MANONMANIAM SUNDARANAR UNIVERSITY

DIRECTORATE OF DISTANCE

&

CONTINUING EDUCATION

BUSINESS ORGANISATION AND MANAGEMENT

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UNIT – I - BUSINESS ENTERPRISES

Forms of Business Organisation

Have you ever thought who brings the required capital, takes the responsibility of arranging other resources, puts them into action, and coordinates and controls the activities to earn the desired profits? If you look around, you will find that a small grocery shop is owned and run by a single individual who performs all these activities. But, in big businesses, it may not be possible for a single person to perform all these activities. So in such cases two or more persons join hands to finance and manage the business properly and share its profit as per their agreement. Thus, business organisations may be owned and managed by a single individual or group of individuals who may form a partnership firm or a joint stock company. Such arrangement of ownership and management is termed as a form of business organisation. A business organisation usually takes the following forms in India:

(1) Sole proprietorship

(2) Partnership

(3) Joint Hindu Family

(4) Cooperative Society

(5) Joint Stock Company

Let us now learn in detail the exact nature of these forms of business organisation, excluding Joint Stock Company which will be taken up in the next lesson.

Definition of Sole Proprietorship

J.L. Hanson: "A type of business unit where one person is solely responsible for providing the capital and bearing the risk of the enterprise, and for the management of the business."

Thus, 'Sole Proprietorship' from of business organisation refers to a business enterprise exclusively owned, managed and controlled by a single person with all authority, responsibility and risk.

CHARACTERISTICS OF SOLE PROPRIETORSHIP FORM OF BUSINESS ORGANISATION

A) **Single Ownership:** The sole proprietorship form of business organisation has a single owner who himself/herself starts the business by bringing together all the resources.

B) **No Separation of Ownership and Management:** The owner himself/herself manages the business as per his/her own skill and intelligence. There is no separation of ownership and management as is the case with company form of business organisation.

C) **Less Legal Formalities:** The formation and operation of a sole proprietorship form of business organisation does not involve any legal formalities. Thus, its formation is quite easy and simple.

D) **No Separate Entity:** The business unit does not have an entity separate from the owner. The businessman and the business enterprise are one and the same, and the businessman is responsible for everything that happens in his business unit.

E) **No Sharing of Profit and Loss:** The sole proprietor enjoys the profits alone. At the same time, the entire loss is also borne by him. No other person is there to share the profits and losses of the business. He alone bears the risks and reaps the profits.

F) **Unlimited Liability:** The liability of the sole proprietor is unlimited. In case of loss, ifhis business assets are not enough to pay the business liabilities, his personal propertycan also be utilised to pay off the liabilities of the business.

G) **One-man Control:** The controlling power of the sole proprietorship business always remains with the owner. He/she runs the business as per his/her own will.

MERITS OF SOLE PROPRIETORSHIP FORM OF BUSINESS ORGANISATION

(a) **Easy to Form and Wind Up:** It is very easy and simple to form a sole proprietorship form of business organisation. No legal formalities are required to be observed. Similarly, the business can be wind up any time if the proprietor so decides.

(b) **Quick Decision and Prompt Action:** As stated earlier, nobody interferes in the affairs of the sole proprietary organisation. So he/she can take quick decisions on the various issues relating to business and accordingly prompt action can be taken.

(c) **Direct Motivation:** In sole proprietorship form of business organisations. the entire profit of the business goes to the owner. This motivates the proprietor to work hard and run the business efficiently.

(d) **Flexibility in Operation:** It is very easy to effect changes as per the requirements of the business. The expansion or curtailment of business activities does not require many formalities as in the case of other forms of business organisation.

(e) **Maintenance of Business Secrets:** The business secrets are known only to the proprietor. He is not required to disclose any information to others unless and until he himself so decides. He is also not bound to publish his business accounts.

(f) **Personal Touch:** Since the proprietor himself handles everything relating to business,it is easy to maintain a good personal contact with the customers and employees. By knowing the likes, dislikes and tastes of the customers, the proprietor can adjust his operations accordingly. Similarly, as the employees are few and work directly under the proprietor, it helps in maintaining a harmonious relationship with them, and run the business smoothly.

After knowing the various merits of sole proprietorship form of business organisation let us discuss its limitations.

LIMITATIONS OF SOLE PROPRIETORSHIP FORM OF BUSINESS ORGANISATION

(a) **Limited Resources:** The resources of a sole proprietor are always limited. Being the single owner it is not always possible to arrange sufficient funds from his own sources. Again borrowing funds from friends and relatives or from banks has its own implications. So, the proprietor has a limited capacity to raise funds for his business.

(b) **Lack of Continuity:** The continuity of the business is linked with the life of the proprietor. Illness, death or insolvency of the proprietor can lead to closure of the business. Thus, the continuity of business is uncertain.

(c) **Unlimited Liability:** You have already learnt that there is no separate entity of the business from its owner. In the eyes of law the proprietor and the business are one and the same. So personal properties of the owner can also be used to meet the business obligations and debts.

(d) **Not Suitable for Large Scale Operations :** Since the resources and the managerial ability is limited, sole proprietorship form of business organisation is not suitable for large-scale business.

(e) **Limited Managerial Expertise:** A sole proprietorship from of business organisation always suffers from lack of managerial expertise. A single person may not be an expert in all fields like, purchasing, selling, financing etc. Again, because of limited financial resources, and the size of the business it is also not possible to engage the professional managers in sole proprietorship form of business organisations.

FORMATION OF SOLE PROPRIETORSHIP FORM OF BUSINESS ORGANISATION

It is very simple to establish a sole proprietary concern. Any person who is willing to start a business and has the necessary resources can set up this form of business organisation. To start and operate the business in this form, practically does not require any legal formalities to be fulfilled. In some cases like restaurant, chemist shop etc. however, permission from the competent authority is required to be obtained before starting the business. Similarly, setting up a factory may involve taking permission from the local authority. But, formation of business unit as such does not involve any complexities.

Joint Hindu Family Firm (JHF)

The Joint Hindu Family (JHF) business is a form of business organisation run by Hindu Undivided Family (HUF), where the family members of three successive generations own the business jointly. The head of the family known as Karta manages the business. The other members are called co-parceners and all of them have equal ownership right over the properties of the business.

The membership of the JHF is acquired by virtue of birth in the same family. There is no restriction for minors to become the members of the business. As per Dayabhaga system of Hindu Law, both male and female members are the joint owners. But Mitakasharasystem of Hindu Law says only male members of the family can become the coparceners. While the Dayabhaga system is applicable to the state of West Bengal, Mitakshara system of Hindu Law is applicable to the rest of the country.

CHARACTERISTICS OF JHF FORM OF BUSINESS ORGANISATION

From the above discussion, it must have been clear to you that the Joint Hindu family business has certain special characteristics which are as follows:

(a) **Formation:** In JHF business there must be at least two members in the family, and family should have some ancestral property. It is not created by an agreement but by operation of law.

(b) **Legal Status:** The JHF business is a jointly owned business. It is governed by the Hindu Succession Act 1956.

(c) **Membership:** In JHF business outsiders are not allowed to become the coparcener. Only the members of undivided family acquire co-parcenership rights by birth..

(d) **Profit Sharing:** All coparceners have equal share in the profits of the business.

(e) **Management:** The business is managed by the senior most member of the family known as Karta. Other members do not have the right to participate in the management. The Karta has the authority to manage the business as per his own will and his ways of managing cannot be questioned. If the coparceners are not satisfied, the only remedyis to get the HUF status of the family dissolved by mutual agreement.

(f) **Liability:** The liability of coparceners is limited to the extent of their share in the business. But the Karta has an unlimited liability. His personal property can also be utilised to meet the business liability.

(g) **Continuity:** Death of any coparceners does not affect the continuity of business. Even on the death of the Karta, it continues to exist as the eldest of the coparceners takes position of Karta. However, JHF business can be dissolved either through mutual agreement or by partition suit in the court.

MERITS OF JHF FORM OF BUSINESS ORGANISATION

Since Joint Hindu Family business has certain peculiar features as discussed above, it has the following merits.

(a) **Assured Shares in Profits:** Every coparcener is assured of an equal share in the profits irrespective of his participation in the running of the business. This safeguards the interest of minor, sick, physically and mentally challenged coparceners.

(b) **Quick Decision:** The Karta enjoys full freedom in managing the business. It enables him to take quick decisions without any interference.

(c) **Sharing of Knowledge and Experience:** A JHF business provides opportunity for the young members of the family to get the benefits of knowledge and experience of the elder members. It also helps in inculcating virtues like discipline, self-sacrifice, tolerance etc.

(d) **Limited Liability of Members:** The liability of the coparceners except the Karta is limited to the extent of his share in the business. This enables the members to run the business freely just by following the instructions or direction of the Karta.

(e) **Unlimited Liability of the Karta:** Because of the unlimited liability of the Karta, his personal properties are at stake in case the business fails to pay the creditors. This clause of JHF business makes the Karta to manage business most carefully and efficiently.

(f) **Continued Existence:** The death or insolvency of any member does not affect the continuity of the business. So it can continue for a long period of time.

(g) **Tax Benefits:** HUF is regarded as an independent assessee for tax purposes. The share of coparceners is not to be included in their individual income for tax purposes.

After knowing the merits let us see the limitations of Joint Hindu Family form of business organisation.

LIMITATION OF JHF FORM OF BUSINESS ORGANISATION

(a) **Limited Resources:** JHF business has generally limited financial and managerial resource. Therefore, it is not considered suitable for large business.

(b) **Lack of Motivation:** The coparceners get equal share in the profits of the business irrespective of their participation. So generally they are not motivated to put in their best.

(c) **Scope for Misuse of Power:** Since the Karta has absolute freedom to manage the business, there is scope for him to misuse it for his personal gains. Moreover, he may have his own limitations.

(d) **Instability:** The continuity of JHF business is always under threat. A small rift within the family may lead to seeking partition.

SUITABILITY OF JHF FORM OF BUSINESS ORGANISATION

The Joint Hindu Family form of business organisation is suitable where the family inherits a running business and the members of the family want to continue that business jointly as a family business. Even otherwise, this form of business organisation is considered suitable for a business that requires limited financial and managerial resources and having a very limited area of operation. It is found that JHF are usually engaged in trading business, indigenous banking, small industry, and crafts etc.

FORMATION OF JHF FORM OF BUSINESS ORGANISATION

A Joint Hindu Family business is formed as per the provision of Hindu law. It comes into existence on the death of the person who established the business. His successor automatically become the coparceners if they decide to continue it as a joint family business. The children become its members by birth. The senior most member of the family will become the Karta of the business. No legal formalities are required for its establishment. But it has to be registered with the Income tax department to avail the tax concessions involved.

Partnership

A textile factory is going to be started in the nearby area where Gopal is carrying on his business. As a businessman, he is now in a jubilant mood. He is thinking that once the textile factory is set up, he will get more customers; the sales will increase and he will earn more profit. But, for all these, he will have to expand his business, and for this he needs more money.

The major problem is how to arrange the additional funds. He has the option of getting loans from the banks. But the fear of loss comes to his mind again and again. He does not want to take that risk. Another option is that he may join hands with some other person. By doing so, more resources can be raised, work can be shared, and business can be run in a better way. The risk of loss will also be shared. But this involves a new form of business organisation known as **Partnership** organisation. Gopal has to gain clarity on the exact nature of this form of business organisation, its pros and cons before he goes in for it.

'Partnership' is an association of two or more persons who pool their financial and managerial resources and agree to carry on a business, and share its profit. The persons who form a partnership are individually known as partners and collectively a **firm or partnership firm.**

Let's assume that Gopal joins hand with Rahim to start a big grocery shop. Here both Gopal and Rahim are called partners who are running the partnership firm jointly. Both of them will pool their resources and carry on business by applying their expertise. They will share the profits and losses in the agreed ratio. In fact, for all terms and conditions of their working, they have to sit together to decide about all aspects. There must be an agreement between them. The agreement may be in oral, written or implied. When the agreement is in writing it is termed as partnership deed. However, in the absence of an agreement, the provisions of the Indian Partnership Act 1932 shall apply

Partnership form of business organisation in India is governed by the Indian Partnership Act, 1932 which defines partnership as "the relation between persons who have agreed to share the profits of the business carried on by all or any of them acting for all".

CHARACTERISTICS OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

Based on the definition of partnership as given above, the various characteristics of partnership form of business organisation, can be summarised as follows:

(a) **Two or More Persons:** To form a partnership firm atleast two persons are required. The maximum limit on the number of persons is ten for banking business and 20 for other businesses. If the number exceeds the above limit, the partnership becomes illegal and the relationship among them cannot be called partnership.

(b) **Contractual Relationship:** Partnership is created by an agreement among the persons who have agreed to join hands. Such persons must be competent to contract. Thus, minors, lunatics and insolvent persons are not eligible to become the partners. However,a minor can be admitted to the benefits of partnership firm i.e., he can have share in the profits without any obligation for losses.

(c) **Sharing Profits and Business:** There must be an agreement among the partners to share the profits and losses of the business of the partnership firm. If two or more persons share the income of jointly owned property, it is not regarded as partnership.

(d) **Existence of Lawful Business:** The business of which the persons have agreed to share the profit must be lawful. Any agreement to indulge in smuggling, black marketing etc. cannot be called partnership business in the eyes of law.

(e) **Principal Agent Relationship:** There must be an agency relationship between the partners. Every partner is the principal as well as the agent of the firm. When a partner deals with other parties he/she acts as an agent of other partners, and at the same time the other partners become the principal.

(f) **Unlimited Liability:** The partners of the firm have unlimited liability. They are jointly as well as individually liable for the debts and obligations of the firms. If the assets of the firm are insufficient to meet the firm's liabilities, the personal properties of the partners can also be utilised for this purpose. However, the liability of a minor partneris limited to the extent of his share in the profits.

(g) **Voluntary Registration:** The registration of partnership firm is not compulsory. But an unregistered firm suffers from some limitations which makes it virtually compulsory to be registered. Following are the limitations of an unregistered firm.

   (i) The firm cannot sue outsiders, although the outsiders can sue it.

   (ii) In case of any dispute among the partners, it is not possible to settle the dispute through court of law.

   (iii) The firm cannot claim adjustments for amount payable to, or receivable from, any other parties.

MERITS OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

(a) **Easy to Form:** A partnership can be formed easily without many legal formalities. Since it is not compulsory to get the firm registered, a simple agreement, either in oral, writing or implied is sufficient to create a partnership firm.

(b) **Availability of Larger Resources:** Since two or more partners join hands to start partnership firm it may be possible to pool more resources as compared to sole proprietorship form of business organisation.

(c) **Better Decisions:** In partnership firm each partner has a right to take part in the management of the business. All major decisions are taken in consultation with and with the consent of all partners. Thus, collective wisdom prevails and there is less scope for reckless and hasty decisions.

(d) **Flexibility:** The partnership firm is a flexible organisation. At any time the partners can decide to change the size or nature of business or area of its operation after taking the necessary consent of all the partners.

(e) **Sharing of Risks:** The losses of the firm are shared by all the partners equally or as per the agreed ratio.

(f) **Keen Interest:** Since partners share the profit and bear the losses, they take keen interest in the affairs of the business.

(g) **Benefits of Specialisation:** All partners actively participate in the business as per their specialisation and knowledge. In a partnership firm providing legal consultancyto people, one partner may deal with civil cases, one in criminal cases, another in labour cases and so on as per their area of specialisation. Similarly two or more doctors of different specialisation may start a clinic in partnership.

(h) Protection of Interest: In partnership form of business organisation, the rights of each partner and his/her interests are fully protected. If a partner is dissatisfied with any decision, he can ask for dissolution of the firm or can withdraw from the partnership.

(i) Secrecy: Business secrets of the firm are only known to the partners. It is not requiredto disclose any information to the outsiders. It is also not mandatory to publish the annual accounts of the firm.

LIMITATIONS OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

A partnership firm also suffers from certain limitations. These are as follows:

(a) **Unlimited Liability:** The most important drawback of partnership firm is that the liability of the partners is unlimited i.e., the partners are personally liable for the debtand obligations of the firm. In other words, their personal property can also be utilised for payment of firm's liabilities.

(b) **Instability:** Every partnership firm has uncertain life. The death, insolvency, incapacity or the retirement of any partner brings the firm to an end. Not only that any dissenting partner can give notice at any time for dissolution of partnership.

(c) **Limited Capital:** Since the total number of partners cannot exceed 20, the capacityto raise funds remains limited as compared to a joint stock company where there is nolimit on the number of share holders.

(d) **Non-transferability of share:** The share of interest of any partner cannot be transferred to other partners or to the outsiders. So it creates inconvenience for the partner who wants to transfer his share to others fully and partly. The only alternativeis dissolution of the firm.

(e) **Possibility of Conflicts:** You know that in partnership firm every partner has an equal right to participate in the management. Also every partner can place his or her opinion or viewpoint before the management regarding any matter at any time. Because of this, sometimes there is friction and quarrel among the partners. Difference of opinion may give rise to quarrels and lead to dissolution of the firm.

TYPES OF PARTNERS

You have learnt that normally every partner in a firm contributes to its capital, participates in the day-to-day management of firm's activities, and shares its profits and losses in the agreed ratio. In other words all partners are supposed to be active partners. However, in certain cases there are partners who play a limited role. They may contribute capital and such partners cannot be termed as active partners. Similarly, some persons may simply lend their name to the firm and make no contribution to capital of the firm. Such persons are partners only in name. Thus, depending upon the extent of participation and the sharing of profits, liability etc., partners can be classified into various categories. These are summarised here under.

(A) **Based on the extent of participation** in the day-to-day management of the firm partners can be classified as 'Active Partners' and 'Sleeping Partners'. The partners who actively participate in the day-to-day operations of the business are known as active partners or working partners. Those partners who do not participate in the day-to-day activities of the business are known as sleeping or dormant partners. Such partners simply contribute capital and share the profits and losses.

(B) **Based on sharing of profits,** the partners may be classified as 'Nominal Partners' and 'Partners in Profits'. Nominal partners allow the firm to use their name as partner. They neither invest any capital nor participate in the day-to-day operations. They are not entitled to share the profits of the firm. However, they are liable to third parties for all the acts of the firm. A person who shares the profits of the business without being liable for the losses is known as partner in profits. This is applicable only to the minors who are admitted to the benefits of the firm and their liability is limited to their capital contribution.

(C) **Based on Liability,** the partners can be classified as 'Limited Partners' and 'General Partners'. The liability of limited partners is limited to the extent of their capital contribution. This type of partners is found in Limited Partnership firms in some European countries and USA. So far, it is not allowed in India. However, the Limited liability Partnership Act is very much under consideration of the Parliament. The partners having unlimited liability are called as general partners or Partners with unlimited liability. It may be noted that every partner who is not a limited partner is treated as a general partner.

(D) **Based on the behaviour and conduct exhibited,** there are two more types of partners besides the ones discussed above. These are (a) Partner by Estoppel; and (b) Partner by Holding out. A person who behaves in the public in such a way as to give an impression that he/she is a partner of the firm, is called 'partner by estoppel'. Such partners are not entitled to share the profits of the firm, but are fully liable if some body suffers because of his/her false representation. Similarly, if a partner or partnership firm declares that a particular person is a partner of their firm, and such a person does not disclaim it, then he/she is known as 'Partner by Holding out'. Such partners are not entitled to profits but are fully liable as regards the firm's debts.

SUITABILITY OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

We have already learnt that persons having different ability, skill or expertise can join hands to form a partnership firm to carry on the business. Business activities like construction, providing legal services, medical services etc. can be successfully run under this form of business organisation. It is also considered suitable where capital requirement is of a medium size. Thus, business like a wholesale trade, professional services, mercantile houses and small manufacturing units can be successfully run by partnership firms.

FORMATION OF PARTNERSHIP FORM OF BUSINESS ORGANISATION

The following steps are to be taken in order to form a partnership firm:

(a) Minimum two members are required to form a partnership. The maximum limit is ten in banking and 20 in other businesses.

(b) Select the like-minded persons keeping in view the nature and objectives of the business.

(c) There must be an agreement among the partners to carry on the business and share the profits and losses. This agreement must preferably be in writing and duly signed by the all the partners. The agreement, i.e., the partnership deed must contain the following:

(i) Name of the firm

(ii) Nature of the business

(iii) Names and addresses of partners

(iv) Location of business

(v) Duration of partnership, if decided

(vi) Amount of capital to be contributed by each partner

(vii) Profit and loss sharing ratio

(viii) Duties, powers and obligations of partners.

(ix) Salaries and withdrawals of the partners

(x) Preparation of accounts and their auditing.

(xi) Procedure for dissolution of the firm etc.

(xii) Procedure for settlement of disputes

(d) The partners should get their firm registered with the Registrar of Firms of the concerned state. Although registration is not compulsory, but to avoid the consequences of non-registration, it is advisable to get it registered when it is setup or at any time during its existence. The procedure for registration of a firm is as follows.

(i) The firm will have to apply to the Registrar of Firms of the concerned state in theprescribed form.

(ii) The duly filled in form must be signed by all the partners.

(iii) The filled in form along with prescribed registration fee must be deposited in the office of the Registrar of Firms.

(iv) The Registrar will scrutinise the application, and if he is satisfied that all formalitiesrelating to registration have been duly complied with, he will put the name of thefirm in his register and issue the Certificate of Registration.

Joint Stock Company

The simplest way to describe a joint stock company is that it is a business organisation that is owned jointly by all its shareholders. All the shareholders own a certain amount of stock in the company, which is represented by their shares.

Professor Haney defines it as “a voluntary association of persons for profit, having the capital divided into some transferable shares, and the ownership of such shares is the condition of membership of the company.” Studying the features of a joint stock company will clarify its structure.

Features of a Joint Stock Company

1] Artificial Legal Person

A company is a legal entity that has been created by the statues of law. Like a natural person, it can do certain things, like own property in its name, enter into a contract, borrow and lend money, sue or be sued, etc. It has also been granted certain rights by the law which it enjoys through its board of directors.

However, not all laws/rights/duties apply to a company. It exists only in the law and not in any physical form. So we call it an artificial legal person.

2] Separate Legal Entity

Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

3] Incorporation

For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.

4] Perpetual Succession

The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company's life.

5] Limited Liability

This is one of the major points of difference between a company and a sole proprietorship and partnership. The liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the debts of a company.

A shareholders liability is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability. The amount of debt has no bearing on this. Only the companies assets can be sold off to repay its own debt. The members cannot be made to pay up.

6] Common Seal

A company is an artificial person. So its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an agreement, the approval is indicated via a common seal. A common seal is engraved seal with the company's name on it.

So no document is legally binding on the company until and unless it has a common seal along with the signatures of the directors.

7] Transferability of Shares

In a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred freely, there are almost no restrictions. And in a public company, there are some restrictions, but the transfer cannot be prohibited.

Advantages of a Joint Stock Company

- One of the biggest drawing factors of a joint stock company is the *limited liability of its members*. their liability is only limited up to the unpaid amount on their shares. Since their personal wealth is safe, they are encouraged to invest in joint stock companies
- The shares of a company are *transferable.* Also, in the case of a listed public company they can also be sold in the market and be converted to cash. This ease of ownership is an added benefit.
- *Perpetual succession* is another advantage of a joint stock company. The death/retirement/insanity/etc does affect the life of a company. The only liquidation under the Companies Act will shut down a company.
- A company hires a board of directors to run all the activities. Very proficient, talented people are elected to the board and this results in effective and efficient management. Also, a company usually has large resources and this allows them to hire the *best talent and professionals*.

Disadvantages of a Joint Stock Company

- One disadvantage of a joint stock company is the complex and lengthy procedure for its *formation*. This can take up to several weeks and is a costly affair as well.
- According to the Companies Act, 2013 all public companies have to provide their financial records and other related documents to the registrar. These documents are then public documents, which any member of the public can access. This leads to a complete *lack of secrecy* for the company.
- And even during its day to day functioning a company has to follow a numerous number of laws, *regulations*, notifications, etc. It not only takes up time but also reduces the freedom of a company
- A company has many stakeholders like the shareholders, the promoters, the board of directors, the employees. the debenture holders etc. All these stakeholders look out for their benefit and it often leads to a conflict *of interest.*

Cooperative Society

You have learnt about Sole Proprietorship, Partnership and Joint Hindu Family as different forms of business organisation. You must have noticed that while there are many differences among them in respect of their formation, operation, capital contribution and liabilities,there is one similarity that they all are engaged in business to earn profit. However, there are certain organisations which undertake business activities with the prime objective ofproviding service to the members. Although they also earn some amount of profit, but their main intention is to look after some common interest of its members. They pool availableresources from the members, utilise the same in the best possible manner and share the benefits. These organisations are known as Cooperative Societies. Let us learn in detail about this form of business organisation.

The term cooperation is derived from the Latin word 'co-operari', where the word 'Co'means 'with' and 'operari' mean 'to work'. Thus, the term cooperation means working together. So those who want to work together with some common economic objectivescan form a society, which is termed as cooperative society. It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help and mutual help. The primary objective is toprovide support to the members. People come forward as a group, pool their individualresources, utilise them in the best possible manner and derive some common benefits out of it.

The Section 4 of the Indian Cooperative Societies Act 1912 defines Cooperative Society as "a society, which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles."

CHARACTERISTICS OF COOPERATIVE SOCIETY

Based on the above definition we can identify the following characteristics of cooperative society form of business organisation:

(a) **Voluntary Association:** Members join the cooperative society voluntarily i.e., by their own choice. Persons having common economic objective can join the society as and when they like, continue as long as they like and leave the society and when they want.

(b) **Open Membership:** The membership is open to all those having a common economic interest. Any person can become a member irrespective of his/her caste, creed, religion, colour, sex etc.

(c) **Number of Members:** Aminimum of 10 members are required to form a cooperative society. In case of multi-state cooperative societies the minimum number of members should be 50 from each state in case the members are individuals. The Cooperative Society Act does not specify the maximum number of members for any cooperative society. However, after the formation of the society, the member may specify the maximum member of members.

