by the results of its efforts which comes in the form of orderliness, adequate work output, satisfactory, working climate , employees satisfaction, etc.
- 6) **Continuous process:** Management is a dynamic and an on-going process. The cycle of management continues to operate so long as there is organised action for the achievement of group goals.
- 7) **Composite process:** Functions of management cannot be undertaken sequentially independent of each other. Management is a composite process made up of individual ingredients. All the functions are performed by involving several ingredients. Therefore, the whole process is integrative and performed in a network fashion.
- 8) **Creative Organ:** Management creates synergetic effect by producing results which are more than the sum of the individual efforts of the group members. It provides sequence to operations, matches jobs to goals, connects work to physical and financial resources. It provides creative ideas, new imaginations

and visions to group efforts. It is not a passive force adopting to external environment but dynamic life giving element in every organisation.

### 10.5.2 Scope of Management

Management, like any other subject, deals with clearly defined activities without which its progress is impossible. It confines to concepts, principles and theory related to managerial functions. Enterprise functions which vary from organisation to organisation are excluded from its purview. So typical enterprise functions viz., production, finance, marketing and personal are outside the scope of management.

#### Check Your Progress A

1) What is the concept of management as a process?

.....  
.....  
.....  
.....  
.....

2) What is concept of management as a discipline?

.....  
.....  
.....  
.....

3) Against each statement given below, write the name of the management school.

	Statement	School of Management Thought
i)	Management is a rule-making and rule enforcing body.	.....
ii)	Defines management in terms of functions	.....
iii)	Designing the organisations to keep them fit to the changing environment.	.....
iv)	Conceives organisation as a social system.	.....

4) State whether the following statements are True or False.

- i) Administrative management executes plans. ....
- ii) Operative management formulates plans. ....
- iii) Henri Fayol belongs to Process School .....

- iv) In mature organisations the decisions .....  
are made by owner-managers.
- v) Universality of management means .....  
management is the subject that  
studies universe.
- vi) Economic enterprises are non-profit .....  
oriented.

## **10.6 MANAGEMENT AS A SCIENCE AND ART**

Management has characteristics of both science and art. It is through scientific methods of observations and experiments that a systematised body of knowledge has grown in the field of management. There are principles, techniques and theories of management.

A science explains phenomena, events and situations as well as establishes cause and effect relationship between two or more variables. So do management theories and principles seek to explain organisational phenomena of human conduct and behaviour. The usefulness of the techniques of management is derived from cause and effect relations between variables. But management is a social science as it deals with people and their behaviour. Thus, management is not as perfect or exact as natural sciences like physics and chemistry. Human behaviour cannot be subjected to laboratory experiments in the same way as possible in physics and chemistry. It is not possible to predict human behaviour with complete accuracy under all circumstances. Moreover, business conditions are liable to frequent changes. Therefore, principles of management cannot be regarded as absolute truths; they are flexible guides.

However, management theory provides a board framework for training in management and practice of management. Management principles are capable of wide applications and improve managerial performance. They serve as guides to practicing managers in solving the problems, by obviating the need for laborious trial and error method. Besides, principles serving as hypotheses are of a great help to researchers in developing new theory and improving and integrating the existing theory. The art of management, like any other art, is application of theory of management in the light of realities to attain the desired result. The essential functional difference between science and art is that the former explains the events of the past and the latter accomplishes ends, effects results, and produces situations which would not come about without it. Art is essentially concerned with the application of scientific knowledge and skill to achieve concrete results. But it also requires an insight and judgment to be exercised, which are involved in the process of management.

In short, managing may be regarded as the art of doing, and management as the body of knowledge that underlies the art. At the same time, it must be noted that science and art of management are not mutually exclusive but complementary. Improvement in one facilitates the other. Since every thing is not proved in management science, it cannot be a comprehensive tool for manager. When faced with conflicting principles in a given situation, managers have to work out compromises between principles to get practical result with least cost.

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## 10.7 MANAGEMENT AS A PROFESSION

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Louis Allen defined profession as “a specialised kind of work practiced through and by use of classified knowledge, a common vocabulary, and requiring standard of practice and code of ethics established by a recognized body.” Whether management can be called a profession or not will be clear if we compare its features with the characteristics of recognized professions like medicine, law accountancy, etc., which are discussed below:

- 1) **Systematic knowledge:** Every profession has a well defined area of organised knowledge. Management also deals with distinct area of knowledge which is developed around functions of management. Techniques of management developed by drawing knowledge from other branches like economics, mathematics and so on, facilitate managers to perform their job better. Coordinated decision making in organisation is made possible by application of the same theory by all managers in their decision making. Managers should possess experimental attitude in acquisition of new knowledge so as to prove successful in an ever-changing organisational environment.
- 2) **Formalised method of acquiring knowledge:** For present day managers, formal education and training are important sources of education of knowledge. Transfer of Knowledge gained through experience from one living mind to another or intuitive knowledge are no longer considered adequate for practicing managers.
- 3) **Performance-based status:** Manager’s status in the present day organisation is linked to its performance rather than other extraneous factors like family or political connections. This way management is exacting philosophy with performance orientation.
- 4) **Code of ethics:** Professionals must be governed by a strict code of ethics formulated and enforced by professional bodies to protect their members integrity. Since it is difficult to identify clearly the membership of management associations and their role, managerial codes of ethics has not yet evolved so as to be acceptable to all practicing managers.
- 5) **Dedication and commitment:** True professionals through dedication and commitment serve their clients interest. Financial reward is not the measure of their success. Managers today are expected to serve the long-run interest of the organisation but they are also conscious of their social responsibilities. Besides, they are entrusted with wealth producing resources of society which they are expected to put to the most effective use.

We may conclude from the above discussion that management cannot be regarded as a profession in all respects but it has some of the characteristic of a profession

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## 10.8 LEVELS OF MANAGEMENT AND SKILL REQUIREMENTS

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Managers are classified on the basis of range of activities for which they are responsible. Functional managers are responsible for a single function whereas

general managers have profit responsibility and coordinate different functions of the enterprise. Another major classification of managers is their vertical division into three levels of management viz., top, middle and lower levels.

### 10.8.1 Hierarchical Classification of Managers

The vertical division of managerial work in the organisation leading to specialization in hierarchy is supported by three reasons viz., need for expertise in managerial decision making, need for coordination and need for accountability of operative employees.

- 1) **Top managers:** The top management includes the Board of Directors, the Chief Executive and Senior Executives and in-charge of functional departments. They comprise a small group which is responsible for the overall management of the organisation. They make and communicate policies and strategies guiding the middle and lower level managers. Their primary task is that of relating the organisation to the external environment.
- 2) **Middle managers:** The middle level management consists of departmental managers and branch managers. These groups direct activities to implement the organisational plans and policies. This middle management balances the demand of top management with the capabilities of lower level management.
- 3) **Lower level managers:** Supervisors and foremen belong to this category. They belong to the operating level of management and are responsible for the work of operative employees i.e., non-managers. They are directly responsible for the production of goods and services.

### 10.8.2 Classification of Managerial skills

We have discussed the classification of managers and the major activities each group performs. Now let us discuss about the skill required by the managers. At all levels, managers require three types of skills. They are 1) technical skills, 2) human skills, and 3) conceptual skills.

- 1) **Technical skill:** It is the ability of a manager to use the equipments, methods and techniques involved in performing specific tasks. Technical skill is required more at the lower level of management i.e., at the supervisory level. At higher levels, the technical skill is less important as managers can rely upon others for technical information.
- 2) **Human skill:** The ability of a manager to work with, understand, and motivate people in the organisation is known as human skill. It also involves the ability to build effective work teams. The human aspect of management requires individual as well as group relations to be maintained and developed for achieving maximum efficiency. Human skills are important at all levels of management.
- 3) **Conceptual skill:** This consists of the manager's ability to coordinate all organisational activities and varied interests involved in it. It involves viewing the organisation in its totality and understanding the interdependence of its individual parts. Of all the skills, this conceptual skills is the most difficult skill to acquire. Conceptual skill is very important for top management in formulating long-range plans, board policies and relating the business enterprise to the industry and economy.



### 10.8.3 Skill-Mix for Different Levels of Management

Though all the three types of skills discussed earlier are essential for effective management, the relative importance of each type of skill varies according to the level of management. Technical skills assume greater importance at the lower level management, while they become less important as one moves upwards in the hierarchy. Human skills are important at all three levels of management as managerial success primarily lies in getting things done through people. The higher the level of management, the greater is the need for conceptual skill. The important implication of analyzing levels of management and skill requirements is for managerial training through which skills are imported to meet the specific needs of managers of each organisational level.

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## 10.9 MANAGERIAL FUNCTIONS

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Enterprise functions vary according to the nature of enterprise. Functions like production, marketing, finance, and personnel are noticed in typical industrial undertakings. If you take a transport undertakings, the main function are operations, traffic and finance. However, the managerial activities grouped into functions are basic for all managers at all levels in all types of enterprises.

The functions which describe managerial job, when put together make up the management process. This process is analyzed into key functions of management viz., planning, organising, staffing, directing and controlling. Planning, organising and controlling which deal mostly with non-human aspects are known as mechanics of management, whereas staffing and directing which are primarily concerned with human aspects constitute dynamics of management. In the conceptual scheme, though the functions are listed out in a sequence, in practice they are interlocked as a system. As all functions are not equally important for all managers, time spent by them for each of these functions varies according to their levels in the organisation. These functions have been discussed below.

- 1) **Planning:** Planning refers to anticipating the future conditions and choosing from among the alternative future courses of actions. The planning process generally includes the following activities.
  - i) **Forecasting** is looking ahead to anticipate the opportunity, problems and conditions in a future period of time.
  - ii) **Establishing objectives means** setting the end results to be accomplished by directing organisational efforts.
  - iii) **Programming** is establishing the sequence and priority of actions to be followed in the attainment of the objectives.
  - iv) **Scheduling** is deciding on time sequence for programme steps.
  - v) **Budgeting** is allocation of resources to minimise costs.
  - vi) **Establishing procedures** means developing and applying standardised methods of performing a specific work.
  - vii) **Developing policies** involve establishment and interpretation of standing decisions that apply to repetitive questions and problems of significance to the organisation as a whole.



2. **Organising function:** The organising function of management is the process of defining and grouping of activities and creating authority relationship among them.

It consists of:

- i) **Developing the organisation structure** which involves identification of task and grouping them into units or departments for performance
  - ii) **Delegating authority** to the managers and making him responsible for group performance.
  - iii) **Establishing relations** creating conditions necessary for mutually cooperative efforts of people in the organisation.
- 3) **Staffing:** Planning the organisation with suitable personnel constitutes the staffing function. It involves selection, training and development, compensation, and appraisal of subordinates by the manager. Manpower planning and manpower management looks after these activities and try to ensure suitable methods of remuneration and performance appraisal of the employees.
- 4) **Directing Function:** Directing involves managing people and the work through the means of motivation, proper leadership, effective communication and coordination. A manager must develop ability to command. He should issue orders and instructions without arousing any resentment among the subordinates. He must be able to secure willing obedience from his subordinates without destroying their imitative and creativity. Moreover, it requires a sound communication system to enable exchange of ideas and information for common understanding
- 5) **Controlling function:** Controlling enables management to ensure that achievement is in accordance with the established plans. It involves:
- i) **Establishing performance standards** for evaluating results.
  - ii) **Performance** on the basis of records and reports on the progress of work.
  - iii) **Performance evaluation** against the standards set.
  - iv) **Corrective action** to regulate operations, remove deficiencies and improve performance.

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## 10.10 SOCIAL RESPONSIBILITIES OF MANAGEMENT

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The term social responsibilities may be defined as the obligation of management towards the society and others concerned with the activities of the organisation.

### 10.10.1 Reasons for Social Responsibilities

As you know, the business enterprises are creatures of society and should therefore respond to the demands of society. If the management does not react to changes in social demands, the society will either force them to do so through laws or will not permit the enterprise to survive. Hence the long-run interests of business are best served when management assumes social responsibilities. The

image of a business firm is often linked with the quality of its products and customer service and the extent to which it fulfils the expectations of owners, employees, consumers, government and the community at large. For long-run success it matters a great deal if the firm has a favorable image in the public mind. Finally, every business enterprise is an organ of society and its activities have an impact on the social scene. It is thus important for management to consider whether their policies and actions are likely to promote the public good, advance the basic values of society, and contribute to its stability, strength and harmony.

### 10.10.2 Stakeholders of the Organisation

As the outcome of the increasing concern for the social responsibility of management, it is now recognized that, besides taking care of the financial interest of owners, managers of business firms must also take into account the interest of various other groups such as employees, consumers, the government and the community as a whole. These interested groups are directly or indirectly affected by the pursuit of business activities and they are the stake-holders of the business enterprise.

Let us briefly outline the social responsibilities of management towards each of the interested groups' viz., owners (shareholders), employees, consumers, the government and public at large.

- 1) **Responsibility towards owners:** The primary responsibility of management is to assure a fair and reasonable rate of return on capital and fair dividend to the shareholders as investors and risk bearers. What is a fair return on investment can be determined on the basis of difference in the risks of business in different fields of activity. With the growth of business the shareholders can also expect appreciation in the value of their capital. These may be regarded as the legitimate expectations of the shareholders not high rate of return earned through black marketing and unfair trade practices.
- 2) **Responsibility towards employees:** Management responsibility towards employees relate to the fair wages and salaries, satisfactory work environment, labour- management relations and employee welfare. Fair wages should be fixed in the light of labour productivity, the prevailing wage rates in the same or neighboring areas and relative importance of jobs. Manager's salaries and allowances are expected to be linked with their responsibility, initiative and skill. But the spread between minimum wages and highest salaries should be reasonable. Managers are expected to build up and maintain harmonious relation between superior and subordinates. Management and union relations should be harmonious and cooperative. Another aspect of management responsibility towards employees is the provision of welfare amenities like safety and security of working conditions, medical facilities, housing, canteen leave and retirement benefits
- 3) **Responsibility towards consumers:** In a competitive market, serving consumers is supposed to be a prime concern of management. But in reality perfect competition does not prevail in all product markets. In the event of shortage of supply there is no automatic correction. Besides consumers are often victims of unfair trade practices and unethical conduct of business.

Consumer interests are thus protected to some extent with laws and pressure of organised consumer groups. Management should anticipate these developments, satisfy consumer needs and protect consumer interests. Goods must be of appropriate standard and quality and be available in adequate quantities at reasonable prices. Management should avoid resorting to hoarding or creating artificial scarcity as well as false and misleading advertisements.

- 4) **Responsibility towards the governments:** As a part of their social responsibility, management must conduct business affair in lawful manner, honestly pay all the taxes and dues, and should not corrupt public officials for selfish ends. Business activities must also conform to the economic and social policies of the government.
- 5) **Responsibility towards the community and society:** The socially responsible role of management in relation to the community are expected to be revealed by its policies with respect to the employment of handicapped persons, and weaker sections of the community, environment protection control, setting up industries in backward areas, and providing relief to the victims of natural calamities.

**Check Your Progress B**

1) Classify the following managerial activities into functions:

Managerial Activity	Managerial Function
i) Forecasting	.....
ii) Communication	.....
iii) Establishment of performance standards	.....
iv) Selecting managers	.....
v) Budgeting	.....

2) State whether the following statements are True or False.

- i) Lower level management is otherwise called strategic management.
- ii) Conceptual skill implies ability to use tools, procedures and techniques
- iii) Profit-making responsibility lies with functional managers.
- iv) Staffing means manning the organisation structure.
- v) Motivating belongs to planning function.
- vi) Employees of the enterprise are stake-holders.

**10.11 LET US SUM UP**

Various meaning assigned to the word ‘management’ add up consistently. Management is a distinct decision-making group which makes use of systematised body of knowledge relating to functions that make up the process. Distinction between management and administration can be drawn by preferring the usage of the former term in commercial enterprises and the latter term in

government enterprises engaged in social and political activities. But in practice both the terms are used as synonyms and there is no evidence that two sets of people called administrators and managers are required for running an enterprise.

