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**SELF-LEARNING MATERIAL**

**FOUNDATION OF MANAGEMENT**

**DHR 101**

## **SELF-LEARNING MATERIAL**

Course Code: DHR 101

Course Title: FOUNDATION OF MANAGEMENT

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**UNIT-1: INTRODUCTION TO MANAGEMENT**

**UNIT STRUCTURE**

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**1.0 OBJECTIVES**

After doing this unit you will be able to

- explain why management is required
- discuss the relevance of these theories even today
- identify different managerial skills.

**1.1 INTRODUCTION**

This is the first basic unit of your management program. You can see for yourself that management is an integral part of any kind of institution that you can possibly think of. Commercial organizations, Defence, Educational institutions, Health Care, Charity organizations and even our homes... all need management. Here we will talk about the need for management and also trace its evolution. This will give you an insight into what prompted different theories to come up. It is important to know about these theories, because it will help you to get a holistic picture of what comprises management. Scientific theory, Modern theory, Behavioral Sciences theory etc are all looking at management from different perspective and the understanding of these perspectives will lay the foundation to comprehending the different functions of management that you will study in the units to follow.

**1.2 NEED FOR MANAGEMENT**

Just imagine a world where everything is available, all people are doing precisely what they are supposed to do, life is predictable, and there is no need to worry about anything..... it would indeed be wonderful. But you and I exist in a world where resources are not in abundance and we need to make the best use of them. By the word resources I mean Money, Manpower, Land, Machinery, Time and even Information. Nothing in this world is constant except change. The world around us keeps evolving making it inevitable for us to be always alert and adapt to the changing situation. In such a highly dynamic scenario, one will

need to manage all available resources, put it to the best possible use to get the optimum return. Thus the fact that resources are scarce and that the environment is not predictable creates the need for management. Management as a subject is the result of the theories generated by persons who observed management in practice. The body of knowledge that exists in management has been due to the effort of many management philosophers. In the next section we will focus on the contributions made by some of them.

### **1.3 EVOLUTION OF MANAGEMENT**

Each management philosopher interpreted management as per his/her viewpoint. Once we understand their interpretations about management and their contributions, we can get a holistic picture of what actually is meant by management. As you go through the following sections you will be able to get a feel of how management evolved over the years.

#### **1.3.1 SCIENTIFIC MANAGEMENT**

One of the first documented contribution was made by Frederick Winslow Taylor (1856 – 1912). Taylor worked at Midvale Steel Company and worked his way up from an apprentice to a General Manager. He worked during the day and completed his education by attending classes at night.

Taylor's major concern was to increase efficiency in production, lower costs and raise profits thus leading to higher wages for workers. The workers were more interested in saving their jobs rather than going for higher productivity. The productivity problem was a matter of ignorance on the part of both management and labour. Neither party knew what was a 'fair day's work' and 'fair day's pay'. They were only concerned with the split between pay and profits; neither thought about increasing surplus so that both could get more compensation. Taylor saw productivity as the answer to higher wages and higher profits.

He was one of the first people to try and understand how best practices could be analyzed and synthesized. Once they are generalised and standardised they can be then propagated to the other workers via training. He believed that decisions based upon tradition and rules of thumb should be replaced by structured knowledge. He conducted time and motion studies in order to discover "one best way" to do any given task. This resulted in an increase in productivity as well as reduction of effort.

#### **WHAT IS TIME AND MOTION STUDY ?**

A whole task is divided into smaller tasks. Each task is observed for its sequence of movements in order to identify any redundant movement so that they can be eliminated. Once the correct sequence of movements is identified, the time for each correct movement is observed. From this study one can get a fair idea of how much can be produced in a given time. This is possible for repetitive kind of work and not for creative work.

He put forward certain principles of Scientific Management and they are:

- Replacing rules of thumb with organized knowledge

Prior to conducting of the time and motion study, neither the employer nor the employee had any idea of what constituted a 'fair day's work'. Some unscientific method (referred to as thumb rule) was followed to

estimate what should be the desired output. Taylor replaced this with organized scientific knowledge obtained from the time and motion study.

- Obtaining harmony in group action, rather than discord

There was no feeling of working as a unit; workers were more concerned about their job security while employers were concerned about getting the most out of the workers. There was always a divide between the employers and the employees. Having standardized work, Taylor brought the two parties to a common platform in terms of job output. This made it possible to obtain harmony in group action rather than discord.

- Achieving cooperation of human beings, rather than chaotic individualism

Taylor wanted the organization to focus on the organizational goal rather than individual goals. He believed that individual goals have to be aligned with organizational goals. For the organization to benefit, people must work in a spirit of cooperation rather than chaotic individualism.

- Working for maximum output, rather than restricted output

Taylor worked during an era where there was job scarcity and no job security. Therefore workers were more concerned about having a job available the next day, than completing the task at hand. This led to incomplete tasks by the workers; their perception was that if a job is completed then there would be no need for them the next day. Hence they restricted their daily output. Taylor wanted to change this outlook.

- Developing all workers to the fullest extent possible for their own as well as company prosperity

The time and motion study identified the best way of doing a job. Taylor wanted the workers to be trained in such a manner that they could maximize the output and the profits obtained from this output would benefit the worker as well as the company.

Taylor is referred to as the 'Father of Scientific Management'. He had a lot of followers who adopted the scientific management concepts and made their own contributions. Some of them were Henry Gantt who created the Gantt charts and now better known PERT and CPM<sup>1</sup>, Frank Gilbreth and Lillian Gilbreth who focused on the best way of laying bricks, handling materials and training workers to get the best output.

### **ACTIVITY: 1.1**

1. Find out more about the Gilbreth couple. Why is Lillian Gilbreth referred to as the First lady of Management?
2. What is the use of a Gantt chart?

### **1.3.2 MODERN MANAGEMENT**

Henri Fayol (1841 – 1925) was working parallelly in France on the concept of Management. Fayol stated that all industrial activities can be divided into six groups:-

- Technical                      the process of manufacturing
- Commercial                    buying raw materials and selling finished products

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<sup>1</sup> Program Evaluation and Review Technique  
Critical Path Method

- Financial                      raising funds
- Security                      security of materials and the workplace
- Accounting                      recording all transactions
- Managerial                      planning, organizing, commanding, coordinating, and  
controlling

For example, if we consider Maruti Suzuki India Limited we will find the following:

- Technical is the car manufacturing process.
- Commercial is the buying manufacturing materials and other ancillary items that are outsourced. It also includes selling of cars to the dealers.
- Financial means the funds that they have raised as equity and debt.
- Security is insuring the workplace from any unforeseen events that may cause damage to the company. It also includes the physical security put in place.
- Accounting is maintaining a record of all financial transactions occurring in the company so that at the end of the year a Balance Sheet and Income Statement can be produced and analysed.
- Managerial activities begin with planning keeping a time horizon in mind. It may be a long-term or a short-term plan. Planning helps in bridging the gap from where we are to where we want to go. For example, increase sales of all cars by 10% in a period of two years. Organising is arranging resources and checking whether the existing resources will be sufficient for the plan in mind. Commanding would mean that all employees are told what is expected of them. Leadership skills will be required to get people to work enthusiastically towards the goals set. Coordinating is networking among the different departments of Maruti Suzuki and ensuring that each department knows its role and understands how they have to contribute to the plan. And finally the implementation of the plan has to be monitored to ensure that it is on the right track; this is controlling.

Fayol put forward 14 principle of management. They are:

1. Division of work: Work should be divided in such a way that workers can specialize in it and this is expected to lead to increased efficiency. Specialization leads to fewer errors and hence cost of production can be controlled. Moreover a single person cannot be equally good at everything, nor will the person have enough time for it. Hence division of work is necessary. At Maruti Suzuki, a group of workers work on creating the chasis, a group fits it the doors and windows, another fits in the tyres, one group does the painting etc. This level of division of work is taking place at the production unit. If you take the entire organization into account you will find that there is a department called Human Resource department which takes care of the manpower, Finance department which takes care of money matters, Marketing department which looks after sales etc.
2. Authority and Responsibility:                      Responsibility arises from Authority. When your superior delegates a part of his/her work to you, he/she transfers a part of the authority also to you.

Therefore you are now responsible for completing the delegated work. One cannot be held responsible for an activity for which no authority has been given.

3. **Discipline:** Discipline is a respect for agreements. Enforcing discipline calls for having good superiors at all levels. Without discipline there would be chaos because each person would do what he thinks is the best. Without convergent effort, goals cannot be achieved. Hence all workers/employees in an organization need to abide by rules, regulations and policy decisions.
4. **Unity of Command:** Employers should receive orders from one superior only. If there is more than one superior and if commands from superiors vary, you can well imagine what will happen to such a subordinate. Normally, each subordinate reports to one superior. The exception to this is when matrix organization is formed and a person may face the dilemma of reporting to two superiors. You will study about matrix organization in the next unit on Organising.
5. **Unity of Direction:** All group of activities must be oriented towards the same goal. They must have one plan. The goal of the organization is subdivided among the different departments and each department will need to fulfill the sub-goal so that at the end the organization goal is fulfilled. Continuing with our example of Maruti Suzuki, if the company decides to increase sales by 10% then each department will have to gear up accordingly. Production department will have to do a reality check and see whether it is feasible to increase 10% production. For this increase, will the existing machinery and manpower suffice? If the machinery is being run at a lower capacity, then there is no problem. But if the machinery is being run at its maximum capacity then the company will have to think of getting in new machines. This will lead to another question. Will our existing manpower suffice? If yes, then the company continues as it is. If no, then the company will need to recruit manpower for this purpose. Thus the sub-goals of the different departments must work in a convergent manner to facilitate the company's goal of 10% increase in sales.
6. **Subordination of individual to general interest:** The organizational interest has a higher priority than individual interest. We need to keep in mind that if the organization ceases to exist, then so will its employees. In case of a conflict between individual interest and organizational interest, the organizational interest will prevail over individual interest. Having said that, one must also realize that individual interest is equally important, and the greater the alignment of individual interest with the organizational interest the more likely the chances of the organization doing very well.
7. **Remuneration:** Remuneration must be in tune with the work involved. Each employee must be given salary in proportion to the level of effort, skill and time spent on the job.
8. **Centralization:** Depending on the situation and the context, authority will be centralized or decentralized. Centralization and Decentralization have their own merits and demerits. You will be able to appreciate it more when you move to the next unit on Organising.
9. **Scalar chain:** It is the link from the superior in the top most hierarchy to the subordinate in the bottom of the hierarchy. The factory worker reports to his supervisor, who in turn reports to his

boss, the Assistant Manager. This Assistant Manger reports to his boss, the Deputy.Manager, who then further reports to the General Manager. Thus we can see a scalar chain linking the General Manager with the factory worker.

10. Order: There must be an appropriate place for all things and also for all people. Can you imagine an office where there is no fixed office space for its employees? In the morning whoever comes first to the office will occupy a cabin of his choice and in the evening when he leaves he will pack all his office stuff and carry it back home. Or visualize a factory running in shifts. The morning shift worker does not leave his tools at the designated place at the end of the shift and when the evening shift worker arrives, he has to spend some amount of time in hunting for the tools before he can finally begin his work. You can now understand why order is so important in an organization.
11. Equity: Equity should be maintained while dealing with people. We talked about remuneration for workers. We also know that people who have worked longer in an organization will get more salary than other workers at the same level. Also at the time of entry in a company, persons with work experience are given an increment while those without work experience get the base salary. The company is compensating for the experience. Equitable does not mean equal. Fayol said that equity must be maintained in the workplace.
12. Stability of tenure: Fayol pointed out the dangers and costs associated with a stable as well as unstable tenure. A stable job tenure will mean that the worker does not have to be tensed about losing his job; he has job security. This security will give him peace of mind to work in a focused manner. The flip side is that it may lead to complacency in the worker and lower productivity. An unstable tenure will mean that the worker has no job security and knows that he maybe fired at any point of time. So the worker tries to maintain a high level of productivity so that he is retained. The flip side is that a productive and efficient worker will always be on the lookout for a better and stable job and should he get that he will leave the company at a short notice. This will hurt the company's functioning.
13. Initiative: Initiative should be encouraged among employees. Employees should be encouraged to share ideas for improved functioning. Genuine encouragement will lead to bright ideas from employees and develop a sense of belongingness among them.
14. *Esprit de corps*: In unity there is strength. If there is no unity of direction and unity of thought and effort, then progress will be very slow. Divergent actions will lead to chaos and failure.

Fayol is referred to as the 'Father of Modern Management'.

### ACTIVITY 1.2

Visit an organization and see for yourself how many of the 14 principles of Fayol are applicable today. Note down examples against each principle.

One example is presented here for your understanding.

Division of work: In Tezpur University , administrative work is divided into specialized groups such as Establishment, Finance, Engineering, Purchase and Stores etc. Establishment is responsible for maintaining all records about the people working here. Finance keeps a track of funding sources and records all financial transactions. Engineering is associated with creation and maintenance of all infrastructure. Purchase and Stores acts as a facilitator in purchasing all furniture, stationery, and equipments and keeping their records.

### **1.3.3 HAWTHORNE STUDIES**

Along the same lines of Scientific Management, two researchers Mayo and Roethlisberger decided to study the effect of working conditions on the productivity of workers.

Elton Mayo and F J Roethlisberger undertook famous experiments at the Hawthorne plant of Western Electric Company, during the period 1924 to 1932. One such experiment was to determine the effect of illumination and other conditions on workers and their productivity. Accordingly changes were made in illumination, working hours, breaks between working etc. and the effect on production noted. All these changes, either positive or negative, did not seem to have any influence on productivity. The group could come to no specific conclusion as productivity appeared to be independent of the infrastructural conditions of work.

The experiment was abandoned and the researchers left the plant. However they were still baffled by what had happened and after a time they made a visit to enquire how the plant was running. What they found was even more baffling. The workers who were a part of the experiment and whose productivity was so high became otherwise. They lost interest in their jobs, became depressed and unproductive. Some even left the job.

This was highly unusual and the researchers came to the conclusion that other factors were responsible. It was found that improvement in productivity was due to social factors as morale, satisfactory inter-relationships, sense of belongingness and effective management.

What had happened was that the workers by being a part of the experimental group had felt privileged and enjoyed a close-knit interaction in the small group. Once the experiment was disbanded, they had to go back to the factory and again become a faceless worker having no inter-personal relationship with co-workers as well as the supervisor.

What the Hawthorne studies dramatized was that human beings are social and business needs to understand that the social system and the technical system must be blended to form a perfect socio-technical system. This was a major turning point in the evolution of management as the focus moved away from the mechanical aspects of work to the psychological condition of the worker. This focus was referred to as 'Behavioral Sciences'.

### **1.3.4 OTHER CONTRIBUTORS OF BEHAVIORAL SCIENCES**

As already mentioned earlier Lillian Gilbreth (1878 -1972) had worked with her husband Frank along the lines of Scientific Management. Lillian Gilbreth was an industrial psychologist and is referred to as the 'first lady of management'. She was interested in the human aspects of work. The Gilbreths most important contribution was that it is not the monotony of work that causes so much worker dissatisfaction, but rather it is the management's lack of interest in workers.

Another medical doctor Hugo Munsterberg (1863 – 1916) came on the scene. Hugo Munsterberg was a trained psychologist and trained medical practitioner. He focused on:

- Finding the right person for the right job
- Psychological conditions that will facilitate the best output from the workers
- How business can influence workers to get best possible results from them.

His intention was to reduce their working time, increase their wages and raise their 'level of life'.

### **1.3.5 MCKINSEY'S 7S FRAMEWORK**

The McKinsey 7S Framework is a management model developed by well-known business consultants Robert H. Waterman, Jr. and Tom Peters in the 1980s. This was a strategic vision for groups, to include businesses, business units, and teams. The 7S are strategy, structure, systems, skills, style, staff and shared values.

The model focuses on the fact that for an organization to perform well, these seven elements need to be mutually reinforcing. So, the model can be used to help identify what areas need to improve performance, or to maintain the same level.

**Strategy:** Systematic allocation of resources to achieve company aims.

To achieve company's aims all resources will have to be aligned accordingly, viz. human resource, financial resources, machinery etc. How much and when to allocate is a crucial decision point.

**Structure:** Organization structure and authority-responsibility relationships

People have to work in coordination. Who will report to whom, role clarity, job responsibility will have to be clearly demarcated. The scalar chain of command, delegation, and authority-responsibility relationship have to be clearly understood to enable the people to work systematically.

**Systems:** Procedures and processes such as information systems, manufacturing processes, budgeting and control processes.

Systems are required to facilitate people to work efficiently. Information systems link up the organization and we can access information stored at a minute's notice. Manufacturing processes are designed in such a way that unnecessary movements or lag time is reduced. Budgeting and control systems help in monitoring whether activity is moving on the right track or not.

**Style:** The way management behaves and collectively and spends its time to achieve organizational goals.

Each manager has his own style of functioning. However in any organization we will find a group of managers who collectively take decisions for the company. The collective way of functioning and decision making is referred to as the management style. If the style is conservative, then management will not take risks and will prefer to follow the trodden tried and tested path. If the style is aggressive, then bold risky decisions will be taken and if the decision clicks then the company stands to reap huge benefits.

**Staff:** The people in the organization and their socialization into the organizational culture. Staff means the people working in the organization and how they are linked up to each other either in the formal set-up or informal set-up. Most organizations have an induction /orientation program for their new recruits. The intention is to familiarize the new employees with the organization structure and functioning of the company. The new employees are taken around different departments and acquainted with the other employees of the organization. Through this process of organized socialization, the new employees are given a flavour of the organization culture.

**Skills:** It is the distinctive capabilities of an enterprise, including personal skills of its employees. Each organization has its own uniqueness or specialty. For example: All hospitals are hospitals but Apollo Hospitals' uniqueness lies in the fact that international standard of healthcare service is made available at reasonable price. For an organization to have an edge, it goes without saying that it depends on the skill level of its employees.

**Shared Values:** Goal statements are very important in determining the destiny of an enterprise. The super-ordinate goals (values shared by the members of an organization) is extremely important for organizational effectiveness. The organizational goal is percolated down by dividing the main goal into sub-goals for each department. These sub-goals are aligned with the main goal. Every member of the organization must have a sense of ownership of the goal. If the employees do not have a common shared-value, then it will be difficult for the organization to function.

Strategy, Structure and Systems are referred to as hard elements as they are easy to identify and are under management control.

