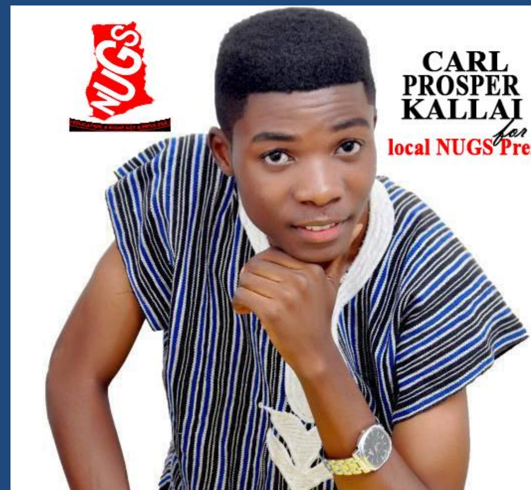


Prof

**UNIVERSITY OF PROFESSIONAL STUDIES, ACCRA**

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# COURSE TITLE: BUSINESS MANAGEMENT I

**COURSE CODE: PDBA 101**

**Department: Business Administration, Accounting, Marketing, Public Relations**

**LECTURER: GERALD JOSEPH NII NYANYOFIO**

## Course Details

### Course Description

This course is an introductory course in Management that deals with basic concepts in Management; Management principles and functions of the Management. It develops an understanding of the theories underpinning the nature of management function within an organization (especially business), and in its interaction with the markets, technological, legal, social and political.

### Relevance

Management is an important aspect of individual, social and organizational activities. Management seeks to ensure the co-ordination of individual efforts towards desired goal(s). Organizations such as businesses aspire to achieve high level of performance efficiency in order to maximize the corporate goals (example, profits). Achievements of such goals require the right calibre of people as managers with requisite managerial expertise. It is therefore the purpose of this course to expose and equip students with the basic concepts and principles of management for the individual, corporate and national decision-making and growth.

## Course Format

Classes will be held three (3) hours each week for thirteen (13) weeks in the Semester. Presentation of the subject matter will consist of lectures, class and group discussions as well as presentation.

### Assessment

Assessment of students' performance will be based on

- Class work/assignment/presentation (15%)
- Mid-semester examinations (20%)
- End of semester examination (65%)

### Required Reading

*Lecture notes*

*Bartol, K.M and D.C. Martin (1998), Management, Boston: Mc Graw-Hill.*

*Cole, G.A. (1993), Management: Theory and Practice, Guernsey: DP Publications Ltd.*

*Koontz, H. and H. Weihrich (1990), Essentials of Management, New York: Mc Graw-Hill Publishing.*

*Koontz, H., O'Donnel C. and H. Weihrich (1996), Management; Boston: Mc Graw-Hill.*

*Kreitner, R. (1989), Management; Dallas: Houghton Mifflin Company.*

*Turban, E. and J.R. Meredith (1991); Fundamentals of Management Science; Boston: IRWIN.*

Daft, R. L., (2006), Management, (6th Edition) Thompson, South-Western

DuBrin, A. J., (2006), Essentials of Management (7th Edition) Thompson, South-Western

### *Course Outline:*

| WEEK ONE | ACTIVITY |
|---|---|
| **1.0 Management: Concept and Nature** | |
| 1.1 Concept of Management | Lectures |
| 1.2 Features and Objectives of Management | |
| 1.3 Management and Administration | |

1.4 Levels of Management and Managerial Skills

1.5 Management Process and Management Function

1.6 Managerial Roles

**WEEKS TWO & THREE**

**2.0 Management Theories**

2.1 Pre-scientific or Pre- Classical Management Theories Lectures

2.2 Classical Theory: Taylor's Scientific, Fayol's Administrative, & Weber's Bureaucracy Theories

2.3 Behavioural Theory: Human Relations or Neo-classical, Behavioural theories

2.4 Modern Management Theory: Quantitative, System, Contingency, and Operational theories.

**WEEK FOUR**

**3.0 Planning and Decision Making**

3.1Meaning and Features of Planning Lectures

3.2 Importance/Objective of Planning

3.3 Limitation of Planning

3.4 Barriers to Planning

3.5 Process of Planning

3.6 Principle of Planning

3.7 Features of a Good Plan

**WEEK FIVE**

4.0 Forecasting and Planning Lectures

4.1 Goal and Objectives

4.2 Purpose of Mission

4.3 Components of Mission Statement

4.4 Features of Mission Statement

4.5 Feature/Benefit of Objective

4.6 Multiplicity of Objectives

4.7 Hierarchy of Objectives

4.8 Decision Making and Planning

**WEEK SIX & SEVEN**

**5.0 Organising: Nature, Process and Importance**

5.1 Meaning of Organizing Lectures

5.2 Nature of Organization

5.3 Process of Organising

5.4 Importance of Organising

5.5 Organizational Chart

5.6 Kinds of Organizational Charts

5.7 Span of Management

5.8 Principles of Organising

5.9 Formal and Informal Organization

5.10 Type of Organizations

5.11 Authority Responsibility Relationship

**WEEK EIGHT**

**6.0 Line and Staff Authority**

6.1 Line and Staff Authority Lectures

6.2 Distinction between Line and Staff

6.3 Departmentation: Meaning

6.4 Delegation and Decentralisation

6.6 Co-ordinating

**WEEK NINE**

**7.0 Leading: Nature and Meaning**

7.1 Meaning Lectures

7.2 Leadership

7.3 Leadership Styles

7.4 Management and Leadership

7.5 Theories of Leadership: trait, Behavioural, Situational or Contingency

7.6 Principles of Leadership

7.7 Qualities of Leader

7.8 Transactional v. Transformational Leadership

**WEEK TEN**

**8.0 Control: Concept and Process** Lectures

8.1 Meaning

8.2 Nature of Control

8.3 Importance of Control

8.4 Relationship between Planning and Control

8.5 Behavioural aspect of Control

8.6 Resistance to Control

8.7 Effects OF Resistance to Control

8.8 Ways to overcome Resistance to Control

8.9 Control Process

8.10 Principles of Control

**WEEK ELEVEN**

**9.0 Understanding Organizational Environments**

| | |
|---|---|
| 9.1 Types of Organizational Environment | Lectures/Mid-Sem Exams |
| 9.2 Analyzing Organizational Environments | |
| 9.3 Managing Environmental Elements | |
| 9.4 Organizational Culture | |

**WEEK TWELVE**

| | |
|---|---|
| **10.0** Managing Change in Organizations | Lecture |

**WEEK THIRDTEEN**

| | |
|---|---|
| 11.0 Social Responsibility in Management | Lectures |

# LECTURE ONE



## 1.0 MANAGEMENT: CONCEPT AND NATURE

### 1.1 Concepts of Management

Every organization, at every level, needs management, be it an organization as small as a family or temple or a church or big organization such as school, colleges, Universities. It is important for both profit and non-profit organization. In today's global world the challenges and opportunities of business are enormous. They will be successful if they are effectively managed. Management helps in doing and getting things done through others. It is the process that optimizes human, material and financial resource of organization for effective achievement of its goals. The process involves a series of actions (functions) taken by managers, optimization refers to getting maximum output (goods and service) out of minimum inputs (men, materials money machine etc) and goals are the result or ends that managers and other stakeholders (shareholders, consumers, suppliers workers etc) wish to achieve.

**Definition of Management by some famous management thinkers**;

**Terry and Franklin**: "Management is a distinct process consisting of activities of planning, organizing, actuating and controlling, performed to determine and accomplish stated objectives with the use of human beings and other resources"

**Jones et al** (2000) see management as "the planning, organizing, leading and controlling of resources to achieve organizational goals effectively and efficiently".

**Daft** (2006) on his part define management as "the attainment of organizational goals in an effective and efficient manner through planning, organizing, leading, and controlling resources".

**F.W. Taylor:** Management is an art of knowing what is to be done and seeing that it is done in the best possible manner".

**Henri Fayol (1916)** opines that management is to forecast, to plan, to organize, to command, to co-ordinate and control activities of others.

**K.M. Bartol and D.C. Martin** (1996) say "Management is the process of achieving organizational goals by engaging in the four major functions of planning, organizing, leading, and controlling.

**S.P. Robbins and Mary Coulter:** "Management involves coordinating and overseeing the work activities of others so that their activities are completed **efficiently** and **effectively.**

**Efficiency:** Refers to getting the most output from the least amount of inputs. Efficiency also is the ability to make the best use of available resources in the process of achieving goals. Drucker has stated that efficiency means "***doing things right"………***

Effectiveness: The ability to make the best use of available resource in the process of achieving goals. Drucker has also stated that effectiveness is **"*doing the right things* "**

### 1.2 Features and Objectives of Management

**Features:** Management is characteristics by the following features

a) Management is an activity: It is an activity of getting things done through others
b) Management is a process: It is a process through the management functions
c) Management is required for every type of organization
d) Management is required at all organizational levels
e) Management is goal-oriented: the success of organization is measured by achievement of its goals and management plays a significant role in goal achievement.
f) Management is intangible: Management cannot be seen or felt. The result of management can be observed by comparing a well managed organization with a poorly manage organization.
g) Management is dynamic
h) Management is a discipline

**Objective of Management**: - Management serves the following objectives to help organization meet their goals.

a) Help an organization achieve its objective
b) Promotes effectiveness and efficiency
c) Develops the ability of managers
d) Human welfare
e) Social welfare

### 1.3 Management and Administration

There are three theoretical view points about Administration and Management. One view states that, administration is above management and management is a part of administration. The other view on the other hand states that management is above administration and administration is part of management. The third view states that administration and management are the same.

**Administration is above management;** This view point has been advocated by American authors Oliver Sheldon, Spriegal, Theo Haimann, McFarland etc. According to them administration is a high level function of laying down policies, plans, objectives. According to Oliver Sheldon for instance, “administration is concerned with the determination of corporate policy, the coordination of finance, production and distribution, and the ultimate control of executive”. Management proper is concerned with execution of policy, operates within the limits set up by administration. Accordingly, administration determines the organization; management uses it. Administration defines the goal, management strives towards it.

**Management is above administration;** This view has been advocated by British authors like Breech, Kimball and Kimball, Richman, etc. According to Breech, “Management is a social process entailing responsibility for the effective and economical planning and regulation of the operation of an enterprise in fulfillment of given purpose or task” Administration is part of management which is concerned with the installation and carrying out of the procedures by which the programme is laid down and communicated and the process of activities is regulated and check against plans. Thus according to this view point management is a high level function concerned with laying organizational plans and policies.

**Management and Administration are the same**; Chester Bernard, George R, Terry and O’ Donnell etc, have advocated that management and administration are the same. According to them the difference is not in their meaning, but in their application. Administration and management are not performed by different people. Both administration and management are carried out by managers at all levels, that is, top, middle and lower levels. Whiles managers at top level perform more administrative functions; those at lower level perform more managerial functions.

**1.4 Levels of Management and Managerial Skills**

Managers perform various managerial (planning, organising leading and controlling) and operative (production, personnel, finance and marketing) functions. Depending on the activities performed by managers, they can be classified on the basis of levels. The levels create a hierarchy or scalar chain in the organization structure. They are classified as follows;

a) Top level managers
b) Middle level managers
c) Lower/First-line managers

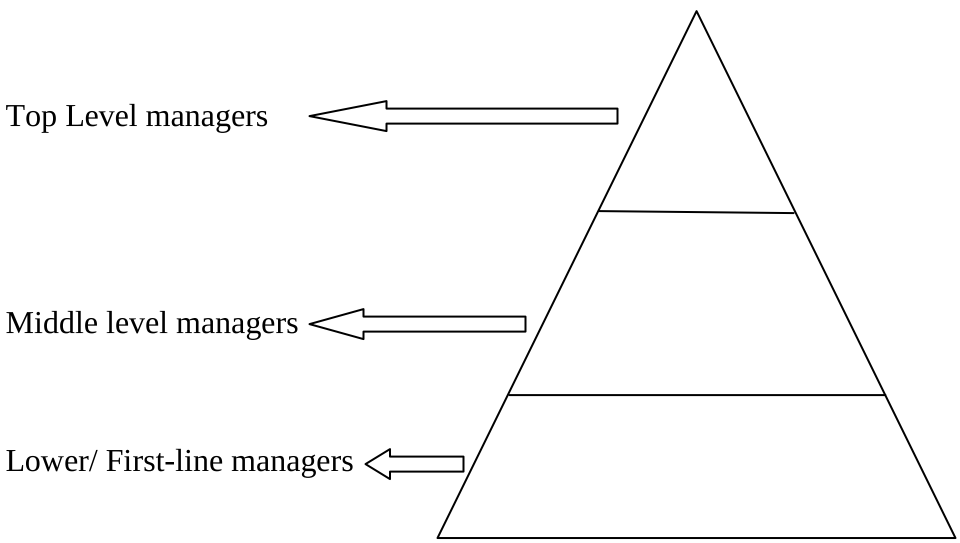



Fig.1 Levels of management

**Top Management**

Top level managers consist of managers who work at the highest level of the organizational hierarchy. The number of managers in this group is generally the least. It is responsible for the overall management of the organization. They have titles like Chief executive officer (CEO), president, executive vice president, and executive director. Top managers have direct responsibility for the upper layer of middle managers.

**Functions**

a) They lay down plans, policies and procedures.....

b) They coordinate activities of various department
c) They integrate the internal activities of the organization with the external environment
d) They remain aware of the changes taking place in the external environment and change their internal environment.
e) They carry out overall management of the organization by performing the managerial function of planning, organizing, leading, and controlling.
f) They cater for the demand of various groups of stakeholders.

**Middle Management**

They work beneath top managers within the managerial hierarchy. They have such titles as "manager", director, chief, department head and division head. Middle managers typically have two or more management levels beneath them. Middle management consists of managers who are departmental heads. They serve as a link between top level and lower level managers.

**Functions**

a) They communicate policy decisions of top managers to lower level managers and guide lower level managers to implement them.
b) They lay goals, plans and policies for their respective departments and ensures their successful accomplishment.
c) They spend major part of their time about 75% in managing company's day-to-day operations.
d) They direct the activities of lower and operating employees.
e) They watch the activities of lower level managers and report them to top managers.

**Lower/First-line Management**

It consists of managers known as first-line managers or supervisors. They serve as a link between middle level managers and non-managerial employees. They supervise the activities of non-managerial employees and coordinate their work with those operating at the higher level hierarchy. They are called foremen, supervisors, office managers, etc

**Functions**

a) They supervise the activities of employees
b) They coordinate the work of employees with the organization's financial and non-financial resources
c) They train them to perform better in order to ensure smooth conduct of their respective business(es)…
d) They evaluate performance of employees and send report to the higher level managers.
e) They plan day-to-day operations

It must be noted that the managerial process varies in emphasis within the managerial hierarchy. For example the Top management perform more planning function than Middle management, while middle management and Top management perform more organizing function than first line management. In contrast, leading is substantially more important for first line managers. However the management function that is common to all three hierarchical levels is controlling.

**Managerial Skills**

There are generally three managerial skills expected by every manager, but the skill level varies, depending on the level in the hierarchy the manager is operating. Manager at all levels must possess conceptual, human, and technical skills. As we move down the hierarchy, more technical skills and less conceptual skill are required by mangers. The higher level managers need more conceptual skill than technical skills. Human skill is important at all levels of the organization because managers at all levels deal with work force and as such they must possess human skills to interact with workers.

**Conceptual skills;** Refers to the mental ability of the managers to coordinate and integrate the organization's internal environment with external environment. Managers at the top level must have skills that will enable them analyze the environmental opportunities, exploit them gainfully and correlate them with the organization's internal system. Managers must be knowledgeable and imaginative to use this skill.

**Human skills;** Must be possessed by all managers at all levels. It comprises of the ability to work with and understand people in the organization.

**Technical Skills;** These skills require the ability to use tools, procedures, techniques and knowledge in one's area of specialization. It requires a specialized knowledge to perform task that a manager is attempting to accomplish.

## 1.5 Management Process and Management Function

### Management Function

Management is the process of achieving organizational goal by engaging in the four major functions of planning, organizing, leading, and controlling. The functions form the foundation of the basic management process. This function will be explained later in the course.

### Management Process

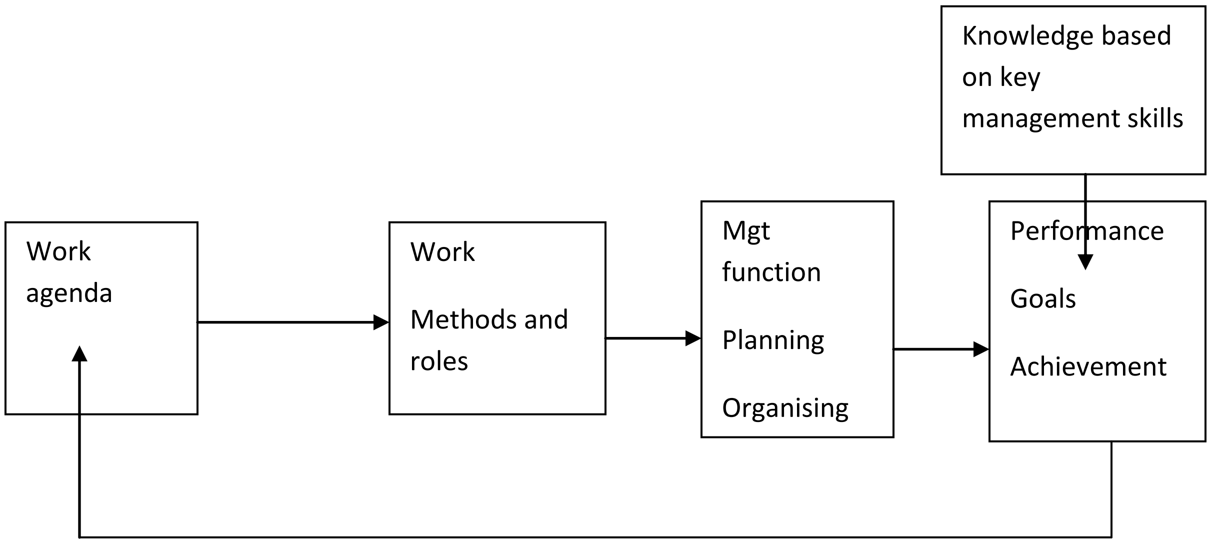
Whiles the four major functions of management form the basis of the managerial process, there are several additional key elements in the process. An effective management process aims at achieving organizational goals through well laid out element like the work agenda, work methods and managerial roles and application of knowledge base in management.

Steven J. Carroll and Dennis J. Gillen identified these elements of the management process as follows;

a) Work agenda
b) Work methods and managerial roles
c) Management functions

d) Performance

Key elements in the managerial process identified by Steve J. Carroll & Dennis J. Gillen




**Work agenda**

After under-studying general managers of nine companies, Kotter concluded that managers contribute towards organizational output through work agendas. A work agenda is a loosely connected set of tentative goals and task that a manager is attempting to accomplish. It is the broad outline within which managers guide their actions and those of others. The work agendas are prepared for both short-run and long-run job responsibilities.

**Factor affecting work agendas;** Rosemary Stewart has identifies three factors that affect work agendas. They are;

a) Job demands
b) Job constraints
c) Job choices

**Work Methods and Managerial Roles**

Henry Mintzberg followed five Chief Executives for one week and recorded everything that they did. In documenting their activities, he reached some important conclusions about managers work methods. Despite the limitation of his research, later research by Martinko and Gardner this time of 41 school managers confirmed the earlier findings of Mintzberg.

Henry Mintzberg found out that in their actual work methods, the managers differed drastically from their popular image as Reflective Systematic planner who spend considerable quiet time in their office pondering over formal reports. Three of his findings in the world of high-level managers are as follows

a) **Unrelenting pace**: managers often drank their coffee whiles attending meetings, lunches were eaten in the course of formal or informal meetings, when not in meetings managers handle an average of 36 pieces of mails.
b) **Brevity,** variety and fragmented work
c) **Verbal contacts and Networks**; Prefer verbal contacts to formal written memos and like using network of friends, peers and professionals both internally and externally in solving problems. Network is a set of cooperative relationship with individuals whose help is needed in order for a manager to function effectively. The network of contacts in Mintzberg's study included superiors, peers, subordinates and individual in and out of the organization.

Implication of Mitzberg's finding

a) Though the study focuses on high-level managers, it applies to wide variety of managers. For eg a study of factory supervisors revealed that supervisors engaged in between 237 and 1073 activities within a given workday.
b) Research also support strongly that managers need to develop a major network of contact in order to have influence and to operate effectively.

**Managerial Roles**

A role is an organized set of behaviours associated with a particular office or position. Positions usually entail multiple roles. For example, roles for a salesperson position in a retail store might include information giver, stock handler and cashier. To give meaning to the reams of data collected by Henry Mintzberg on the role managers play in the managerial process he categorized managers various activity into three roles viz;

**a) Interpersonal role:** This grows indirectly out of the authority of a manager's position and involve developing and maintaining positive relationship with significant others. These are the roles in which a manager interacts with others both inside and outside the organization.

b) **Informational role:** Pertain to receiving and transmitting information so that managers serve as the nerve centre of the organization.

c) **Decisional role:** Making decisions that affect the organization. Managing is a decision-making job.

**Mintzberg's ten management role**

| Category | Role | Activity |
| --- | --- | --- |
| Informational | Monitor | Seek and receive information, scan paper and reports and maintain interpersonal contacts. |
| | Disseminator | Forward information to others, send memos, makes phone calls. |
| | Spokesperson | Represent the unit to outsiders in speeches and reports. |
| Interpersonal | Figurehead | Perform ceremonial and symbolic duties, receive visitor. |
| | Leader | Direct and motivate subordinate, train, advise |

| | | |
|---|---|---|
| | | and influence. |
| | Liaison | Maintain information links in and beyond the organization. |
| Decisional | Entrepreneur | Initiate new project, spot opportunities, identify areas of business development. |
| | Disturbance handler | Take corrective action during crises, resolve conflicts amongst staff, adapt to external changes. |
| | Resource allocator | Decide who gets resources, schedule, budget, set priorities. |
| | Negotiator | Represent department during negotiations with unions, suppliers, and generally defend interests. |

**Interpersonal roles:** Rises directly from a manager's formal authority and status, and involve positive relationships with other people that matter both in and out of the organization. In the figure head role, the manager is seen as a symbol, representing the unit in legal and ceremonial duties such as greeting a visitor, signing legal documents. The leader's role defines the manager's relationship with other people including motivating, communication and developing their skills and confidence.

**Informational roles:** Managing depends on obtaining information about external and internal events, and passing information to others. The monitor role involves seeking out, receiving and screening information to understand the organization and its environment. It comes from papers and reports, but equally from chance conversation with customers or new contacts at conferences and exhibitions. In the disseminator role the manager shares information with subordinates and other member of the organization. By forwarding reports and papers, telephones to pass on gossip or briefing staff about impending changes, the manager ensures others are aware of relevant events. As a spokesperson the manager transmits information to people outside the organization. This

78happens when managers gives information at a conference on behalf of the organization, speaks to the media.

**Decisional roles:** In the entrepreneurial role managers initiate change. They see opportunities or problems and create projects to deal with them. Managers play this role when they introduce a new product or create a major change programme.

**Knowledge Base and Management skills**

Managers must possess knowledge base and management skills to effectively set out the work agendas, work methods and managerial roles for carrying out the managerial functions.

**Knowledge Base:** Managers obtain this knowledge base required in their work from information about an industry and its technology.

a) Company policies and practices
b) Company goal and plans
c) Company culture
d) The personalities of key organization members
e) Important supplier and customers

**Management skills;** skill is the ability to engage in a set of behaviour that are functionally related to one another and that lead to a desired performance level in a given area. Management skills involve; conceptual, human, and technical skills.

**Performance**

Performance is a result of various organizational activities. Drucker define performance as a combination of effectiveness and efficiency. (Refer to definition)

# LECTURE TWO

## 2.0 MANAGEMENT THEORIES

2.1 Pre-scientific or Pre- Classical Management Theories

2.2 Classical Theory: Taylor's Scientific, Fayol's Administrative, & Weber's Bureaucracy Theories

2.3 Behavioural Theory: Human Relations or Neo-classical, Behavioural theories

2.4 Modern Management Theory: Quantitative, System, Contingency, and Operational theories.

### 2.1 Pre-Classical Contributions

A number of individuals in the pre-classical period of the middle and late 1800s offered ideas that laid the groundwork for subsequent, broader inquiries into the nature of management. Among the principal pre-classical contributors are Robert Owen, Charles Babbage and Henry R Towne.

**ROBERT OWEN** (1771-1858): A successful British entrepreneur was well ahead of his time in recognizing the importance of human resources. He became particularly interested in the working and living conditions of his employees while running a cotton mill in New Lanark, Scotland. As was common, the mill employed 400 to 500 young children, who worked 13-hour days that included 1 hour off for meals. Although his business partners resisted some of his ideas, Owen tried to improve the living condition of the employees by upgrading streets, houses, sanitation and the educational system in New Lanark. At the time, Owen was considered to be radical, but today his views are widely accepted. His ideas laid the groundwork for the human relations movement, which is discussed later in this chapter.

**CHARLES BABAGE** (1792-1871): An English mathematician is widely known as the father of modern computing. His projects produced the world's first practical mechanical calculator and an analytical engine that had the basic element of a modern day computer. Difficulties in directing his various projects, however, helped him to explore new ways of doing things. In the process, he made direct contributions to management theory.

Babbage was enthralled with the idea of work specialization, the decree to which work was divided into various jobs. He recognized that not only physical work but mental work as well could be specialized.

Babbage also devised a profit- sharing plan that had two parts, a bonus that was awarded for useful suggestions and a portion of wages that was depended on factory profit.

**Major Features of Pre-classical Contributors**

Robert Owen: Advocated concerns for the working and living conditions of workers

Charles Babbage: Built the first practical mechanical calculator and a prototype of modern computers: predicted the specialization of mental work: suggested profit sharing.

Henry R. Towne: Outlined the importance of management as a science and called for the development of management principles.

## 2.2 Classical Theory of Management

One of the first schools of management thought, the **classical management theory,** developed during the Industrial Revolution when new problems related to the factory system began to appear. Managers were unsure of how to train employees (many of them non-English speaking immigrants) or deal with increased labor dissatisfaction, so they began to test solutions. As a result, the classical management theory developed from efforts to find the "one best way" to perform and manage tasks. This school of thought is made up of two branches:

a) Classical scientific and
b) Classical administrative theories

**Classical scientific theory;** This arose because of the need to increase productivity and efficiency. The emphasis was on trying to find the best way to get the most work done by examining how the work process was actually accomplished and by scrutinizing the skills of the workforce. The classical scientific school owes its roots to several major contributors, including Frederick Taylor, Henry Gantt, and Frank and Lillian Gilbreth.

**Frederick Taylor** is often called the "father of scientific management." Taylor believed that organizations should study tasks and develop precise procedures. As an example, in 1898, Taylor calculated how much iron from rail cars Bethlehem Steel plant workers could be unloading if they were using the correct movements, tools, and steps. The result was an amazing 47.5 tons per day instead of the mere 12.5 tons each worker had been averaging. In addition, by redesigning the shovels the workers used, Taylor was able to increase the length of work time and therefore decrease the number of people shoveling from 500 to 140. Lastly, he developed an incentive system that paid workers more money for meeting the new standard. Productivity at Bethlehem Steel shot up overnight. As a result, many theorists followed Taylor's philosophy when developing their own principles of management.

**Taylors Principles of Management**

1. Scientifically study each part of a task and develop the best method for developing the task.
2. Carefully select workers and train them to perform the task by using the scientifically developed method.
3. Cooperate fully with workers to ensure that they use the proper method.
4. Divide work and responsibilities so that management is responsible for planning work methods using scientific principles and workers are responsible for executing the work accordingly.

**Henry Gantt,** an associate of Taylor, developed the Gantt chart, a bar graph that measures planned and completed work along each stage of production. Based on time instead of quantity, volume, or weight, this visual display chart has been a widely used planning and control tool since its development in 1910.

**Frank and Lillian Gilbreth,** a husband-and-wife team, studied job motions. In Frank's early career as an apprentice bricklayer, he was interested in standardization and method study. He watched bricklayers and saw that some workers were slow and inefficient, while others were very productive. He discovered that each bricklayer used a different set of motions to lay bricks. From his observations, Frank isolated the basic movements necessary to do the job and eliminated unnecessary motions. Workers using these movements raised their output from 1,000 to 2,700 bricks per day. This was the first **motion study** designed to isolate the best possible method of performing a given job. Later, Frank and his wife Lillian studied job motions using a motion-picture camera and a split-second clock. When her husband died at the age of 56, Lillian continued their work. The basic ideas regarding scientific management developed include the following:

a) Developing new standard methods for doing each job

b) Selecting, training, and developing workers instead of allowing them to choose their own tasks and train themselves

c) Developing a spirit of cooperation between workers and management to ensure that work is carried out in accordance with devised procedures

d) Dividing work between workers and management in almost equal shares, with each group taking over the work for which it is best fitted

**Classical administrative theory;** Whereas scientific management focused on the productivity of individuals, the classical administrative approach concentrates on the total organization. The emphasis is on the development of managerial principles rather than work methods. Contributors to this school of thought include Max Weber, Henri Fayol, Mary Parker Follett, and Chester I. Barnard. These theorists studied the flow of information within an organization and emphasized the importance of understanding how an organization operated.