Definitions of management can be grouped under four different schools. The Process School analyses the job of a manager and classifies managerial activities into distinct functions viz., planning, organising, staffing, leading and controlling. Human Relations School, while emphasising human aspect of an organisation, gives more importance to managing people. The Decision School focuses on decision -making involving the managerial activity of developing and choosing from among alternatives. Managerial responsibility of relating organisation to external environment is the subject matter of Systems and Contingency School. Essential features that make up the nature of management are also derived from the concepts and definitions of management.

Management as a distinct branch of knowledge with clearly defined boundaries, confines itself to the managerial job conceptually divided into functions. While managerial functions are common to all enterprises, enterprise functions derived from the purposes of the enterprises vary according to their nature. Management though not an exact science, is progressing towards perfection. Art of management, which is an application of management science for achieving practical results, depends on the latter for its improvement. Thus science and art of management are not mutually exclusive, but complementary to each other. Management is increasingly being regarded as a profession, as it has a body of knowledge, the acquisition of which is compulsory for gaining access to managerial jobs in the modern complex organisations. Skill requirements for all levels of managers are identified as conceptual, human and technical. Human skill is important at all levels. Higher the managerial level the greater the need for conceptual skill. Technical skill which assumes greater importance at lower levels is of less significance at higher levels.

The term 'social responsibilities' may be defined as the obligations of management towards the society and others concerned with the activities of organisation. Business enterprises are creatures of society and should therefore respond to the demands of society. Otherwise management will be forced to conform to social demands through laws or the enterprise may not be permitted to survive. It is in the long run interest of business if the management assumes social responsibilities. Managers of business firms must not only take care of the financial interest of owners but also take into account the interest of other stake-holders of the firm including employees, consumers, the government and the community at large.

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## 10.12 KEY WORDS

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**Administration:** A thinking function concerned with overall determination of objectives and policies to be executed by the management.

**Art of Management:** Application of science in the attainment of practical results.

**Conceptual Skill:** Ability of a manager to visualize and coordinate the activities of, and varied interests in the organisation as a whole.

**Controlling:** A process of evaluating results against predetermined standards and correcting deviations, if any

**Forecasting:** Anticipating future environment.

**Management:** Process of attainment of predetermined objectives by directing activities of group of persons and employing other resources.

**Organising:** Process of identifying and grouping the work to be performed and establishing relations between persons and granting necessary authority to them.

**Planning:** Determining future course of action.

**Profession of Management:** Practice of a specialized kind of job, applying systematised body of knowledge and guided by code of ethics set by a recognized body.

**Staffing:** Manning the organisation structure and keeping it manned.

**Science of management:** A body of knowledge consisting of concepts, principles and techniques organised around managerial functions.

**Social Responsibilities:** Obligation of management and enterprise towards stake-holders.

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## 10.13 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress A

- 3) (i) Decision School (ii) Process School (iii) Systems and Contingency Schools, (iv) Human Relation School  
4) (i) False (ii) False (iii) True (iv) False (v) False (vi) False

### Check Your Progress B

- 1) (i) Planning (ii) Leading (iii) Controlling (iv) Staffing (v) Planning  
2) (i) False (ii) False (iii) False (iv) True (v) False (vi) False

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## 10.14 QUESTIONS FOR PRACTICE

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- 1) What is management? How is it Defined?
- 2) Do you agree with the view that management is both a science and art? Substantiate.
- 3) What is profession? Is management a profession? Why?
- 4) Explain the skill requirements of managers at different levels.
- 5) Discuss various functions of management.
- 6) Define social responsibilities. Explain the social responsibilities of management towards a) Employees b) Consumers and c) community.
- 7) Distinguish between:
  - a) Management and Administration.
  - b) Management as a process and system of authority.
  - c) Administrative management and operative management.

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

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# UNIT 11    APPROACHES TO THE STUDY OF MANAGEMENT

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## Structure

- 11.0 Objectives
- 11.1 Introduction
- 11.2 Evolution of Management Thought
- 11.3 Scientific Management
- 11.4 Fayol's Administrative Theory
- 11.5 Human Relations Approach
- 11.6 Behavioural Approach
- 11.7 Decision Theory
- 11.8 Modern (Systems) Approach
- 11.9 Contingency Approach
- 11.10 Let Us Sum Up
- 11.11 Key Words
- 11.12 Answer to Check Your Progress
- 11.13 Questions for Practice

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## 11.0    OBJECTIVES

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After studying this unit, you should be able to:

- distinguish between different stages in the evaluation of management thought
- explain the concept of 'scientific management' and enumerate the principles of scientific management
- analyse Fayol's administrative theory of management
- describe the features of human relations approach to management
- outline the main element of the behavioural approach
- explain the decision theory of management
- describe the characteristics of the modern (systems) approach to the study of management
- explain the contingency approach to management.

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## 11.1    INTRODUCTION

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In unit 10 you have studied the concept of management, its nature and scope. Although the practice of management is as old as civilisation, systematic thinking on various aspects of management started only from the beginning of the last century. With the passage of time, different thinkers viewed the task of management in the light of their own experience and understanding of the process of management. In this Unit, we shall discuss the more important stages in the evaluation of management thought, different approaches to the study of management and theories developed in that context.



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## 11.2 EVOLUTION OF MANAGEMENT THOUGHT

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How to manage activities involving large number of people must have been known even in the ancient past. There are evidences all over the world about the practice of management since the dawn of civilisation. Without proper management it would have been impossible to undertake construction of the Egyptian Pyramids, or the Great Wall and the irrigation canals of China. However, organised activities in earlier times mainly required engaging people for manual operations and getting work done under strict supervision. On the other hand, work in cottage industries which flourished during the middle ages mainly involved engagement of family members and apprentices and application of traditional skills with simple tools and implements.

Far reaching changes took places in the organisation of economic activities with the industrial revolution at the turn of the 18<sup>th</sup> century. Scientific and technical inventions paved the way of large scale factories using mechanical power and employing hundreds of people. The systems of transport and communication were also transformed in the process and enabled producers to undertake distribution of goods in ever widening markets. With the growth in size and increasing complexity of organisations, the nature and scope of managerial function have also undergone considerable changes. The task of management no longer consists of supervising simple operations and taking routine decisions. It involves procurement of physical, human and monetary resources as well as their effective use for achieving the organisational objectives. The process of management and the various functions involved have thus received increasing attention of management experts over time.

### Early Thinkers

Thinking on management as a separate field of learning and practice began early in the 19<sup>th</sup> century. It was at this time that persons like Robert Owen, Charles Babbage, Metcalf and Towne expressed their ideas on the ways and means of making management practices more effective and efficient.

**Robert Owen**, who owned and managed several textile mills in Scotland, emphasized the importance of human relations in management. He was very much against the existing practices of workers being employed in factories to perform manual work for as long as thirteen hours per day, employment of child workers even below the age of ten, absence of housing facilities, etc. He introduced many reforms in his own factories, reducing working hours, improving working conditions, providing housing facilities, and arranging supply of goods at cheaper rates through company stores. On the basis of his own experiences, he advocated that investment in human resources was more profitable than investment in machinery and the other physical resources. He therefore, recommended that industrialists should change their attitude towards the workers and devote more attention to their well-being.

**Charles Babbage** was a professor at Cambridge. Having studied the management of factories in the United Kingdom and France, he observed that employees and owners were totally ignorant of the basic tools of scientific methods, they were guided purely by tradition, estimates and imagination and the owner-managers never took decisions on the basis of factual analysis. According to Babbage, it

is essential to apply scientific principles to work processes for increasing productivity and reducing expenses. In his writings, Babbage emphasized the importance of division of labour on the basis of skills, and also stressed the necessity of replacing manual operations by machinery.

As the manager of an army arsenal, **Henry Metcalf** held the view that the science of administration ought to be based on principles evolved by recording observations and experiences. The art of management, according to him, should be based on accumulated observations which are on record and are presented systematically. His book on cost of manufactures and administration of workshops suggested a system of control with the help of work records maintained in Time Cards and Material Cards and a method of automatic actions.

**Henry Robinson Towne** was the chief executive of a manufacture company. His contribution to management lay in defining the role of a manager as a combination of the roles of an administrator, an engineer and a statistician. Management of industrial work, according to Towne, required combination of different qualities of good businessman and good engineers. He succeeded in motivating engineers to study management and advised them to be cost-conscious. At the same time, he emphasized that the process of management has multiple dimensions and engineer-managers must be aware of it.

Early thinker on management made an attempt to suggest improvements in the functioning of manufacturing organisations by different means. In that process the thinkers also provided a new background for management in practice. Growth of business and industry proceeded at a rapid pace in the Western European countries and the USA throughout the 19<sup>th</sup> century. Increased competition in the domestic and international markets during this period drew the attention of management towards the necessity of improving productivity and efficiency of their undertakings.

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### **11.3 SCIENTIFIC MANAGEMENT**

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The concept of scientific management was introduced by **F.W. Taylor** in the USA early in the 20<sup>th</sup> century as an alternative to the prevailing system of management by initiative and incentives. Taylor started his career as machine shop worker at Midvale Steel Works. In course of time he acquired additional qualifications and became foreman and then chief engineer. Subsequently he acted as consultant of another steel company which had serious production problems. Based on observations and large numbers of experiments on methods of work at the shop floor and the attitude of management towards the workers, Taylor formulated the principles of scientific management.

Taylor's concept of scientific management essentially consisted of a scientific approach to management. Its primary objective was to replace methods based on trial and error and rule of thumb. The new approach rested on the following principles:

- 1) Development and use of scientific methods in setting work standards, determining a fair day's work and the best way of doing work.
- 2) Scientific selection and placement of workers best suited to perform the various tasks and provision of their training and development for maximum efficiency.

- 3) Clear cut division of work and responsibility between management and workers.
- 4) Harmonious relations and close corporation with workman to secure performance of work in accordance with the planned jobs and tasks.

A number of techniques were developed to facilitate scientific management. Taken together the following techniques constituted the mechanism of the new approach:

- 1) Time Study to analyse and measure the time taken in doing the various elements of a job, and to standardise the operation as well as determining a fair day's work.
- 2) Motion Study involving close observation of the movements required to perform a job with a view to eliminate wasteful motions and decide on the best way of doing the job.
- 3) Standardization of tools, equipments and machinery and working conditions.
- 4) Incentive wage plan with differential piece rate of wages for efficient and inefficient workman
- 5) Functional foremanship involving different specialist foreman supervising machine speed, group work, repairs, etc.

Taylor presented his ideas on scientific management as a systematic body of thought. His main contribution to management practices included the following aspects:

- a) The importance of applying scientific methods of enquiry, observation and experimentation to the problems of management
- b) Separation of planning of work from its execution so as to enable workers to perform at his best and earn accordingly.
- c) Emphasising the aim of management to be the maximum prosperity of the employer along with the maximum welfare of each employee.
- d) The necessity of a complete mental revolution on the part of both workmen and management to derive the benefits of scientific management through harmony and cooperation rather than individualism and discord.

**Merits:** The primary benefit of scientific management was conservation and proper use of every ounce of energy. Moreover specialization and division of labour have brought about the second industrial revolution. Time and motion techniques are improved tools to organise the tasks in a more efficient and rational way. In short, scientific management is not only a rational approach to solve organisational problems but it also facilitates the professionalisation of management.

Although the basic principles of scientific management were originally developed by Taylor, several associates of Taylor like Gantt, Frank and Lillian Gilbreth, and Emerson further elaborated the ideas, developed new techniques and improved upon the new approach to management. In practice, scientific management proved to be so fruitful in increasing productivity and efficiency of operation that it was widely accepted in the USA and Western Europe.

**Limitations:** Scientific management had its limitations and was criticised on several grounds. Some critics, argue that scientific management is concerned with the efficiency of workers in the technical sense, and it emphasises only the importance of production. It assumes that workers are inherently lazy and they require strict supervision and exercise of authority by managers. It is believed that workers can be motivated by monetary rewards alone. No importance is attached to social and psychologically aspects of work environment. Other critics have called it unscientific, antisocial, psychologically unfair and anti-democratic. It is unscientific because there is no valid and reliable method to measure the efficiency and wages of the workers. It is antisocial because workers are treated as glorified economic tools only. It is psychologically unfair because each worker is pitted against every other worker in an unhealthy competitive scheme to make more and earn more. It is anti democratic because it overshadows the workers independence. Trade unions have been opposed to scientific management on the ground that it leads to autocratic management, and raises the workload of employees with a corresponding adverse impact on employment of men.

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## 11.4 FAYOL'S ADMINISTRATIVE THEORY

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Scientific management was primarily concerned with increasing the productive efficiency of individual workers at the shop floor. The role of managers and their functions in the total organisation were not given adequate attention. Around the same time, that is the first quarter of the 20<sup>th</sup> century **Henri Fayol**, director of a coal mining company in France, made a systematic analysis of the process or Functional Approach.

According to Fayol, business activities in any organisation consist of six inter-dependent operations viz., technical, commercial, financial security, accounting and administrative or managerial operations. He analysed the nature of managerial activities and skill requirements which were so far given little attention by thinkers. He considered the process of management to be of universal application and distinguished between five elements of the process viz., to forecast and plan, to organise, to command to coordinate, and to control. The concept of management was, thus, defined as the process of performing certain functions like planning, organising, etc These functions were expected to be performed by managers at all levels in the organisation as well as in all types of industries and in all countries.

Fayol emphasised that management involved the application of certain skills which could be acquired by persons on the basis of systematic instruction and training. Once acquired. The skills could be applied to all types of institutions including the church, schools, political as well as industrial organisations.

Besides a systematic analysis of the management process and management functions, Fayol formulated a set of fourteen principles as guidelines for implementing the process of management. These principles were stated in flexible terms and expected to be of use to managers under all circumstances. The skill and abilities required for effective management were stated to be dependent on the manager's positions at different levels of the organisation.

According to Fayol, administrative skills were more essential for higher levels managers, while technical abilities were required more at the lower level

positions. He also believed that managerial training was essential for people in all walks of life. He also stressed, for the first time the necessity of formal education and training in management. In short, Fayol's analysis provides a set of means (viz., Planning organising, commanding, coordinating and controlling) for viewing the management process, and guidance (i.e., the principles for implementing the process).

The Administrative Theory of Management and Functional Approach to management may be said to have developed on the foundations laid by Fayol. He provided a conceptual framework for analyzing the process of management. At the same time, he isolated and analysed management as a separate, distinct activity. Management as a body of knowledge gained immensely from Fayol's analysis of managerial skills of universal relevance, and principles of general management developed by him. Although some critics called it inconsistent, vague and pro-management based theory, still this theory exerts considerable influence on the practice as well as teaching of management the world over.

**Check Your Progress A**

- 1) State which of the following statements are True and which are False.
  - i) Thinking on management as separate field of study began with the dawn of civilization. ....
  - ii) Henry Metcalf suggested a method of control with the help of work records and automatic action. ....
  - iii) The concept of scientific management is based only on the application of scientific techniques like time and motion study. ....
  - iv) Taylor developed the principles of scientific management in the light of his observations and experiments on methods of work. ....
  - v) Taylor was concerned mainly with the management of work at the shop floor. ....
  - vi) The abilities required by a manager depend on his position and rank in the organisation. ....
  - vii) Fayol distinguished between five elements or functions related with the process of management. ....
  - viii) Fayol's approach to the study of management is known as administrative approach. ....
- 2) Fill in the blanks:
  - i) The importance of workers' well being was emphasised by ....., an early thinker on management.
  - ii) Supervision of work by different specialist foreman is known as .....



- iii) The concept of management was defined by Fayol as the process of performing certain. ....
- iv) Trade unions are opposed to scientific management because it leads to increased ..... of employees.
- v) According to Towne, a manager should combine the roles of ..... an ..... and .....

## 11.5 HUMAN RELATIONS APPROACH

We have discussed earlier the elements of scientific management concerned with the efficiency and productivity of workman at the shop floor. We have also discussed Fayol's functional approach to management which aimed at improving the managerial activities. Between 1925 and 1935, opinions of many experts were directed towards the human aspects of organisational activities. It was felt that earlier approaches to management were incomplete as there was little recognition of the importance of workers as human beings, their attitudes, feelings and needs. Indeed, the technical approach to work methods in scientific management did not produce durable results in all case. Individual and group relationships in the work place often prevented maximum benefits to be derived from planning and standardisation of work or monetary rewards offered for efficiency.