Style, Staff, Skill and Shared Values are referred to as soft elements and are less tangible and influenced by the work culture of the organization.

But both the hard and soft elements need to be in tandem to ensure that the organization functions smoothly.

### **WHAT IS WORK CULTURE**

It is the cumulative way in which members of the organization behave. It is something that evolves over a period of time. You can easily understand about it if you take a look at a couple of organizations. The differences are apparent. Walk into different organizations at 9 am in the morning. You can see for

yourself whether you can find people at their desks, the kind of response you get for your queries, whether you are facilitated in completing your work, etc.

Organizations having a 'risk averse' work culture will never take any bold decisions; they are comfortable in treading the safe and trodden path. On the other hand organizations that are 'entrepreneurial' in nature will try out new strategies and not hesitate to enter new territories.

#### **1.4 MANAGERIAL SKILLS PROPOUNDED BY HENRY MINTZBERG.**

Henry Mintzberg put forward a complete set of behaviours or roles that every manager is expected to have.

##### ***Interpersonal role:***

1. The figurehead role includes ceremonial and social duties as the organization's representative. It reflects status and authority. In other words he/she is the face of the company.
2. The leader role focuses on guiding the employees.
3. The liaison role calls for establishing relationships within and beyond the organization. Information exchange through such networking will help in getting access to knowledge bases.

##### ***Informational role:***

1. The recipient role is that of receiving information about the operation of the enterprise. All reports and information must be stored and maintained for future use.
2. The disseminator role is that of passing information to subordinates.
3. The spokesperson role is that of transmitting information to those outside the organization, but on behalf of the organization.

##### ***Decision roles:***

1. The entrepreneurial role involves in infusing new innovative thoughts into the organization.
2. The disturbance handler role calls for trouble-shooting activities. In case of any possible conflict the trouble-shooter has to ensure that it is nipped in the bud.
3. The resource-allocator has to ensure that resources are allocated in a fair and optimal manner such that returns are maximized.
4. The negotiator role calls for negotiating on behalf of a group for resources, for better bargains etc.

#### **ACTIVITY 1.3**

1. When talking about Wipro or Shahnaz Herbal Products, who is the 'figurehead'?
2. Companies may have designated persons to play the 'liaison role'? Name two such designations along with the company name.
3. Identify people in an organization who can play the role of a 'resource allocator' and a 'negotiator'.

#### **1.5 DEFINITIONS OF MANAGEMENT**

Having read through the evolution of management and the different perspectives associated with it, we will now conclude with a couple of definitions which you can easily understand.

1. Management is the process of designing and maintaining an environment in which individuals working together in groups, efficiently accomplish selected aims

2. Managers carry out the functions of planning, organising, staffing, leading and controlling.
3. Management is applicable to all organizations and the aim is to create a surplus. It is an attempt to create a desirable future, keeping the past and present in mind.

### **ASSESS YOUR PROGRESS**

1. What is the contribution of Taylor to the field of management?
2. What has been the contribution of behavioural scientists to management?
3. What are the different roles played by a manager?

### **1.6 SUGGESTED READINGS**

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### **References**

1. Stoner, J.A.F., R. E. Freeman, and D.R. Gilbert. *Management*. 6<sup>th</sup> edition. Pearson Education, 2004, Print.

## **DHR 101 FOUNDATION OF MANAGEMENT- CREDIT-4**

### **UNIT-2: PLANNING**

#### **UNIT STRUCTURE**

2.0 OBJECTIVES

2.1 INTRODUCTION

2.2 NEED FOR PLANNING

2.3 TYPES OF PLANS:

2.3.1 VISION

2.3.2 MISSION

2.3.3 OBJECTIVE

2.3.4 STRATEGY

2.3.5 POLICY

2.3.6 PROCEDURE

2.3.7 RULES

2.3.8 BUDGETS

2.4 STEPS IN PLANNING

2.5 MANAGEMENT BY OBJECTIVES

2.6 SUGGESTED READINGS

#### **2.0 OBJECTIVES**

In this unit the focus will be on the first function of management i.e. planning. After going through this unit you will be able to

- explain why planning is necessary.
- discuss different kinds of plans.
- explain the processes involved in planning.
- discuss the importance of management.

#### **2.1 INTRODUCTION**

In the previous unit, you have read about the need for management and the different managerial skills required. The history of management must have provided you with some insights of how management evolved to become a discipline. We will now move forward into a structured way of understanding what management is all about... the different functions of management.

#### **2.2 NEED FOR PLANNING**

Visualize your home or your workplace. If you had everything you wanted and resources were not a problem, would you ever go about doing any kind of planning?

Scene 1: Say for example you want to travel to Chennai and a phone call would get you the flight/train tickets and also accommodation arranged. You are in a position to happily pay whatever is charged.

Scene 2: You want to travel to Chennai but financial resources are scarce. You then hunt around for the best bargains; maybe even book tickets well in advance to get a best deal.

In the first scene, there is almost zero amount of planning involved; while in the second scene there is some amount of planning involved as you explore different alternatives and come to a decision.

Thus if resources were freely available, there would be no need for management. By the word resources we mean Human Capital, Financial Capital, Infrastructure, Machinery, Time and Information. Each of these resources helps us achieve our objectives and goals. For e.g. A person who cannot obtain a professional degree through a regular daytime program, because of resource crunch in the form of lack of time and money, will now plan out alternative ways of achieving the said goal. Thus he/she will turn to distance education.

A college can make use of its infrastructure by scheduling classes from morning to evening. Thus we have the morning, day and evening shift in colleges. With the same infrastructure, the college can increase its revenue.

Planning involves selecting missions and objectives and the actions to achieve them; it requires decision making i.e. choosing from among alternatives a future course of action. It bridges the gap from where we are to where we want to be. Here the vision of the future, i.e. where or how do we see ourselves in five years from now is very crucial. That will give us the stimulus to plan accordingly.

For example, if a business wishes to double its sales over a period of two years, it has to breakdown the target into time frames of one year and then half-yearly. If two years from now the sales figure is set at 1000 units, then in the first year we need to sell near about 500 units and same for the following year. So we need to plan for which markets to target; we also need to estimate whether the additional output that we wish to produce is within our production capability. Do we need to buy more machinery or can we manage by running in shifts? Will the existing manpower suffice or do we need to hire more people? Where will the money come from for additional raw materials that we need to procure? The answer to the above questions offer us the solution to bridge the gap from where are to where we want to be.

Business has to operate, survive and progress in a highly dynamic economy. Change has become the rule and way of life. Hence planning is necessary. If group effort is to be effective, then each group member must know what they have to accomplish. This is exactly what planning does.

Planning is the first function of management and becomes the foundation to the other managerial functions. The type of plan will influence the organization structure, which in turn will help in deciding the staffing pattern. This will further lead to selection of leadership style and plans will also furnish standards of control. Planning and control are said to be inseparable. Planning is thus all pervasive and a plan will be said to be efficient if it can achieve the purpose at a reasonable cost.

### **Activity 2.1**

*Visualize where you see yourself five years from now. Make a plan to bridge this gap from where you are to where you want to be. Your answer should not exceed 500 words.*

## **2.3 TYPES OF PLANS:**

### **2.3.1 VISION**

A vision statement maybe termed as the philosophy of the organization. It is a dream for the future. A particular bank has its vision statement as:

*“To evolve and position the bank as a world class progressive, cost-effective and customer friendly institution providing comprehensive financial and related services; integrating frontiers of technology and*

*...serving various segments of society especially the weaker sections; committed to excellence in serving the public and also excelling in corporate values.”*

### **2.3.2 MISSION**

The mission statement identifies the basic function or task of an enterprise. It is a broad statement defining the purpose of the company, the reason for its existence.

For example in case of the above mentioned bank, its mission statement is

*“To provide excellent services and improve its position as a leader in the field of financial and related services; build and maintain a team of motivated and committed work force with high work ethos; use latest technology aimed at customer satisfaction and act as an effective catalyst for socio-economic development.”*

### **2.3.3 OBJECTIVES**

These are the ends towards which activity is aimed. The enterprise objectives comprise of the basic plan of the firm. This is further broken down into departmental objectives, in such a manner that they help in attaining the overall objective of the enterprise.

### **2.3.4 STRATEGIES**

It is the determination of long-term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve them. The purpose of strategies is to determine and communicate, through a system of major objectives and policies, a picture of the kind of enterprise that is envisioned. They furnish a framework for guiding thinking and action. Long term plans are referred to as strategic plans.

### **2.3.5 POLICY**

They are also general statements or understandings that guide or channel thinking in decision making. Policies define an area within which a decision is to be made and ensure that the decision will be consistent with, and contribute to, an objective. They allow some room for discretion.

### **2.3.6 PROCEDURES**

Procedures are chronological sequences of required actions. They are guides to action and detail the exact manner in which certain activities must be accomplished.

### **2.3.7 RULES**

Rules spell out specific required actions or non-actions, allowing no discretion. Rules and procedures by their very nature do not encourage thinking or use of discretion.

### **2.3.8 BUDGETS**

A budget is a statement of expected results expressed in numerical terms. It is a fundamental instrument for planning and is necessary for control.

Planning is an important function of management. It bridges the gap from where we are to where we want to be. It is all pervasive in nature. There are different kinds of plans, all of which facilitate the organization in moving to the desired level.

## Activity 2.2

*Select any organization of your choice. Find out their Vision statement, Mission statement and objectives. Write your own comments on these three.*

### **2.4 STEPS IN PLANNING**

So far we discussed about the concept of planning and the different kinds of plans. We will now move to the steps in planning.

#### 1. Being aware of opportunities

Planning requires a realistic diagnosis of the scenario and hence being aware of opportunities actually precedes planning. This can be achieved by doing a SWOT analysis of the company. The Strengths (S) and Weaknesses (W) of the organization need to be identified so that we can assess what the organization is good at and what needs to be worked upon. For e.g. A hospital located at Guwahati (Assam) may have the following strengths viz., reputed doctors, state-of-the-art medical equipment, and its weaknesses maybe poor quality support staff, weak finances. Besides the S/W analysis, one needs to assess the Threats (T) and the Opportunities (O). Continuing with the example of the hospital, the hospital maybe facing threats in the form of competition from other similar hospitals in the vicinity, or the mass recruitment of nurses under the National Rural Health Mission scheme of the Government of Assam. Opportunities can turn up in the form of patients coming from adjoining states of Assam, or maybe being one of the panel hospitals of some reputed organizations.

#### 2. Establishing Objectives

Objectives specify the expected results and indicate the end points of what is to be done, what should be the primary focus, and what is to be accomplished by planning. The objectives are chosen keeping in mind the results of the SWOT analysis. Objectives should be such that we try to take advantage of opportunities or ward of threats keeping in mind the strengths of the organization.

#### 3. Developing premises

Planning premises are the assumptions about the environment in which plans are to be carried out. It is important for all managers involved to agree on the premises. The more thoroughly individuals, charged with planning, understand and agree to utilize consistent planning premises, the more coordinated the enterprise planning will be. Assumptions about the environment could be that inflation will not subside, or the new government will continue with the policy set by the previous government, or about people's preferences. Based on these assumptions about the environment (planning premises) organizations make plans to move ahead.

#### 4. Determining alternative courses

All plans can be implemented in different ways. It is the job of the planner to discover fruitful possibilities. Just as there are different ways to move from one point to another, similarly an organization may have different methods of implementing or executing a plan. For e.g. If the plan is to increase sales in a rural area, then you can use promotional techniques (special schemes) to sell more, or introduce smaller size units (to make it affordable)and hence sell more.

#### 5. Evaluating alternative courses

All alternatives must undergo a cost-benefit analysis and be examined in the light of the premises and goals set. Alternatives are necessary so that we can come to an informed decision.

#### 6. Selecting a course of action

An analysis and evaluation of alternative courses will disclose that two or more are advisable. This is the real point of decision making. A course of action has to be selected. The decision made takes into consideration the consequences associated with it.

#### 7. Formulating derivative plans

Derivative plans are invariably required to support the basic plan. If the decision is to introduce smaller size units for rural areas, then the derivative plans would be to find suppliers to manufacture smaller size containers / pouches, identify appropriate distribution channel, design appropriate advertising campaigns etc.

#### 8. Budgeting

Plans will have to be converted into monetary terms. Hence a budget will have to be prepared, where the total income and expenses are reflected.

### **2.5 MANAGEMENT BY OBJECTIVES (MBO)**

Managers at different levels set different kinds of objectives. The top management will be involved with mission and long-range objectives while the lower level management will be involved with individual objectives or departmental/unit objectives. However these objectives are inter-connected and must be understood in the context of the entire organization.

MBO is a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed towards the effective and efficient achievement of organizational and individual objectives. Peter F Drucker emphasized on the fact that objectives must be set in those areas where performance is crucial for the organization. He focused on self-control and self-direction. Douglas McGregor used this concept of MBO in performance appraisal.

#### **2.5.1 PROCESS OF MBO**

##### I. Setting preliminary objectives at the top

After doing a SWOT analysis the manager sets a preliminary goal. The goal has to be verifiable. The word verifiable means anything that can be quantified or measured. The time frame for achieving the goal is also set.

##### II. Clarifying organizational roles

The relationship between expected results and the responsibility for achieving them should be defined. The implementer should know what his role is and what resource support he will be getting from the organization.

### III. Setting subordinates objectives

The objectives/goals for the subordinates should be set after joint consultation. The constraints should be identified and a realistic objective set.

### IV. Recycling objectives

Objective setting is a joint process as well as an interactive one. A degree of recycling is required as information flows from top to bottom and vice versa. From time to time there must be a review of the goals set and progress made. Should the need arise, the boss and subordinate can rethink over the goals set and the resources allocated and consequently make changes in either.

#### 2.5.2 BENEFITS OF MBO

- (a) It forces managers to think about planning for results and thus improves managing.
- (b) It forces managers to clarify organizational roles and structures.
- (c) It encourages people to commit themselves to their goals.
- (d) It aids in developing effective controls.

#### 2.5.3 WEAKNESSES OF MBO

- (a) It is difficult to explain the philosophy of self-direction and self-control.
- (b) If corporate goals are vague, then it is difficult to set goals for subordinates.
- (c) If planning premises are unclear, then it is difficult to give guidelines to goal-setters.
- (d) Most of the times MBO is used for achieving short term goals.
- (e) Although MBO talks of recycling objectives, managers often hesitate to change objectives and this may create danger of inflexibility.
- (f) In order to have verifiable goals, it is possible that over emphasis may be done on having quantitative goals even in areas where it is not required.

### Activity 2.3

Find out about Peter Drucker and his contribution to management.

### ASSESS YOUR PROGRESS

1. Explain in your own words the importance of planning.
2. How can an organization be aware of the opportunities in the environment?
3. How important is planning premises in the context of planning?
4. What do you understand by the word strategy?

### 2.6 SUGGESTED READINGS

1. Weirich, Heinz, and Harold Koontz. *Management – A global perspective*. 10<sup>th</sup> Edition. McGraw-Hill, New York, 1995. Print
2. Stoner, J.A.F., R. E. Freeman, and D.R. Gilbert. *Management*. 6<sup>th</sup> edition. Pearson Education, 2004, Print.

## **DHR 101 FOUNDATION OF MANAGEMENT- CREDIT-4**

### **UNIT-3: STRATEGIES**

3.0 OBJECTIVES

3.1 INTRODUCTION

3.2 TOWS MATRIX

3.3 PORTER'S INDUSTRY ANALYSIS AND GENERIC COMPETITIVE STRATEGIES

3.3.1 PORTER'S INDUSTRY ANALYSIS

3.3.2 GENERIC COMPETITIVE STRATEGIES

3.4 SUCCESSFUL IMPLEMENTATION OF STRATEGIES

3.4.1 UNDERSTANDING WHY STRATEGIES FAIL

3.4.2 WHAT IS REQUIRED FOR SUCCESSFUL IMPLEMENTATION OF STRATEGIES

3.5 SUGGESTED READINGS

3.6 PROBABLE QUESTIONS

### **3.0 OBJECTIVES**

After doing this unit you will be able to

Explain how a SWOT is performed and what its implications are.

Show how industry analysis is done.

Explain how one ensures that strategies do not fail.

### 3.1 INTRODUCTION

In the last unit, we discussed about the concept of Planning. This diagram is a summary of the stages involved in planning.