In the late 1800s, **Max Weber** disliked the idea that many European organizations were managed on a "personal" (family-like) basis and that employees were loyal to individual supervisors rather than to the organization. He believed that organizations should be managed impersonally and that a formal organizational structure, where specific rules were followed, was important. In other words, he didn't think that authority should be based on a person's personality. He thought authority should be something that was part of a person's job and passed from individual to individual as one person left and another took over. This non-personal objective from organization was called a **bureaucracy.** Weber believed that all bureaucracies have the following characteristics:

**a) A well-defined hierarchy.** All positions within a bureaucracy are structured in a way that permits the higher positions to supervise and control the lower positions. This clear chain of command facilitates control and order throughout the organization.

**b) Division of labour and specialization.** All responsibilities in an organization are specialized so that each employee has the necessary expertise to do a particular task.

**c) Rules and regulations.** Standard operating procedures govern all organizational activities to provide certainty and facilitate coordination

**d) Impersonal relationships between managers and employees.** Managers should maintain an impersonal relationship with employees so that favoritism and personal prejudice do not influence decisions.

**e) Competence.** Competence and not "whom you know," should be the basis for all decisions made in hiring, job assignments, and promotions in order to foster ability and merit as the primary characteristics of a bureaucratic organization.

**f) Records.** A bureaucracy needs to maintain complete files regarding all its activities.

**Henri Fayol,** a French mining engineer, developed 14 principles of management based on his management experiences. These principles provide modern-day managers with general guidelines on how a supervisor should organize her/his department and manage her/her staff. Although later research has created controversy over many of the following principles, they are still widely used in management theories.

**1. Division of work:** Division of work and specialization produces more and better work with the same effort.

**2. Authority and responsibility:** Authority is the right to give orders and the power to exact obedience. A manager has official authority because of her position, as well as personal authority based on individual personality, intelligence, and experience. Authority creates responsibility.

**3. Discipline:** Obedience and respect within an organization are absolutely essential. Good discipline requires managers to apply sanctions whenever violations become apparent.

**4. Unity of command:** An employee should receive orders from only one superior.

**5. Unity of direction:** Organizational activities must have one central authority and one plan of action.

**6. Subordination of individual interest to general interest:** The interests of one employee or group of employees are subordinate to the interests and goals of the organization.
**7. Remuneration of personnel:** Salaries (the price of services rendered by employees) should be fair and provide satisfaction both to the employee and employer.
**8. Centralization:** The objective of centralization is the best utilization of personnel. The degree of centralization varies according to the dynamics of each organization.
**9. Scalar chain:** A chain of authority exists from the highest organizational authority to the lowest ranks.
**10. Order:** Organizational order for materials and personnel is essential. The right materials and the right employees are necessary for each organizational function and activity.
**11. Equity:** In organizations, equity is a combination of kindliness and justice. Both equity and equality of treatment should be considered when dealing with employees.
**12. Stability of tenure of personnel:** To attain the maximum productivity of personnel, a stable work force is needed.
13. **Initiative:** Thinking out a plan and ensuring its success is an extremely strong motivator. Zeal, energy, and initiatives are desired at all levels of the organizational ladder.
**14. Esprit de corps:** Teamwork is fundamentally important to an organization. Work teams and extensive face-to-face verbal communication encourages teamwork.

**Mary Parker Follett** stressed the importance of an organization establishing common goals for its employees. However, she also began to think somewhat differently than the other theorists of her day, discarding command-style hierarchical organizations where employees were treated like robots. She began to talk about such things as ethics, power, and leadership. She encouraged managers to allow employees to participate in decision making. She stressed the importance of people rather than techniques - a concept very much before her time. As a result, she was a pioneer and often not taken seriously by management scholars of her time. But times changed, and innovative ideas from the past suddenly take on new meanings. Much of what managers do today is based on the fundamentals that Follett established more than 70 years ago.

**Chester Barnard,** who was president of New Jersey Bell Telephone Company, introduced the idea of the **informal organization** — *cliques* (exclusive groups of people) that naturally form within a company. He felt that these informal organizations provided necessary and vital communication functions for the overall organization and that they could help the organization accomplish its goals. Barnard felt that it was particularly important for managers to develop a sense of common purpose where a willingness to cooperate is strongly encouraged. He is credited with developing the **acceptance theory of management,** which emphasizes the willingness of employees to accept that managers have legitimate authority to act. Barnard felt that four factors affected the willingness of employees to accept authority:

a) The employees must understand the communication.
b) The employees accept the communication as being consistent with the organization's purposes.
c) The employees feel that their actions will be consistent with the needs and desires of the other employees.
d) The employees feel that they are mentally and physically able to carry out the order. Barnard's sympathy for and understanding of employee needs positioned him as a bridge to the behavioral school of management, the next school of thought to emerge.

## 2.3 Behavioral Management Theory/Human Relations Movement

As management research continued in the 20th century, questions began to come up regarding the interactions and motivations of the individual within organizations. Management principles which were developed during the classical period were simply not useful in dealing with many management situations and could not explain the behavior of individual employees. In short, classical theory ignored employee motivation and behavior. As a result, the behavioral school was a natural outgrowth of this revolutionary management experiment.
The **behavioral management theory** is often called the human relations movement because it addresses the human dimension of work. Behavioral theorists believed that a better understanding of human behavior at work, such as motivation, conflict, expectations, and group dynamics,

improved productivity. The theorists who contributed to this school viewed employees as individuals, resources, and assets to be developed and worked with - not as machines, as in the past. Several individuals and experiments contributed to this theory.

**Elton Mayo's** contributions came as part of the *Hawthorne studies,* a series of experiments that rigorously applied classical management theory only to reveal its shortcomings. The Hawthorne experiments consisted of two studies conducted at the Hawthorne Works of the Western Electric Company in Chicago from 1924 to 1932. The first study was conducted by a group of engineers seeking to determine the relationship of lighting levels to worker productivity. Surprisingly enough, they discovered that worker productivity increased as the lighting levels decreased- that is, until the employees were unable to see what they were doing, after which performance naturally declined. A few years later, a second group of experiments began. Harvard researchers Mayo and F. J. Roethlisberger supervised a group of five women in a bank wiring room. They gave the women special privileges, such as the right to leave their workstations without permission, take rest periods, enjoy free lunches, and have variations in pay levels and workdays. This experiment also resulted in significantly increased rates of productivity. In this case, Mayo and Roethlisberger concluded that the increase in productivity resulted from the supervisory arrangement rather than the changes in lighting or other associated worker benefits. Because the experimenters became the primary supervisors of the employees, the intense interest they displayed for the workers was the basis for the increased motivation and resulting productivity. Essentially, the experimenters became a part of the study and influenced its outcome. This is the origin of the term *Hawthorne effect,* which describes the special attention researchers give to a study's subjects and the impact that attention has on the study's findings.
The general conclusion from the Hawthorne studies was that human relations and the social needs of workers are crucial aspects of business management. This principle of human motivation helped revolutionize theories and practices of management.

**Abraham Maslow,** a practicing psychologist, developed one of the most widely recognized

**needs theories,** a theory of motivation based upon a consideration of human needs. His theory of human needs had three assumptions:

a) Human needs are never completely satisfied.
b) Human behavior is purposeful and is motivated by the need for satisfaction.
c) Needs can be classified according to a hierarchical structure of importance, from the lowest to highest. Maslow broke down the needs hierarchy into five specific areas:

a) **Physiological needs.** Maslow grouped all physical needs necessary for maintaining basic human well-being, such as food and drink, into this category. After the need is satisfied, however, it is no longer a motivator.
b) **Safety needs.**These needs include the need for basic security, stability, protection, and freedom from fear. A normal state exists for an individual to have all these needs generally satisfied. Otherwise, they become primary motivators.
c) **Belonging and love needs.** After the physical and safety needs are satisfied and are no longer motivators, the need for belonging and love emerges as a primary motivator. The individual strives to establish meaningful relationships with significant others.
d) **Esteem needs.** An individual must develop self-confidence and wants to achieve status, reputation, fame, and glory.
e) **Self-actualization needs.** Assuming that all the previous needs in the hierarchy are satisfied, an individual feels a need to find himself. Maslow's hierarchy of needs theory helped managers visualize employee motivation.

**Douglas McGregor** was heavily influenced by both the Hawthorne studies and Maslow. He believed that two basic kinds of managers exist. One type, the Theory X manager, has a negative view of employees and assumes that they are lazy, untrustworthy, and incapable of assuming responsibility. On the other hand, the Theory Y manager assumes that employees are not only trustworthy and capable of assuming responsibility, but also have high levels of motivation. An important aspect of McGregor's idea was his belief that managers who hold either set of assumptions can create **self-fulfilling prophecies -** that through their behavior, these managers create situations where subordinates act in ways that confirm the manager's original expectations.

As a group, these theorists discovered that people worked for inner satisfaction and not materialistic rewards, shifting the focus to the role of individuals in an organization's performance.

## 2.4 Modern Management Theory

**Quantitative School of Management**

During World War II, mathematicians, physicists, and other scientists joined together to solve military problems. The quantitative school of management is a result of the research conducted during World War II. The **quantitative approach** to management involves the use of quantitative techniques, such as statistics, information models, and computer simulations, to improve decision making. This school consists of several branches, described in the following sections.

**Management science:** The management science school emerged to treat the problems associated with global warfare. Today, this view encourages managers to use mathematics, statistics, and other quantitative techniques to make management decisions.

Managers can use computer models to figure out the best way to do something - saving both money and time. Managers use several science applications

a) Mathematical forecasting helps make projections that are useful in the planning process.
b) Inventory modeling helps control inventories by mathematically establishing how and when to order a product.
c) Queuing theory helps allocate service personnel or workstations to minimize customer waiting and service cost.

**Operations management:** Operations management is a narrow branch of the quantitative approach to management. It focuses on managing the process of transforming materials, labor, and capital into useful goods and/or services. The product outputs can be either goods or services; effective operations management is a concern for both manufacturing and service organizations. The resource inputs, or factors of production, include the wide variety of raw materials, technologies, capital information, and people needed to create finished products. The transformation process, in turn, is the actual set of operations or activities through which various resources are utilized to produce finished goods or services of value to customers or clients. Operations management today pays close attention to the demands of quality, customer service, and competition. The process begins with attention to the needs of customers: What do they want? Where do they want it? When do they want it? Based on the answers to these questions, managers line up resources and take any action necessary to meet customer expectations.

**Management information systems: Management information systems** (MIS) is the most recent subfield of the quantitative school. A management information system organizes past, present, and projected data from both internal and external sources and processes it into usable information, which it then makes available to managers at all organizational levels. The information systems are also able to organize data into usable and accessible formats. As a result, managers can identify alternatives quickly, evaluate alternatives by using a spreadsheet program, pose a series of "what-if" questions, and finally, select the best alternatives based on the answers to these questions.

**Systems management theory:** The **systems management theory** has had a significant effect on management science. A system is an interrelated set of elements functioning as a whole. An organization as a system is composed of four elements:

a) **Inputs-** material or human resources
b) **Transformation processes-** technological and managerial processes
c) **Outputs-** products or services
d) **Feedback-** reactions from the environment

In relationship to an organization, *inputs* include resources such as raw materials, money, technologies, and people. These inputs go through a transformation process where they're planned, organized, motivated, and controlled to ultimately meet the organization's goals. The *outputs* are the products or services designed to enhance the quality of life or productivity for customers/clients. Feedback includes comments from customers or clients using the products. This overall systems framework applies to any department or program in the overall organization.

Systems theory may seem quite basic. Yet decades of management training and practices in the workplace have not followed this theory. Only recently, with tremendous changes facing organizations and how they operate, have educators and managers come to face this new way of looking at things. This interpretation has brought about a significant change in the way management studies and approaches organizations.

The systems theory encourages managers to look at the organization from a broader perspective. Managers are beginning to recognize the various parts of the organization, and, in particular, the interrelations of the parts.

Contemporary system theorists find it helpful to analyze the effectiveness of organizations according to the degree that they are open or closed. The following terminology is important to your understanding of the systems approach:

a) An organization that interacts little with its external environment (outside environment) and therefore receives little feedback from it is called a **closed system.**
b) An **open system,** in contrast, interacts continually with its environment. Therefore, it is well informed about changes within its surroundings and its position relative to these changes.
c) A **subsystem** is any system that is part of a larger one.
d) **Entropy** is the tendency of systems to deteriorate or break down over time.
e) **Synergy** is the ability of the whole system to equal more than the sum of its parts.

**Contingency School of Management**

The contingency school of management can be summarized as an "it all depends" approach. The appropriate management actions and approaches depend on the situation. Managers with a contingency view use a flexible approach, draw on a variety of theories and experiences, and evaluate many options as they solve problems. Contingency management recognizes that there is no one best way to manage. In the contingency perspective, managers are faced with the task of determining which managerial approach is likely to be most effective in a given situation. For example, the approach used to manage a group of teenagers working in a fast-food restaurant would be very different from the approach used to manage a medical research team trying to find a cure for a disease. Contingency thinking avoids the classical "one best way" arguments and recognizes the need to understand situational differences and respond appropriately to them. It does not apply certain management principles to any situation. Contingency theory recognizes the extreme importance of individual manager's performance in any given situation. The contingency approach is highly dependent on the experience and judgment of the manager in a given organizational environment.

**Quality School of Management**

The quality school of management is a comprehensive concept for leading and operating an organization, aimed at continually improving performance by focusing on customers while addressing the needs of all stakeholders. In other words, this concept focuses on managing the total organization to deliver high quality to customers. The quality school of management considers the following in its theory:

a) **Organization makeup.** Organizations are made up of complex systems of customers and suppliers. Every individual, executive, manager, and worker functions as both a supplier and a customer.

b) **Quality of goods and services.** Meeting the customers' requirements is a priority goal and presumed to be a key to organizational survival and growth.

c) **Continuous improvement in goods and services.** Recognizing the need to pinpoint internal and external requirements and continuously strive to improve. It is an idea that says, "the company is good, but it can always become better."

**d)** **Employees working in teams.** These groups are primary vehicles for planning and problem solving.

**e)** **Developing openness and trust.** Confidence among members of the organization at all levels is an important condition for success.

Quality management involves employees in decision making as a way to prevent quality problems. The **Kaizen** approach uses incremental, continuous improvement for people, products, and processes. The reengineering approach focuses on sensing the need to change, seeing change coming, and reacting effectively to it when it comes. Both approaches are described in the following sections.

**Kaizen approach;** The very notion of continuous improvement suggests that managers' teams and individuals learn from both their accomplishments and their mistakes. Quality managers help their employees gain insights from personal work experiences, and they encourage everyone to share with others what they have learned. In this way, everyone reflects upon his or her own work experiences, including failures, and passes their newfound knowledge to others. Sharing experiences in this manner helps to create an organization that is continuously discovering new ways to improve.

Kaizen is the commitment to work toward steady, continual improvement. The best support for continuous improvement is an organization of people who give a high priority to learning. In this process, everyone in the organization participates by identifying opportunities for improvement, testing new approaches, recording the results, and recommending changes.

**Reengineering:** It is the radical redesign of business processes to achieve dramatic improvements in cost, quality, service, and speed. It requires that every employee and manager look at all aspects of the company's operation and find ways to rebuild the organizational systems to improve efficiency, identify redundancies, and eliminate waste in every possible way. Reengineering is neither easy nor cheap, but companies that adopt this plan have reaped remarkable results.

Reengineering efforts look at how jobs are designed, and raise critical questions about how much work and work processes can be optimally configured. Although many people believe that reengineering is a euphemism for downsizing or outsourcing, this is not true. Yes, downsizing or outsourcing may be a byproduct of reengineering. However, the goal of reengineering is to bring about a tight fit between market opportunities and corporate abilities. After organizations are able to find this fit, new jobs should be created.

**Management in the Future**

Modern management approaches respect the classical, human resource, and quantitative approaches to management. However, successful managers recognize that although each theoretical school has limitations in its applications, each approach also offers valuable insights that can broaden a manager's options in solving problems and achieving organizational goals. Successful managers work to extend these approaches to meet the demands of a dynamic environment.

Modern management approaches recognize that people are complex and variable. Employee needs change over time; people possess a range of talents and capabilities that can be developed. Organizations and managers, therefore, should respond to individuals with a wide variety of managerial strategies and job opportunities.

Key themes to be considered, as the twenty-first century progresses, include the following:

a) The commitment to meet customer needs 100 percent of the time guides organizations toward quality management and continuous improvement of operations.
b) Today's global economy is a dramatic influence on organizations, and opportunities abound to learn new ways of managing from practices in other countries.
c) Organizations must reinvest in their most important asset, their people. If organizations cannot make the commitment to lifelong employment, they must commit to using attrition to reduce head count. They will not receive cooperation unless they make it clear that their people will not be working themselves out of a job.
d) Managers must excel in their leadership responsibilities to perform numerous different roles.

**INNOVATIVE CONTRIBUTIONS OF MAJOR VIEWPOINTS**

| VIEWPOINT | INNOVATIVE CONTRIBUTIONS |
|---|---|
| Classical | Highlights the need for a scientific approach management.<br>Points out that work methods often can be improved through study.<br>Identifies a number of important principles that are useful in running organizations efficiently.<br>Emphasizes the important of pay as a motivator. |

| | |
|---|---|
| Behavioral | Spotlight the managerial importance of such factors as communication, group dynamics, motivation and leadership.<br>Articulates practical applications of behavioral studies.<br>Draws on the findings of a number of disciplines such as management, sociology, psychology, anthropology and economics.<br>Highlights the importance of organization members as active human resources rather than passive tools. |
| Quantitative | Provides quantitative aids to decision making.<br>Develop quantitative tools to assist in providing products and services.<br>Pioneers new computer-based information systems of management. |
| Contemporary (systems and contingency) | Emphasizes that organizations can be visualized as systems of interrelated parts.<br>Points out the potential importance of the environment and feedback to organization success.<br>Argues that there is no one best way to manage and identifies circumstances or contingencies that influence which particular approach will be effective in a given situation. |

# LECTURE THREE

## 3.0 PLANNING FUNCTION

3.1Meaning and Features of Planning

3.2 Importance/Objective of Planning

3.3 Limitation of Planning

3.4 Barriers to Planning

3.5 Process of Planning

3.6 Principle of Planning

3.7 Features of a Good Plan

## Introduction

The first and primary function of management, planning means to make decisions regarding what to do, when to do, where to do, whom to do and how to do. It precedes all managerial functions and is closely related to controlling. It is required for all organizations- business and non-business and for every level of business organization. It is done for all sizes of organizations; small, medium and large.

## Meaning

Planning is a managerial function that deals with framing organizational objectives and devising ways to achieve them. Managers plan business activities at all levels: top, middle and low, though more planning is required at top levels than lower levels.

While top managers plan for the whole organization, middle level managers plan for their respective departments and lower level managers plan for day-to-day business operations.
All sizes of organizations plan their operations. While large-sized organizations spend more time on planning, small sized organizations spend comparatively less time.

Business organizations make long-term, medium-term and short-term plans depending upon the nature of their operations. Manufacturing units make more of long-term plans while retailers engage more in short term planning.

Planning involves forecasting, laying down objectives of the firm, thinking of different courses of action and deciding one of the actions to use in order to achieve one's goals.

Planning, thus, involves decision making, that is, deciding a course of action for framing and achieving objectives. Definitions of planning given by some famous management thinkers are given below:

***Terry and Franklin*:** "Planning is selecting information and making assumptions regarding the future to formulate activities necessary to achieve organizational objectives."

***Louis A. Allen:*** "Planning involves the definition of objectives and planning of operations in terms of policies, plans and budgets which will establish the most advantageous course for the company. Planning also requires that managers keep currently informed on all matters which will contribute to improved planning and performance in the position"

***Koontz and Weihrich:*** "Planning involves selecting missions and objective and the actions to achieve them; it requires decision-making that is, choosing from alternative future course of action. Plans, thus, provide a rational approach to achieving selected objectives."

**Jones** (2006): "Planning is identifying and selecting appropriate goals".

**Daft** (2006): "Planning is the management function concerned with defining goals for future organizational performance and deciding on the task and resource use needed to attain them".

### 3.1 Features of Planning

Planning is characterized by the following features:

**1. Primary function of management:** Planning is the first function of management. All other functions follow planning. If planning is wrong, organization structures will be faulty, people will carry out wrong plans, motivation and leadership policies will be ineffective and controls will also aim to achieve faulty plans. This will result in huge losses for the organization.

2. **Adaptive to environment**: Planning is a continuous process. It is done so that organizations can survive in the changing environment. Changes in environment like competitors' policies, consumers' tastes, economic policies, value system of the society force managers to change their plans and planning is, thus adaptive to environment.

3. **Future oriented**: Planning is looking ahead. It is preparing organizations to meet future challenges and opportunities. Future being uncertain, managers adopt scientific methods of forecasting. They anticipate the future and incorporate changes in their activities to achieve organizational goals effectively.

4. **Goal oriented:** Planning will be useless if it does not achieve the desired goals. Planning is, thus, goal oriented. It clearly lays down the goals and ways to achieve them.

5. **Pervasive:** Planning is a pervasive function. It is done for all organizations-business and non-business, profitable and non-profitable, small and big. In a business organization, it is done at each level; top, middle and low.

The nature and scope of planning however, is different at different levels; top managers plan for the organization as a whole, middle level manager's plan for their departments and lower level managers' plan for their operating units.

6. **Intellectual process**: Managers cannot plan unless they analyze the firm's past, present and future. It is difficult to predict the future as it keeps on changing. Managers have to conceptually and analytically excel in making plans that can be implemented. They should have judgment, intuition, foresightedness, imagination etc. to make good plans. Planning, thus, cannot be done in dark. It is an intellectual process.

**7. Efficient:** Efficient means cost effective. Time and money are spent on planning to gain in the future. A trade off is maintained (comparison between cost ad returns) and managers ensure that expected gains are more than the current costs. Efficiency means "the achievement of the ends with the least amount of resources"

**8. Flexible:** Planning relates to future. Future being uncertain, plans will fail to achieve the objectives if unexpected changes take place in future. Managers have to be quick in changing their plans so that future changes do not derail the plans. Planning is, thus, a flexible activity.

**9. Planning and decision-making:** Planning involves decision making. Choosing goals out of multiple goals, deciding about ways to achieve them out of a number of alternatives, deciding about sources from where funds will be raised, deciding about optimum allocation of resources over different goals and departments etc. are some of the choices that managers have to make. Planning continuously involves decision-making. In fact, the process of decision-making starts much before the process of planning.

For instance, a manager who wants to install machinery has to make a number of choices like: whether to buy or hire; if buy, whether to raise money from outside or use retained earnings (internal source of finance); if outside sources, whether to issue shares or debentures; if shares, whether to issue equity shares or preference shares. Planning is, thus, a continuous process of decision making.

**10. Planning is closely related to control**. It specifies future actions and control ensures those actions are carried out. Planning frames organizational goals and control ensures those goals are achieved. Controlling function provides constant feedback to managers about the efficiency of plans. Deviations in actual performance against planned performance helps managers in reviewing or abandoning plans to make fresh plans.

## 3.2 Importance/objectives of Planning

Planning is important because it enables the organization to survive and grow in the dynamic, changing environment. It is important to plan because of the following reasons:

1. **Achievement of organizational objectives:** Planning helps the organization to achieve its objectives. Planning provides the path for achievement of organizational goals with minimum waste of time, money and energy. It bridges the gap between where we are and where we want to go.

2. **Fulfillment of organizational commitments:** Organizations have long-term and short-term commitments towards society, depending on their nature. A defense organization, for example, has long-run commitments while a retailer is more interested in short term goals or responsibilities. These commitments or goals of the organization can be fulfilled through planning.

3. **It facilitates decision making:** Decision-making is deciding what to do when managers face a problem-solving situation, and adopting one way out of the available courses/ways of doing it. It is "the process of choosing a course of action from two or more alternatives." Managers have to make decisions like: what to produce and how to produce. What are the organizational resources and how can they be effectively allocated over different functional areas. What are their primary goals-profit or social responsibility and many more. Planning therefore helps to decide a course of action that will solve the specific problem.

4. **It provides stability to organizations:** organizations that plan their operations are more stable than others. Managers foresee risk and prepare their organizations to face them when they occur.

5. **Overall view of the organization/coordination:**" Organization is a structure of relationships where each person's authority and responsibility is clearly defined. Planning coordinates the functions performed by individual human beings and departments and

unifies them into a single goal (the organizational goal). It unifies inter-departmental activities so that all departments work according to plans.

6. **Optimum utilization of resources/efficiency of operations:** Organizations work with limited resources. Planning allocates these resources over different objectives and functional areas (production, personnel, finance and marketing) in the order of priority. This results in optimum utilization of scarce organizational resources (men, material, money etc.) and their effective conversion into productive outputs.

**7. Development of managers:** Planning involves imagination, thought and creativity by managers. While planning, managers develop their conceptual and analytical skill to coordinate organizational activities with external environment.

**8. Promotes innovation/creativity:** Planning involves forecasting. Managers foresee the future, analyze their strengths and that of their competitors and think of new and innovative ways of promoting their products. Planning promotes new ideas, new products, new relationships and thus, promotes innovation and creativity.

**9. Basis for control**: Planning frames standards of performance and control ensures achievement of standards. Controlling involves measurement of actual performance with comparison to standard performance, finding deviations and taking steps to remove those deviations to make better plans for future. Unless there are plans, there will be no control. Planning is, thus, the basis for control.

**10. Reduction of risk:** Risk is a situation where moderately reliable information is available about future but it is incomplete. Uncertainty, on the other hand, is a situation where information is not available about the future. Changes in government's policies is/are an uncertainty while entry of competitors in the market with a better technology is a situation of risk. Planning helps to reduce risk through techniques of forecasting.

**11. Morale boost up**: If organizational plans succeed and goals are achieved, employees feel satisfied and morale boost up to further concentrate on other activities. Successful planning, thus, promotes success of the organization.

### 3.3 Why Plans Fail?

Despite the best laid plans, there may be situations where plans do not produce the desire results. The following reasons lead to failure of plans to achieve the desired targets:

**1. Multiple goals:** If plans are made for too many goals, organizational resources get thinly spread over each of them and chances of effective achievement of goals becomes too difficult.

**2. Too much emphasis on future:** Over emphasis on future activities and environmental factors and under emphasis on day-to-day working of the organization may result in the failure of plans. Planning must be done every day, every moment and not periodically.

**3. Focus on short-term plans:** As too much focus on long-range plans can be unpredictable, focus on short-range plans is also harmful. The future provides base to stability and therefore, must be discounted in making organizational plans. Incorporate both short-term and long-term requirements of the firms.

**4. Standardized plans:** Depending upon the size, nature and structure of the organization and its activities, plans must be framed for different activities. Failure to do so results in failure to achieve the planned targets.

### 3.4 Limitations of Planning

Planning is inevitable. Its importance and benefits cannot be undermined. However it suffers from some limitations. Following are the limitations of planning;

**1.** **Costly**: Planning is costly. It consumes lot of time and money to plan with no guarantee of achieving planned targets.

2. **Curbs the initiative of managers**: Planning provides pre-decided courses of action. Managers cannot change the initiative once the plans are framed and put into action.

3. **Planning in advance is not always the right course of action**: It is easier to plan than to implement the plans. Actual realities or situations may be different from the planned ones. In the context of observed realities, it may be wise to depart from planned actions. Courses of action depend upon facts and circumstances of each case and not on pre-determined paths.

4. **Multiple goals**: If planning is done for too many goals, scarce organizational resources get thinly spread over them. This affects effective attainment of goals.

5. **Too much focus on future**: Planning is future-oriented. There is too much focus on future. Planning must be done every day, every moment and not periodically.

6. **Delay in action**: Planning involves time. It delays action when managers face emergency situations.

7. **False sense of security**: When plans are made, it gives a sense of security to organizational member that targets will be fulfilled. It promotes complacency and slows down action. This may be harmful to organizations.

8. **Coordination with other managerial functions**: Planning precedes other managerial functions. Other functions are dependent upon planning. A well designed organization structure should be a suitable motivational plan for rewarding good performance, a sound control system have to be linked with planning otherwise, planning will fail to achieve its results. It is not just enough to plan. Plans have to be linked with other functions also.