(d) **Registration of the Society:** In India, cooperative societies are registered under the Cooperative Societies Act 1912 or under the State Cooperative Societies Act. The Multi-state Cooperative Societies are registered under the Multi-state Cooperative Societies Act 2002. Once registered, the society becomes a separate legal entity and attain certain characteristics. These are as follows.

(i) The society enjoys perpetual succession

(ii) It has its own common seal

(iii) It can enter into agreements with others

(iv) It can sue others in a court of law

(v) It can own properties in its name

(e) **State Control:** Since registration of cooperative societies is compulsory, every cooperative society comes under the control and supervision of the government. The cooperative department keeps a watch on the functioning of the societies. Every society has to get its accounts audited from the cooperative department of the government.

(f) **Capital:** The capital of the cooperative society is contributed by its members. Since, the members contribution is very limited, it often depends on the loan from government. and apex cooperative institutions or by way of grants and assistance from state and Central Government.

(g) **Democratic Set Up:** The cooperative societies are managed in a democratic manner. Every member has a right to take part in the management of the society. However, the society elects a managing committee for its effective management. The members of the managing committee are elected on the basis of one-man one-vote irrespective of the number of shares held by any member. It is the general body of the society which lays down the broad framework within which the managing committee functions.

(h) **Service Motive:** The primary objective of all cooperative societies is to provide services to its members.

(i) **Return on Capital Investment:** The members get return on their capital investment in the form of dividend.

(j) **Distribution of Surplus:** After giving a limited dividend to the members of the society, the surplus profit is distributed in the form of bonus, keeping aside a certain percentage as reserve and for general welfare of the society.

TYPES OF COOPERATIVE SOCIETIES

You know cooperative organisations are set up in different fields to promote the economic well-being of different sections of the society. So, according to the needs of the people, we find different types of cooperative societies in India. Some of the important types are given below.

(a) **Consumers' Cooperative Societies:** These societies are formed to protect the interest of consumers by making available consumer goods of high quality at reasonable price.

(b) **Producer's Cooperative Societies:** These societies are formed to protect the interestof small producers and artisans by making available items of their need for production,like raw materials, tools and equipments etc.

(c) **Marketing Cooperative Societies:** To solve the problem of marketing the products, small producers join hand to form marketing cooperative societies.

(d) **Housing Cooperative Societies:** To provide residential houses to the members, housing cooperative societies are formed generally in urban areas.

(e) **Farming Cooperative Societies**: These societies are formed by the small farmers to get the benefit of large-scale farming.

(f) **Credit Cooperative Societies:** These societies are started by persons who are in need of credit. They accept deposits from the members and grant them loans at reasonable rate of interest.

MERITS OF COOPERATIVE SOCIETY

The cooperative society is the only form of business organisation which gives utmost importance to its members rather than maximising its own profits. After studying its characteristics and different types, we may now study the merits of this form of business organisation.

(a) **Easy to Form:** Any ten adult members can voluntarily form an association get it registered with the Registrar of Cooperative Societies. The registration is very simpleand it does not require much legal formalities.

(b) **Limited Liability:** The liability of the members of the cooperative societies is limited upto their capital contribution. They are not personally liable for the debt of the society.

(c) **Open Membership:** Any competent like-minded person can join the cooperative society any time he likes. There is no restriction on the grounds of caste, creed, gender, colour etc. The time of entry and exit is also generally kept open.

(d) **State Assistance:** The need for country's growth has necessitated the growth of the economic status of the weaker sections. Therefore, cooperative societies always get assistance in the forms of loans, grants, subsidies etc. from the state as well as Central Government.

(e) **Stable Life:** The cooperative society enjoys the benefit of perpetual succession. The death, resignation, insolvency of any member does not affect the existence of the society because of its separate legal entity.

(f) **Tax Concession:** To encourage people to form co-operative societies the government generally provides tax concessions and exemptions, which keep on changing from time to time.

(g) **Democratic Management:** The cooperative societies are managed by the Managing Committee, which is elected by the members. The members decide their own rulesand regulations within the limits set by the law.

LIMITATIONS OF COOPERATIVE SOCIETY

Although the basic aim of forming a cooperative society is to develop a system of mutual help and cooperation among its members, yet the feeling of cooperation does not remain for long. Cooperative societies usually suffer from the following limitations.

(a) **Limited Capital:** Most of the cooperative societies suffer from lack of capital. Since the members of the society come from a limited area or class and usually have limited means, it is not possible to collect huge capital from them. Again, government's assistance is often inadequate for them.

(b) **Lack of Managerial Expertise:** The Managing Committee of a cooperative society is not always able to manage the society in an effective and efficient way due to lack of managerial expertise. Again due to lack of funds they are also not able to derive the benefits of professional management.

(c) **Less Motivation:** Since the rate of return on capital investment is less, the membersdo not always feel involved in the affairs of the society.

(d) **Lack of Interest:** Once the first wave of enthusiasm to start and run the business is exhausted, intrigue and factionalism arise among members. This makes the cooperative lifeless and inactive.

(e) **Corruption:** Inspite of government's regulation and periodical audit of the accounts of the cooperative society, the corrupt practices in the management cannot be completely ignored.

SUITABILITY OF COOPERATIVE SOCIETY

You have already learnt that cooperative society form of business organisations is a voluntary association of person who are not financially strong and cannot stand on their own legs to start and run the business individually. So to solve the common problem or to meet the common requirements this form of business organisation is most suitable. Thus, people can join hands to get the consumer products, to build residential houses, for marketing theproducts, to provide loans and advances etc. This form of business organisation is generallysuitable for small and medium size business operation.

FORMATION OF COOPERATIVE SOCIETY

A cooperative society can be formed as per the provisions of the Cooperative Societies Act, 1912, or under the Cooperative Societies Acts of the respective states. The various common requirements prescribed for registration of a cooperative society are as follows:

(a) There must be at least ten persons having common economic interest and must be capable of entering into contract. For multi-state cooperative societies at least 50individual members from each state should be present.

(b) A suitable name should be proposed for the society.

(c) The draft bye-laws of the society should be prepared.

(d) After completing the above formalities, the society should go for its registration.

(e) For registration, application in prescribed form should be made to the Registrar of Cooperative Societies of the state in which the society is to be formed.

(f) The application for registration shall be accompanied by four copies of the proposedbye-laws of the society.

(g) The application must be signed by every member of the society.

(h) After scrutinising of the application and the bye-laws, the registrar issues the registrationcertificate.

(i) The society can start its operation after getting the certificate of registration.

Business and Government

It is widely recognised that "the two most powerful institutions in society today are business and government; where they meet on common ground – amicably or otherwise – together they determine public policy, both foreign and domestic for a nation".

Historically, the role of the government in respect of business varied considerably in kind and degree, from laissez faire and mercantilism to conventional communism characterised by centralised planning and almost state monopoly. The last six-and-a-half decades or so, the period since the end of the II World War and the coming into being of World Bank – IMF and GATT (the forerunner of WTO), have witnessed several shifts, evolutionary to revolutionary, in the approach, policy and mode of government intervention in business across the world. The economic crisis that swept across the world around 2008 once again demonstrated the economic stabilization role of the government.

The government, however, plays a very important role in the modern economy. Even the modern capitalist or market economies are mixed or regulated systems. In such economies "a substantial share of the nation's product goes to satisfy public wants, a substantial part of the private income originates in the public budget, and public tax and transfer payments significantly influence the state of private income distribution".

Moreover, the budget policy affects the level of employment and prices in the private sector. Thus, the present day capitalist economy is a mixed system, including a sizable and virtually important sphere of public economy along with the market sector.

As the Musgrave's remark, "the prevalence of government may reflect the presence of political and social ideologies which depart from the premises of consumer choice and decentralised decision-making. But this is only a minor part of the story. More important, there is the fact that the market mechanism alone cannot perform all economic functions. Public policy is needed to guide, correct and supplement it in certain respects. It is important to realize this fact since it implies that the proper size of the public sector is, to a significant degree, a technical rather than an ideological issue."3 A variety of reasons explain why this is the case, including the following:

1. The contractual arrangements and exchanges needed for the market operation cannot exist without the protection and enforcement of a governmentally provided legal structure.

2. The claim that the market mechanism leads to efficient resource use (i.e., produces what consumers want most and does so in the cheapest way) is based on the condition of the competitive factors and product markets. This means that there must be no obstacles to free entry and that consumers and producers must have full market knowledge. Government regulation or other measures are needed to secure these conditions.

3. Even if all barriers to competition were removed, the production or consumption characteristics of certain goods are such that these goods cannot be provided through the market. Problems of "externalities" arise which lead to "market failure" and require solution through the public sector.

4. The rate of discount used in the valuing of future (relative to present) consumption may differ as seen from a public and a private point of view.

5. The market system, especially in a highly developed financial economy, does not necessarily bring high employment, price level stability, and the socially desired rate of economic growth. Public policy is needed to secure these objectives.

6. Social values may require adjustments in the distribution of income and wealth, which results from the market system and from the transmission of property rights through inheritance.

As the Musgrave's further remark, "to argue that these limitations of the market mechanisms call for corrective of compensating measures of public policy does not prove, of course, that any policy measure which is undertaken will in fact improve the performance of economic system. Public policy, no less than the private policy, can err and be inefficient."

Since the Great Depression, there has been an increase in the stabilisation, allocation and distribution functions performed by the governments of the predominantly market economies. However, the extent of State control and the types of control may vary widely between nations depending upon the nature and stage of development of the economy, the behaviour of the private sector, the political philosophy, social attitude, and administrative system, etc.

Even in the market economies, State ownership of enterprises and even the whole of certain industries is not uncommon. The public utilities in these countries are either under strong State control or owned by the State. There had also been a tendency in some of these countries to nationalise certain critical industries as well as to own enterprises in important industries. This was true of the members of the European Economic Community (EEC), Canada, etc. However, since the late 1970s, the trend has been privatization. It is often politics that determines economic and business policies highlights the critical importance of the political environment to business. The political environment includes factors such as the characteristics and policies of the political parties, the nature of the Constitution and government system and the government environment encompassing the economic and business policies and regulations. These factors may vary as considerably between different nations, between different provinces of the same nation and also overtime.

Major economic policy decisions often have political underpinnings. The adoption, in the early 1950s, of the principle of socialist pattern of society as the socio-economic philosophy by the Congress party, which ruled India until 1995, except for a brief period (1977-1980), was mainly responsible for the public sector dominated development strategy followed in India until the early 1990s. It is indeed the dramatic changes in the political environment in the erstwhile USSR and East European countries that gave rise to drastic changes in their economic policies in the late 1980s. And these developments have encouraged a revolutionary change in India's economic policies in 1991.

Rationales of Public Enterprises

Three principle forms of organization for the administration of the public enterprises, each achieving a different balance between the 'autonomy' and "governmental control' are being experimented by the ~Government of India. These forms of organization are Departmental Undertakings, Statutory Corporations and Government Companies. But, so far well-defined principles have not crystallized either in theory or h practice regarding the choice of the form of organisation for the public sector undertakings in India. The Administrative Reforms Commission in its Report on Public Sector Undertakings has recommended that a "Statutory Corporation" should in general be adopted for public sector projects in the industrial and manufacturing field. A similar suggestion was also made earlier by the Estimates Committee. But the government has been favoring the company form of organization for industrial and manufacturing, undertakings.

In this unit, we will initially describe the features of the above mentioned three .principal forms of organisation i.e. the Departmental Undertaking, Statutory Corporation and Government Company. Then the issue of choice of a form of organization for public enterprises will be discussed. Other forms of public enterprise organizations like control board, operating contract, sector corporations will be described. The concept of joint enterprise and the need for having an apex organisation for public enterprises will be highlighted.

Departmental Undertaking

Among the different forms of organisation, the 'Departmental' form is the oldest and is at par with normal government departments in matters of appropriation, parliamentary control and accountability. This form has .commonly been used for the administration of national services like posts and telegraphs and railways besides defense production units.

The main features of the departmental' form of organisation are:

a) A department is headed by a minister who is responsible for policy making and day to day administration.

b) Departments do not enjoy any financial autonomy, as the governmerit exercises strict financial and budgetary control over them.

c) Department follows routine procedures of administration and this leaves no scope for any flexibility in taking decisions and other matters too.

d) The .departments do not enjoy any autonomy in personnel matters. me personnel working in the departments are recruited by the public service commission and are governed by strict rules, regulations of the government.

According to the Report of the Seminar on Organisation and Administration of Public Enterprises in the Industrial field conducted by the United Nations Economic Commission for Asia and the Far East in 1956, the main features of departmental form of organisation in most of the countries are:

a) the departmental enterprise is financed entirely by appropriations from the Treasury and all or a major share of its revenues are paid into the Treasury;

b) the edterprise is subject 'to budget; accounting and audit controls applicable to other government activities;

c) the permanent staff of the enterprise are civil servantsand the methods by which they are recruited and the conditions of service under which they are employed are ordinarily the same as for other civil servants;

d) the enterpriseis generally organised as major subdivision of one of the control departments of government and is subject to the direct control of the Head of the Department; and

e) where this applies in the legal system of the country concerned, the enterprise possesses the sovereign immunity of the State and cannot be used without the consent of the government.

Although this form of organisation ensures full control by the government, there are obvious limitations in this form of organisation. It may not have adequate freedom of action-in matters such as technological improvements, capital expansion, finance and accounting, purchase and personnel administration. The Krishna Menon Committee Report on State Undertakings has also pointed out some limitations in having a purely departmental form of organisation. These include:

i) Permanent staff is subject to rules and regulations applicable to civil servants, thereby preventing both promotion on merit and prompt disciplinary action where necessary;

ii) tardy procedures for arranging funds; for instance, the necessity for getting sanction# for expenditure and other matters in every single case;

iii) cash receipts have to be put into government account and cannot be taken out without special sanction;

iv) the system of accounting; and

v) the departmental methods of purchase of raw material and sale of products and so on.

The Departmental form of undertakings due to their being subject to such limitations is not very popular. Inadequacy of this form has been recognised and two alternative forms viz., a 'statutory corporation' and 'government company' were developed to allow flexibility and initiative in the management of the public sector undertakings. Let us now discuss these two forms of organization.

STATUTORY CORPORATION

After Independence with the government assuming new economic, commercial, industrial functions for the welfare of the people; it was felt that departments are not suitable for carrying out all these functions. As we have discussed in the earlier section, departmental undertakings lack flexibility, autonomy, quick decision making powers. Hence statutory corporations are better suited for these functions, as they have altogether a different type of structure. Since they have more freedom in decision making and flexibility in their day to day working than departments there was acceptance of statutory corporation as the appropriate form of organisation for public sector units This is one of the reasons, for adopting this form of organisation while setting up the Damodar Valley Corporation, the Industrial finance Corporation etc., after Independence.

Statutory Corporations are set up under specific statutes of the Parliament and the extent of their accountability and the nature of the parliamentary control is indicated in the statutes.

The principal characteristics of a corporation are :

a) It is owned by the government and it is established for some specific purpose.

b) It is estab1ished.by law or statute passed by the Parliament or Legislature. The statute clearly lays down the objectives, powers, and privileges, the form of management and its relationship with the established departments and ministries.

c) The statutes creating the corporations also vest in a body, usually known as the 'Board of Directors' the powers to act in the name of the 'Corporation' subject to government's right to issue directions from time to time.

d) The corporation has a 'corporate status' It implies that in the eyes of law a corporation has a status of that of an individual. For legal purposes it is a separate entity, can enter into contracts, acquire property, can sue anybody and be sued. A statutory corporation is an administrative agency of the government, but in the eyes of law it has an independent. status like a citizen. This is known as 'corporate status' of the corporation.

e) The statutory corporation has financial autonomy. It is usually independently financed. It obtains its funds from borrowings and is authorised to use and re-use its revenues.

f) The employees of the corporation normally are not civil servants. They are recruited and remunerated under the' terms and conditions determined by the corporation, except that in certain matters certain broad guidelines issued by the government have to be adhered to.

A corporation therefore is in an advantageous position because it has initiative, flexibility and operational freedom and relieves the ministers of direct administrative responsibility. However, the creation of this device has given rise to new and equally difficult problems. There is a danger that their operations may become uncoordinated and they may become too much independent. According to Hanson, "the freedom conferred on an enterprise by this form of organisation can be so large that the problem ot public accountability becomes very difficult". The resultant problem is as to how far should the government keeps control over a corporation or how far should it go to grant it autonomy. Exercise of control by the government and Parliament is likely to take away its primary advantages of autonomy and freedom.

GOVERNMENT COMPANY

Government Company is the new form of organization which is being widely used in India and many European countries for the industrial and commercial undertakings. The company form has become popular due to the merits of easy formation, flexibility in administration, freedom from governmental interference etc. The government company, according to Sec. 617 of the Companies Act is that in which not less than 51 per cent of the paid-up share capital is held by the Central government or State government or jointly. by the Central and state governments. This form of organisation can associate private enterprise-national or foreign. A government company is established by issue of an executive order. It does not need the approval of the Parliament or State Legislature.

Some of the characteristics of a government company are:

a) It is a body corporate created under the Companies Act. Like statutory corporation, it can own property, sue, be sued in its own name and enter into contracts.

b) It is governed by Memorandum of Association and Articles of Association which lay down the objectives of the company, and other rules governing its internal management.

c) A company is managed by a board and depending upon the extent to which private capital is participating in the enterprise, all the directors or majority of them are appointed by the government.

d) The personnel of a government company are not, civil servants and they are appointed by the company on terms and conditions different from that of government departments.

e) It enjoys financial autonomy. If it is fully owned by the government, it obtains funds from the government and otherwise from some private shareholders, revenues secured through sale of its goods and services. It is also not governed by accounting and audit procedures applicable to government departments.

A government company is far easier to form than a public corporation. The latter generally calls for specific legislation for which the Parliament may not have time or which the government may not wish to introduce at a given point. With the adoption of company form of set up for any public enterprise, the government is not bound by any limitations as imposed by any specific act because of the regulations governing and guiding the Board of Directors in the form of Articles of Association which unlike an Act, can be modified periodically in an easier way.

The company form is also convenient when,

i)c the government has to take over an existing enterprise in an emergency;

ii) the government 'wishes to manage an enterprise in association with private enterprise;

iii) there is competition with the private sector requiring operational autonomy; and

iv) there are certain compulsions by the donor countries to have specific form of organisation.

The use of company form of organisation has at times been criticised on certain grounds like it does not assume accountability to the Parliament which is implicit in the case of departmental form of organisation and explicit through legislation in the case of public corporation. Also it serves a limited purpose in the case of organisations established for developmental or promotional purposes.

INTERNATIONAL BUSINESS

A business enterprise who goes for international business has to take a very wide and long view before making any decision, it has to refer to social, political, historical, cultural, geographical, physical, ecological and economic aspects of the another country where it had to business. International business by its nature is a primary determinant of international trade, one of the results of the increasing success of international business ventures is globalization. International Business is the process of focusing on the resources of the globe and objectives of the organizations on global business opportunities and threats. International business is defined as global trade of goods/services or investment.

DRIVERS OF INTERNATIONAL BUSINESS

1. **Higher Rate of Profits**: -The basic objective of business is to achieve profits. When the domestic markets do not promise a higher rate of profits, business firms search for foreign markets where there is scope for higher rate of profits. Thus the objective of profit affects and motivates the business to expand operations to foreign countries.

2. Expanding the Production Capacities beyond the Demand of the Domestic Country: Some of the domestic companies expand their production capacities more than the demand for the product in domestic countries. These companies, in such cases, are forced to sell their excess production in foreign developed countries. Toyota of Japan is an example.

3. Limited Home Market: When the size of the home market is limited either due to the smaller size of the population or due to lower purchasing power of the people or both, the companies internationalize their operations.

4. Political Stability vs. Political Instability: Political stability does not simply mean that continuation of the same party in power, but it does mean that continuation of the same policies of the Government for a quite longer period.

5. Availability of Technology and Competent Human Resources: Availability of advanced technology and competent human resources in some countries act as pulling factors for business firms from the home country. The developed countries due to these reasons attract companies from the developing world.

6. High Cost of Transportation: Initially companies enter foreign countries for their marketing operations. But the home companies in any country enjoy higher profit margins as compared to the foreign firms on account of the cost of transportation of the products. Under such conditions, the foreign companies are inclined to increase their profit margin by locating their manufacturing facilities in foreign countries through the Foreign Direct Investment (FDI) route to satisfy the demand of either one country or a group of neighboring countries.

7. Nearness to Raw Materials: The source of highly qualitative raw materials and bulk raw materials is a major factor for attracting the companies from various foreign countries.

8. Liberalisation and Globalisation: Most of the countries in the globe liberalized their economies and opened their countries to the rest of the globe. These change in policies attracted multinational companies to extend their operations to these countries.

9. To Increase Market Share: Some of the large-scale business firms would like to enhance their market share in the global market by expanding and intensifying their operations in various foreign countries. Smaller companies expand internationally for survival while the larger companies expand to increase their market share.

Multinational Corporations - Definition and Meaning

MNCs are defined as an enterprise that is headquartered in one country but has operations in one or more countries. Sometimes it is difficult to know if a firm is an MNC because multinationals often downplay the fact that they are foreign held.

"A corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment, firms that participate in international business, however large they may be, solely by exporting or by licensing technology are not multinational enterprises."

The various benchmarks sometimes used to define "multi nationality" are that the company must:

1. Produce (rather than just distribute) abroad as well as in the headquarters country
2. Operate in a certain minimum number of nations.
3. Derive some minimum percentage of its income from foreign operations.
4. Have a certain minimum ratio of foreign to total number of employees, or of foreign total value of assets
5. Possess a management team with geo-centric orientations.
6. Directly control foreign investments (as opposed simply to holding shares in foreign companies).

Characteristics of a Multinational Corporation

The following are the common characteristics of multinational corporations:

1. Very high assets and turnover

To become a multinational corporation, the business must be large and must own a huge amount of assets, both physical and financial. The company's targets are high, and they are able to generate substantial profits.

2. Network of branches

Multinational companies maintain production and marketing operations in different countries. In each country, the business may oversee multiple offices that function through several branches and subsidiaries.

3. Control

In relation to the previous point, the management of offices in other countries is controlled by one head office located in the home country. Therefore, the source of command is found in the home country.

4. Continued growth

Multinational corporations keep growing. Even as they operate in other countries, they strive to grow their economic size by constantly upgrading and by conducting mergers and acquisitions.

5. Sophisticated technology

When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital-intensive technology, especially in their production and marketing activities.

6. Right skills

Multinational companies aim to employ only the best managers, those who are capable of handling large amounts of funds, using advanced technology, managing workers, and running a huge business entity.

7. Forceful marketing and advertising

One of the most effective survival strategies of multinational corporations is spending a great deal of money on marketing and advertising. This is how they are able to sell every product or brand they make.

8. Good quality products

Because they use capital-intensive technology, they are able to produce top-of-the-line products.

UNIT – II FOUNDATION OF INDIAN BUSINESS

Definition of the Manufacturing Industry

Manufacturing is the process of transforming materials or components into finished products that can be sold in the marketplace. Every physical product that you buy in a store or online is manufactured somewhere. The manufacturing industry is one of the largest sectors of the U.S. economy, employing more than 12 million workers. Today, technology is causing the country's economy to move towards offering services as opposed to producing goods. However, it is becoming clear to economists that a healthy manufacturing industry is one of the hallmark indicators of a healthy, thriving economy. And manufacturing intermingles with nearly every area of the economy.

Manufacturing Industries Definition

Manufacturing industries are those that engage in the transformation of goods, materials or substances into new products. The transformational process can be physical, chemical or mechanical. Manufacturers often have plants, mills or factories that produce goods for public consumption. Machines and equipment are typically used in the process of manufacturing. Although, in some cases, goods can be manufactured by hand. An example of this would be baked goods, handcrafted jewelry, other handicrafts and art.

Service Enterprises

The enterprises engaged in providing or rendering of services defined in terms of investment and are in equipment. Service enterprises include many kinds of businesses. Examples include dry cleaners, shoe stores, barber shops, restaurants, ski resorts, , and hotels. In many cases service are moderately small because they do have mechanized services and limit service only as many individuals as they accommodate at one time.

The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment, has contributed significantly to export and has provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

INTRODUCTION- MSME Investment

The micro, small and medium enterprises have been defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, in terms of their investment in Plant and Machinery, as under:

For the Manufacturing Sector	
Enterprises	**Investment in plant & machinery**
Micro Enterprises	Does not exceed Rs. 25 lakh
Small Enterprises	More than Rs. 25 lakh but does not exceed Rs. 5 crore
Medium Enterprises	More than Rs. 5 crore but does not exceed Rs. 10 crore
For the Service Sector	

Enterprises	Investment in equipments
Micro Enterprises	Does not exceed Rs. 10 lakh
Small Enterprises	More than Rs. 10 lakh but does not exceed Rs. 2 crore
Medium Enterprises	More than Rs. 2 crore but does not exceed Rs. 5 crore

The Micro, Small and Medium Enterprises (MSMEs) contribute about 7-8 per cent of India's GDP, 45 per cent of the manufacturing output and 40 per cent of the exports. They are recognised as the engine of growth for the economy. After agriculture, MSME sector employs the largest number of persons. MSMEs are widely dispersed throughout the country and produce a diverse range of products catering to various segments of the market. The geographic spread, diverse product range and potential for innovation and employment generation make them extremely important in the context of economic growth with equity and regional balance.

The recent slowdown in the Indian economy, coming as it does in the wake of a global slowdown, has prompted the government to look at various issues concerning theMSME sector, both from the point of view of external impact on it as well as from the standpoint of its potential to trigger positive impulses in the short and medium term. The Cabinet Secretary set up two inter-ministerial committees: the first, to recommend how the exports from MSMEs can be enhanced, and the second, to recommend how the production from MSMEs can be enhanced. This report deals with the second subject.