The human relations approach to management developed as a result of the series of experimental studies conducted by **Elton Mayo** and his associates at the Hawthorne Plant of the Western Electric Company in the USA. The Hawthorne studies were aimed at finding out what factors really influenced the productivity and work performance of labourers. The findings were as follows:

- 1) Physical environment at the work place do not have any material impact on the efficiency of work.
- 2) Favorable attitudes of workers and work-team towards their work were more important factors determining efficiency.
- 3) Fulfillment of the workers' social and psychological needs had a beneficial effect on the morale and efficiency of workmen.
- 4) Employee groups based on social interaction and common in the rests exercised a strong influence on workers' performance.
- 5) Workers cannot be motivated solely by economic rewards. More important motivators are security, recognition by superiors and right to express their opinion on matters which are of concerns to them.

The human relations approach to management problems is based on the view that the **modern organisation is a social system, in which the environment and interpersonal relations govern the behaviour of employees**, It emphasizes that the authority responsibility relationship between superiors and subordinates should relate to the social and psychological satisfaction of employees. It is only by making employees happy that an organisation can secure their full cooperation and thus increase efficiency. Management should encourage the development of social groups on the job and provide opportunities for free



expression of the employees' viewpoints. Managers should recognize the importance of democratic leadership, so that there is free flow of communication and subordinates may participate in decision-making.

It must be noted that the objective of human relation approach was to make workers more productive. But it was emphasised that employee satisfaction was the best means of achieving the goals of higher productivity and efficiency. For this purpose, it was necessary that managers must know why employees act as they do and what social and psychological factors motivate them. Attempt should be made to create a satisfying work environment in which people may fulfill their own needs as well as contribute to the achievement of organisational goals.

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## 11.6 BEHAVIOURAL APPROACH

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The behavioural approach to management developed as a corollary to the human relations approach. But it also reflected the findings intensive research carried out by behavioural scientists' belonging to the discipline of sociology, social psychology, and anthropology, as well as management experts. **The behavioural approach was concerned with the social and psychological aspects of human behaviour in organisations.** Many of the conclusions of the Hawthorne studies were reaffirmed by subsequent research studies, but certain ideas were extended and others highlighted by the behavioural scientists.

Some of the more important elements of the behavioural approach are outlined below:

- 1) Individual behavior is closely linked with the behavior of the group to which he belongs. A person may be inclined to resist pressure to change its behavior as an individual. But he will readily do so if the group decides to change its behavior. With work standards laid down by the group, individuals belonging to that group will resist change more strongly. Moreover, what workers believe to be the management's expectation to output often determines or influence the level of production. This is because management generally does not have any specific level of production it considers proper, and workers often believe that if they work harder their pay rates would be reduced.
- 2) Informal leadership, rather than the formal authority of foreman and supervisors, is more important for setting and enforcing group standards of performance. As a leader manager may be more effective and acceptable to the subordinates if he adopts the democratic style of leadership. If the subordinates are encouraged to participate in establishing the goals, there will be positive effect on their attitude towards work. Changes in technology and methods of work, which are often resisted by employees, can be brought about more easily by involving the employees in planning and designing the jobs.
- 3) By nature most people enjoy work, and are motivated by self – control and self-development. It is for the managers to identify and provide necessary conditions for the human potential to be used in the service of the organisation. The managers, attitude towards human behavior should be positive. They should know that the average man is not lazy by nature. But he is ambitious. Everyman likes to work and prefers to assume responsibilities.

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## 11.7 DECISION THEORY

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Decision-making is defined as the process by which a choice is made from among various alternative course of action to achieve goals. Thus, decision-making involves establishing objectives or goals, defining the problems, searching for available alternatives, evaluating them, selecting one, and implementing the decision. All organisational activities require decisions to be taken preceding action. Every manager has to take decision to direct action at different intervals. At lower level, managers have to take routine decisions for day-to-day action under their limited jurisdiction. At higher levels of management, decisions are taken having wider impact and long-term significance. Positions held by managers are known as decision centers.

According to the decision theory of management, the process of management essentially consists of human problem-solving on the basis of analysis and reasoning followed by appropriate decision. This involves individuals making choices and behaving on the basis of their understanding of the environment and their needs. The key to an understanding of the organisational functioning lies in the identification of decision centers and the channels of communication. The objective of managerial decision-making is to secure and co-ordinate effectively the contributions of others in the decision-making process. This can be accomplished by influencing as far as possible, the viewpoints of participants on various alternatives before making a choice, so that the resulting decisions may fit the requirements of objectives.

The decision theory admits that it is not always possible for managers to make perfect decisions. This is due to several reasons. The basic requirement in the decision process is the availability of all information relevant to the decision situation. But data collection, analysis and evaluation often prove to be too costly and time consuming. Secondly, the decision-maker may not have complete knowledge of available alternatives and their potential outcomes under conditions of uncertainty and risk. Thus, decisions are actually based on individual judgment.

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## 11.8 MODERN (SYSTEMS) APPROACH

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In simple words, a system may be defined as a set of interdependent parts forming an organised unit or entity. These parts, known as sub-systems, interact with each other and are subject to change. They are interrelated as well as interdependent. Thus changes in any sub-system lead to changes in others. Any working organisation may be said to consist of three board sub-systems:

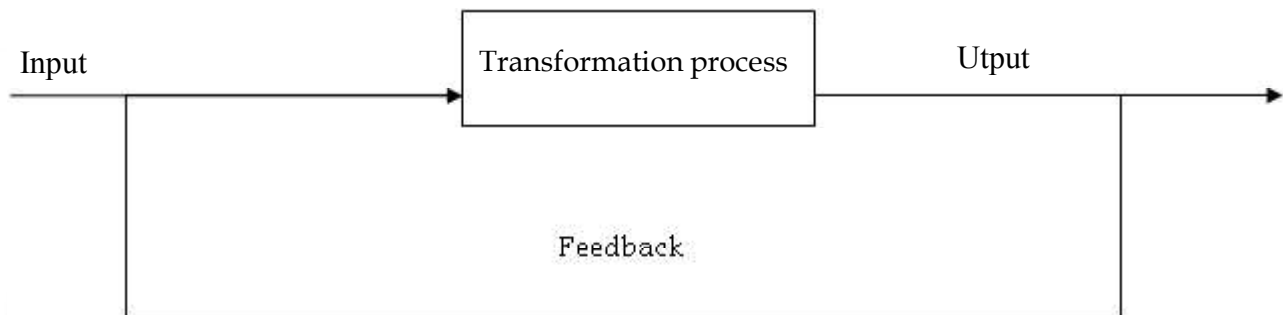
- a) Technical sub-system which represent the formal relationships among the members of an organisation,
- b) Social sub-system which provides social satisfaction to members through informal group relations, and
- c) Power sub-system which reflects the exercise of power or influence by individuals and groups.

The total system emerges as a result of the interaction of the various sub-systems. The total system and its sub-system also interact with the environment, which may influence or be influenced by the system or the sub-systems.

The systems approach has the following features:

- 1) System is a group of interrelated but separate elements.
- 2) The arrangement of all the elements must be orderly.
- 3) There must be proper communication facilitating interacting between the elements.
- 4) Finally the interaction should lead to achieve a common goal.

The enterprise operations are viewed in terms of basic elements engaged in procuring and transforming inputs into outputs. Money, employees and the managers themselves are parts of the system. Inputs are the materials, information and energy, flowing into the organisation. The outputs are products, services and satisfaction provided by the organisation. The organisation transforms input into a variety of outputs (in the form of products, goods and services) and offers the same to the external environment. Sale of the outputs provides the necessary energy which is called feedback to repeat this systems cycle. Look at Figure 2.1 which shows this cycle.



**Figure 2.1: Cycle of Systems Approach**

This systems approach to management views organisations as extremely complex entities subject to changes from within and outside. To meet various needs of such an organisation, a balanced and integrated approach to management is required. At the heart of the systems approach lie a Management Information System and communication network for collection, analysis and flow of information and quantitative data so as to facilitate planning and control. It emphasises the importance of decision-making as the primary means of balancing the different parts of the organisation. Modern thinkers consider management as a system of integrating activities aimed at making the best use of scarce resources. Management is viewed also as a sub-system of the social system. As a sub-system management is required to adopt and cope with environmental changes.

This system approach has the following advantages:

- 1) It provides a unified focus to organisational efforts.
- 2) It provides managers an opportunity of looking at the organisation as a whole which is greater than the sum of its parts.
- 3) This theory treats the organisation as an open system. Moreover, the process of interaction between subsystems is dynamic.
- 4) Modern theory is based on multilevel and multidimensional approach i.e., it includes both micro and macro aspect. It is micro within the nation's industrial network and macro with respect to its internal units.

- 5) The system is based on multiple variables because an event may be the product of many factors which in turn may be interrelated and interdependent.
- 6) The feedback mechanism provides an opportunity to organisation to rearrange its parts according to the change in the environment. Although system theory has given fascinating appeal still it has some limitation.

In fact, this is not the complete explanation of the whole organisational system. It does not explain how the subsystems of a specific organisation are uniquely related in a given environment.

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## 11.9 CONTINGENCY APPROACH

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Contingency approach is based on the view that there is no one best way to manage. In fact there are many effective ways to perform various management functions. This theory emphasizes that the best way to lead, plans, organise and conduct managerial activities varies with the situation. A particular method may yield fruitful results in one situation but may drastically fail in other situations. There is no universal principle to be applied in all situations. Managers must analyse different situation and use the best approach which is best suitable in that particular situation. For example to improve productivity, supporters of scientific management may prescribe work simplification and additional incentives, the behavioural scientist may recommend job enrichment and democratic participation of employees in the decision-making process. But the supporters of contingency approach may offer a solution which is responsive to the characteristics of the total situation being faced. Work simplification would be ideal where there is limited resources, unskilled labour, limited training opportunities and limited products offered to the local markets. Job enrichment would be ideal for that organisation where there are abundant skilled labour forces. This shows that managerial action depends upon circumstances within a given situation. In this approach managers are supposed to diagnose a given situation and adopt to meet the conditions present. In short contingency approach emphasizes on two aspects. 1) It focuses attention on specific situational factors that influence the appropriateness of one managerial strategy over another. 2) It highlights the importance of developing skills for managers in situational analysis. Such skills will help managers find out important contingency factors that influence their approach to managing.

The main advantage of this contingency approach is that it compels us to be aware of the complexity in every situation and forces us to take an active and dynamic role in determining what best would work in each case. Like a system theory it does not only examines the relationships between subsystems of a specific organisation in a given environment, but also offers solution to particular organisational problems.

This theory is criticised on the ground of heavy theoretical complexity. For example a simple problem has to be analysed on a number of organisational components, each of which having innumerable dimensions. So its empirical testing becomes very difficult.

**Check Your Progress B**

- 1) Which of the following statements are True and which are False?
  - i) The objective of human relation approach to management was only to make people happy.
  - ii) Scientific management did not attach any importance to workers attitudes, feelings and needs.
  - iii) Individual behavior is closely linked with group behaviour.
  - iv) All decisions are taken by higher level managers.
  - v) Systems approach to management emphasises management as an integrating activity.
  - vi) Contingency approach emphasises that there is no universal principles to be applied in all situations.
- 2) **Fill in the blanks:**
  - i) Human relations ensure the fulfillment of the workers ..... and .....needs.
  - ii) Workers are not motivated solely by .....incentive.
  - iii) Decision-makers do not have complete knowledge of the potential outcomes of various alternatives, hence decisions are based on.....
  - iv) The technical sub-system represents the.....among members of the organisation.
  - v) Human relation approach is based on the view that the modern organisation is a.....system.

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**11.10 LET US SUM UP**

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There are evidences all over the world about the practice of management since the dawn of civilization. However thinking on various function in the process of management received increasing attention of management experts only after the industrial revolution. Early thinking on management started with Robert Owen, Charles Babbage, Metcalf and Towne, who suggested ways and means of improving upon the existing practices of managing industrial organisation.

The concept of scientific management was introduced by F.W. Taylor as an alternative to the prevailing system of management by initiatives and incentives. Its primary objective was to replace rule of thumb methods by scientific methods of enquiry, observation and experimentation in management. Scientific management was concerned with increasing the productive efficiency of individual workers at the shop floor. The role of managers and their functions in the total organisation were not given adequate attention.

Henry Fayol made a systematic analysis of the process of management and the functions of managers. He formulated a set of principles as guidelines for implementing the process of management. The Administrative theory of management was developed on the foundations laid by Fayol.



The Human relations approach to management developed as a result of the series of experimental studies conducted in the USA. It is based on the view that the modern organisation is a social system and that employee's satisfaction is the best means of achieving the goals of higher productivity and efficiency. For this purpose management should create a satisfying work environment, in which people may fulfill their social and psychological needs as well as contribute to the achievement of organisational goals.

The behavioural approach to management was an extension of the human relations approach. It reflected the extensive research carried out by behavioural scientists belonging to the disciplines of sociology, social psychology and anthropology. It recognised that individual behavior is governed by the behavior of the group to which he belongs. It emphasized that informal leadership and democratic style are more effective means of setting and enforcing group standards.

According to the decision theory of management, the key to an understanding of the organisational functioning lies in the identification of decision centers and the channels of communication.

The systems approach to management views organisations as extremely complex entities subject to changes from within and outside. To meet the various needs of such an organisation requires a balanced and integrated approach to management. Management is regarded as a system by itself as well as a sub-system of the social system. Here, the organisation transforms various inputs into a variety of outputs and offers the final products to the environment which in turn provides necessary energy called feedback to repeat the cycle. Contingency model emphasizes that there is no universal principle to be applied in all situations. It focuses attention on specific situational factors that influence the appropriateness of one managerial strategy over another and highlights the importance of developing skills for managers in situational analysis.

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## 11.11 KEY WORDS

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**Administrative Approach:** Analysis of the process of management in terms of management functions and skill requirements.

**Behavioural Approach:** Understanding individual and group behaviour in organisations.

**Differential Piece Rate :** Piece rates of wages which apply differently to efficient and inefficient workers

**Functional Foremanship:** Supervision of work by different specialist foreman.

**Hawthorne Studies:** Experimental studies conducted to find out what factors motivate workers on the shop floor for improved performance.

**Human Relation Approach:** Motivating employees with a satisfying work environment and fulfillment of their social psychological needs.

**Motion Study:** Observation of the movements required to perform a job so as to eliminate wasteful motions and decide on the best way of doing the job.



**Scientific Management:** Application of scientific methods to resolve management problems in place of rule of thumb or trial and error methods.

**System Approach:** Understanding management as a balancing and integrating system.

**Time Study:** Technique used to analyse and measure the time taken in doing the various elements of job.

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## 11.12 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress A

- 1) (i) False (ii) True (iii) False (iv) True (v) True (vi) True (vii) True (viii) False.
- 2) (i) Robert Owne, (ii) Functional Foremanship, (iii) Functions, (iv) Workload, (v) administrator, engineer, statistician.

### Check Your Progress B

- 1) (i) False (ii) True (iii) True (iv) False (v) True (vi) True.
- 2) (i) social, psychological, (ii) economic, (iii) judgment, (iv) formal relationship, (v) social.

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## 11.13 QUESTIONS FOR PRACTICE

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- 1) Give a brief outline of the evaluation of management thought during the 20<sup>th</sup> century.
- 2) What is meant by scientific management? Discuss its main principles, merits and limitations.
- 3) Explain the significance of the behavioural approach to management. What are its main features?
- 4) Describe the main elements of the human relations approach to management.
- 5) Explain Fayol's contribution to management thought.
- 6) Explain the systems approach of management. Discuss with example how does it provides feedback mechanism to continue the whole cycle.
- 7) Critically evaluable contingency approach to management.
- 8) What are different approaches to management? Discuss about each of them briefly.