These limiting factors do not mean that managers should not plan. Planning is inevitable. Managers should consider these factors while planning to make the process of planning effective.

3.5 **Barriers to Planning**

Barriers to planning explain reasons why managers cannot effectively plan. These reasons can boldly be classified into two categories:

a) Individual based barriers

b) organizational based barriers

**Individual based Barriers**

These barriers relate to individuals who frame and implement the plans.

They are:

1. unwillingness to set goals
2. unwillingness to accept change

1. **Unwillingness to set goals**: There may be situations when managers do not want to frame goals. *Kolb, Rubin and McIntyre* gives the following reasons as to why managers are not willing to set goals.

(a) ***Unwillingness to give up alternative goals*****:** When managers have to choose amongst a number of goals, it becomes difficult for them to choose one and leave the rest. Commitment to one goal and foregoing the rest leads to reluctance to establish goals.

(b) ***Fear of failure to achieve them*****:** Since goals are future oriented and future is risk, risk averse managers do not assume the risk of setting goals which they may not be able to achieve.

(c) ***Lack of knowledge*****:** Managers should have enough knowledge about organization's internal and external environment so that goals can be framed for each department at each level. These goals must also synchronize with the needs of the environment that consists of its suppliers, customers, competitors etc. Managers who do not have this knowledge will not be able to make effective plans.

(d) ***Lack of confidence*:** One should believe in oneself; Managers who lack confidence to set definite and challenging goals are generally poor planners.

2. ***Unwillingness to accept change***: Organizational members often resist change because of the fear of unknown. They wish to maintain the status quo if they are happy with their present set up. This inhibits their capacity and willingness to plan for challenging goals. *Paul Lawrence* gives three reasons why organizational members resist change:

(a) Uncertainty about the causes and effects of change

(b) Unwillingness to give up existing benefits

(c) Awareness of weaknesses in the changes proposed

**Organization based Barriers**

Barriers at the organizational level are discussed below:

1. **Environmental factors:** Though plans are based on planning premises, yet unpredicted, external, non-controllable predictions can fail even the best plans. Today, the environment is changing at such a fast pace that managers may have to frequently alter the plans or reframe them.

2. **Constraint on resources:** Planners may have ideas but not enough resources to put ideas into action. Insufficient resources can limit the capacity of organizations to plans.

3. **Lack of information:** Managers must have access to complete information about market conditions to make effective plans. A company plans to sell its products at Rs. 15 per unit. It may not be able to do so if its competitors are selling at Rs. 13 per unit. Complete information about the environment is therefore, necessary for effective planning. Managers are often constrained by lack of complete and accurate information about the future. If future events do not occur as planned, they will affect the plans.

**4. Group dynamics**: Though group decision-making helps to make good plans, obstruct effective planning. Some of these barriers are:

(a) Group members have a tendency to accept high-risk projects which they would not accept singly. This may result in accepting projects which cannot be optimally achieved.

(b) Lower-level managers, as part of the group generally go along with the ideas of their superiors even if they have better ideas to offer.

(c) People who assert their view-point dominantly get their ideas accepted at the cost of others' ideas.

(d) Group may take short route to planning rather than analyzing complete information and generating alternative courses of action to prepare plans.

**Overcoming the Barriers**

The barriers to planning can be overcome through the following measures:

**Helping planners to set the goals**

1. Unwillingness to give up alternative goals can be overcome through scientific selection of goal. Managers should carry out cost-benefit analysis for each alternative and accept only those goals whose returns are greater than cost.

2. The fear of failure to achieve the goals can be removed by applying mathematical models to the goals selection process. Besides, managers should make flexible plans which can be changed according to situations.

3. Lack of organizational knowledge can be overcome through a well connected communication system where managers at all levels contact each other and remain well informed of the organizational activities. A well developed management information system can solve this problem.

4. Managers can remain informed about the external environment through effective system of communication. Regular contact with outside parties, through seminars and conferences can solve the problem of lack of knowledge of environment. In fact, the need for planning arises because of uncertainties in the environment. If everything could be forecast, there would be no need for planning. The environmental changes can be predicted through forecasting techniques like time series, derived forecasts, causal models and other statistical methods to develop insight into environmental factors and their managers' effects on setting of the goals.

5. The above measures develop managers' confidence to make rational and realistic goals which are challenging but attainable. The important, overall organizational goals are set at the top level of management and goals lower in priority are framed by lower-level managers, in consultation with their superiors.

**Helping Organizational Members to Accept Change**

Change is the essence of life. Organizational members have to realize this and resistance to change should be overcome by:

1. Explaining to them the causes and effects of change. Members should be informed of the benefits of change in the current system of working.

2. The present benefits should be compared with future benefits that will arise as a result of change and unwillingness of members to give up existing benefits should be removed.

3. If members feel plans have deficiencies and weaknesses, management should involve organizational members in framing the plans. Thus, members know the effects of proposed changes and they attempt to minimize the impact of their weaknesses.

The barriers to planning and ways to overcome them can be tabulated as follow:

| Barriers to planning | Ways to overcome the barriers |
| --- | --- |
| **I. Unwillingness on the part of planners to set goals** | **Helping planners to set goals** |
| 1. Unwillingness to give up alternative goals | - Scientific selection of goals through cost-benefit analysis |
| 2. Fear of failure to achieve the goals | - Applying mathematical models to achieve the plans and make flexible plans |
| 3. Lack of organizational knowledge | - A well developed management information system to know about the organization |
| 4. Lack of environmental knowledge | - Well connected communication system and forecasting techniques |
| 5. Lack of confidence | - Set rational and realistic goals capable of being achieved. |
| **II. unwillingness on the part of organizational members to accept change** | - **Helping organizational members to accept change** |
| 1. Uncertainty about causes and effects of change | - Explain the reasons for change and the benefits that will accrue out of them |
| 2. Unwillingness to give up existing benefits | - Comparison of existing benefits with future benefits |
| 3. Awareness of weaknesses in the changes proposed | - Adopt participative style of management where members take part in the decision-making process |

Besides the above discussed measures, the following measures also help to overcome barriers to planning:

(a) **Top management support:** Planning process must start at the top level management. Managers must keep in mind the barriers to planning and overcome them by setting realistic and attainable goals.

(b) **Setting responsibility:** If responsibility is fixed for framing and implementing plans, plans will be more realistic. Strategic plans should be the responsibility of top management and tactical plans and operating plans should be the responsible of middle level and operating managers respectively.

(c) **Training to planners**: Lack of planning skills can be overcome by training managers to acquire skills for planning.

(d) **Communication system**: Lack of information can be overcome by designing a well connected information system which will give information to managers for making plans.

(e) **Encourage group participation**: Rather than framing and committing organizational members for implementation, everyone should collectively engage in the planning process. Though group participation has limitations, they can be overcome through rational and realistic planning process.

(f) **Prepare contingency plans:** Organizations that operate in highly dynamic and complex environment should prepare contingency plans that can be adopted if unwanted situations occur.

### 3.6 Process of Planning

Process means carrying out an activity through a series of events. Steps involved in the planning process are described below:

1. **Need for planning**: The managers realize the need for planning as a first step to planning. The need sets the climate for planning. If sales are declining, the need for planning arises in the sales department. Organizational resources are identified, demarcated and allocated to the specified area. A structural arrangement for planning is made with a well designed communication system, decision-making centres etc.

2. **Identification of goals**: After the need is determined, planners identify what they want to achieve through planning. If, for example, sales are declining because of poor promotion polices of the company, the goal of planning is advertising and promotion management. Clear identification of goals helps in optimum allocation of resources and effective implementation of plans. Objectives must be framed for the organization as a whole, for different departments and for different levels of each department. The objectives must be clearly communicated to all the organizational members so that plans can be effectively implemented. If objectives are clearly identified, managers will be able to allocate scarce organizational resources over different functional areas effectively.

3. **Analysis of present situation:** Being clear of what to achieve, the planners must know how equipped they are to achieve their targets. They analyse the organization's present resource position (physical, financial, information, human etc.) and its internal and external environment. The internal environment represents its strengths and weaknesses and the external environment identifies the opportunities and threats. Information about economic, political, technological forces is provided through external environment. Appraisal of external environment enables the organization to prepare plans and strategies for the internal functioning of the enterprise. Planning is effective if organization is well informed about its internal and external environment. Information about internal environment (departments and their sub-units) can be collected from past

records, statistical data and financial statements. Information about external environment (competitors, customers, government) can be collected through financial journals, economic surveys, RBI bulletins, research reports etc.

4. **Identify barriers to planning**: Planning cannot be effective if members (those who plan and those who implement) are unwilling to set goals, lack planning skills and are unwilling to accept change. Managers identify barriers to achievement of goals. It helps in identifying areas in which existing objectives can be continued, modified or abandoned and the areas in which new objectives can be framed together with plans to achieve them. It helps to exploit potential areas of growth and withdraw from non-profitable areas.

5. **Development of planning premises**: Planning process is based upon estimates of future as plans are made to achieve goals in future. The estimates about future markets, consumer preferences, political and economic environment are the planning premises on which business plans are developed. The process of planning is based upon estimates of future events. Though past provides guide for making plans in present, plans are made to achieve goals in future. The forecast or assumptions about future which provide the basis for planning in present are known as planning premises. Planning premises are "the anticipated environment in which plans are expected to operate. They include assumptions or forecasts of the future and known condition that will affect the operation of plans."

   Since planning premises forecast environmental factors which directly affect organizational plans, they reduce the chances of failure of plans under different set of assumptions about future. Future events cannot disturb the plans if planning premises are rationally developed. A premise that new technology will be cost-effective and result in low prices and high sales will promote the company to adopt that technology.

   There can be different types of planning premises.

6. **Development of alternative courses of action**: After managers are clear of goals to be attained, they think of ways to achieve them. They should make alternative plans of action since there can be no best way of doing things. All possible alternatives to achieve the objective should be considered by managers.

For example, a firm that wants to grow its operations should make alternative plans for entering into new lines of business, expanding the same line of business in new markets; cater to existing customers by offering them discounts etc.

**7. Evaluation of different courses of action**: When the alternative courses of action are developed, managers select the most appropriate plan that will adjust to the internal and external environmental conditions and can be achieved with the available resources. Each course of action has costs and benefits. Managers should carry out a cost benefit analysis (comparison between costs and revenues) and the plan which gives maximum return should be accepted by them.

**8. Selection of a course of action:** When the best course of action is determined, it should be finally selected by managers. Each plan should be supported by sub-plans known as derivative plans. The main plan of marketing engineering goods may be supported by sub-plans for marketing heavy and light engineering goods. Derivative plans help in effective implementation of main plans. A production plan for example, has derivative plans to manage purchasing, production planning and control, manufacturing etc. A personnel plan can have derivative plans to look after appointment, training, placement and promotion of workers.

The plan should be flexible (which can be changed according to situation), acceptable (to organizational members who have to implement it) and cost effective.

**9. Feedback:** Feedback means response. When plans are selected and implemented, managers receive information about the success or failure of plans. If there are deviation in actual performance against planned performance, managers remove these deviations or make fresh plans. Plans must be continuously revised as the environment in which they operate is a set of changing, dynamic factors. Planning is complete if its implementation is effective. It should be able to achieve its goals. The planning process must allow leverage in the achievement of organizational goals…. Deviations beyond the acceptable limit should be remedied. It may require changes in any of the steps, changes in the implementation process or re-planning altogether

### 3.7 Principles of Planning

Principles provide the basis for sound planning. *Koontz et al* describe the following principles for effective planning:

1. **Principle of contribution to objectives**: Plans must be directed towards organizational objectives.

2. **Principles of objectives**: Since objectives are the basis for planning, they must be clear, specific, measurable and unambiguous. They must be understood and accepted by all the organizational members.

3. **Principle of primacy of planning:** Planning is pre-requisite to other managerial functions. It must be effectively done so that other functions of management also contribute to the overall organizational goals.

4. **Principle of efficiency of plans**: Plans must be efficient in their contribution to objective i.e., returns must exceed their costs.

5. **Principle of planning premises**: Since planning is based on forecasts, clear planning premises must lead to efficient planning process. Planning premises are assumptions or forecasts about future on which plans are based. They are "the anticipated environment in which plans are expected to operate. They include assumptions or forecasts of the future and known conditions that will affect the operation of plans. Premises form the foundation of plans. Sound planning premises help in making sound plans. They reduce uncertainty in achieving planned targets. Premises or assumptions are based on the information that managers generate by forecasting. Forecasting, thus, precedes planning premises and premises precede planning.

6. **Principle of strategy and policy framework**: Strategies and policies help to attain organizational objectives. Clear policies and strategies lead to clear and effective plans.

7. **Planning of limiting factor:** Limiting factor limits the capacity of the organization to achieve its goals. While selecting a course of action, managers narrow their search for alternatives and try to overcome them. The principle of limiting factor states that "by recognizing and overcoming those factors that stand critically in the way of a goal, the best alternative course of action can be selected."

8. **Principle of commitment**: Plans should cover a time span that allows managers to fulfill their commitment to the decisions.

**9. Principle of flexibility:** Plans must be flexible to adjust to environmental changes.

**10. Principle of navigational change:** This principle is closely related to the principle of flexibility. It reviews the plans from time to time and reframes them if the need arises (according to future changes and expectations) as the navigator does when the ship is not going in the right direction.

### 3.8 Features of a Good Plan

A sound plan has the following features:

1. **Integration**: A good plan should integrate the short-term requirements of the firm with its long term requirements. Plans must be oriented towards the achievement of overall organizational goals.

2. **Market research:** Planners must conduct a thorough market research before framing plans. “What potential customers are going to do and what they end up doing may be two different things." Plans should, therefore, forecast the market requirement through a well conducted market research.

3. **Economic/ Financial constraints:** A plan which relies too heavily on financial requirements may turn out to be a failure if the revenues (as expected) do not arise. If the budgetary balance is disturbed, all the operations may turn out to the problems. The future cost and benefits must be carefully analyzed while designing the organizational plans.

4. **Co-ordination**: A sound plan aims to co-ordinate the working of all functional areas. If functional plans (or departmental plans) are not synchronized with the overall organizational plans, the organization will fail to achieve its goals.

5. **Consistent**: Plans should be followed for a fairly considerable period of time. It is important therefore, that the plans are acceptable not only to those who frame them but also to those who implement them.

6. **Flexible:** Though consistent, plans should adjustable (flexible) to the environmental changes.

7. **Acceptable:** Best laid plans may turn out to be failures if they are not implemented properly in the organization. It is important, therefore, that plans are acceptable not only to those who frame them but also to those who implement them.

8. **Participative:** The acceptability of plans increases if subordinates participate in the planning process. Many organizations follow the principle of participation in planning as it offers the advantages of group decision-making. Managers obtain ideas/suggestions from subordinates of different departments at different levels and finalize the plans. The practice of participative planning promotes good ideas and creates personal obligation on the part of managers to retain control over the planning activities.

**Planning Premises**

The process of planning is based upon estimates of future. Though past guides the plans in present, plans are made to achieve the goals in future. Therefore, forecast of future event leads to efficient plans. The forecast or the assumptions about future which provide a base for planning in present are known as planning premises. They are "the anticipated environment in which plans are expected to operate. They include assumptions or forecasts of the future and known conditions that will affect the operation of plans." The estimates about future markets, consumer preferences, political and economic environment are the planning premise on which business plans are developed but if plans are made and their efficiency is judged in terms of future market demands, revenues and costs, they are mere expectations of plans. Such plans provide planning premise for other plans.

**Process of Planning Premises**

Since environmental factors affect business plans (also non-business plans) to a great extent, premises must be developed rationally and scientifically through the following process:

1. **Selection of the premises**: There are innumerable factors in the environment that affect the organizations. All of them do not affect operations of the business enterprise. Top managers should select the premises which have direct impact on developing organizational plans.

2. **Development of alternative premises**: Since factors affecting organizational plans cannot be perfectly predicted, managers must develop alternative premises i.e. plans under different sets of assumptions about the future events. This helps in developing contingent plans.

3. **Verification of premises**: Planning staff at different levels of different departments make plans according to their judgment. These premises are then sent to top executive for their approval. The premises which involve both staff and line managers are more consistent than those that are developed by executives alone.

4. **Communication of premises**: After the premises are developed, they are (supported by budgets and programmes) which are then communicated to all those concerned with the development of plans.

Planning premises, thus, help to develop sound plans followed by strategies, policies, and procedures etc. which help in effective implementation of plans.

**Types of Planning Premises**

Different types of planning premises are:

1. Internal and External premises
2. Controllable, semi-controllable and non-controllable premises
3. Tangible and Intangible premises

1. **Internal and external premises:** Internal premises originate from factors within the enterprise. They relate to premises about the company's internal policies and programmes, capital budgeting proposals, sales forecasts, personnel forecasts (skills and abilities of personnel) etc. These premises may be strengths or weaknesses of the organization. Strength represents a positive attitude which provides strategic advantage to the company over competitors and weakness is a limitation or constraint that provides strategic disadvantage. Managers analyze their strengths and weaknesses through corporate analysis and when corporate analysis (internal) is combined with environmental analysis (external), it is called SWOT analysis (Strength, Weaknesses, Opportunities, Strengths). *External premises* originate from factors outside the organization. These are the indirect actions caused by environmental factors (social, political, technological etc.) which affect the organization. They are also non-controllable premises beyond the control of the organization. The external environmental factors represent opportunity or threat to the organization. Opportunity is a favorable environmental condition which helps the organization improve its operational efficiency and threat creates risk for the company. It is the environmental challenge that

weakens the organization's competitive strength. This is done through SWOT analysis. It identifies environmental variables which help to formulate plans and policies.

2. **Controllable, semi-controllable and non-controllable premises**: Controllable premises are those within the control of a business enterprise, such as, men, money, materials, policies, procedures, programmes etc. They can be controlled by a business enterprise to ensure better sales of its products. Semi-controllable premises are those which can be partially controlled by a business enterprise like, labour position in the market. Non-controllable premises are those that lie beyond the control of a business enterprise. Wars, natural calamities and external environment factors are non-controllable premises.

3. **Tangible and intangible premises**: Tangible premises can be estimated in quantitative terms like, production units, cost per unit etc. Intangible premises cannot be quantified, for example, goodwill of the firm, employer-employee relationships, leadership qualities of the managers' motivational factors that get employees to work etc….

### 3.9 Business Forecasting

All organizations operate in the external environment. Plans should forecast future events for efficient working of the organization. Organizations should analyze the environment through various techniques of forecasting, identify their strengths and weaknesses and formulate their plans. Forecasting is closely associated with planning premises. Premising means formulating plans under a set of assumptions or forecasts which may affect the plans. "Planning premises are defined as the anticipated environment in which plans are expected to operate. They include assumptions or forecasts of the future and known conditions that will affect the operation of plan."

If forecast is a pre-requisite of planning, it is a planning premise. For example, planning based on future economic conditions of the country is a planning premise. If forecast is made after the plans are put into action, it is not a planning premise. For example, a new machine is purchased and put to use. Forecasts about revenues from this machine are not a planning premise but a mere forecast of the future expectations.

# LECTURE FOUR

## 4.0 Forecasting and Planning



Forecasting is a technique to assess the environment. It is the essence of planning. Planning is future oriented, forecasting helps in predicting the future. It estimates, predicts and projects future trends and events and provides important inputs to managers to frame meaningful plans. Business firms need information about various aspects of future like economic policies, price conditions, competitors' strength, growth of the economy, change in technology, consumers' tastes, availability of inputs etc. Organization can virtually forecast any of the environmental factors depending on their size and nature.

Forecasts are predictions of future situations or events. It may be based on past events, or involve pure speculations. Though forecasts relate to future, they are based on past and current economic and non-economic information. This information is obtained from sources within and outside the organization. How good are the forecasts depends upon how accurate the information upon which these estimates are based.

The forecasts can range from months to a few years depending upon the size and nature of industry. Short term forecasts are generally less complex and more reliable. The longer the period of forecasts, the lesser its reliability. Some forecasts, however, cannot be predicted like natural disasters, take over and acquisitions etc.

### 4.1 Benefits of Forecasting

Forecasting has the following benefits:

1. **Future oriented**: It enables managers to visualize and discount future events and thus, improves the quality of planning. Planning is done for future under certain known conditions and forecasting helps in knowing these conditions. It provides knowledge of planning premises with which managers can analyze their strengths and weaknesses and take action to meet the requirements of the future market. For example, if the TV manufacturers feel that LCD or Plasma televisions will replace the traditional televisions, they should take action to either change their product mix or to start manufacturing LCD/Plasma screens. Forecasting, thus, helps in utilizing resources in the best and most profitable business areas.

**2. Identification of critical areas**: Forecasting helps in identifying areas that need managerial attention. It saves the company from incurring losses because of bad planning or ill defined objectives.

3. **Coordination**: Forecasting involves participation of organizational members of all departments at all levels. It thus, helps in coordinating departmental plans of the organization at all levels.

4. **Effective management:** By identifying the critical areas of organization's functioning, managers can formulate sound objectives and policies for their organizations. This increases organizational efficiency and effectiveness in achieving their plans.

5. **Development of executives**: Executives engaged in forecasting develop their mental, conceptual and analytical abilities to do things in planned, systematic and scientific manner. This helps to develop management executives.

**Effective Forecasting**

Forecasting provides information that facilitates decision-making and planning. In the complex and turbulent environment of today, forecasts may go wrong and so would the plans based on these forecast. This may prove hazardous for the company. But making plans not based on forecast is more hazardous. Forecasting is therefore, necessary. Since future may not behave as predicted and deviations may occur, forecasting skills should improve to reduce the range of errors. This amounts to making forecasting effective. The following measures can help in increasing the effectiveness of forecasting:

1. Forecasting methods should be simple. Complex methods can confuse data rather than providing meaningful information.
2. Compare forecasts with the situation of "no change". Changes may not always occur and “no change" situation may prove to be accurate many times.
3. Long range forecasts should not depend upon a single forecasting method. Several forecasting methods should be adopted and average of their results should be used to make predictions.
4. Forecasts should not be made for very long periods. Length of forecasts should be shortened to improve their accuracy. Accuracy of forecasts decreases as the time period of prediction increases.
5. Managerial skill should be improved to make reliable forecasts for planning decisions.
6. Forecasts should be based on facts and figures and not personal biases of the forecaster.

**4.2 Techniques of Forecasting**

The techniques of forecasting generally fall into two categories:

1. **Quantitative Forecasting**: It applies mathematical models to past and present information to predict future outcomes. These techniques are used by managers to have access to hard or quantifiable data. Some of the quantitative techniques are time series analysis, regression and econometric models.
2. **Qualitative Forecasting:** It applies when data are not available or very little data are available. Managers use judgment, intuition, knowledge and skill to make effective forecasts. Some of the qualitative techniques are jury of executive opinion method, sales force composite method and users’ expectation method.

These techniques are used for:

1. External environmental forecasting
2. Internal environmental forecasting

**External +-nvironmental Forecasting**

No firm large or small, over a period of time, remains in a static condition. It experience upward or downward swing. *Robert C. Turner*, an economist, states that, `business forecasting is unavoidable. Every business decision involves a forecast, implicit or explicit, because every business decision pertains to the future. Although business decision makers should neither accept any forecast as infallible nor rely exclusively on it, they would be well advised to give forecasts a significant weight in their own planning."

Different kinds of forecasts related to external environment are:

1. Economic forecasting

2. Technological forecasting

3. Forecasting regarding Government policies

4. Sales forecasting

1. **Economic forecasting**: It is forecasting the general economic conditions, like boom or depression, upswing or downswing of the economy. Corresponding to these forecasts, sales and revenues of the business go up or down. In case of depression, timely forecast can prevent the firms from incurring losses.

Various techniques of economic forecasting are: (a) Extrapolation (b) Leads and Lags (c) Econometrics.

(a) **Extrapolation:** It is the continuity of past into future. Future is considered to be projection of the past. For example, if sales of a company are increasing every year at the rate of 12%, and sales for the current year are $ 1,000, the forecast of sale in the next year will be $ 12,000. These forecasts hold well unless there is an unpredictable change in the economic environment.

*Limitations:* Unpredicted variations in the economic conditions can affect the organizational plans. Changing growth rates can affect the validity of this method.

*Suitability***:** This method is suitable when changes are slow, e.g., population growth or life expectancy. Long-term forecasts in such cases normally do not fail.

(b) **Leads and Lags**: Some factors/indicators precede change in the economic environment; these decrease/increase in the stock market indices for example, is an indication of downswing/upswing in the economy. These are known as lead indicators. Some indicators succeed economic cycles. For example, if the economy is experiencing depression, manufacturing activity will slow down, manufacturers will not borrow from the banks, interest rates will go down and consumer spending will also go down. These are the lag indicators.

*Limitations*: These indicators are not based on scientific methods of forecast but are mere judgments of people who influence the economic activities through work.

Suitability: This method is suitable when economic indicators are applied scientifically and qualitatively to analyze their impact on changes in the economic cycles. For example, increase in share prices indicate upward trend of the economy and this can increase manufacturing activity, public and private investments and increase in consumer spending.

(c) **Econometrics**: It applies statistical models to solve business problems. The impact of different variables on the variable sought to be analyzed is studied and forecasts are made. For example, if a firm wants to know the impact of changes in production or advertising expenditure on sales, it can be found through techniques of econometrics. This model can work under different sets of assumptions; the impact of future costs and uncertainties can be studied and results can be predicted.

Limitations:

I. Managers should have specialized knowledge of statistics to apply these techniques

II. If managers do not have this knowledge; they can appoint people who can do this work, in which case it shall be costly.

Suitability: This technique is useful where policy makers analyze the impact of future changes on their current operations.

2. **Technological forecasting:** This forecasting analyses the impact of technological changes on the firm(s). It finds out the rate at which technology is changing, what will be the impact of new machines and equipment on existing plant and machinery of the firms, should the firms continue with the existing machines or replace them, in case of replacement, should they buy the new machine or take it on lease, what will be the impact of these decisions on the firm's profit etc.

This forecasting can be done in two ways:

(a) Exploratory forecasting

(b) Normative forecasting

(a) **Exploratory forecasting**: Exploratory forecasting projects the future according to predictable technological progress. Business firms assume that current technological developments will exist in future also.

Limitations: This is not an accurate way of forecasting since future is assumed to remain stable, which does not happen. If forecasters do not incorporate the changes in future in their current actions, they may not be able to face these challenges when they occur.

(b) **Normative forecasting:** This forecasting discounts future to the present. It presupposes changes in future and equips the firms to face them when they occur. This is an active form of forecasting and enables the business enterprises to survive in the changing circumstances.

Limitations: Though this forecasting fully equips the business firms to face challenges, it has only natural inhibitions like, what if the proposed changes do not take place, will the finances be available at the time when required, etc.

To make Technological forecasting effective, a technique called Delphi technique was developed by Olaf Helmer and his colleagues at the Rand Corporation. In this technique the problem is selected, i.e. the area where forecasting is done is identified; a team of experts is selected from inside and outside the organization; their independent opinion is obtained regarding the forecasts in the area selected; results are compiled and a consensus of opinion is obtained. This opinion is considered to be the likely forecast in the area selected.

3. **Forecasts regarding Government policies:** Government policies change from time to time to boost the economy. It may give fiscal incentives (additional depreciation or investment allowance) to promote investment in plant and machinery or some incentives may be withdrawn. This is done to regulate the national economy, prevent monopoly, and promote healthy competition. Changes in Government's policy and their impact on firm's profits can be predicted through information published in various journals and newspapers.

4. **Sales Forecasting:** Firms want to increase sales in the present and future markets to maximize their profits. The forecasts help the firm retain or increase its share of goods in the market. "The Sales forecast is a prediction of expected sales, by product and price, for a number of months or years." This is done irrespective of the size of the firms.

Various techniques of sales forecasting are as follows:

**(a) Jury of executive opinion method:** In this method, an estimate of sales is made by the top executives. They may work (i) independently or (ii) jointly, taking into consideration the opinion of other managers. Thus, experienced executives make intelligent estimates by analysing the factors affecting sales. This method of sales forecast is easy and top executives do not require intensive knowledge of statistical methods for making forecasts.

Limitations: Top executives are pre-occupied with overall plans and policies of the organizations and are overburdened with the task of collecting data for making sales forecast. This method is based only on experience and judgment and not on scientific or statistical reasoning.

**(b) Sales force composite method or the grass-root method:** In this method, sales forecasts are made by people who sell the goods. Salesmen of different areas collect the figures of expected sales compile them and forecasts are reviewed by regional managers of these areas. They are further reviewed by district managers and finally by the head office sales manager. This method of forecast is effective since forecasts are made by people closest to the market in the sales promotion activities and forecasts are also cross examined and reviewed by sales managers at higher levels.