Trends in Manufacturing

The manufacturing sector in India (including the MSME segment) grew at an annual average growth rate of 9% during the period 2005-06 to 2012-131. In the last two years, the growth rate in the manufacturing sector has fallen steeply. The Economic Survey reports that in 2009-10 and 2010-11, the growth in manufacturing was 11.3% and 9.7% respectively, but it fell sharply to 2.7% in 2011-12 and to 1.9% in 2012-13. CSOs recent trends in manufacturing sector in the country, as reflected in the monthly Index of Industrial production (which includes mining and electricity generation also) are indicative of a continuing slowdown in the industry.

Nature of Services

The definition of service is "any intangible product, which is essentially a transaction and is transferred from the buyer to the seller in exchange for some consideration (or no consideration). Let us take a look at some of the characteristics of a service.

- Intangibility: A service is not a physical product that you can touch or see. A service can be experienced by the buyer or the receiver. Also, you can not judge the quality of the service before consumption.
- Inconsistency: There can be no perfect standardization of services. Even if the service provider remains the same, the quality of the service may differ from time to time.
- Inseparability: One unique characteristic of services is that the service and the service provider cannot be separated. Unlike with goods/products the manufacturing and the consumption of services cannot be separated by storage.
- Storage: The production and consumption of services are not inseparable because storage of services is not possible. Being an intangible transaction there can never be an inventory of services.

Types of Services

Let us take a look at the kinds of services that we come across in the economy. There are basically three types of classification of services.

- Banking and E-Banking
- Insurance
- Life Insurance, Fire Insurance and Marine Insurance
- Communication Services, Transportation and Warehousing

1] Business Services

The first type of service is business services. The most basic definition would be services that support the daily functioning and activity of any business but is not a commodity. Take for example IT services. In this day and age, every business will require technological setup. The people who provide IT support to a business are providing a service in exchange for consideration.

There are other similar services that any business enterprise may require for the smooth functioning and management of its activities. Some such services are Banking, warehousing, insurance, communication, transport etc.

2] Personal Services

Personal services are commercial activities that are provided to individuals according to their individualistic needs. The service here is extremely personalised to the customer. So there can be no uniformity in the services. The service provider will alter his service according to the personal needs of each customer.

Some examples of personal services are catering, hotel and accommodation, medicine, any kind of artistic endeavour (like painting, sculpting etc). As you will notice all these services fulfil personal needs of the customers.

3] Social Services

And when talking about types of services, we come to social services. These are essential public services. They are provided by the government or other such non-profit organisations. These services aim to achieve social equality in the society by providing the backward sections with the help they need. The service is not provided for a profit motive but as a social cause. Social services include services in the sector of education, sanitation, medical facilities, housing etc.

Small Business Meaning

A business which functions on a small scale level involves less capital investment, less number of labour and fewer machines to operate is known as a small business.

Small scale Industries or small business are the type of industries that produces goods and services on a small scale. These industries play an important role in the economic development of a country. The owner invests once on machinery, industries, and plants, or take is a lease or hire purchase. These industries do not invest more than one crore. Few examples of small-scale industries are paper, toothpick, pen, bakeries, candles, local chocolate, etc., industries and are mostly settled in an urban area as a separate unit.

Characteristics of Small Scale Industries

- **Ownership:** They have a single owner. So it is also known as a sole proprietorship.
- **Management:** All the management works are controlled by the owner.
- **Limited Reach:** They have restricted area of operation. So they may be a local shop or an industry located in one area.
- **Labor Intensive:** Their dependency on technology is very little because they are dependent on labours and manpower.
- **Flexibility:** Because they are small, they are open and flexible to sudden changes, unlike large industries.
- **Resources:** They utilize local and immediately available resources. They do better utilization of natural resources and limited wastage.

Categories of Small Business

On the basis of capital invested, small business units can be divided into the following categories:

(1) Small Scale Industry (Before 2006)

- They invest in fixed assets of machinery and plant, which does not surpass than one crore.
- For export improvement and modernization, expenditure ceiling in machinery and plant is five crores.

(2) Ancillary Small Industrial Unit

- This industry can hold the status of an ancillary small industry if it supplies a minimum 50 per cent of its product to another business, i.e. the parent unit.
- They can produce machine parts, components, tools or standard products for the parent unit.

(3) Export Oriented Units

- This industry can possess the status of an export-oriented unit if it exports exceeds 50 per cent of its manufactures.
- It can opt for the compensations like export bonuses and other grants awarded by the government for exporting units.

(4) Small Scale Industries Owned by Women

- An enterprise operated by women entrepreneurs in which they alone or combined share capital minimum of 51 per cent.
- Such units can opt for the special grants from the government, with low-interest rates on loans, etc.

(5) Tiny Industrial Units

- It is an Industrial or a company whose expenditure on machinery and plant does not exceed Rs. 25 lakhs.

(6) Small Scale Service and Business

- It is a fixed asset investment on machinery and plant excluding land and building should not surplus Rs. 10 lakhs

(7) Micro Business Enterprises

- It is a tiny and small business sector.
- The investment in machinery and plant should not exceed Rs.1 lakh.

(8) Village Industries

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    - The industries which are located in rural areas and manufacture any product performs any service with or without the utilization of power is called village industries.

They have fixed investments on capital as per head, workers, and artisan, which does not exceed Rs.50, 000.

(9) Cottage Industries

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    - It is also known traditional or rural industries.
    - These industries are not covered by the capital investment criterion.

Cottage industries are characterized by the following features :

1. These are organized by a single, with private resources.
2. Use family labour and local talent.
3. Simple instruments are used.
4. Small capital investment is involved.
5. Simple products are made.
6. Indigenous technology is utilised.

Features of Small Business:

It is not correct to say that the days of small industries are gone. Eugene Staley has mentioned five distinct ways in which small industries successfully coexist with large industry.

1. Competition:

Small industry can out-compete large industry in certain circumstances and in selected products. Some of these industries are bricks and tiles, fresh baked goods, condiments and preserved fruits, goods requiring small engineering skill, items requiring artistry and craftsmanship.

2. Supplementary:

Small industry can **"fill the cracks"** between the big volume and standardised outputs of large factory. Staley mentions a Madras case where a small tricycle factory flourished alongside a large cycle factory.

3. Components:

A small industry can produce components for a large industry. This is the most common example of the small manufacturing sector and many of them function under the protection of big industries. Very often they also derive the advantage of a protected market with assured supply of their output to one or more selected large manufactories.

4. Initiation:

Small industry can initiate new products and subsequently grow large with the growth of the product. Staley mentions that many of the automobile factories started this way in USA. In India, the electronics industry looks like taking to this pattern of development.

5. Servicing:

Small industry can install service, and repair the products of large industry. In India these industries are growing in respect of major industries like refrigerators, radio and TV sets, watches, and clocks, cycles and motor cycles and motor vehicles in respect of repair, servicing and maintenance.

It is thus obvious that growth of large scale industries does not necessarily bring about the end of cottage or small scale industries. Electricity has revolutionised large-scale industry; at the same time small units based on electricity can also be cheaply and conveniently started with limited infrastructure.

Besides, many artistic goods, products of craftsmanship, and luxury goods do not lend themselves to standardisation of large scale manufacturing and are largely reserved to the cottage, rural and small industrial sectors.

Finally new ventures, so long as they are in an experimental or formative stage are first tried on a small scale and it is only when their success is demonstrated and their profitability and capital base established that they are organised on a large scale.

Small business always plays an important role in the development of any country. As already mentioned, most of the industrial and business activities starts small. With market opportunities and vision of the entrepreneur, it grows into a large industry.

There are a number of reasons why small businesses are important to our economy:

1. They are important source of competition and challenge the economic power of large firms.

2. They offer wide range of choice to the consumer. Large businesses are more oriented towards the mass market, but smaller firms can serve specialised needs.

3. They broaden the distribution of economic and political power.

4. In many areas, they bring the development and provide local leaders with strong local roots.

5. They are sources of innovation and creativity.

6. They are providing large scale employment scattered all over the country.

7. They provide the ancillary support to large industries.

Types of Small Business:

Small business includes a variety of companies.

They may operate in any of the following areas:

(a) Manufacturing,

(b) Trading,

(c) Services and

(d) Others.

The definition of small business is given in relation to the investment made in plant and machinery not exceeding Rs. 60 lakhs and Rs. 75 lakhs in case of ancillary industry and Rs. 5 lakhs for tiny industry.

Roles of Small Business:

In selecting industries for development in a new country attention should be given to those industries which create conditions favourable for the growth of other industries since this method will lead to the simultaneous development of many industries. Rosenstein Rodan advocates this line of development. India followed this path by constructing multipurpose river-valley projects and by developing small scale industries.

An underdeveloped economy should produce and export commodities that use relatively less capital per unit of output and to import items requiring more capital. Prof. Amartya Sen has come to the conclusion that the case for choosing relatively labour-intensive techniques in the under developed economies is not bad in many sectors of production.

Small industries are capital-light, skill-light, labour-intensive and dispersed. They are of quick investment type, and by carrying the job to the worker they can overcome the difficulties of geographical immobility. In the conditions prevailing in many underdeveloped countries the development of small industry may be the most economic form of industrialisation; it may be more economic than either large scale organised industry or cottage industry.

Moreover small industry represents much less of a break with previously established modes of living and therefore represents less of strain than industrialisation in the form of large units.

In relation to cottage and small scale industries the Industrial Policy Resolution, 1956, states that they provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources, of capital and skill which might otherwise remain unutilized.

Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country. The Industrial Policy Resolution puts forth four main roles of small industries in the Indian economy.

1. Employment Argument:

The most important economic task before the country is the solution of unemployment problem. The scope for creation of **"wage employment"** is limited as it depends on industrial growth. But there is a large scope for the creation of **"self-employment"** and here the small scale industries can play a significant role.

The development of the Indian economy over the last four decades has been characterised by a high incidence of unemployment and under-employment, resulting in 30 p.c. of the population living below the poverty line. Another feature is that the growth of the non-agricultural sector during the last 40 years has failed to make any impact on the work force, 62% people continue to depend on agriculture.

These aspects of the economy have prompted the policy makers to turn to small industry for absorption of the additions to the labour force primarily because these are labour-intensive in character. The small businesses are labour-intensive and create more employment per unit of capital employed.

A more sophisticated form of this argument is that small industries should be developed because the capital-output ratio for such enterprises is lower vis-a-vis large scale industries. Prof. P. C. Mahalanabis supports small scale industries on the ground that capital-output ratio for such enterprises is lower than that for large scale enterprises.

2. Equality Argument:

Large-scale industries generally lead to inequalities of income and concentration of economic power. On the other hand, an SSI leads to a more equitable distribution of produce of industry. In other words, the income generated in a large number of small enterprises is dispersed more widely in a community than income generated in a few large enterprises.

The income benefit of small enterprises is derived by a large population while large enterprises encourage more concentration of economic power. In this way, small enterprises bring about greater equality of income distribution.

However, it is a fact that there is a common tendency in all countries wages to be lower in small factories than in large factories; but it is also equally true that in underdeveloped economy workers have a choice not between a high paid job and a low paid job but between a low paid job and no job at all.

So the low paid job is accepted by the force of circumstances. In the absence of small enterprises, the workers have to lose even small wage which they hope to get. A policy of supporting cottage and small industries is really a policy of social insurance for a group which would otherwise be threatened by unemployment.

3. Latent Resources Argument:

Small scale industries are capable of mopping up latent and unutilized resources. This argument justifies the cause of SSIs on three grounds: First, it presupposes that there are a large number of small and potential entrepreneurs who are capable of running industrial units efficiently if proper help is extended to them.

Second, there are a large number of potential enterprises whose full capacities have not been used so far. Third, SSIs will be helpful in putting idle savings in productive use.

4. Decentralisation Argument:

Decentralisation of industrial activity has also been advanced as another reason for promoting SSIs.

There are two aspects of this argument; first, there is the need to prevent congestion in large cities through prevention of growth of industries there; second, this negative measure has to be reinforced by promoting industrial growth in semi-urban and rural areas so that the local people can stay on their areas without emigrating to the nearby cities.

The primary objective of developing small industries in rural areas is to extend work opportunities, raise incomes and standard of living and to bring about a more balanced and integrated rural economy. In India, the method adopted for developing cottage and small scale industry is the construction of industrial estates, usually in towns.

These estates provide factory space, electricity, sheds and common facilities. At present there are 346 such industrial estates in India.

Large industries are mostly concentrated in metropolitan cities. The smaller towns and the countryside in order to benefit from modern industrialisation must encourage small enterprises. Industrialisation of the country can become complete only if it penetrated into the remote corners of the country. Small industries by carrying the job to the workers overcome the difficulties of territorial immobility.

An important reason for developing small industries lies in the prevention of a lopsided industrial growth. A pyramid like structure of industrial development with a few large scale industries at the top and a mass of small enterprises at the base would obviously make the industrial economy ill balanced.

There should be layers of industrial enterprises in between the largest and the smallest categories. An integrated development of large scale and small scale industries complementing each other is the most important aspect of economic planning which should not be lost sight of.

The larger units should be a source of most of the critical raw materials which the smaller units need for processing them into finished goods.

The smaller units in their turn should be acting as auxiliaries engaged in the manufacture of components, parts and accessories required by the bigger units which should have sub contracted with the former. The economic and technical possibility of such complementary relationship should be explored and realised.

The Advantages and Disadvantages of Small Scale Business

There are many kinds of merits and demerits of the small scale production, such as:

(a) Advantages of Small Scale Production:

The following are the merits of small scale production:

1. Close Supervision:

The small producer can himself supervise the minutest details of the business.

Nobody is allowed to spoil machinery or waste materials. The master's eye is everywhere. There can be no fraud or idleness. He will exercise utmost economy to achieve the aim of maximum profits.

2. Nature of Demand:

The small producer has an advantage over the large producer, when the demand is either small or is constantly changing. He has thus a sphere of his own where he has an advantage over the large scale producer.

3. More Employment:

In the face of large scale unemployment existing in the country, the development of cottage and small scale industries is of great help to create more employment opportunities. Small scale production is more labour-intensive i.e., there is more use of labour than machinery. Thus, many unemployed persons are employed in the newly developed small scale industries.

4. Need of small Capital:

The small scale production can be started with small capital. Where there is shortage of capital, the small scale industries are of great advantage for the development of industries.

5. Direct Relation between the Workers and the Employers:

In small scale production less workers are employed. Therefore, a close relationship exists between the employer and the workers. Because of this close relationship, the employer can look after the well-being of his employees and employees, too, consider their work as their own and the work goes on smoothly without any disputes between the two parties.

6. Direct Relation between the Customers and the Producers:

The small scale producers generally cater to the local demand. Hence, they remain in touch with their customers. A small producer personally knows his customers. Therefore, he can produce goods according to the taste and fashion of each individual customer.

7. Easy Management:

The management of small business is easy and economical. Simple accounts and a few persons can manage the job well.

8. Freedom of Work:

There is complete freedom of work in a small business organisation. Workers are more or less self-sufficient. They are not dependent on the capitalists and carry on their jobs freely.

9. External Economies:

The small scale production secures all kinds of external economies, which are available to large units also. These economies are: better transport, electricity, and communication facilities; banking and insurance services; technical workers, etc.

10. No Evils of Large Scale Production:

The small scale production cannot fall victim to the evils of the large scale production i.e., evils of the factory system, overcrowding, etc.

11. Other Advantages:

In the small scale production, there are some important advantages over the large scale production:

(i) Whenever demand changes, the supply can be adjusted accordingly.

(ii) There are less possibilities of strike and lockouts and no moral degradation of the workers is feared.

(iii) There are no dangers of monopolistic institutions.

(b) Disadvantages of Small Scale Production:

The following are the demerits of small scale production:

1. High Cost of Production:

The cost of production per unit increases because there is a high cost of labour, a very little scope for division of labour and lesser use of machinery.

2. Wastage of By-products:

In the small scale production, it is not possible to make economic use of the by-products, as in the large scale production. By-products of the small producers generally go waste.

3. Less Use of Machines:

In the small scale production, there is less scope for the use of machines. As a result, these firms cannot take advantages of the use of the machinery.

4. Lack of Division of Labour:

In the small scale industries, the size of production is small, and there is lack of division of labour and less profits to the entrepreneurs.

5. Difficulty in Getting Loans:

It cannot enjoy the financial economies. Funds are either not available and if available, they have to pay higher rate of interest.

6. Difficult to Face Economic Crisis:

Because of the limited resources and financial weakness, the small scale producers cannot face economic crisis. The producers do not have the capacity to bear losses for long. In fact, under a small economic crisis, many small factories are closed down.

7. Costly Raw Materials:

In the small scale production, raw materials are purchased in small quantities which are available to the small producer at higher prices.

8. Lack of Standardised Goods:

The quality of goods is not standardised or upto the mark in the small scale production. It is difficult to sell goods because of their low standard and inferior quality.

9. Old Techniques:

In the small scale industries, the production is undertaken with the help of old techniques or old and obsolete machines. It is not within their capacity to bear the risk of installing new machinery.

10. Lack of Research:

The small scale industries have limited means at their disposal. They cannot spend much on research in the field of science and technology. In this way, the small scale industries are a hurdle in the way of technical research and, industrial development.

11. Difficult to Face Competition with Large Scale Producers:

If some large scale producers enter the market, the small producers find it difficult to compete with them. The small producers perish at the hands of the large scale producers.

Globalisation and Liberalisation

LPG stands for Liberalization, Privatization, and Globalization. India under its New Economic Policy approached International Banks for development of the country. These agencies asked Indian Government to open its restrictions on trade done by the private sector and between India and other countries.

ndian Government agreed to the conditions of lending agencies and announced New Economic Policy (NEP) which consisted wide range of reforms. Broadly we can classify the measures in two groups:

1. Structural Reforms

With long-term perspective and eyeing for improvement of the economy and enhancing the international competitiveness, reforms were made to remove rigidity in various segments of Indian economy.

2. Stabilization Measures (LPG)

These measures were undertaken to correct the inherent weakness that has developed in Balance of Payments and control the inflation. These measures were short-term in nature. Various Long-Term Structural Reforms were categorized as:

- Liberalization
- Privatization and
- Globalization

Collectively they are known by their acronym LPG. The balance of Payment is the system of recording the economic transactions of a country with the rest of the world over a period of one year. When the general prices of goods and services are increasing in an economy over a period of time, the same situation is called Inflation. Let's understand each terminology in detail

Liberalization

The basic aim of liberalization was to put an end to those restrictions which became hindrances in the development and growth of the nation. The loosening of government control in a country and when private sector companies' start working without or with fewer restrictions and government allow private players to expand for the growth of the country depicts liberalization in a country.

Objectives of Liberalization Policy

- To increase competition amongst domestic industries.
- To encourage foreign trade with other countries with regulated imports and exports.
- Enhancement of foreign capital and technology.
- To expand global market frontiers of the country.
- To diminish the debt burden of the country.

Impact of Globalisation

Economic Reforms during Liberalization

Many sectors were impacted during the course of Liberalization. They were:

- Industrial Sector Reforms
- Financial Sector Reforms
- Tax Reforms / Fiscal Reforms
- Foreign Exchange Reforms / External Sector Reforms

Let us discuss all reforms in detail:

1. Industrial Sector Reforms

A number of reformative steps were taken to deregulate the industrial sector. Like,

I. Abolition of Industrial Licensing

The government abolished the licensing requirements of all industries, except for five industries, which are:

- Liquor
- Cigarettes
- Defense equipment
- Industrial Explosives
- Dangerous Chemicals, drugs, and pharmaceuticals

II. Contraction of Public Sector

A number of public sector industries which were earlier reserved under governmental control reduced from 17 to 8 in the count. Presently these companies are only 3 in number. Public sector undertaking controls in the sectors mentioned below –

- Railways
- Atomic Energy
- Defense

III. De-reservation of Production Areas

The productions areas which were earlier reserved for Small Scale Industries were de-reserved to all. This improved the land efficiency and developed more cultivation area across the country. Farmers were earlier restricted to use area owned by them. Later during privatization, many private sector organizations entered into the sector of farming. Liberalization technically increased the production per hectare and supported the growth of the nation.

IV. Expansion of Production Capacity

The producers were voluntarily allowed to expand their production capacity according to the nature of the market. They were allowed to choose their own crop or product. On the study of the market conditions related to demand and supply the producers were allowed to choose the size of land under cultivation for each crop and had a liberty to plan their production either for the domestic market or international markets.

Other products which had acceptability in international markets were allowed to manufacture. Exports were allowed for all types of crops. Import of latest technology was encouraged to develop more skills in agriculture.

V. Freedom to Import Capital Goods

To upgrade and adopt technology which is more advanced as compared to existing technology, the business houses, and production units were allowed to import capital goods from advanced countries. This helped in increasing the per-acreage cultivation across the country. Farmers and producers of other products were allowed to exchange the technological up gradation.

2. Financial Sector Reforms

Financial Sector includes various financial institutes like Commercial Banks, investment banks, stock exchange operators and foreign exchange dealers.

Following reforms were enforced and initiated in above mentioned financial institutes:

I. Reducing various ratios

- Statutory Liquidity Ratio (SLR) was lowered from 38.5% to 25%.
- Cash Reserve Ratio (CRR) was lowered from 15% to 4.1%.

II. Competition from new private banks

- The banking sector emerged in the private sector and many players grabbed the opportunity to compete with public sector banks.
- This lead to the creation of positive competition and expansion of the service sector for the consumers.

III. Change in the role of RBI

The ace bank of the country i.e. The Reserve Bank of India became a “facilitator”. Earlier RBI was the regulator of the financial activities in the country.

IV. De-regulation on interest rates

Banks were allowed to set their own interest rates on all business and commercial borrowings. But for saving bank deposits, the control was with the central government.

3. Tax Reforms / Fiscal Reforms

Fiscal Reforms are the policies set for the government’s taxation and public expenditure policies. All macroeconomic related issues are part of fiscal policies designed by the central government. Prior policy simplified the tax structure and taxation rates were dropped and reduced for convenience of the taxpayers.

This increased the tax revenue for the government and reduced all tax evasion strategies which taxpayers used to follow to skip tax liability. As the tax revenue and other revenues increased for the government, correspondingly government started developing all the areas which were either underdeveloped or undeveloped.

4. Foreign Exchange Reforms / External Sector Reforms

All foreign exchange policies and foreign trade policies were covered in external sector reforms. These were developed to increase international trade between countries. Various reforms were initiated in this sector to develop the foreign exchange reserves. Some of the reforms were:

I. Devaluation of Rupee

The value of the rupee was deliberately devalued to encourage exports and discourage imports. In 1991, to increase foreign exchange reserves, exports were promoted and all relevant benefits were provided to exporters.

II. Other Measures-

- The quota system was abolished. Especially on imports
- All import related policies were trashed
- Duties on various imported goods were reduced
- All export duties were withdrawn

Liberalisation:

Liberalisation refers to the removal of unnecessary controls and restrictions of the government in the form of licences, permits and quotas. India initiated liberalisation of industries in 1991. Liberalisation of industries in India took the following form.

Features of Liberalisation :

(i) Freedom of opening/starting production units.
(ii) Use of new machines and technology.
(iii) No government interference in production.
(iv) Free flow of foreign investment.

Privatisation:

Privatisation refers to the gradual transfer of ownership or management of state owned enterprises from the public sector to the private sector enterprises. It implies assigning a greater role to the private sector undertakings. In India, privatisation was followed in the following manner.

Features of Privatization:

(i) Reduction in extra burden on government.
(ii) Control over poor performance of public sec-tor.
(iii) Check on high-handedness of bureaucracy.
(iv) Disinvestment (sale of shares in PSUs to public)

Advantages and Disadvantages of Liberalisation

The following are some of the advantages and disadvantages of liberalisation.

Advantages:

1. Increase in foreign direct investment
2. Abolishing of licensing system in the country
3. Reducing the monopoly of public sector
4. Increase in the employment opportunities
5. Economic development of the nation
6. Reduction in rates of interest and tariffs
7. Development in technology due to use of foreign technology in industrial applications

Disadvantages:

1. Due to liberalisation there will be an increased dependence on other nations for forex, technology etc.
2. There will be economic instability as any changes in the currency in foreign markets will result in a significant impact on the economy.
3. Due to the introduction of new technology, there will be less skilled workers who can implement the technology.
4. The domestic sector will take a hit as industries will become dependent on cheap raw materials from foreign countries.

Globalisation:

Globalisation refers to the process of integration of various economies of the world. It is the process associated with increasing openness, growing economic independence and promoting economic integration in the world economy. In India, the following policies were followed with regard to globalisation.

Features of Globalization:

(i) It results in integration of world economies that helps in raising world production.
(ii) It helps in removing inefficiency from industrial units.
(iii) It helps in improving allocative efficiency of resources.
(iv) It encourages global competition which reduces costs and improves quality.

Advantages of Globalization

1. **Alteration of Technology:** The global alteration of technology is a good sign. Countries can borrow the technology via agreements and implementation for overall development. Communication will be more accessible from any part of the globe by utilizing advanced technology at minimal cost, time, and effort.
2. **Better Services and GDP Growth Rate:** Globalization always provides better services to people. Through technological progress, services such as water supply, networking, electricity supply, internet, and other services have become easier to deal with. Easy access to the internet is also the advantage of globalization. Globalization also ensures the participation of every country to uplift the world GDP growth.
3. **Improvement of Infrastructure:** Governments can deliver their services to the people more efficiently owing to the advancement of infrastructure. It is worth mentioning that

economic growth and the evolution of infrastructure are harmonious with each other in the development of a country.

4. **Affordable Commodities:** With access to the latest technology, the countries can provide products to their citizens at affordable prices. Globalization encourages competition in domestic sectors. Companies reduce product prices or follow a discernment pricing strategy.
5. **Extensions of Market:** Globalization favors the extension of markets. It provides an opening for domestic companies to go global.

Companies can observe saturation in demand for their commodities or services, but through globalization, these companies can satisfy the growing needs of foreign clients.