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

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## **UNIT 12 FUNDAMENTALS OF PLANNING**

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### **Structure**

- 12.0 Objectives
- 12.1 Introduction
- 12.2 What is Planning?
- 12.3 Nature and characteristics of Planning
- 12.4 Importance of Planning
- 12.5 Limitations of planning
- 12.6 The Process of Planning
- 12.7 Forecasting as an Element of Planning
- 12.8 Types of Planning
- 12.9 Principles of Planning
- 12.10 Let Us Sum Up
- 12.11 Key Words
- 12.12 Answer to Check Your Progress
- 12.13 Questions for Practice

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### **12.0 OBJECTIVES**

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After studying this unit, you should be able to:

- explain the meaning, nature and importance of the managerial function of planning
- gain familiarity with the various steps of the planning process
- describe the major types of planning - such as Strategic Planning, Tactical planning, Long-range Planning and Short-range Planning
- enumerate and explain the principles on which Planning is based.

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### **12.1 INTRODUCTION**

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In Unit 10 you have been introduced to the key functions of management. Planning is one of the critical functions of managers, which is closely related to the other functions. Indeed planning is always recognised as a key function of managers at all levels in the organisation. Of late, there has been a vigorous surge of interest in planning all over the world – especially corporate, long-range and strategic planning.

In this Unit, you will learn the fundamentals of planning – its meaning, nature, characteristics, importance and limitations. You will also learn the elements and steps in the planning process, and the role of forecasting in planning. You will further learn the concepts of strategic planning, tactical planning, long-range planning, short-range planning and the essential principles of planning.

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## 12.2 WHAT IS PLANNING?

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

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

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## 12.3 NATURE AND CHARACTERISTICS OF PLANNING

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

- i) **Primacy of Planning:** Planning precedes all other managerial functions. The process of management begins with planning. Planning provides the basis for the subsequent functions of organising, staffing, directing and controlling, though all the functions are highly interrelated and are equally important. Planning is the prime function from which the other functions get the necessary base.
- ii) **Planning as a process:** Planning is a process involving a few stages or steps. It is a sub-process of the process of management. The planning process begins with identification of mission and goals of the organisation and ends with making arrangement for implementation of plans.
- iii) **Pervasiveness of planning:** Planning is a pervasive function of managers at all levels of the managerial hierarchy, right from the chief executive down to the first line supervisor. However, the content and quality of the function differ from level to level. The time developed to planning also differs. Typically, the chief executive and other, top level managers concentrate on corporate-wide planning function. Their decision on planning have far-reaching effects on the organisation. Managers at middle and lower levels have more limited planning functions.

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

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

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

- v) **Information base:** Planning is backed by information. Without information planning exists in a vacuum. Information on the past trends, current conditions and future possibilities are essential for planning. Information needed to diagnose planning issues and problems, to develop alternative courses of action to evaluate them and to make final choice of plans.
- vi) **Rationality:** Planning is a rational managerial activity. It implies that planning is a purposeful and conscious managerial function. It is backed by adequate information, knowledge and understanding. Managers who are planners are somewhat objective and unemotional in their approach to planning. They make planning decisions with some awareness of their consequences.
- vii) **Formal and informal nature:** Planning has both formal and informal elements. Formal planning refers to a systematic and rigorous process of arriving at planning decision through investigation and analysis of the various factors. Formal planning is more explicit, and open; responsibility for various aspects of planning is pinpointed among managers. Plans are put into writing and are communicated through the organisational channels of communication to the various managerial levels.

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

- viii) **Intellectual process:** Planning is an intellectual process and requires certain conceptual skills. It requires abilities to think both in abstract and concrete terms, to visualize and look ahead into the future and to form ideas and images of future expectations and desires. Planning also calls for intellectual abilities to anticipate opportunities and threats in the environment, to diagnose problems, develop alternative courses of action, and analyse them for choosing the right course.
- ix) **Pragmatic, action-orientation:** Although planning is an intellectual thinking activity, it is primarily pragmatic and action-oriented. Planning

precedes action and is often described as action laid out in advance. To think before acting and to decide before doing are part of the discipline and culture of planning. The focus is on actionability of plans, i.e., their quality of being implementable. Planning is also reality-oriented.

- x) **Planning as a form of decision making:** Planning involves problems solving and decision making. It is a process of identification of issues and problems needing decision, collection of relevant information, evaluation of alternative courses and choices of the most appropriate alternative. Decisions are made on organisational objectives, strategies, policies, programmes, procedures and other plans. They are all choices from alternatives. They also involve mobilisation, allocation and commitment of resources and efforts in specific ways.
- xi) **Planning premises:** Planning is based on certain assumption and estimates about the future behaviours of events and situations in the environment. These are formally known as 'planning premises' which are derived through the process of forecasting. Without such assumptions planning becomes an empty speculative exercise. Managers make promises or assumptions about the future events for purposes of planning in order to have a sense of security and certainty in the midst of grave uncertainties and complexities of the environment.
- xii) **Dynamism:** Planning is a dynamic process. It is process of making the organisation selectively move and change in tune with relevant changes in the external environment. It is a process of building flexibility and adaptability into the functioning of the organisation. It is a process of making continuous assessment and reassessment of the goals, resources, direction opportunities and problems of the organisation and converting them to serve its needs.
- xiii) **Levels of planning:** Planning is often divided into a few levels on the basis of their scope, significance and time span. On the basis of scope, there are two levels: (1) corporate planning covering the entire organisation, and (2) sub-corporate or functional planning carried on within the various functional units or divisions. On the basis of significance, we may divide planning into strategic planning and tactical or operational planning. On the basis of time span, there are two levels:
  - 1) Long-range planning covering periods of more than one year in general, and
  - 2) Short-range planning covering a period of one year or less.

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

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

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

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## 12.4 IMPORTANCE OF PLANNING

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

- i) **Provides directions:** Planning provides a clear sense of directions to the activities of the organisation and to the job behaviour of managers and others. It strengthens their confidence in understanding where the organisation is heading and what for, how best to make the organisation move along the chosen path, and when should they take what measures to achieve the goals of the organisation.
- ii) **Provides opportunity to analyse alternative courses of action:** Another source of importance of planning is that it permits managers to examine and analyse alternative course of action with a better understanding of their likely consequences. If managers have an enhanced awareness of the possible future effects of alternative courses of action, for making a decision or for taking any action, they will be able to exercise judgment and proceed cautiously to choose the most feasible and favorable course of action.
- iii) **Reduces uncertainties:** Planning forces managers to shake off their inertia and insular outlook; it induces them to look beyond those noses, beyond today and tomorrow, and beyond immediate concerns. It encourages them to probe and cut through complexities and uncertainties of the environment and to gain control over the elements of change.
- iv) **Minimises impulsive and arbitrary decisions:** Planning tends to minimise the incidence of impulsive and arbitrary decisions and ad hoc actions; it obviates exclusive dependence on the mercies of luck and chance elements; it reduces the probability of major errors and failures in managerial actions. It injects a measure of discipline in managerial thinking and organisational action. It improves the capability of the organisation of assume calculated risks. It increases the freedom and flexibility of managers within well-defined limits.
- v) **King-pin function:** As stated earlier, planning is a prime managerial function which provides the basis for the other managerial functions. The organisational structure of task and authority roles is built around organisational plans. The functions of motivation, supervision, leadership and communication are addressed to implementation of plans and achievement of organisational objectives. Managerial control is meaningless without managerial planning. Thus, Planning is the king-pin function around which other functions are designed.



- vi) **Resource Allocation:** Planning is a means of judicious allocation of strategic and scarce resource of the organisation in the best possible manner for achieving strategic goals of the organisation. The strategic resources include funds, highly competent executives, technological talent, good contacts with government, exclusive dealer network and so on. If the organisation enjoys a distinct advantage in possession of such resources, a careful planning is essential to allocate them into those lines which would strengthen the overall competitive position of the organisation.
- vii) **Resource use efficiency:** For an ongoing organisation, planning contributes towards a more efficient functioning of the various work units. There is better utilisation of the organisations existing assets, resources and capabilities. It prompts managers to close gaps, to plug loopholes, to rectify deficiencies, to reduce wastage and leakages of funds, materials, human efforts and skill so as to bring about an overall improvement in resource use efficiency.
- viii) **Adaptive responses:** Planning tends to improve the ability of the organisation to effectively adapt and adjust its activities and directions in response to the changes taking place in the external environment. An adaptive behaviour on the part of the organisation is essential for its survival as an independent entity. For a business organisation, for example, adaptive behaviour is critical in technology, markets, products and so on.
- ix) **Anticipative action:** While adaptation is a behaviour in reaction and response to some changes in the outside world, it is not enough in some situation. In recognition of this fact, planning stimulates management to act, to take bold initiatives, to anticipate crises and threats and to ward them off, to perceive and seize opportunities ahead of other competitors, and to gain a competitive lead over others. For the purpose, some enterprises establish environmental scanning mechanism as part of their planning systems. Thereby such enterprises are able to direct and control change, instead of being directed and controlled by the pervasive external forces of change.
- x) **Integration:** Planning is an important process to bring about effective integration of the diverse decisions and activities of the managers not only at a point of time but also over a period of time. It is by reference to the framework provided by planning that managers make major decisions on organisational activities in an internally consistent manner.

#### Check Your Progress A

- 1) Which of the following statements are True and which are False?
  - i) Among other things, Planning implies determination of concern of action from among alternatives.
  - ii) Planning follows all other managerial functions.
  - iii) Planning cannot be future-oriented as the future is always uncertain.
  - iv) Planning has both formal and informal elements.
  - v) Planning reduces the probability of major errors in management.

- 2) Fill in the blanks:
- i) Planning is the process of setting .....objectives.
  - ii) .....and .....of planning function differ from level to level of management hierarchy.
  - iii) Informal planning is done through the ..... process.
  - iv) As planning requires certain conceptual analytical skills, it is regarded as an..... process.
  - v) Assumptions and estimates about the future events are known as planning.....
  - vi) Plans which are drawn to meet specific, unique situations are known as.....
  - vii) Planning is a means of judicious .....of resources.
  - viii) Planning stimulates management to take .....

## 12.5 LIMITATIONS OF PLANNING

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

- i) **Based on certain assumptions:** Planning is based on certain assumption or premises derived from forecasts about the likely behaviour or relevant future events and variables. If such assumptions or premises turn out to be wide off the mark, the very basis of plans gets affected. After all, forecasting is not an exact science.
- ii) **Incomplete information:** The information needed for planning is often incomplete. It may not be available in time and its reliability tends to be doubtful. In several situation, managers are forced to make planning decisions on the basis of partial knowledge because of time lags and credibility gaps in information.
- iii) **Lack of control:** Managers have little knowledge and less control over several elements of external environment. There is often no way to bring external situation under the discipline of planning. Several external events tend to influence organisational activities and plans in random and perverse ways, as for example natural calamities, sudden strikes, government policy changes, and so on.
- iv) **Difficult to change with the changing environment:** Planning, under conditions of rapid changes in the external environment tends to be a tough job; plans would become quickly outdated and irrelevant even before they are implemented. Though flexible plans would be of some help under such conditions, there are also limits on injecting flexibility into organisational plans.
- v) **Fluid process:** Planning is essentially a ‘fluid’ process in the sense that it is always in a state of flux. This is because of the march of the times and

subtle changes which characterise the future as it unfolds. Future is always a moving target. It is not easy to visualise an integrated composite view of the past, present and future for planning purposes.

- vi) **Delay in action:** Since planning means thinking and deciding before doing things, it is likely to delay action. For one thing, thinking and deciding are somewhat slow intellectual exercises. Many managers may not have the time or taste for such exercises. For another, managers attach more importance to action and that too timely action wherein lies much activism and dynamism.
- vii) **Rigidity:** The plans produced through the planning process tend to introduce rigidity into the functioning of the organisation. Managers are likely to insist on strict compliance with pre-determined plans. This may sometimes mean foregoing new opportunities and better options. A faithful conformity with plans would stifle initiatives beyond the established ways and routines.
- viii) **Plans might remain on paper:** At the other extreme it is also likely that plans remain on paper as some sacred documents worthy to be respected and preserved and not followed or implemented. They may be far removed from realities such that managers regard them as 'untouchables'. Alternatively, managers may be too busy in struggling with crises to find time for going along planned courses.
- ix) **Difficult to implement at unit level:** It may be easy to formulate broad plans at the corporate level. Problems are likely to arise when managers try to prepare more detailed plans in physical and financial terms at functional and unit levels for purposes of implementations. The detailed plans, if and when prepared, may not reflect the intents of the broad plans in a consistent manner.

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## 12.6 THE PROCESS OF PLANNING

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

- i) **Planning to plan:** Planning does not just occur on its own or with the issue of an order from the chief executive. It has to be properly and carefully decided upon and planned. The management of the organisation has to inject a culture of planning at all the levels of management by highlighting the imperatives and virtues of planning as also the philosophies and techniques embedded in it. It has to educate the managers in various departments by arranging training programmes and conferences on the methodology of planning so as to improve their competence to plan. The required planning system has to be designed and activated. This is especially so with regard to a new organisation.
- ii) **Appraisal of internal situation:** In this step, top management in collaboration with other managers, have to make an analyses of the current state of affairs with the organisation – its existing plans, processes, activities,

performance levels, achievements and problems. It is essential to review in detail the specific strengths and weaknesses of the organisation in its sphere of operations. For example, products and services it supplies, financial position, manpower and managerial resources, competitive position, profitability levels, market image, manufacturing and other facilities, R&D advantages, capital structure, and so on. Management has also to make forecasts and projections of the likely future positions and trends of the organisations activities in all the above areas.

- iii) **Appraisal of the external environment:** Top management of the organisation is vitally concerned with the analysis of external environmental conditions for planning purposes. This facilitates them in understanding the elements and events in the world outside the organisation which effect its present and future functioning. Appraisal of environmental trends in economic, social, technological and other means of relevance for the organisation is to be continuous process. Not only the present but also the likely future trends have to be appraised though systematic scanning and forecasting mechanisms. This will enable the organisation to identify the present and future opportunities and threats in the various external elements with which the organisation is directly concerned.
- iv) **Definition of key areas and issues for planning:** The appraisal of internal and external environmental conditions gives to the management an idea about what tentative planning the organisation needs. Managers have to ask themselves whether, in the light of external appraisal, the existing businesses, products, markets, processes and practices are relevant, and which aspects of them have to be retained, strengthened, refined and modified. The analysis also may reveal the need for new directions to strengthen the competitive position of the organisation, and to bring about a better alignment between the organisation and the external environment. It may also unearth the possibilities of going into new businesses, new technologies, new products and new markets. An important outcome of the above appraisal is identification of possible measures necessary to cope with environmental opportunities and threats, which are likely to help or hinder, as the case may be, the performance and progress of the organisation.
- v) **Development of alternative plans for evaluation and choice:** In this stage, manager have to apply their creative and innovative skills to generate alternative plans-mission, objectives, strategies, policies and programmes – on the basis of assessment of planning needs. They are generally of corporate-wide and long-range in character, ranging from 5 to 10 years ahead, depending on circumstances. Development of alternative plans calls for an intensive thinking and search on the part of managers. For example, a business enterprise has several options to increase its economic power and profitability — by increasing the sales of its existing products in the existing markets, by exploring new markets, by going in for new products, by acquiring outside enterprises and so on. The objective of improving its economic power could be achieved by one or a combination of some of the above alternative strategies.

An important part of this stage is the evaluation of alternative plans by reference to their comparative merits and demerits whereupon choices have

to be made from among the alternative on the basis of certain predetermined selection criteria.

The choices are the decision of managers which will chart the long-range directions of the organisation for a specified period of time.

- vi) **Formulation of medium range and short-range plans:** The long-range set of organisational plans provides the basis for formulation of more specific medium–range and short-range plans. Medium– range plans have a time span of more than one year but up to three years in general. Short-range plans are progressively more specific than long-range plans. Short-range plans are called operational plans and the process of formulating them is called ‘Operational Planning’. Medium-range plans and short-range plans are generally formulated in such functional management areas like manufacturing, marketing, purchase, personnel finance, R&D and so on. They are further ‘de-composed’ into more detailed sectional and unit plans valid for basic units of operations in the organisation.
- vii) **Arrangements for implementation of plans:** Effective implementation of plans and decision is the crux of the planning process. Since plans are implemented by managers and others at various levels of the organisation, it is essential for top management to enlist their co-operation, participation and commitment for the purpose. Authority and accountability have to be pinpointed specifically among the various managers for implementation of plans, for acquiring and allocation of resources and tasks, for making day-to-day decision and taking initiatives and for activating the communication system in the organisation.