Limitations: Salesmen make sales forecasts for very near future (short term). They are normally not equipped to make forecasts for long periods of time.

**(c) Users' expectation method:** In this method, rather than making forecasts on their own, companies' salesmen go to the consumers to know their expectations about their products. There may be different responses of consumers but a large sample of consumers can help companies make some kind of forecasts about what consumers/users expect the firms to sell. This method is effective where the market is known to business concerns.

Limitations: The method does not work where consumers are located in diverse areas or where the number of consumers is very large. Even if these expectations are collected by the companies, they may not always work in the right direction since users' expectations are only the estimates of their requirements. There is no commitment on their part to positively buy the products.

**(d) Statistical methods:** Sales forecasts are based upon statistical methods like trends, correlation and mathematical models

(i) Trend analysis assumes that past trends will continue in future unless disturbed by the environmental factors. The impact of these factors should be taken into consideration while making forecasts. For example, if sales have always increased by 15% over last year's sales, this trend shall continue in future unless some unpredictable changes (not accounted for by the forecaster) affects this forecast.

(i) Correlation analysis finds the degree of correlation/relationship between two variables for example, the degree of increase in GNP, National Income or consumer income on sales can be found by the method of correlation. This can be found for the current year or a forecaster can use lag periods to find the impact of earlier years' variables on sales of the current year.

(ii) Mathematical models are used to analyze the impact of a number of variables on the dependent variable. If the combined impact of many variables like income of consumers, Government policies, production policies and past sales is to be studied on current year's sales, mathematical model of regression can be developed to analyze the impact of these variables on sales.

Limitations: Statistical methods are costly to apply. Besides, they require extensive training for their use. Trends may not always predict the future and correlation also may give wrong results which cannot be used for predictions. Thus, in certain situations, personal judgment can be better than statistical analysis for making sales forecasts.

(e) Deductive Methods: This method assumes that the past cannot predict the future. It rests on subjective judgments for making sales forecasts. Forecasts are based on facts and their relationships and turn into a mathematical model. As Koontz and Weihrich put it, "the state of the forecasting is such that an independent, and often apparently intuitive, appraisal of the sales picture by an intelligent and experienced brain is still an input that no forecaster should overlook."

Limitations: though this method considers the impact of present, changing environment on the sales forecast, it completely ignores the impact of past records on future sales.

In practice, no single technique of sales forecast can apply to predict the sales. A combination of different techniques is followed by the forecasters, where positive attributes of all the techniques are unified into a single forecast. In the joint opinion method to make forecasts, all those concerned with the problem jointly make judgments and forecasts are made through consensus of opinion.

**Internal Environmental Forecasting**

Effective forecasting precedes planning. Besides external factors which affect forecasts, organizations must identify their internal environment also in the form of their strengths and weaknesses and analyze their impact on the forecasts made by them. Two main factors which help in identifying the internal environment are:

I. Human Resources

II. Non-Human Resources

I. Human resources: Human beings convert inputs into outputs to achieve company's plans.

Their competence and skill in distinctive areas of specialization must be recognized while making corporate plans.

II. Non - human resources: Plans must focus on financial and non-financial resources of the organization so that resources are optimally used to achieve objectives stated in the plans.

Case Study

RADIANT INDUSTRIES

"Radiant Industries" manufactures electrical stamping. It supplies 50% of its output in domestic market and 50% in international market.

As on date, it is doing well in the domestic market, while it is unable to capture the international market successfully. Market research has identified the following reasons for this:-

1. Intense competition in the international market, as the product is not new there.

2. Quality is not up to the international standards.

However, the product is new to the domestic markets, thus, is readily accepted. The managing director (MD) of the company is worried about its international operations and thus, holds a meeting with Finance and Marketing managers (major departmental heads) to analyze the issue.

After extensive discussion, the marketing manager came to the conclusion that the firm should continue working in the international markets, as he feels that the firm might face competition in the domestic market which may drive the firm out of business. So, he wants to improve quality up to the international level and introduce product differentiation.

The finance manager however is not very pleased with this opinion; as quality enhancement up to the international levels would require huge amount of capital investment; and the firm at present is not in a position to finance it. This would require some time; thus, the marketing manager's plan cannot be implemented immediately.

The MD knows that product differentiation and quality enhancement is a long-term procedure; but going with the opinion of marketing manager; he wants to continue its operations in the international markets.

The result was increasing losses for the company. The departmental managers then suggested to the MD to reduce the sales targets in foreign markets and plan accordingly. The MD didn’t listen. The company came close to bankruptcy.

Questions

1. Analyze the case.

2. What reasons do you account for company's failure?

3. What would you have done in such a situation?

**4.3 Goals and Objectives**

Though the terms `goals' and `objectives' are often used interchangeably, there is difference between them. Goals refer to non-measurable future ends. Goals are broader objectives which an organization strives to achieve. Goals can be understood if we know the meaning of the terms `purpose' and `mission'.

Purpose: Purpose is a broader term that applies to all organizations of similar type. The purpose of all educational institutions, for example, is to provide quality education to society. The purpose of all business organizations is to provide quality goods and services to consumers at the right time and right price.

Mission: Mission is a specific term that explains why an organization exists. "A mission statement is a broad declaration of the basic, unique purpose and scope of operations that distinguishes the organization from others of its type". The mission of educational institution may be to provide quality education to women only. The mission of a business organization is to provide specific goods to society. The mission of a food products company may be to provide milk products to consumers of northern region. A mission is thus, more specific than purpose.

**4.4 Purpose of Mission**

1. It provides reason to organization's existence.

2. It promotes creativity and innovativeness of organizational members.

3. It helps outsiders (Government, suppliers, creditors etc.) to know the organization's internal functioning.

**4.5 Components of Mission Statements**

A study revealed the following components of the mission statements (all or some)

1. Customers of the organization.

2. Products or services provided by the organization.

3. Location of the organization.

4. Technology adopted by the organization.

5. The organization's concern for survival, i.e., its commitment to economic objectives.

6. The basic philosophy, beliefs, values and aspirations of the organization.

7. Self concept, i.e., organization's strengths and competitive advantages.

8. Concern for public image i.e., organization's present and prospective responsibility towards public.

9. Concern for employees by paying them adequate compensation according to their abilities, skills and contribution towards organizational operations.

**4.6 Features of Mission Statement**

Mission statement is a document that communicates the corporate philosophy, identity and image to the members of the organization. It also helps the society to know what the organization is when they are dealing with it. A mission statement must, therefore must have the following features:

1. Mission should be clear so that it is easily understood

2. It should have achievable standards; neither too high nor too low

3. It should be precise; neither too narrow to limit organization's activities nor to make it vague.

**Objectives**

Objectives refer to specific, measurable ends. They are identifiable goals towards which all organizational activities are directed. They are the end results of the organization's operations. Objectives are the specific targets or standards against which actual performance can be measured. "It is a future target or end result that an organization wishes to achieve.' Planning is meaningless if objectives are not framed. Objectives serve as guide to planning i.e. planning is directed towards specific objectives.

Production target of 1,000 units every month or profit after tax of $ 1,000 every year are the specific and measurable goals or objectives which can be estimated and verified.

**Goals/Objectives**

Goals are the non-measurable future ends. They are the broader objectives of the organization. Objectives, on the other hand, are specific, measurable ends. They are the end results of organization’s operations. The goal(s) of an organization may be to achieve a growth rate of 15%. It may have the objective of producing baby products to achieve this growth rate. Goals are, thus, broader than objectives. However, the present discussion treats the two terms (goals and objectives) interchangeably. They are considered as end results of an organization's operations. They are the specific targets or standards against which actual performance is measured. They provide direction to all managerial actions and decisions and serve as the criteria for resource acquisition and utilization.

**Features of Objectives**

1. **Challenging**: Challenging goals require innovative and creative organizational members. An organization with aspiring work force accepts the challenging goals. They will not find the routine objectives attractive.

2. **Attainable:** Goals, though challenging, must be attainable. People must work hard to achieve their goals, therefore, frame goals which can be achieved with the physical, financial and human resources.

3. **Specific and measurable**: Goals can be tangible and intangible. Intangible or "qualitative goals involve subjective judgment about whether or not a goal is reached." Assessing the manager's performance or worker's morale are the qualitative goals. Though important, they cannot be easily measured unless some quantifiable standards of performance are framed. Quantitative goals encompass objective numerical standards that are relatively easy to verify." Production target of 2,000 units every month is a specific and measurable goal which can be estimated and verified. An objective of `increase in sales' has no meaning unless it says increase in sales by 10%.

4. **Time limit**: The goals must be achieved within a specified time-period. Organizational performance must be reviewed and assessed at regular intervals so that goals can be achieved within the time specified.

5. **Supportive**: Goals at lower levels must support the higher level goals, short-run goals should support the long-run goals and the goals of different departments should also support each other.

If the organization wants to increase sales by 5%, the production department should support this goal by producing 5% more and finance department should also release funds for producing and selling more.

6. **Hierarchy:** Objectives at different levels of the organization form an ends-means chain or a hierarchy where objectives at one level provide an end in themselves and a means for attaining objectives at the higher level.

7. **Priority**: At a point of time, an organization has multiple goals and, therefore, goals must be arranged according to priority. This helps in optimum allocation of scarce resources over different objectives. A business organization, for example, should lay down priorities for profit-oriented activities and non-profit or service activities. This ensures efficient utilization of resources.

**Benefits of Objectives**

Objectives provide the following benefits to organization:

1. **Basis for managerial functions**: Objectives provide basis for all managerial functions. Planning, organising, staffing, directing and controlling are directed towards organizational objectives. Unless organizational objectives are clearly identified, managerial functions will not be effectively carried out.

2. **Basis for organizational existence**: Objectives provide foundation or legitimacy to business organization. An organization will not come into existence if it has no objective to achieve.

3. **Basis for various types of plans**: Different types of plans like policies, programmes, procedures etc. are directed towards organizational objective. If objectives are not clear, managers will not be able to make plans also.

4. **Standards of performance**: Objectives provide standards of performance against which actual performance is measured. Organizational performance is directed towards achievement of objectives. Objectives, thus, provide a basis for control.

5. **Unity of action**: Objectives provide unity of action. All organizational activities related to all departments (production, marketing etc.) are targeted towards organizational objectives.

6. **Motivation**: Achievement of objectives at one level becomes a source of inspiration and motivation to achieve goals at higher levels. Workers strive hard to achieve innovative and challenging goals. Rational and attainable objectives, thus, motivate employees to work hard to achieve them.

7. **Basis for coordination**: Objectives coordinate the efforts of people in different departments. Individual, sectional and departmental goals are coordinated or directed towards corporate goals.

**Multiplicity of Objectives**

One may generally think that the objective of a business organization is to make profits and that of a non-profit organization is to provide service or meet the needs of various constituents of society (stakeholders). However, this is not true. In reality, all organizations have multiple objectives. Emphasis on one goal (profits) may ignore other goals (growth, market share, innovation etc.) which are also important if the organization wants to achieve long-run survival and growth. In the modern times, having only one goal (profit maximization) is unethical as business operates in a social system. It influences various elements of society and is influenced by them. It has to have multiple objectives to meet the needs of different sections of society. This will not only help the business organization meet its primary goal of profit maximization but also ensure its long run survival in the market.

"Our modern view of society is an ecological one. Ecology is concerned with the multiple relations of human populations or systems with their environment. It is necessary to take this broad view because the influence and involvement of business are extensive. Business cannot isolate itself from the rest of society. Today the whole society is a business's environment.' No single objective can measure the success of an organization. Multiple objectives enable a business firm to influence diverse interest groups which interact with it. They provide opportunity to the firm to optimise its resources and frame plans, priorities, philosophies and policies towards them. Some of the multiple objectives of a business organization are economic objectives (profit maximization, increased productivity, optimum allocation of resources, customer creation, innovation), organic objectives (effective utilization of manpower development of human resource, participation in management, training and motivation), social objectives (customers satisfaction, remove social problems, fair trade practices employment opportunities) and national objectives (development of backward areas, generation of export surplus contribution to research and development, provide social justice).

**Hierarchy of Objectives**

These are generally a hierarchy of objectives viewed as a means-ends chain. Objectives at different levels of the organization form a hierarchy where objectives at one level are end in themselves and means for attainment of objectives at the higher level. Together objectives at all levels form an integrated chain. Objectives framed by top managers to achieve growth rate of 15% is an end of top level. In order to achieve this growth rate, sub-objectives for middle level managers are to increase sales in the existing market. Increasing sales is an end of middle-level managers but means for achieving goals at the higher level. This process goes on till objectives are framed for each level in the organization where objectives for each level are an end in themselves but a means for attaining objectives for levels higher than theirs. This hierarchy appears like this:

Corporate objectives

$\Downarrow$

Departmental objectives

$\Downarrow$

Sectional or Unit objectives

$\Downarrow$

Individual objectives

In a hierarchy, goals/objectives are generally framed at three levels.

1. Top level: Strategic goals
2. Middle level: Tactical goals
3. Lower level: Operational goals

1. **Strategic goals:** These are the formal goals framed by top managers and address issues related to the organization as a whole. These goals ensure the survival and successful working of a business enterprise. According to Drucker, there are eight major areas in which organizations frame strategic goals. These are; market standing, innovation, human resources, financial resources, physical resources, productivity, and social responsibility and profit requirements.

2. **Tactical goals:** Each department sets specific goals which help to promote and achieve overall organizational goals (strategic goals). Tactical goals are the goals of specific departments framed by middle level managers: While strategic goals are general in nature, tactical goals are specific. They are stated in measurable terms.

3. **Operational goals:** "Operational goals are targets or future end results set by lower management that address specific, measurable outcomes required from the lower level." These goals are framed by lower-level managers for divisions or sub-units of each department. As tactical goals help to achieve strategic goals, operational goals help to achieve both strategic and tactical goals.

These levels of goals form a means-ends chain where goals at lower levels provide a means for attaining the ends (goals) at the higher level. The differences between goals at different levels are tabulated below:

**Levels of Goals**

| | Strategic goals | Tactical goals | Operational goals |
|---|---|---|---|

| | | | |
|---|---|---|---|
| | | | |
| 1. Nature of goals | General | Specific and measurable | Specific and measurable |
| 2. Framers of Goals | Top management | Middle – Level management | Lower – level management |
| 3. Purpose | Justify organizational existence | Achieve strategic goals | Achieve strategic and tactical goals |
| 4. Level | Framed for the organization as a whole | Framed at the department level | Framed for sub – units of each department. |

# LECTURE FIVE

## 5.0 ORGANISING:NATURE, PROCESS AND IMPORTANCE



## 5.1 Meaning of Organization

In common parlance, "organizing" refers to "institution". An educational institution, private agency, Government department or a business firm are organizations. In the context of management, it refers to formal arrangement of work among members of the institution with clear identification of authority and responsibility that organizational goals are achieved optimally. If duties of each member and their relationship with peers, superiors and subordinates are well defined, the planning process will be effective.

Organizing according to Daft (2006) is the management function concerned with assigning tasks, grouping tasks into departments and allocating resources to departments. In the view of Jones et al., (2000), organizing is structuring working relationships in a way that allows organizational members to work together to achieve organizational goals. It could also be defined as involving all the managerial work involved in creating an organizational structure and design.

It is essential for every institution to have sound principles of organization to succeed in achieving its goals. The organization should clearly define the tasks and duties of each member and relationships amongst them so that all members co-ordinate their activities to achieve the overall goals. The term organization as it is viewed today has emerged over a period of time from the traditional task-oriented to the modern people-oriented concept.

The evolution of organization as a mechanism that enables people to work most effectively towards the attainment of the organizational goals has emerged as follows:

1. **The "Herd" concept**: It views organizations as a group of people who direct efforts towards organizational goals through coercion, punishment ad strict adherence to rules and regulations. It empowers the superiors to decide for their subordinates and assumes subordinates' obedience to their directions, orders and instructions.

2. **The "person-to-person" concept**: Subordinates are not viewed as a 'herd' by the superiors. Superiors contact the subordinates and delegate responsibility and authority to make them work towards organizational goals.

3. **The "group" concept**: while "person-to-person" concept emphasizes on vertical relationships amongst superiors and subordinates, the "group" concept recognizes the lateral or horizontal relationships also amongst people working at the same level.

Viewed as a group concept, different authors have defined 'organization' as follows:

Louis A. Allen defines organization as "the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives."

According to Alvin Brown, "organization defines the part which each member of an enterprise is expected to perform and the relations between such members, to the end that their concerted endeavor shall be most effective for the purpose of the enterprise."

Pearce and Robinson define organizing as a "process of defining the essential relationships among people, tasks and activities in such a way that all the organization's resources are integrated and coordinated to accomplish its objectives efficiently and effectively".

The above definitions highlight the concept of organizing as a (i) structure, and (ii) process.

As a structure: Organising is a set of relationships that defines vertical and horizontal relationship amongst people who are assigned various tasks and duties. The organizational task is divided into units, people in each unit (departments) are assigned specific tasks and their relationship is defined in such a way that maximizes organizational welfare and individual goals. The relationship amongst people is both vertical and horizontal. As vertical relationships, the authority-responsibility structure of people at different levels in the same department is defined and as horizontal relationships, the authority-responsibility structure of people working in different departments at same levels is defined.

Organization structure specifies division of work activities and shows how different functions or activities are linked; to some extent it also shows the level of specialization of work activities. It also indicates the organization's hierarchy and authority structure, and shows its reporting relationships.

Organising as a structure is a network of relationships (authority-responsibility structure) amongst all those who are part of the organization, working at any level in any department.

Organization as a structure defines relationships between jobs and people working at those jobs at various levels. It emphasizes more on positions than people.

As a process: Organising defines relationships amongst people in such a way that organizational goals are achieved efficiently. It involves (i) identification of work, (ii) grouping of work into smaller groups, (iii) assigning work to each individual at every level in every department, (iv) defining its authority and responsibility, and (v) establishing relationships amongst people to make them work towards the organizational goal in an integrated and coordinated manner.

Organising as a process consists of two processes: (1) Differentiation (2) Integration.

Differentiation means division of work into smaller units and its assignment to various individuals according to their skills and abilities. Integration refers to coordination of different activities towards a common goal. It provides unity of action towards organizational activities.

## 5.2 **Nature of Organization**

The following points explain the nature of organization:

1. **Structure of relationships:** Organization is a system of well-defined tasks and duties assigned to people along with delegation of authority, responsibility and accountability. Delegation provides formal structure to the organization. Constant interaction amongst individuals creates social relationships and a structure of informal organization.

2. **Managerial function:** It is a function of management which integrates human and non-human (physical) resources for achieving organizational goals. It is a function in itself and also helps in performing other managerial functions. For planning, directing and staffing functions to be effectively performed, it is necessary that they are effectively organised.
3. **Ongoing process:** Organising is a process which involves a series of steps, from determination of objectives to accomplishment of objectives. It is a continuous process which requires management to introduce changes (re-organization) in the way an organization works. Many organizations re-structure their set-up every five to seven years.
4. **Encourages teamwork**: Since the early times, people always lived in groups. With increase in size of these groups, it was not possible for one person to accomplish the organizational task alone. The work, therefore, got divided amongst people and each person co-ordinated his work with others. This required organising the group activities towards a common goal. According to Louis A. Allen: "Organization has enabled men to increase their riches far beyond, the dreams of the wealthiest potentates of old by making effective use of a potent multiplier-machine, power and mechanized tools". Organization comes into existence when there are a number of persons in communication and relationship to each other who are willing to contribute towards a common endeavor.
5. **Foundation of management**: Success of an institution depends upon its sound organization. Clear definition of jobs and their division amongst members with clear identification of authority and responsibility is the foundation of successful management. Unless there is clarity of who is responsible to whom, no management can function effectively.
6. **Goal-oriented:** Every organization is formed for some objective; profit or service. All organizational activities are divided amongst members, departments are created, work is co-ordinated and continuous monitoring of activities is done to achieve the objective. The process of organization is, thus, a goal-oriented process.
7. **Adaptive to change**: Though organization structure provides stability to activities of members, it is open to change. Changes in the environment, internal or external are incorporated in the organization structure. This makes organization an ongoing process.
8. **Situational:** No structure can be described as best. Depending upon the nature of the size of the organization and nature of relationships amongst people, the organization also varies.

5.3 **Process of Organising**

The process of organizing involves the following steps:

1. **Determination of objectives:** Every organization is established for some objective or goal. Various tasks or activities of the organization are determined for achieving this goal. For example, if the organization is established to export goods, it must determine the nature and type of goods to be exported, the sources from where raw material will be obtained, countries where goods will be exported, co-ordinate with foreign buyers etc. Determining the total workload of the organization is the first step in the process of organizing.

2. **Division of activities:** Since one person cannot manage all the activities, he breaks the total task into smaller units and assigns them to members. Work should be assigned according to qualification and ability of every person. Division of work leads to specialization which offers the following benefits:

(a) Greater output: Adam Smith illustrated a study where one person could manufacture 20 pins a day if he worked alone. Production of pin was broken into sub-activities where each person carried out the following specialized tasks; Drawing out the wire-straightening the wire-cutting the wire-grinding the point-polishing it-putting up the pin head and so on. It was observed that as against 20 pins per day, division of work and its specialization enabled 10 people to produce 48,000 pins in a day (watch the wonders of specialization).

(b) Increase in efficiency: Performing the same task over and over again increases the skill and efficiency of the workers.

(c) Facilitates training of less-skilled workers: Since the complex task is broken into smaller units, less-skilled workers can be trained to carry out those activities.

3. **Grouping of activities:** After the work is assigned to people, those performing similar activities are grouped in one department. Various departments like sales, finance, accounting etc. are filled with people having different skills and expertise but performing similar activities.

Grouping of activities into departments is called departmentalization and each department is governed by a set of rules, procedures and standards.

4. **Defining authority and responsibility**: Every department is headed by a person responsible for its effective functioning. Departmental heads are appointed to carry out the activities of their respective departments. This is to ensure that competence of departmental head matches job requirements of the department. Each head has the authority to get the work done from his departmental members.

He delegates responsibility and authority to members of his department. This creates a structure of relationships where every individual knows his superiors and subordinates and their reporting relationships.

5. **Co-ordination of activities**: When departments work for their objectives, they may develop inter-departmental conflicts. This can obstruct the achievement of organizational goals. For example, the finance department wants to cut down the costs, but the marketing department needs additional funds to market its products. This conflict can be resolved through co-ordination so that all departments share the common resources. Coordination can be brought by defining relationships amongst various departments and people working at different positions.

6. **Reviewing and re-organizing**: There must be constant appraisal of the above steps so that changes in the organization structure can be brought, consequent to changes in the environmental factors. Constant appraisal and re-organization is an integral part of the organizing process.

### 5.4 Importance of Organising

Organizing is important because of the following reasons:

1. **Facilitates administration**: If all the activities are performed by the top managers, they will be overburdened to concentrate on strategic matters. It is essential that part of the workload is shared by middle and lower level managers. Top executives will be relieved of managing routine affairs and can concentrate on company's effective administration. The basic elements of organizing (division of work, grouping of activities, distribution of authority and co-ordination) provide for better administration by the top management.
2. **Growth and diversification**: A well-organized institution is adaptive to change and responsive to growth and diversification. It can multiply its operations.
3. **Creates synergies**: Division of work provides the benefits of synergies. Synergy means the total task achieved by a group of people is more than the sum total of their individual achievements.
4. **Establishes accountability**: Unless each person knows his boss and subordinates, the organization cannot function efficiently. Establishing limitations in the area of operations defines each person's accountability to his immediate boss which gears the organization towards its overall goals.
5. **Optimum use of technology**: It is the age of technological developments. Therefore organizations not having well-developed technology will not be able to compete in the market. Well-organized structures enable the organizations to optimally use and update their technology to remain competitive in the market.

6. **Facilitates communication**: Communication is the essence of organization. Efficiency of the organization depends upon how well the organizational members communicate with each other. A well-designed system of communication (vertical and horizontal) is facilitated through effective organizing efforts of top executives.
7. **Facilitates creativity**: Creativity means creating something new. It is developing new ways of doing existing things. A sound organization enables the top management to improve ways of doing things by delegating routine affairs to people down the scalar chain. Creativity creates a sense of achievement in the managers in a well-organised structure that provides moral boost for further creative thinking.
8. **Improves inter personal relationships**: A sound organization structure ensures that the workload is divided into well defined jobs and assigned to each individual according to his abilities and skills. Placing the right person at the right job ensures job satisfaction and morale boost up of employees. This improves inter-personal relationships of people working in the organization.
9. **Facilitates coordination**: Well defined objectives and plans can fail if organizational activities are not coordinated in a unified direction. A well designed organization structure brings order and system in its activities. It coordinates the work of people at different levels in different departments. People work along pre-defined dimensions and harmonise individual goals with organizational goals.
10. **Facilitates teamwork**: Though all individuals are responsible for specific tasks assigned to them, they work collectively as a team and optimize the use of scarce organizational resources to achieve the organizational goals. Organization, thus, facilities teamwork.
11. **Facilitates control**: Organization provides sound direction to people's activities and ensures that they work according to plans. This facilitates control and achievement of organizational goals.
12. **Increase in output**: Sound organization divides activities into various departments (production, marketing etc.). These departments specialize in their tasks and increase the organizational output.
13. **Optimum allocation of resources**: Organising promotes optimum allocation of resources as they are allocated over different areas (production marketing, personnel etc.) in order of their priority. People are assigned jobs that they are best suited for. All work activities are assigned to different people. There is no duplication of work.

## 5.5 **Organizational Chart**

With increase in size and complexity of organizations, number of departments, sub-units and people working in the organization is also increasing. There is increasing distance between top executives and people at lower levels and interaction amongst them also becomes increasingly complex. To enable people have clear understanding of the various positions, departments and their sub-units and relationship amongst different departments, visual maps are used. This visual representation of organization structure is known as organizational chart. Organizational charts could also be defined as the reporting structure and division of labour in an organization. It could be seen as a picture or diagram of positions in an organization and their formal relationship to one another.

It gives clear understanding to every person of his position in the organization vis-a-vis his superiors and subordinates. It clearly defines the authority, responsibility and accountability structure in the organization.

It is a "line diagram that depicts the broad outlines of an organization's structure." According to Alferd D. Chandler, organizational charts "show in visual form the various major positions or departments in the organization, the way the various positions are grouped into specific units, reporting relationships from lower to higher levels, and official channels for communicating information." It is representation of the way a firm is organized in boxes and lines where boxes show the activities performed by a company and people who perform these activities and lines show the relationships amongst them, through official chain of command and channels of communication. The chain of command respects the principle of scalar chain and unity of command. Organizational charts show the following:

a. Levels of hierarchy
b. Chain of command
c. Span of management
d. How work is structured within the organization.
e. The number of employees reporting to a supervisor
f. The number of subordinates a manager can effectively manage.

5.6 **Kinds of Organizational Charts**

Organization charts are broadly of the following types:

1. Vertical organization charts

2. Horizontal organization charts

3. Circular organization charts

Vertical charts depict the flow of authority from top to bottom; horizontal charts show this flow from left to right and circular charts show top position in the innermost circle (concentric circles) which flows towards middle and lower level managers in outward circles. The most commonly adopted organization charts are vertical charts.

**5.7 Span of Management**

Meaning

The number of workers that a manager can effectively supervise is known as span of management or span of control. In the 19th and middle of 20th century, management writers determined 5 or 6 as the maximum number of subordinates that a manager could effectively manage at the upper level. Beyond this number, managers faced problems like:

1. Overburdened with work.

2. Difficulty in coordinating the activities of large number of people.

3. Difficulty in controlling.

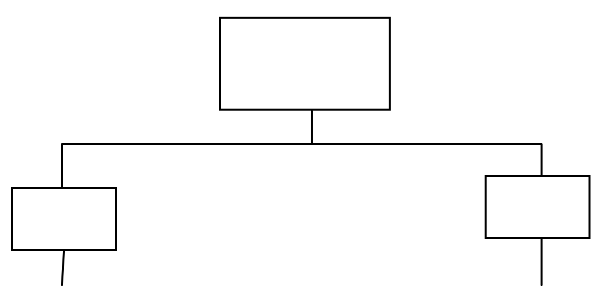
Thus, optimum number of subordinates that a manager could supervise was determinable but today, it is not so. Exact number of employees that managers can effectively supervise cannot be defined. Span of management is situational in nature. Depending on the number of employees that can be supervised or controlled by managers, there can be two kinds of structures in the organization:

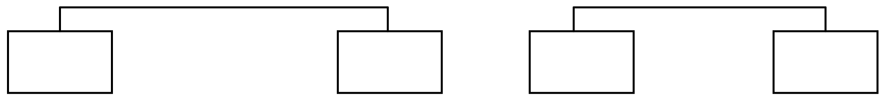
1. Tall structures

2. Flat structures

1. **Tall structures**

Meaning: These structures are found in classical bureaucratic organizations. In this structure a manager can supervise only a few subordinates. He can, therefore, exercise tight control over their activities. This creates large number of levels in the organization. This is also known as narrow span of control. A tall structure or a narrow span of control appears like this.