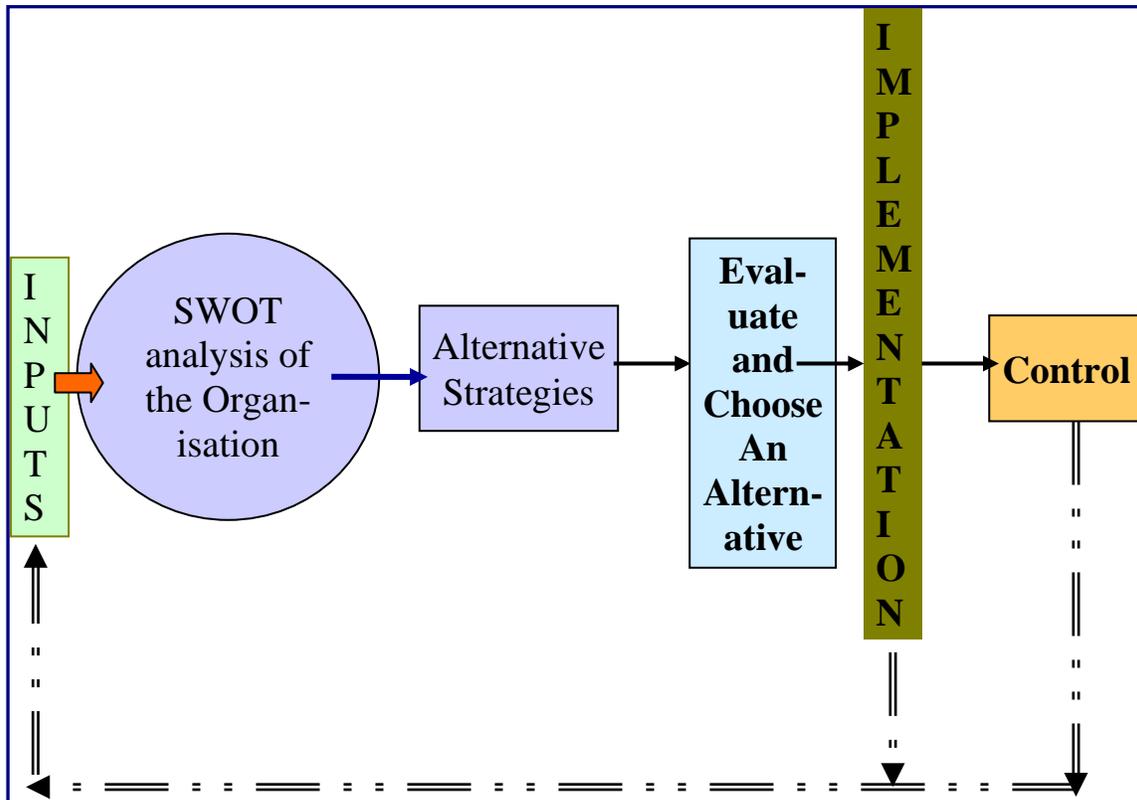
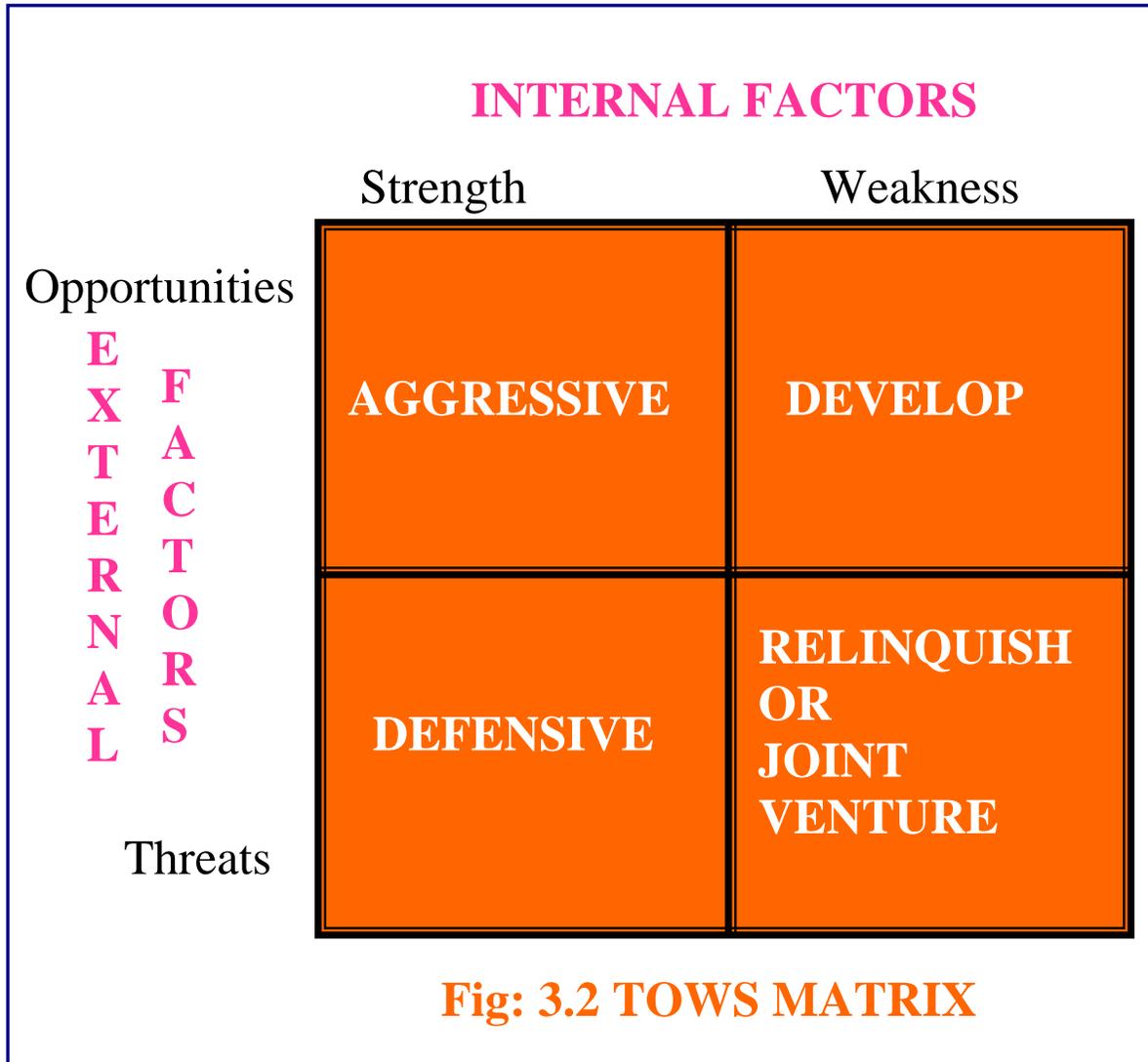


Fig:3.1 Strategic Planning Process

As you can see the broken lines are the feedback obtained during implementation and at the end of the plan. These feedback acts as inputs for the next round of planning. Now we will move forward and discuss more elaborately on this same topic. The word strategy implies long term planning.

### 3.2 TOWS MATRIX



**Fig: 3.2 TOWS MATRIX**

TOWS is SWOT written in reverse order. Strengths and Weakness are internal to an organization, while Opportunities and Threats are external to an organization. So how do we go about doing a SWOT?

One will need to do introspection and make an inventory of the strengths and weaknesses associated with the organization. Any aspect of the organization, like Organizational structure, Planning methodology, Human resource management, Financial management, Production management, Marketing channels, Skill level of workforce etc can either be a strength or a weakness. Some amount of alertness and brainstorming will be required to identify events in the external environment that can be conducive or harmful for the

organization's existence. This will provide answers to the opportunities or threats that can affect the organization.

Now let us move on to the implications of the SWOT analysis. Having identified the strengths, weaknesses, opportunities and threats, the organization needs to work out different permutations and frame strategies accordingly. Let us take up a few examples. An organization having strong finances, quality products and good image can think of using these strengths to explore new opportunities in terms of new markets or new products. This is an example of aggressive strategy. It could also be that this same organization is facing threats in the form of competition from its rivals. In such a case it will use its strengths to maintain its market share. This is an example of defensive strategy.

On the other hand, a firm that is having weakness in terms of weak manpower or outdated machinery will have to upgrade itself technologically both in terms of machinery and manpower to take advantage of opportunities in the environment. Opportunities maybe in terms of demand for that particular good or service offered by the firm. This is known as a developmental strategy. The worst scenario for an organization is when there are too many weakness and too many threats. Take the example of a government transport service plagued by unproductive workers, old vehicles and poor finances, operating in an environment where its competitors are private players having sleek vehicles, productive workers, and offering a variety of services. In such a case, the government transport service will automatically have to relinquish its market or join hands with the private operators to create a win-win situation for both the parties.

Thus SWOT analysis offers the foundation and guides the organization in formulating strategies.

### **Activity 3.1**

Select an organization and do its SWOT analysis.

## **3.3 PORTER'S INDUSTRY ANALYSIS AND GENERIC COMPETITIVE STRATEGIES**

Michael Porter had put forward this concept of doing an industry analysis to understand how attractive it is and to find out the position of the company within that industry.

### **3.3.1 PORTER'S INDUSTRY ANALYSIS**

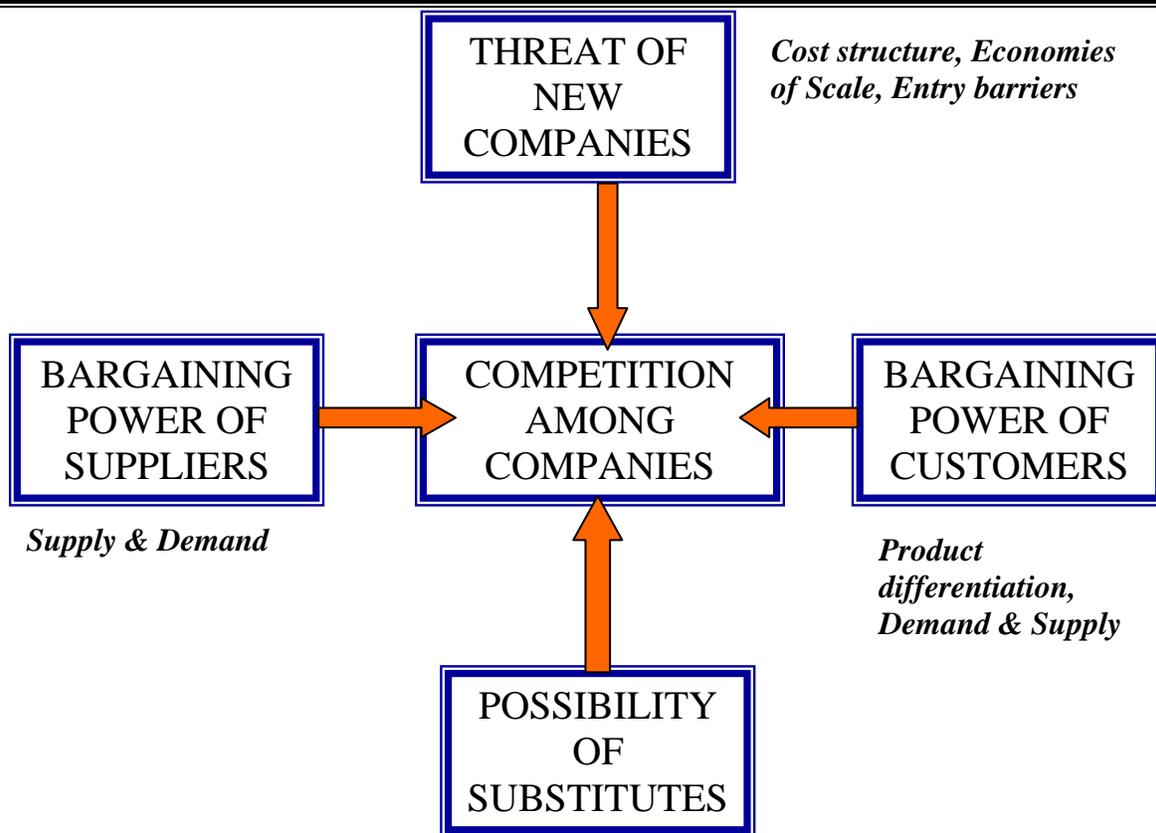


Fig: 3.2 Porter's five forces

Porter said that at any point in time there are five forces acting on a company and these five forces are (1) Competition among companies (2) Threat of new companies entering the market (3) Possibility of using substitute products or services (4) Bargaining power of suppliers, and (5) Bargaining power of customers

Let us understand with the help of an example. Take the case of Gujarat Cooperative Milk Marketing Federation Ltd (GCMMFL) that produces 'Amul Taaza' the liquid milk sold in tetra packs

When we talk of competition within companies, we are talking of competition faced by Amul Taaza from other companies who are selling Nestle Milk, Britannia Milk., Vijaya Milk and even Purabi Milk.

The threat of new companies entering into this segment of the milk market will depend on entry barriers. What do we mean by entry barriers? If a new milk processing plant were to be set up, huge finances will be required to construct the plant. This is the cost structure. Second, it has to be located in such an area where cattle farmers are abundantly available. Third the cost per unit of production has to be worked out. It must be kept in mind that established companies by virtue of producing large volumes have advantage in the form of low cost of production and this is referred to as economies of scale. Hence if cost structure and economies of scale of existing operators are high, it creates high entry barriers for a new entrant. In

such a case the threat of a new player entering the market is low. Vice versa, if entry barriers are low, then the threat of new players entering the market is high.

Let us move to the threat of using substitute products. If liquid milk was not available in the market, what would you do? Your options could be the local milkman (doodwallah), or condensed milk or powdered milk, or maybe even sweetened bottled milk. If customers can quickly move away from Amul Taaza to other substitutes, then it is a case of threat.

The bargaining power of customers and suppliers is an outcome of demand and supply forces. In case of Amul, their suppliers are cattle farmers who sell milk, the packagers who produces the tetra packs for them. If there are many suppliers and GMMFL has options of choosing from them, then the bargaining power of suppliers will be low. But if suppliers are few in number, then the bargaining power of suppliers will be high.

If customers are wholesalers, who buy in volumes, then they have better bargaining power. Customers like us, who buy in low volumes do not have any bargaining power. However there is another factor that affects this bargaining power. It is called 'product differentiation'. If there is product differentiation then the company has better bargaining power. If Amul Taaza can claim to offer something extra (in terms of its ingredients) than the other liquid milk available in the market, it can charge a higher price.

The five forces together therefore determine the attractiveness of the industry and the company has to devise strategies accordingly. Porter offered generic strategies based on this industry analysis. The word generic means that it is generally applicable across a wide spectrum of companies.

### **3.3.2 GENERIC COMPETITIVE STRATEGIES**

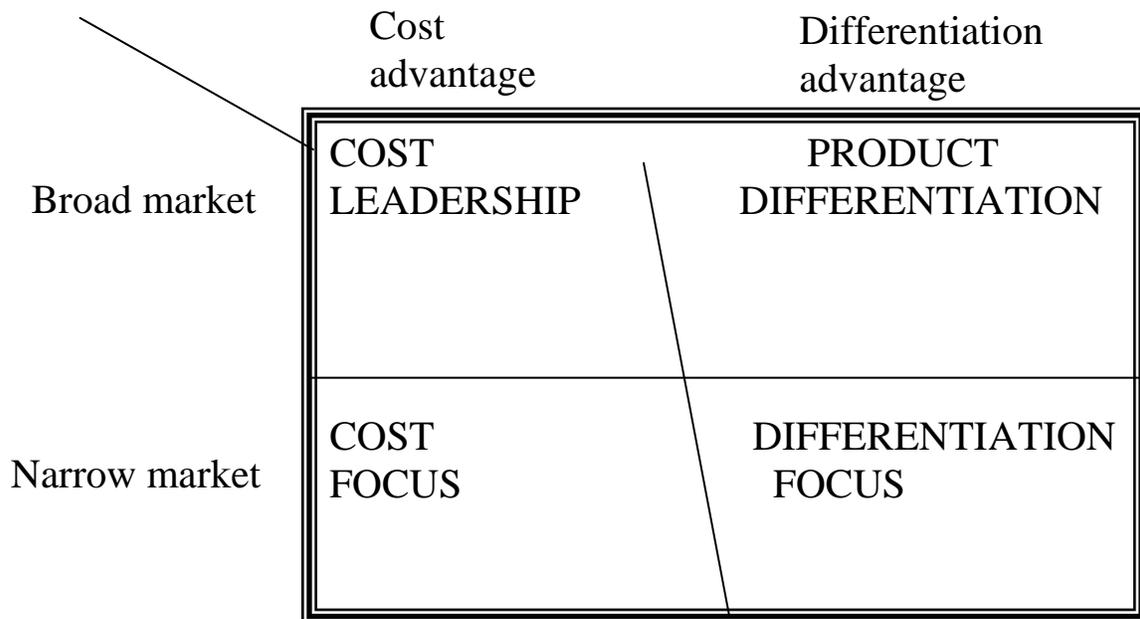


Fig: 3.3 Generic Competitive Strategies

A company may cater to a broad / mass / general market or a very specialized / niche / narrow market. It can have advantage in terms of having achieved economies of scale and hence have a low cost of production i.e. cost advantage. Or it is offering a unique product or service that is not generally available i.e. differentiation advantage.

***The three generic competitive strategies are :***

1. Overall cost leadership strategy
2. Differentiation strategy
3. Focused strategy (either low cost or differentiation)

For overall cost leadership, the strategy aims at reducing costs in all possible areas. This is possible for an established company who has a wealth of experience and has already achieved economies of scale. Large volumes means that it needs to operate in a large market. Examples could be the pens that sell at Rs. 10/- or bathing soap bars that sell for less than Rs. 10/- and is meant for a mass market.

Differentiation strategy aims at offering something special and unique. Example could be of the Dove soap that claims to have moisturizer in its bathing bar, which other soaps do not have.

Focused strategies concentrate on a special set of customers, or a particular product line or maybe even a region. The market is narrow and limited. Ginger Hotels focuses on the budget traveler and claims to offer low cost no-frills accommodation. This is an example of cost focus. Johnson baby products caters to the baby market and offers specialized soap, shampoo, cream, talcum powder etc. which they claim is suitable for the baby's skin. These products come at a premium. This is an example of differentiation focus.

### Activity 3.2

Take up any product or service. Do an industry analysis and find out the generic competitive strategy followed by the company.

## **3.4 SUCCESSFUL IMPLEMENTATION OF STRATEGIES**

For strategies to be effective, it calls for not only resource allocation but also having an appropriate organization structure in place and also ensuring that there is proper flow of information.

### **3.4.1 UNDERSTANDING WHY STRATEGIES FAIL**

There are different steps in planning, each step is important and linked to the next step. It is very important to conscientiously follow these steps or else plans will go haywire.

Planning can go wrong or it may not achieve the goals that were set. The reasons for such a mishap are:

- Inadequate preparation
  - A lot of thinking needs to be done at the planning stage. One needs to be able to visualize where the organization will be positioned in a few years from now and how to go about achieving this distant dream. If the top management does not think through properly, they will not be able to articulate the goal of the organization. If there is no clarity in the goal, everything else will lack focus. But very few managers are competent to plan; they need to be coached in strategic planning process.
- Insufficient information gathered
  - You are aware of planning premises. It means the assumptions that the organization makes about the environment. Up-to-date information must be available while planning is being done and also at the time of implementation. A Vanaspati Ghee producing company came out with a wonderful quality product only to find that it was not able to match the sales that it had forecasted. The product was good, price was reasonable, the company image was good.... but people were just not buying. So, what went wrong? People's taste had changed. Customers had become more health conscious and had switched to low fat cooking medium. The company had failed to take into account this bit of information about the planning premises.
- Vague goals; not measurable
  - Goals need to be verifiable; they must be measurable or quantifiable. For e.g. "The company would like to grow in leaps and bounds" is vague, while a more concrete goal would have been "The company would like to have a 10% growth in turnover in the next two years." When goals are not concrete, they are open for different interpretations by different people. When the boss told the subordinate to 'improve performance' he meant sales to increase by 4%, while the subordinate interpreted it as increasing sales by 2%.
- Business units not clearly defined
  - When organizations grow in size they are divided into 'Strategic Business Units'. You will study about this in the next unit. Strategic Business Units (SBU) are created with specific

purpose and are supposed to function independently. Their roles along with their relationship with the parent organization need to be defined clearly.