Disadvantages of Globalization

1. **Rising Inequality:** Globalization can raise the problem of inequality everywhere in the world by increasing specialization and trade. By trade boost of the per-capita income, it a cause relative poverty, worldwide.
2. **Growing Unemployment rate:** Globalization can increase the unemployment rate since it demands higher-skilled work at a lower price. In countries where Companies are relatively incapable of producing highly skilled workers, the unemployment rate can increase in those countries.
3. **Imbalanced Trades:** The balance of trade refers to the ratio between export and import of commodities and services. Any country can trade with any other country, and globalization causes an imbalance in this ratio. It is also termed 'trade deficits.' Over the years, trade imbalance has increased in developed countries by competition in the market.
4. **Environmental Harm:** The speed of industrialization is rising as an outcome of globalization. Industrialization advances economic growth, but it also harms the environment. Various chemical industries use harmful fertilizers and solutions or release industrial wastes into nature that causes harm to human life and the environment.
5. **Exploits poorer labor markets:** Globalization enables businesses to develop jobs and economic possibilities in developing countries by often offering cheaper labor costs. Yet, overall economic growth in such developing countries may be slowed due to globalization or, worse, become stagnan

Technological innovation

A technological innovation is a new or improved product or process whose technological characteristics are significantly different from before. Implemented technological product innovations are new products (product innovations) or processes in application (process innovations) that have been brought to market. The product or process is considered to be an innovation if it achieves specified advantages for the enterprise concerned; these need not be new from the point of view of other companies or the market.

Technological change refers to the process by which new products and processes are generated. When new technologies involve a new way of making existing products, the technological change is called process innovation. When they include entirely new products, the change is referred to as product innovation. Broadly speaking, technological change spurs economic growth and general well-being by enabling better utilization of existing resources and by bringing about new and better products. Besides benefits to suppliers or inventors of new technologies via disproportionate profits, new technologies have benefits for consumers (e.g., innovations in health care) and for the society (e.g., better oil-drilling techniques enabling less wastage and a more effective utilization of the oil in the ground). Current technologies also make the development of future technologies easier by generating new ideas and possibilities.

Changing technologies, however, can have negative consequences for certain sectors or constituencies. Examples of negative aspects include pollution (including environmental, noise, and light pollution) associated with production processes, increased unemployment from labor-saving new technologies, and so forth. This suggests that society must consider the relative costs and benefits of new technologies.

The process of technological change can be seen to have three stages:

1. invention,
2. development, and
3. diffusion.

The invention stage involves the conception of a new idea. The idea might be about a new product or about a better technique for making existing products. The invention might be due to a latent demand (e.g., the cure for an existing illness); such inventions are referred to as demand-pull inventions. Inventions can alternately be supply driven, when they are by-products of the pursuit of other inventions

Importance of Technology Innovation

Technological Innovation aims at improving a product or introducing a new product or process with new technological characteristics to differentiate it from before. Once they are brough in the market, it is considered as innovation and works to an advantage to the enterprise concerned or to the general public.

Here are some major reasons why innovation is required in all aspects of Business.

Allows Businesses to Evolve Alongside User Expectations

Client habits have evolved over the years. The shift in customer habits and expectations isn’t restricted to any specific demographic and is oxyacetylene by the widespread handiness of latest technology. Last year, each age-group and gender spent over a pair of hours online per day, and also the time spent online has virtually definitely up since then.

Keeps the Business Relevant

If technology is not able to fulfil the consumer demands and needs, it becomes completely irrelevant for businesses. Keeping up with the environment around and having access to new technologies or methods is significant in remaining relevant in a dynamic and competitive landscape.

Gives a Competitive Edge

Using a new generation technology presents you a competitive edge in the crowded marketplace. In a world in which maximum agencies are innovating or digitally transforming, truly failing to experiment, places you at a drawback by being more and more irrelevant to customers, rigid to change, and not able to compete with the greater, more efficient competitors.

Roadmap for Growth

Innovation is all about finding new techniques to be efficient and effective. With constant innovation, a business can continuously grow its team, competitive advantage and the revenue of the company. The combination of all the above benefits creates a catalyst for growth within the business and in the competitive world of business.

Helps in Problem-Solving and Ingenuity

Invaluable skills such as critical thinking and problem-solving are fostered in an innovative setting pushing the people in business to think in new ways and develop inventive solutions. This develops a culture and other people who think differently.

Investment for Future

The ability to adapt to change, evolve with customers and carry on with the newest technology, all contributes to future-proofing of business.

Modern Technologies Impacting Manufacturers

The manufacturing industry has always had an appetite for technology. From big data analytics to advanced robotics, the game-changing benefits of modern technologies are helping manufacturers reduce human intervention, increase plant productivity and gain a competitive edge.

Sophisticated technologies, such as artificial intelligence, the internet of things and 3-D printing among others, are shaping the future of manufacturing by lowering the cost of production, improving the speed of operations and minimizing errors. Since productivity is critical to the success of a manufacturing plant, every manufacturer is expected to make significant investments in these technologies.

Here are five technologies that are positively impacting the manufacturing industry.

1. The Industrial Internet of Things

The industrial internet of things (IIoT) is an amalgamation of various technologies, such as machine learning, big data, sensor data, cloud integration and machine automation. These technologies are being employed in areas like predictive and proactive maintenance, real-time monitoring, resource optimization, supply-chain visibility, cross-facility operations analysis, and safety, enabling plant managers to minimize downtime and enhance process efficiency.

FSimilarly, IoT-enabled and sensor-embedded equipment can communicate data that helps the supply-chain team track assets (using RFID and GPS sensors), take stock of inventory, forecast, gauge vendor relations and schedule predictive maintenance programs.

2. Big Data Analytics

Big data analytics can offer several ways for improving asset performance, streamlining manufacturing processes and facilitating product customization. The manufacturers are able to make informed decisions using productivity and waste performance data provided by big data analytics, lowering operating costs and increasing the overall yield.

3. Artificial Intelligence and Machine Learning

For several decades, robotics and mechanization have been employed by manufacturers to increase productivity and minimize production costs per unit. Artificial intelligence (AI) and machine learning seem to be the next wave in manufacturing. AI is helping production teams analyze data and use the insights to replace inventory, reduce operational costs and offer seamless quality control over the entire manufacturing process.

4. 3-D Printing

The 3-D printing or additive layer manufacturing technology is set to make a huge impact on high-end industries such as aerospace, mining machinery, automobiles, firearms, commercial and service machinery, and other industrial equipment. This revolutionary technology allows manufacturers to create physical products from complex digital designs stored in 3-D computer-aided design (CAD) files.

5. Virtual Reality

Virtual reality (VR) is simplifying the product design process by eliminating the need to build complex prototypes. Designers and engineers are using VR to create realistic product models, allowing them to digitally see their designs and troubleshoot potential issues before starting production. Clients can also review and interact with these digital designs, simulations and integrated devices, significantly reducing the time needed for designing to manufacturing the finished product.

Advantages and disadvantages of using new technology for businesses

New technology has a range of advantages and disadvantages for businesses and business stakeholders. It is important for businesses to assess the risk and make informed decisions about whether to use the latest technology.

Advantages of new technology include:

- easier, faster and more effective communication
- better, more efficient manufacturing techniques
- less wastage
- more efficient stock management and ordering systems

- the ability to develop new, innovative approaches
- more effective marketing and promotion
- new sales avenues

Disadvantages of new technology include:

- increased dependency on technology
- often large costs involved with using the latest technology (especially for small businesses)
- increased risk of job cuts
- closure of high street stores in favour of online business
- security risk in relation to data and fraud
- required regular updates

- can go down or have faults, which can stop all business operations instantly

Skill development

Skill development means a process which enables trainees and the working age people to gain access to dexterity, knowledge and ability, career ethics and good working attitude by skill training, establishing skill standards, and other relating activities.Skill Development is for determining the skill gaps and overcome them. Skills are required to define one’s ability and this ability is the sole reason behind the successful implementation of plans.

Each individual on this planet has some skill or unique talent and life are all about discovering that one X factor within yourself. The only introspection your own experiences would help you out to determine this.Just like a network, so many things are interrelated with your skills such as your aspiration, your goals, your achievements.

A right set of skill is mandatory to proceed in the right direction that will lead to accomplishing your aim.Lack of skills is also the reason behind your frustration when you will not be able to succeed and unnecessarily waste your time.When someone gets mastery in their skill, it is the result of the hard work of countless hours.It is the human mentality, that we generally give attention to the accolades but give a thought to the countless efforts that were made by the person to achieve that accolades.

Why Skill Development is important?

Skill development is like a valuable addition to your life. Everyone needs to be independently capable to earn their own bread and butter for survival in this competitive world.

In this rapidly changing world if one want to survive by one’s own skills are the must.

It is important to understand that knowledge doesn’t guarantee skill, practice does. Theory knowledge can give an imaginative structure but only practical knowledge can give a real exposure. Books are sufficient to throw light through someone else thought process but if it need to create own empire student need to come out of their comfort zone and implement their knowledge into the real world.

Only sitting into the classroom the students can only view what the world is showing to them but if they try to implement that in their life, they can surely change the world one day.

The lessons are not given in the books only, there is some lesson which is learned for life and a human mind have the capability to memorise that thing for a long time in which it was physically and mentally present and make efforts for it.

It also helps to increases the thinking capability of students.Skill should not restrict you with respect to the time your skill should be adaptable as per the need.

Here skill comes into the picture where it ensures that an individual has some capability that can be turned out into the profession.

Today's generation understand the importance of education that's why parents are trying their level best to provide good quality education to their children irrespective of their financial state.

But only education can make the future of the children,they must possess some skills where they can use this education and that will be beneficial for them as well as for the society also.

But there is a huge gap between our formal education system and current industry requirements.Only skill development programs can bridge the gap between them and ensure that the student will have the required skill set as per the requirement of the industry.

How one can develop the skills?

1.Take a step ahead towards core skills

Core skills are those skills that have a direct impact on goals.

Try to assume the initial level of learning and gradually increase it.

2.Divide the learning into segments

3.Learn it with determination

If you are determined enough then no one can stop you to master in that skill.

Initiatives were taken by the government for Skill India

Youth is considered as the backbone of any nation, that's why we also celebrate International Youth Day on 12th August in our India with the motive to encourage our youth to learn and grow and to make them realize that they are the future of our nation.

If the youth is directed and guided in the right manner then nobody can stop the nation to achieve its goals. India has a national youth policy that is has been made to resolve the constraints faced the youth.

Some of the Government Initiatives are:

Ministry of Skill Development and Entrepreneurship has launched Skill India Mission in 2015 to provide the benefits of skill enhancement program to around 1 crore people.

Its three major decisions are

1.Pradhan Mantri Kaushal Vikas Yojana (PMKVY)

2.National Apprenticeship Promotion Scheme

3.Industrial Training Institutes

All these schemes have played a vital role in the transformation of skilling ecosystem.

To meet the demand of industry, skill India is training the youth to deliver better possible output in the corporate world. They also provide on the job training to the students to give them practical exposure to the actual workplace.With every count of a second, a new individual is joining skill India mission, it is showing its impact in all the sectors of our society to take a step ahead towards development.

Types of Skills:

1.Functional Skills:

In these skills, the actions are taken to perform a task. They are transferable to different work. They are based on ability and aptitude. They denote the functions like to organize, to promote, to analyze etc.

2.Personal Traits Skills:

It contributes personal traits or attitudes such as patience, diplomacy, result-orientation and independence to perform work. It is developed in childhood and through life experience.

3.Knowledge Based Skills:

These skills can be acquired through education, training and on the job experience. They help to perform a particular task. The person should have the knowledge of specific subjects, procedures etc.

4.Labour Skills:

Skilled workers are active, energetic and economically productive. They are of great demand in abroad due to their caliber, potential and skills.

5.Life Skills:

An ability and capacity acquired through deliberate, systematic, and sustained effort to smoothly and adaptively carryout complex activities involving ideas (cognitive skills), things (technical skills), and/or people (interpersonal skills).

6.People Skills:

It is the ability to communicate effectively with people in a friendly way, especially in business. It includes both social and psychological skills. People skills means to understand ourselves and to moderate our responses, to talk effectively and empathize accurately and to build relationships of trust, respect and productive interactions.

7.Social Skills:

It is any sort of skill which facilitates interaction and communication with others. In social skills, social rules and relations are created, communicated and changedin verbal and non -verbal ways.

8.Soft Skills:

The combination of interpersonal skills, social skills, communication skills, character traits, attitudes, career attributes and emotional Intelligence Quotient (EQ) among others.

9. Hard Skills:

Hard skills are any skills relating to a specific task or situation

India is largely an agrarian economy. More than 50% of its population is dependent on the agricultural sector for its livelihood and survival, though the returns are very low. The service sector, on the other hand, employs very few of the Indian labour force and its return nearly 60% of the Indian GDP. This is highly unfavourable for the Indian economy. To change this current trend, it is necessary to enhance the manufacturing sector. This can greatly boost India's economic growth and solve the current unemployment crisis. The Make in India is a major step towards this direction.

Make in India – Features, Outcomes, Challenges & Prospects

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What is Make in India?

- It is a national initiative launched in 2014 by the Government of India.
- Its ultimate aim is to transform India into a global design and manufacturing hub.
- This initiative facilitates investments, skill development, encourages innovation, protect intellectual property rights to achieve this objective.
- Under this initiative, both the Centre and the state governments are striving to attract investments from across the world to strengthen India's manufacturing sector.
- Ministry of Commerce and Industry's Department of Industrial Policy and Promotion is the nodal agency for the implementation of this initiative.
- This initiative holds a highly significant position in India's pursuit of economic growth.

What are the objectives of this initiative?

- It has subsumed targets listed out in the National Manufacturing Policy of 2012 like increasing the share of manufacturing from 16% to 25% of the GDP by 2020 (earlier target was 2022) and creation of employment opportunity for 100 million people by 2022.
- Its objective also includes improving India's rank on the Ease of Doing Business Index that is released by the World Bank as a part of its Doing Business Report.
- To do so, the government is repealing redundant laws and regulations, simplifying bureaucratic procedures and enhancing transparency, responsiveness and accountability in the government services.
- To also aims to attract foreign investment and develop the already existing industry base in India and surpass China.
- It also intends to promote export-led growth.

What are the sectors covered under this initiative?

- Make in India strives to create jobs and skill enhancement in the following 25 sectors:

1. Automobiles
2. Aviation
3. Chemicals
4. IT and BPM
5. Pharmaceuticals
6. Construction
7. Defence manufacturing
8. Electrical machinery
9. Electronic system
10. Food processing
11. Textiles and garments
12. Ports and shipping
13. Leather
14. Media and entertainment
15. Wellness and healthcare
16. Mining
17. Oil and gas
18. Tourism and hospitality
19. Railways
20. Automobile components
21. Renewable energy
22. Roads and highways
23. Space
24. Thermal power
25. Bio-technology

What are the challenges?

- **Investment from shell companies:** The major part of the FDI inflow is neither from foreign nor direct. Rather, it comes from Mauritius-based shell companies that are suspected to be investing black money from India.
- **Productivity:** India's manufacturing sector's productivity is low and the skills of the labour force are insufficient. According to McKinsey's report, the Indian workers in the manufacturing sector are, on average, almost four to five times less productive than their counterparts in Thailand and China.
- **Small industries:** The size of the industrial units is small. Therefore, it cannot attain the desired economies of scale. It also cannot invest in modern equipment and develop supply chains.
- **Complicated labour laws:** One of the major reasons behind the small companies is due to the complicated labour regulations for units with more than 100 employees. The government's approval is required under the Industrial Disputes Act of 1947 before the industry can lay off the employees. Additionally, the Contract Labour Act, 1970 requires the government's and the employee's approval for simple changes in an employee's description or duties.

- **Electricity:** The cost of electricity is almost the same in India and China. However, the outages are far higher in India.
- **Transportation:** The average speed in China is about 100 km/hour. In India, it is about 60 km/hour. Also, the Indian railways are overloaded and the Indian ports have outperformed by a lot of Asian nations.
- **Bureaucracy:** India's bureaucratic procedures and corruption within the government makes India far less attractive for investors.
- Though India has made progress in the World Bank's Ease of Doing Business Index (EDB index), it is only ranked 77 among th190 nations.
- Although EDB rank has improved, the Make in India initiative has not succeeded in increasing the size of the manufacturing sector relative to the domestic output.
- India ranks 78 out of 180 countries in **Transparency International's Corruption Perception Index**.
- Land acquisition to build a plant is very difficult. India has come down to 10 places in the World Economic Forum's latest annual Global Competitiveness Index.
- Prior steps were not taken to improve India's labour laws and land acquisition laws before attracting foreign investments in India through the Make in India initiative.
- **Capital Outflow** is a major challenge for Make in India's initiative. The net outflow of capital has increased as the rupee value has dropped from 54 a dollar in 2013 to more than 70 a dollar in 2019. The economic slowdown and oil prices are also contributing to this major challenge.

What is the government doing about it?

- The FDI norms have been revised to make India more attractive for the investors. This is necessary to enhance the competition with Southeast Asian nations and export growth.
- Export-oriented growth is being prioritized.
- The corporate tax has been reduced to increase foreign investment.
- The US-China dispute has given India a renewed opportunity to attract the foreign investments that are fleeing from protectionist measures by these nations.
- India is taking steps to enhance diplomatic ties with the nations that are likely to enhance investments in India.
- However, this too is proving to be a difficult feat for India due to the current challenges. According to the Japanese financial firm Noura's report, only 3 of the 56 companies that have decided to relocate from China have moved to India.

What can be the way forward?

- It is evident that India is not gaining the full potential of the Make in India initiative.
- Government measures are currently seeing very limited results out of the steps taken by it to deal with the current challenges faced by the Indian economy.
- The core issues that are plaguing the Indian economy need to be resolved before intending to make India a global manufacturing hub.
- For instance, India is facing an unemployment crisis.
- To solve this, the government can take steps to make full use of the potential of India's young labour force.
- This can be done by enhancing their skills, training, education and providing them with better health care. It doing so, the productivity of the labour force can be achieved.

- Labour laws and land acquisition must be reformed so that there is an increase in the inflow of the investments and establishment of manufacturing industries.
- Prioritizing the MSME sectors can greatly enhance India's GDP from the manufacturing sector.
- Bureaucratic procedures must be simplified in a way that ensures transparency and accountability.
- Assisting smaller industries to set up a supply chain within India.
- Prioritizing the shift to renewable energy sources for electricity can boost the manufacturing industry's productivity.
- Assisting startups through financial support, training, etc. can boost India's manufacturing sector.
- Innovation must be encouraged and research and development must be supported by the government.
- Improving connectivity even in the isolated and difficult terrains in India is possible only if the government takes the step to achieve it. It can not only improve India's manufacturing sector but also solve the problem of insurgency and other illegal activities in the nation.
- In short, the government must ensure that there is a favourable environment for the growth of industries within the Indian economy.

Advantages of Make in India

Let's have a look at the 10 biggest advantages of Make in India

1. Develop Job Opportunity

One of the main purposes of Make in India crusade is to provide job opportunities for as many citizens of India as possible. It has targeted the young generation of the country as its prime beneficiary. The investments in the targeted sectors, i.e. telecommunications, pharmaceuticals, tourism etc. will encourage the young entrepreneurs to come forth with their innovative ideas without worrying about the source of speculation.

2. Ameliorate the Vicinity

In order to manufacture in India, a particular industry requires a promising location to set up machinery as well as factories. To fulfill this requirement, not only the areas were chosen would be improved but also the neighboring locations will be highly benefited.

For a developing nation, such as ours' an initiative of this kind is extremely crucial. In addition, the labor hired, from the locality would also improve the financial status of the families living nearby.

3. Expand GDP

Due to the manufacturing of products in India, economic growth is inevitable, which will not only boost the trade sector but also will increase the GDP of Indian economy as with the setting up of new factories and various investments being speculated in the Indian commercial sectors the flow of income will be humongous. Various sectors such as exportation, architecture, textiles, telecommunications etc. are likely to flourish inevitably, strengthening the Indian economy which is already the seventh largest in the world.

4. Fortify the Rupee

The emergence of the manufacturing industries would automatically convert India into a hub for the fabrication of various commercial products; as a result, there would be a grand collection of the FDI, which, in turn, would strengthen the rupee against the domination of the American dollar.

5. Increase in Brand Value

Most of the urban population prefer international brands rather than putting their faith in Indian retailers. As a result, the small manufacturing companies suffer an extreme loss in the market.

Due to the Make in India campaign, such small manufacturers will be provided with a real shot at the business. With, companies investing in such small time retailers from all around the world, the brand value of Indian merchandise will increase dramatically.

6. Up-gradation of Technology

India being an underdeveloped country obviously lack various latest mechanization, which, is a big hurdle in the path to development of the nation. Hence, with the myriad of countries coming forth by the make In India crusade, India will be given the opportunity to make use of the latest technology these countries bring along.

Not only will India benefit from the knowledge and use of the technology but also, the concerned nations will be provided with a skilled and erudite labor.

7. Ease of Business

India is a nation which ranked 130th on the ease of doing business scale. But with the open invitation given to the entire world to manufacture their products in India, the various restrictions opposed over the entrepreneurs will be lifted and aspiring businessmen from all over the globe could invest in India with no stress at all.

8. Availability of Young Minds

Most of the young generation of India plans to move out of the country in the hope of a better future. Due to the lack of young labor, India has always been deprived of innovative and new ideas. With the Make in India campaign, the young population would not only be provided with employment but also their young and fresh minds would take the industrial sector to new heights. Making it a win-win situation for the India as well as the concerned countries. For more on how Indian young minds are starting their own startup by remaining in India, you can Click Here.

9. Development of Rural Areas

It is a well-known fact, that a factory set up not only improves a particular area but also provides for the locals with employment, thus the quality of life of people would automatically enhance. Amenities like schools, hospitals, and other public conveniences will be developed for the betterment of the public.

10. Flow of Capital

Since the beginning of capitalization, the Indian currency is being spent on the foreign countries. With the introduction of make in India, the capital will not only remain in India, but also the foreign currency will be provided to the nation as well. In a nutshell, India will not spend on foreign countries, but the foreign countries will spend in India in the form of investments and wages.

Disadvantages of Make in India

Now let's have a look the biggest **disadvantages of Make in India**

1. Negligence of Agriculture

The most negative impact of the Make in India campaign will be in the agriculture sector of India. It is a well-known fact that Indian Territory has 61% cultivable land. With the introduction of industrial sectors, the agriculture in India will be neglected somewhat.

2. Depletion of Natural Resources

Since Make in India is primarily based on manufacturing industries, it demands the set-up of various factories. Usually, such projects consume the natural resources such as water, land etc. on a large scale. With the rapid devouring of such precious resources, India might be left with zero opportunity to replenish them, threatening the survival of such a large population in the near future.

3. Loss for Small Entrepreneurs

The Make in India campaign welcomes foreign countries to manufacture in India with open arms, this automatically eases up the various restrictions over trade with foreign countries, inviting the attention of the international commercial companies. However, these companies will not only seduce the Indian population but also would dominate the small local entrepreneurs and force them out of business.

4. Disruption of Land

As stated above, India is very rich in the agriculture sector. About 60% of the Indian soil is arable. With the emphasis being given to the Make in India campaign, thousands of companies would come forth to set up their factories on the land which could be used for cultivation. Eventually, this set up of manufacturing factories would lead to the permanent disruption of the agrarian land in the near future.

5. Manufacturing based Economy

Indian economy is one of the largest economies in the world. It constitutes of three sectors i.e. agriculture, industry, and services. Now the Indian economy majors up from the service sector which contributed up to 57% of the GDP. But with the introduction of the Make in India campaign, the economy is likely to rely completely on the manufacturing and exporting while the import industry will remain static. This eventually will be a huge loss for the other economic sectors and would automatically reduce the advancement of Make in India.

6. Interest in International Brands

As stated earlier, the brand value of Indian merchandise will definitely increase. But the Indian upper class, which can actually afford such merchandise, is addicted to the foreign label. This will eventually become a big hurdle for the local entrepreneurs as a great level of promotion is required to build the confidence of people in the local brands.

7. Pollution

One of the biggest problems which are prevailing in India is pollution. According to statistics, India has a pollution index of 76.50. With the make in India movement, this pollution level is likely to arise in a couple of years. Eventually, making the condition in India worse. Hence, Make in India might be economically but it will have an inverse effect ecologically.

Social Responsibility

Meaning of Social Responsibility

According to concept of Social Responsibility of business the objective of managers for taking decision related to business is not only to maximize profit or shareholder value but also to serve and protect the interest of other members of its society like consumer, worker and community as a whole.

Business and Society

Business and Society are correlated with each other. As business fulfill the needs of society and society gives business the resources required to it. The different businesses operating in society play our important role in functioning of society in different ways like business provide employment to various people of society. The basic objective of business enterprise is to develop, produce and supply goods and service to customer. This need to be done in such a way which allowed companies to make profit, that in turn demands far more than just skills in companies on fields and processes. The social skills of owners of companies, together with maintain relationship with customers, suppliers and business people, are always important if companies want be run well and developed with view to future.

Benefits by companies to society

1. Supply goods and service which customer can’t or do not want to produce themselves.

2. Creating jobs for suppliers, co-workers, customer and distributor. This people make money to support themselves as well as their families, use their wages to purchase goods and service and pay taxes.

3. Continually developing new process. Goods and service.

4. Investment in new technologies as well as in the skills of employees.

5. Building up as well as spreading international standards, for example environmental practice.

6. Developing good practice in different areas such as environment and workplace safety.

The role of business in societal development can be measure in many ways. If company wants to progress and develop, it must nurture relation with its stakeholder, of which there may be plenty. Some have a strong influence and are of fundamental importance for the survival of the business; this includes customer, suppliers and employees. The authorities, media, local resident and trade union are others stakeholders with a vital influence. The role of business in society as well as accompanying responsibility that transpire from that role is highly contentious and debated topic.

Concept of Social Responsibility

The evolution of the concept of social responsibility of business has passed through different stages of struggle. Business began merely as an institution for the purpose of making money. As long as a man made money and kept out of jail, he was considered successful. He felt no particular obligation and acknowledged no responsibility to the public. As an owner of his business, he thought that he had a perfect right to do with it what he pleased. Social norms and attitudes had very little influence on the practice of business.