**Advantages of a Tall Structure**

1. Managers can closely supervise activities of their employees.

2. There can be better communication amongst superiors and subordinates.

3. It promotes personal relationship amongst managers and subordinates.

4. Control on subordinates can be tightened in a narrow span.

**Limitations of a Tall Structure**

1. Too many levels in the organization structure complicates co-ordination amongst levels

2. More managers are needed to supervise the workers. This increases the overhead expenditure (salary etc.).

3. Increasing gap between top managers and workers slows the communication process.

4. Decision-making becomes difficult because of too many levels.

5. Superiors perform routine jobs of supervising the subordinates and have less time for strategic matters.

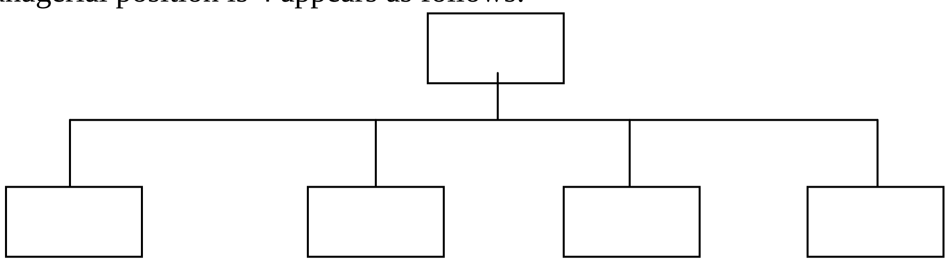
6. Employees work under strict control of superiors. This restricts their creative and innovative abilities.

7. Strict control leads to low morale and job satisfaction.

To overcome the disadvantages of a tall structure, many organizations reduce the number of levels in the hierarchy by downsizing the organization. Downsizing is "the process of significantly reducing the layers of middle management, expanding spans of control and shrinking the size of the work force." Many companies downsize their work force through a process of restructuring. Restructuring is "the process of making a major change in organization structure that often involves reducing management levels and also possibly changing some major components of the organizations through divestiture and/or acquisition."

2**. Flat Structures**

Meaning: These structures have a wide span of control. When one superior supervises a larger number of subordinates, a flat structure is created with lesser number of hierarchical levels. A departure was made from tall structures to flat structures by James C. Worthy who was a consultant in the L. Sears, Roebuck and company. A structure where span of control for each managerial position is 4 appears as follows:



**Advantages of a Flat Structure**

1. There is low cost as less number of managers is required to supervise organizational activities.

2. The decision-making process is effective as superiors delegate authority to subordinates. They are relieved of routine matters and concentrate on strategic matters.

3. Subordinates perform their work efficiently since they are considered worthy of doing so by their superiors.

4. There is better system of communication as the number of levels is less.

5. It promotes innovative abilities of the top management.

The advantage of wide span of control is explained by Peter F Drucker as follows; "The most common and most serious symptom of malorganization is multiplication of the number of management levels. A basic rule of organization is to build the least possible number of management levels and forge the shortest possible chains of command."

**Limitations of a Flat Structure**

1. Superiors cannot supervise the activities of employees.

2. Managers may find it difficult to co-ordinate the activities of their subordinates.

Both tall and flat structures have positive and negative features and it is difficult to find the exact number of employees or subordinates that a manager can effectively manage. What then is the appropriate span of control? Some management theorists like David D. Van Fleet and Arthur G. Bedeian assert that span of control and organizational efficiency are not related to each other and many empirical studies have proved that span of control is situational in nature and depends on a variety of factors.

**Factors Affecting Span of Management**

1. **Competence of managers**: If managers are competent in their jobs, they can have a wide span of management.

2. **Nature of work**: If employees perform similar and repetitive work, managers can supervise large number of subordinates and, thus, have a wide span of control. Non-repetitive and challenging work requires narrow span of control.

3. **Assistance to managers**: If managers have access to technical or secretarial assistance, larger group of subordinates can be managed by them. Span of control can therefore be wide.

4. **Education of subordinates:** If subordinates are educated and intelligent to manage their jobs without much assistance from their superiors, a wide span of control can be thought of.

5. **Clear plans and policies**: If plans clearly define the organizational/individual goals and policies, supervisors can supervise a larger group of subordinates and have a wide span of control.

6. **Organizational level**: The top executives look after important and specialized activities and, therefore, the span is narrow at the top level but at lower levels the span can be wide since supervisors are mainly concerned with routine jobs. According to J.C. Worthy, a manager can supervise as many as 20 subordinates at the lower levels.

7. **Clearly defined authority**: If authority-responsibility structure is well-defined and understood by everyone clearly, superiors can supervise a large number of subordinates.

8. **System of control**: Effective techniques of control can enable the manager to supervise larger number of subordinates.

9. **Financial factors**: Both narrow and wide structures have financial constraints. A narrow span requires additional managers at extra cost. Wide span, on the other hand, may result in

organizational inefficiencies. Proper balance has to be maintained between the costs and benefits of the span that a manager can effectively supervise.

### 5.8 Principles of Organising

Principles are the guidelines that promote managerial thinking and action. Principles of organising help managers to effectively carrying out their organising function. These principles are as follows:

1. **Principle of unity of objectives**: All organizational activities are geared towards attainment of objectives. Objectives are framed for each level (top, middle and low) and each functional area. The objectives must be clearly understood by all and support each other at each level to attain objectives at higher levels.

2. **Principle of organizational efficiency**: Organizational goals should be achieved efficiently. It means optimum (efficient) use of resources, that is, maximum output should be achieved out of minimum inputs.

3. **Principle of division of labour**: Division of labour means breaking the main task into smaller units. The major task, say making of a pin is broken into sub-tasks as drawing out wire, straightening the wire, cutting the wire, grinding the point and putting the pin head. This makes each person concentrate on his part of the job and perform it efficiently thereby increasing the total output. Work should be divided and assigned to workers according to their skills.

4. **Principle of authority-responsibility**: Authority and responsibility must go hand in hand. Responsibility means obligation to carry out the assigned task. To carry out this task, authority must be delegated to each person. Conversely, given the authority, the tasks assigned (responsibility) should be within the scope of authority. Authority without responsibility will result in misuse of authority and responsibility without authority will result in poor performance.

5. **Principle of delegation:** The total work load is divided into parts. A part is assigned to subordinates and authority is given to efficiently carry out that task. Top managers delegate part of their duties to lower levels and concentrate on important organizational matters.

6. **Principle of scalar chain**: Scalar chain is the line of authority running from top to lower levels. Authority flows from top to bottom in this chain and responsibilities flow from bottom to top. This chain promotes communication amongst people at different levels and facilitate decision making. Every person in the chain knows his superior and subordinate.

7. **Principle of span of control**: Span of control means the number of workers that a manager can effectively supervise. Exact number of employees that a manager can supervise cannot be determined. It depends upon competence of managers, nature of work, system of control, capacity of subordinates etc. However, if a manager can supervise less number of workers there will be more levels in the organization structure and vice versa. Supervising few subordinates creates tall organization structures and supervising large number of workers creates flat structures.

8. **Principle of unity of command**: It states that one subordinate should have one boss. People should receive orders from their immediate boss only. This brings discipline and order in the organization. Receiving orders from two or more bosses can create confusion and indiscipline.

9. **Principle of balance**: There must be balance between different principles of organizing. Balance must be maintained between centralization and decentralization, narrow and wide span of control.

10. **Principle of flexibility**: Organization should be flexible. Changes in structure should be according to changes in environmental factors.

11. **Principle of continuity**: Organization should adapt to the environmental changes for its long run survival, growth and expansion.

12. **Principle of exception:** Every matter should not be reported to top managers. Only significant deviations should be reported to them. Routine matters should be dealt by middle and lower-level managers. It leads to growth and development of lower level managers as they have the authority to deal with simple and routine problems.

13. **Principle of simplicity:** Organization structure should be simple that can be understood by everyone. People can work efficiently in a simple structure as they are clear of various jobs and authority / responsibility associated with each job. A simple structure promotes cooperation, co-ordination and effective communication in the organization.

14. **Principle of departmentation**: It means dividing activities into specialized groups (departments) where each department performs specialized organizational task. All activities of similar nature are grouped into one department headed by the departmental manager. Departments can be created on the basis of geographical locations, customers, products etc.

15. **Principle of decentralization**: It means delegation of authority to lower-level managers. It increases the decision-making authority of lower-level managers and increases organizational efficiency.

16. **Principle of unity of direction:** All organizational activities of similar nature are grouped in one unit (production or marketing), headed by the departmental manager and direct their efforts towards a single objective; the departmental objective.

17. **Principle of co-operation**: All individuals and departments should co-operate with each other and help the organization achieve its goals.

## 5.9 Formal and Informal Organization

### Formal Organization

Formal organization is a well-defined structure of authority and responsibility that defines delegation of authority and relationships amongst various organizational members. It works along pre-defined sets of policies, plans, procedures, schedules and programmes. Most of the decisions in a formal organization are based on pre-determined policies.

It is a dimension of organizational structure that refers to the extent to which rules, procedures and other guides to action are written and enforced. Louis A. Allen defines formal organization as "a system of well defined jobs, each bearing a definite measure of authority, responsibility and accountability, the whole consciously designed to enable the people of the enterprise to work most effectively together in accomplishing their objectives."

Formal organization is a deliberately designed structure with formal authority, responsibility, rules, regulations and channels of communication. Some degree of formalization is necessary for organizations to function effectively to avoid taking time-consuming decisions to handle conflicting situations and exercise control over the activities of subordinates.

### Features of Formal Organization

A formal organization has the following features:

1. **Deliberately created structure**: It is a deliberately created organization structure that defines official relationships amongst people working at different job positions.

2. **Job-oriented**: It focuses more on jobs than people. It allocates jobs to people and defines the structure of relationships amongst them for achieving the formal organizational objectives.
3. **Division of work**: Work load is divided into smaller units and assigned to individuals on the basis of their skills and abilities. Division of work amongst people results in specialization and increases organizational output.
4. **Departmentation**: Departmentation is the basis or foundation of organization structure, that is, organization structure depends upon departmentation. Departmentation refers to division of work into smaller units and their re-grouping into bigger units (departments) on the basis of similarity of activities. The functional departmentation divides organization structure into production, finance, personnel and marketing departments. Departmentation helps in fixing responsibility of various departmental heads.
5. **Formal authority**: People at various positions exercise authority by virtue of their position in the organizational hierarchy. Authority is linked to position within the organization, and, through it, in the person occupying the position. It involves the right to command, to perform, to make decisions and to spend resources.
6. **Delegation:** Work is officially delegated from top levels to lower levels. The work load is divided into various units, a part is assigned to subordinates and authority is given to them to carry out the assigned task. This concept of division of work and its assignment to people down the scalar chain is called delegation. "Delegation is the process by which a manager assigns tasks and authority to subordinates who accept responsibility for those jobs."

   “Delegation is a process the manager uses in distributing work to the subordinates."
7. **Coordination**: Managers coordinate or integrate the activities of individuals and units into a concerted effort so that departments and individuals work towards a common goal. It is necessary for managers to coordinate the activities of organization by communicating organizational goals to each department, setting departmental goals and linking the performance of each department with others so that all the departments

collectively contribute towards the organizational goals. Coordination is "the process of linking the activities of the various departments of the organization".

8. **Based on principles of organizing**: Formal organization is based on formal principles of organizing. These principles are discussed earlier on.

**Benefits of Formal Organization**

A formal organization offers the following benefits:

1. It clearly defines objectives of the organization and authority- responsibility relationships amongst people for attainment of those objectives.

2. It results in optimum utilization of scarce organizational resources.

3. Clear division of work and relationships amongst people develops effective system of communication in the organization.

4. The organizational hierarchy avoids overlapping of activities between two individuals or two departments. Two individuals are not assigned the same task.

5. Career advancement and promotional avenues are clearly defined in a formal structure of organization.

6. The rate at which people join and leave the organization is reduced (because of clear objectives, policies, strategies etc.). The rate of labor turnover and absenteeism, thus, remains low.

7. Formal organization attempts to integrate formal goals of the organization with goals of individuals working in the organization. There is, thus, synthesis of individual, group and organizational goals.

**Limitations of Formal Organization**

Though formal structure of relationships helps to achieve organizational goals, it suffers from the following limitations:

1. **Loss of initiative**: As too much emphasis is placed upon formal rules and regulations, workers cannot use their creative and innovative skills to perform organizational task. There is loss of initiative and innovative abilities of employees due to strict adherence to rules.

2. **Unsatisfied social needs**: Man is a `social animal'. He cannot live alone. He needs to interact with people and share his feelings at-work and off-work with others. In a formally designed organization structure, employees' social needs remain unsatisfied as they are related to each other through a formal chain of command. They discuss only official matters with each other. Social interactions are altogether ignored.

**Informal Organization**

As the formal organization grows in size, parallel existence of informal relationships along with formal relationships becomes unavoidable. Informal organizations have always existed with formal organizations. They arise because of inevitable social and personal needs of individuals which cannot be satisfied by the principles of formal organizations. They represent non planned, unofficial, social interactions amongst people working in formal structures. They arise out of common interests of people. These organizations are not governed by formal set of principles but nevertheless, are an important and integral part of formal organizations. E. Wright Bakke calls the creation of informal organizations along with formal organizations as a fusion process. According to him, "When an individual and an organization come together in such a way that the individual is a participant in, and a member of the organization and the two are mutually dependent on each other, both are reconstructed in the process. The organization to some degree remakes the individual and the individual to some degree remakes the organizations." Importance of informal organization was first recognized by Chester Barnard. He viewed informal organization as "any joint personal activity without conscious joint purpose, even though contributing to joint results." Keith Davis defines informal organization as "a network of personal and social relations not established or required by formal organization but arising spontaneously as people associate with one another."

While working in a formal organization, people of different departments at different levels interact with each other, discuss their common interests (cultural, social etc.) and form groups to promote their goals. These goals are known as group goals and informal organization is an important means to satisfy these goals.

**Features of Informal Organization**

Informal organization has the following features:

1. **Unplanned structure**: This structure is not planned by top managers. It arises spontaneously out of formal interactions amongst people. When people formally interact with each other, they tend to discuss their interests, attitudes, hobbies; beliefs etc. and in the course of doing so form groups whose goals are different from formal organizational goals. Their informal relationships gradually develop an informal organization that co-exists with the formal organization.

2**. Fulfillment of social needs:** The basic purpose of informal organization is fulfillment of social and personal needs of people. People share common thoughts, feelings and interest different from formal organizational goals. Their social needs of friendship, love and support are strengthened by informal organizations.

3. **No formal structure:** A formal organization has a definite structure. It is depicted in lines and boxes on the organization chart (organization chart is a visual representation of organization structure). Informal organization does not have any formal structure. It cannot be precisely shown on the organization chart. Relationships amongst people change according to changes in their interests and liking for each other. Workers of production department may consult sales managers for solving their personal problems rather than production manager and vice versa. There are no superiors and subordinates in the informal organization. People contact each other in all forms; vertical, horizontal and diagonal.

4. **Informal leaders:** Leaders are informally elected by group members. They strongly influence group activities and contribute to formal goals positively or negatively.

5. **Informal communication system:** The system of communication is informal. It does not follow the chain of command. It operates along with formal channel of communication and works faster than the formal channel. It transmits the messages at a much faster speed though rumors may also spread along with formal messages. Communication flows in every direction; vertical, horizontal, diagonal and connects people throughout the organization.

6. **No rules and regulations:** It has no fixed rules and regulations that govern the functions of the organization. Rules are framed and changed by people according to their convenience.

7. **No fixed tenure:** It is formed at the will of the people and dissolves at their will. It does not operate for a fixed time period. Dissolution of informal organization also does not follow any legal procedure.

**Benefits of Informal Organization**

Informal organization has the following benefits:

1. **Promotes social and cultural values**: Members of informal organization share common thoughts, social and cultural beliefs. Their interests are promoted which adds to the strength of the organization and a commitment to accomplish its formal goals.

2. **Relief to top managers**: Social interactions lead to cooperation and coordination amongst people of different groups. It helps top managers achieve their formal goals efficiently. They are relieved of the bother of inspiring workers to work.

3. **Supplement to managers' capacities**: Sometimes managers are unable to take official decisions without the support of others. People of informal organization help managers by providing them the help and support that cuts across official chain of command.

4. **Social satisfaction and security:** Members satisfy their social needs of interaction, recognition and acceptance by others in informal organizations. Their needs of friendship, love and support are satisfied in these organizations.

5. **Communication**: Communication travels much faster in informal organizations than formal organizations. People discuss their work and non-work related problems with each other and find solutions without the support of superiors.

6. **Better relationships**: If managers of formal organization develop and maintain cordial relations with managers of informal organization, it promotes an environment of understanding. This helps to achieve formal goals of the organization efficiently.

7. **Solve work-related problems**: People of different departments discuss their work-related problems and solve them on their own without waiting for instructions of superiors of their departments. A worker of sales department, for example, can know details about production from his friend in the production department rather than his seniors in the sales department.

8. **Promotes creativity**: People get a chance to exploit their creativity and work according to their judgment and skills without waiting for superiors' instructions. They think of new ideas and apply them in practice without the fear of rejection by their superiors.

9. **Self-control:** Employees frame their own targets and self control their activities. Control need not be exercised from the top.

10. **Restraint on manager's discretion**: Informal organization checks wrong acts of managers. Managers cannot frame goals, policies and plans not acceptable to members of informal organizations. They cannot use discretion to frame goals that suit their interests at the cost of others interests.

11. **Social satisfaction**: When members get tired of working in formal organizations, informal organizations provide them relief against official boredom and tiredness. They provide them an outlet for satisfying their needs of interaction, love and friendship.

12. **Quick feedback to managers**: Managers can get quick feedback on their official decisions from members through informal channels of communication. This helps in knowing how well their policies are being accepted and implemented by organizational members.

**Limitations of Informal Organization**

Though informal organization provides a useful means for achieving formal goals of the organization, it also suffers from the following limitations:

1. **Conformity**: Being part of informal organization, members form groups known as informal groups. These groups make their own norms and standards of performance which are followed by all group members, whether or not they like them. If these norms are against the interests of formal organization, members still accept them, otherwise they lose group acceptance. For example, if the group decides not to work overtime, all members agree to it even if they want to work overtime. Informal organizations, therefore, result in excessive conformity to group norms which are bad.

2. **Attitude of leaders**: If attitude of leaders is negative, that is, he wants his personal interests to be satisfied at the cost of group interests, informal organization will work against the formal organizational goals. This is harmful for all in the organization.

3. **Role conflict**: As members of formal and informal organization, people face the problem of role conflict. If group goals are different from formal goals, members conform to group goals. If the organization allows lunch break of 30 minutes but groups extend it to 45 minutes to socialize with each other, members face conflict in their formal and informal roles.

4. **Rumor**: "Rumor is grapevine information that is communicated without secure standards of evidence being present." It means spreading false information. Information flows virtually in all directions, to every individual at every level of the organization. False information (rumor) spreads in informal organization at a very fast speed. If, for example, managers decide to declare Monday a holiday and a worker overhears them, the message that Monday is a holiday will pass throughout the organization in no time even if it has not been officially announced by managers.

5. **Resistance to change**: Informal groups become over protective about their group and values. They oppose any change in their way of working. Lack of desire to deviate from existing norms or to acquire new knowledge works against implementation of new and sound policies in the organization. An organization where workers are used to working five days a week will not easily accept six days a week even if working hours each day are reduce.

6. **Conflicting goals**: If group goals are different from organizational goals, members can pursue group goals even if they are against the interests of formal organizational goal and is also against the interests of the company and its members.

# LECTURE SIX

### 6.1 Line and Staff Authority

Line authority is exercised by the superior over his immediate subordinates. This forms a chain of authority from top to bottom. People who exercise line authority are known as line managers. Staff managers are those who assist line managers (in advisory capacity) in discharging their duties efficiently. While production, marketing, finance and personnel are commonly considered as line departments, the accounting, Research & Development (R &) and public relations departments are considered as staff departments.

### 6.2 Distinction between Line and Staff

| Line | Staff |
|---|---|
| 1. Line managers form part of the organizational hierarchy. | Staff specialists do not from part of the organizational hierarchy. |
| 2. They are responsible for attainment of overall organizational objectives | They help line managers in achieving the overall objectives |
| 3. They are in charge of operating departments of the organization | They are in charge of service departments of the organization. |
| 4. They have direct or line authority over people working in their department | They do not have direct authority over people of line departments. They only provide advisory services to line managers. |
| 5. Their services are operative and executive. | Their services are advisory. |
| 6. They enjoy legitimate power. | They enjoy referent and expert power. |
| 7. Their authority flows vertically downwards over people of line | Their authority flows in all directions – vertical, horizontal and diagonal. |

| | |
|---|---|
| departments. | |
| 8. They make organizational decisions. | They help in effective implementation of these decisions. |
| 9. They hold accountability for final results of decision-making | They are not accountable for these results. |

### 6.3 Departmentation

Meaning

Departmentation is the foundation of organization structure. That is, organization structure depends upon departmentation. Departmentation means division of work into smaller units and their re-grouping into bigger units (departments) on the basis of similarity of features.

As the organization grows in size, the need for developing units and sub-units arises. Departments are created where all activities of similar nature are grouped in one unit. Each department is headed by a person known as departmental manager.

Various authors define departmentation as follows:

Louis A. Allen: Divisionalisation is a means of dividing the large and monolithic functional organization into smaller, flexible administrative units"

Pearce and Robinson: "Departmentalization is the grouping of jobs, processes and resources onto logical units to perform some organizational task."

Terry and Franklin: "deparmentalisation is the clustering of individuals into units and of units into departments and larger units in order to facilitate achieving organizational goals."

### 6.4 Delegation

A concept related to authority is **delegation.** Delegation is the downward transfer of authority from a manager to a subordinate. Most organizations today encourage managers to delegate authority in order to provide maximum flexibility in meeting customer needs. In addition, delegation leads to empowerment, in that people have the freedom to contribute ideas and do their jobs in the best possible ways. This involvement can increase job satisfaction for the individual and frequently results in better job performance. Without delegation, managers do all the work themselves and underutilize their workers. The ability to delegate is crucial to managerial success. Managers need to take four steps if they want to successfully delegate responsibilities to their teams.

**1. Specifically assign tasks to individual team members.** The manager needs to make sure that employees know that they are ultimately responsible for carrying out specific assignments.

**2. Give team members the correct amount of authority to accomplish assignments.**

Typically, an employee is assigned authority commensurate with the task. A classical principle of organization warns managers not to delegate without giving the subordinate the authority to perform to delegated task. When an employee has responsibility for the task outcome but little authority, accomplishing the job is possible but difficult. The subordinate without authority must rely on persuasion and luck to meet performance expectations. When an employee has authority exceeding responsibility, he or she may become a tyrant, using authority toward frivolous outcomes.

**3. Make sure that team members accept responsibility.** Responsibility is the flip side of the authority coin. Responsibility is the duty to perform the task or activity an employee has been assigned. An important distinction between authority and responsibility is that the supervisor delegates authority, but the responsibility is shared. Delegation of authority gives a subordinate the right to make commitments, use resources, and take actions in relation to duties assigned. However, in making this delegation, the obligation created is not shifted from the supervisor to the subordinate-it is shared. A supervisor always retains some responsibility for work performed by lower-level units or individuals.

**4. Create accountability.** Team members need to know that they are accountable for their projects. **Accountability** means answering for one's actions and accepting the consequences. Team members may need to report and justify task outcomes to their superiors. Managers can build accountability into their organizational structures by monitoring performances and rewarding successful outcomes. Although managers are encouraged to delegate authority, they often find accomplishing this step difficult for the following reasons:

(a) Delegation requires planning, and planning takes time. A manager may say, “By the time I explain this task to someone, I could do it myself.” This manager is overlooking the fact that the initial time spent up-front training someone to do a task may save much more time in the long run. Once an employee has learned how to do a task, the manager will not have to take the time to show that employee how to do it again. This improves the flow of the process from that point forward.

(b) Managers may simply lack confidence in the abilities of their subordinates. Such a situation fosters the attitude, “If you want it done well, do it yourself.” If managers feel that their subordinates lack abilities, they need to provide appropriate training so that all are comfortable performing their duties.

(c) Managers experience dual accountability. Managers are accountable for their own actions and the actions of their subordinates. If a subordinate fails to perform a certain task or does so poorly, the manager is ultimately responsible for the subordinate’s failure. But by the same token, if a subordinate succeeds, the manager shares in that success as well, and the department can be even more productive.

(d) Finally, managers may refrain from delegating because they are insecure about their value to the organization. However, managers need to realize that they become more valuable as their teams become more productive and talented.

Despite the perceived disadvantages of delegation, the reality is that a manager can improve the performance of his or her work groups by empowering subordinates through effective delegation. Few managers are successful in the long term without learning to delegate effectively.

So, how do managers learn to delegate effectively? The following additional principles may be helpful for managers who have tried to delegate in the past and failed:

**Principle 1: Match the employee to the task.** Managers should carefully consider the employees to whom they delegate tasks. The individual selected should possess the skills and capabilities needed to complete the task. Perhaps even more important is to delegate to an individual who is not only able to complete the task but also willing to complete the task. Therefore, managers should delegate to employees who will view their accomplishments as personal benefits.

**Principle 2: Be organized and communicate clearly.** The manager must have a clear understanding of what needs to be done, what deadlines exist, and what special skills are required. Furthermore, managers must be capable of communicating their instructions effectively if their subordinates are to perform up to their expectations.

**Principle 3: Transfer authority and accountability with the task.** The delegation process is doomed to failure if the individual to whom the task is delegated is not given the authority to succeed at accomplishing the task and is not held accountable for the results as well. Managers must expect employees to carry the ball and then let them do so. This means providing the employees with the necessary resources and power to succeed, giving them timely feedback on their progress, and holding them fully accountable for the results of their efforts. Managers also should be available to answer questions as needed.

**Principle 4: Choose the level of delegation carefully.** Delegation does not mean that the manager can walk away from the task or the person to whom the task is delegated. The manager must maintain some control of both the process and the results of the delegated activities. Depending upon the confidence the manager has in the subordinate and the importance of the task, the manager can choose to delegate at several levels.

**Centralization versus decentralization**

The general pattern of authority throughout an organization determines the extent to which that organization is centralized or decentralized. A **centralized organization** systematically works to concentrate authority at the upper levels. In a **decentralized organization,** management consciously attempts to spread authority to the lower levels of the organization.
A variety of factors can influence the extent to which a firm is centralized or decentralized. The following is a list of possible determinants:

1. **The external environment in which the firm operates.** The more complex and unpredictable this environment, the more likely it is that top management will let low-level

managers make important decisions. After all, low-level managers are closer to the problems because they are more likely to have direct contact with customers and workers. Therefore, they are in a better position to determine problems and concerns.

2. **The nature of the decision itself.** The more risky or important the decision is, the greater the tendency to centralize decision making.

3. **The abilities of low-level managers.** If these managers do not have strong decision-making skills, top managers will be reluctant to decentralize. Strong low-level decision-making skills encourage decentralization.

4. **The organization's tradition of management.** An organization that has traditionally practiced centralization or decentralization is likely to maintain that posture in the future.

In principle, neither philosophy is right or wrong. What works for one organization may or may not work for another. Kmart Corporation and McDonald's have both been very successful (both practice centralization). By the same token, decentralization has worked very well for General Electric and Sears. Every organization must assess its own situation and then choose the level of centralization or decentralization that works best.

# LECTURE SEVEN

## 7.0 LEADING: NATURE AND MEANING

**7.0 Leading: Nature and Meaning**



## 7.1 Meaning

Traditionally, the term management refers to the activities (and often the group of people) involved in five general functions: planning, organizing, staffing, leading, and controlling. Managers perform and integrate these five functions, discussed in lecture 1, throughout their organizations. However, emerging trends in management point out that leading people is different than managing them.

Many people believe that leadership is simply being the first, biggest, or most powerful person. But leadership in organizations has a different and more meaningful definition. This chapter looks at the definition of leadership, as well as its major theories and styles. Traits and characteristics that leaders should demonstrate are also addressed.