- Review of strategic plans not done effectively
  - The plan is not the end; instead it becomes the basis for control measures. Plans need to be monitored from time to time to ensure proper implementation, to ensure that planning premises have not changed, and to ensure that implementation is time-bound.
- Insufficient link between planning and control
  - All plans are converted into budgets. This budget can act as a control measure. We can check if actual expenses are in line with budgeted expenses. If the budget is not in tune with the plan, then it will not be an effective control measure. Without proper controlling it becomes difficult to ensure that plans are on track.

### **3.4.2 WHAT IS REQUIRED FOR SUCCESSFUL IMPLEMENTATION OF STRATEGIES ?**

To ensure successful planning, we need to keep in mind the following.

- Communicate properly to implementers
  - It must be understood that the person who prepares the plan and the person who will actually implement it are not the same person, in most of the cases. Hence there has to be proper communication between the two sets of people.
- Check planning premises
  - Planning premises are the assumptions about the environment. The environment itself may undergo a change. Hence we need to be alert to such changes and make required corrections in our plans.
- Plans must reflect major goals
  - If the major goal of the company for the coming year is to increase sales by 15%, then we must have plans that support this goal. Hence we must plan for having adequate sales force, plan for increase in production, plan for increase in manpower, plan for additional funding etc. The company cannot expect to achieve its goal if plans do not support it.
- Review strategies regularly
  - Strategies need to be reviewed from time to time. The frequency of monitoring will depend on the operating environment. If the environment is very competitive, then review of strategies will have to be done frequently; this will call for analyzing the external environment and re-evaluating internal strengths and weakness.
- Develop contingency strategies
  - Having understood that the future is uncertain, a manager will still have to proceed with strategies developed. But a smart manager will always keep a second or third set of plans ready to meet any unexpected changes in the environment. These are referred to as contingency plans or strategies. Contingency strategies offer some kind of safety net to the

manager because it is a sort of preparedness for a scenario where things do not work out as per your anticipation.

- Organizational structure must fit planning needs
  - The organizational structure defines the authority and reporting relationship. You will study about it in the next unit. Persons responsible for implementation of strategies must be identified and responsibility delegated. The organization structure should support planning needs. When you go through the next unit, you will be able to appreciate that different plans will call for different organizational structures, viz. Matrix or SBU etc.
- Emphasise on planning and implementing strategy
  - Although every organization may have its own system of working on its objectives and strategies, it is desirable that the importance of planning and implementing is reinforced in the minds of the managers. This emphasis on planning and implementing within a given time frame can be done on a regular basis during superior subordinate interactions; this will create an organizational culture which will institutionalize it.
- Create company climate that forces planning
  - Often managers are bogged down by routine work and are unable to devote time for strategic planning. Strategic planning is an exhaustive and intensive exercise and needs to be done with a lot of effort and time. Top management must create a climate that is conducive for strategic planning, encourage managers to plan and implement strategies.

### **Activity 3.3**

Talk to five middle level managers from different industries. Find out their perceptions on why strategies fail and what is being done in their company to ensure that strategies do not fail. Prepare a report. Word limit 750 words.

### **3.5 SUGGESTED READINGS**

Weirich, Heinz, and Harold Koontz. *Management – A global perspective*. 10<sup>th</sup> Edition. McGraw-Hill, New York, 1995. Print

#### **References:**

Stoner, J.A.F., R. E. Freeman, and D.R. Gilbert. *Management*. 6<sup>th</sup> edition. Pearson Education, 2004, Print.

### **3.6 PROBABLE QUESTIONS**

1. Why should a company perform a SWOT?
2. How does an industry analysis help a company?
3. What would be the consequence of strategic failure?

## **DHR 101 FOUNDATION OF MANAGEMENT- CREDIT-4**

### **UNIT-4: ORGANIZING**

#### 4.0 OBJECTIVES

#### 4.1 INTRODUCTION

#### 4.2 MEANING OF ORGANIZING

##### 4.2.1 FORMAL AND INFORMAL ORGANIZATION,

#### 4.3 DIFFERENT FORMS OF DEPARTMENTATION

##### 4.3.1 BY PRODUCT

##### 4.3.2 BY PROCESS

##### 4.3.3 BY REGION

##### 4.3.4 BY CUSTOMER

##### 4.3.5 BY TIME

##### 4.3.6 BY NUMBER

#### 4.4 UNDERSTANDING A MATRIX ORGANIZATION

##### 4.4.1 FORMING A MATRIX ORGANIZATION

##### 4.4.2 PROBLEMS ASSOCIATED WITH MATRIX ORGANIZATION

##### 4.4.3 HOW TO MAKE MATRIX EFFECTIVE

#### 4.5 STRATEGIC BUSINESS UNIT

##### 4.5.1 WHY IS SBU REQUIRED

##### 4.5.2 IS SBU AND MATRIX SAME?

#### 4.6 MEANING OF LINE AND STAFF

##### 4.6.1 ROLE OF LINE AND STAFF

##### 4.6.2 WHAT CAN GO WRONG?

#### 4.7 SPAN OF MANAGEMENT

##### 4.7.1 MEANING

##### 4.7.2 WHAT DETERMINES SPAN OF MANAGEMENT?

#### 4.8 FACTORS AFFECTING CENTRALIZATION & DECENTRALIZATION

#### 4.9 DELEGATION

##### 4.9.1 NEED FOR DELEGATION

##### 4.9.2 FACTORS AFFECTING DELEGATION

#### 4.10 ASSESS YOUR PROGRESS

#### 4.11 SUGGESTED READINGS

### **4.0 OBJECTIVES**

At the end of this unit you should be able to:

- Differentiate between formal and informal organization
- Compare different organization structures
- Explain the role of line and staff
- Explain factors affecting decentralization or centralization
- Describe what delegation is and how it works

**4.1 INTRODUCTION** You have completed the first function of management i.e. Planning. We will now move on to the second function i.e. Organizing. Whatever we do in planning is in paper work form i.e. we are yet to put it in action. In order to implement our plans, we need to go about organizing the company structure. This is the top priority for a new company who will be functioning for the first time. Organization structure also has a role to play for existing companies; each structure has its own advantages and disadvantages.

## **4.2 MEANING OF ORGANIZING**

When people get together to work, they must know what is expected of them and who is supposed to do what. Areas of discretion and authority must be clearly specified. There must be a channel for information flow and provision of resources. Only then can a person work towards achieving objectives.

The process of organizing involves the following:

1. All activities must be identified
2. Similar kind of activities must be grouped together
3. The groups must be headed by a person who is given the necessary authority
4. There must be provision for coordination among different groups

Hence we can understand that the organization structure that is formed is done after due deliberation and focuses on goals to be achieved.

### ***Example***

You would like to set up a mini cement plant. Some of the activities of the company would be -- manufacturing, purchase, selling, recording financial transactions, arranging for funds, managing human resources, recruiting people, maintaining the office, arranging transporters etc.

Some of the similar activities can be grouped together. For example, arranging for funds and recording financial transactions can be clubbed together under one department or managing human resource and recruiting people can be clubbed together under a department.

Each of these departments needs to be headed by a person who will be given the necessary authority and responsibility to ensure that activities are carried out in the desired manner.

These groups that we have formed cannot work in isolation; each of them is interlinked with the other. For example, manufacturing will depend on purchase section for procurement of raw materials and on human resource department for recruitment and training of manpower. Purchase will depend on finance department for money; so will human resource depend on finance for arranging salaries and wages. Therefore there has to be provision for coordination among these different groups. The coordination has to be structured and formal so that each one knows how the communication will flow. This will finally give rise to the formal organization structure.

### **4.2.1 FORMAL AND INFORMAL ORGANIZATION**

Every organization will have an 'organogram' i.e. an organizational chart which depicts the structure of the company. This is referred to as the formal organization. The different roles are clearly specified; it is known who is to report to whom. This helps in working smoothly and effectively.

If you look at Fig: 4.1, you can see that the Chief Managers report to the General Managers, while the Managers report to the Chief Managers. The lines in red show the connection between different levels. If the Executive Grade 2 of Human Resource department has to communicate with the Manager Finance,

he/she will have to communicate via the respective Chief Managers. Direct communication, as shown by the blue broken line is not permitted.

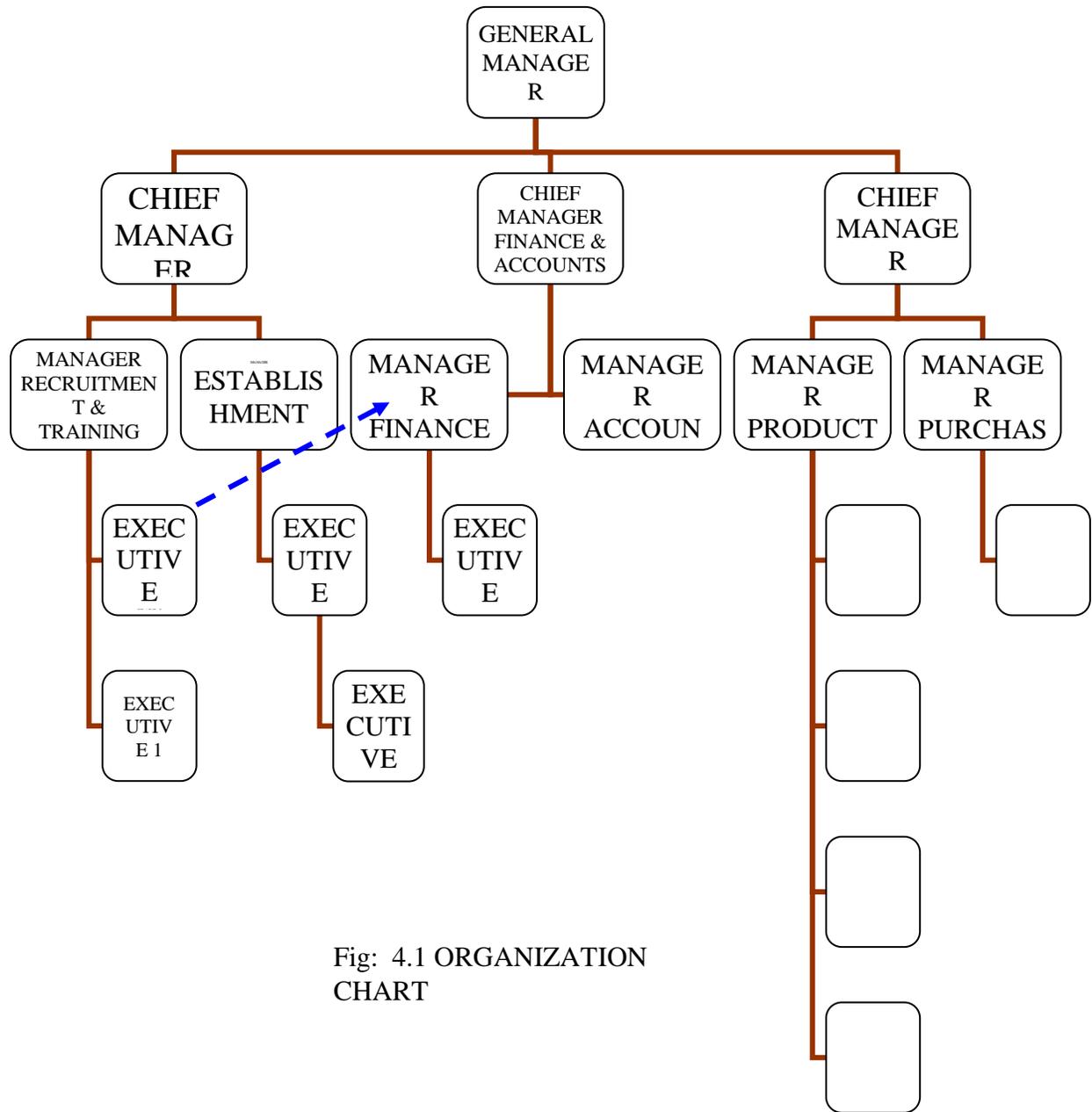


Fig: 4.1 ORGANIZATION CHART

Within formal organizations, there exist informal organizations. For example a couple of executives and a manager may live in the same area and so they decide to pool car service to work. Or executives from different departments may go out for lunch together to the office canteen. Such groups, which are not dictated by official network are referred to as informal groups. 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 each other”.

Informal organizations are also referred to as the ‘grapevine’. The grapevine is the unofficial channel where all information flows. Smart managers tap this network to get the pulse of the employees.

However in the formal setup, we will focus on the formal organization and try to understand how different departments can be formed and what are the pros and cons of each form.

### **4.3 DIFFERENT FORMS OF DEPARTMENTATION**

#### **4.3.1 BY PRODUCT**

Think of Godrej company. Can you name some products? Yes. Office furniture, Home furniture, Soaps etc. A company may have diverse product ranges and in such a case it is not wise to club them together. Therefore, there are different organizations for different products. By doing this each product can be given special attention that it deserves.

The advantage of such grouping is that it uses specialized technology and special skills and permits growth and diversity of products and services. The manager focuses on the product and acquires knowledge in this particular area, starting from production to marketing of this product. Managers who head such divisions develop into general managers who have all round acumen. Such a structure places responsibility for profits at the divisional level.

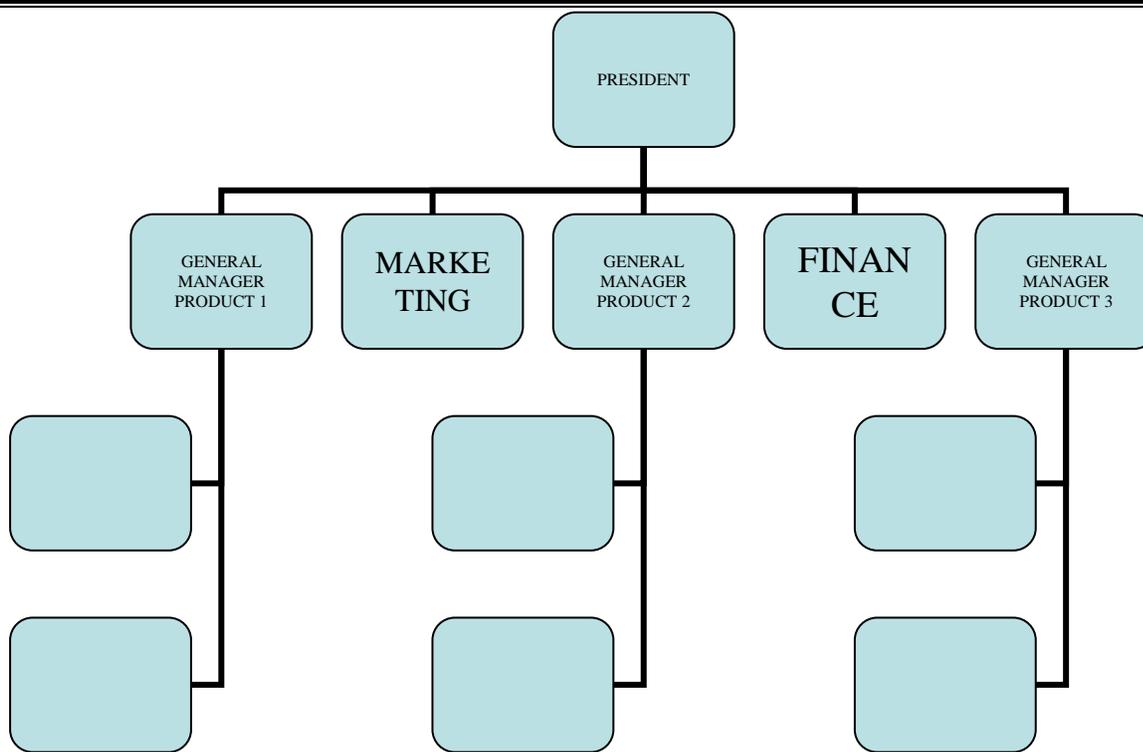


Fig: 4.2 Departmentation by Product

There are drawbacks also. Since each division is very focused, there is not much coordination among these divisions. At times there may be duplication of common activities; maintaining economical central services becomes difficult. Such a structure calls for people with general managerial abilities.

#### 4.3.2 BY PROCESS

Think of an automobile manufacturing company. There is one section which is manufacturing the chassis, another manufacturing the body parts, another assembling some parts, another painting, one fitting the tyres etc. There is a sequence of movement in the factory until the final car is ready. In such a case, the organization is structured around the process.

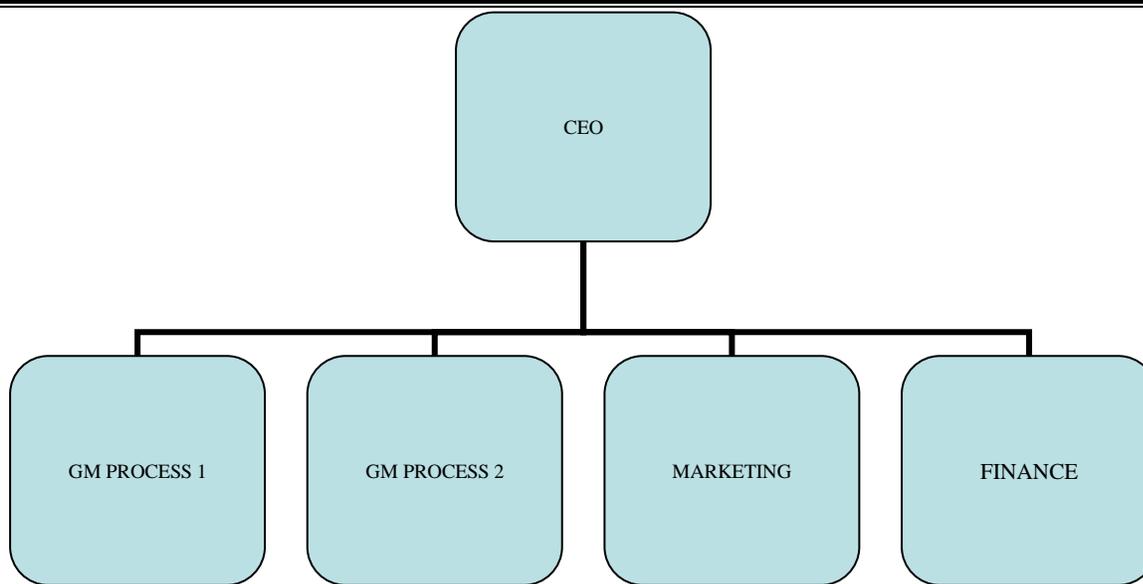


Fig. 4.3 Departmentation by Process

The advantage of such a form of departmentation is that it uses specialized technology and special skills, and is focused on that particular process only. It is easy to train employees along process specializations, because it is a homogeneous group.