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## 12.7 FORECASTING AS AN ELEMENT OF PLANNING

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

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



For a business enterprise, for example, several aspects of future trends should be understood through forecasting. They include: future sales trends of the products and series of the enterprise, based on an assessment of future demand, supply cost and competitive conditions, likely levels and trends of profitability, future technological changes, general economic and industry trends, likely emergence of new products, new processes and new markets, probable changes in population characteristics, their levels of income, life styles and buying patterns and so on.

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

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

- a) The enterprise will maintain its competitive strength over the next four years.
- b) There will be revolutionary developments in TV technology during the next five years.
- c) There will be future liberalization in the economic and industrial policies of government with respect to big business enterprises.

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

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

It is true that forecasting is most unlikely to be perfect and that it is in fact a hazardous exercise especially in a situation of rapidly changing external conditions. Forecasts are only approximations and estimates. Future events may not behave exactly according to forecasts and premises made by managers. But



still forecasting before formulating plans is an inescapable exercise. Without intelligent and systematic forecasting organisational plans would be mere expectation and pious wishes.

### Check Your Progress B

#### 1) Fill in the blanks :

- i) The information needed for planning is often ..... and may not be .....
- ii) One of the limitations of planning is that it is essentially a ..... process.
- iii) Appraisal of the external ..... is an essential requirements in the planning process.
- iv) Forecasting provides vital ..... to manager about the future problems and prospects.
- v) The estimated sales of the future is an example of ..... premises for the managers of a company.

#### 2) Which of the following statements are True and false?

- i) Planning leads to delayed action as it involves prior thinking.
- ii) Development of alternative plans is most essential for planning at the functional level.
- iii) Forecasting and premising for planning are one and the same thing.
- iv) Planning premises and forecasting reduce the uncertainties and complexities of the future.
- v) Medium-range plans have a duration of more than one year

## 12.8 TYPES OF PLANNING

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

**Strategic Planning:** The term strategic planning refers to the process of determining the integrated organisation — wide courses of action to achieve the major objective of the organisation. The term has a military origin where it is used to describe the process of formulation of military campaigns to achieve military goals of defending the home territory and defeating the enemy forces. In military parlance, strategic planning covers such aspects as how to attack the enemy and from how many fronts, the size and combination of ground forces, air forces and naval forces, the amount or resources to be developed, the timing of the various moves, the areas to be fortified and defended and so on. The term acquired great significance in non-military situations also. We often hear of strategies to achieve the goals of Five Year Plans at the national and regional

levels, strategies for solving rural drinking water problems, strategies to reduce the growth rate of population and so on. In the context of business enterprises, **strategic planning consists of formulation of strategies which are in the nature of critical and intelligent courses of action to gain upper hand over competitive and other complex external forces in the environment.** It involves tentative chalking out of the major measure and moves necessary to perceive and exploit opportunities and to tackle threat and constraints, in the light of distinctive strengths and inevitable weaknesses of the enterprises.

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

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

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

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

To take an example, a major objective set by the top management of an enterprise manufacturing industrial goods is rapid growth by doubling the sales volume within a period of next four years. To achieve this objective, one of the strategies formulated by the enterprise is diversification into manufacture of consumer goods. To implement this strategy the enterprise formulated specific policies on 'make or buy,' internal growth vs acquisitions or mergers, foreign collaboration and so on. Within the framework of the above strategy and policies, tactical

plans and decision on such aspects as size of operations, product types, sizes, quality ranges customer services, distribution channels and so on are designed.

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

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

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

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

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

## 12.9 PRINCIPLES OF PLANNING

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

- 1) **Principle of top management interest:** The chief executive of the organisation must show genuine interest in planning, submit himself to the discipline of planning and must inspire his team to do the same.
- 2) **Principle of long-range view:** Every managers must plan decisions after a full analysis and understanding of their long-term future effects, and after objectively considering all the available facts.
- 3) **Principle of contribution to objective:** Planning should be purposeful. It should directly contribute to the achievement of organisational objectives or desired ends.
- 4) **Principle of primacy of planning:** As stated earlier, planning holds the prime position in the process of management. It is logically regarded as the first function of managers from which all other function flow.
- 5) **Principle of flexibility:** The principle suggest that flexibility in planning helps the organisation to cope with rapid and unforeseen changes in the external events. This can be achieved without abandoning the pre-determined plans or without inviting adverse consequences even if drastic.
- 6) **Principle of navigation change:** This principle is related to the principle of flexibility. It indicates that a regular process of monitoring the course of external events is to be combined with a review and revision of plans in order to achieve desired goals just as a navigator negotiates his ship's way by making changes in his route in response to behaviour of the water mass.
- 7) **Principle of commitment:** This principle helps in the determination of the planning period. Planning should cover a period of time necessary to fulfil the commitments involved in a decision. For example, if a student makes a decision to join a three years B.Com Course, his planning period is three years.
- 8) **Principle of the limiting factor:** A limiting factor is one which stands in the way of achieving the desired objective. Managers should pay due attention to tackle those limiting factor which hinder the smooth progress in achievement of objectives.

### Check Your Progress C

- 1) Which of the following statements are True and which are False?
  - i) Strategic Planning consists of formulation of strategies for the organisation as a whole.
  - ii) Tactical planning is carried out under more risky condition than strategic planning.
  - iii) Operational planning includes both long-range and short-range planning.

- iv) The principle of flexibility of planning suggests that plans should be changed as frequently as possible.
  - v) The principle of commitment helps in the determination of the planning period.
- 2) Fill in the blanks:
- i) Strategic and tactical planning are defined on the basis of .....
  - ii) Courses of action planned to gain upper hand over competitive and other external forces are known as .....
  - iii) Tactical planning involves a more ..... approach than strategic planning.
  - iv) Long-range planning provides a ..... for determining critical goals.
  - v) Any factor which stands in the way of achieving desired goals may be called a .....factor.

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## 12.10 LET US SUMUP

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

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

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

The importance of planning functions stems from the following benefits of planning. Planning provides a clear sense of direction to the activities of the organisation and the job behaviour of managers and others. It permits managers to examine alternative courses of action with a better understanding of their likely consequences. Planning forces managers to shake of their inertia and induces them to look beyond the immediate concerns. It minimizes the incidence of impulsive and arbitrary decisions and ad hoc actions. Planning provides the basis for all other managerial functions. It is a means of judicious allocation of strategic and scarce resources of the organisation, and also brings about an over



all improvement in the efficiency of resource use. Further, planning improves the ability of the organisation to adopt effectively and adjust its activities in response to changes in the external environment. It stimulates management to take bold initiatives to anticipate crises or threats and to prevent them and to perceive and seize opportunities ahead of competitors. It is also an integrative process at a point of time as well as over a period of time.

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

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

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

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

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

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

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## 12.11 KEY WORDS

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**Forecasting:** Estimating the future behavior of variables affecting the business unit.

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

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



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

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

**Policies:** Guidelines for decision-making and action.

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

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

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

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## 12.12 ANSWERS TO CHECK YOUR PROGRESS

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- A) 1) i) True ii) False iii) False iv) True v) True  
2) i) future ii) content, quality iii) intuitive iv) intellectual v) premises  
vi) single use plans vii) allocation viii) bold initiative
- B) 1) i) incomplete , reliable ii) fluid iii) environment iv) clues v) tangible  
2) i) True ii) False iii) False iv) False v) True
- C) 1) i) True ii) False iii) False iv) False v) True  
2) i) comprehensiveness ii) strategies iii) structured iv) framework  
v) limiting

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## 12.13 QUESTIONS FOR PRACTICE

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- 1) Define the concept of planning and explain its salient characteristics.
- 2) Comment on the following statements :
  - a) Planning is a pervasive process.
  - b) Planning is a useless exercise in a situation of rapidly changing environment.
  - c) Planning and decision making are two sides of the same coin.
- 3) Do you think that planning is a guarantee for organisational success? Give reasons.
- 4) Is there any need for planning a plan? Explain.
- 5) The limitations of planning are too serious to make planning a credible function. Do you agree? Why?
- 6) What is the difference between strategic and long –range planning?
- 7) Discuss the process of planning.

- 8) Why is forecasting so important for planning?
- 9) What are planning premises? How are they relevant to planning?
- 10) Explain the principles of planning.
- 11) 'Long-range planning is concerned with making today's decision with a better sense of futurity'. Comment.
- 12) What is the role of top management in the planning process?

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



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## **UNIT 13 ORGANISING: BASIC CONCEPTS**

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### **Structure**

- 13.0 Objectives
- 13.1 Introduction
- 13.2 Nature of Organising Function
  - 13.2.1 Characteristics of Organisation
  - 13.2.2 Importance of Organisation
- 13.3 Organisation as a System
  - 13.3.1 Components of an Organisational System
- 13.4 Steps in the Organisation Process
- 13.5 Organisation Structure
  - 13.5.1 Significance of Organisation Structure
  - 13.5.2 Types of Organisation Structure
- 13.6 Principles of Organisation
- 13.7 Span of Control
- 13.8 Organisation Chart
- 13.9 Organisational Manual
  - 13.9.1 Importance of Manuals
  - 13.9.2 Types of Manual
  - 13.9.3 Advantages of Manual
  - 13.9.4 Drawbacks of Manual
- 13.10 Formal and Informal Organisations
  - 13.10.1 Difference between Formal and Informal Organisation
  - 13.10.2 Characteristics of Informal Organisation
  - 13.10.3 Functions of Informal Organisation
  - 13.10.4 Problems of Informal Organisation
- 13.11 Let Us Sum up
- 13.12 Key Words
- 13.13 Answers to Check Your Progress
- 13.14 Questions for Practice

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### **13.0 OBJECTIVES**

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After studying this unit, you should be able to

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

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## 13.1 INTRODUCTION

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In the preceding Unit, you have learnt about the managerial function of planning. The present Unit relates to the organising function of management and its integral aspects such as organisation structure, charts, manuals, formal and informal organisations, forms of organisation and span of control.

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## 13.2 NATURE OF ORGANISING FUNCTION

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

### 13.2.1 Characteristics of Organisation

The characteristics of an organisation are:

- a) **Group of people:** An Organisation comes into existence when a group of people combine their efforts for some common purpose and willingly contribute towards their common endeavor.
- b) **Division of work:** Setting of an organisation involves division of the total work into various activities and functions, and assigning the tasks to different persons according to their skill, ability and experience.
- c) **Common purpose:** Every organisation comes into existence on the basis of goals of the enterprise which are separate from the personal goals of the people employed. It is the common purpose of the organisation which provides the basis of co-operation among the members of the organisation.
- d) **Vertical and horizontal relationships:** An organisation creates cooperative relationship between different departments and divisions as well as between superiors and subordinates. Different functions and activities like production, marketing, financing etc. are integrated for the achievement of proper coordination. The duties and responsibilities of superiors and subordinates in each department or division are also unified so as to serve the purpose of their joint efforts.
- e) **Chain of command:** The superior-subordinate relationships established in an organisation are based on the authority which flows from the higher levels of management to the next lower levels, thereby forming a hierarchical chain. This is known as the chain of command, which also determines the line of communication.

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

### 13.2.2 Importance of Organisation

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

- i) **Facilitates administration:** Sound organisation facilitates management to relate resource flows continually to overall objectives. It provides an appropriate platform from where management can perform the functions of planning, direction, coordination, motivation and control.
- ii) **Facilitates growth and diversification:** It helps in organisational elaboration. Growth and diversification of activities is facilitated by clear division of work, proper delegation of authority etc. As the organisation expands to a reasonable proportion, the functional type can be replaced by a more flexible decentralised organisation.
- iii) **Permits optimum use of resources:** Sound organisation permits optimum use of technological and human resources. The organisation can incorporate the latest technological improvements like computers, electronic data processing machines etc. It permits optimum use of human efforts through specialisation. It also develops people by creating appropriate training and promotion opportunities. Thus, organisation gives a company the greatest possible strength for meeting predicted needs – changing conditions.
- iv) **Stimulated creativity:** Specialisation provides individuals with well-defined duties, clear lines of authority and responsibility. Sound organisation structure enables managers to turn over routine and repetitive jobs to supporting positions and concentrate on important issues where they can exploit their potential better. Thus, it encourages the creativity of the people.
- v) **Encourages humanistic approach:** People can work in team and not like robots or machines. Organisation provides job rotation, job enlargement. Jobs are designed to suit human needs and are made meaningful and interesting. Organisation adopts efficient methods of selection, training, remuneration and promotion of employees. Proper delegation and decentralization, conducive working environment and democratic and participative leadership provide higher job satisfaction to the employees. It enhances the inter-action among different levels of the management.

Although we have discussed the importance of the organisation, a sound organisation structure by itself does not guarantee success. According to Prof. Drucker good organisation structure does not by itself produce good performance just as a good constitution does not guarantee great presidents, or good laws or a moral society. But a poor organisation structure makes good performance impossible no matter how good the individuals may be.

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

### 13.3.1 Components of an Organisational System

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

- a) **Inputs:** As depicted in Fig.13.1, the system takes certain inputs from its environment. These inputs are human resources, material resources, energy and information.

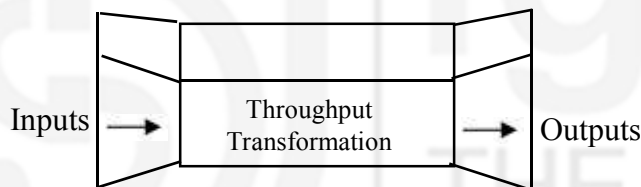


Figure 13.1 Organisation as a System

- b) **Processor:** The processor or throughput involves the utilisation of inputs within the organisation to produce the desired outputs. A number of sub-systems such as production, marketing, finance, personnel and research and development must be created for processing or transformation. There are further sub-systems within each sub-system. The individual employee is also a sub-system. Interrelatedness among all the sub-systems must be kept in mind all the time.
- c) **Output:** The output of an organisation may be both intended and unintended. Intended outputs are usually labeled objectives. For instance, high productivity is an intended objective. The output may consist of goods and services. An unintended output may be informal relation among the group members.
- d) **Management:** The management component of the system is concerned with the determination and implementation of processor activities in order to achieve intended output. Managing involves planning, organising, staffing, directing and controlling. For managing, feedback of information concerning the quality, quantity, cost and time of system outputs is necessary. Standards concerning desired results must be established and enforced by management through the feedback initiation activity. If output are named



improper or inadequate according to the predetermined standards, corrective measures such as guidance and warning of workers, improvement of planning and organising, revision of standards, etc. are initiated.

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## 13.4 STEPS IN THE ORGANISATION PROCESS

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Organisation involves the following interrelated steps:

- 1) **Determination of objectives:** Organisation is always related to certain objectives. Therefore, it is essential for the management to identify the objectives before starting any activity. It will help the management in the choice of men and materials with the help of which it can achieve its objectives. Objectives also serve as the guidelines for the management and the workers. They will bring unity of direction in the Organisation.
- 2) **Identification and grouping of activities:** If the members of the groups are to pool their efforts effectively there must be proper division of the major activities. Each job should be properly classified and grouped. This will enable the people to know what is expected from them as members of the group and will help in avoiding duplication of efforts. For instance, the total activities of an individual industrial organisation may be divided into major functions like production, purchasing, marketing, and financing, and each such function is further subdivided into various jobs. The jobs then may be classified and grouped to ensure the effective implementation of the other steps.
- 3) **Allotment of duties:** After classifying and grouping the activities into various jobs, they should be allowed to the individuals so that they could perform them effectively. Each individual should be given a specific job to do according to his ability and made responsible for that. He should also be given the adequate authority to do the job assigned to him.
- 4) **Developing relationships:** Since so many individuals work in the same organisation, it is the responsibility of management to lay down structure of relationships in the organisation. Everybody should clearly know to whom he is accountable. This will help in the smooth working of an enterprise by facilitating delegation of responsibility and authority.
- 5) **Integration of these groups of activities :** Integration can be achieved in all activities in following ways- (a) through authority relationships- horizontally, vertically, and laterally and (b) through organised information or communication systems, i.e, with the help of effective coordination and communication. We can achieve unity of objectives, team work and team spirit by integration of different activities.