## 7.2 Leadership Defined

**Leading** is establishing direction and influencing others to follow that direction. But this definition is not as simple as it sounds because leadership has many variations and different areas of emphasis. Common to all definitions of leadership is the notion that leaders are individuals who, by their actions, facilitate the movement of a group of people toward a common or shared goal. This definition implies that leadership is an influence process. The distinction between leader and leadership is important, but potentially confusing. The leader is an individual; leadership is the function or activity this individual performs. The word leader is often used interchangeably with the word manager to describe those individuals in an organization who have positions of formal authority, regardless of how they actually act in those jobs. But just because a manager is supposed to be a formal leader in an organization doesn't mean that he or she exercises leadership. An issue often debated among business professionals is whether leadership is a different function and activity from management. Harvard's John Kotter says that management is about coping with complexity, and leadership, in contrast, is about coping with change. He also states that leadership is an important part of management, but only a part; management also requires planning, organizing, staffing, and controlling. Management produces a degree of predictability and order. Leadership produces change. Kotter believes that most organizations are under-led and over-managed. He sees both strong leadership and strong management as necessary for optimal organizational effectiveness.

**7.3 Leadership styles**

No matter what their traits or skills, leaders carry out their roles in a wide variety of styles. Some leaders are autocratic. Others are democratic. Some are participatory, and others are hands off. Often, the leadership style depends on the situation, including where the organization is in its life cycle. (Chapter 7 talks about the life cycles of organizations). The following are common leadership styles:

**(a) Autocratic.** The manager makes all the decisions and dominates team members. This approach generally results in passive resistance from team members and requires continual pressure and direction from the leader in order to get things done. Generally, this approach is not a good way to get the best performance from a team. However, this style may be appropriate when urgent action is necessary or when subordinates actually prefer this style.

**(b) Participative.** The manager involves the subordinates in decision making by consulting team members (while still maintaining control), which encourages employee ownership for the decisions. A good participative leader encourages participation and delegates wisely, but never loses sight of the fact that he or she bears the crucial responsibility of leadership. The leader values group discussions and input from team members; he or she maximizes the members' strong points in order to obtain the best performance from the entire team. The participative leader motivates team members by empowering them to direct themselves; he or she guides them with a loose rein. The downside, however, is that a participative leader may be seen as unsure, and team members may feel that everything is a matter for group discussion and decision.

(c) **Laissez-faire** (also called free-rein). In this hands-off approach, the leader encourages team members to function independently and work out their problems by themselves, although he or she is available for advice and assistance. The leader usually has little control over team members, leaving them to sort out their roles and tackle their work assignments without personally participating in these processes. In general, this approach leaves the team wondering with little direction or motivation. Laissez-faire is usually only appropriate when the team is highly motivated and skilled, and has a history of producing excellent work. Many experts believe that overall leadership style depends largely on a manager's beliefs, values, and assumptions. How managers approach the following three elements—motivation, decision making, and task orientation—affect their leadership styles:

(d) **Motivation:** Leaders influence others to reach goals through their approaches to motivation. They can use either positive or negative motivation. A positive style uses praise, recognition, and rewards, and increases employee security and responsibility. A negative style uses punishment, penalties, potential job loss, suspension, threats, and reprimands.

(e) **Decision making:** The second element of a manager's leadership style is the degree of decision authority the manager grants employees- ranging from no involvement to group decision making.

(f) **Task** and **employee orientation:** The final element of leadership style is the manager's perspective on the most effective way to get the work done. Managers who favor task orientation emphasize getting work done by using better methods or equipment, controlling the work environment, assigning and organizing work, and monitoring performance. Managers who favor employee orientation emphasize getting work done through meeting the human needs of subordinates. Teamwork, positive relationships, trust, and problem solving are the major focuses of the employee-oriented manager.

Keep in mind that managers may exhibit both task and employee orientations to some degree. The managerial grid model, shown in Figure 7.1 and developed by Robert Blake and Jane

Mouton, identifies five leadership styles with varying concerns for people and production:

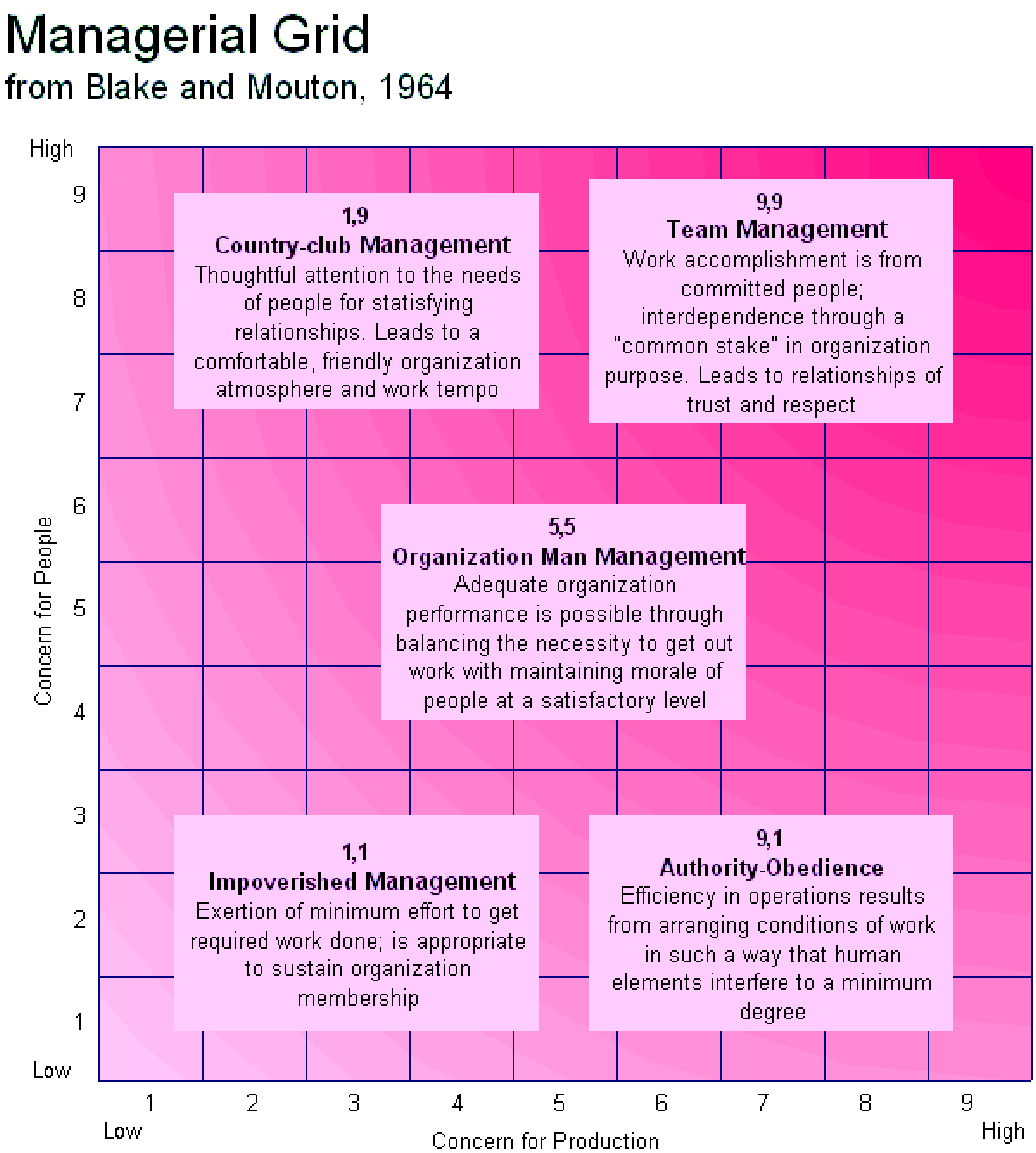



Figure 7.1

The **impoverished style,** located at the lower left-hand corner of the grid, point (1, 1), is characterized by low concern for both people and production; its primary objective is for managers to stay out of trouble.

The **country club style,** located at the upper left-hand corner of the grid, point (1, 9), is distinguished by high concern for people and a low concern for production; its primary objective is to create a secure and comfortable atmosphere where managers trust that subordinates will respond positively.

The **authoritarian style,** located at the lower right-hand corner of the grid, point (9,1), is identified by high concern for production and low concern for people; its primary objective is to achieve the organization's goals, and employee needs are not relevant in this process.

The **middle-of-the-road style,** located at the middle of the grid, point (5, 5), maintains a balance between workers' needs and the organization's productivity goals; its primary objective is to maintain employee morale at a level sufficient to get the organization's work done.

The **team style,** located at the upper right-hand of the grid, point (9, 9), is characterized by high concern for people and production; its primary objective is to establish cohesion and foster a feeling of commitment among workers.

The Managerial Grid model suggests that competent leaders should use a style that reflects the highest concern for both people and production— point (9.9), team-oriented style.

**Power versus authority**

Effective leaders develop and use power, or the ability to influence others.

The traditional manager's power comes from his or her position within the organization. Legitimate, reward, and coercive are all forms of power used by managers to change employee behavior and are defined as follows:

- **i.** **Legitimate power** stems from a formal management position in an organization and the authority granted to it. Subordinates accept this as a legitimate source of power and comply with it.
- **ii.** **Reward power** stems from the authority to reward others. Managers can give formal rewards, such as pay increases or promotions, and may also use praise, attention, and recognition to influence behavior.
- **iii.** **Coercive power** is the opposite of reward power and stems from the authority to punish or to recommend punishment. Managers have coercive power when they have the right to fire or demote employees, criticize them, withhold pay increases, give reprimands, make negative entries in employee files, and so on.

  Keep in mind that different types of position power receive different responses in followers. Legitimate power and reward power are most likely to generate compliance, where workers obey orders even though they may personally disagree with them.

Coercive power most often generates resistance, which may lead workers to deliberately avoid carrying out instructions or to disobey orders.

Unlike external sources of position power, personal power most often comes from internal sources, such as a person's special knowledge or personality characteristics. Personal power is the tool of a leader. Subordinates follow a leader because of respect, admiration, or caring they feel for this individual and his or her ideas. The following two types of personal power exist:

iv. **Expert power** results from a leader's special knowledge or skills regarding the tasks performed by followers. When a leader is a true expert, subordinates tend to go along quickly with his or her recommendations.

v. **Referent power** results from leadership characteristics that command identification, respect, and admiration from subordinates who then desire to emulate the leader. When workers admire a supervisor because of the way he or she deals with them, the influence is based on referent power. Referent power depends on a leader's personal characteristics rather than on his or her formal title or position, and is most visible in the area of charismatic leadership.

The most common follower response to expert power and referent power is commitment. Commitment means that workers share the leader's point of view and enthusiastically carry out instructions. Needless to say, commitment is preferred to compliancce or resistance. Commitment helps followers overcome fear of change, and it is especially important in those instances.

Keep in mind that the different types of power described in this section are interrelated. Most leaders use a combination of these types of power, depending on the leadership style used. Authoritarian leaders, for example, use a mixture of legitimate, coercive and reward powers to dictate the policies, plans, and activities of a group. In comparison, a participative leader uses mainly referent power, involving all members of the group in the decision-making process.

In task behavior, the leader engages in one-way communication. *Relationship behavior,* on the other hand, is the extent to which the leader engages in two-way or multi-way communications. This behavior includes listening to, facilitating, and supporting employees. And *maturity* is the willingness and ability of a person to take responsibility for directing his own behavior.

Employees tend to have varying degrees of maturity, depending on the specific tasks, functions, or objectives that they attempt to accomplish.

To determine the appropriate leadership style to use in a given situation, a leader must first determine the maturity levels of his or her followers in relationship to the specific task. As employee maturity levels increase, a leader should begin to reduce task behavior and increase relationship behavior until his or her followers reach moderate maturity levels. As the employees move into above-average maturity levels, the leader should decrease not only task behavior but also relationship behavior.

Once maturity levels are identified, a manager can determine the appropriate leadership style: telling, selling, participating, or delegating.

**Telling:** This style reflects high task/low relationship behavior (S1). The leader provides clear instructions and specific direction. Telling style is best matched with a low follower readiness level.

**Selling:** This style reflects high task/high relationship behavior (S2). The leader encourages two-way communication and helps build confidence and motivation on the part of the employee, although the leader still has responsibility and controls decision making. Selling style is best matched with a moderate follower readiness level.

**Participating:** This style reflects high relationship/low task behavior (S3). With this style, the leader and followers share decision making and no longer need or expect the relationship to be directive. Participating style is best matched with a moderate follower readiness level.

**Delegating:** This style reflects low relationship/low task behavior (S4). Delegating style is appropriate for leaders whose followers are ready to accomplish a particular task and are both competent and motivated to take full responsibility. This style is best matched with a high follower readiness level.

**House's path-goal theory**

The path-goal theory, developed by Robert House, is based on the expectancy theory of motivation. A manager's job is to coach or guide workers to choose the best paths for reaching their goals. Based on the goal-setting theory, leaders engage in different types of leadership behaviors depending on the nature and demands of a particular situation. A leader's behavior is acceptable to subordinates when viewed as a source of satisfaction. He or she is motivational when need satisfaction is contingent on performance, and this leader facilitates, coaches, and rewards effective performance. Path-goal theory identifies several leadership styles:

**Achievement-oriented:** The leader sets challenging goals for followers, expects them to perform at their highest levels, and shows confidence in their abilities to meet these expectations. This style is appropriate when followers lack job challenges.

**Directive:** The leader lets followers know what is expected of them and tells them how to perform their tasks. This style is appropriate when followers hold ambiguous jobs.

**Participative:** The leader consults with followers and asks them for suggestions before making a decision. This style is appropriate when followers are using improper procedures or are making poor decisions.

**Supportive:** The leader is friendly and approachable. He or she shows concern for the followers' psychological well-being. This style is appropriate when followers lack confidence. Path-goal theory assumes that leaders are flexible and that they can change their styles as situations require. This theory proposes two contingency variables that moderate the leader behavior-outcome relationship:

**Environment:** characteristics are outside the control of followers, task structure, authority system, and work group. Environmental factors determine the type of leader behavior required if follower outcomes are to be maximized.

**Follower:** characteristics are the locus of control, experience, and perceived ability. Personal characteristics of subordinates determine how the environment and leader behavior are interpreted. Effective leaders clarify the path to help thehir followers achieve their goals, and make their journeys easier by reducing roadblocks and pitfalls. Research demonstrates that employee performance and satisfaction are positively influenced when leaders compensate for shortcomings in either their employees or the work settings.

# LECTURE EIGHT

## 8.0 CONTROL

Every manager in every organization today faces the dilemma of findings ways to administer and coordinate various processes to control the activities under his or her jurisdiction. Managers continually look for ways to improve customer satisfaction, maintain relationships with suppliers, cut inventory costs, and develop the right products. As a result, every organization needs basic systems for allocating financial resources, developing human resources, analyzing financial performance, and evaluating overall profitability. Controlling is the management function in which managers establish and communicate performance standards for people, processes, and devices. It could also be viewed as the systematic process through which managers regulate organizational activities to make them consistent with expectations established in plan targets and standards of performance. Bartol and Martin define controlling as the process of regulating organizational activities so that actual performance conforms to expected organizational standards and goals.

### Control Objectives

Simply put, *organizational control* is the process of assigning, evaluating, and regulating resources on an ongoing basis to accomplish an organization's goals. To successfully control an organization, managers need not only know what the performance standards are, but also figure out how to share that information with employees.

Control can be defined narrowly as the process a manager takes to assure that actual performance conforms to the organization's plan, or more broadly as anything that regulates the process or activity of an organization. The content in this chapter follows the general interpretation by defining managerial control as monitoring performance against a plan and then making adjustments either in the plan or in operations as necessary.

The six major purposes of controls are as follows

a) **Controls make plans effective.** Managers need to measure progress, offer feedback, and direct their teams if they want to succeed.

b) **Controls make sure that organizational activities are consistent.** Policies and procedures help ensure that efforts are integrated.

c) **Controls make organizations effective.** Organizations need controls in place if they want to achieve and accomplish their objectives.

d) **Controls make organizations efficient.** Efficiency probably depends more on controls than any other management function.

e) **Controls provide feedback on project status.** Not only do they measure progress, but controls also provide feedback to participants as well. Feedback influences behavior and is an essential ingredient in the control process.

f) **Controls aid in decision making.** The ultimate purpose of controls is to help managers make better decisions. Controls make managers aware of problems and give them information that is necessary for decision making.

Many people assert that as the nature of organizations has changed so must the nature of management controls. New forms of organizations, such as self-organizing organizations, self-managed teams, and network organizations, allow organizations to be more responsive and adaptable in today's rapidly changing world. These forms also cultivate empowerment among employees, much more so than the hierarchical organizations of the past.

Some people even claim that management shouldn't exercise any form of control whatsoever, and should only support employee efforts to be fully productive members of organizations and communities. Along those same lines, some experts even use the word "coordinating" in place of "controlling" to avoid sounding coercive. However, some forms of controls must exist for an organization to exist. For an organization to exist, it needs some goal or purpose, or it isn't an organization at all. Individual behaviors, group behaviors, and all organizational performance must be in line with the strategic focus of the organization.

**The Control Process**

The control process involves carefully collecting information about a system, process, person, or group of people in order to make necessary decisions about each. Managers set up control systems that consist of four key steps:

**1. Establish standards to measure performance.** Within an organization's overall strategic plan, managers define goals for organizational departments in specific, operational terms that include standards of performance to compare with organizational activities.

**2. Measure actual performance.** Most organizations prepare formal reports of performance measurements that manager's review regularly. These measurements should be related to the standards set in the first step of the control process. For example, if sales growth is a target, the organization should have a means of gathering and reporting sales data.

**3. Compare performance with the standards.** This step compares actual activities to performance standards. When managers read computer reports or walk through their plants, they identify whether actual performance meets, exceeds, or falls short of standards. Typically, performance reports simplify such comparison by placing the performance standards for the reporting period alongside the actual performance for the same period and by computing the variance, that is, the difference between each actual amount and the associated standard.

**4. Take corrective actions.** When performance deviates from standards, managers must determine what changes, if any, are necessary and how to apply them. In the productivity and quality-centered environment, workers and managers are often empowered to evaluate their own work. After the evaluator determines the cause or causes of deviation, he or she can take the fourth step (corrective action). The most effective course may be prescribed by policies or may be best left up to employees' judgment and initiative. These steps must be repeated periodically until the organizational goal is achieved.

**Types of Controls**

Control can focus on events before, during, or after a process. For example, a local automobile dealer can focus on activities before, during, or after sales of new cars. Careful inspection of new cars and cautious selection of sales employees are ways to ensure high quality or profitable sales even before those sales take place. Monitoring how salespeople act with customers is a control during the sales task. Counting the number of new cars sold during the month and telephoning buyers about their satisfaction with sales transactions are controls after sales have occurred. These types of controls are formally called feed-forward, concurrent, and feed-back, respectively.

a. **Feed-forward controls: S**ometimes called preliminary or preventive controls, attempt to identify and prevent deviations in the standards before they occur. Feed-forward controls focus on human, material, and financial resources within the organization. These controls are evident in the selection and hiring of new employees. For example, organizations attempt to improve the likelihood that employees will perform up to standards by identifying the necessary job skills and by using tests and other screening devices to hire people with those skills.

b. **Concurrent controls:** Monitor ongoing employee activity to ensure consistency with quality standards. These controls rely on performance standards, rules, and regulations for guiding employee tasks and behaviors. Their purpose is to ensure that work activities produce the desired results. As an example, many manufacturing operations include devices that measure whether the items being produced meet quality standards. Employees monitor the measurements; if they see that standards are not being met in some area, they make a correction themselves or let a manager know that a problem is occurring.
c. **Feed-back controls** involve reviewing information to determine whether performance meets established standards. For example, suppose that an organization establishes a goal of increasing its profit by 12 percent next year. To ensure that this goal is reached, the organization must monitor its profit on a monthly basis. After three months, if profit has increased by 3 percent, management might assume that plans are going according to schedule.

**Characteristics of Effective Control Systems**

The management of any organization must develop a control system tailored to its organization's goals and resources. Effective control systems share several common characteristics. These characteristics are as follows:

a. **A focus on critical points.** For example, controls are applied where failure cannot be tolerated or where costs cannot exceed a certain amount. The critical points include all the areas of an organization's operations that directly affect the success of its key operations.
b. **Integration into established processes.** Controls must function harmoniously within these processes and should not bottleneck operations.
c. **Acceptance by employees.** Employee involvement in the design of controls can increase acceptance.
d. **Availability of information when needed.** Deadlines, time needed to complete the project,

costs associated with the project, and priority needs are apparent in these criteria. Costs are frequently attributed to time shortcomings or failures.

- **e. Economic feasibility.** Effective control systems answer questions such as, “How much does it cost?” “What will it save?” or “What are the returns on the investment?” In short, comparison of the costs to the benefits ensures that the benefits of controls outweigh the costs.
- **f. Accuracy.** Effective control systems provide factual information that’s useful, reliable, valid, and consistent.
- **g. Comprehensibility.** Controls must be simple and easy to understand.

**Control Techniques**

Control techniques provide managers with the type and amount of information they need to measure and monitor performance. The information from various controls must be tailored to a specific management level, department, unit, or operation. To ensure complete and consistent information, organizations often use standardized documents such as financial, status, and project reports. Each area within an organization, however, uses its own specific control techniques, described in the following sections.

**Financial controls:** After the organization has strategies in place to reach its goals, funds are set aside for the necessary resources and labor. As money is spent, statements are updated to reflect how much was spent, how it was spent, and what it obtained. Managers use these financial statements, such as an income statement or balance sheet, to monitor the progress of programs and plans. **Financial statements** provide management with information to monitor financial resources and activities. The **income statement** shows the results of the organization’s operations over a period of time, such as revenues, expenses, and profit or loss. The *balance sheet* shows what the organization is worth (assets) at a single point in time, and the extent to which those assets were financed through debt (liabilities) or owner’s investment (equity).

**Financial audits**, or formal investigations, are regularly conducted to ensure that financial management practices follow generally accepted procedures, policies, laws, and ethical guidelines. Audits may be conducted internally or externally.

**Financial ratio analysis** examines the relationship between specific figures on the financial statements and helps explain the significance of those figures:

a) **Liquidity ratios** measure an organization's ability to generate cash.
b) **Profitability ratios** measure an organization's ability to generate profits.
c) **Debt ratios** measure an organization's ability to pay its debts.
d) **Activity ratios** measure an organization's efficiency in operations and use of assets.

In addition, *financial responsibility centers* require managers to account for a unit's progress toward financial goals within the scope of their influences. A manager's goals and responsibilities may focus on unit profits, costs, revenues, or investments.

**Budget controls** A budget depicts how much an organization expects to spend (expenses) and earn (revenues) over a time period. Amounts are categorized according to the type of business activity or account, such as telephone costs or sales of catalogs. Budgets not only help managers plan their finances, but also help them keep track of their overall spending. A budget, in reality, is both a planning tool and a control mechanism. Some budget development methods are as follows:

a) **Top-down budgeting.** Managers prepare the budget and send it to subordinates.
b) **Bottom-up budgeting.** Figures come from the lower levels and are adjusted and coordinated as they move up the hierarchy.
c) **Zero-based budgeting.** Managers develop each new budget by justifying the projected allocation against its contribution to departmental or organizational goals.
d) **Flexible budgeting.** Any budget exercise can incorporate flexible budgets, which set "meet or beat" standards that can be compared to expenditures.

**Marketing controls:** Marketing controls help monitor progress toward goals for customer satisfaction with products and services, prices, and delivery. The following are examples of controls used to evaluate an organization's marketing functions: **Market research** gathers data to assess customer needs, information critical to an organization's success. Ongoing market research reflects how well an organization is meeting customers' expectations and helps anticipate customer needs. It also helps identify competitors.

a) **Test marketing** is a small-scale product marketing to assess customer acceptance. Using surveys and focus groups, test marketing goes beyond identifying general requirements and looks at what (or who) actually influences buying decisions.

b) **Marketing statistics** measure performance by compiling data and analyzing results. In most cases, competency with a computer spreadsheet program is all a manager needs. Managers look at *marketing ratios,* which measure profitability, activity, and market shares, as well as *sales quotas,* which measure progress toward sales goals and assist with inventory controls.

Unfortunately, scheduling a regular evaluation of an organization's marketing program is easier to recommend than to execute. Usually, only a crisis, such as increased competition or a sales drop, forces a company to take a closer look at its marketing program. However, more regular evaluations help minimize the number of marketing problems.

**Human resource controls:** Human resource controls help managers regulate the quality of newly hired personnel, as well as monitor current employees' developments and daily performances.

On a daily basis, managers can go a long way in helping to control workers' behaviors in organizations. They can help direct workers' performances toward goals by making sure that goals are clearly set and understood. Managers can also institute policies and procedures to help guide workers' actions. Finally, they can consider past experiences when developing future strategies, objectives, policies, and procedures.

Common control types include performance appraisals, disciplinary programs, observations, and training and development assessments. Because the quality of a firm's personnel, to a large degree, determines the firm's overall effectiveness, controlling this area is very crucial.

**Computers and information controls:** Almost all organizations have confidential and sensitive information that they don't want to become general knowledge. Controlling access to computer databases is the key to this area. Increasingly, computers are being used to collect and store information for control purposes. Many organizations privately monitor each employee's computer usage to measure employee performance, among other things. Some people question the appropriateness of computer monitoring. Managers must carefully weigh the benefits against the costs (both human and financial) before investing in and implementing computerized control techniques.

Although computers and information systems provide enormous benefits, such as improved productivity and information management, organizations should remember the following limitations of the use of information technology:

a) **Performance limitations.** Although management information systems have the potential to increase overall performance, replacing long-time organizational employees with information systems technology may result in the loss of expert knowledge that these individuals hold. Additionally, computerized information systems are expensive and difficult to develop. After the system has been purchased, coordinating it-possibly with existing equipment-may be more difficult than expected. Consequently, a company may cut corners or install the system carelessly to the detriment of the system's performance and utility. And like other sophisticated electronic equipment, information systems do not work all the time, resulting in costly downtime.

b) **Behavioral limitations.** Information technology allows managers to access more information than ever before. But too much information can overwhelm employees, cause stress, and even slow decision making. Thus, managing the quality and amount of information available to avoid information overload is important.

c) **Health risks.** Potentially serious health-related issues associated with the use of computers and other information technologies have been raised in recent years. An example is carpal tunnel syndrome, a painful disorder in the hands and wrists caused by repetitive movements (such as those made on a keyboard).

d) Regardless of the control processes used, an effective system determines whether employees and various parts of an organization are on target in achieving organizational objectives

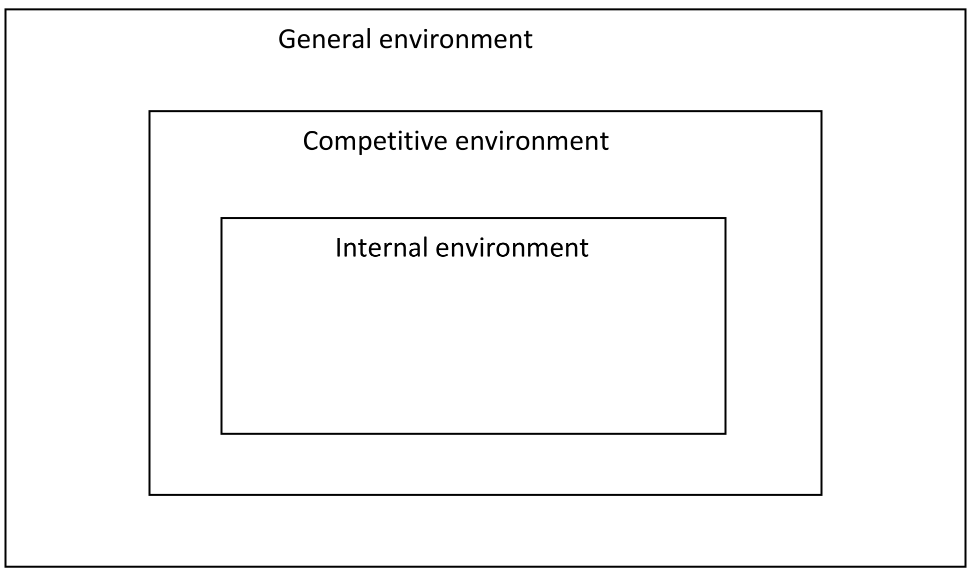
## 9.0 UNDERSTANDING ORGANIZATIONAL ENVIRONMENTS

### 9.1 Types of External Environment

The world as we know is undergoing tremendous changes. These changes can be understood by defining and examining components of the external environment.

The system theory in our previous lesson helps us to understand the importance of the environment to organizations. According to the system theory organization is likely to be more successful if it operates as an open system that continually interacts with and receives feedback from its external environment. As a result of the above therefore managers need to understand considerably the external environment that organizations faces.

The external organizational environment includes all elements existing outside the boundary of the organization that have the potential to affect the organization. The environment includes competitors, resources, technology and economic conditions. The external environment of an organization can be divided into two major segments.