The disadvantage is that high level of coordination is required among the different departments; specialist and not general managers are created; and finally responsibility for profit is at the top and not at process levels.

#### 4.3.3 BY REGION

Think of Indian Railways.

- Central Railway
- East Central Railway
- East Coast Railway
- Eastern Railway
- North Central Railway
- North Eastern Railway
- North Western Railway
- North Frontier Railway
- Northern Railway
- South Central Railway
- South East Central Railway
- South Eastern Railway
- South Western Railway
- Southern Railway
- West Central Railway
- Western Railway

The above are the different zones designated by Indian railways for their administrative convenience. This form of departmentation is attractive for firms whose activities are geographically widespread. After this level of departmentation, each zone will have its own form of departmentation. You can visit State Bank of India or the Life Insurance Corporation of India to get further knowledge about this form of departmentation.

The advantage is that focus is on local markets and problems. It can improve coordination in a region and take advantage of economies of local operations. It also helps in developing general managers.

The disadvantage is that maintenance of centralized services is difficult and hence there is duplication of activities. There is likely to be problems of coordination and top management control.

#### **4.3.4 BY CUSTOMER**

If you have visited one of the large branches of State Bank of India, you will have noticed designated areas as Personal Banking Division, Corporate Banking Division, Government Section etc. From this you can make out that SBI is following departmentation by customers. People like you and me will be handled by the Personal Banking Division, while institutions will be handled by Corporate Banking, and pensioners or government service holders will be handled by the Government section.

The advantage is that it encourages concentration on customers need, tries to anticipate what is expected and ultimately the bank gains expertise in the business of its clients.

The disadvantage is that it may be difficult to do justice to competing customer demands. At times there is also overlapping of customers, for example, a pensioner is also a part of the personal banking division.

#### **4.3.5 BY TIME**

This is one of the oldest forms of departmentation. Think of a hospital. Have you not seen nurses and doctors being available 24 hours a day. Even in manufacturing units, you can see examples of shift duty. Shift duty is inevitable for organizations where the process cannot be switched off for the night daily. Shutting down an oil refinery and restarting it again is an expensive business and so oil refining continues in a constant manner until it is time for preventive maintenance operations when the plant is deliberately shut down and maintenance work is carried out.

The advantage of this form of departmentation is that the process continues uninterrupted and services can be extended throughout 24 hours. Expensive capital equipment can be put to optimum use.

The disadvantage is that it requires more number of employees to run on shifts. More supervisors are also required. After each shift, a new set of workers will be required as the old set cannot continue for another eight hours. It also calls for a high degree of coordination to ensure that there is adequate communication between employees at the time of change of shift.

#### **4.3.6 BY NUMBER**

Remember your school or college days when you had sections in a class? Can you tell me why? Maybe you were restricted by your classroom size/capacity, or maybe sections were made on the basis of the

choice of an elective subject. Even in defence force, troops are formed by numbers. Whatever be the reason, this kind of grouping has to be manageable so that organization goals are effectively achieved.

#### 4.4 UNDERSTANDING A MATRIX ORGANIZATION

You are aware that construction companies are in the business of constructing bridges, fly-overs, buildings etc. Each construction calls for special expertise. Should there be some flaw in the construction, it would be unfair to hold the General Manager responsible. Hence there is a need to establish a responsibility position. This makes it necessary to create teams for each construction (project) and assign a project manager who will be held responsible for the project.

Have a look at Fig: 4.4. The construction company is headed by a General Manager. For a particular project, a team is formed and it reports to a Project Manager. You can see that a level 1 employee from Architecture and Civil departments is a part of the team (the broken dot-dash lines). Different people from different levels have been made a part of the team. Although the original construction company follows departmentation by function, the creation of project teams makes it departmentation by product. Hence this combination of functional and product form of departmentation is referred to as Matrix Organization. The word Matrix is used because the structure, after combining, looks like a grid (Fig: 4.5)

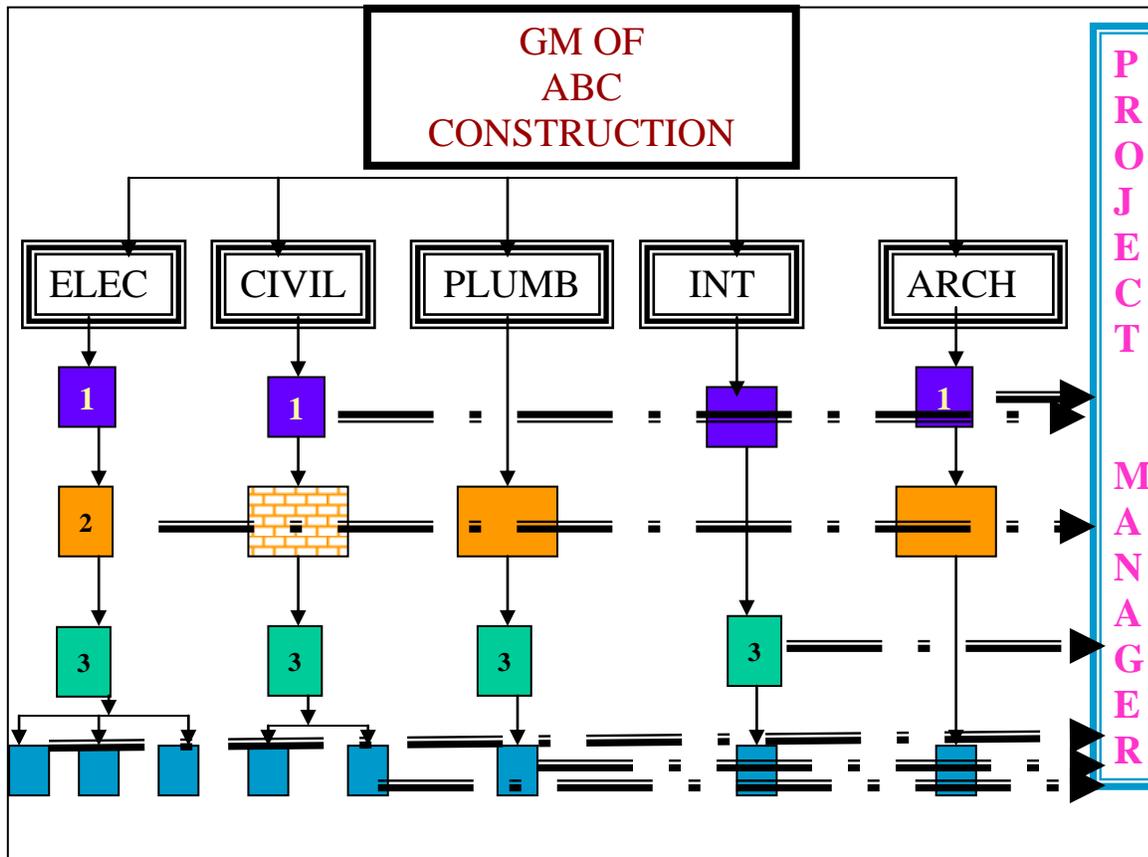


Figure 4.4 Matrix organization

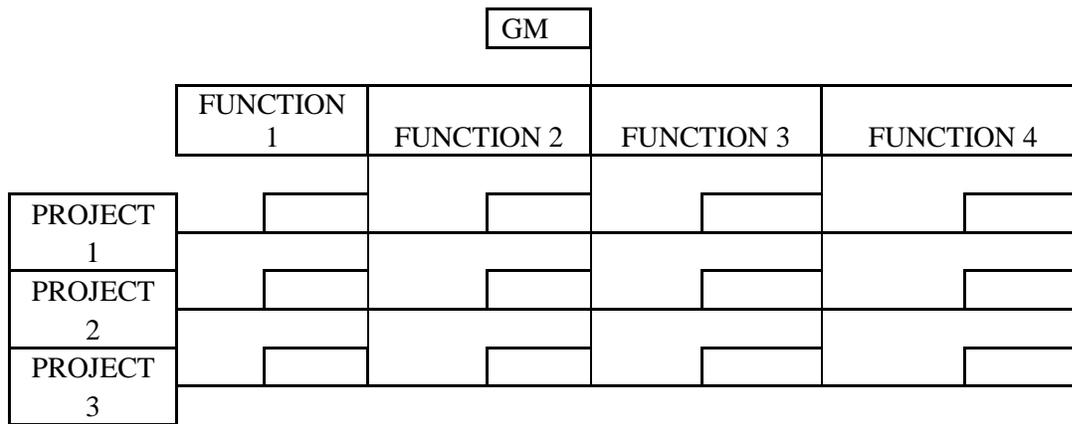


Figure 4.5 The Grid – combination of function and product form of department

#### 4.4.1 FORMING A MATRIX ORGANIZATION

A Matrix organization is formed to assign responsibility to a particular designated manager for end results. If we continue with our example of the construction company, we see that a team has been formed. If we take the case of the construction of a building as a Project, we know that to begin with we need an architect, followed by civil work specialists. Plumbing, electrification and interior designs come much later. So when the project team is formed, specialists are brought in as and when required. When the project concludes, the team disbands. From Fig: 4.4 we can see that people from different levels have been brought in to the team. They now have to report to two bosses, one their functional head and the other their project manager. This is in contrast to Fayol's principle of reporting to one boss.

Selecting a team leader or a Project Manager is a daunting task. Should we give more importance to hierarchy or to expertise while selecting the project leader? If a young person with expertise is selected as a team leader, he/she may not be able to command the team. On the other hand, if a senior person is made a team leader but he/she does not have a high degree of expertise, then it will be difficult to lead the team. This calls for a balancing act. A person who has the expertise as well as soft skills to manage a mixed group (mixed in terms of hierarchy and expertise) and whose acceptability is high will have to be selected.

#### 4.4.2 PROBLEMS ASSOCIATED WITH MATRIX ORGANIZATION

Matrix structure has its own set of problems. There is conflict between functional managers and projects managers as they are competing for the same resources. Project members are at times not sure who they should report to and whose instructions they should follow. This creates role ambiguity (vagueness) and role conflict. The members are torn between loyalty to the project manager and loyalty to the functional head. In trying to please both, the members may become over worked and experience stress. This is role overload.

In anticipation of potential conflicts, managers will try to protect themselves and want written instructions or advices. This leads to delay in decision making and implementing. Since the team is heterogeneous and members may not be familiar with each other, many meetings are required to ensure that the team works in a homogeneous manner. This is indeed time consuming.

#### **4.4.3 HOW TO MAKE MATRIX EFFECTIVE?**

The following points need to be kept in mind while opting for a matrix form.

1. The end result of the project or task must be clearly spelt out.
2. The role, authority and responsibility of each member, including the project manager must be clarified and known to all.
3. Influence must be based on knowledge and information and not based on designation or rank.
4. The powers of the functional and project managers must be balanced.
5. Carefully select the project manager; preferably select someone who has experience and can provide leadership.
6. Make efforts to develop the team through team development exercise.
7. Equitable rewards for project manager and team members.
8. Keep a check on time, cost and quality associated with the project.

If the above points can be followed in letter and spirit, then matrix form can be expected to be effective and can deliver results.

#### **4.5 STRATEGIC BUSINESS UNIT (SBU)**

For a business unit to be called as an SBU, it must fulfill the following conditions:

- a) Have its own distinct mission
- b) Have definable group of competitors
- c) Prepare its own integrative plans
- d) Manage its resources in key areas
- e) The unit should not be too small or too large

From the above points, we can understand that an SBU is almost like an independent business and will have its own form of departmentation.

##### **4.5.1 WHY IS SBU REQUIRED**

If an SBU is almost like an independent business, then why do we call it an SBU? The major benefit of utilizing an SBU form is to provide assurance that a product will not get lost in the presence of other larger products (large in terms of volumes or profit). Creating an SBU enables the manager to focus on the product and nurture it and help it grow and survive in the market. Given below is a list of SBUs in Godrej and Boyce, which itself is a part of the larger Godrej Group.

Godrej & Boyce is a diversified organization spanning into Industrial Products, Office & Consumer Products, Appliances and so on. These are its SBUs.

Appliances

AV Solutions (Prima)

Construction

Electricals & Electronics

Furniture (Interio)

Lawkim Motors

Locks

Material Handling

Precision Engineering

Precision Systems

Process Equipment

Security Solutions

Storage Solutions

Tooling

Vending (Prima)

Source : <http://www.godrej.com/godrej/Careers/faqs.aspx?id=38&menuid=1508>

#### **4.5.2 ARE SBU AND MATRIX SAME?**

No, they are not. They are not the same because SBU is an independent entity which will continue forever, while Matrix is a short lived group created for a specific objective and will disband after the objective is met. The SBU and Matrix are related to the parent organization, but the SBU manages its own resources while the matrix form depends on the parent organization for resources.

#### **4.6 MEANING OF LINE AND STAFF**

There are two ways of looking at the concept of line and staff. One is that those functions which are seen to be the predominant functions are referred to as 'line functions' and the rest are referred to as 'staff functions'. For example in an oil refinery, production would be the line function while finance, human resource, etc. would be the staff functions. In an university, the academic departments would be line functions while administrative departments would be staff functions.

The second way of looking at it is in terms of the relationship. The relationship where a superior exercises direct supervision over a subordinate is referred to as line authority. Other people who cannot directly control the subordinate but can offer support in terms of investigation and advice is referred to as staff authority.

#### **4.6.1 ROLE OF LINE AND STAFF**

The role of line and staff can be explained with the help of the following diagram.

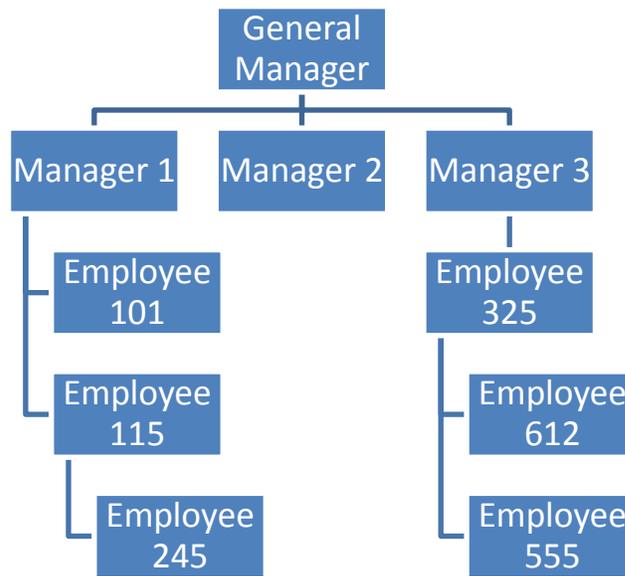


Fig: 4.6 Line and Staff

Please note the green connecting lines. You can see a connection from the General Manager to Manager 1, to Employees 101, 115, and 245. There is also a connection from the General Manager to Manager 3, to Employees 325, 612 and 555. These connections indicate that the General Manager has direct command over them.

Manager 1 can direct Employees 101, 115 and 245 but he has no control over the rest of the people seen on the organization chart in Fig. 4.6. Manager 2 and Manager 3 cannot command the employees under Manager 1 but they can offer advice when asked for. So the relationship where the superior can directly command his subordinates, indicated by the green lines are line authority, and the rest of the relationships are staff in nature.

Line managers therefore direct and instruct subordinates, while staff is advisory in nature.

#### 4.6.2 WHAT CAN GO WRONG?

Conflicts between line and staff are common in every organization. Conflicts arise because the boundaries of each function are not clearly defined or respected. At times, staff may be given extra powers by the top management and staff will try to exercise line authority which it is not supposed to do.

Take the case of Production department and Human Resource department. The Production department would like to recruit an electrical engineer and seeks the help of HR to do so. The HR department is supposed to facilitate the process by suggesting the appropriate media for advertisement or choice of colleges for campus recruitment or date and venue for interview etc. But the final selection will have to be done by the Production department. Here HR plays the role of staff. If the HR's advice on choice of media was not appropriate, then the selection of candidate may not turn out to be correct. For example, if the plant is located in Assam and the advertisement was placed in 'The Hindu' newspaper, we will find that the number of responses will be low as this particular newspaper does not have a large circulation in

Assam; maybe a local newspaper would have been a better choice. Such situations will also cause a conflict because Production department will feel that staff did not advise properly.

If staff tries to exert undue influence then junior employees will face dilemma of who to follow-the staff advice or advice of their functional head. This will again lead to conflict between line and staff.

## 4.7 SPAN OF MANAGEMENT

### 4.7.1 MEANING

There is a limit to the number of people that a manager can supervise effectively. Of course there is no magic number as to what should be the optimum number. This limit is referred to as span of management and it depends on the situation. Span of management may be wide or narrow. A narrow span will result in more number of organizational levels, while a wide span will result in fewer organizational levels.

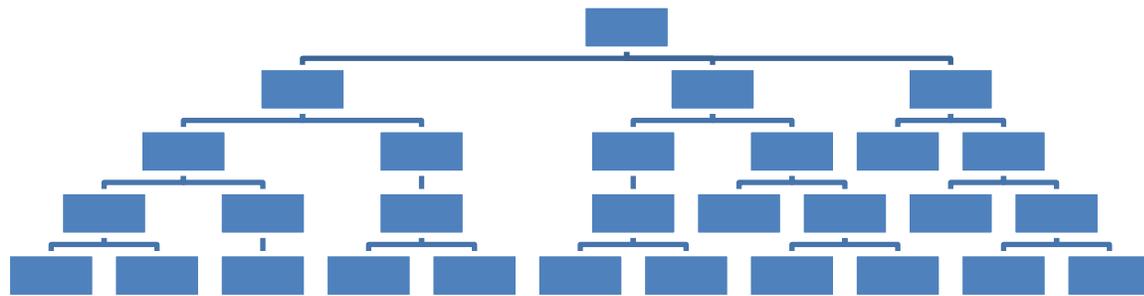


Fig: 4.7 Levels of hierarchy with narrow span

A narrow span can ensure close supervision and control; it also facilitates fast communication between subordinates and superiors.