Economic Responsibility The business itself is an economic activity. Its main function is to earn profits. To earn profits means to understand the needs and demands of consumers whether it is regarding the quality of the product or its price. While understanding the perspective of the consumer and meeting their needs and demand to earn a profit is the economic responsibility of a business. When a business earns a profit, it also means that the employees earn the profit in terms of incentives. The economic growth of a business is not restricted to it but affects the society as a whole.

Legal Responsibility Legal responsibilities are not only liable to the individuals in the society but also to the businesses in the society. As business is an entity itself, it must also follow laws and rules. Every business has a responsibility to operate within the boundaries set by the various commissions and agencies at every level of the government. These rules and regulations are set for maintaining balance and the greater good of the society.

A law-abiding enterprise is a socially responsible enterprise as well. The business is free to do business however it wants but only within the boundaries of regulations of various laws such as labour law, environmental law and criminal law. For example, it's a business's duty to pay taxes to the government and keep its account books clean as it helps the government to track the economic state of the company.

Ethical Responsibility Ethical responsibilities include the behaviour of the firm that is expected by the society but not codified in law. The factors of ethical responsibility include that the business must be environmentally friendly. The business should always be aware of its activities and how do they affect the environment. It is the moral and ethical responsibility of every human and every business.

Philanthropic Responsibility Business is one the most important pillar of the society. And therefore it should support and improve the society whenever it can. If a business is making significant profits it is the business responsibility that it should be philanthropic towards the society by donating funds or its goods and services. It's the philanthropic responsibility of the business to help different groups of the society. It should also work towards providing free education by opening educational institutes and training institutes or helping the people affected by natural calamities such as floods and earthquakes. It is the responsibility of the company management to safeguard the capital investment by avoiding speculative activity and undertaking only healthy business ventures which give good returns on investment.

Social responsibility of business is important from the following point of view.

1. **From employees' point of view:** with the help of companies employment and healthy working condition, social responsibility of business is important for employees.

2. **From Customer point of view:** under social responsibility, business follows ethical practice and manufacture the product which is as per expected quality and reasonable price.

3. **From investor point of view**: business who understand value of social responsibility is provide protection to the investor fund with help of development and growth of its business as well as expected return to investors with profit earn by it.

4. **From Suppliers point of view**: the importance of social responsibility is also require to perform in case of suppliers as they are one to provide raw material to business as well as other required material. When they are paid on time as well as reasonable demands of them are satisfied company, suppliers are loyal to business.

5**. From government point of view** : when business pay regular taxes, follow the norms of government then it is consider as social responsibility of business which is duly fulfill by it.

6. **From Society point of view:** business need to work in society, some importance of social responsibility is also define from society point of view. The business provide good product, try to maintain clean environment, provide opportunity to participate to business as well as work for the overall development of society, these are the some example of it.

Ethics: The term 'Ethics' has a variety of meanings. One of the meanings is 'Ethics' are the principles of conduct governing an individual or a group. Another definition describes ethics as relating to what is good or bad and having to do with moral duty and obligation.

Business Ethics: In a broad sense, ethics in business refers to the application of day-to-day moral and ethical norms to business. Business ethics are the principles and standards that determine acceptable conduct in business organisation.

The fundamental principles relating to ethics may be summarized as under:

1. **The Principle of Integrity:** It calls upon all accounting and finance professionals to adhere to honesty and straightforwardness while discharging their respective professional duties.

2. **The Principle of Objectivity:** This principle requires accounting and finance professionals to stick to their professional and financial judgment.

3. **The Principle of Confidentiality:** This principle requires practitioners of accounting and financial management to refrain from disclosing confidential information related to their work.

4. **The Principle of Professional Competence and due care:** Finance and accounting professionals need to update their professional skills from time to time in order to provide competent professional services to their clients.

5. **The Principle of Professional Behaviour**: This principle requires accounting and finance professionals to comply with relevant laws and regulations and avoid such actions which may result in discrediting the profession.

Benefits which may be obtained by paying attention to business ethics:

Ethics is the concern for good behaviour – doing the right thing. In business, self interest prevails and there is always inconsistency between ethics and business. But it is a well settled principle that ethical behaviour creates a positive reputation that expands the opportunities for profit. The awareness regarding products and services of an organization, and the actions of its employees can affect its stakeholders and society as a whole. Therefore to pay proper attention to business ethics may be beneficial in the interest of business. These benefits may be enumerated as follows:

(1) In the recent past ruthless exploitation of children and workers, trust control over the market, termination of employees based on personalities and other factors had affected society and a demand arose to place a high value on ethics, fairness and equal rights resulting in framing of anti-trust laws, establishment of governmental agencies and recognition of labour unions.

(2) Easier change management: Attention to business ethics is also critical during times of fundamental change. The apparent dilemma may be whether to be non profit or for profit. In such

situations, often there is no clear moral compass to guide leaders about what is right or wrong. Continuing attention to ethics in the workplace sensitises leaders and staff for maintaining consistency in their actions.

(3) Strong team work and greater productivity: Ongoing attention and dialogues regarding ethical values in the workplace builds openness, integrity and a sense of community which leads to, among the employees, a strong alignment between their values and those of the organisation resulting in strong motivation and better performance.

(4) Enhanced employee growth: Attention to ethics in the workplace helps employees face the reality - both good and bad in the organisation and gain the confidence of dealing with complex work situations.

(5) Ethical programmes help guarantee that personnel policies are legal: A major objective of personnel policies is to ensure ethical treatment of employees. In matters of hiring, evaluating, disciplining, firing etc. An employer can be sued for breach of contract for failure to comply with any promise. The gap between corporate culture and actual practice has significant legal and ethical implications. Attention to ethics ensures highly ethical policies and procedures in the work place. Ethics management programmes are useful in managing diversity. Such programmes require the recognition and application of diverse values and perspectives which are the basis of a sound ethics management programme. Most organisations feel that cost of mechanisms to ensure ethical programme may be more helpful in minimizing the costs of litigations.

(6) Ethical programmes help to detect ethical issues and violations early, so that criminal acts "of omission" may be avoided.

(7) Ethical values help to manage values associated with quality management, strategic planning and diversity management.

Emerging opportunities in Business

A number of business opportunities are available in business, like outsourcing, Internet of Things, 3D Printing, health care industry,etc. Following three opportunities are considered

1. Franchising
2. Outsourching
3. E-commerce

Franchising

Franchising is basically a right which manufacturers or businesses give to others. This right allows the beneficiaries to sell the products or services of these manufacturers or parent businesses. These rights could even be in terms of access to intellectual property rights.

The individual or business that grants the right to the franchise is called the franchisor, while the beneficiary of the right is called the franchise. Franchising is a business marketing strategy to cover maximum market share.

Franchising is a business relationship between two entities wherein one party allows another to sell its products and intellectual property. For example, several fast food chains like Dominos and McDonalds operate in India through franchising.

Examples of Franchising in India

- McDonald's
- Dominos
- KFC
- Pizza Hut
- Subway
- Dunkin' Donuts
- Taco Bell
- Baskin Robbins
- Burger King

Functioning of Franchising

Under a franchise, the two parties generally enter into a Franchise Agreement. This agreement allows the franchise to use the franchisor's brand name and sell its products or services. In return, the franchisee pays a fee to the franchisor.

The franchisee may sell these products and services by operating as a branch of the parent company. It may even use franchising rights by selling these products under its own business venture.

The franchisor may grant franchising rights to one or several individuals or firms. Consequently, if just one person gets these rights, he becomes the exclusive seller of the franchisor's products in a specific market or geographical limit.

In return, the franchisor supplies its products, services, technological know-how, brand name and trade secrets to the franchise. It even provides training and assistance in some cases.

Features of Franchising

- Firstly, under a franchising agreement, the franchisor grants permission to the franchise to use its intellectual properties like patents and trademarks.

- Secondly, the franchise in return pays a fee (i.e. royalty) to the franchisor and may even have to share a part of his profits. On the contrary, the franchisor provides its goods, services, and assistance to the franchise.

- Finally, both parties in a franchise sign a franchising agreement. This agreement is basically a contract that states terms and conditions applicable with respect to the franchise.

Advantages and Disadvantages of Franchising

Advantages to Franchisors

- Firstly, franchising is a great way to expand a business without incurring additional costs on expansion. This is because all expenses of selling are borne by the franchise.
- This further also helps in building a brand name, increasing goodwill and reaching more customers.

Advantages to Franchisees

- A franchise can use franchising to start a business on a pre-established brand name of the franchisor. As a result, the franchise can predict his success and reduce risks of failure.
- Furthermore, the franchise also does not need to spend money on training and assistance because the franchisor provides this.
- Another advantage is that sometimes a franchisee may get exclusive rights to sell the franchisor's products within an area.
- Franchisees will get to know business techniques and trade secrets of brands.

Disadvantages for Franchisors

- The most basic disadvantage is that the franchise does not possess direct control over the sale of its products. As a result, its own goodwill can suffer if the franchisor does not maintain quality standards.
- Furthermore, the franchisee may even leak the franchisor's secrets to rivals. Franchising also involves ongoing costs of providing maintenance, assistance, and training on the franchisor.

Disadvantages for Franchisees

- First of all, no franchise has complete control over his business. He always has to adhere to policies and conditions of the franchisor.
- Another disadvantage is that he always has to pay some royalty to the franchisor on a routine basis. In some cases, he may even have to share his profits with the franchisor.

Outsourcing

Outsourcing is the process of contracting a business function or any specific business activity to specialized agencies. Mostly, the non-core areas such as sanitation, security, household, pantry, etc are outsourced by the company. The company makes a formal agreement with the agency.

The agency then sends the manpower required to the company. The agency charges the company for their services and in turn pays wages to their employees. Global competition has given rise to outsourcing. With the help of outsourcing, companies can focus on their core areas which leads to

Business Process Outsourcing	Traditional original outsourcing

better profits and increase the quality of their product.

Advantages of Outsourcing

- **Overall Cost Advantage:** It eludes the need to hire individuals in-house; hence recruitment and operational costs can be minimized to a great extent. It reduces the cost and also saves time and efforting on training cost.
- **Stimulates Entrepreneurship, Employment, and Exports:** Outsourcing stimulates Entrepreneurship, Employment, and Exports in the country from where outsourcing is done. Look at the example of India. After the initial success of call centres, there was a sudden emergence of many small scales and medium scale BPo and KPO companies.
- **Low Manpower Cost:** The manpower cost is much lower than that of the host country. This is exactly the case with India. We have a very large educated workforce. And this causes the labour cost in our country to be much lower.
- **Access to Professional, Expert and High-quality Services:** Mostly, the tasks are given to people who are skilled in that particular field. This provides us with a better level of service and fewer chances of errors or misjudgment.
- **Emphasis on Core Process Rather than the Supporting Ones:** With its help, companies can focus on their core areas which lead to better profits and increase the quality of their product. They simply outsource ancillary services.
- **Investment Requirements are Reduced:** The organization can save on investing in the latest technology, software, and infrastructure and let the outsourcing partner handle the entire infrastructure.
- **Increased Efficiency and Productivity:** There is an increased efficiency and productivity in the non – core areas of an organization.
- **Knowledge Sharing:** Outsourcing enables the organizations to share knowledge and best practices with each other. It helps develop both the companies and also boosts goodwill in the industry.

Disadvantages of Outsourcing

Professional Outsourcing	Advisors, consultants and agencies
IT Outsourcing	Common outsourcing specialisation
Multisourcing	Common in high-complexity sectors
Manufacturer Outsourcing	"Made in China" is stereotypical outsourcing
Process-Specific Outsourcing	outsourcing one specific function of a business
Project Outsourcing	Typically big or complex projects are outsourced
Offshore Outsourcing	Emphasising the offshore location
Onshoring	Outsourcing to domestic suppliers
Nearshoring	Outsourcing to near or neighbouring countries

- **Lack of Customer Focus:** An outsourced vendor may be catering to the needs of multiple organizations at a time. In such situations, vendors may lack complete focus on an individual organization's tasks. And the reputation of the organization may suffer as a result

- **A Threat to Security and Confidentiality:** The inside news of the organization may be leaked to the third party, so there are security issues. The leak of sensitive information may result in losses to the company and also be an advantage to competitors.
- **Dissatisfactory Services:** Some of the common problem areas with outsourcing include stretched delivery time and sub-standard quality.
- **Ethical Issues:** The major ethical issue is taking away employment opportunities from one's own country. Instead of creating employment and wealth in the origin country it gets outsourced to another country. In recent times this has been viewed by many as unethical and even unpatriotic.
- **Other Disadvantages:** Include misunderstanding of the contract, lack of communication, poor quality and delayed services amongst others.

Types of Outsourcing

Outsourcing can serve in different forms depending on the needs of the business. Aside from knowing and understanding what outsourcing is from the definition of outsourcing jobs and how they work, it is also necessary to have an idea of the different types of outsourcing.

Business Process Outsourcing

Business process outsourcing is the most common type of outsourcing. It refers to contracting any business process to a third-party service provider. This type usually deals with repetitive tasks such as customer support and administrative roles

Examples of BPO

A realtor hires a virtual assistant to help them schedule client appointments and respond to emails regarding customer inquiries.

Telecommunication companies such as Verizon and Sprint hire customer service teams to handle technical and billing support.

Small businesses outsource lead generation to gather more customers locally and overseas

Professional Outsourcing

Some tasks can be too complex for entrepreneurs or their small team. It either requires additional training or a professional license to accomplish. Hiring locally may cost them a lot due to scarce demand.

In these cases, professional outsourcing can be a viable option. This helps them save on costs while getting a high-quality talent for their operation.

How professional outsourcing works

Accountants and bookkeepers are hired to help comply with annual tax filing and income statements.

CAD operators and engineers can do building layout, including floor plans and mechanical designs.

Businesses can outsource marketing to professionals who can manage their promotions and marketing strategies better.

IT Outsourcing

Offshoring IT services are among the common types of outsourcing these days. It pertains to contracting technology-related services and resources for a part or the entirety of an information technology business function.

Every business, whether it is a start-up or a large corporation, has IT needs as it deals with technology on a certain level.

Examples of IT outsourcing

Since Alibaba can't get software developers locally at first, they decided to outsource to the USA.

Slack's platform interface is outsourced to a software development company in Canada.

Telecommunication companies have been outsourcing IT infrastructure to India and the Philippines to improve their capacity and better their services.

Multisourcing

Multisourcing can be applied to any business area but is most common in sectors of high specialism and/or complexity. Areas such as technology, avionics, automobile, and space travel all heavily rely on multisourcing.

Simply put, multisourcing combines outsourcing output from dedicated specialized companies and they then aggregate external service providers to create a finished product.

Multisourcing forms the best-of-breed teams to achieve business goals. It operates in a manner where the business creates a partner relationship with other providers and is outcome-focused.

This type of outsourcing mostly requires a business to have a comprehensive strategy and a network of governance and relationships.

Manufacturer Outsourcing

The cost can be extremely expensive if you decide to make your own products in-house. Aside from the high cost of the raw materials, paying for the factory workers can also be massive, as well as the capital for infrastructure and equipment you need for manufacturing.

However, if you outsource the manufacturing process of your business, you can significantly reduce your cost as you don't need to worry about infrastructure and equipment, as well as labor costs.

Manufacturing outsourcing examples

Apple outsources product manufacturing to China for mass production once they are done designing their products.

Fashion companies such as H&M and Zara contract clothing factories in Bangladesh to produce their products worldwide.

Ikea, the biggest furniture company, outsources the manufacturing of their furniture to China to save on costs and increase profitability.

Process-specific outsourcing

There are outsourcing processes specific to a certain task or an internal procedure, something more known as process-specific outsourcing. It has become common in the industry to contract an external service provider that specializes in a particular service.

For example, a retail service can outsource its delivery services to a particular company, especially international shipping. This type of offshore outsourcing method usually has a very comprehensive contract that includes detailed things like the delivery timeline, product costs, and customer contacts.

Process-specific outsourcing provides businesses with the means to not only cut costs but also have the time to focus more on their core business functions, saving the time it usually takes to fulfill customer orders.

Types of process outsourcing

Knowledge process outsourcing (KPO). This deals with outsourcing knowledge development for product improvements, such as research and data analysis.

Recruitment process outsourcing (RPO). All aspects of outsourced recruitment, including management of posting, application tracking, and evaluation, are covered in RPO.

Legal process outsourcing (LPO). All legalities including litigation and regulatory compliances fall in this category.

Project outsourcing

When companies are juggling several projects, it can usually be tedious, and the quality of the output can be compromised with the lack of time to focus on each one of them. In this case, a business can outsource a project to an external service provider.

There are various reasons why a company outsources a project, but the most common one is the lack of available people to do and finish the task or the lack of skills for the job.

What projects can be outsourced

Legal firms with a high demand for cases at hand hire contract attorneys to keep up with their workload.

Promotions and advertisements that are contracted to companies for on-demand projects.

Offshore outsourcing

Offshoring or offshore outsourcing simply means contracting a part of your business process in another country, which is a strategy to lower labor expenses. There are other countries that require cheap costs to finish a certain task compared to doing it locally.

In addition, offshoring is also done to tap the global skills offered by other countries as well as enter new markets in the hopes of becoming global.

Offshoring has also become an accepted idea to overcome local regulations that prohibit particular activities.

Examples of offshore outsourcing

A part of Amazon's operations, particularly customer service and logistics, is offshored to the Philippines as part of its customer-focused service offering.

One of the largest IT network giants, Cisco offshores its IT services to India and the Philippines for 24/7 technical support.

American Express, to provide extensive support to their clients, offshores its back office to India.

Onshoring

While there are companies that find hiring offshore labor a cost-effective move, some find it the opposite and they start to bring back offshoring activities locally. It is commonly known as onshoring (or reshoring), which can simply be described as outsourcing business operations in the same country as your headquarters.

Onshoring can have several advantages, one of which is having a similar or identical working culture and time zones. One disadvantage is that it has small to no cost savings since salary will also be relatively similar to in-house staff.

Nearshoring

Nearshoring lies between offshoring and reshoring business functions. Instead of bringing back the outsourced services from a far-away country locally, some companies choose to move their business operations to geographically close countries.

Its main purpose is to improve services by lessening the allotted time for shipping and time delays, which are common issues in offshoring, while still cutting costs by finding the nearest country where labor services are cheaper than doing processes locally.

Basically, this type of outsourcing combines the benefits of reshoring and offshoring, as well as combating the risks of both.

Advantages and disadvantages of outsourcing

Outsourcing is a common practice of contracting out business functions and processes to third-party providers. The benefits of outsourcing can be substantial - from cost savings and efficiency gains to greater competitive advantage.

On the other hand, loss of control over the outsourced function is often a potential business risk. You should consider carefully the pros and cons of outsourcing before deciding to contract out any activities or business operations.

Advantages of outsourcing

There are many reasons why a business may choose to outsource a particular task, job or process. For example, some of the recognised benefits of outsourcing include:

Improved focus on core business activities

Outsourcing can free up your business to focus on its strengths, allowing your staff to concentrate on their main tasks and on future strategy.

Increased efficiency

Choosing an outsourcing company that specialises in the process or service you want them to carry out for you can help you achieve a more productive, efficient service, often of greater quality.

Controlled costs

Cost savings achieved by outsourcing can help you release capital for investment in other areas of your business.

Increased reach

Outsourcing can give you access to capabilities and facilities otherwise not accessible or affordable.

Greater competitive advantage

Outsourcing can help you leverage knowledge and skills along with your complete supply chain.

Outsourcing can also help to make your business more flexible and agile, able to adapt to changing market conditions and challenges while providing cost savings and service level improvements.

Disadvantages of outsourcing

Outsourcing involves handing over direct control over a business function or process to a third party. As such, it comes with certain risks. For example, when outsourcing, you may experience problems with:

- service delivery - which may fall behind time or below expectation
- confidentiality and security - which may be at risk
- lack of flexibility - contract could prove too rigid to accommodate change
- management difficulties - changes at the outsourcing company could lead to friction
- instability - the outsourcing company could go out of business

Offshore outsourcing issues

Offshore outsourcing, although potentially more cost-effective, may present additional challenges such as hidden costs of provider selection or handover, severance and costs related to layoffs of local employees who will not be relocated internationally, etc. Even simply managing the offshore relationship can prove challenging due to time zones, different languages or cultural preferences.

E-Commerce

Electronic Commerce commonly known as E-commerce or e-Commerce which denotes different types of transactions involved in commercial activities. It contains both organisational as well as individual activities which include the processing and transmission of digitized data such as text, pictures, sound and video, etc.

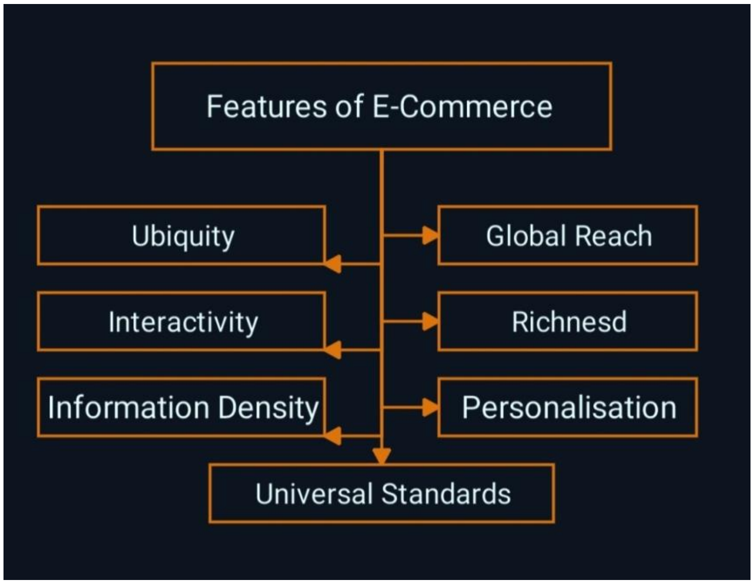
E-commerce has developed a new environment with the help of Internet in business transactions and processing. Here information is provided direct to the consumers about the products they want to buy and the platform is set for product advertisements. It also permits negotiations, order for raw materials, settlement of financial transactions etc.

Definition

According to P.T. Joseph :

"E-Commerce comprises core business processes of buying and selling, goods, services and information over the internet".

Features of E-commerce :



1) Ubiquity :

E-commerce is widespread, that is, it is available everywhere always. It sets free market from being restricted to a physical space and makes it possible to shop from computer (such as desktop, laptop). The result is called a market space.

For consumers, ubiquity cuts transaction costs for exploring products in a market. Consumers can acquire any information whenever and wherever they want, regardless of their location. It is no longer necessary that buyer spend time and money for traveling to a market. In all, it saves the cognitive energy needed to transect in a market space.

2) Global Reach :

E-commerce technologies enable a business to easily reach across geographic boundaries around the earth far more conveniently and effectively as compared to traditional commerce. Globally, companies are acquiring greater profits and business results by expanding their business with e-commerce solutions. As a result, the potential market size for e-commerce merchants is approximately equal to size of online population.

3) Universal Standards :

Universal Standards are standards shared by all the nations around world. These are technical standards of Internet for conducting e-commerce. It gives all the ability to connect at the same "level" and it provides network externalities that will benefit everyone. Universal technical standards lower entry costs and minimal search costs.

4) Interactivity :

E-commerce technologies permits two-way communication between customer and sellers which makes it interactive. It proves as significant feature of e-commerce technology over the commercial traditional technologies of the 20th century.

5) Information Density :

Information density means total amount and quality of information available over Internet to all market buyers and sellers. Internet vastly increases information density. Information density offers better quality information to consumer and merchants. E-commerce technologies increase accuracy and timeliness of information. For example, flipkart.com store has variety of products with prices.

6) Richness :

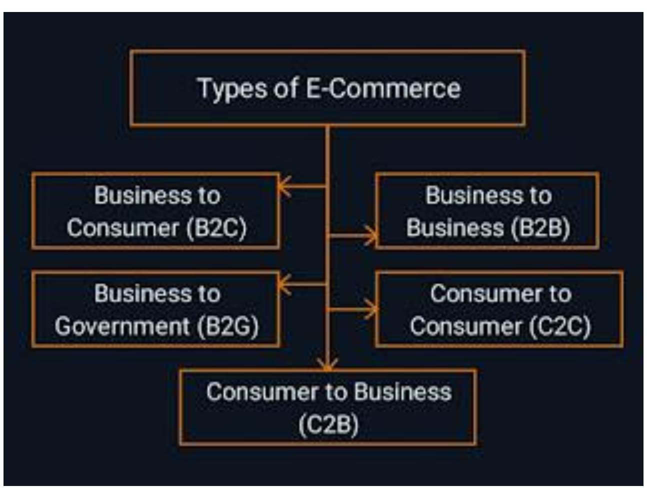
Richness refers to the complexity and content of a message. Richness means all commercial activity and experience, conducted through a variety of messages. For example, text, pictures, videos, sound, links, SMS (Short Message Services) etc.

7) Personalisation :

E-commerce technology offers personalisation. Personalisation means designing marketing messages according to particular individuals by customising it as per customer personal details like name, interests, and past purchases record. Products or services can be modified or altered according to the user's choice or past buying record.

Types of E-Commerce :

Much of the world's business today is carried out over digital networks that connect people and companies. Several **types of e-commerce** models are in use today. The major online marketing domains are given below



1) B2C (Business to Consumer) :

In B2C model of e-commerce, businesses sell products and services to individual consumers directly. All the products and services are offered online through electronic channels in e-commerce which supplements the traditional commerce. Internet acts as an electronic channel.

E-Commerce

Examples : www.flipkart.com, www.infibeam.com,www.amazon.in, www.homeshop18.com are websites that comes under this category. Through these websites individual can purchase clothes, mobiles and electronic products etc.

Some of advantages of this model are as follows :

i) Provides better way to deal with suppliers
ii) Provides customer service centres that are physically located
iii) Provides opportunity to return purchase item
iv) Eliminates middlemen

2) B2B (Business to Business) :

Business-to Business (B2B) e-commerce model describes electronic transactions between businesses such as between manufacturer and wholesaler. The major factors in increasing the acceptance of B2B e-commerce are Internet and dependence of many business operations upon other businesses for supplying raw materials, utilities and services. It is very fast developing segment in e-commerce. Company can check and updates purchase orders, invoices, inventory and shipping status directly through the Internet.