- Mega/general environment
- Task environment

**Mega/General environment:** it is the segment of the environment that is widely disperse and affects organizations indirectly. The mega/general environment consists of five major elements. They are;

- Technological
- Economic
- Legal-political
- Sociocutural
- International

These events do not directly change day-to-day operations or transactions but they do affect all organizations eventually.

**Political and Legal**

This includes laws coming from common law, parliamentary legislation and government regulations derived from it and obligations by the countries towards certain treaties sign in the international scene.

Legal factors affecting companies.

| Category | Example |
|---|---|
| General legal framework: contract, tort, agency | This covers basic ways of doing business, negligence proceedings and so on |
| Criminal law | Theft, insider dealing, bribery, deception |
| Company law | Directors and their duties, reporting requirements, takeover, insolvency |
| Employment law | Trade union recognition, minimum wage unfair dismissal, redundancy |
| Health and safety | Fire precautions, safety procedures |

| | |
|---|---|
| Environment | Pollution control |
| Tax law | Company tax, income tax,VAT |

Some legal and regulatory factors affect particular industries. The political environment is not simply limited to legal factors. Government policy affects the whole economy and governments are responsible for enforcing and creating a stable framework in which business can be done. A recent report by the World Bank indicated that the quality of government policy is important since it largely determines the standard of important aspects of the national infrastructure. That is

- Physical infrastructure (transport)
- Social infrastructure (education, law enforcement)
- Market infrastructure (enforcement of contracts)

Government economic policy is conducted with a number of aims in mind, which often conflict with each other

- Economic growth
- Full employment
- Price stability

In additions to legislation and regulations for influencing economic activity, government uses various policy tools

- **Fiscal policy**: taxation, government spending, borrowing whenever spending exceeds income, repaying debt when income exceeds expenditure.
- **Monetary policy**:- interest rates, exchange rates, control of the money supply and control over bank lending

**Economic**

This element encompasses the system of producing, distribution and consuming wealth. To be more specific it is the consumers' purchasing power, interest rates, and unemployment. Countries normally operate different economic systems. We have the capitalist system that the market forces govern economic activities that are demand and supply forces. In capitalist economy the means of production are in the hands of individuals either directly or by companies. In such systems, to curb abuses by private entrepreneurship governments come out with regulatory bodies that see to fairness in the market environment. In a socialist economy the means of production are owned by the state and economic activity is co-ordinated by plan.

It is in the capitalist state that we are much interested because government policy influences economic activity. The general state of the country's economy will determine how business prospers. For example if a company pursue prudent management and the state of the economy is bad in terms of fiscal and monetary factors, no amount of management techniques or model will help the company.

**Socio-cultural**

This represent

- Demographic characteristics
- Norms
- Cultures

Demography is the study of the structure and distribution of human population using statistics relating to birth, death, disease and social indicators such as wealth, income and education. It is an important input into economic and business planning because of the following;

- People create demand for goods and services
- Economic growth should exceed population growth for enhanced standard of living
- Population is the source of labour, one of the factors of production
- Population creates demand on the physical environment and its resources, a source of increased political concern.

Culture is a term used by sociologists and anthropologists to encompass the sum total of the belief, knowledge, attitudes of mind and customs to which people are exposed in their social conditioning. Through contact with a particular culture, individuals learn a language, acquire and learn habit of behaviour and thought.

**Technological**

The technological dimension includes scientific advancement in a specific industry as well as in society at large. Fifteen years ago, many organizations did not even use desktop computers. Today computer network, Internet access, videoconferencing capabilities, cell phones, fax machines, pagers, laptops are practically taken for granted as the minimum tools for doing business.

The technology environment is changing at a lighting speed. For example conductor firms are now working to develop new memory chips for personal computers, other high-tech firms are trying to create technologies that will replace the PC with even better computing architecture. At the same time, computers, telephone, television, and wireless forms of communication are being merged to create multimedia products and to allow users anywhere in the world to communicate with each other. In addition, a growing number of people have access to the Internet allowing them to obtain information from literally millions of sources and the number of websites is rising sharply.

In order to remain competitive, organizations must stay abreast of current technological developments that may affect their ability to offer desirable products and services.

**International**

This involved the development in countries outside an organization's home country that will have potential influence on the organization. For example the War in Iraq has pushed crude oil prices high thereby affecting almost every organization in terms of transportation.

## Task Environment

Is the segment of external environment made up of the specific outside elements with which an organization interfaces in the course of conducting its business. In other words they are those sectors that have a direct working relationship with the organization, among them are the following;

- Customers and clients
- Competitors
- Suppliers
- Labour market
- Government Agencies

### Customers and Clients

They are the people and organizations in the environment who acquires goods or services from the organization. As recipients of the organization's output, customers are important because they determine the organization's success. For example patients are the customers of hospital, students the customers of schools, and travellers the customers of airline. Every company whether profit or non-profit making has to stay close to its customer. The business model for today requires that companies have to produce for the market and not to the market. Levi Strauss's fortunes have faded faster than a pair of new jeans in recent years because of the company's failure to respond quickly to fashion trends such as flared legs, cargo pockets, and baggy trousers.

### Competitors

Other organizations in the same industry or type of business that provide goods or services to the same set of customers are referred to as competitors. Each industry is characterised by specific competitive issues. The recording industry differs from steel industry and the pharmaceutical industry. Competitive wars are being waged in all industries. Coke and Pepsi continue to battle it out for the soft drink market.

**Suppliers**

Suppliers provide the raw materials the organization uses to produce its output. A steel mill requires iron ore, machine, and financial resources. A small university may utilise hundreds of suppliers for paper, pencils, cafeteria food, computers, trucks, fuel, electricity and textbooks.

**Labour**

The labour market represents people in the environment who can be hired to work for the organization. Every organization needs a supply of trained, qualified personnel. Employers are expected to recruit from a labour market that is becoming increasingly diversified.

**Government Agencies**

This involves the interactions with representatives of specific government agencies in the local area and this includes the tax office, VAT, police etc.

**9.2 Analyzing Environment Conditions**

As we have established in our previous lesson the environment is an important factor that affect the organization. It is also important to establish that organizations reaction to its environment depend to a large extent on the nature of the environment. It must be noted that perspectives differ on the relationship of the organizations and their environments. There are two main views or perspectives of the relationship between the organization and their environment or organization-environment interface.

- Population ecology or natural selection
- Resource dependence models

The population ecology is of the view that organizations have little control over a number of environmental factors that may influence them and that luck may play some role in an organization's success. This is buttressed by the fact that organizations generally do not change rapidly and managers have limited capacity to affect the fates of their organizations. For example at the now defunct Baldwin Locomotive top management insisted that new technology could never replace the steam locomotive.

The resource dependence model on the other hand points out that managers often do have options in influencing many aspects of the environment, including relationships with other organizations. Therefore managers attempts to monitor, understand, and potentially influence environmental elements recognising that unforeseen environmental factors can have major impacts on organization.

**Characteristics of the Environment**

It must be noted that assessing the environment is a difficult task. There is a viewpoint that says that the environment is an objective reality with a set of concrete conditions, and for that matter managers can theoretically measure them perfectly to come out with complete information. In the more practical sense the environment is more realistically a subjective reality existing in the minds of managers. This means that the assessment of the environment will depend on the perceptions of the manager and it is likely that managers use the opinions of people as well as objective data.

In analysing the environment situation faced by an organization it is important to note the following concepts

- Environmental uncertainty
- Munificence or capacity

Environmental uncertainty is a condition in which future environmental circumstances affecting an organization cannot be accurately assessed and predicted. For this reason managers spend more time and effort in assessing and monitoring environmental impacts. The degrees of environmental uncertainty depend on two major factors.

- Complexity
- Dynamism

Complexity: refer to the number of element in an organization's environment and their degree of similarity. The environment is said to be homogenous if there are a relatively small number of similar items. The environment is sad to be heterogeneous if the elements in the environment are large and dissimilar.

Dynamism: refer to the rate and predictability of change in the element of the organization's environment.

The environment is said to be stable in which the rate of change and predictability is slow. On the other hand the environment is said to be unstable if the rate of change and predictability is fast. Unstable environment present a great challenge to managers.

**How to Assess Environmental Uncertainty**

The concept of complexity and dynamism can be used to assess the degree of uncertainty in the environment. The assessment of the environment is done analysing the important elements in the task environment and major potential influence in the mega environment.

Note the following

Uncertainty is low= dynamism and complexity low

For example, in the funeral industry there is slow change and relatively steady stream of customers with similar needs.

Uncertainty is moderately low= dynamism is low but complexity is high.

For example in the insurance industry companies serve a diverse set of customer needs but competitive elements change fairly slowly.

Uncertainty is moderately high= dynamism is high but complexity is low.

This is common in women apparel industry where the customers and retailers constitute fairly homogeneous market segments but fashion trends changes rapidly.

Uncertainty is high = dynamism and complexity are high.

This is common in computer software industry in which conditions change rapidly and a large number of environmental factors such as technological changes, diverse customers and high competition.

Environmental munificence: Another important characteristic of the environment is environmental munificence. It is the extent to which the environment can sustain growth and stability of an organization. Environmental munificence can range from relatively rich to relatively lean depending on the resource available to an organization within the environment. When an organization is operating in a rich environment it is able to build high levels of internal resources such as capital, equipment etc that intend fund innovative and expansion program that help the organization sustain its position.

**9.3 Managing Environmental Elements**

In the resource dependence perspective managers have the option to influence element of the environment. In managing the element of the environment, managers have three major options to adapt to the existing environmental elements, attempt to influence environmental favourability.

| Approach | Methods |
|---|---|
| Adaptation | Buffering, smoothing, forecasting and rationing |
| Favourability influence | Advertising and engaging in public relations, boundary spanning, recruiting, negotiating contracts, co-opting, establishing strategic alliance, joining trade associations and engaging in political activity |
| Domain shifts | Changing domain completely or diversifying into some new areas. |

ADAPTATION: It involves changing internal operations and activities to make the organization more compatible with its environment.
Buffering: it involves stockpiling either inputs or output from a production or service process in order to cope with environmental fluctuations.

Smoothing: takes place with the aim of reducing the impact of fluctuations, given by the market.

Forecasting: is the process of making predictions about changing conditions and future events that may significantly affect the business of an organization.

Rationing: involve providing limited access to product or service that is in high demand.

FAVOURABILITY: It involves attempting to alter environmental elements in order to make them more compatible with the needs of the organization. There are a number of ways that organizations can use to influence significant environmental elements.

Advertising and public relations: this is used to gain favourable publicity for particular products and services. Closely associated to advertising is public relations that are used to create overall favourable impression of the organization among the public.

Boundary Spanning: This involves creating roles within the organization that deal with important elements in the environment. There are two major roles played by boundary spanners. The first role involves collecting information from the environment, filter them and transmit them to those inside the organization who then act on it. The second role involves representing the organization by provision of information to those outside. Boundary spanner include

- Salespersons
- Purchasing officers
- Personnel recruiters
- Admission officers
- Shipping and receiving agents

- Receptionist
- Lawyers

Recruiting: this is the attempt in attracting job candidates who have close ties to significant element of the environment. For example organizations normally hire executive from specific companies or in particular industry.

Negotiating contacts: This involves trying to seek favourable agreements on matters of importance to the organization. Specific agreement will involve customers and suppliers.

Co-opting: This is a means of absorbing key members of important environmental elements into leadership or policy making structure of an organization.

Strategic alliances: is an arrangement where two or more independent organizations form a cooperative partnership to gain some mutual strategic advantage.

Trade Associations: they are organizations that are composed of individuals or firms with common business concern. Because they represent a pool of resource of many individuals or firms, trade associations can be highly effective in conducting;

- public relations campaigns
- influencing legislations through lobbying efforts

Political Activity: Organizations can affect the environment by political activity by influencing legislation or the behaviour of government regulatory agencies. Political activity can be carried out by a single organization on its own behalf or by several organizations or association.

Domain Shift: involve the change in the mix of products and service offered so that an organization will interface with more favourable environmental elements. Ways of doing this are

- moving entirely from current product or service

- moving from geographical area to more favourable one
- Diversification: ie the expansion of product and services offered.

**9.4 Organizational Culture**

Organization Culture: Culture is a system of share values, assumptions, beliefs and norms that unite the members of an organization. Culture reflects the way of doing things. Culture is important to the organization because of the following

- individual act on the shared values that dictate how things are done
- have significant impact on organizations effectiveness

How organizations Culture are developed.

- For newly formed organizations cultures are developed through the drive and imagination of the individuals
- From a strong founder
- Culture is developed from reward systems, policies, and procedures.
- Critical incident like an employee being rewarded or fired for pushing innovation may add to individuals' perceptions of internal norms over time.
- Changes in the environment such as the rise of new competitors.

**Effects of culture on organization**

- Positive impact: where a particular culture are shared by all and internalised and support organizational goals
- Negative impact: where culture are shared and internalised but do not further organizational goals

**How Culture manifest in an organization**

Culture is generally not directly observable; one can infer the culture of a particular organization through the use of certain manifestation in the organization such as

- Symbols: an object, act, event, or quality that serves as a vehicle for conveying meaning.

- Stories: a narrative based on true events, which sometimes may be embellished to highlight the intended value
- Rites and ceremonials: a relatively elaborate, dramatic planned set of activities intended to convey cultural values to participants and usually an audience. A ceremony is a system of rites performed in conjunction with a single occasion or event.

**Promoting an entrepreneurial environment in the organization**

From our discussion above, one can therefore say that for an organization to be successful, management must foster an entrepreneur culture in the organization through the process and desire for change and a belief in its capacity to influence the competitive environment.

The organization opportunity matrix below classifies organizations according to the extent to which a firm's culture supports both a desire for change and a belief in its capacity to influence the competitive environment.

| | |
|---|---|
| Adaptive entrepreneurial organization | Complacent though successful market leaders |
| Reactive Planners | Bureaucratic and Lethargic organization |

Adaptive entrepreneur organization tend to have a culture in which members view growth and change as desirable and also believe that this can affect the competitive environment to their advantage.

Reactive Planners are said to have mixed situations where culture may support a desire for change but foster little belief in the ability to influence competitive situation.

Bureaucratic and Lethargic organizations are more likely to have members who prefer the status quo and have little faith in their ability to influence the competitive environment.

Complacent though successful market leaders have cultures oriented to slow change, couple with a belief in their ability to affect the competitive environment.

Characteristics of entrepreneurial versus Administrative Cultures

| Dimension | Entrepreneur | Administrative |
|---|---|---|
| Strategic orientation | Driven by perceptions of opportunity | Driven by controlled resources |
| Commitment to seize opportunities | Revolutionary change within short period | Evolutionary change over long period |
| Commitment of resources | Many stages with minimal exposure at each stage | Single stage, with complete commitment based on one decision |
| Control of resources | Use of freelance help and rental of required resources | Employment or ownership of required resources |
| Management structure | Few levels, with emphasis on informal communication patterns | Many level with emphasis on communication through formal hierarchy |

**How to Change Organizations Culture**

Culture involves fairly stable values, assumptions, beliefs and norms and for that matter is difficult to change. However culture of an organization can be changed by some five main procedures.

- Surfacing actual norms: this involves listing organizations actual norms that management believe will influence attitudes and behaviours and actions of employees. This process normally takes place in a workshop and may involve representations of workers.
- Articulating new directions: In this situation members discuss the direction of the organization and behaviours that are necessary for organizational success

- Establishing new norms:  this involves the development of a set of norms that will have positive impact on organizational effectiveness.
- Identifying culture gaps:  this involves identifying the areas of difference and trying to eliminate the bad one and maintaining the good ones.
- Closing culture gaps: this involves agreeing on new norms and designing means of reinforcing them.

**How leaders or managers can influence Culture change**

- Convincing organization members
- Communicating organization vision
- Outlining strategy
- motivation

# LECTURE TEN

## 10.0 MANAGING CHANGE IN ORGANIZATIONS

This is a time of unprecedented change in our society. The changes one experiences are happening at faster and faster rates. As examples, the telephone, radio, TV, and microwave weren't even in use decades ago, and today these gadgets are commonplace, along with the computer, Internet, and fax machine. In just a few months, the technology that an organization uses on an everyday basis may be outdated and replaced. That means an organization needs to be responsive to advances in the technological environment; its employees' work skills must evolve as technology evolves. Organizations that refuse to adapt are likely to be the ones that won't be around in a few short years. If an organization wants to survive and prosper, its managers must continually innovate and adapt to new situations.

This chapter addresses the importance of managers stimulating and leading change in order to create organizations that have the ability to set aside old ways of thinking, the desire to become self-aware and open, the opportunity to learn how the whole organization works, and the commitment to develop a plan of action and work as a unit to accomplish the plan.

### 10.1 Causes of Organizational Change

Every organization goes through periods of transformation that can cause stress and uncertainty. To be successful, organizations must embrace many types of change. Businesses must develop improved production technologies, create new products desired in the marketplace, implement new administrative systems, and upgrade employees' skills. Organizations that adapt successfully are both profitable and admired.

Managers must contend with all factors that affect their organizations. The following lists internal and external environmental factors that can encourage organizational changes:

1. The **external environment** is affected by political, social, technological, and economic stimuli outside of the organization that cause changes.

2. The **internal environment** is affected by the organization's management policies and styles, systems, and procedures, as well as employee attitudes.

Typically, the concept of organizational change is used to describe organization-wide change, as opposed to smaller changes such as adding a new person, modifying a program, and so on. Examples of organization-wide change might include a change in mission, restructuring operations (for example, restructuring to self-managed teams or due to layoffs), new technologies, mergers, or new programs such as Total Quality Management, re-engineering, and so on. Managers should note that all changes should be implemented as part of a strategy to accomplish an overall goal; these transformations should not take place just for the sake of change.

### 10.2 Types of Organizational Change

For organizations, the last decade has been fraught with restructurings, process enhancements, mergers, acquisitions, and layoffs—all in hopes of achieving revenue growth and increased profitability.

While the external environment (competitive, regulatory, and so on) will continue to play a role in an organization's ability to deliver goods and services, the internal environment within the organization will increasingly inhibit it from delivering products required to meet the demands of the marketplace unless it is able to adapt quickly. The major areas of changes in a company's internal environment include:

1. **Strategic:** Sometimes in the course of normal business operation it is necessary for management to adjust the firm's strategy to achieve the goals of the company, or even to change the mission statement of the organization in response to demands of the external environments. Adjusting a company's strategy may involve changing its fundamental approach to doing business: the markets it will target, the kinds of products it will sell, how they will be sold, its overall strategic orientation, the level of global activity, and its various partnerships and other joint-business arrangements.
2. **Structural:** Organizations often find it necessary to redesign the structure of the company due to influences from the external environment. Structural changes involve the hierarchy of authority, goals, structural characteristics, administrative procedures, and management systems. Almost all change in how an organization is managed falls under the category of structural change. A structural change may be as simple as implementing a no-smoking policy, or involves restructuring the entire company to meet the customer needs more effectively.
3. **Process-oriented:** Organizations may need to reengineer processes to achieve optimum

workflow and productivity. Process-oriented change is often related to an organization's production process or how the organization assembles products or delivers services. The adoption of robots in a manufacturing plant or of laser-scanning checkout systems at supermarkets is examples of process-oriented changes.

4. **People-centered:** This type of change alters the attitudes, behaviors, skills, or performance of employees in the company. Changing people centered processes involves communicating, motivating, leading and interacting within groups. This focus may entail changing how problems are solved, the way employees learn new skills, and even the very nature of how employees perceive themselves, their jobs and the organization.

Some people-centered changes may involve only incremental changes or small improvements in a process. For example, many organizations undergo leadership training that teaches managers how to communicate more openly with employees. Other programs may concentrate on team processes by teaching both managers and employees to work together more effectively to solve problems. Remember that strategic, structural, process-oriented, and people-centered changes occur continuously in dynamic businesses. Often, changes in one of these areas impact changes in the other areas.

Many employees believe that a change is often reactive and nothing more than a quick fix; then they brace themselves for more changes in the future.

Management needs to realize that serious underlying problems in organizations must be addressed with long-term consequences in mind. Thus, when management implements changes, careful thought must be given to ensure that the new processes are for the long-term good of the company.

### 10.3 Challenges of Organizational Change

Planning and managing change, both cultural and technological, is one of the most challenging elements of a manager's job.

Obviously, the more a manager can plan in anticipation of a change, the better she serves her subordinates and the organization. Diagnosing the causes of change and structuring a program to promote a smooth transition to the new process, structure, and so on, is critical to a manager's success.

Managers need to be aware that organizations change in a number of dimensions that often relate to one another. These dimensions include:

1. **Extent of planning:** Although experts differ about how much change can be planned, managers still need to take steps to set up conditions that permit and even encourage change to occur.
2. **Degree of change:** Changes may be incremental (relatively small, involving fine-tuning processes and behaviors within just one system or level of the organization) or quantum (significant change altering how a company operates)
3. **Degree of learning:** This dimension relates to the degree to which organizational members are actively involved in learning how to plan and implement change while helping solve an existing problem.
4. **Target of change:** Organizational change programs can vary with respect to the hierarchical level or functional area of which the change is targeted. Some changes are designed to influence top management and assist them in becoming stronger leaders. Other change programs may involve basic learning, such as customer services techniques for lower level employees.
5. **Organization's structure:** Is it very stiff and bureaucratic? Is there a need for emphasis on policies, procedures, and rules? Some organizations are very stiff and bureaucratic and may need to "loosen up." Other organizations may suffer from lack of organization structure. They may need to emphasize policies, procedures, and rules.

### 10.4 Diagnosing the Need for Change

To plan change, managers must predict and diagnose the need for change. An organizational development theory developed by Larry E. Greiner is helpful in change management. Greiner's model shows an organization as it evolves through the five stages of growth, and the end of each of these stages is marked by a crisis that calls for a change. The five stages of growth are as follows:

1. **Creativity.** The founders of the organization dominate this stage, and the emphasis is on creating both a product and a market. But as the organization grows, management problems occur that cannot be handled through informal communication. The founders find themselves burdened with unwanted management responsibilities, and conflicts between the employees and management grow. It is at this point that the crisis of

leadership occurs, and the first revolutionary period begins.

**2. Direction.** During this period, a strong manager, who is acceptable to the founder and who can pull the organization together, is appointed. During this phase the new manager and key staff take most of the responsibility for instituting direction, while lower level supervisors are treated more as functional specialists than autonomous decision-making managers. Lower level managers begin to demand more autonomy, and the next revolutionary period begins.

**3. Delegation.** This stage often poses problems for top managers who have been successful at being directive: They may find giving up responsibility difficult. Moreover, lower level managers generally are not accustomed to making decisions for themselves. As a result, numerous organizations flounder during this revolutionary period, adhering to centralized methods, while lower level employees grow disenchanted and leave the organization. When an organization gets to the growth stage of delegation, it usually begins to develop a decentralized organization structure, which heightens motivation at the lower levels. Eventually, the next crisis begins to evolve as the top managers' sense that they are losing control over a highly diversified operation. The crisis of control results in a return to centralization, which is now inappropriate and creates resentment and hostility among those who had been given freedom.

**4. Control.** This stage is characterized by the use of formal systems for achieving greater coordination, with top management as the watchdog. It results in the next revolutionary period, the crisis of red tape. This crisis most often occurs when the organization has become too large and complex, and is managed through formal programs and rigid systems. If the crisis of red tape is to be overcome, the organization must move to the next evolutionary phase.

4. **Collaboration.** The last of Greiner's phases emphasizes greater spontaneity in management action through teams and the skillful confrontation of interpersonal differences. Social control and self discipline take over from formal action. Greiner's model shows uncertainty about what the next revolution of change will be, but anticipates that it will center on the psychological saturation of employees who grow emotionally and

physically exhausted by the intensity of teamwork and the heavy pressure for innovative solutions.

To plan change, managers must predict and diagnose the need for change. Greiner's model of organizational growth and change can help managers understand how the need for change relates to the organizational cycles.

### 10.5 Steps in Planned Change

Once managers and organizations commit to planned change, they need to create a logical step-by step approach in order to accomplish the objectives. Planned change requires managers to follow an eight-step process for successful implementations.

**1. Recognize the need for change.** Recognition of the need for change may occur at the top management level or in peripheral parts of the organization. The change may be due to either internal or external forces.

**2. Develop the goals of the change.** Remember that before any action is taken, it is necessary to determine why the change is necessary. Both problems and opportunities must be evaluated. Then it is important to define the needed changes in terms of products, technology, structure, and culture.

**3. Select a change agent.** The change agent is the person who takes leadership responsibility to implement planned change. The change agent must be alert to things that need revamping, open to good ideas, and supportive of the implementation of those ideas into actual practice.

**4. Diagnose the current climate.** In this step, the change agent sets about gathering data about the climate of the organization in order to help employees prepare for change. Preparing people for change requires direct and forceful feedback about the negatives of the present situation, as compared to the desired future state, and sensitizing people to the forces of change that exist in their environment.

**5. Select an implementation method.** This step requires a decision on the best way to bring about the change. Managers can make themselves more sensitive to pressures for change by using networks of people and organizations with different perspectives and views, visiting other organizations exposed to new ideas, and using external standards of performance, such as competitor's progress.

**6. Develop a plan.** This step involves actually putting together the plan, or the "what" information. This phase also determines the when, where, and how of the plan. The plan is like a road map. It notes specific events and activities that must be timed and integrated to produce the change. It also delegates responsibility for each of the goals and objectives.

**7. Implement the plan.** After all the questions have been answered, the plan is put into operation. Once a change has begun, initial excitement can dissipate in the face of everyday problems. Managers can maintain the momentum for change by providing resources, developing new competencies and skills, reinforcing new behaviors, and building a support system for those initiating the change.

**8. Follow the plan and evaluate it.** During this step, managers must compare the actual results to the goals established in Step 4. It is important to determine whether the goals were met, and a complete follow-up and evaluation of the results aids this determination. Change should produce positive results and not be undertaken for its own sake.

Keep in mind that a comprehensive model of planned change includes a set of activities that managers must engage in to manage the change process effectively. They must recognize the need for change, motivate change, create a vision, develop political support, manage the transition, and sustain momentum during the change. For more on implementing change, see the next section.

### 10.6 Opposition to Organizational Changes

A manager designs his or her change effort, and then faces the toughest step: the inevitable opposition. History shows that workers have resisted some of the best-laid plans. A few may openly fight it. Many more may ignore or try to sabotage a manager's plan.

In the corporate world, most people, most of the time, resist change. Why? These people believe that change has very little upside for them—in other words, that change is rarely for the better. One kind of resistance involves employees who have been with a company for a few years, and have seen flavor-of-the-month change programs come and go: Management launches some kind of change effort to great fanfare. Managers talk up the benefits and explain why this program will be good for both the company and its employees. They make promises, but at the end of the day, they fail to deliver. Nothing really happens, and the whole effort seems like a waste of time. Well, it makes sense to resist things that are a pure waste of time.

Another scenario: A number of consultants analyze a corporate department consisting of 100 people, and they conclude that the company needs just 48 of these people to complete the same amount of work. When an employee in this department learns of the consultants' recommendation, he or she fears being fired or working longer hours. These kinds of dismal scenarios give employees the impression that change is not good. And employees have no reason to believe that it's going to be better in the future. Here are some of the most common reasons employees resist change:

- Uncertainty and insecurity
- Reaction against the way change is presented
- Threats to vested interests
- Cynicism and lack of trust
- Perceptual differences and lack of understanding

To overcome resistance, managers can involve workers in the change process by communicating openly about changes, providing advance notice of an upcoming change, exercising sensitivity to workers' concerns, and reassuring workers that change will not affect their security. In addition, managers are more likely to implement changes successfully if they avoid common pitfalls that cause changes to fail. Some of these pitfalls are as follows:

- Faulty thinking
- Inadequate change process
- Insufficient resources
- Lack of commitment to change
- Poor timing
- A culture resistant to change

### 10.7 Steps for overcoming opposition

To implement planned change effectively, managers must understand how to overcome resistance to change, why change efforts fail, and what techniques they can use to modify behavior. Managers can use two approaches to change attitudes and behaviors at the individual level: the three-step approach and force-field analysis. (the latter is discussed in the following section). The process of change has been characterized as having three basic stages: unfreezing, changing, and refreezing.

**1. Unfreezing.** This step involves developing an initial awareness of the need for change and the forces supporting and resisting change. Because most people and organizations prefer stability and the perpetuation of the status quo, a successful change process must overcome the status quo by unfreezing old behaviors, processes, or structure. This approach includes the use of one-on-one discussions, presentations to groups, memos, reports, company newsletters, training programs, and demonstrations to educate employees about an imminent change and help them see the logic of the decision. Deficiencies in the current situation are identified and the benefits of the replacement are stressed.