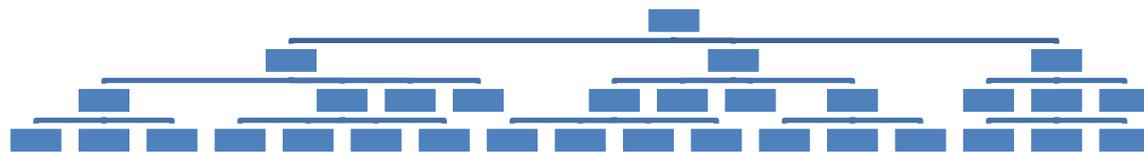


Fig: 4.8 Levels of hierarchy with wide span of management

A wide span does not permit close supervision and hence clear policies and guidelines are required. Superiors are forced to delegate and this calls for having quality subordinates.

#### **4.7.2 WHAT DETERMINES SPAN OF MANAGEMENT?**

How do we decide how many people to be placed under a manager? We will now discuss the factors that determine an effective span.

- a. If subordinates are well trained then it is possible to have a wide span. For subordinates who have no job experience or adequate training, more supervision and control will be required and hence a narrow span will be desirable.
- b. When there is clarity of plans and subordinates can understand and execute them then it is possible to have a wide span of management. On the other hand, if plans cannot be made concrete and subordinates need to have a discussion with the manager quite frequently, then a narrow span will be required.
- c. If there are objective standards to measure whether plans are moving on track, then it is possible to have a wide span of management. For example, number of units produced per hour is an objective standard. On the other hand, how do you measure output of an artisan? For standardized items, it is easier to control, but for non-standardised items it is very difficult to control output.
- d. Span of management also depends on the rate of change being experienced by the organization. If the rate of change is rapid, then it means that these changes will have to be percolated down to the lowest level and for this the narrow span is preferable. Narrow span will enable all policy changes to be transmitted to the next level through close supervision. It will ensure that changes are understood by all concerned. For those organizations where the rate of change is less frequent, a wide span of management would work.
- e. Organizations having good means of communication like telephone, email, video conferencing etc. can manage a wide span, whereas if communication is a bottleneck then a narrow span would be desirable.
- f. If the degree of personal contact needed between the superior and the subordinate is high then a narrow span is required; else a wide span will work.

#### **4.8 FACTORS AFFECTING CENTRALIZATION & DECENTRALIZATION**

Centralization refers to all powers and authority being concentrated in an individual or a group of individuals, while Decentralisation refers to the dispersion of powers and authority across the organization. If the organization concerned is a small one and not geographically dispersed, then centralization may work; however if there are regional offices then it becomes necessary to decentralize a few aspects of decision making. But this is not the sole criteria determining the degree of centralization or decentralization.

Some of the factors affecting centralization or decentralization are :

a. Cost of decision

If the decision involves a great cost, then it will be centralized. For example, whether the firm should diversify or not is a decision involving a great cost because it calls for strategic planning. Whereas whether it is time to reorder raw material for production is a less costly decision and can be decentralized.

b. Desire of uniformity of policy

If uniformity of policy is to be maintained, then decisions must be centralized.

c. Size and Character of the organization

If the size of the firm is large then decentralization is necessary, but it will also depend on the character of the organization. Family businesses tend to be centralized while professional firms tend to be decentralized.

d. Management Philosophy

If the philosophy of the management is to decentralize then it will encourage managers to take decisions whereas if the management is not comfortable with decentralization then it will not encourage managers to take any decision.

e. Desire for independence

If managers have great desire for independence, then decentralization will work. Such managers will be able to shoulder responsibility when authority is given to them.

f. Availability of managers

Decentralization calls for having quality managers who will be able to accept authority and responsibly complete the task delegated to them.

g. Control Techniques

Adequate and appropriate control techniques must be in place to ensure that decentralization works effectively. Decentralization does not mean giving freedom to do whatever the lower level managers want. It means that these managers have been given the authority to decide on how to execute a particular task and ensure that organization goals are fulfilled. Hence control measures are needed to check if plans are on track.

## **4.9 DELEGATION**

Delegation is when a superior gives a subordinate a part of his authority and the discretion to make decisions. Obviously, the superior can delegate the authority that he has; he cannot delegate authority that he does not have.

When a manager is delegating he/she needs to keep a few things in mind. The manager i.e. the delegator must be very clear about the end result expected from the delegatee and this must be clearly spelt out to the subordinate. The subordinate must understand that he/she will be held responsible for completion of the assignment.

### **4.9.1 NEED FOR DELEGATION**

The need for delegation arises because it is not possible for one person to do all tasks by himself. The person may not be an expert at all tasks and so will need to take assistance from other people. Hence the work has to be divided among the group members.

Should the manager be interested in training his/her juniors to be ready to take up leadership in the future, then the manager will do so by delegating smaller tasks and gradually elevating to bigger tasks. A second line of leadership can be kept ready if the superior is willing to delegate.

Delegation is an art and will be effective if we can understand the above mentioned issues of delegation. Personal attitude towards delegation lies at the heart of effective or ineffective delegation. Let us try and understand them.

#### **4.9.2 FACTORS AFFECTING DELEGATION**

- i. The manager must be receptive to other people's ideas and thoughts. It is understood that the subordinate's decision may not be the one which the superior would have made. But since we are allowing the subordinate the discretion to make decision, as a manager we should try and be receptive and appreciate the subordinate's ideas.
- ii. When you delegate, you must also understand that mistakes will occur. The mistake is a part of the learning curve. Here we need to balance between monitoring the subordinate and giving free reign. As a manager you should be able to anticipate what can go wrong and therefore check on the subordinate from time to time. Too much of breathing down the neck of the subordinate will destroy the spirit of delegation. Without being intimidating or indulging in fault finding, counsel the subordinate as to how the mistake could have been avoided.
- iii. Most managers who have moved up in the hierarchy continue to make decisions for the positions that they have left behind. By doing so, they overload themselves by doing not only their own work but also the work of the juniors. Such managers must understand that they will better contribute to organization's objectives if they focused on their own responsibilities and let subordinates do theirs, even if they can do the subordinates' tasks in a much better manner.
- iv. When you are delegating, you have to trust your subordinate; there is no alternative. However trusting does not mean that you delegate, and do not follow up or monitor. Monitoring is essential to check on whether the superior and the subordinate are having the same vision of the end result. Monitoring does not imply that you have no faith in the subordinate.

Delegation does not mean abdication of responsibility; ultimately the superior will be held responsible irrespective of the fact whether he/she has delegated or not. A free flow of communication between the superior and subordinate is required to ensure that the subordinate has all information needed to make decisions and interpret properly the authority that has been delegated to him/her.

#### **4.10 ASSESS YOUR PROGRESS**

1. With reference to any organization, identify the following:

- a) Organization structure
- b) Form of departmentation
- c) Span of management

**4.11 SUGGESTED READINGS**

- 3. Stoner, J.A.F., R. E. Freeman, and D.R. Gilbert. *Management*. 6<sup>th</sup> edition. Pearson Education, 2004, Print.

**Text Book**

- 4. Weirich, Heinz, and Harold Koontz. *Management – A global perspective*. 10<sup>th</sup> Edition. McGraw-Hill, New York, 1995. Print

**DHR 101 FOUNDATION OF MANAGEMENT- CREDIT-4**

**UNIT-5: STAFFING**

**UNIT STRUCTURE**

5.0 OBJECTIVES

5.1 INTRODUCTION

5.2 CONCEPT OF STAFFING

5.3 UNDERSTANDING THE SYSTEMS APPROACH TO STAFFING,

5.4 MANAGING HUMAN RESOURCE INVENTORY

5.5 SUGGESTED READINGS

**5.0 INTRODUCTION**

In the last unit you have learnt about organization structure, its different forms. In this unit we will discuss how to fill up the different positions in the organization structure.

**5.1 OBJECTIVES**

At the end of this unit you will be able to :

- Discuss the importance of staffing
- Explain how staffing is done in practice
- Show how to keep stock of human resources.

**5.2 CONCEPT OF STAFFING**

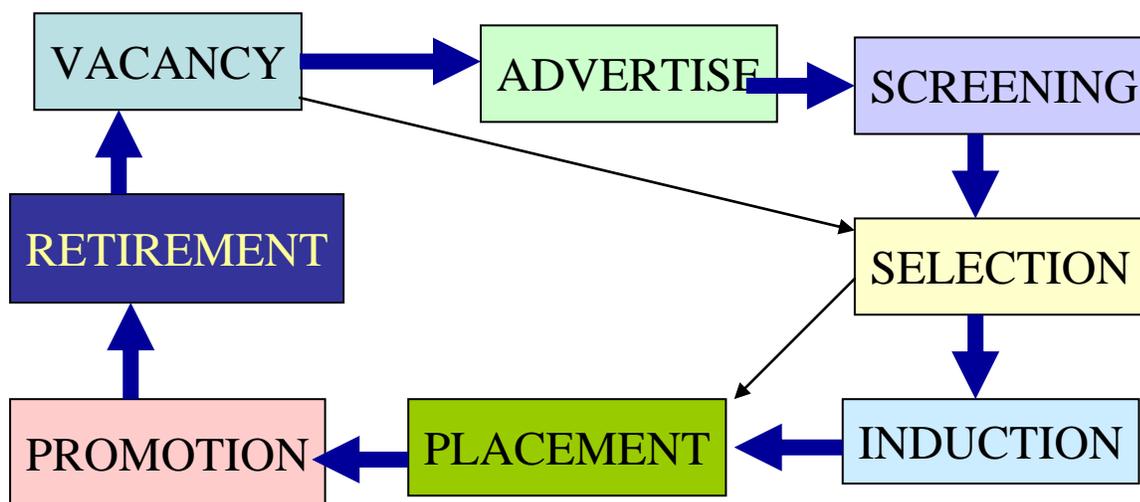


Fig: 1 Concept of Staffing

Staffing means to fill up organization positions and ensure that the positions continue to be kept filled. In other words, in the beginning we recruit people to fill up various positions; gradually in course of time they may move away either because of promotion or resignation or retirement or death. Staffing will ensure that these positions are not left vacant.

So, how do we go about performing this important function of managing human resources? For each position, the HR manager must identify the requirements of the position. Then the manager will check whether there are persons within the organization who can fill up the position, else recruitment will have to be done.

Once a person is selected and placed on the job, the person has to be trained from time to time to upgrade his/her skill level. Career progression also has to be planned. Some companies have an option of 'fast career track' for employees with potential.

Selecting the right person for the right job calls for matching job requirements with the candidates abilities. Should the right person not be selected, it will create problems for both the employee and the employer. Hence staffing is a very important activity and has to be done with utmost care.

Staffing is thus

- Hiring right kind of people to fill vacancies
- Developing their skills through training
- Maintaining them by creating favourable conditions of work

### **5.3 UNDERSTANDING THE SYSTEMS APPROACH TO STAFFING**

Fig: 1 was a very simple explanation of the concept of staffing. Let us move to a holistic look at staffing, which is referred to as Systems Approach to Staffing, shown in Fig.2

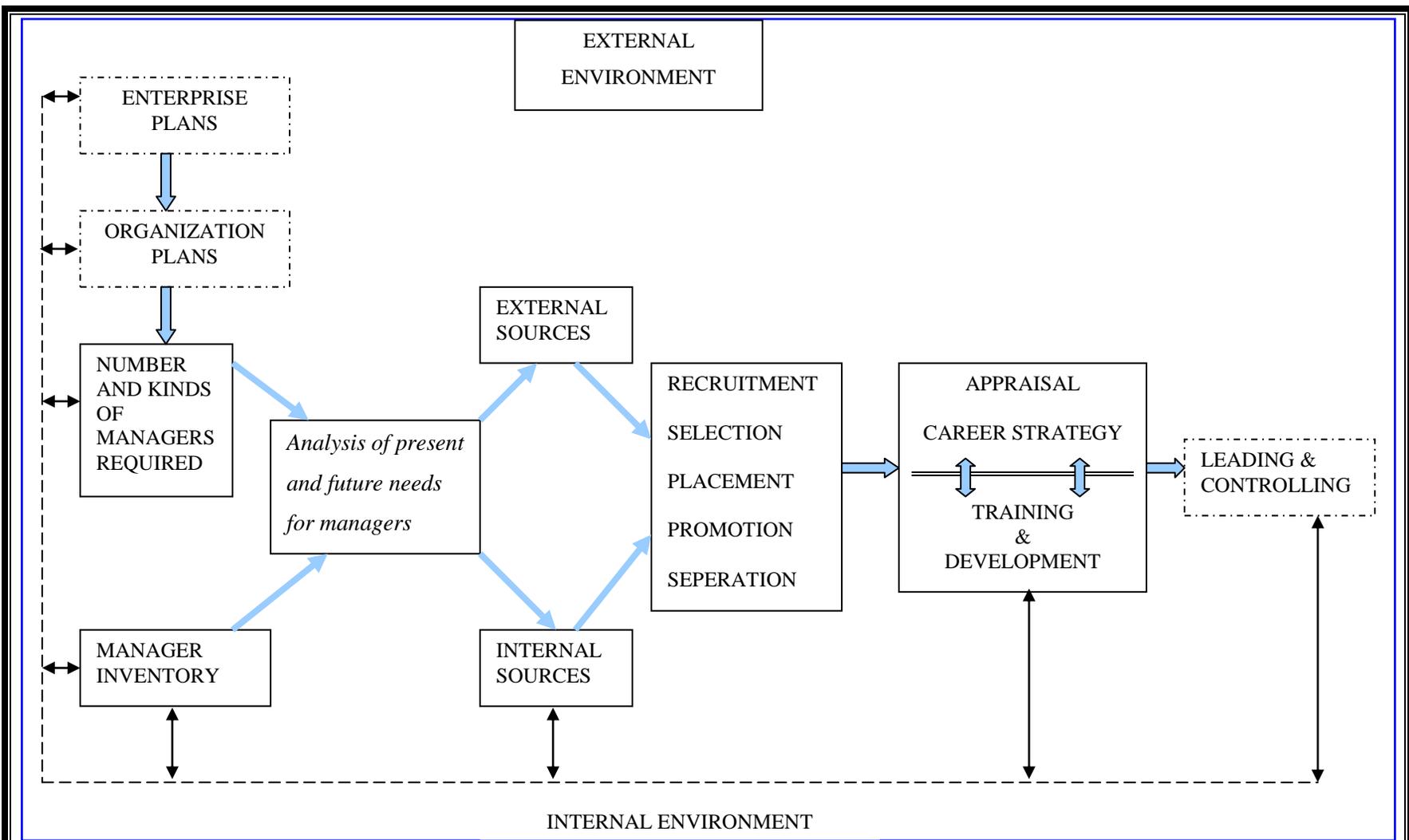


Fig.: 2 Systems Approach to Staffing  
 Source : Koontz and Wehrich , Management – A Global Perspective (10<sup>th</sup> edn)

Let us try and understand the above diagram. Here enterprise plans refer to group company plans; for e.g. Reliance group of Companies may have its own set of plans. Organization plans refers to plans made by companies of that group; for e.g. Reliance Industries Limited will have its own plans. Enterprise plans affect organization plans and which in turn affects staffing decision. As you can see these two boxes have been denoted by broken lines to signify that they are not truly a part of staffing activity.

If the organization plans are to increase sales by 14% in the next financial year, then it needs to figure out the number and kinds of managers required. Will more people be required in the production department or in the marketing department? What kind of people will be required, junior or senior? Will a fresh recruit be sufficient or do you need persons with experience? Answers to such questions will tell us how many and what kind of people are required.

After this, the organization will check its own inventory of manpower and see whether the future need can be met from internal resources or should it tap external sources. This analysis of present and future need for manpower will help the company to decide from where it should get the human resources. If internal people are to be used, it will mean either doing double shifts or moving people from their existing position to this new one; ultimately creating vacancy at another level or position. In any case people have to be recruited.

Recruitment calls for advertising and selecting the best candidate. The selected candidate will have to be placed on the job. In due course of time the candidate will move up the organizational ladder through promotions and finally there is separation. Separation can be either in the form of retirement, resignation, or death.

From time to time the employee has to be appraised and career plans chalked out for him/her. Training and Development is inbuilt into career progression so that the employee can upgrade to meet future challenges. Or any shortcomings seen in the employee can be rectified through appropriate training. Training also helps in leading and controlling employees. The box for leading and controlling in Fig: 2 has been depicted by broken lines indicating that it is not a part of staffing.

The external environment also influences staffing to a large extent. When we talk of the external environment we mean the state of the economy, rate of change in technology, legal legislations etc. If there is slow growth of economy, it can easily be concluded that recruitment need will slow down too. When technology changes at a rapid pace, skill upgradation becomes the need of the hour; additionally need for technically qualified persons also increases. Government of India rules on reservation is applicable for government /semi government jobs.

Besides these, demand and supply of manpower also affects staffing activity (See Fig.3)

Demand is internal requirement of the company, while supply is from the external environment viz. colleges/institutions/universities/other companies etc.

		<b>SUPPLY OF MANAGERS</b>	
		<b>HIGH</b>	<b>LOW</b>
<b>DEMAND FOR MANAGERS</b>	<b>HIGH</b>	<i>High level of recruitment activities</i>	<i>Training existing employees, retaining employees and recruitment activities</i>
	<b>LOW</b>	<i>Early retirement, layoffs</i>	<i>No fresh recruitment</i>

Fig. 3 Effect of demand and supply of manpower on staffing

#### **5.4 MANAGING HUMAN RESOURCE INVENTORY**

Just as we keep stock of raw materials, furniture and fixtures in the organization we also need to keep stock of the employees in the organization. Let us look at the term ‘Human Resource Inventory’ from different angles.

1. It is an inventory of the different skills of the existing employees.
2. It tells us what kind of experience an employee has.
3. It can give us quantifiable data of different skill set that the organization has and help in assessing what other kind of skilled persons need to be recruited.
4. It also tells us how many persons are promotable immediately or in the near future.

Why should an organization have a management inventory chart? The reasons and benefits of a management inventory chart are as follows:

1. The chart gives an overview of the staffing position in the organization, as on a particular date.
2. Since promotable managers can easily be identified, career paths and suitable positions can be easily identified for such in angles. This may reduce employee turnover to some extent.
3. Those employees close to retirement can be identified and suitable replacement sought for.