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## 13.5 ORGANISATION STRUCTURE

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Organisation structure may be defined as the established pattern of relationships among the component parts of the organisation. Organisation structure in this sense refers to the network of relationships among individuals and positions in an organisation. It describes the organisation framework. Just as human beings have skeletons that define their parameters, organisations have structures that define theirs. It is like the architectural plan of a building. Just as the architect consider various factors like cost, space, special features needed etc. While

designing a good structure, the managers too must look into factors like benefits of specialization, communication problems, problems in creating authority levels etc, before designing the organisation structure.

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

- i) The formal relationships with well-defined duties responsibilities :
- ii) The hierarchical relationships between superior and subordinates within the organisation;
- iii) The tasks or activities assigned to different persons and the departments;
- iv) Coordination of the various tasks and activities;
- v) A set of policies, procedures, standards and methods of evaluation of performance which are formulated to guide the people and their activities.

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

### 13.5.1 Significance of Organisation Structure

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

- a) **Clear-cut authority relationships:** Organisation structure allocates authority and responsibility. It specifies who is to direct whom and who is accountable for what results. The structure helps and organisation member to know what his role is and how it relates to other roles.
- b) **Pattern of Communication:** Organisation structure provides the patterns of communication. By grouping activities and people, structure facilitates communication between people centered on their job activities. People who have joint problems to solve often need to share information.
- c) **Location of decision centres:** Organisation structure determines the location of centres of decision making in the organisation. A departmental store, for instance may follow a structure that leaves pricing, sales promotion and other matters largely up to individual departments to ensure that various departmental conditions are considered.
- d) **Proper balancing** Organisation structure creates the proper balance and emphasises on coordination of group activities. Those more critical aspects for the success of the enterprise may be given higher priority in the organisation. Research in a pharmaceutical company, for instance, might be singled out for reporting to the general manager or the managing director of the company. Activities of comparable importance might be given, roughly equal levels in the structure to give them equal emphasis.

- e) **Stimulating creativity:** Sound Organisation structure stimulates creative thinking and initiative among organisational member by providing well defined patterns of authority. Everybody knows the area where he specializes and where his efforts will be appreciated.
- f) **Encouraging growth:** An organisation structure provides the framework within which an enterprise functions. If it is flexible, it will help in meeting challenges and certain opportunities for growth. A sound organisation structure facilitates growth of the enterprise by increasing its capacity to handle increased level of activity.
- g) **Marking use of technological improvements:** A sound organisation structure which is adaptable to change can make the best possible use of latest technology. It will modify the existing pattern of authority-responsibility relationships in the wake of technological improvements.

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

### 13.5.2 Types of Organisation Structure

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

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

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

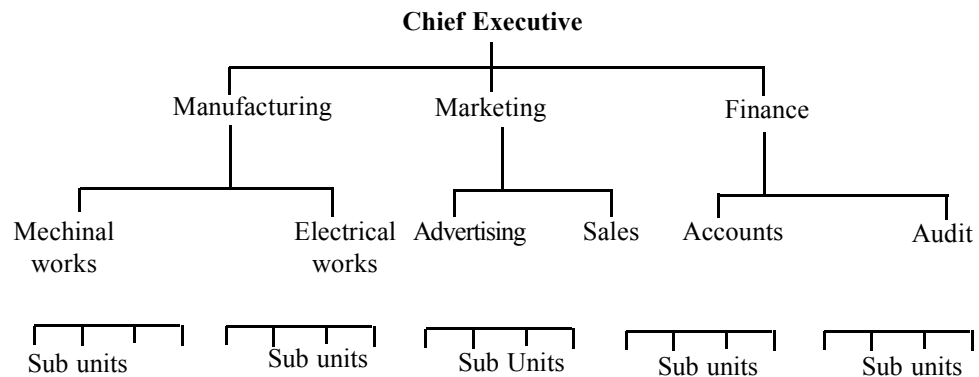
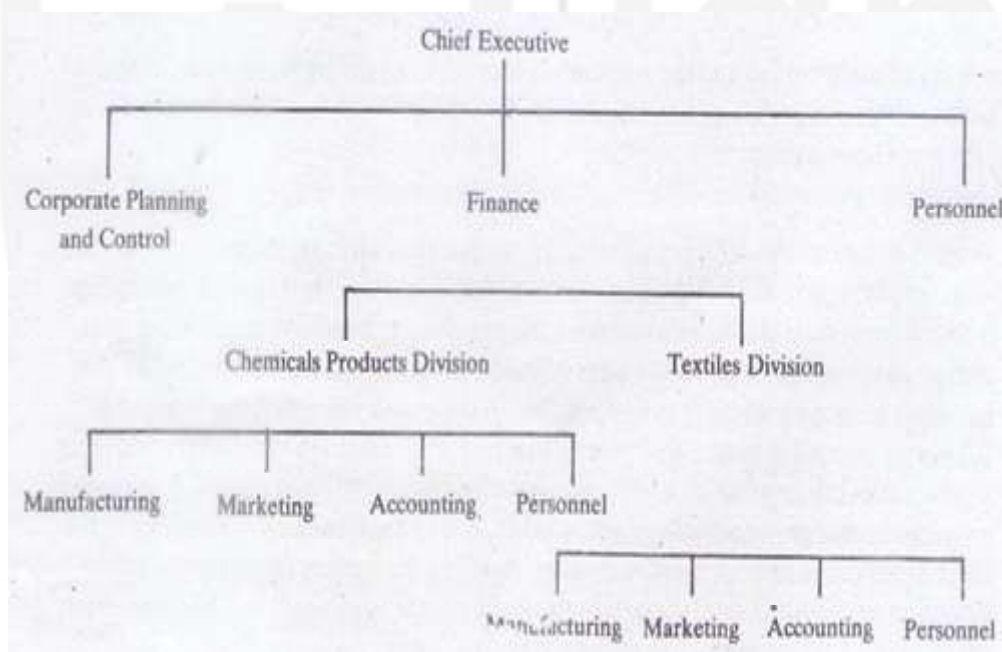


Figure 13.2 Functional structure

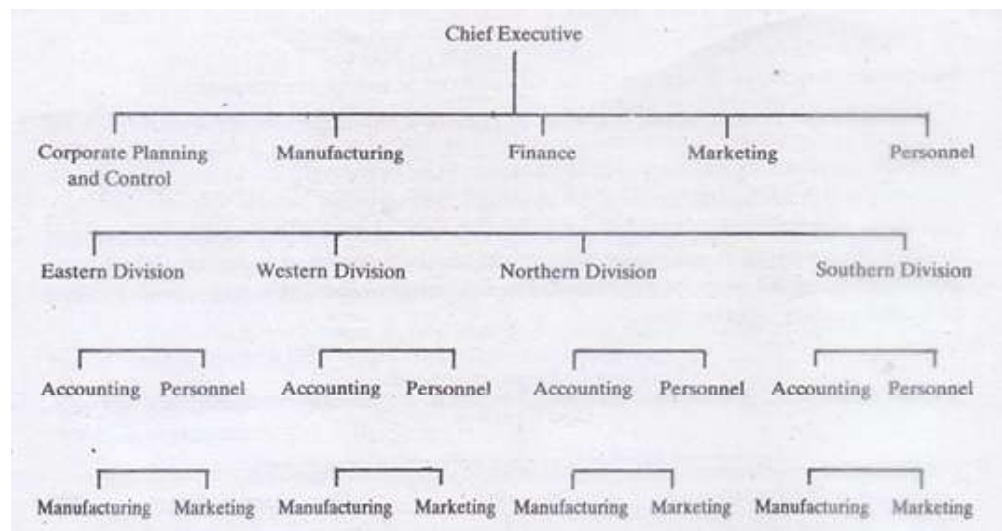
The main advantage of the functional structure of organisation is that there is functional specialisation in each unit, which leads to operational efficiency of people engaged, and the organisation as a whole derives the benefit of specialised operations. The head of the functional units are in direct touch with the chief executive who can sort out inter-functional problems, if any, and also coordinate the interrelated functions. The chief executive is also able to be in direct touch with lower level subordinates and thereby have full knowledge of the state of affairs in the organisation.

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

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



**Figure 13.3 Product Divisionalisation**



**Figure 13.4 Territorial Divisionalisation**

**Divisional structure:** The divisional organisation structure is more suited to very large enterprises particularly those which deal in multiple products to serve more than one distinctive market. The organisation is then divided into smaller business units which are entrusted with the business related to different products or different market territories. In other words, independent divisions (product divisions or market divisions) are created under the overall control of the head office. Each divisional manager is given autonomy to run all functions relating to the product or market segment or regional market. Thus, each division may have a number of supporting functions to undertake.

A divisional structure may consist of two or more product divisions or market or territorial divisions as depicted in the diagrams 13.3 and 13.4.

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

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

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

- i) Project Organisation and
- ii) Matrix Organisation



- i) **Project organisation:** When an enterprise undertakes any specialized, time-bound work involving one-time operations for a fairly long period, the project organisation is found most suitable. In this situation the existing organisation creates a special unit so as to engage in a project work without disturbing its regular business. This becomes necessary where it is not possible to cope with the special task or project. Within the existing system, the project may consist of developing a new project, installing a plant, building an office complex, etc. A project organisation is headed by a project manager in charge who holds a middle management rank and reports directly to the chief executive. Other managers and personnel in the project organisation are drawn from the functional departments of the parent organisation. On completion of the project they return to their parent departments.

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

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

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

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

### Check Your Progress A

- 1) Which of the following statements are True and which are False.
  - 1) The outcome of the process of organising is an 'organisation' consisting of a group of people working together for the achievement of common goals.
  - 2) The chain of command does not indicate the time of communication.
  - 3) The formal structure of an organisation is not affected by social or psychological forces.
  - 4) The divisional structure of organisation is characterised by decentralisation of authority.
  - 5) Project organisation is concerned with time bound one-time operations.
- 2) Fill in the blanks:
  - i) Viewed as a system, an organisation consists of ..... parts known as sub systems.
  - ii) It is through the process of organising that the ..... and ..... of people are determined.
  - iii) The structure of organisation established hierarchical relations between ..... and .....
  - iv) As the volume of activity increases, a functional organisation requires addition of sub-units at .....units.
  - v) The divisional structure of organisation is more suited to ..... enterprises.

## 13.6 PRINCIPLES OF ORGANISATION

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

- 1) **Unity of objectives:** An enterprise strives to accomplish certain objectives. The organisation and every part of it should be directed towards the attainment of objectives. Every member of the organisation should be familiar with its goals and objectives. There must be unity of objectives so that all efforts can be concentrated on the set goals. The principle requires objectives to be clearly formulated and well-understood.
- 2) **Division of work and specialisation:** The entire work in the organisation should be divided into various parts so that every individual is confined to the performance of a single job. This facilitates specialisation which in turn leads to efficiency and quality. However, each area of specialisation must be interrelated to the total integrated system by means of coordination of all activities of all departments.

- 3) **Definition of jobs:** Every position in the organisation should be clearly defined in relation to other positions in the organisation. The duties and responsibilities assigned to every position and its relationship with other positions should be so defined that there is no overlapping of functions.
- 4) **Separation of line and staff functions:** Whenever possible, line functions should be separated from staff activities. Line functions are those which accomplish the main objectives of the company. In many manufacturing companies, the manufacturing and sales departments are considered to be accomplishing the main objectives of the business and so are called the line functions. Other functions like personnel, plant maintenance, financing and legal are considered as staff functions.
- 5) **Chain of command or scalar principle:** There must be clear lines of authority running from the top to the bottom of the organisation. Authority is the right to decide, direct and coordinate. The organisation structure should facilitate delegation of authority. Clarity is achieved through delegation by step or levels from the top positions to the operating level. From the chief executive, a line of authority may proceed to departmental managers, to supervisors or foremen and finally to workers. This chain of command is also known as scalar principle of organisation.
- 6) **Parity of authority and responsibility or principle of correspondence:** Responsibility should always be coupled with corresponding authority. Each subordinate must have sufficient authority to discharge the responsibility entrusted to him. This principle suggests that if a plant manager in a multiplant organisation is held accountable for all activities in his plant, he should not be subject to seek orders from company headquarters for his day to day activities.
- 7) **Unity of command:** No one in the organisation should report to more than one line supervisor. Everyone in the organisation should know to whom he reports and who reports to him. Stated simply, everyone should have only one boss. Receiving directions from several supervisors may result in confusion, chaos, conflicts and lack of action.
- 8) **Unity of direction:** According to this principle a group of activities that have a common goal should be managed by one person. There should be one head and one plan for a common objective of different activities. This facilitates smooth progression towards the achievements of overall organisational goals.
- 9) **Exception principle:** This principle suggests that higher level managers should attend to exceptional matters only. All routine decisions should be taken at lower level, whereas problems involving unusual matters and policy decisions should be referred to higher levels.
- 10) **Span of supervision:** The term 'span of supervision' means the number of persons a manager or a supervisor can direct. No manager should be required to supervise more subordinates than he can effectively manage within the limits or available time and ability. The exact number may vary according to the nature of the job and the frequency or intensity of supervision needed.

- 11) **Principle of balance:** There should be proper balance between various parts of the organisation and no function should be given undue importance at the cost of others. Balance should be maintained also between centralisation and decentralisation, span of supervision and lines of communication, and authority allocated to department and personnel at various levels.
- 12) **Communication:** A good communication network is essential to achieve the objectives of an organisation. No doubt the line of authority provides channels of communication downward and upward, still some blocks in communication occur in many organisation. The confidence of superior in his subordinates and two-way communication are the factors that unite an organisation into an effectively operating system.
- 13) **Flexibility:** The organisation structure should be flexible so that it can be easily and economically adapted to the changes in the nature of business as well as technological innovations. Flexibility of organisation structure ensures the ability to change with the environment without disrupting the basic design.
- 14) **Continuity:** Change is the law of nature. Many changes take place outside the organisation. These changes must be reflected in the organisation. For this purpose the form of organisation structure must be able to serve the enterprise to attain its objectives for a long period of time.

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### 13.7 SPAN OF CONTROL

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

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

#### **Factors affecting Span of Control**

Although there are certain limits to the span of control, the tendency in recent years has been to avoid specifying absolute numbers because it has been

recognised that the ideal span depends on number of factors. Some of the more important of these factors are discussed below:

- i) **Nature of the work:** If the work is simple and repetitive, the span of control can be wider. However, if the work requires close supervision the span of control must be narrow.
- ii) **Ability of the manager:** Some managers are more capable of supervising large numbers of people than others. Thus for a manager who possesses qualities of leadership, decision-making ability, and communication skill in greater degree the span of control may be wider.
- iii) **Efficiency of the organisation:** Organisations with efficient working systems and competent personnel can have larger span of control.
- iv) **Staff assistants:** When staff assistants are employed, contact between supervisors and subordinates can be reduced and the span broadened.
- v) **Time available for supervision:** The span of control should be narrowed at the higher levels because top managers have less time available for supervision. They have to devote the major part of their work time in planning, organising, directing and controlling.
- vi) **Ability of the subordinates:** Fresh entrants to job take more of a supervisor's time than trained persons who have acquired experience in the job. Subordinates who have good judgment, initiative, and a sense of obligation seek less guidance from the supervisor.
- vii) **Degree of decentralisation:** An executive who personally takes many decisions is able to supervise fewer people than an executive who merely provides encouragement and occasional direction.

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

### Check Your Progress B

1) Fill in the blanks:

- i) The chain of command is based on the ..... principle of organisation.
- ii) Principle of correspondence suggests ..... of authority and responsibility.
- iii) Higher level managers should be required to attend to ..... matters only.
- iv) The organisation structure should be .....so that it can be adapted to change.
- v) A wide span of control results in ..... levels of supervision.