The advantages of B2B e-commerce model are as follows :

i)Reduces cycle tine of inventory and costs.
ii) Enables business partners to share relevant information timely with accuracy.
iii) Improves supply-chain management among business partners.
iv) Eliminates manual activities and hence reduces errors.

3) C2C (Consumer to Consumer) :

Consumer-to-Consumer (C2C) e-commerce is a business model that facilitates the transactions of product and services between two consumers. In this e-commerce model, consumers sell product and services directly to other consumers usingInternet and Web technologies. An individual customer uses classified advertisements to advertise or promote different products and services on web or through online auction sites.

e-Commerce Examples : eBay.com, quicker.com, craigslist.org, gittigidiyor.com. It entails lower cost for both buyer and seller customers. Using this e-commerce model, customers can also advertise and sell their products and services to other employees over organizational Intranet.

4) C2B (Consumer to Business) :

Consumer-to Business (C2B) is an e-commerce model where consumers (individuals) sell products and services which are consumed by businesses and organisations. This model is opposite to B2C model. In this model, price and value for specific products and services are created by individuals.

For example : when a customer writes reviews for new product or gives a useful idea for new product development then he/she is creating value for the company if the company adopts the review or idea. Company can facilitate C2B model by setting discussions forums on their websites.

For example : the websites such, www.pazaryerim.com and www.priceline.com are organizers of C2B transactions.

5) Business-to-Government (B2G) :

In marketing context, B2G marketing is also known as “public sector marketing". It is derived from B2B marketing and is comprised of activities such as marketing of products and services to government agencies. Such marketing is undertaken via various integrated marketing techniques like advertising, branding, managing public relations, online communication strategies, etc.

Advantages of e-Commerce

There are a number of prominent and not-so-obvious advantages for doing business on an online platform. Understanding exactly how e-Commerce works can help individuals leverage them to their and their businesses advantage:

1. **A Larger Market:** E-Commerce allows individuals to reach customers all across the country and all around the world. E-Commerce gives business owners the platform to reach people from the comfort of their homes. The customers can make any purchase anytime and anywhere, and significantly more individuals are getting used to shopping on their mobile devices.
2. **Customer Insights Via Tracking And Analytics:** Whether the businesses are sending the visitors to their eCommerce website via PPC, SEO, ads, or a good old postcard, there is a way of tracking the traffic and the consumers’ entire user journey for getting insights into the keywords, marketing message, user experience, pricing strategy, and many more.
3. **Fast Response To The Consumer Trends And The Market Demands:**Especially for the business people who do “drop ship,” the logistics, when streamlined, allow these businesses to respond to the market and the trends of eCommerce and demands of the consumers in a lively manner. Business people can also create deals and promotions on the fly for attracting customers and generate more sales.

4. **Lower Cost:** With the advancement of the eCommerce platforms, it has become very affordable and easy to set up and run an eCommerce business with a lower overhead. Business people no longer need to spend a big budget on TV ads or billboards, nor think about personnel and real estate expenses.
5. **More Opportunities For "Selling.":** Business people can only offer a limited amount of information about a product in a physical store. Besides that, eCommerce websites give them the space to include more information like reviews, demo videos, and customer testimonials for helping increased conversion.
6. **Personalised Messaging:** E-Commerce platforms give people in business the opportunity to provide personalised content and product recommendations for registering customers. These targeted communications can help in increasing conversion by showing the most relevant content to the visitor.
7. **Increased Sales Along with Instant Gratification:** For businesses selling digital goods, eCommerce allows them to deliver products within seconds of placing an order. This satisfies the needs of the consumers for instant gratification and assists increase sales, especially for the low-cost objects that are often known as "impulse buys."
8. **Ability to Scaling Up (Or Down) Quickly Also Unlimited "Shelf Space.":** The growth of any online business is not only limited by the availability of space. Even though logistics might become an issue as one's business grows, it's less of a challenge compared to running any brick-and-mortar store. E-Commerce business owners can choose to scale up or down their operation quickly by taking advantage of the non-ending "shelf space," as a response to the market trends and demands of consumers.

Disadvantages of e-Commerce

Running a business that is e-commerce is not always rainbows and unicorns. There are unique challenges to this business model — learning about them will help business people navigate the choppy waters and avoid common pitfalls.

1. **Lack of Personal Touch:** Some customers appreciate the personal touch they offer when visiting a physical store by interacting with the sales associates. Such personal touch is especially essential for businesses that sell high-end products as customers will want to buy the products and have an excellent experience during the process.
2. **Lack of Tactile Experience:** No matter how good a video is made, customers still can't feel and touch a product. Not to mention, it's never an easy task to deliver a brand experience that could often be including the sense of touch, taste, smell, and sound via the two-dimensionality of any screen.
3. **Product and Price Comparison:** With online shopping, customers can compare several products and find the least price. This forces many businesses to compete on price and reduce their profit margin, reducing the quality of products.
4. **Need for Access to the Internet:** This is obvious, but don't forget that the customers do need access to the Internet before purchasing from any business! As many eCommerce platforms have the features and functionalities which require a high-speed Internet

connection for an optimal consumer experience, there's a chance that companies are excluding visitors who have slow internet connections.

5. **Credit Card Fraud:** Credit card frauds are a natural and growing problem for online businesses. It can lead to many chargebacks, which result in the loss of penalties, revenue, and a bad reputation.
6. **IT Security Issues:** More and more organisations and businesses have fallen prey to malicious hackers who have stolen information of the customers from their databases. This could have financial and legal implications, but it also reduces the company's trust.
7. **All the Eggs in One Basket:** E-Commerce businesses rely solely or heavily on their websites. Even just some minutes of downtime or technology glitches could be resulting in a substantial revenue loss and customer dissatisfaction.
8. **Complexity in Regulations, Taxation, and Compliance:** Suppose any online business sells to its consumers in different territories. In that case, they'll have to stick to the regulations in their own countries or states and their consumers' places of residence. This could be creating a lot of complexities in accounting, taxation and compliance.

UNIT – III

INTRODUCTION TO MANAGEMENT

Management

Management is the process of planning and organising the resources and activities of a business to achieve specific goals in the most effective and efficient manner possible. Efficiency in management refers to the completion of tasks correctly and at minimal costs. Effectiveness in management relates to the completion of tasks within specific timelines to yield tangible results.

Characteristics of management

Some of the fundamental characteristics of management are as follows:

Multi-dimensional

Most management oversees and supervises a company or organisation's service or production cycle. Managers work closely with and provide guidance to the members of their team. A manager considers a staff member both as an individual with diverse needs and as a component of the larger group. To be effective, managers influence their team members to apply their unique strengths toward achieving the organisation's goals.

Dynamic

Management is a dynamic function and evolves and adapts to changes in its environment, whether they are economic, socio-political or technological. For instance, a paper company could see a decline in sales because of the rapid adoption of screens and digital devices. Whether the company can still survive depends on how effectively its management can adapt to new market requirements.

Intangible

Management is not a tangible product, but its presence can change the way an organisation functions. Management consists of ideologies, policies and human interaction. Good management helps improve a company's target achievement ratios, employee gratification levels and overall ease in the company's operation.

Objectives of management

Management can have mainly three types of objectives:

Organisational objectives

Management should consider the interests of all company stakeholders, including employees, customers and the government. Managers are responsible for setting and achieving goals for the organisation. Typically, the primary aim of an organisation is to achieve growth by utilising its human, material and financial resources. There are three general organisational objectives for any company:

1. **Survival:** An organisation needs to generate enough revenues to cover its operational costs.
2. **Profit:** Profit provides incentive and is essential for covering unprecedented costs and risks associated with running a business.
3. **Growth:** You can measure the growth of a business in terms of increases in sales volume, workforce and capital investment.

Social objectives

To an extent, the management is also responsible for creating benefits for the society through their work. Companies choose to do this in different ways. Some may incorporate environment-friendly methods of production, while others implement fair wages and opportunities. Larger companies often maintain or fund initiatives that provide basic amenities like healthcare and education. Based on the scale of their operations, companies often initiate CSR (Corporate Social Responsibility) campaigns that benefit society in different ways.

Personnel objectives

The management typically decides the financial incentives, salaries, perks and social initiatives for their employees. Activities that improve peer recognition and interaction like corporate outings and holiday bonuses cater to the personnel's social growth and development.

Importance of management

Here are some reasons management is important:

1. **Helps in achieving group goals:** Effective management gives a common direction to individual efforts and guides them towards achieving the overall goals of an organisation.
2. **Increases efficiency:** Efficiency reduces costs and increases productivity in all spheres of an organisation's work.
3. **Creates a dynamic organisation:** Management helps its personnel in adapting to change so that the organisation continues to maintain its competitive edge. How well an organisation can respond and adapt to change can mean the difference between its success and failure.
4. **Helps in achieving personal objectives:** Effective management fosters team spirit, cooperation and commitment to achieve the organisational goals as a group, which helps each term member achieve their personal objectives.

Levels of management

Management roles come in three levels:

1. Top management

Typically, the senior-most executives in a company are the chairman, chief executive officer, chief operating officer, president and vice-president. Their role lies in integrating diverse components of the company and coordinating activities of different departments. They also analyse the business environment and its implications to formulate goals in order to ensure the survival of the company and the welfare of its stakeholders.

2. Middle management

Mostly composed of division heads, the middle management links the operational management to the top management. Division/department heads receive guidance from top managers and are leaders to operational managers. Their job is to understand the policies framed by the top management and relay them to their respective divisions/departments to ensure that they follow through with company policies and decisions.

3. Operational management

Supervisors, section leads or forepersons directly oversee the efforts of the workforce. They are responsible for quality control and ensure that the work meets deadlines. The top management draws out the plans that define the authority and responsibility of supervisors

Functions of Management

Management in some form or another is an integral part of living and is essential wherever human efforts are to be undertaken to achieve desired objectives. The basic ingredients of management are always at play, whether we manage our lives or business.

"Management is a set of principles relating to the functions of planning, organizing, directing, and controlling, and the applications of these principles in harnessing physical, financial, human, and informational resources efficiently and effectively to achieve organizational goals".

Management is essential for an organized life and necessary to run all types of organizations. Managing life means getting things done to achieve life's objectives and managing an organization means getting things done with and through other people to achieve its objectives.

There are basically five primary functions of management. These are:

1. Planning
2. Organizing
3. Staffing
4. Directing
5. Controlling

The controlling function comprises coordination, reporting, and budgeting, and hence the controlling function can be broken into these three separate functions. Based upon these seven functions, Luther Gulick coined the word **POSDCORB**, which generally represents the initials of these seven functions i.e. P stands for Planning, O for Organizing, S for Staffing, D for Directing, Co for Co-ordination, R for reporting & B for Budgeting.

But, Planning, Organizing, Staffing, Directing, and Controlling are widely recognized functions of management.

Five Functions of Management

1. Planning

Planning is future-oriented and determines an organization's direction. It is a rational and systematic way of making decisions today that will affect the future of the company. It is a kind of organized foresight as well as corrective hindsight. It involves predicting of the future as well as attempting to control the events. It involves the ability to foresee the effects of current actions in the long run in the future.

Peter Drucker has defined planning as follows:

"Planning is the continuous process of making present entrepreneurial decisions systematically and with best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of these decisions against the expectations through organized and systematic feedback".

An effective planning program incorporates the effect of both external as well as internal factors. The external factors are shortages of resources; both capital and material, general economic trend as far as interest rates and inflation are concerned, dynamic technological advancements, increased governmental regulation regarding community interests, unstable international political environments, etc.

The internal factors that affect planning are limited growth opportunities due to saturation requiring diversification, changing patterns of the workforce, more complex organizational structures, decentralization, etc

2. Organizing

Organizing requires a formal structure of authority and the direction and flow of such authority through which work subdivisions are defined, arranged and coordinated so that each part relates to the other part in a united and coherent manner so as to attain the prescribed objectives.

According to Henry Fayol, ***"To organize a business is to provide it with everything useful or its functioning i.e. raw material, tools, capital and personnel's".***

Thus the function of organizing involves the determination of activities that need to be done in order to reach the company goals, assigning these activities to the proper personnel, and delegating the necessary authority to carry out these activities in a coordinated and cohesive manner.

It follows, therefore, that the function of organizing is concerned with:

- Identifying the tasks that must be performed and grouping them whenever necessary
- Assigning these tasks to the personnel while defining theirauthority and responsibility.
- Delegating this authority to these employees
- Establishing a relationship between authority and responsibility
- Coordinating these activities

3. Staffing

Staffing is the function of hiring and retaining a suitable work-force for the enterprise both at managerial as well as non-managerial levels. It involves the process of recruiting, training, developing, compensating and evaluating employees and maintaining this workforce with proper incentives and motivations. Since the human element is the most vital factor in the process of management, it is important to recruit the right personnel.

According to Kootz & O'Donnell, ***"Managerial function of staffing involves manning the organization structure through the proper and effective selection, appraisal & development of personnel to fill the roles designed in the structure".***

This function is even more critically important since people differ in their intelligence, knowledge, skills, experience, physical condition, age and attitudes, and this complicates the function. Hence, management must understand, in addition to the technical and operational competence, the sociological and psychological structure of the workforce.

4. Directing

The directing function is concerned with leadership, communication,motivation, and supervision so that the employees perform their activities in the most efficient manner possible, in order to achieve the desired goals.

The **leadership** element involves issuing of instructions and guiding the subordinates about procedures and methods.

The **communication** must be open both ways so that the information can be passed on to the subordinates and the feedback received from them.

Motivation is very important since highly motivated people show excellent performance with less direction from superiors.

Supervising subordinates would lead to continuous progress reports as well as assure the superiors that the directions are being properly carried out.

5. Controlling

The function of control consists of those activities that are undertaken to ensure that the events do not deviate from the pre-arranged plans. The activities consist of establishing standards for work performance, measuring performance and comparing it to these set standards and taking corrective actions as and when needed, to correct any deviations.

According to Koontz & O'Donnell, ***"Controlling is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished".***

The controlling function involves:

a. Establishment of standard performance.

b. Measurement of actual performance.

c. Measuring actual performance with the pre-determined standard and finding out the deviations.

d. Taking corrective action.

All these five functions of management are closely interrelated. However, these functions are highly indistinguishable and virtually unrecognizable on the job. It is necessary, though, to put each function separately into focus and deal with it.

Nature and Scope of Management

Management As A Process

As a process, management aims at increasing productivity and efficiency in an organization. The purpose is to strengthen the client base, improve the knowledge, skills and capacity of employees to achieve particular targets and goals. Management is also a never-ending process that brings different teams and individuals together. Everyone works in harmony to achieve common objectives.

Management As An Activity

As an activity, management looks at the daily tasks and accomplishments of an employee. It helps them prioritize activities and monitor progress, which further helps them grow in their roles. It prevents miscommunication and task repetition as everyone is aware of their roles and responsibilities. There is clarity and accountability—the cornerstones of business growth and success.

Management As A Profession

Management as a profession has been popularized by courses and academic institutions across the globe. Several organizations prefer individuals with a Master of Business Administration (MBA) degree. Specialized knowledge (such as an MBA degree) provides an individual with a competitive edge, making them more desirable for managerial roles. Therefore, management has evolved as a body of knowledge that continues to solve various workplace problems.

NATURE OF MANAGEMENT

Management—as a systematic process—helps identify a group of people who carry out particular activities, thereby improving an organization's efficiency and effectiveness. Here are the salient features that highlight the nature of management in businesses.

Universality

Management is a universal process and is essential for all organizations. If there is human activity, there is management. The principles of management are applicable irrespective of the size and location of a business. The universal principle also means that managerial skills can be developed over time and they're transferrable.

Social Process

The nature of management involves organizing people in groups and managing them. It requires different levels of empathy, understanding and dynamism. In addition to taking care of social and emotional well-being, the process involves developing, motivating and retaining employees.

Purposeful

Management always has an end goal of achieving an organization's targets, mission and vision. The success of management can be measured by the extent to which an organization achieves its objectives. There is an underlying purpose of increasing efficiency and productivity. The objectives should be realistic, attainable and time-bound.

Intangible

There is no physical proof of the management process. Its success can be measured by the outcomes of its efforts. For example, lower turnover rates indicate there's high employee engagement and job satisfaction. This further shows that managers or individuals in managerial roles have taken proactive steps toward improving employee retention.

Coordination

Management coordinates all the functions of an organization by bringing together different teams and departments. Without coordination, there would be ambiguity and chaos. Therefore, by getting people on the same page, there is communication and minimized duplication of efforts.

Creativity

Management is made up of individual components and is a composite process. Every independent component contributes in unique ways. For example, group efforts encourage creative ideas and imagination. The sum of individual efforts creates synergy and something new is born.

Dynamic Function

Management should be dynamic at its core because businesses are often influenced by economic, social, political and technological factors. With room for flexibility and adaptability, individuals can perform well even in stressful situations. There should be adequate training and facilitation within the process.

SCOPE OF MANAGEMENT

Clearly defined responsibilities, concepts, theories and principles related to managerial functions define the scope of management. Let's look at the various aspects of this.

Financial Management

Every enterprise prioritizes financial management because finances can get extremely tricky if not managed properly. Effective financial management ensures there are fair returns to stakeholders, proper estimation of capital requirements and laying down optimal capital. It includes preparation and examination of financial statements, creating proper dividend policies and negotiations with external stakeholders.

Marketing Management

The scope of management in marketing extends to planning, organizing, directing and controlling activities in the marketing department. Identifying customer requirements is crucial for providing business solutions. When a manager is fully aware of the benefits of the products and/or services the organization provides, they achieve better results. Marketing management ensures that available resources are properly utilized and the best possible outcomes are achieved.

Personnel Management

Personnel management—as the name suggests—deals with personnel or individuals in a business environment. It includes the recruitment, transfer, termination, welfare and social security of employees. This aspect of management is extremely important as employees form teams and teams drive an organization's goals. Individual productivity also contributes to overall efficiency. Without attending to employee needs and wants, an organization is likely to struggle.

Production Management

This type of management refers to the process of creating utilities. When you convert raw materials to finished products and oversee the planning and regulation, you're engaging in production management. Without production, there isn't any finished good or service and without it, organizations can't generate interest or profits. The final product must fulfill customer requirements. The process includes quality control, research and development, plan layout and simplification.

Office Management

This includes controlling and coordinating all office activities to achieve an organization's goals and targets. For example, an administration's efficiency impacts a business significantly. The more organized the departments and responsibilities are, the more effective an organization is.

Managerial Functions:

A manager has to perform functions like planning, organizing, staffing, directing and controlling. All these functions are essential for running an organization smoothly and achieving enterprise objectives. Planning is required for setting goals and establishing strategies for coordinating activities. Organization helps in determining what tasks are to be done, how to do them, how to group the tasks and where decisions are to be made. Staffing function is essential for employing various types of persons and performing various activities like training, development, appraisal, compensation, welfare etc.

The directing function requires giving instructions and motivating sub-ordinates to accomplish their goals. A manager has to perform the controlling function for monitoring activities to ensure that they are being accomplished as planned and correcting any significant deviations.

Managerial Skills:

A manager has to perform a number of jobs. It necessitates that a manager should have proper skills to perform different jobs.

Henry Fayol put the qualities required by managers into the following categories:

(i) Physical – health, vigour, address.

(ii) Mental – ability to understand and learn; judgement, mental vigour and adaptability.

(iii) Moral – energy, firmness, willingness to accept responsibility, initiative, loyalty, tact, dignity.

(iv) Educational – general acquaintance with matters not belonging exclusively to the function performed.

(v) Technical – peculiar to the function.

(vi) Experience – arising from the work proper.

Robert L. Katz conducted research during early 1970's and found that managers need three essential skills or competencies ; technical, human and conceptual. He also found that the relative importance of these skills varied according to the manager's level within the organization.

Qualities of a Manager:

A manager has to undertake a number of functions from planning to controlling. He has to take decisions for every type of activity. The decisions of the manager influence the working of an organization.

He should have the following qualities so for performing his work properly:

1. Education:

A manager must have proper educational background. These days managers are supposed to have management education, besides other educational qualifications. Education not only widens mental horizon but also helps in understanding the things and interpreting them properly. The knowledge of business environment is also important for dealing with various problems the organization may face.

2. Intelligence:

A manager has to perform more responsibilities than other persons in the organization. He should have higher level of intelligence as compared to other persons. Intelligence will help a manager in assessing the present and future possibilities for the business. He will be able to foresee the things in advance and take necessary decisions at appropriate time.

3. Leadership:

A manager has to direct and motivate persons working in the organization. He will provide leadership to subordinate. The energies of the subordinates will have to be channelize of properly for achieving organizational goals. If a manager has the leadership qualities then he can motivate subordinates in improving their performance and working to their full capacity for the benefit of the organization.

4. Training:

A manager has to acquire managerial skills. These skills consist of technical skills, human skills and conceptual skills. These skills have to be acquired through education, guidance, experience etc. These skills are needed for all levels of managers.

5. Technical Knowledge:

A manager should have technical knowledge of production processes and other activities undertaken in the enterprise. He will be in a better position to inspect and guide if he himself has a knowledge of those activities.

6. Maturity:

A manager should have mental maturity for dealing with different situations. He should be patient, good listener and quick to react to situations. He has to take many awkward decisions which may adversely affect the working if not taken properly. He should keep calm when dealing with subordinates. All these qualities will come with mental maturity.

7. Positive Attitude:

Positive attitude is an asset for a manager. A manager has to deal with many people from inside as well as from outside the organization. He should be sympathetic and positive to various suggestions and taken humane decisions. He should not pre-judge the things and take sides. He should try to develop good relations with various persons dealing with him. He should understand their problems and try to extend a helping hand.

8. Self-confidence:

A manager should have self- confidence. He has to take many decisions daily, he may analyze the things systematically before taking decisions. Once he takes decisions then he should stick to them and try to implement them. A person who lacks self-confidence will always be unsure of his decisions. This type of attitude will create more problems than solving them.

9. Foresight:

A manager has to decide not only for present but for future also. There are rapid changes in technology, marketing, consumer behaviour, financial set up etc. The changes in economic policies will have repercussions in the future. A manager should visualize what is going to happen in future and prepare the organization for facing the situations. The quality of foresight will help in taking right decisions and face the coming things in right perspective. In case the things are not rightly assessed then the organization may face adverse situations.

Role of the Manager:

A role is concerned with the behaviour pattern of a manager within an organization. Henry Mintzberg did a careful study of five chief executives at work in the late 1960's. He discovered that the role of a manager is quite different from the notions held at that time. For instance, the prominent view at that time was that managers were reflective thinkers who carefully and systematically processed information before taking decisions.

Mintzberg found that his managers were engaged in a large number of varied, un-patterned, and short-duration activities. There was little time for reflective thinking because managers encountered constant interruptions. Mintzberg provided a categorization scheme for defining what managers do based on actual managers on the job. He concluded that managers perform ten different but highly interrelated roles. The term management roles refers to specific categories of managerial behaviour. Table gives the ten different roles of the manager.

Interpersonal Roles:

A manager has to perform some duties as a figurehead. He may receive the guests from outside or preside over a social function of employees. He may have to sign some legal documents as head of the organization. These are the roles played as figurehead. He has also to act as leader when he has to sort out the activities of subordinates. He has not only to motivate the employees but is also involved in hiring, firing and discipline employees. The third role in interpersonal roles is of liaisoning. He has to contract outside agencies for collecting business related information. The outside information providers may be individuals or groups.

Table. Mintzberg's Different Managerial Roles

Roles	Description	Identifiable Activities
A. Interpersonal		
1. Figure head	Symbolic head ; obliged to perform a number of routine duties of a legal or social nature.	Greeting visitors, signing legal documents.
2. Leader	Responsible for the motivation and activation of subordinates ; responsible for staffing, training, and associated duties.	Performing all activities relating to subordinates.
3. Liaison	Maintains self-developed network of outside contracts and informers who provide favour and information.	Handling mail, keeping contacts with outsiders.
B. Informational		
1. Monitor	Seeks and receives wide variety of special information (much of it current) to develop a thorough understanding of the organisation and environment ; emerges as nerve centre of internal and external information about the organisation.	Reading various reports and receiving information, acts as a centre of information.
2. Disseminator	Transmits information received from outsiders or from subordinates to members of the organisation ; some information factual, some involving interpretation and integration.	Providing information where needed, holding informational meetings.
3. Spokes person	Transmits information to outsiders on the organisation's plans, policies, actions and results ; serves as expert on the organisation's industry.	Provide business information to outsiders ; holding Board meeting.
C. Decisional		
1. Entrepreneur	Searches the organisation and its environment for opportunities and initiates "improvement projects" to bring about change ; supervises design of certain projects as well.	Holding strategy and review sessions to develop new programmes.
2. Disturbance Handler	Responsible for corrective action when the organisation faces important, unexpected disturbances.	Handling disturbances and reviewing emerging situations.
3. Resource Allocator	Responsible for the allocation of organisational resources of all kinds-in effect the making or approving of all significant organisational decisions.	Allocating various resources and approving organisational programmes for subordinates.
4. Negotiator	Responsible for representing the organisation at major negotiations.	Participating in negotiations on behalf of organisation.

Informational Roles:

All managers are required to perform informational roles. They have to collect information from organizations and institutions outside their own. Managers also play the role of disseminators when they supply information to subordinates in the organization. This information is factual as well as with interpretations for the benefit of users. A manager acts as a spokesperson when he represents the organization to outsiders.

Decisional Roles:

According to Mintzberg, a manager performs four decisional roles. He initiates and oversees new projects for the improvement of organizational performance, this is the entrepreneurial role played by him. As disturbance handler, manager takes corrective actions in response to previously unforeseen problems. He also acts as resource allocation when he assigns and monitors the allocation of human, physical, and monetary resources. He acts as a negotiator when he discusses and bargains with other groups to gain advantage for his own unit.

Management as an Art, Science and Profession

To decide whether management is science, art or profession, one has to comprehend the characteristics and definitions of science, art and profession and associate them with management definition and traits.