4. People who have potential for promotion in the future can be groomed to meet future manpower requirements.

### **ASSESS YOUR PROGRESS**

1. Summarize the function of staffing in your own words.
2. Identify three sources of supply of manpower. Discuss in detail what kind of manpower will be available from each of these sources.
3. Try and find out what the following terms mean.
  - a) Pink slip
  - b) Golden handshake

### **5.5 SUGGESTED READINGS**

#### **Text Book**

Weirich, Heinz, and Harold Koontz. *Management – A global perspective*. 10<sup>th</sup> Edition. McGraw-Hill, New York, 1995. Print

#### **References**

Stoner, J.A.F., R. E. Freeman, and D.R. Gilbert. *Management*. 6<sup>th</sup> edition. Pearson Education, 2004, Print.

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### **UNIT-6: LEADING**

#### **UNIT STRUCTURE**

- 6.0 OBJECTIVE
- 6.1 INTRODUCTION
- 6.2 ESSENCE OF LEADERSHIP
- 6.3 LIKERT'S FOUR SYSTEMS OF MANAGEMENT
- 6.4 BLAKE AND MOUTON'S MANAGERIAL GRID
- 6.5 CONTINGENCY THEORY OF LEADERSHIP
- 6.6 PROBABLE QUESTIONS

#### **6.0 OBJECTIVES**

At the end of this unit you will be able to

- Explain different leadership theories
- Analyse the consequences of each leadership style
- Examine your own style and assess how effective it is.

#### **6.1 INTRODUCTION**

You have learnt about recruiting people to fill up organizational roles. It is important not only to select the right person for the right job but also to motivate them to contribute to organizational goals. A lot depends on the leader; effective leaders will be able to transform an ordinary worker into a super worker by means of his guidance and motivation.

There are debates about whether a leader is born or can be developed. Keeping aside the debate, you must appreciate what are the different types of leadership practiced and understand for yourself what kind of leader you are.

## **6.2 ESSENCE OF LEADERSHIP**

Leadership is omnipresent. You can see leadership in action when kids are interacting, or in a cricket match, or in a movie production, in organizations and even at home. A leader is created when he/she has followers; official designation is not necessary for leadership.

A leader's role is to facilitate the team to fulfill the goals set by it. People follow a leader when they feel that the leader can help them to achieve their individual aspirations. Vice versa we can say that a leader will be able to command followers only when he can motivate people to work for organizational goals. Thus leadership and motivation are interconnected because if we know what motivates a person, it will be easy for us to lead that person.

Leadership is therefore an art of influencing people so that they willingly work towards achieving group goals.

## **6.3 LIKERT'S FOUR SYSTEMS OF MANAGEMENT**

Rensis Likert suggested four systems of management.

System 1 management is described as '*exploitative-authoritative*'. As the name suggests, such a manager is highly authoritarian and has little or no trust on subordinates. As a leader such a person only or dictates or commands and does not bother much about receiving inputs from subordinates. People are motivated through fear of punishment; work is the sole concern of such a leader.

Such style of leadership is suitable when a manager is leading a group of unqualified and unskilled people who need to be dictated. This style will not yield favourable results if used on skilled /experienced/intellectual employees.

System 2 management is described as '*benevolent-authoritative*'. Such managers have a patronizing attitude, show some trust in subordinates, motivate with rewards as well as punishments, and permit upward communication to some extent. As leaders they will seek limited inputs from subordinates and delegate to a limited extent; however there will be close control over the subordinates. The leader will be authoritarian but approachable.

Such a style of leadership is suitable when young skilled subordinates with limited or no experience is being led but may or may not work with experienced and skilled persons.

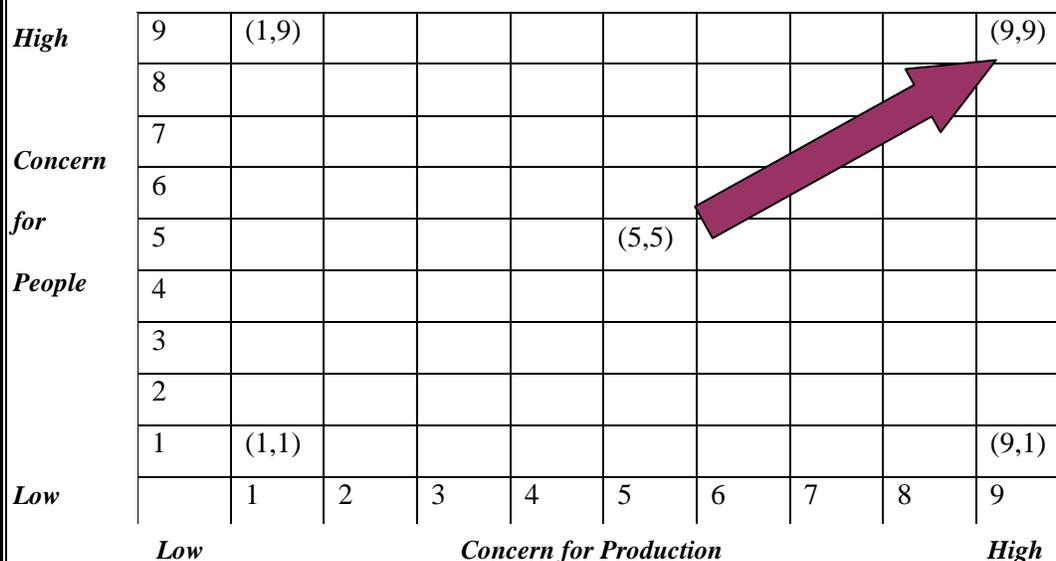
System 3 management is described as ‘*consultative*’. Such managers have substantial faith in their subordinates and seek for inputs from them. Two way communication exists. Subordinates are motivated through rewards and occasionally by punishments. As leaders they will interact with subordinates frequently, delegate lower level decisions, but retain higher level decisions with them

Such a style of leadership will be effective when there are qualified and experienced people to whom some amount of authority can be delegated. Subordinates will have a sense of belongingness because their inputs are sought.

System 4 management is described as ‘*participative*’. Such managers have complete trust and confidence in their subordinates and such managers seek inputs from their subordinates. Communication is the keystone of such management. As leaders they use subordinate’s inputs constructively. Economic rewards are given to team workers and decision making is encouraged in the group.

Such a style of leadership is effective in managing a peer group where hierarchical differences are less. Likert found that managers who followed system 4 had higher degree of success as leaders.

#### 6.4 BLAKE AND MOUTON’S MANAGERIAL GRID



**Fig: 1 The Managerial Grid**

Robert Blake and Jane Mouton defined leadership in terms of a manager’s concern for production and people. Here concern is not ‘how much’ but the attitude of the supervisor towards production related parameters and issues, and towards working conditions and inter-personal relationships.

Let us try and understand the extreme styles, as designated by the coordinates (1,1), (1,9), (9,1) and (9,9).

The (1,1) leader is referred to as **Impoverished Manager**. Such leaders are not concerned with either production or people. They have very little interest in what is happening at the workplace. They are

merely whiling away time and act as messengers between subordinates and superiors. They do the minimum that is expected of them at work.

The (9,1) leader is referred to as **Autocratic Manager**. Such leaders are focused on the best way to attain operational efficiency, with little or no time for inter-personal relationships. They are not concerned about the people working there; productivity and output are more important for them.

The (1,9) leader is referred to as **Country Club Manager**. Such leaders have little or no concern for production but are concerned only for people. Employees' needs and comfort are given more priority, resulting in a friendly workplace with very little output.

The (9,9) leader is referred to as **Team Manager**. Such leaders are dedicated both towards production as well as people and have the ability to blend organizational and individual goals. This is the ultimate position that any leader would aspire to be in.

If you see yourself as a leader who can adequately balance production requirements and subordinates' needs, then you are in the (5,5) position. You will need to move from (5,5) position to (9,9) position.

## **6.5 CONTINGENCY THEORY OF LEADERSHIP**

Fred E. Fiedler put forward the Contingency theory of leadership. This theory says that people become leaders not because of their personalities but also because of situational factors and their own interaction with the group members. Fiedler talked of three dimensions of a situation in the context of leadership -- (a) Position Power, (b) Task Structure, (c) Leader-member relations.

One of the sources of power is the designation that a manager holds in the hierarchy. We can see for ourselves that the boss is more powerful than us and we comply with the boss' instructions because he/she has position power. Thus a leader with position power can obtain more followership easily as compared to one without position power.

If the task is routine and structured, it is easier for a leader to monitor and control performance. For vague and unstructured tasks, it is difficult to monitor and control performance because there are no standard yardsticks. Such unstructured tasks are tricky for the leader.

The leader-member relation is crucial for a leader's performance. A leader will exist when there are followers; and followers will exist when they trust a person and show willingness to follow him/her.

The above three dimensions of a situation will have an impact on leadership. You can understand that position power and task structure is not in our hands but the type of relationship we have with our group members is in our hands. Considering all three dimensions together the situation maybe a favourable or an unfavourable one.

A favourable situation is one where you have position power, task is structured and you have good leader-member relation. An unfavourable situation is one where all three dimensions are not in your favour i.e. you do not hold a position of power, the task structure is vague and inter-personal relations are poor. A moderately favourable /unfavourable situation will lie between these two extremes. We need to know what kind of leadership style will work under different situations.

Ask yourself what makes you happy and satisfied? Is it a job well done or having a wonderful rapport with your group members? You may say that both make you happy; but, if you had to prioritize which one would it be? If a job well done makes you happy then you are a task-oriented leader and if great inter-personal relations are more important then you are human-relations oriented leader. These two styles of leadership were described by Fiedler.

When situations are favourable or unfavourable i.e. the two extremities, Fiedler found that a task-oriented leader is more effective. If the situation is moderately favourable/unfavourable, then a human-relations oriented leader is more effective.

### ACTIVITY 1

Talk to people in leadership position and find out why a task-oriented leader is more effective in favourable/unfavourable situations, while human-relations oriented manager is more effective in moderately favourable/unfavourable situations.

### ACTIVITY 2

Read more about different leadership theories and find out which theory appeals more to you. Write in about 500 words why you find it appealing.

#### **Text Book:**

Weirich, Heinz, and Harold Koontz. *Management – A global perspective*. 10<sup>th</sup> Edition. McGraw-Hill, New York, 1995. Print

#### **References:**

Stoner, J.A.F., R. E. Freeman, and D.R. Gilbert. *Management*. 6<sup>th</sup> edition. Pearson Education, 2004, Print.

## **6.6 PROBABLE QUESTIONS**

1. What, in your opinion, is the essence of leadership?
2. How important is communication skill for a leader?
3. Can the managerial grid help you in becoming a better leader?

## **DHR 101 FOUNDATION OF MANAGEMENT- CREDIT-4**

### **UNIT 7: CONTROL PROCESS**

#### **UNIT STRUCTURE**

7.0 OBJECTIVES

7.1 INTRODUCTION

7.2 DEFINITION

7.3 CRITICAL POINTS AND STANDARDS

## 7.4 CONTROL MECHANISMS

### 7.4.1 FEEDBACK SYSTEM

### 7.4.2 REAL TIME CONTROL

### 7.4.3 FEED FORWARD SYSTEM

## 7.5 REQUIREMENTS FOR EFFECTIVE CONTROL

## 7.6 SUGGESTED READINGS

## 7.7 PROBABLE QUESTIONS

## **7.0 OBJECTIVES**

At the end of this unit you will be able to

1. Explain what controlling is all about
2. Identify the points at which control must be exercised
3. Understand and explain different control mechanisms
4. Elucidate the requirements for making control effective

## **7.1 INTRODUCTION**

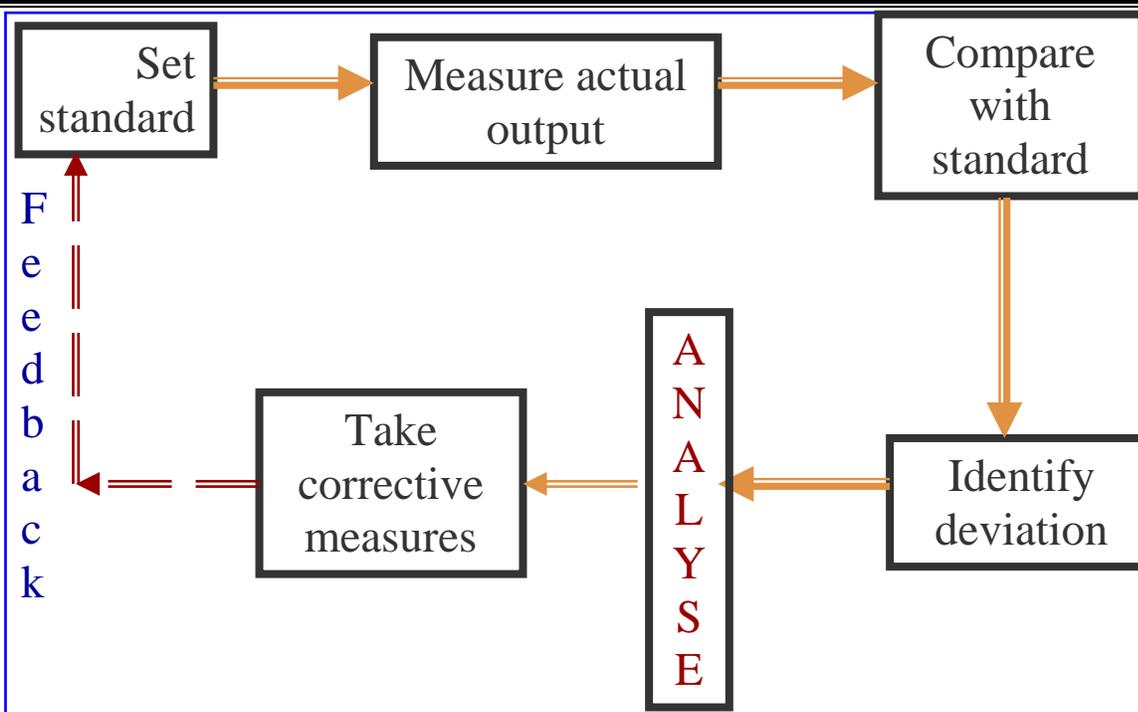
Till now we have discussed four functions of management i.e. Planning, Organising, Staffing, and Leading. We now move on to the last function of management i.e. Controlling. An organization may have a wonderful structure, proper people in position and also leaders to motivate and guide employees, yet it will require to have a monitoring and controlling system in place to ensure that all activities are on track and things are moving as per plans.

## **7.2 DEFINITION**

Controlling is the measurement and correction of performance to ensure that organizational goals are met. In the planning stage we set our goals and then get about implementing it. Controlling is required to check whether we are moving as per plans. Thus planning and controlling are inter-related. Controlling is the responsibility of all managers at all levels, although the scope may vary.

The basic control process involves three steps: (see Fig.1)

1. Establishing standards (criteria of performance)
2. Measuring against these standards
3. Correcting variations from standards and plans



**Fig: 1 The Basic Control process**

Let us take an example. I ask a carpenter to prepare a table of a given dimension and features. When the table is ready, I will compare the dimensions and features with what I had asked for. In other words I am measuring actual output and comparing with the criteria that I had given (standard). If actual output matches with the standard, then there is no deviation and no need for any corrective measure.

However, if there is deviation from the standard then analysis has to be made and causes for deviation identified and corrective measures taken.

### **7.3 CRITICAL POINTS AND STANDARDS**

We have understood that standards are yardsticks against which actual performance will be measured. For a simple job which does not require much time, a manager can closely supervise the job. For a complex job, a manager will not have the luxury of time to constantly monitor performance. Hence a couple of critical points need to be identified for monitoring.

Critical points are those points that reflect better whether desired performance can be expected. Critical points could be the limiting factors of the entire process. Paying attention to these points will be enough to ensure that things are progressing as per plans.

Let us have a look at different critical-point standards along with examples.

#### (i) Physical Standards

- Labour hours per unit of output
- Output per machine hour
- Tensile strength
- Thickness

(ii) Cost Standards

- Variable cost per unit of output
- Labour cost per hour
- Cost per foot of oil well drilled

(iii) Revenue Standard

- Revenue per passenger
- Revenue per sector
- Revenue per outlet

(iv) Capital Standards

- Return on Investment
- Return on Equity
- Debt equity ratio

(v) Intangible Standards

- Satisfaction level of customers
- Satisfaction level of employees
- Performance of nurses

As you were going through the above list, you must have wondered as to how the intangible standards can be measured. The rest of the tangible standards are easy to measure as they are quantifiable. For intangible standards, we use a perceptual scale to measure. A small set of questions is distributed where answers are sought on a five point scale and the responses are quantified to come to some conclusion.

**Example: You have to monitor the services offered by a hospital.**

Please give your opinion on the following. Here 1 stands for “poor” and 5 stands for “excellent”.

- |                                       |               |
|---------------------------------------|---------------|
| 1. Nursing facilities of the hospital | 1__2__3__4__5 |
| 2. Doctors / Consultants on duty      | 1__2__3__4__5 |
| 3. In-House Pharmacy                  | 1__2__3__4__5 |
| 4. Hospital ambience                  | 1__2__3__4__5 |
| 5. Surgical facility                  | 1__2__3__4__5 |

The responses that you get from the survey will indicate what the clients perceive about the hospital. If majority of the responses are marked as 3 or above, then you can conclude that the hospital is offering adequately good service.

**7.4 CONTROL MECHANISMS**

When a plan is in progress or an operation is in process, we can know whether controlling is required or not only when we receive some feedback from the system. This feedback can come at different points and therefore we can have different control mechanisms.

**7.4.1 FEEDBACK SYSTEM**

The diagram that you can see in Fig.1 is an example of a feedback system, where feedback is provided after completion of the work. In such cases, it is equivalent of doing a post mortem, because you will know the causes for the deviation but cannot take corrective measures for that piece of work. However the feedback is used for the next round of work and mistakes committed earlier will not be repeated in the next round.