- 2) Which of the following statements are True and which are False.
- i) A narrow span is less expensive than a wide span.
  - ii) Unity of command means that a manager must issue the same instruction to all his subordinates.
  - iii) Personal functions are not line, but staff functions.
  - iv) The size of the span of control can be broadened if there are more staff assistants.
  - v) A department with all freshly recruited personal must have a wide span.

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## 13.8 ORGANISATION CHART

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An organisation chart shows a diagrammatic representation of important aspects of an organisation including the major functions and their relationships. It is a blue print of company organisation, its functions lines of authority and way positions. In other words it is a graphic portrayal of positions in the enterprise and of the formal lines of accountability among them. It provide a birds eye view of the relationship between different departments of divisions of an enterprise as well as the relationships between the executives and subordinates at various levels. It enables each executive and employee to understand his position in the organisation and to know to whom he is accountable. Thus it is obvious that an organisation chart has the following characteristics.

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

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

### **Advantages of Organisation Chart**

Following are the advantages of an organisation chart:

- i) It is a tool of administration which indicates graphically to the employees how their positions fit into the total organisation and how they relate to each other.
- ii) It shows at a glance the lines of authority and responsibility. It is a reliable blue print of how the positions are arranged. From it, the individuals can have a sense of the limit of their authority, and can see who their associates

are, to whom they have to report, and from whom they are to receive instructions.

- iii) It serves as a valuable guide to the new personnel in understanding the organisation structure and the inter relationship between its units and sub-units.
- iv) It provides a framework of personnel classification and evaluation systems.
- v) It plays a significant part in organisational improvement by reflecting inconsistencies and deficiencies.

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

### **Limitations of Organisation Chart**

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

- i) Organisation chart shows only the formal relationships and fails to show the informal relations within the organisations. In modern enterprises, informal relationships significantly effect the functioning of organisations.
- ii) It shows the lines of authority, but it is not able to answer questions like the degree of authority that can be exercised by a particular executive, how far he is responsible for his functions, and to what extent he is accountable.
- iii) It introduces rigidity in the relationships. Updating is not possible without disturbing the entire set up.
- iv) Faulty organisation chart may cause confusion and misunderstanding among the organisational members. Moreover it gives rise to a feeling of superiority and inferiority which causes conflicts in the organisation.
- v) It does not show the relationship which actually exist in the organisation, but shows only the 'supposed relationships'.

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## **13.9 ORGANISATIONAL MANUAL**

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

### 13.9.1 Importance of Manuals

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

### 13.9.2 Types of Manual

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

- 1) **Policy manual:** It is prepared to state the policies of the enterprise. It is a basic guide to action. Policy manual describes the overall framework within which activities are to take place and thus reveals the board courses of managerial action likely to take place under certain conditions. It contains decision, resolutions and pronouncements of the management of the enterprise
- 2) **Operations manual:** The purpose of manual is to inform the employees of established methods, procedures and the desired standards of performance of work. It lists the authorised steps and supplements them by the use of diagrams sketches, charts etc. of each department and division.
- 3) **Organisation manual:** It describes the organisational setup indicating the duties and responsibilities of various departments and their respective subdivisions. It is portrayal of the formal chain of responsibilities and authorities among different persons working in the enterprise. The levels of authority and responsibility of each executive is indicated in the manual so as to avoid conflicts in the organisation. Promotional charts may be included in the organisation manual showing the possible promotional avenues throughout the entire organisation.
- 4) **Rules and Regulations manual:** This manual provides information relating to the operating rules and employment regulations. It contains regulations governing hours of work, timings, procedure for taking leave, etc. It is actually a handbook of employment rules. It may also indicate the various

benefit plans for employees including rules regarding the use of library, cafeteria, recreation club, etc.

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

### 13.9.3 Advantages of Manual

- 1) It contains procedural rules and regulations and various other information in a written form. These need not be explained to the employees time and again.
- 2) It provides a ready reference with regard to all important decisions relating to the internal organisation of the enterprise.
- 3) It presents jurisdictional conflicts by clear indication of the sources of authority.
- 4) It enables new employees to learn the standard procedures and practices in the shortest possible time. They have a clear understanding of the responsibilities of their jobs and their relationship with other jobs.
- 5) It enables quick decisions as instruction and policies are stated in definite terms.

### 13.9.4 Drawbacks of Manual

- 1) Small enterprises cannot afford to have a manual because its preparation is costly and a time-consuming process.
- 2) Manuals may cause rigidity of operations in the organisation by putting the standard procedures and practices in writing. It leaves little scope for individual initiative and discretion.
- 3) Manuals may put on record those relationships which no one would like to see exposed.

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## 13.10 FORMAL AND INFORMAL ORGANISATIONS

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Formal organisation is a planned structure which represents the officially established pattern of relationships among individuals, groups, sections, units, departments and divisions so as to accomplish the goals of the enterprise. Typically, it is represented by a chart and set forth in organisation manuals, position descriptions, and other formalised documents. The formal organisation provides a board framework and delineates certain prescribed functions and the relationships between them. Formal organisation may be defined as a system of consciously coordinated activities of two or more persons towards a given objective. It is a group working together cooperatively under authority toward goals that mutually benefit the participants and the organisation. Moreover, stable

and consistent relationships promote order and facilitate planning and controlling functions. Formal organisation may also be defined as (i) the pattern of formal relationships and duties, the organisation charts, job descriptions and positions guides; and (ii) formal rules, policies, work procedures and similar devices adopted by management to guide employee behaviour in certain ways within the structure of formal relationships.

The formal organisation facilitates the determination of objectives and policies. Communication, delegation of authority, and coordination take place according to a prescribed pattern. In fact, formal structure restricts and circumscribes the area of operations of individuals working within an organisation based on interest, personal attitudes, emotions, prejudices, likes, dislikes, physical location, similarity of work, etc. The informal organisation comes into existence because of the limitations of the formal structure. It represents natural grouping of people in working situation. The birth of small groups in an organisation is a natural phenomenon. The informal groups may overlap also because an individual may be a member of more than one informal group. In many cases, informal groups came into being to support and supplement the formal organisation. Indeed, the formal and informal organisations are inextricably interlinked. The difference between the two aspects of organisational life is only analytical and it should not be given undue emphasis.

### 13.10.1 Difference between Formal and Informal Organisations

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

- 1) **Origin:** Formal organisations are created by conscious managerial decisions. But informal organisations arise spontaneously within the formal organisation because of the natural tendency of the individuals to associate and interact. Management has no hand either in the emergence or abolition of informal groups.
- 2) **Purpose:** Formal organisations are created for realizing certain well-defined objectives. But informal organisations are created by organisational members for their social and psychological satisfaction.
- 3) **Activities:** Activities in case of formal organisation are differentiated and integrated around the objectives of the enterprise and are formalized into work-units or departments on a horizontal basis. In case of informal organisation, there are no specific activities. They arise from time to time as a result of interactions and sentiments of the individuals. Informal groups may be based on common values, language, culture or any other factor.
- 4) **Structure:** Formal organisation is hierarchical, pyramid shaped in structure with well defined positions, roles and superior-subordinated relationships. It involves enforcement of organisational order through a set of policies, procedures and rules, emphasises on status differentiation based on authority, upward and downward oriented communication system, etc. On the other hand, informal organisation is non-hierarchical; it looks like a complicated social network of interpersonal relationships. Informal organisation is loosely structured, with only unwritten norms of behaviour enforced by consent. Communication is informal and multidimensional. There are no rigid status differentials.



- 5) **Membership:** In a formal organisation every individual belongs to one work group only and works under one superior. But in case of an informal organisation, a person can be a member of more than one group, according to his choice. He may be a leader in one group and a follower in another. There is no rigidity about group membership.
- 6) **Orientation:** In case of formal organisation, values, goals and tasks are dominantly economic and technical, and they concern productivity, profitability, efficiency, survival and growth. But in case of informal organisation values, goals, and tasks are predominantly psycho-social, centered around individual and group satisfaction, affiliation cohesiveness and friendship.
- 7) **Norms of behaviour:** In a formal organisation individuals are required to behave in the prescribed manner in their work situation. They are expected to behave in a rationale manner. Deviations from the standard are dealt with according to the organisational rules and regulations. There is also a system of rewards and punishments. But in case of informal organisation, individual behaviour and group behaviour influence each other. Moreover, behaviour is more natural and socialized. Informal groups develop their own norms of behaviour and system of rewards and punishments. Reward takes the form of a continuous membership of the groups, social status, recognition etc. While punishment includes censure by the group, isolation from the group, etc.

### 13.10.2 Characteristics of Informal Organisation

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

- 1) **Authority:** There is a network of relationships in an informal organisation which may cut across the formally prescribed pattern of relationships. An informal organisation has its own code of conduct, system of communication, and system of reward and punishment. The authority in an informal organisation is personal rather than positional as in case of formal organisation. Power in informal organisation is earned or given by group members, rather than delegated; therefore, it does not follow the official chain of command. It is more likely to come from peers (equals) than from superiors in the formal hierarchy; and it may act across authority, since it is subject to the sentiments of people. Because of its subjective nature, informal organisation cannot be controlled by management, in the way as formal organisation.
- 2) **Objectives:** Groups evolve their own goals reflecting their own special interests. Group members are dedicated to group goals. Group cohesiveness results in the group acting in a unified manner. This cohesiveness is the result of the degree to which the group goals help the satisfaction of individual needs. Therefore, the group objectives should be related to the individual needs of the members of the group.

- 3) **Communication:** Informal organisation comes into existence because of the deficiencies of the formal channels of communication. The formal channels of communication may be inadequate and they may be slow. The need for speedier communication may give birth to informal channels of communication. Informal communication is very fast but the greatest danger is that it may give rise to rumours. Rumours may prove to be detrimental to the interests of the organisation.
- 4) **Leadership:** The informal group has its own leader. An informal leader may not be the superior under whom the group members are working. An informal group leader performs the following functions: (i) he facilitates consensus among the group members, (ii) he initiates action, and (iii) provides a link with the outside world. If the formal leader is able to perform these functions, he may be accepted as an informal leader also. Workers will go to him for their personal problems, counseling, etc. The important factors which determine informal leadership are age, seniority, work location, technical competence, etc. It may be noted that persons who emerge as informal leaders are perceived by other group members as being the best people who can satisfy the goals of the group. The group may have a number of leaders for different purposes. For instance, the group may have a task leader whose function is to drive the group towards its goals and a human relations leader who helps in promoting co-operation among the members.

### 13.10.3 Functions of Informal Organisation

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

- 1) **Filling in gaps in managerial abilities:** Informal organisation may fill in gaps, if any, in the abilities of managers. For example, if a manager is weak in planning his subordinates may help him informally in such a situation.
- 2) **Solving work problems:** Informal organisations help in solving work problems of members. It allows sharing knowledge and taking decisions which may affect a number of jobs.
- 3) **Better coordination:** Informal groups evolve short cuts and eliminate red-tapism. They facilitate smooth flow of information and quick decision making. All these ensure better coordination among various individuals and departments.
- 4) **Channel of communication:** Informal groups often fill up communication gaps which might arise in the organisation. Informal communication cuts across the hierarchical and departmental boundaries and transmits information with greater speed. Management can use informal channels to share information with the workers and get their reaction to management proposal.
- 5) **Restraint on managers:** Informal groups do not allow managers to cross the limits of authority. They resist them from exercising unlimited power and from using their power unjudiciously.
- 6) **Better relations:** A manager can build better relations with his subordinates through informal contacts. He can consult the informal leaders and seek their cooperation in getting the things done from the workers.

- 7) **Norms of behaviour:** Informal groups develop certain norms of behaviour which differentiate between good and bad conduct and between legitimate and illegitimate activities. These bring discipline and order among the employees of the organisation.
- 8) **Developing future executives:** Informal groups recognise talented workers as their leaders. Such leaders can be picked up by the management to fill vacancies at the junior executive level in future.

#### 13.10.4 Problems of Informal Organisation

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

- 1) **Negative attitude of informal leaders:** The informal leader may turn out to be a trouble shooter for the organisation. In order to increase his influence, he may work against the policies of management, and manipulate the behaviour of his followers. Thus, he can be a source of conflict between the management and workers. He may induce the followers to work against the interests of the organisation. If such a leader is promoted to the rank of an executive, he may prove to be work shirker and an arrogant and autocratic boss.
- 2) **Conformity:** The informal group exerts strong pressure on its members for conformity. The members may become so loyal to their group that following the group norms becomes a part of their life. This implies that members become subject to willful control of the group leader who may lead the group toward selfish ends. This may lead to dilution of the effect of organisational policies and practices on the group members.
- 3) **Resistance to changes:** Informal groups generally have a tendency to resist change. Change requires new skills but groups want to maintain status quo. Sometimes, groups react violently to the changes proposed by management. This creates obstructions in implementing new ideas and thus organisation's growth.
- 4) **Rumour:** Informal communication may give rise to rumours which may create conflict and misunderstanding among the people. Rumour tends to change as it passes from person to person. Its general theme may be maintained, but not its details. The rumour gets twisted and distorted always when it passes from one mouth to another. It may originate due to employee's anxiety, insecurity and poor communication of the organisation. Rumours may prove very dangerous for the organisation.
- 5) **Role conflict:** Every member of the informal group is also a member of the formal organisation. Sometimes role conflict may arise because the ideas, expectation and requirement of both the organisation may be opposite to each other. For example an individual wants to follow the formal instructions of his boss; he may be compelled by the informal leader to follow informal norms. Thus organisational interests are likely to suffer in case of conflicts between formal and informal roles.

**Check Your Progress C**

- 1) Which of the following statements are True and which are False.
  - i) An organisation chart indicates the lines of communication as well as lines of authority.
  - ii) Both formal and informal relationships are depicted in the organisation chart.
  - iii) The existence of organisation manual totally relieves managers of their responsibility of issuing instructions to subordinates.
  - iv) Informal organisation is created by conscious managerial decision.
  - v) Informal groups in an organisation consist of members drawn from the same department.
  
- 2) Fill in the blanks:
  - i) Organisation manuals enable employees to quickly learn the standard ..... and.....
  - ii) An organisational chart shows the ..... of authority but not the ..... of authority with respect of the various managerial positions.
  - iii) Formal organisation is typically reflected in the organisational .....
  - iv) Informal organisation cuts across..... and..... boundaries.
  - v) In a formal organisation every individual belongs to only one .....

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**13.11 LET US SUM UP**

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

An organisation provides the framework within which co-operative work can be carried out without friction, and people can perform their tasks more effectively. Organising is the process by which managers bring order out of chaos and create proper conditions for effective team-work. An organisation viewed as a system is composed of many inter-dependent and interrelated parts known as sub-systems. As a social system, components of an organisation consist

of: inputs of human and material resources along with information, the processor (also known as throughput); and output consisting of goods and services.

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

- 1) Functional,
- 2) Divisional,
- 3) Adaptive.

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

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

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

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

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## 13.12 KEY WORDS

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

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

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

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

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

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



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

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

**Structure:** A framework of relationship among parts

**System:** An arrangement and act of relationship among multiple parts operating as a whole

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

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### 13.13 ANSWERS TO CHECK YOUR PROGRESS

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- A)** 1) i) True, ii) False, iii) False, iv) True, v) True  
2) i) Interrelated ii) tasks, responsibilities iii) superior, subordinates  
iv) lower, v) large
- B)** 1) i) Scalar, ii) parity, iii) False, iv) flexible, v) fewer,  
2) i) False, ii) False, iii) True, iv) True v) False.
- C)** 1) i) True, ii) False, (iii) False, iv) True, v) False.  
2) i) Procedures, practices, (ii)line, extent, iii) chart, iv) hierarchical,  
departmental v) workgroup.