**2. Changing.** This step focuses on learning new behaviors. Change results from individuals being uncomfortable with the identified negative behaviors and being presented with new behaviors, role models, and support. In this phase, something new takes place in a system, and change is actually implemented. This is the point at which managers initiate change in such organizational targets of tasks, people, culture, technology, and structure. When managers implement change, people must be ready.

**3. Refreezing** is the final stage. Refreezing centers on reinforcing new behaviors, usually by positive results, feelings of accomplishment, or rewards. After management has implemented changes in organizational goals, products, processes, structures, or people, they cannot sit back and expect the change to be maintained over time. Behaviors that are positively reinforced tend to be repeated. In designing change, attention must be paid to how the new behaviors will be reinforced and rewarded.

**Force-field analysis** One of the earliest and most fundamental models of change, the Force-Field Analytic Problem-Solving Model, was developed by behavioral scientist Kurt Lewin in the 1940s. Since that time, this model has been widely used as a technique for encouraging groups of people to tackle organizational issues that previously seemed too complex or too deeply rooted to approach.

**Force-field analysis** depicts the change process as one that must overcome a person's or organization's status quo or existing state of equilibrium-the balance between forces for change and forces that resist change. In any problem situation, the existing condition (status quo) has been reached because of a number of opposing forces. The change forces are known as *drivers*. (Drivers push toward a solution to the problem.) Other forces are known as *resisters*. (Resisters inhibit improvement or solution of the problem.) When the strength of the drivers is approximately equal to the strength of the resisters, a balance or status quo is apparent. Until the relative strength of the forces is changed, the problem will continue to persist.

When a change is introduced, some forces drive it and other forces resist it. To implement a change, management should analyze the change forces. By selectively removing forces that resist change, the driving forces will be strong enough to enable implementation. As resistant forces are reduced or removed, behavior will shift to incorporate the desired changes.

To apply the model to a problem, a manager should follow these steps:

**1. Carefully and fully specify the problem (status quo).** A problem may be defined as the difference between what currently exists and what should exist.

**2. Define objectives**. A manager must consider what the situation will be like when it's solved.

**3. Brainstorm to determine the driving and resisting forces that contributes to the problem.**

**4. Analyze these forces more fully and develop a strategy.** This strategy should be aimed at strengthening the driving forces under a manager's control and weakening the resisting forces that a manager can realistically do something about.

**5. Compare strategy against company or departmental objectives.** A manager must consider whether his or her problem-solving strategy will promote a change in the status quo.

### 10.8 Organizational culture changes

Culture and people change in an organization refers to a shift in employees' values, norms, attitudes, beliefs, and behavior. Changes in culture and people pertain to how employees think; their changes in mind-set rather than technology, structure, or products. *People change* pertains to just a few employees, such as when a handful of middle managers are sent to a training course to improve their leadership skills. *Culture change* pertains to the organization as a whole, such as changing an organization from a bureaucratic structure to a more participatory environment which focuses on employees providing customer service and quality through teamwork and employee participation.

An organization's values (what it holds to be important) are reflected in its culture. A manager's role is to ensure that the appropriate values are promoted, creating a positive organizational culture. The result is a thriving work environment with happy, motivated, and productive employees.

If managers want to take stock of their organizational culture, they should take the following steps:

**1. Identify the values that currently exist.**

**2. Determine whether these values are the right ones for the organization.**

**3. Change the actions and behaviors by which these values are demonstrated.**

If a manager doesn't like the values discovered in step two, he or she does have options. For example, managers may opt to take training courses to learn to improve their leadership skills, therefore effectively determining how to modify their employees' actions and behaviors (step three). If a manager finds that the organizational culture as a whole needs changing, a company may offer training programs to large blocks of employees on subjects such as teamwork, listening skills, and participative management.

A major approach to changing people and culture is through organizational development. Devoted to large-scale organizational change, **organizational development** (OD) focuses primarily on people processes as the target of change. Organizational development is grounded largely in psychology and other behavioral sciences, although more recently it has evolved into a broader approach encompassing such areas as organizational theory, strategy development, and social and technical change.

Used to create long-term policies for ongoing change, this approach applies behavioral science knowledge to the planned development of organizational strategies. Its goal is to change people and the quality of their interpersonal relationships. The aims of organizational development are as follows:

● Encourage cooperation

● Eliminate conflict

● Increase motivation

● Improve problem solving

● Open lines of communication

● Develop mutual trust

Popular organizational development tools consist of consultants, surveys group discussion, and training sessions. Here's a brief description of some of the more common techniques used at these meetings:

**1. Sensitivity training** is a method of changing behavior through unstructured group interaction.

**2. Survey feedback** is a technique for assessing attitudes, identifying discrepancies in them, and resolving the differences by using survey information in feedback groups.

**3. Process consultation** involves help given by an outside consultant to a manager in perceiving, understanding, and acting upon interpersonal processes.

**4. Team building** includes interaction among members of work teams to learn how each member thinks and works.

**5. Inter-group development** involves changing the attitudes, stereotypes, and perceptions that work groups have of each other. So how do managers know whether OD is working effectively within their organizations? The primary evaluation of effectiveness uses the goals established when OD efforts and strategies began. Based on this evaluation, a manager can identify programs, strategies, and change agents that need to be redirected or improved.

# LECTURE ELEVEN

### 11.1 Definitions of Decision Making

Decision making according to Howard (1988) is the process of identifying problems and opportunities rather than resolving them. Decision making involves efforts both before and after the actual choice. Robbins (1984) defines decision making as making a choice from two or more alternatives. In the view of Cole (2004), decision making is "a process of identifying a problem, evaluating alternatives, and selecting one alternative." During the whole process, people are making the best choice from among several options based on the current situation. Additionally, Rollinson (2002) cited in Li (2008) opined that decision making is the process of producing a solution to a recognized problem**.** Decisions are the means by which organizations turn ideas into action and can have a positive or a negative impact.

The process of decision making involves selecting a particular course of action from all the alternatives available. The process of decision making helps an individual to narrow down the choices available to him in order to arrive at the most suitable option. Decision making plays an important role in all phases of management (that is, planning, organizing, directing, controlling and staffing). Managers often find themselves facing alternative courses of action, out of which they are expected to choose or decide upon a single course of action. The decisions managers make are influenced by various factors like past experience, the external environment, human relationships within the organization and the cognition levels of the decision makers themselves. These decisions made by the managers are expected to lead the organization towards the achievement of its objectives. The decision making process is a key determinant of the success of both the management and the organization (Daft, 2003). As Beach (1985) puts it, participation in decision making can take a number of other forms such as consultative supervision, quality circles, multiple management, labor management co-operation and suggestion programmes.

There are three basic activities involved in decision making: intelligence activity, design activity and choice activity. Although all the decisions are made based on these three main activities, not all decisions are the same. Some are relatively simple and others involve a more complex range of considerations. Consequently, people need an approach to understand decisions making.

## 11.2 TYPES OF DECISIONS

There are many types of decisions depending on the frequency upon which the decisions have to be made. They include programmed and non-programmed decisions, group decisions, strategic and tactical decisions.

**a. Programmed Decisions:** According to Simon (1977), programmed decisions are made in response to a situation that has occurred often enough to enable decision rules to be developed and applied in the future. Programmed decisions could also be viewed as decisions that occur often enough in an organization that standardized rules are used to make them. These standardized rules can take the form of decision guidelines, standard operating procedures, or check-lists. Programmed decisions help to ensure that tasks are performed smoothly and consistently. Programmed decisions usually follow a routine procedure. For instance, the Human Resource Manager of an organization cannot immediately fill a vacancy from within the same organization without going through the usual recruitment processes such as advertising, receiving application letters, screening and short-listing, interviewing and making a final selection. Such decisions are made routinely and do not require much thought as they are programmed or follow a laid down procedure. A programmed decision is therefore when adequate information about the decision situation is available with the decision maker. In certain situations, due to the frequent occurrence of the situation, making a decision rule is easy because there are laid down procedures.

The presence of such decision rules guides the decision maker as to which is the most appropriate alternative that can be chosen under the prevailing conditions. This enables him in making programmed decisions. The same rule is used to make a decision whenever such a situation arises in the future. If the situation is the same, the rule applied has to be the same.

**b. Non-Programmed Decisions:** A new decision making situation which involves the development and evaluation of alternatives without any laid down decision rule is called a non-programmed decision. According to Daft (2003), non-programmed decisions are made in response to situations that are unique, poorly defined and largely unstructured and have important consequences for the organization. When making non-programmed decisions, managers mostly rely on their experience and intuition. Non-programmed decisions are characterized by a poorly defined structure and lack of goal clarity. They are made in the absence of reliable and well defined sources of information and lack an explicit procedure for decision making which is responsible for the poorly defined structure of non-programmed decisions. They are therefore based on the discretionary powers of the manager and do not follow any routine procedure. Once made, the decisions cannot be easily reversed without risks.

**c. Group Decision Making:** Most of the important decisions within organizations are made by groups or committees such as a cabinet or a council. The interaction inherent in a group decision making may lead to a higher or lower quality of decision.

One of the advantages of group decision making is that it presents more complete information and knowledge. There is more data and information within a group than is typically found in an individual, especially in groups consisting of experts, therefore groups may provide a more diverse input into the particular decision. Group decision making therefore tends to generate more alternatives, possibly allowing the organization to optimize more.

Another advantage of group decision making is that communication and understanding is increased when group decision making is used. This, in turn, increases the likelihood of the decision(s) being accepted and supported.

Again group decision making increases the acceptance of a solution. If people who will be affected by a decision are instrumental in implementing it, are able to participate in making decision, then they are most likely to accept it themselves and encourage others to accept it. Therefore, group decisions tend to increase acceptance of the final solution and facilitate its implementation. It should be noted that group decision making does not only take place at formal and informal meetings. Beach (1985), points out that employee participation in decision making (EPDM) can take a number of other forms, such as consultative supervision, quality circles, multiple management, labour management co-oporation and suggestion programmes. Andrews (1985), also mentions two examples of group decision-making in personnel matters; decisions on personnel services such as emoluments based on “cafeteria system" and decisions taken through the process of collective bargaining.

Not all, group decision making increases legitimacy. The group decision making process is consistent with democratic ideals and may therefore be recognized as being more legitimate than decisions made by a single person.

This is not to say that the group decision making is not without flaws. The first flaw/disorder is that group decision making is time consuming. It takes time to arrange meetings of groups and the interactions that take place once the group meets is frequently inefficient and consequently groups take a longer time to reach a solution.

Again, with group decision making, there is pressure to conform. The desire of members to be accepted and considered as an asset to the group may result in constraining and outright disagreement, thereby encouraging conformity among points of view.

In addition to these, there is ambiguity of responsibility in terms of group decision making. Group members are supposed to share responsibilities but in group decision making, it is not possible to establish who is actually responsible for the final outcome.

Finally, group decision making can encourage groupthink, which is a phenomenon that emerges in a group when the group members' desire for consensus and cohesion outweighs their desire to make the best possible decision (Daft, 2003).

d. **Strategic Decisions:** Strategic decisions are usually made by management with respect to analyzing a situation and modifying it with regards to the use of the existing scarce resources. Strategic decisions affect the long term direction of the entire organization and are typically made by top managers. According to Asch and Bowman (1989), Strategic decisions are concerned with the fundamental nature of the organization itself, for example, decisions about the activities that the organization should engage in; acquiring and divesting resources, including human resources and business units; and the nature and pace of organizational change. Strategic decisions are those which affect the long term performance of the business and which relate directly to its aims and objectives. They are usually taken at the highest levels of management and carry higher. The types of decisions are often complex and the outcomes uncertain, because available information is often limited. Managers at this level often depend on past experiences and their instincts when making strategic decisions. Strategic decisions normally deals with the organizations' relationship with the environment and other interest groups. Such decisions affect the organizations' goods, services or market operations.

However, the McKinsey global survey results have identified some flaws in the strategic decision making. The strategic decision making is based on the premise that individuals will always behave rationally to achieve the best possible outcomes. However, the vagaries of individual and group psychology can cause irrational decision making by both individuals and organizations, resulting in less than ideal outcomes. Even the best-designed strategic planning processes do not always lead to optimal decisions.

e. **Tactical Decisions:** According to the business dictionary, tactical decisions involves or pertains to actions, ends, or means that are immediate or short-term in duration, and/or lesser in importance or magnitude.. Tactical decisions are medium terms decisions. Decisions made at this level are to help move the organization closer to reaching the strategic goal. Examples of tactical decisions might be to pick an advertising agency to promote a new product or to provide an incentive plan to employees to encourage them increase production. Just as a misguided strategy could take a business in an entirely wrong direction and lead to failure, a misguided tactic would have a more limited impact (Madura 1998).

According to Daft (2001), tactical decision making has the added responsibility of:

1. Making sure that current operations remain sustainable.
2. Making sure that the organization as a whole is successful in what it sets out to accomplish.
3. Making sure that sufficient synergies are unlocked from current operations to improve the organization as a whole.
4. Making sure that new operations are designed and implemented so as to optimize the value they will unlock for the organization.

While tactical decision making is very important, it needs to be seen in the context of the other types of decisions mentioned above in the organization.

## 11.3 MODELS OF DECISION MAKING

There are many models of decision making and below are some of the models;

a. **Classical Model:** The classical model of decision making is a prescriptive approach that outlines how managers should make decision. The classical model is based on economic assumptions and asserts that managers are logical, rational individuals who make decision that are in the best interest of the organization. The classical view of decision making has always integrated the concept of rationality and rational decisions. According to Hucaynski and Buchanan (2002), “rationality is equated with scientific reasoning, empiricism and positivism and with the use of decision criteria of evidence, logical argument and reasoning”. And the rational decisions are decisions which are based on the rationality. The advantage of the classical model is to indicate a rational approach that can be applied to the business of reaching decisions in organizations (Li, 2008). This model has arisen within the management literature because managers are expected to make decisions that are economically sensible and in the organization’s best economic interest.

The assumptions underlying this model according to Daft (2003) are as follows:

- The decision maker operates to accomplish goals that are known and agreed upon. Problems are precisely formulated and defined.
- The decision maker strives for conditions of certainty in gathering complete Information. All alternatives and the potential results are calculated.
- The criteria for evaluating alternatives are known. The decision maker selects the alternative that will maximize the economic returns to the organization.
- The decision maker is rational and uses logic to assign values, order preferences, evaluate alternatives and make the decision that will maximize the attainment of organizational goals.

According to Daft (2003), the classical model of decision making is considered to be normative, that is, it defines how a decision maker should make decisions. The value of the classical model has been its ability to help decision makers to be more rational. For instance, many senior managers according to Blai (1986) rely solely on intuition and personal preferences for making decisions. Lee et al., (1999) on their part have argued that "the classical decision theory views the decision maker as acting in a world of complete certainty." It assumes that "decision makers are objective, have complete information and consider all possible alternatives and their consequences before selecting the optimal solution." Based on the definition above, it is clear that classical decision making theory is derived from several assumptions. Herbert (1981) agreed that this process is underlain by certain assumptions and characteristics, which are highly unrealistic in practice and are widely argued among managerial field.

According to Robbins (2003), the classical model of decision making could not fully represent how people make decisions in organizations, because people do not know how accurate the data is used to make decisions, how reliable are the estimates of the probabilities and how useful the data is related to the event.

b. **Optimizing Model:** The optimizing model of decision making attempts to describe how an individual should behave in order to maximize or optimize a specific outcome (Robbins 1984). Optimization simply means "the action of finding the best solution". In this model, an individual should follow six (6) steps to decision making which are:

i. Ascertain the need for a decision

ii. Identify the decision criteria

iii. Allocate weights to the criteria

iv. Develop alternatives

v. Evaluate the alternatives

vi. Select the best alternative

The individual is assumed to have a clear objective and all the steps listed above in the optimizing model are assumed to lend towards the selection of the alternative that will maximize the said objective (Fox, 1991). The steps are based on the following underlying assumptions;

- Objective-orientation
- All of the options are known
- All preferences are evident
- The preferences are invariable
- The final choice will maximize the result.

The optimizing model has four shortcomings as noted by Lindblom (1968). These are;

1. the difficulty in identifying and isolating a given problem and its cause
2. the decision-maker seldom have the time, the capacity, and the information required to make an in-depth studies that the optimizing model call for
3. the problem of values and
4. the relationship between alternatives and consequences may be ambiguous.

c. **The Satisficing Model:** In this model, individuals make decisions that provide satisfactory and sufficient solutions. Decision makers seek solutions to their problems that are good enough. The satisficing model is characterized by bounded rationality and incrementalism (Fox, 1991). Satisficing is a method for making a choice from a set of alternatives encountered sequentially when one does not know much about the possibilities ahead of time. According to the business dictionary satisficing in decision making is the examination of all alternatives until a practical (most obvious, attainable, and reasonable) solution with adequate level of acceptability is found, and stopping the search there instead of looking for the best-possible (optimum) solution (www.businessdictionary.com/definition). Satisficing means that the decision maker chooses the first solution alternative that satisfies minimal decision criteria. Rather than pursuing all alternatives to identify the single solution that will maximize economic returns, managers will opt for the first solution that appears to solve the problem, even if better solutions are presumed to exist. The decision maker cannot justify the time and expense of obtaining complete information (Simons, 1957). Satisficing thus takes the shortcut of setting an adjustable aspiration level and ending the search for alternatives as soon as one is encountered that exceeds the aspiration level (Simon, 1956). Most managers settle for a satisficing rather than a maximizing solution. This is partly because they have limited information and partly because they have vague criteria for what constitutes a maximizing solution (Fox, 1991).

d. **The Political Model:** The political model of decision making is useful for making non-programmed decisions when conditions are uncertain, information is limited and there is disagreement among managers about what goals to pursue or what course of action to take (Daft, 2003). They therefore engage in coalition building for making complex organizational decisions. Daft (2003) defines a coalition as an informal alliance among managers who support a specific goal.

Coalition building is the process of forming alliance among managers. When the outcomes are not predictable, managers gain support through discussions, negotiations and bargaining. Without a coalition, a powerful individual or group could derail the decision making-process.

Further, coalition building gives managers the opportunity to contribute to decision making thereby enhancing the commitment to the alternative that is ultimately adopted. The political model closely resembles the real environment in which most managers and decision makers operate. Decisions are complex and involve many people, information is often ambiguous and disagreement and conflict over problems and solutions are normal.

According to Daft (2003), there are four (4) basic assumptions of the political model:

a. Organizations are made up of groups with diverse interest goals and values. The managers disagree about problems priorities and my not understand or share the goals and interests of the other managers.

b. Information is ambiguous and incomplete. The attempt to be rational is limited by the complexity of many problems as well as personal and organizational constraints.

c. Managers do not have the time, resources, or mental capacity to identify all dimensions of the problem and process all relevant information. Managers talk to each other and exchange view points, to gather information and reduce ambiguity.

d. Managers engage in the push and pull debate to decide goals and discuss alternatives. Decisions are the result of bargaining and discussion among coalition members.

Fulop and Linstead (1999) argues that the political model can be applied to situations that organizations need to increase production and also decide how to achieve this.

e. **The Mixed Scanning Model:** This is a decision making process at the highest level, which may be instituted for making and elaborating of fundamental decisions. According to Fox (1991), this is made possible by combining the rational and the satisficing models. He further alludes that the rational model applied on its own is too expensive and time-consuming, and the satisficing model is biased towards status quo groups and issues. According to Goldberg (1975), mixed scanning is a hierarchical mode of decision making that combines higher order, fundamental decision making with lower order, incremental decisions that work out and/or prepare for higher order ones. The term scanning according to Etzioni (1986), is used to refer to search, collection, processing, and evaluation of information as well as to the drawing of conclusions. Mixed scanning also contains rules for allocation of resources among levels of decision making and for evaluation, leading to changes in the proportion of higher verses lower levels of scanning based on changes in the situation.

   The mixed-scanning model calls for the decision maker to scan the organization regularly without processing the enormous amounts of detail generated. To Fox (1991) all alternatives are reviewed and thereafter only the most promising alternatives are analysed. Decisions taken are on incremental bias and these decisions could be mixed with some more fundamental decisions. According to Gortner, et al, (1987), the purpose of mixed-scanning is to provide for flexibility during decision-making.

# LECTURE TWELVE

## 12. 0 SOCIAL RESPONSIBILITY OF MANAGEMENT

Organizational social responsibility refers to the obligation of an organization to seek actions that protect and improve the welfare of society along with its own interest. Organizational social responsibility is often called corporate social responsibility because the concept is typically applied to business firms. Views differ on the degree to which businesses and other organizations should consider social responsibility in conducting their affairs.

### Major Perspectives of Corporate Social Responsibility

Major concerns about organizational social responsibility are a relatively recent phenomenon. Social responsibilities began to emerge as an issue during the late 1980s. These historical developments have lead to three major contrasting perspectives on corporate social responsibility: the invisible hand, the hand of government, and the hand of management.

**The invisible hand:** The chief spokesperson for the invisible hand or classical perspective of corporate social responsibility is economist Milton Friedman, but its roots can be traced back to eighteen century Adams Smith. The invisible hand view holds that the entire social responsibility of a corporation can be summed up as "make profits and obey the law." According to this view, each corporation should actively attempt to increase profits through legal means. In this way, corporate responsibility will be guided by the invisible hand of free market forces, which ultimately ensures that resources are allocated efficiently for the betterment of society. Otherwise, business executive will take on the right to allocate resources, thereby gaining excessive power while having little accountability to society for their allocation decisions. Further, Friedman argues that charitable activities by corporation prevent individual stockholders from making their own decisions about how to dispose of their funds.

**The Hand of Government:** Under the hand of government perspective of corporate responsibility, the role of corporations is also to seek profits within existing laws. However, the hand of government view argues that the interests of society are best served by having the regulatory hands of the law and the political process, rather than the invisible hand, guides the results of corporations' endeavors.

**The Hand of Management:** The hand of management perspective states that corporations and their managers are expected to act in ways that protect and improve the welfare of society as a whole as well as advance corporate economic interests.

Three major arguments are typically advanced in favor of organizational social responsibility. The ant freeloader argument holds that since business benefits from a better society, they should bear part of the costs of improving it by actively working to bring about solutions to social problems.

The capacity argument states that the private sector, because of its considerable economic and human resources must make up for recent government cutbacks in social programs.

The enlightened self-interest argument holds that businesses exist at society's pleasure and that for their own legitimacy and survival, businesses should meet the expectations of public regarding social responsibility. Otherwise they are likely to eventually suffer financially and go out of business

**Social responsibility of management**

The idea that managers have social responsibility stems, in large part, from the growing interdependencies which have woven an intricate web of common interest between corporations and the communities in which they exist. This broad view of social responsibility of management encompasses economic, legal, ethical and discretionary responsibilities.

**Economic and legal Responsibilities**: the economic and legal responsibilities of management are recognized by all three perspectives on corporate responsibility, i.e, the invisible hand, the hand of government, and the hand of management. These responsibilities involve making a profit and obeying the law.

**Ethical and discretionary responsibilities**: the hand-of-management perspective recognizes ethical and possible discretionary responsibilities dictated by the invisible-hand and hand of government views. Ethical responsibilities include behaviors and activities that are expected of business by social members. On the other hand, discretionary responsibilities include voluntary beneficial activities that are not strongly expected of business by society's members. While organization would not generally be viewed as unethical per se if it declined to participate in them, elements of society may view such activities as highly undesirable.

Major issues of CSR vary from one company to another according to its particular circumstances, but include:

- minimizing damage to the environment and promoting 'sustainable' business development, i.e. business growth that does not have adverse long-term consequences for the environment and the earth's resources;
- having liberal employment policies;
- investing money in local communities;
- helping in the fight against crime.

**CSR and Reputation Risk**

There is a link between public attitudes towards a company and the way in which the company presents itself as an organization concerned with social issues. The risk to a company's reputation may therefore depend on the policies it adopts on these issues. A company's reputation can be damaged by adverse publicity and public comment from incidents such as a serious environmental spillage or a serious accident. The reputational risk exists for many large companies, not just the 'obvious' examples of companies in mining and extracting, pharmaceuticals and foods.

As just one example, it has been suggested that in the UK, rail system operator Railtrack failed to recover from the damage to its reputation from the Hatfield rail crash in 2001, and collapsed in the following year.

The potential significance of CSR from a financial rather than an ethical perspective are therefore:

- brand reputation (reputation risk); and
- stakeholder preferences. Employees might prefer working for ethical organizations, customers might prefer buying from them and suppliers might prefer dealing with them.

Perhaps, even more significantly, investors might prefer holding the securities of ethical companies (and companies with good governance practices).

However, there is no clear link between CSR and short-term shareholder value.

A special report on CSR published by the Financial Times in November 2004 suggested that those companies finding themselves subject to the closest scrutiny include:

- those with a dominant market position, such as former state-owned utility companies;
- those dealing directly with consumers, such as retailers and commercial banks;
- those producing essentials, such as food and drugs;
- those exploiting natural resources;
- those depending on supply chains in developing counties, such as clothing manufacturers.

# INTRODUCTION TO MANAGEMENT

## UNIT 1: TUTORIAL QUESTIONS

1. Define and explain ‘Management’ as a discipline of study.

2. Define ‘Organization’ and give examples.

3. List and explain four (4) main functions of Management.

4. Briefly explain the main elements of the extended model of the Management process.

5. Mention the ten managerial roles identified by Mintzberg (1980) and give a brief description of each.

6. Managers are supposed to possess some important skills in order to perform well. What are they? Briefly explain them.

7. Distinguish between ‘effectiveness’ and ‘efficiency’ as they apply to organizational performance.

8. Identify the vertical (hierarchical) levels of Managers and explain them.

9. Explain the differences among the hierarchical levels of Managers with reference to the following:

a. functions of management
b. management skills
c. managerial roles

10. Managerial jobs also differ on a horizontal dimension. Identify and explain them.

11. Outline how Managers at different hierarchical levels use the entrepreneurial role.
What do you think is likely to happen if the entrepreneurial role is missing from the middle or top levels of the organization?

12. Define ‘Total Quality Management (TQM)’ and explain its importance to the organization.

## UNIT 2: TUTORIAL QUESTIONS

1. Explain how the Preclassical Contributions helped set the stage for the development of Management as a discipline of study.

2. Contrast the three major approaches within the Classical Viewpoint:
   a. Scientific Management
   b. Bureaucratic Management
   c. Administrative Management

3. Explain why Frederick Windslow Taylor is referred to as the 'father of Scientific Management' approach.

4. Henri Fayol (1841-1925) outlined some principles of Management. Identify and explain them briefly.

5. Assess the contributions of the 'Hawthorne Studies' to the development of Management.

6. What is the Human Relations Movement approach to Management? Carefully explain its main elements and discuss the implications of them to effective management of an organization.

7. Explain the Behavioural Science approach to management science.

8. Assess the importance of the Quantitative Management viewpoint to the organizational manager.

9. Define 'systems theory' to organizational management and explain its major components.

10. Distinguish between closed and open systems and explain the one which is more useful to you as a Manager.

11. Carefully explain the following approaches to organizational management and point out the respective merits.
    a. Contingency Theory Approach
    b. Emerging View Approach

12. Modern Management has evolved through Preclassical, Classical, Behavioural, Quantitative and Contemporary viewpoints. Briefly explain the main innovative ideas of any one of these viewpoints.

**UNIT 3: TUTORIAL QUESTIONS**

1. Distinguish between 'internal' and 'external' environments of an organization.

2. Define Mega and Task components of the external environment of an organization, and explain five (5) elements of the Mega environment.

3. Explain the following models as applied to organization-environment interface.
   a. Population Ecology Model

   b. Resource Dependence Model

4. Two main characteristics of the environment are:

   a. Environmental Uncertainty

   b. Environmental Munificence

5. How would you assess environmental uncertainty of an organization?

6. Define three (3) main approaches embarked upon by organizations in managing environmental elements.

7. Explain four (4) methods adopted by an organization to adapt to its environmental elements.

8. Explain five (5) methods by which organizations may achieve environmental favourability influence.

9. Define ‘internal environment’ of an organization and explain its importance to the organization.

## UNITS 4 AND 5: TUTORIAL QUESTIONS

1. Define “organizational social responsibility” and discuss three (3) major perspectives on the corporate social responsibility.

2. The social responsibilities of management encompass economic, legal, ethical and discretionary areas. Carefully explain them with examples from Ghana.

3. Briefly define “Organizational Social Responsiveness”

4. Explain six (6) major methods of monitoring social demands and expectations in the external environment of an organization.

5. Explain five (5) internal social response mechanisms used by organizations to facilitate effective social responses.

6. Define “Managerial Ethics” and explain the three (3) major types open to managers of organizations.

7. Outline and explain briefly seven (7) guidelines that you would recommend to managers of organizations.