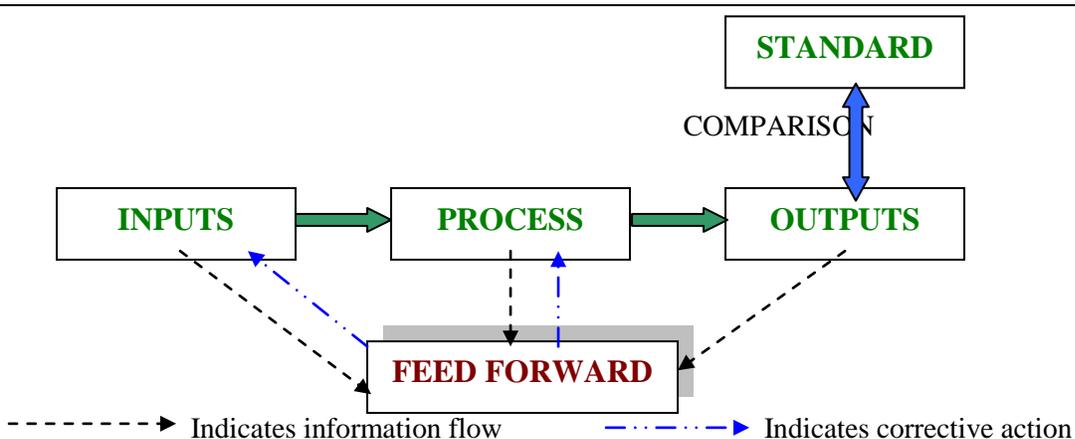
### 7.4.2 REAL TIME CONTROL

Developments in IT have made it possible to have a real-time information in place. It makes it possible to have current information as and when it is happening.

Take the case of a super market where there are a large number of products on sale. The super market will have to place orders for fresh stock from suppliers when the inventory reaches a ‘critical level’ which is referred to as the re-order level. In such a situation the use of information technology provides real time information as and when it is happening and the re-order level can easily be notified so that the manager can place fresh order.

What happens is that as and when sales are occurring, information from the point of sales is collected and product wise subtractions are done from the stock in hand. All this takes place automatically without any manual intervention. The computerized system can easily highlight when the re-order level is reached. Such systems make it very convenient to manage and control inventory.

### 7.4.3 FEED FORWARD SYSTEM



**Fig: 2 The Feed Forward Control Process**



■ Tailoring control to plans and positions

The kind of control technique required for a marketing plan will certainly be different from that of a production plan. The marketing manager will need information about area wise sales every day while the production manager will need information about product wise output every day.

Different levels of managers also need different kinds of information for control purpose. While lower level managers need information on a daily basis, higher level managers may need information on a weekly, monthly or quarterly basis.

■ Tailoring control to individual managers

Control systems are designed to assist the individual manager to carry out their function of control. If the control system is not acceptable to the manager, he/she is unlikely to use it. A manager not comfortable with quantitative techniques will never use statistical quality control techniques. What the manager does not understand he/she will never trust.

■ Point up exceptions at critical points

The control system should highlight deviations that matter most. All deviations are not significant and only exceptions at critical points must be attended to; paying attention to each and every small deviation is time consuming.

■ Must be objective

As far as possible there must be objectivity in controls; subjectivity in controls is not desirable.

■ Must be flexible

Controls must be executable in the event of change in plans. In that sense the control system must not be rigid.

■ Must fit organizational culture

If the organizational culture is one of trust and freedom, then rigid control systems will backfire.

■ Must be economical

Control systems are not available freely. There is an intrinsic cost associated with it. Hence controls must be worth the cost. Many colleges in Assam have placed a punch machine to record the in-time and out-time of faculty and staff. It is an expensive machine and it is expected that employees will be present in the college during the prescribed hours.

■ Must lead to corrective action

The existence of a control mechanism is not enough to ensure effectiveness. The manager is supposed to analyse the deviation and take remedial measures accordingly.

### ACTIVITY 7.1

Describe the type of job you do. Design a control system for yourself that will help you to perform better. Justify the choice of the system.

## **7.6 SUGGESTED READINGS**

### **Text Book:**

Weirich, Heinz, and Harold Koontz. *Management – A global perspective*. 10<sup>th</sup> Edition. McGraw-Hill, New York, 1995. Print

### **References:**

Stoner, J.A.F., R. E. Freeman, and D.R. Gilbert. *Management*. 6<sup>th</sup> edition. Pearson Education, 2004, Print.

## **7.7 PROBABLE QUESTIONS**

1. What is the purpose of controlling?
2. In your opinion, why is it that some managers cannot exercise control?

## **DHR 101 FOUNDATION OF MANAGEMENT- CREDIT-4**

### **UNIT-8: CONTROL TECHNIQUES**

#### **UNIT STRUCTURE**

##### 8.0 OBJECTIVES

##### 8.1 INTRODUCTION

##### 8.2 BUDGETARY CONTROL TECHNIQUES

###### 8.2.1 INCREMENTAL BUDGET

###### 8.2.2 ZERO-BASED BUDGET

###### 8.2.3 VARIABLE BUDGET

##### 8.3 NON-BUDGETARY CONTROL TECHNIQUE

###### 8.3.1 STATISTICAL ANALYSIS

###### 8.3.2 SPECIAL REPORTS

###### 8.3.3 OPERATIONAL AUDIT

###### 8.3.4 PERSONAL OBSERVATION

##### 8.5 USE OF TIME-EVENT NETWORK ANALYSIS

##### 8.6 SUGGESTED READINGS

#### **8.0 OBJECTIVES**

After reading through this unit you will be able to

1. Discuss the different tools that can be used for controlling.
2. Make an assessment of tools for yourself to choose the appropriate tools in a

given context

#### **8.1 INTRODUCTION**

In the previous unit you have understood the concept of controlling and why it is required. We also discussed about the difference between feedback and feed-forward system of controlling. We also learnt about things to keep in mind to ensure effectiveness of control.

In this unit we will discuss about specific tools that are used for controlling. Some tools are based on budgets, some on quantitative data, and some on personal observation. Each of them has its own advantages and disadvantages.

#### **8.2 BUDGETARY CONTROL TECHNIQUES**

A budget is the expression of plans in numerical terms. It is a statement of anticipated revenues and expenses for the future. We have the five year plans of the Government of India wherein estimates of revenue and expenditure of the country for the next five years is detailed. Companies prepare annual budgets where the expected revenue and expenditure for the next one year is prepared. Having a budget means that a manager knows well in advance where the fund is coming from and where it is to be spent. From time to time he/she can check whether things are moving as per the budget. This is how the budget is used as a control tool.

The budget should not be used very rigidly. Remember the budget is anticipation of future revenue and expenditure. The future cannot be gauged accurately. Hence some amount of flexibility has to be built into the budget. Having said this, we must also understand that everything cannot be made flexible, otherwise the budget will become meaningless.

### 8.2.1 INCREMENTAL BUDGET

Most organizations follow the incremental system of budgeting. It means that the last year's budget is hiked by a certain percentage. So all items in the last year's budget continue in the next year with an increase in allocation. This is the easiest way to make a budget.

Such a system will work well for an organization which does not anticipate any radical changes in the environment. A major drawback of this method is that if a manager blindly follows incremental budgeting it may happen that redundant items maybe carried forward while new items may not find a place.

#### Example:

Given below is the budget of a college for the year 2011-12

REVENUE ITEM	AMOUNT IN RS.	EXPENDITURE ITEM	AMOUNT IN RS.
FEES	12,00,000	CLASS FURNITURE	5,00,000
GRANTS	6,00,000	SALARIES	10,00,000
CONSULTANCY	2,00,000	STATIONARY	3,00,000
		MISCELLANEOUS EXPENDITURE	1,00,000

**Table 8.1 Budget for 2011-12**

If they use incremental for of budgeting, then the budget for 2012-13 will be as follows (assuming an increase of 10% over last budget)

REVENUE ITEM	AMOUNT IN RS.	EXPENDITURE ITEM	AMOUNT IN RS.
FEES	13,20,000	CLASS FURNITURE	5,50,000
GRANTS	6,60,000	SALARIES	11,00,000
CONSULTANCY	2,20,000	STATIONARY	3,30,000
		MISCELLANEOUS	1,10,000

**Table 8.2 Budget for 2012-13**

From the above table you can easily identify the redundant item. It is class furniture. When the college has already purchased furniture last year, is it necessary to purchase again this year? If things continue as usual without any drastic change in the college environment ( in terms of new courses being offered or more intake of students) then maybe the college will not have to buy additional furniture the next year. Instead it could have kept money aside for office and faculty furniture. You can also question as to how fees will have a 10% increase. Is the college going to increase fees per student or is the college expecting additional students to join its programs? The college could have thought of buying books for library or computers for students.

Thus you can see that it is not advisable to blindly follow the incremental system of budgeting.

### **8.2.2 ZERO-BASED BUDGET**

The Zero-base system of budgeting is the anti-thesis of the incremental budgeting. Here the budget is prepared afresh; just as a new company prepares its first budget. Every thing starts from the scratch i.e. zero base.

The planner has to anticipate all revenues and expenses and work out monetary terms making fresh calculations. It is indeed a time consuming and tedious process. It forces managers to review established programs and their costs along with newer programs and costs. It tries to do away with the common tendency of looking at changes from a previous period.

Continuing with our college budget, if the college decides to use the concept of zero-base, it would have to calculate all costs afresh. It will have to estimate the number of students who will continue in the college next year and add the expected number of newcomers; find out their respective fees and then calculate the total fees that is likely to be collected. Similarly the exercise will be done for the rest of the items.

### **8.2.3 VARIABLE BUDGET**

As discussed earlier, budgets have a tendency to be rigid. To do away with this and introduce some amount of flexibility, variable budgets are prepared. This calls for creating different budgets pertaining to different scenarios. For e.g. we can have three different budgets pertaining to three scenarios (a) booming economy where sales will be very high (b) normal economy where sales will have a normal growth over the previous year (c) economy declining where sales will be low. Depending on the economy and the sales, the appropriate budget will be used for control purpose.

### **Activity 8.1**

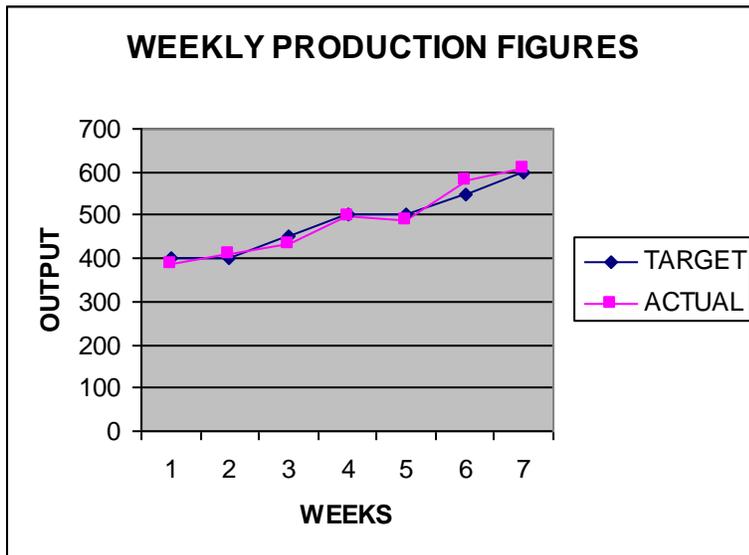
Visit any organization and discuss with them about the type of budgeting followed. Also find for yourself what would be desirable – incremental budget or zero-based budget.

### 8.3 NON-BUDGETARY CONTROL TECHNIQUE

Besides the budget, there are other non-budgetary control devices also. While the budget serves its purpose for the organization as a whole, certain activities of the organization need other kinds of control techniques. Let us learn about some of them.

#### 8.3.1 STATISTICAL ANALYSIS

Numerical data that is available for a period of time can be subjected to statistical analysis. The production figures of a factory taken over 26 weeks can give us the production trend and one can estimate whether the output is as per the target set.



**Fig: 8.1 Trend of Production**

Similarly sales data for the last five or ten years can be used to extrapolate and calculate the expected sales of the next year and also the growth rate.

Months	EASTERN REGION	WESTERN REGION
1	400	386
2	400	410
3	450	433
4	500	499
5	500	486
6	550	580
7	600	410
TOTAL	3400	3204

**Table 8.1 Sales of different regions**

Sales of different regions can also be compared and statistical tests done to find out if there is any significant difference in sales region wise.

#### 8.3.2 SPECIAL REPORTS

All information is not quantitative in nature. If you had to analyse why sales in month 7 (see Table 8.1) of Western region was far less than Eastern region, you would have to depend on special investigative reports. Such reports are likely to bring to light information that would otherwise never be revealed by statistical data. In this example the difference in sales could be due to festive season or labour strike or transporters strike or bandh call given by extremist organizations etc. It could be anything and the reasons will be identified only when investigation is done.

### **8.3.3 OPERATIONAL AUDIT**

Operational audit or Internal audit is done by a team within the organization to ensure that financial and other operations of the firm are being done properly. This enables the firm to be ready to face the ultimate compulsory external audit. Operational audit checks whether activities or targets are being met, whether expenses are within budgets etc.

### **8.3.4 PERSONAL OBSERVATION**

Personal observation calls for physically visiting the different sites of the organization and observing activities. It is also referred to as “Management by Walking Around”. One can get a feel of the place and understand what is working and what is not. Such surprise visits by the top boss will prompt departmental heads to be alert about their own activities.

## **8.5 USE OF TIME-EVENT NETWORK ANALYSIS**

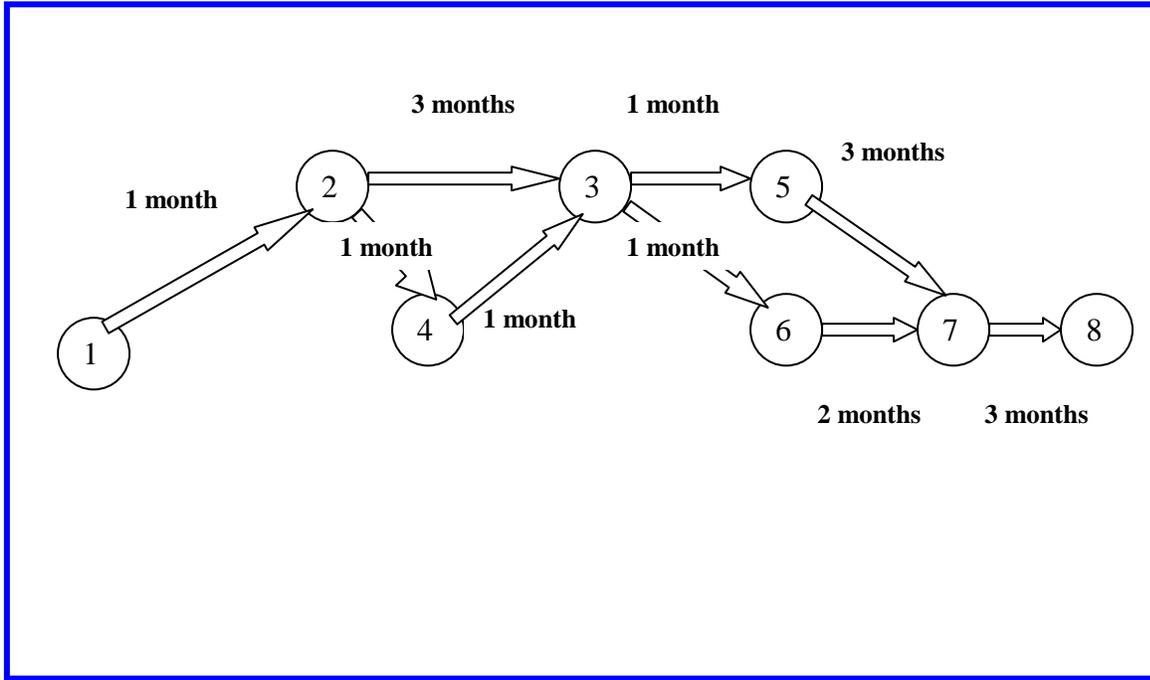
We will discuss two important techniques, one is known as PERT (Program Evaluation and Review Technique) and the other CPM (Critical Path Method).

PERT was developed by the United States navy in 1958. It is a method to analyze the involved tasks associated with a project, especially the time needed to complete each task, and to identify the minimum time needed to complete the total project. These activities / tasks can be performed sequentially or parallelly with other tasks. This collection of sequential and parallel activities is referred to as the network. Since both time and task is taken into consideration, it is known as Time-Event Analysis.

Let us take an example of constructing a house. The major activities / tasks are:

1. Preparing the foundation
2. Pillars and walls
3. Roof
4. Doors and windows
5. Plastering
6. Plumbing
7. Interiors
8. End of job

**The PERT flow chart will look like this.**



**Fig: 8.2 PERT Flow Chart**

If you look at the sequence followed by various tasks, you can see for yourself that some are parallel while others are sequential. How will this chart help a manager? If you are in-charge of construction you will use this chart to track progress of the work. The time that has been mentioned is the estimated time associated with a task. The first task ‘preparing the foundation’ will take one month, after which the second task can begin. After a month’s work on the second task, the fourth task can go on parallel; the third task can begin only when the second task is completed.

As a manager you will use this network chart as a yardstick to measure performance. It will help you in feed forward control. For e.g. If you anticipate that the second task is lagging behind due to labour shortage, you can move labour from the fourth task to the second task to speed it up.

Now let us look at the time required. Follow the route 1-2-3-5-7-8. It takes eleven months. Check route 1-2-4-3-5-7-8; it takes ten months. Route 1-2-3-6-7-8 takes ten months. Route 1-2-4-3-6-7-8 takes nine months.

The route 1-2-3-5-7-8 takes the longest time and it has zero slack time. Rest of the routes have a slack time of one/two month(s). The sequence of events that takes the longest time and has no slack time is known as the Critical Path Method. This tells you about the minimum time that will be required to complete the job; in other words it is not possible to complete the job in a lesser number of days.

**How is time calculated?**

$$\text{Estimated time} = (\text{Optimistic time} + 4 * \text{Most likely time} + \text{Pessimistic time}) / 6$$

For e.g. In case of preparing the foundation

Optimistic time =  $\frac{1}{2}$  month (assuming all things are favourable)

Most likely time = 1 month

Pessimistic time =  $1\frac{1}{2}$  month (assuming that certain things are beyond our control)

Therefore, estimated time =  $(\frac{1}{2} + 4*1 + 1\frac{1}{2}) / 6 = 1$  month

### **ASSESS YOUR PROGRESS**

1. Explain how variable budgets are flexible.
2. What combination of control techniques will you use for your job? Give reasons for your choice.

### **8.6 SUGGESTED READINGS**

#### **Text Book:**

Weirich, Heinz, and Harold Koontz. *Management – A global perspective*. 10<sup>th</sup> Edition. McGraw-Hill, New York, 1995. Print

#### **References:**

Stoner, J.A.F., R. E. Freeman, and D.R. Gilbert. *Management*. 6<sup>th</sup> edition. Pearson Education, 2004, Print.

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