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### 13.14 QUESTIONS FOR PRACTICE

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- 1) What do you understand by organising? What are the important principles of sound organisation?
- 2) Explain the components of organisational system.
- 3) Discuss the important steps involved in organisation process.
- 4) Under what circumstances is a divisional structure of organisation superior to the functional structure? Compare their relative merits.
- 5) What do you mean by span of control? Discuss factors affecting span of control
- 6) "Organisation chart provides a broad picture of positions of authority and their relationships in the organisation structure " Explain this statement and point out limitations of organisation chart.
- 7) What is meant by organisational manual? What are its uses? What information should it contain?
- 8) "Beneath the cloak of formal relationship in every institution there exists a more complex system of social relationships, called the informal organisation". Elucidate this statement and explain the nature of informal organisation.
- 9) Distinguish between formal and informal organisation. What should be the attitude of management towards informal organisation?



10) Write notes on:

Organising: Basic Concept

- a) Organisation structure
- b) Project organisation

**Note:** These questions will help you to understand the Unit better. Try to write answer for them. But do not send your answers to the University. These are for your practice only.



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# UNIT 14 DELEGATION AND DECENTRALISATION

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## Structure

- 14.0 Objectives
- 14.1 Introduction
- 14.2 Delegation
  - 14.2.1 Delegation of Authority
  - 14.2.2 Elements of Delegation
  - 14.2.3 Principles of Delegation
  - 14.2.4 Importance of Delegation
  - 14.2.5 Barriers to Effective Delegation
  - 14.2.6 Means of Effective Delegation
- 14.3 Decentralisation
  - 14.3.1 Distinction between Delegation of Authority and Decentralisation
  - 14.3.2 Merits and Limitations of Decentralisation
  - 14.3.3 Factors Determining the Degree of Decentralisation
- 14.4 Let Us Sum Up
- 14.5 Key words
- 14.6 Answers to Check Your Progress
- 14.7 Questions for Practice

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## 14.0 OBJECTIVES

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After studying this unit you should be able to:

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

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## 14.1 INTRODUCTION

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

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

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## 14.2 DELEGATION

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

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

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

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

### 14.2.1 Delegation of Authority

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

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

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

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

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

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

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

### 14.2.2 Elements of Delegation

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

- a) **Assignment of task or duties:** In the first step, the delegator (superior) assigns duties to delegate (subordinate). While assigning the duties, the delegator must be clear in his mind as to what tasks he should assign to subordinates. Thus the work or task to be assigned is identified and clearly defined before it is assigned. For example, when a sales manager asks his subordinate to set up a divisional sales office, he must explain clearly the objectives, the sales territory, etc.
- b) **Conferment of power of authority:** Granting of authority is the second step in delegation. Authority may be defined as the powers and rights granted to another to perform the delegated work. These powers may include the authority to acquire necessary resources for the performance of the assigned work. Without adequate authority, the subordinate (delegatee) cannot be expected to perform his task or duties. For example, in the above case when the sales manager asks his subordinate to set up a divisional office he has to give him the right to procure and use necessary resources.
- c) **Accountability:** Once the duties are assigned and authority is given to a subordinate, the delegator creates an obligation/accountability to perform the tasks. The obligation to carry out the task and bear responsibility in terms of the standards established and specified is known as accountability. Thus, accountability is the obligation of an individual to render an account

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

### Check Your Progress A

- 1) Which of the following statements are True or False?
  - i) Delegation takes place when one person gives another a free hand to perform all types of work on his behalf with no responsibility
  - ii) The purpose of delegation is to share work with another, which means division of work.
  - iii) Delegation involves entrustment of work, grant of authority and creation of obligation.
  - iv) A manager can control the performance of his subordinate through his accountability.
  - v) Delegated duties are always a part of the subordinate's normal duties.
- 2) Fill in the blanks choosing the appropriate word from those given within brackets.
  - i) Delegation constitutes a .....relationship (master-servant/master-agent/master-worker)
  - ii) As a process delegation implies the transfer of a portion of superior's .....to his subordinate (activities/authority/obligation )
  - iii) The obligation to carryout the delegated task in terms of specified standards in known as.....(responsibility/accountability)
  - iv) Accountability is fixed to the .....(person/position/superior)
  - v) The delegate must function within the limits set by the ..... (job description/superior/ subordinate)

### 14.2.3 Principles of Delegation

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

**Principle of delegation by results:** The purpose of delegation is to get work done through another more effectively and efficiently than it may be accomplished by the delegator himself in a given situation. It is therefore, essential that the assignment of task or duty and the entrustment of authority should be done keeping in view the results expected. Delegation by result implies that goals have already been set and properly communicated to the delegate and understood

by him and that the job assigned fits the objectives.

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

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

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

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

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

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

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

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

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

#### 14.2.4 Importance of Delegation

Delegation of authority is one of the most important elements in the process of organisation. Organisations are characterised by a network of activities and roles.



Delegation is the process through which the interrelationships are created among individuals in their different roles in the organisation.

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

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

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

**Check Your Progress B**

- 1) Fill in the blanks with appropriate words from those given within brackets:
  - i) Delegation by result implies that goals have been properly ..... (assigned /communicated/discussed)
  - ii) Responsibility can be neither delegated nor shifted. It is ..... (fixed/absolute/rigid)
  - iii) Subordinates often avoid responsibility due to fear of ..... (penalty/criticism for mistakes /discharge)
  - iv) Subordinates should be .....to accept delegation (forced /ordered /trained)
  - v) Managers are reluctant to delegate when they have no confidence in the .....of subordinates (morality/sense of responsibility/integrity)
- 2) Which of the following statements are True or False?
  - i) The responsibility of the delegatee cannot be greater than the authority delegated to him.
  - ii) Delegation is not possible if the managers are younger than the subordinates.
  - iii) Delegation provides continuity of operations in the organisation.
  - iv) Objectives have nothing to do with effectiveness of delegation.
  - v) For effective delegation managers must have trust in their subordinates.

### 14.2.5 Barriers to Effective Delegation

The problem of delegation is essentially one of human leadership. 'Delegation is not only a technique of management; it is a part of the attitude of business itself.' As such what is necessary is the atmosphere of giving and taking responsibility in the organisation. This is possible by creating an atmosphere of mutual trust and confidence. The reluctance of the superior to delegate and the reluctance or avoidance of the subordinates to accept delegation are the major barriers to delegation which are discussed below.

#### Why are managers reluctant to delegate

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

- 1) **Lack of confidence in the capability of subordinates:** A manager may not have confidence in the capability and competence of subordinates. He may consider that he can do the job better than his subordinates.
- 2) **Lack of confidence in the subordinate's sense of responsibility:** The manager's lack of confidence in the sense of responsibility of subordinates may also stand in the way of delegation of authority to others.
- 3) **Fear of loss of power:** Managers who feel insecure and fear that if the subordinates perform well they may lose their power, are usually reluctant to delegate.
- 4) **Lack of self confidence:** Some manager may lack self-confidence or may be too conscious of their own incompetence, and therefore, reluctant to delegate authority. This is true in organisations where professional management is lacking.

#### Why subordinates avoid delegation?

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

- 2) **Reluctance to bear responsibility:** Researches have shown that many subordinates prefer controlled existence with minimum responsibility. Such employees are unwilling to accept responsibility which goes with delegation of authority.
- 3) **Fear of criticism:** Another factor which prompts subordinates to avoid responsibility is the fear of criticism for inefficiency or mistakes.
- 4) **Fear of inadequacy of resources:** Many subordinates hesitate to accept responsibility for fear of inadequacy of necessary resources for completion of the task and uncooperative attitude of the delegator.
- 5) **Lack of motivation:** In many cases, the organisational climate is not motivating enough. It prevents subordinates in accepting responsibility. Some studies undertaken in India show that delegators love for authority, the tendency on the part of the superiors to hold back information needed by subordinates and delegators' lack of confidence of the subordinate in taking up delegated tasks.

### 14.2.6 Means of Effective Delegation

Effectiveness of delegation is governed largely by the general attitude of business which depends on various factors, like management policies, organisational culture, professional outlook and willingness on the part of key managers to delegate authority and the willingness as well as competence of the subordinates to accept delegation. The studies undertaken have shown that poor or inept delegation is one of the most prominent causes for the lack of delegation or failure of delegation. For effective delegation, the following measures may be taken.

- 1) **Improvement in the organisational climate and general management policies:** The organisational climate depends on several factors, the most important of which is the general attitude of the key managers and the overall personal policy of the organisation. A forward looking, progressive organisation believes in the development of its people and such throws open more and more opportunities for the younger managers to develop.
- 2) **Trust in subordinates:** If the key managers create an atmosphere of trust and repose their confidence in the subordinates, the subordinates will be motivated to take responsibilities. Once trust prevails, the feeling of fear disappears.
- 3) **Establish clear objectives:** Effective delegation depends on clarity of objectives. The delegatee should clearly know what he has to achieve.
- 4) **Define responsibility and authority:** The delegatee should know the degree of authority he enjoys to perform the job, and its adequacy in relation to his responsibilities.
- 5) **Motivate subordinates:** Motivation is the moving force in delegation. About the best leader, the Chinese philosopher Lao-tzu said “when their task is accomplished, their work done, the people feel ‘we have done this ourselves’.” It is difficult to say what would motivate people. The true motivation is internal. What clicks in motivating an individual is not easy to know. Yet it is for the superior to know as to what the urgent needs of their subordinates are. Research studies have shown that group recognition and group cohesiveness encourage participative management. The introduction of participative management in the organisation must be encouraged at all levels —lower, middle and top levels.
- 6) **Improve communication:** Communication is an effective tool promoting better understanding and improving the organisational climate. There should be a free flow of information about the policies and programmes of the organisation.
- 7) **Provide necessary training:** Subordinates should be trained to accept delegation and the manager should master the skill of delegation.
- 8) **Establish adequate controls:** Effective delegation requires a system of controls to free the manager from routine inspections and yet enable him to maintain accountability.

## 14.3 DECENTRALISATION

Delegation of authority is closely related to the concepts of centralisation and Decentralisation of authority.

### Centralisation

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

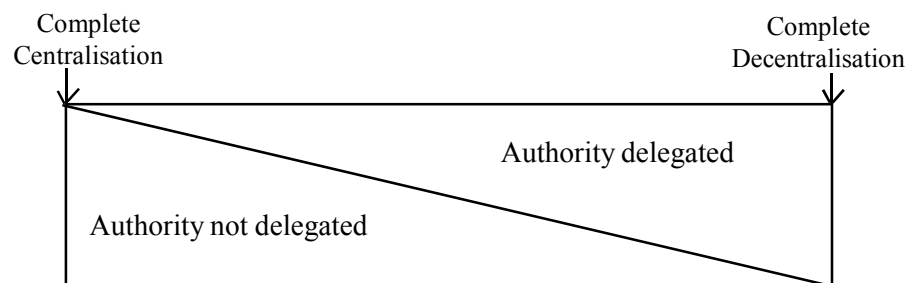
Centralisation may be essential in small organisation to survive in a highly competitive world. But as the organisation becomes more complex in terms of increasing size, interdependence of work-flow, complexity of task and spatial physical barriers within and among groups, a function requisite for efficiency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

### Decentralisation

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

As you know, decentralisation is a correlate of delegation; to the extent that authority is not delegated, it is centralised. Absolute centralisation decreases the role of subordinate managers which in turn encourages decentralisation. Absolute decentralization is also not possible because managers cannot delegate all their authority. If he does so, his status as managers would cease and his position would be eliminated. The degree of centralisation and decentralisation is shown in figure 14.1

**Fig. 14.1: Degree of Centralisation and Decentralisation**



### 14.3.1 Distinction between Delegation of Authority and Decentralisation

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

- 1) Delegation is a process of systematic transfer of authority while decentralisation is the end result of planned delegation.
- 2) Delegation refers to the transfer of authority from one individual to another. Decentralisation refers to the systematic delegation of authority to all units in an organisation-wide context.
- 3) Delegation can take place from one person to another and be a complete process. But decentralisation is complete only when the fullest possible delegation is made to all or to most of the people.
- 4) Delegation is between a superior and a subordinate while decentralisation is company-wide delegation as between top management and divisions or departments.
- 5) Delegation is necessary for effective management because no individual manager can afford to look after everything. But decentralisation is optional, necessitated by the growth of the organisation.
- 6) In delegation, operational control is exercised by the delegatee but in decentralisation the overall control is by the top management.

### 14.3.2 Merits and Limitations of Decentralisation

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

#### Merits

- 1) **Facilitates growing and complex organisation:** Centralisation of authority may be desirable under certain special circumstances to accomplish specific results or when the company is small. But when organisation grows in size and became complex even a hardcore autocratic manager is forced to delegate some authority and bring about decentralisation.
- 2) **Reduces the burden of executives:** Decentralisation is always preferable when an organisation has grown in size and complexity, and there is a need to reduce the burden of the top executives.
- 3) **Facilitates diversification:** Decentralisation is required when business needs to be expanded by diversifying its activities or product lines.
- 4) **Quick decision making:** Decentralisation facilitates consultative as well as quick decision-making at the action point. This promotes interaction among the different functionaries giving them an opportunity for self development and training and stimulating them to put in their best effort in the growth and development of the organisation as whole.

## Limitations

- 1) **Leads to disintegration:** Extreme decentralisation, however, is a cure. It may lead to looseness and also ultimately to the disintegration of the organisation. It may bring about the diseconomy of scale with the increase in the overhead expenses of each decentralised unit. The duplication in functions may further add to the total cost.
- 2) **Dose not suit specialised services:** For specialised services like accounting personal, research and development etc., decentralisation is unwarranted. Moreover, there are certain areas of control and responsibility like setting up overall organisational objectives, long-term planning, formulation of policy, capital investment etc. which need to be under central control only.
- 3) **Conflict:** Decentralisation puts increased pressure on divisional heads to realise profits at any cost. This encourages the managers to become department conscious. Sometime the top management deliberately encourages competition between different departments to increase the profitability. This competition results in bitter inter-divisional rivalries and conflict.

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

### 14.3.3 Factors Determining the Degree of Decentralisation

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

- 1) **Size of operations:** As an organisation grows in size and complexity, need for decentralisation tends to increase. More decision are taken at different places and coordination of a large number of departments becomes difficult. Thus as the size increases, decentralisation becomes inevitable.
- 2) **Cost and risks of decision-making:** As the organisation grows in size the decisions involving heavy costs also multiply. With decentralisation of authority the high cost and high-risk decisions may be taken at the top level but routine decisions can be taken at lower levels. Thus decentralisation helps and quickens decisions-making process.
- 3) **Top management philosophy:** The attitude of top executives and their philosophy have an important influence on the extent to which authority is decentralised.
- 4) **Availability of management resources:** The extent of decentralisation is limited to the extent of availability of trained and competent managerial personnel.
- 5) **Environmental influence:** The most important environmental forces affecting the degree of decentralisation are: Government controls, tax policies, and unionism



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

### Check Your Progress C

- 1) Which of the following statement are True or False?
  - i) Decentralisation of authority and delegation of authority are closely interrelated.
  - ii) Delegation is essential for management but decentralisation is optional.
  - iii) Decentralisation of authority is not good for large organisations.
  - iv) Decentralisation of authority is bad under all circumstances.
  - v) Delegation is not possible in all units of an organisation.
- 2) Fill in the blanks
  - i) Decentralisation is the ..... or planned delegation in the organisation-wide context.
  - ii) Centralisation may be desirable when the organisation is .....
  - iii) When business needs expansion by diversifying the product line, the organisation should be .....
  - iv) As .....of a business increases centralisation is not preferable.
  - v) For specialized services like accounting ..... is unwarranted.

## 14.4 LET US SUM UP

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

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

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

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

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

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

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

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

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## 14.5 KEY WORDS

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

**Accountability:** Subordinates responsibility to account for the performance of the task delegated to him.

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

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

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

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

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

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

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

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## 14.6 ANSWERS TO CHECK YOUR PROGRESS

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- A) 1) i) False ii) False iii) True iv) True v) False  
ii. i) master-agent ii) authority iii) accountability iv) position v) superior.
- B) 1) i) Communicated ii) absolute iii) criticism for mistakes iv) trained v) sense of responsibility.  
2) i) True ii) False iii) True iv) False v) True
- C) 1) i) True ii) True iii) False iv) False v) False  
2) i) end result ii) small iii) decentralised iv) size v) decentralisation.

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## 14.7 QUESTIONS FOR PRACTICE

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

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