Management as an Art:

Art is the experienced and personal utilisation of subsisting information to accomplish solicited outcomes. It can be procured via education, research and practice. As art is involved with the personal utilisation of data some kind of inventiveness and creativity is needed to follow the fundamental systems acquired. The essential characteristics of art are as follows:

- **The presence of theoretical knowledge**: Art assumes the presence of specific academic knowledge. Specialists in their particular fields have obtained specific elementary postulates which are appropriate to a specific sort of art. For instance, the literature on public speaking, acting or music, dancing is publicly acknowledged.
- **Personalised application**: The application of this primary information differs from person to person. Art, hence, is a highly personalised notion.
- **Based on custom and creativity**: Art is practical. Art includes the creative practice of subsisting intellectual knowledge. We know that music is based on 7 notes. However, what makes the style of a musician different or distinctive is his performance of these notes in an artistic way that is uniquely his own solution.

Management as a Science:

Science is an organised collection of knowledge that emphasises definite universal truths or the action of comprehensive laws. The central characteristics of science are as follows:

- **The organised body of knowledge**: Science is a precise entity of knowledge. Its systems are based on a purpose and consequence association.
- **Universal validity**: Scientific conventions have global genuineness and application.
- **Systems based on experimentation**: Scientific conventions are originally formed via research and then tested via repeated trial and error under the regulated situations.

Management as a Profession:

The profession can be described as an occupation upheld by specific education and practice, in which entry is limited. A profession has the following features:

- **The well-defined theory of knowledge**: All services are based on a well-defined form of education that can be procured through education.

- **Restricted entry**: The entrance to a profession is defined through an examination or through obtaining an educational degree. For instance, to become a chartered accountant in India an aspirant has to clear a detailed examination regulated by the Institute of Chartered Accountants of India (ICAI).
- **Professional community**: All professions are affiliated to a professional association which controls entry, presents a certificate of training and expresses and supports a system of government. To be qualified to study in India, lawyers have to become members of the Bar Council which monitors and regulates their actions.

Management as an Art

<table>
<tr><td>(a) MANAGEMENT AS AN ART</td><td>Art refers to personal and skillful application of existing knowledge to achieve desired results.
It can be acquired through continuous practice, creativity, personal observation and experience.
Examples of being an artist: Dancer, Potter, Musician, Director, Actor, Designer etc. all are artist in their respective fields.
A manager is also an artist as he applies his personal knowledge and experience to get the work done from his subordinates.
The way of getting work done by different people differs from manager to manager.</td></tr>
<tr><td>(b) APPLICATION OF FEATURES OF ART IN MANAGEMENT</td><td>i. Existence of theoretical knowledge:
Art occupies existence of some theoretical knowledge, though it is not compulsory for every field.
Education in Management is imparted with the help of theoretical knowledge in various colleges and universities.
Examples- BBA, BBS, MBA etc.
ii. Personalized Application:
Art is purely a personalized application of knowledge to a particular field.
Similarly getting the work done by the managers is purely personalised application of their knowledge and experience and their effectiveness vary from person to person.
Example:
Voice of every singer is different;</td></tr>
</table>

	• Acting style of each actor is different. • So, the management style of every manager is different. **iii. Based on practice and creativity:** • Performance in any art is purely based on practice and the creativity of an individual • It varies from person to person. • Similarly, every manager has his / her own unique style of functioning and delivers results differently. • Example: • Bill gates manage a team of thousands of employees. • Recent performance of new entrepreneurs like Rohit Bansal & Kunl Bahl of 'Snapdeal' has shocked the established business houses on the ability and creativity to generate revenue within a very short period of time.
CONCLUSION	• On the basis of above discussion, we have observed that the field of management fulfills all features of art. • Therefore, we can say, management is an art.

Contributions to Management

Classical Theory

Prof. Charles Babbage, James Watt Junior and Mathew Robinson Boulton, Robert Owen, Henry Robinson Towne and Rowntree were, no doubt, pioneers of management thought. But, the impact of their contributions on the industry as a whole was meagre. The real beginning of the science of management did not occur until the last decade of the 19th century. During this period, stalwarts like F.W. Taylor, H.L. Gantt, Emerson, Frank and Lillian Gilberth etc., laid the foundation of management, which in due course, came to be known as scientific management. This epoch in the history of management will be remembered as an era in which traditional ways of managing were challenged, past management experience was scientifically systematized and principles of management were distilled and propagated. The contributions of the pioneers of this age have had a profound impact in furthering the management know-how and enriching the store of management principles.

F.W. Taylor and Henry Fayol are generally regarded as the founders of scientific management and administrative management and both provided the bases for science and art of management.

Features of Management in the Classical Period:

1. It was closely associated with the industrial revolution and the rise of large-scale enterprise.
2. Classical organization and management theory is based on contributions from a number of sources. They are scientific management, Administrative management theory, bureaucratic model, and micro-economics and public administration.

3. Management thought focussed on job content division of labour, standardization, simplification and specialization and scientific approach towards organization.

A. ***Taylor's Scientific Management:*** Started as an apprentice machinist in Philadelphia, USA. He rose to be the chief engineer at the Midvale Engineering Works and later on served with the Bethlehem Works where he experimented with his ideas and made the contribution to the management theory for which he is so well known. Frederick Winslow Taylor well-known as the founder of scientific management was the first to recognize and emphasis the need for adopting a scientific approach to the task of managing an enterprise. He tried to diagnose the causes of low efficiency in industry and came to the conclusion that much of waste and inefficiency is due to the lack of order and system in the methods of management. He found that the management was usually ignorant of the amount of work that could be done by a worker in a day as also the best method of doing the job. As a result, it remained largely at the mercy of the workers who deliberately shirked work. He therefore, suggested that those responsible for management should adopt a scientific approach in their work, and make use of "scientific method" for achieving higher efficiency. The scientific method consists essentially of

(a) Observation

(b) Measurement

(c) Experimentation and

(d) Inference.

He advocated a thorough planning of the job by the management and emphasized the necessity of perfect understanding and co-operation between the management and the workers both for the enlargement of profits and the use of scientific investigation and knowledge in industrial work. He summed up his approach in these words:

l Science, not rule of thumb

l Harmony, not discord

l Co-operation, not individualism

l Maximum output, in place of restricted output

l The development of each man to his greatest efficiency and prosperity.

Elements of Scientific Management: The techniques which Taylor regarded as its essential elements or features may be classified as under:

1. Scientific Task and Rate-setting, work improvement, etc.
2. Planning the Task.
3. Vocational Selection and Training
4. Standardization (of working conditions, material equipment etc.)
5. Specialization
6. Mental Revolution.

1. ***Scientific Task and Rate-Setting (work study):*** Work study may be defined as the systematic, objective and critical examination of all the factors governing the operational efficiency of any specified activity in order to effect improvement.

Work study includes.

a) ***Methods Study:*** The management should try to ensure that the plant is laid out in the best manner and is equipped with the best tools and machinery. The possibilities of eliminating or combining certain operations may be studied.

(b) ***Motion Study:*** It is a study of the movement, of an operator (or even of a machine) in performing an operation with the purpose of eliminating useless motions.

(c) ***Time Study (work measurement):*** The basic purpose of time study is to determine the proper time for performing the operation. Such study may be conducted after the motion study. Both time study and motion study help in determining the best method of doing a job and the standard time allowed for it.

(d) ***Fatigue Study:*** If, a standard task is set without providing for measures to eliminate fatigue, it may either be beyond the workers or the workers may over strain themselves to attain it. It is necessary, therefore, to regulate the working hours and provide for rest pauses at scientifically determined intervals.

(e) ***Rate-setting:*** Taylor recommended the differential piece wage system, under which workers performing the standard task within prescribed time are paid a much higher rate per unit than inefficient workers who are not able to come up to the standard set.

2. ***Planning the Task:*** Having set the task which an average worker must strive to perform to get wages at the higher piece-rate, necessary steps have to be taken to plan the production thoroughly so that there is no bottlenecks and the work goes on systematically.

3. ***Selection and Training:*** Scientific Management requires a radical change in the methods and procedures of selecting workers. It is therefore necessary to entrust the task of selection to a central personnel department. The procedure of selection will also have to be systematised. Proper attention has also to be devoted to the training of the workers in the correct methods of work.

4. ***Standardization:*** Standardization may be introduced in respect of the following.

(a) ***Tools and equipment:*** By standardization is meant the process of bringing about uniformity. The management must select and store standard tools and implements which will be nearly the best or the best of their kind.

(b) ***Speed:*** There is usually an optimum speed for every machine. If it is exceeded, it is likely to result in damage to machinery.

(c) ***Conditions of Work:*** To attain standard performance, the maintenance of standard conditions of ventilation, heating, cooling, humidity, floor space, safety etc., is very essential.

(d) ***Materials:*** The efficiency of a worker depends on the quality of materials and the method of handling materials.

5. ***Specialization:*** Scientific management will not be complete without the introduction of specialization. Under this plan, the two functions of 'planning' and 'doing' are separated in the organization of the plant. The `functional foremen' are specialists who join their heads to give thought to the planning of the performance of operations in the workshop. Taylor suggested eight functional foremen under his scheme of functional foremanship.

(a) ***The Route Clerk:*** To lay down the sequence of operations and instruct the workers concerned about it.

(b) ***The Instruction Card Clerk:*** To prepare detailed instructions regarding different aspects of work.

(c) ***The Time and Cost Clerk:*** To send all information relating to their pay to the workers and to secure proper returns of work from them.

(d) ***The Shop Disciplinarian***: To deal with cases of breach of discipline and absenteeism.

(e) ***The Gang Boss:*** To assemble and set up tools and machines and to teach the workers to make all their personal motions in the quickest and best way.

(f) ***The Speed Boss:*** To ensure that machines are run at their best speeds and proper tools are used by the workers.

(g) ***The Repair Boss:*** To ensure that each worker keeps his machine in good order and maintains cleanliness around him and his machines.

(h) ***The Inspector:*** To show to the worker how to do the work.

6. ***Mental Revolution:*** At present, industry is divided into two groups – management and labour. The major problem between these two groups is the division of surplus.

The management wants the maximum possible share of the surplus as profit; the workers want, as large share in the form of wages. Taylor has in mind the enormous gain that arises from higher productivity. Such gains can be shared both by the management and workers in the form of increased profits and increased wages.

Benefits of Scientific Management: Taylor's ideas, research and recommendations brought into focus technological, human and organizational issues in industrial management. Benefits of Taylor's scientific management included wider scope for specialization, accurate planning, timely delivery, standardized methods, better quality, lesser costs, minimum wastage of materials, time and energy and cordial relations between management and workers. According to Gilbreths, the main benefits of scientific management are "conservation and savings, making an adequate use of every one's energy of any type that is expended". The benefits of scientific management are:-

(a) Replacement of traditional rule of thumb method by scientific techniques.

(b) Proper selection and training of workers.

(c) Incentive wages to the workers for higher production.

(d) Elimination of wastes and rationalization of system of control.

(e) Standardization of tools, equipment, materials and work methods.

(f) Detailed instructions and constant guidance of the workers.

(g) Establishment of harmonious relationship between the workers.

(h) Better utilization of various resources.

(i) Satisfaction of the needs of the customers by providing higher quality products at lower prices.

Henry Fayol (France, 1841 - 1925): Henry Fayol was born in 1941 at Constantinople in France. He graduated as a mining engineer in 1860 from the National School of Mining. After his graduation, he joined a French Coal Mining Company as an Engineer. After a couple of years, he was promoted as manager. He was appointed as General Manager of his company in 1888. At that time, the company suffered heavy losses and was nearly bankrupt. Henry Fayol succeeded in converting his company from near bankruptcy to a strong financial position and a record of profits and dividends over a long period.

Concept of Management: Henry Fayol is considered the father of modern theory of general and industrial management. He divided general and industrial management into six groups:

1. Technical activities - Production, manufacture, adaptation.
2. Commercial activities - buying, selling and exchange.
3. Financial activities - search for and optimum use of capital.
4. Security activities - protection of property and persons.
5. Accounting activities - stock-taking, balance sheet, cost, and statistics.
6. Managerial activities - planning, organization, command, co- ordination and control.

These six functions had to be performed to operate successfully any kind of business. He, however, pointed out that the last function i.e., ability to manage, was the most important for upper levels of managers.

The process of management as an ongoing managerial cycle involving planning, organizing, directing, co-ordination, and controlling, is actually based on the analysis of general management by Fayol. Hence, it is said that Fayol established the pattern of management thought and practice. Even today, management process has general recognition.

Fayol's Principles of Management: The principles of management are given below:

1. ***Division of work:*** Division of work or specialization alone can give maximum productivity and efficiency. Both technical and managerial activities can be performed in the best manner only through division of labour and specialization.

2. ***Authority and Responsibility:*** The right to give order is called authority. The obligation to accomplish is called responsibility. Authority and Responsibility are the two sides of the management coin. They exist together. They are complementary and mutually interdependent.

3. ***Discipline:*** The objectives, rules and regulations, the policies and procedures must be honoured by each member of an organization. There must be clear and fair agreement on the rules and objectives, on the policies and procedures. There must be penalties (punishment) for non-obedience or indiscipline. No organization can work smoothly without discipline - preferably voluntary discipline.

4. ***Unity of Command:*** In order to avoid any possible confusion and conflict, each member of an organization must received orders and instructions only from one superior (boss).

5. ***Unity of Direction:*** All members of an organization must work together to accomplish common objectives.

6. ***Emphasis on Subordination of Personal Interest to General or Common Interest:*** This is also called principle of co-operation. Each shall work for all and all for each. General or common interest must be supreme in any joint enterprise.

7. ***Remuneration:*** Fair pay with non-financial rewards can act as the best incentive or motivator for good performance. Exploitation of employees in any manner must be eliminated. Sound scheme of remuneration includes adequate financial and nonfinancial incentives.

8. ***Centralization:*** There must be a good balance between centralization and decentralization of authority and power. Extreme centralization and decentralization must be avoided.

9. ***Scalar Chain:*** The unity of command brings about a chain or hierarchy of command linking all members of the organization from the top to the bottom. Scalar denotes steps.

10. ***Order:*** Fayol suggested that there is a place for everything. Order or system alone can create a sound organization and efficient management.

11. ***Equity:*** An organization consists of a group of people involved in joint effort. Hence, equity (i.e., justice) must be there. Without equity, we cannot have sustained and adequate joint collaboration.
12. ***Stability of Tenure:*** A person needs time to adjust himself with the new work and demonstrate efficiency in due course. Hence, employees and managers must have job security. Security of income and employment is a pre-requisite of sound organization and management.
13. ***Esprit of Co-operation:*** *Esprit de corps* is the foundation of a sound organization. Union is strength. But unity demands co-operation. Pride, loyalty and sense of belonging are responsible for good performance.
14. ***Initiative:*** Creative thinking and capacity to take initiative can give us sound managerial planning and execution of predetermined plans.
C. ***Bureaucratic Model:*** Max Weber, a German Sociologist developed the bureaucratic model. His model of bureaucracy include
(i) Hierarchy of authority.
(ii) Division of labour based upon functional specialization.
(iii) A system of rules.
(iv) Impersonality of interpersonal relationships.
(v) A system of work procedures.
(vi) Placement of employees based upon technical competence.
(vii) Legal authority and power.
Bureaucracy provides a rigid model of an organization. It does not account for important human elements. The features of Bureaucracy are:-
1. Rigidity, impersonality and higher cost of controls.
2. Anxiety due to pressure of conformity to rules and procedure.
3. Dependence on superior.
4. Tendency to forget ultimate goals of the organization.
Bureaucratic Model is preferred where change is not anticipated or where rate of change can be predicated. It is followed in government departments and in large business organizations

Neoclassical Theory

Neo-classical Theory is built on the base of classical theory. It modified, improved and extended the classical theory. Classical theory concentrated on job content and management of physical resources whereas, neoclassical theory gave greater emphasis to individual and group relationship in the workplace. The neo- classical theory pointed out the role of psychology and sociology in the understanding of individual and group behaviour in an organization.
George Elton Mayo (Australia, 1880 - 1949): Elton Mayo was born in Australia. He was educated in Logic and Philosophy at St. Peter's College, Adelaide. He led a team of researchers from Harvard University, which carried out investigation in human problems at the Hawthorne Plant of Western Electrical Company at Chicago. They conducted some experiments (known as Hawthorne Experiments) and investigated informal groupings, informal relationships, patterns of communication, patterns of informal leadership etc. Elton Mayo is generally recognized as the father of Human Relations School. Other prominent contributors to this school include Roethlisberger, Dickson, Dewey, Lewin etc.

Hawthorne Experiment: In 1927, a group of researchers led by Elton Mayo and Fritz Roethlisberger of the Harvard Business School were invited to join in the studies at the Hawthorne Works of Western Electric Company, Chicago. The experiment lasted up to 1932. The Hawthorne Experiments brought out that the productivity of the employees is not the function of only physical conditions of work and money wages paid to them.

Productivity of employees depends heavily upon the satisfaction of the employees in their work situation. Mayo's idea was that logical factors were far less important than emotional factors in determining productivity efficiency. Furthermore, of all the human factors influencing employee behaviour, the most powerful were those emanating from the worker's participation in social groups. Thus, Mayo concluded that work arrangements in addition to meeting the objective requirements of production must at the same time satisfy the employee's subjective requirement of social satisfaction at his work place.

The Hawthorne experiment consists of four parts. These parts are briefly described below:-

1. Illumination Experiment.
2. Relay Assembly Test Room Experiment.
3. Interviewing Programme.
4. Bank Wiring Test Room Experiment.

1. ***Illumination Experiment:*** This experiment was conducted to establish relationship between output and illumination. When the intensity of light was increased, the output also increased. The output showed an upward trend even when the illumination was gradually brought down to the normal level. Therefore, it was concluded that there is no consistent relationship between output of workers and illumination in the
factory. There must be some other factor which affected productivity.

2. ***Relay Assembly Test Room Experiment:*** This phase aimed at knowing not only the impact of illumination on production but also other factors like length of the working day, rest hours, and other physical conditions. In this experiment, a small homogeneous work-group of six girls was constituted. These girls were friendly to each other and were asked to work in a very informal atmosphere under the
supervision of a researcher. Productivity and morale increased considerably during the period of the experiment. Productivity went on increasing and stabilized at a high level even when all the improvements were taken away and the pre-test conditions were reintroduced. The researchers concluded that socio-psychological factors such as feeling of being important, recognition, attention, participation,
cohesive work-group, and non-directive supervision held the key for higher productivity.

3. ***Mass Interview Programme:*** The objective of this programme was to make a systematic study of the employees' attitudes which would reveal the meaning which their "working situation" has for them. The researchers interviewed a large number of workers with regard to their opinions on work, working conditions and supervision. Initially, a direct approach was used whereby interviews asked questions considered important by managers and researchers. The researchers observed that the replies of the workmen were guarded. Therefore, this approach was replaced by an indirect technique, where the interviewer simply listened to what the workmen had to say. The findings confirmed the importance of social factors at work in the total work environment.

4. ***Bank Wiring Test Room Experiment:*** This experiment was conducted by Roethlisberger and Dickson with a view to develope a new method of observation and obtaining more exact information about social groups within a company and also finding out the causes which restrict output. The experiment was conducted to study a group of workers under conditions which were as close as possible to normal. This group comprised of 14 workers. After the experiment, the production records of this group were compared with their earlier production records. It was observed that the group evolved its own production norms for each individual worker, which was made lower than those set by the management. Because of this, workers would produce only that much, thereby defeating the incentive system. Those workers who tried to produce more than the group norms were isolated, harassed or punished by the group. The findings of the study are:-

(i) Each individual was restricting output.

(ii) The group had its own "unofficial" standards of performance.

(iii) Individual output remained fairly constant over a period of time.

(iv) Informal groups play an important role in the working of an organization.

Contributions of the Hawthorne Experiment: Elton Mayo and his associates conducted their studies in the Hawthorne plant of the western electrical company, U.S.A., between 1927 and 1930. According to them, behavioural science methods have many areas of application in management. The important features of the Hawthorne Experiment are:-

1. A business organization is basically a social system. It is not just a techno-economic system.

2. The employer can be motivated by psychological and social wants because his behaviour is also influenced by feelings, emotions and attitudes. Thus economic incentives are not the only method to motivate people.

3. Management must learn to develop co-operative attitudes and not rely merely on command.

4. Participation becomes an important instrument in human relations movement. In order to achieve participation, effective two-way communication network is essential.

5. Productivity is linked with employee satisfaction in any business organization. Therefore management must take greater interest in employee satisfaction.

6. Group psychology plays an important role in any business organization. We must therefore rely more on informal group effort.

7. The neo-classical theory emphasizes that man is a living machine and he is far more important than the inanimate machine. Hence, the key to higher productivity lies in employee morale. High morale results in higher output.

Elements of Behavioural Theory: There are three elements of behavioural theory.

1. ***The Individual:*** The neoclassical theory emphasized that individual differences must be recognised. An individual has feelings, emotions, perception and attitude. Each person is unique. He brings to the job situation certain attitudes, beliefs and ways of life, as well as skills. He has certain meaning of his job, his supervision, working conditions etc. The inner world of the worker is more important than the external reality in the determination of productivity. Thus human relations at work determine the rise or fall in productivity. Therefore human relationists advocate the adoption of multidimensional model of motivation which is based upon economic, individual and social factors.

2. ***Work Groups:*** Workers are not isolated; they are social beings and should be treated as such by management. The existence of informal organization is natural. The neo-classical theory describes the vital effects of group psychology and behaviour on motivation and productivity.

3. ***Participative Management:*** The emergence of participative management is inevitable when emphasis is laid on individual and work groups. Allowing labour to participate in decision making primarily to increase productivity was a new form of supervision. Management now welcomes worker participation in planning job contents and job operations. Neoclassical theory focuses its attention on workers. Plant layout, machinery, tool etc., must offer employee convenience and facilities. Therefore, neoclassical approach is trying to satisfy personal security and social needs of workers. Human relationists made very significant contribution to management thought by bringing into limelight human and social factors in organizations. But their concepts were carried beyond an appropriate limit. There are many other factors which influence productivity directly. Modern management thought wants equal emphasis on man and machine and we can evolve appropriate man- machine system to secure both goals – productivity and
satisfaction.

According to Peter F Drucker-"Organisation is not an end in itself, but a means to the end of business performance and business results. Organisation structure is an indispensable means; and the wrong structure will seriously impair business performance and may even destroy it. Organisation structure must be designed so as to make possible to attainment of the objectives of the business for five, ten, fifteen years hence". Thus it is essential that a great deal of care should be taken while determining the organisation structure. Peter Drucker has pointed out three specific ways to find out what kind or structure is needed to attain the objectives of a specific business:

(i) ***Activities Analysis:*** The purpose of 'activities analysis' is to discover the primary activity of the proposed organisation, for it is around this that other activities will be built. It may be pointed out that in every organisation; one or two functional areas of business dominate. For example, designing is an important activity of the readymade garments manufacturer. After the activities have been identified and
classified into functional areas, they should be listed in the order of importance. It is advisable to divide and sub-divide the whole work into smaller homogeneous units so that the same may be assigned to different individuals. Thus, in devising an organisational structure, it is important to divide the entire work into manageable units. It has rightly been said that the job constitutes the basic building block in
building up an organisational structure.

(ii) ***Decision Analysis:*** At this stage, the manager finds out what kinds of decisions will need to be made to carry on the work of the organisation. What is even more important, he has to see where or at what level these decisions will have to be made and how each manager should be involved in them. This type of analysis is particularly important for deciding upon the number of levels or layers in the
organisation structure.

As regards decision analysis, Peter Drucker, has emphasised four basic characteristics. They are:

1. the degree of futurity in the decision
2. the impact that decision has on other functions

3. the character of he decision determined by a number of qualitative factors, such as, 'basic principles of conduct, ethical values, social and political beliefs etc., and

4. whether the decisions are periodically recurrent or rates as recurrent decisions may require a general rule whereas a rate decision is to be treated as a distinctive event.

A decision should always be made at the lowest possible level and so close to the scene of action as possible.

(iii) ***Relations Analysis:*** Relations Analysis will include an examination of the various types of relationships that develop within the organisation. These relationships are vertical, lateral and diagonal. Where a superior-subordinate relationship is envisaged, it will be a vertical relationship. In case of an expert or specialist advising a manager at the same level, the relationship will be lateral. Where a specialist exercises authority over a person in subordinate position in another department in the same

organisation it will be an instance of diagonal relationship. Peter Drucker emphasises that-"the first thing to consider in defining a manager job is the contribution his activity has to make to the larger unit of which it is a part." Thus, downward, upward and lateral (side-ways) relations must be analysed to determine the organisation structure.

UNIT – IV
MANAGEMENT AND ORGANISATION

Management is an activity consisting of a distinct process which is primarily concerned with the important task of goal achievement. No business enterprise can achieve its objectives until and unless all the members of the enterprise make an integrated and planned effort under the directions of a central coordinating agency. This central coordinating agency is technically known as 'management' and the methodology of getting things done is known as 'management process'.

The process of management involves the determination of objectives and putting them into action. According to McFarland, "Management is the process by which managers create, direct, maintain and operate purposive organisations through systematic, coordinated and cooperative human effort".

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

Under management as a process, management is considered as a continuing activity made up of basic management functions. The process is on going and continuing. It assumes a cyclical character.

1. ***Planning:*** Denotes the determination of short-to-long-range plans to achieve the objectives of organisation.
2. ***Organising:*** Indicates the development of sound organisation structure according to predetermined plans.
3. ***Direction:*** Means stimulating and motivation of personnel of the organisation according to predetermined plans.
4. ***Controlling:*** Offers assurance that directs action i.e., plan- in-action, is taking place as per plan.

Planning : What is Planning, Features, Types, Process and Importance | Functions | Management

Planning is the work the manager does to predetermine a course of action, that involves-

(a) Establishing Purpose – the work managers do to discover a vision of the future;

(b) Setting Goals – the work managers do to determine the end results to be accomplished; and (c) Creating Plans – the work of sequencing tasks to accomplish goals.

Thus planning is an activity where goals are set, environmental studies are made, planning premises are considered and a plan is chalked out. Thus plan is a predetermined course of action, which emerges as an outcome of planning process.

When an organization wants to reach a goal, it makes a plan to reach it. The plan is a future course of action. To decide this future course of action, the manager has to anticipate future and take into account the organization’s capability with regard to the resources required to implement the plan.

This plan should clearly lay out action sequences to be performed. After putting the plan into action, the management keeps a track of it and make adjustments in it as and when required under the given circumstances. Organizational plans generally take the shape of policies, procedures, budgets, programs, etc.

Essentially, planning has following characteristics:

1. Planning is the most basic of all managerial functions – Planning precedes all executory functions like organizing, directing, staffing, and controlling.

2. Planning preconceives an objective – Every plan specifies the objectives to be attained in future and steps necessary to reach them.

3. Planning is an intellectual activity- It involves vision and foresightedness to decide the things to be done in future.

4. Planning must involve the future – It bridges the gap between where we are and where we want to go.

5. Planning is all pervasive – It is required in every managerial function and at every level.

6. Planning is a continuous activity – It is never ending activity of a manager. Planning is always tentative and subject to revision and amendment, as new facts become known.

Features of Planning*:*

Planning has a number of characteristics:

1. Planning is Goal Oriented:

All plans arise from objectives. Objectives provide the basic guidelines for planning activities. Planning has no meaning unless it contributes in some positive manner to the achievement of predetermined goals.

2. Planning is a Primary Function:

Planning is the foundation of management. It is a parent exercise in management process. It is a preface to business activities. According to Koontz, "Planning provides the basic foundation from which all future management functions arise".

3. Planning is All Pervasive:

Planning is a function of all managers. It is needed and practiced at all managerial levels. Planning is inherent in everything a manager does.

4. Planning is a Mental Exercise:

Planning is a mental process involving imagination, foresight and sound judgment. Planning compels managers to abandon guesswork and wishful thinking. It makes them think in a logical and systematic manner.

5. Planning is a Continuous Process:

Planning is continuous. It is a never-ending activity. It is an ongoing process of adjustment to change. There is always need for a new plan to be drawn on the basis of new demands and changes in the circumstances.

6. Planning Involves Choice:

Planning essentially involves choice among various alternative courses of action. If there is one way of doing something, there is no need for planning. The need for planning arises only when alternatives are available.

7. Planning is Forward Looking:

Planning means looking ahead and preparing for the future. It means peeping into the future, analyzing it and preparing for it. Managers plan today with a view to flourish tomorrow. Without planning, business becomes random in nature and decisions would become meaningless, adhoc choices.

8. Planning is Flexible:

Planning is based on a forecast of future events. Since future is uncertain, plans should be reasonably flexible. When market conditions change, planners have to make necessary changes in the existing plans.

9. Planning is an Integrated Process:

Plans are structured in a logical way wherein every lower-level plan serves as a means to accomplish higher level plans. They are highly interdependent and mutually supportive.

10. Planning Includes Efficiency and Effectiveness Dimensions:

Plans aim at deploying resources economically and efficiently. They also try to accomplish what has been actually targeted. The effectiveness of plans is usually dependent on how much it can contribute to the predetermined objectives.

Purposes of Planning:

Why do managers plan? – The answer to this question can be best given by another question – can managers afford not to plan? Planning is inevitable at every level. Even if a manager has to take work from 2 persons in a day, he will have to plan to allocate the work among them. What a manager may ignore is long term planning. But the long term planning is very important if an organization wants to survive and prosper.

Some purposes, which can be achieved by planning, are discussed below:

1. Planning focuses attention on objectives:

Planning directs explicit attention to objectives and priorities, and encourages individuals and organizations to focus on relevant results rather than on endless activities. The intended, explicit, announced plan sets a tone, focuses attention, and encourages action.

2. Planning establishes coordinated effort:

It gives direction to managers and non- managers alike. When employees know where the organization is going and what they must contribute to reach the objective, they can coordinate their activities, cooperate with each other, and work in teams. Without planning, departments could be working at cross-purposes and preventing the organization from moving efficiently towards its objectives.

3. Planning reduces uncertainty:

Planning force managers to look ahead, anticipate change, consider the impact of change, and develop appropriate responses. It also clarifies the consequences of actions managers might take in response to change.

4. Planning provides a means for organizations to cope with changes in their environment:

The accelerating pace of change in political, technological, economic, and other areas highlights the need for continuing attention to strategy reformulation.

5. Planning reduces overlapping and wasteful activities:

Planning beforehand is likely to pinpoint waste and redundancy. Furthermore, when means and ends are clear, efficiencies become obvious.

6. Planning establishes objectives or standards that are used in controlling:

If we are unsure of what we are trying to achieve, how can we determine whether or not we have achieved it? In planning, we develop the objectives. In the controlling function, we compare actual performance against the objectives, identify any significant deviations, and take the necessary corrective action. Without planning, there would be no way to control.

Comprehensive planning is an integrative activity that seeks to maximize the total effectiveness of an organization as a system in accordance with its goals.

Basic Steps in Planning Process:

Whether the system is an organization, department, business, project, etc., the basic planning process typically includes similar nature of activities carried out in similar sequence.

Step 1- Identify Need for Planning:

First of all need for making plans should be identified clearly. The managers should be sensitive enough to judge which area need planning. For example- falling sales of the company may alarm the managers to review and plan its sales function.

Step 2- Establish a Goal or Set of Goals:

Next step is to decide what exactly the organisation or sub-unit wants or needs in order to accomplish organizational purpose. For example- the goal of the marketing unit may be to reach a particular quantum of turnover in the given time. Identifying priorities and being specific about them enable organizations to focus their resources effectively.

Step 3- Define the Present Situation:

How far is the organization or the subunit from its goals? What resources are available for reaching the goals? Only after the current state of affairs is analyzed can plans be drawn up to chart further progress. Open lines of communication within the organisation and between its sub-units provide the information—especially financial and statistical data—necessary for this third stage.

Step 4- Identify the Aids and Barriers to the Goals:

What factors in the internal and external environments can help the organization reach its goals? What factors might create problems? Planning requires an intimate understanding of present resources (human, material, and financial), core competencies, and actual obstacles with respect to the business unit, all of which describe the current condition.

A clear vision of the desired future state with respect to its impact on the organization's ability to overcome potential obstacles, fulfil its mission, and serve its customers, needs to be obtained.

Step 5- Develop a Plan or Set of Actions for Reaching the Goal(s):

Each Goal must be broken down into an Action Plan which has four parts to it-

(1) The WHAT – This involves tasks- although goals clarify what is to be done in organization, each goal must be broken down into specific tasks that will help to accomplish the goal.

(2) The WHO – this involves delegating – the work a leader does to identify the capabilities of each member of the team and delegate tasks to them.

(3) The WHEN – this involves scheduling- the work of putting a time factor on our programme and inserting the calendar into the programme with dates and time durations.

(4) The WITH WHAT – this involves budgeting – the application of resources (personnel, time and equipment) to help achieve the goal.

Step 6- Monitor the Progress of Plan:

After the plan is set into motion, next task is to monitor its progress. Is it leading the organization in the same direction as was perceived while planning? If not, what could be the reason?, can any change make the things better?, if yes, the planning process again starts. Monitoring is a continuous process, and is required to be done at each stage of implementation of plans, and so is the planning process.

Note that different planners might have different names for the above activities and groups them differently. However, the nature of the activities and their general sequence remains the same.

Principles of Planning:

There is no standard set of principles, which can ensure effective planning.

However, few principles, which apply to planning in almost all the circumstances, are discussed below:

1. Principle of Contribution to Objectives:

Planning is meant to achieve the objectives of the organization. Thus it should focus attention to objectives and direct all efforts and resources to their advancement.

2. Principle of Primacy of Planning:

There are different functions of management, but planning must hold the primacy and thus occupy first place and precedes all other functions of management.

3. Principle of Planning Premises:

Planning is always based on some premises which includes forecasts of future environment, current information of environment and organization, values and assumptions of planners and owners of organization.

4. Principle of Limiting Factors:

Planning must take the limiting factors (manpower, money, machines, materials and management) into account by concentrating on them when developing alternative plans, strategies, policies, procedures and standards.

5. Principle of Commitment:

An organization should plan in the future for a period of time sufficient to fulfil the commitments of the organization. This principle helps in determining the length of the planning period. It suggests that the time period covered by planning should be related to the commitments of the organization. If the commitments are defined in terms of long-term goals, the resources should be procured and deployed on the long-term basis.

6. Principle of Flexibility:

Flexibility in the plans is required to cope with the uncertainties of the environment. However, flexibility entails costs. Thus, degree of flexibility in a plan should be decided after weighing the costs and probable benefits of the given flexibility.

7. Principle of Navigational Change:

It is the duty of the navigator to check constantly whether his ship is following the right direction in the vast ocean to reach the destination as scheduled. The navigator changes the path of ship in case it is not going on the right path. In the same way, a manager should check his plans to ensure that these are progressing as required. He should change the direction of his plans if he faces unexpected events.

Types of Plans:

As the plans are all pervasive, they are made at every level of organization with different purposes and perspectives. Accordingly they may take various shapes and stand differently in the hierarchy of importance.

The most popular ways to describe organizational plans are by their:

1. Coverage – Strategic, tactical, and operational,

2. Time frame – Short and long term,

3. Specificity – Specific versus directional,

4. Frequency of use – Single use and standing.

Note that these planning classifications aren't independent. For instance, short-and long- term plans are closely related to strategic and operational ones. And single-use plans typically are strategic, long term, and directional.

1. Strategic, Tactical and Operational Plans:

a. Strategic Plans:

Strategic plans are designed to meet the broad objectives of the organization – to implement the mission that provides the unique reason for organization's existence. They are set at the top managerial level, and are meant to guide the whole organization.

An organization's strategic plan is the starting point for planning. The aim of strategic planning is to help a company select and organize its businesses in a way that would keep the company healthy in spite of unexpected upsets occurring in any of its specific businesses or product lines.

For example- in order to deal with uncertainties of raw material availability, a company's strategic plan may purport to acquire its own facilities for generating raw material. Strategic plan serves as a guide to the development of sound sub plans to accomplish the organizational objectives.

b. Tactical Plans:

Top level managers set the strategies that an organization should focus to achieve organizational goals. Examples of strategies include set-up a plant to generate raw material for the organization's manufacturing activities, explore North-East market, and likewise. Middle managers interpret these strategies and develop tactical plans for their departments that follow strategies in order to contribute to the organizational goals.

In order to develop tactical plans, middle management needs detail reports (financial, operational, market, external environment). Tactical plans have shorter time frames and narrower scopes than strategic plans. Tactical planning provides the specific ideas for implementing the strategic plan. It is the process of making detailed decisions about what to do, who will do it, and how to do it.

In short, tactical plans may be understood in following terms:

1. Tactical planning deals primarily with the implementation phase of the planning process

2. Tactical planning turns strategy into reality

3. Tactical planning usually has a 1-2 year time horizon

4. Tactical planning is usually tightly integrated with the annual budget process

c. Operational Plans:

The supervisor interprets the strategic and tactical management plans as they apply to his unit. This way, he makes operational plans to support tactical plans. These plans provide the details of how the strategic plans will be accomplished. Examples of planning by supervisors include scheduling the work of employees and identifying needs for staff and resources to meet future changes. Operating plans tend to be repetitive and inflexible over the short run. Change comes only when it is obvious that plans and specific action steps are not working.

There are two main type of operational plans – Single use plans which are developed to achieve specific purposes and dissolved when these have been accomplished; standing plans are standardized approaches for handling recurring and predictable situations.

Note that Tactical plans are based on the organization’s strategic plan. In turn, operational plans are based on the organization’s tactical plans. These are specific plans that are needed for each task or supportive activity comprising the whole. Strategic, tactical, and operational planning must be accompanied by controls.

Monitoring progress or providing for follow-up is intended to ensure that plans are carried out properly and on time. Adjustments may need to be made to accommodate changes in the external and/ or internal environment of the organization.

2. Short-Range and Long-Range Plans:

Time is an important factor in planning. George Terry says, “The time period covered by planning should preferably include sufficient time to fulfil the managerial commitments involved.”

Generally a short range planning (SRP) means a plan for one or two years and long range planning (LRP) means a plan for three to five years or more. Though this division may be considered as arbitrary, but it may have a general acceptability. This period of course, may vary according to the nature and size of business.

When a concern requires long gestation period, it is natural that the long range planning may cover a longer period than five years. For example- organizations, such as oil or mining companies, or airlines must make long range planning because of their particular purposes and objectives. A home video-rental store or a book store might concentrate on seasonal or annual goals.

However, whatever the period of planning, it should not be too rigid. It should rather be flexible to meet the unknown factors of the future. If a concern adopts both short-term and long-term planning, the short-term planning should fit in with long-term planning. It is important, for managers, to understand the roles of both long range and short range planning in overall planning scheme.

3. Specific and Directional Plans:

Specific plans are established to achieve a specific purpose and dissolves when the purpose is accomplished. For example- a manager who seeks to increase his firm's sales by 20 per cent over a given twelve-month period might establish specific procedures, budget allocations, and schedules of activities to reach that objective. These represent specific plans.

Directional plans identify general guidelines. They provide focus but do not lock managers into specific objectives or courses of action. Instead of following a specific plan to cut costs by 4 per cent and increase revenues by 6 per cent in the next six months, a directional plan might shoot for improving corporate profits by 5 to 10 per cent every year.

Intuitively it seems right that specific plans would be preferable to directional or loosely guided plans, because they have clearly defined objectives. There is no ambiguity, no problem with misunderstandings. However, in certain circumstances, like in case of fast changing environment, directional plans provide the flexibility required to cope with the changing situations.

4. Single Use and Standing Plans:

A single-use plan is a one-time plan specifically designed to meet the needs of a unique situation and created in response to non-programmed decisions that managers make.

In contrast, standing plans are ongoing plans that provide guidance for activities repeatedly performed in the organization. Standing plans are created in response to programmed decisions that managers make and include the policies, rules, and procedures.

i. Single-Use Plans:

Single-use plans are detailed courses of action that probably will not be repeated in the same form in the future. For example- a firm planning to set up a new warehouse because it is expanding rapidly will need a specific single-use plan for that project, even though it has established a number of other warehouses in the past.

It will not be able to use an existing warehouse plan, because the projected warehouse presents unique requirements of location, construction costs, labour availability, zoning restrictions, and so forth. The major types of single-use plans are programs, projects, and budgets.

a. Programs:

A program covers a relatively large set of activities. The program shows- (1) the major steps required to reach an objective, (2) the organization unit or member responsible for each step, and (3) the order and timing of each step. The program may be accompanied by a budget or a set of budgets for the activities required.

A program may be as large in scope as placing a person on the moon or as comparatively small as improving the reading level of fourth-grade students in a school district. Whatever its scope, it will specify many activities and allocations of resources within an overall scheme that may include other single-use plans as projects and budgets.

b. Projects:

Projects are the smaller and separate portions of programs. Each project has limited scope and distinct directives concerning assignments and time. In the warehouse example, typical projects might include the preparation of layouts, a report on labour availability, and recommendations for transferring stock from existing facilities to the new installation. Each project will become the responsibility of designated personnel who will be given specific resources and deadlines.

c. Budgets:

Budgets are statements of financial resources set aside for specific activities in a given period of time. They are primarily devices to control an organization's activities and so are important components of programs and projects. Budgets itemize income as well as expenditures and thus provide targets for such activities as sales, departmental expenses, or new investments.

Managers often use budget development as the process by which decisions are made to commit resources to various alternative courses of action. In this sense, budgets can be considered single-use plans in their own right.

ii. Standing Plans:

a. Policies:

A policy is a general statement designed to guide employees' actions in recurring situations. It establishes broad limits, provides direction, but permits some initiative and discretion on the part of the supervisor. Thus, policies are guidelines. Some policies deal with very important matters, like those requiring strict sanitary conditions where food or drugs are produced or packaged. Others may be concerned with relatively minor issues, such as the way employees dress.

Policies are usually established formally and deliberately by top managers of the organization. Policies may also emerge informally and at lower levels in the organization from a seemingly consistent set of decisions on the same subject made over a period of time.

For example- if office space is repeatedly assigned on the basis of seniority, that may become organization policy. In recent years policy has also been set by factors in the external environment—such as government agencies that issue guidelines for the organization's activities (such as requiring certain safety standards).

b. Procedures:

A procedure is a sequence of steps or operations describing how to carry out an activity. It is more specific than a policy and establishes a customary way of handling a recurring activity. Thus, less discretion on the part of the supervisor is permissible in its application. For example- the refund department of a large discount store may have a policy of "refunds made, with a smile, on all merchandise returned within seven days of purchase."

The procedure for all clerks who handle merchandise returned under that policy might then be a series of steps like these- (1) Smile at customer. (2) Check receipt for purchase date. (3) Check condition of merchandise … and so on. Such detailed instructions guide the employees who perform these tasks and help insure a consistent approach to a specific situation.

In day to-day operation, the procedures help in the following manner:

1. Procedures bring uniformity in performing various actions because everyone has to follow same procedure for doing actions.

2. It helps in standardizing and streamlining day to day activities to maintain smooth functioning of the organization.

3. Procedures may also help in maintaining coordination, because every employee performs similar type of activity by using prescribed procedure for it.

4. Procedures also encourage delegation of authority to lower level manager, because procedure-based activities can easily be delegated to them.

c. Rules:

A rule is an established guide for conduct. Rules include definite things to do and not to do. There are no exceptions to the rules. An example of a rule is "No Smoking." Managers frequently use rules when they confront a well-structured problem because they are simple to follow and ensure consistency. For example- rules about lateness and absenteeism permit supervisors to make disciplinary decisions rapidly and with a relatively high degree of fairness.

Distinction between Policies and Procedures:

The terms 'policies' and 'procedures' themselves explain their scope.

However, following are some criteria to differentiate them:

1. Basis of Formulation:

Policies are formulated on the basis of objectives of organization. Procedures are determined on the basis of work to be carried out for achieving those objectives.

2. Level of Formulation:

Policies are generally formulated by top management. Procedures are laid down at the lower level of management.

3. Comparative Status:

In the hierarchy of plans, policies occupy higher place. Procedures occupy lower place as compared to policies.

4. Focus Area:

Policies deal with functional aspects of management. Procedures deal with operational or administrative aspect of management.

5. Detailing of Instructions:

Policies are general statements which provide guidance to managers in decision making. Procedures are regarded as a detailed guidelines for performing activities.

6. Rigidity:

Policies are broad based providing a scope to the manager for using his skill and experience. Procedures are rigid and leave no scope for personal judgment.

7. Need of Skill in Application:

Policies encourage initiative of the managers, because they get opportunity for using their skill, experience and knowledge and personal judgment. Procedures do not help in developing initiative among the employees, because they do not leave scope for personal judgment.

Control-a process which ensures that actual performance is in conformity with planned performance, draws important link between planning and control. Planning frames organisational goals and objectives. For effective implementation of plans and achievement of these goals, organisation structure is designed, various official positions are staffed with people and training, motivation and leadership facilities are provided to them.

Once the implementation process starts, workers initiate the production activities. In doing so, they face problems which are solved by the supervisors or go unnoticed. The problems that go unnoticed may accumulate into major problems later on and endanger the entire planning process. This may mean-starting from the scratch.

All physical, human, financial and information resources which were used in framing the plans go waste, production schedules are disturbed, companies may lose markets, labour turnover rate may become very high, companies may, in fact, retrench the work force; the worst is, the company can go into liquidation.

To save enterprises from these problems, managers continuously watch the organisational activities to ensure that things planned are actually happening. There is constant follow up of planned activities to make things happen according to plans. "It means we must invest in developing a system for monitoring deviations from plans when they are occurring so that adjustments and corrective actions can be taken."

Features of a Good Plan:

A sound plan has the following features:

1. Integration:

A good plan integrates short-term requirements of the firm with the long- term requirements. Plans (short-term and long-term) should be oriented towards the overall organisational goals.

2. Market Research:

Planners should conduct market research before they frame plans. "What potential customers say they are going to do and what they end up doing may be two different things?" Plans should forecast market requirements through a well conducted market research.

3. Economy/Financial constraints:

A plan which relies too heavily on financial budgets may turn out to be a failure if the revenues do not arise as expected. Once the budgetary balance is disturbed, subsequent operations may get affected as plan is a sequence of cause and effect relationships. If it becomes imperfect, it can lead to cumulative problems. Future costs and benefits should be carefully analysed while designing organisational plans.

4. Co-ordination:

A sound plan should co-ordinate working of all the functional areas. If functional plans (or departmental plans) are not synchronised with organisational plans, organisation will fail to achieve its goals.

5. Consistent:

Plans should be followed for a fairly long of time. Frequent modifications/ alterations in plans by higher authorities can make their implementation ineffective at lower levels.

6. Flexible:

Though consistent, plans should adjust (flexible) to environmental changes.

7. Acceptable:

Best laid plans may turn out to be failures if they are not implemented effectively. Plans should be acceptable to those who frame them and also to those who implement them.

8. Participative:

The acceptability of plans increases if subordinates participate in the planning process. Many organisations follow the principle of participation in planning. Managers invite ideas/suggestions from people of different departments at different levels and finalise the plans. The practice of participative planning promotes good ideas and creates personal obligation on subordinates to achieve the planned targets. It, however, allows managers to retain control over the planning activities.

9. Clear Objectives:

Plans should be oriented towards objectives. Clear, specific and attainable objectives result in sound and effective plans.

10. Based on Planning Premises:

Since plans achieve a goal in future, they should be based on accurate forecasts and predictions about future events. Planning premises provide a basis for making future oriented plans.

11. Effective Communication System:

Framing and implementing plans requires interaction of managers at all levels with people inside and outside the organisation. A sound plan is based on well-designed communication system present in the organisation.

Relationship between Planning and Control:

Planning is the first managerial function of initiating action followed by organising and directing people and resources to get the organisational work done and controlling is the last function which ensures that actions have actually helped in the attainment of organisational goals. Planning starts the process of management and controlling completes that process.

Controlling function is directly related to planning; managers monitor the results to ensure achievement of targets laid in the plans. Control reveals deficiency in plans and leads to revision of plans. Controlling provides feedback to the plans by pointing exceptions or variations in the planned performance. It is largely the exceptional cases that are brought to the notice of managers so that future plans can be altered.

Control is not possible unless plans are made. Similarly, planning is not possible unless control system checks deviations in the performance. Planning and controlling are, therefore, inter-connected. While planning provides basis for controlling, controlling provides the basis for planning. Rest of the managerial functions-organising, staffing and directing are intermediate and performed according to plans.

Control function evaluates the present and takes actions to regulate the future. It prevents occurrence of undesirable actions in future. Control is, thus, both looking back and looking ahead. It reviews the past actions and takes corrective actions for failures. It avoids occurrence of undesirable events in future by taking lessons from the past. The events which have already taken place, however, cannot be corrected unless corrected at the feed forward or concurrent stages of control.

The relationship between planning and controlling can be concluded as follows:

1. Planning identifies actions and controlling ensures that actions are carried out.

2. Poor control system is followed by failure of plans and effective control system reinforces the plans.

3. Controlling helps in revising the plans or abandoning them altogether and making fresh plans.

4. Framing plans presumes existence of a well-designed control system and controlling function presumes existence of plans achievable within the constraints of human and non-human resources.

Importance of Planning:

Planning is important for the organisation to survive and grow in the dynamic, changing environment.

It is important to plan because of the following reasons:

1. Achievement of Organisational Objectives:

Planning helps the organisation achieve its objectives. Planning provides the path for achievement of organisational goals with minimum waste of time, money and energy. It bridges the gap between where we are and where we want to go. It ensures optimum utilisation of time and money.

2. Fulfilment of Organisational Commitments:

Organisations have a long-term and short- term commitments towards the society depending on their nature. A defence organisation, for example, has long-run commitments while a retailer is more interested in short-term goals or responsibilities. These commitments can be fulfilled through planning.

3. Facilitates Decision-Making:

Decision-making is deciding what to do when managers face a problem-solving situation and adopting the best way of doing out of the various courses/ways of doing it.

It is "the process of choosing a course of action from two or more alternatives."

Managers have to make decisions like – what to produce and how to produce, what are the organisational resources and how can they be effectively allocated over different functional areas, what are their primary goals — profit or social responsibility. Planning helps to decide a course of action that will solve the specific problem. Planning is the basis for making decisions – present and future.

4. Provides Stability to Organisations:

Organisations plan their business operations to ensure stability in the changing environment. Managers foresee uncertainties and prepare the organisations to face them when they occur.

5. Overall View of the Organisation/Coordination:

Organisation is a structure of relationships where authority and responsibility of each person are clearly defined.

Planning coordinates the functions performed by individual human beings and departments and unifies them into a single goal — the organisational goal. It also coordinates the organisation's internal environment with its external environment; human, physical and financial resources and organisational activities at various levels.

6. Optimum Utilisation of Resources/Efficiency of Operations:

Organisations work with limited resources. Planning allocates resources over different objectives and functional areas (production, personnel, finance and marketing) in the order of priority. This results in optimum utilisation of scarce resources (men, material, money etc.) and their effective conversion into productive outputs. Efficiency promotes business success and avoids the chances of failure.

7. Development of Managers:

Planning involves imagination, thought and creativity by managers. While planning, managers develop their conceptual and analytical skills to coordinate organisational activities with the external environment.

8. Promotes Innovation/Creativity:

Planning involves forecasting. Managers foresee environmental opportunities, analyse the strengths of competitors and think of new and innovative ways to promote their products. Planning promotes new ideas, new products, new relationships and, thus, innovation and creativity.

9. Basis for Control:

Planning provides standards of performance and control ensures that the standards are achieved. Controlling involves measurement of performance, its comparison with standard performance, finding deviations and taking steps to remove the deviations to make better plans in future. Unless there are plans, there will be no control. Planning, thus, provides the basis for control.

10. Reduces Risk:

Risk is a situation where incomplete but moderately reliable information is available about future. Uncertainty is a situation where no information is available about future. Changes in government policies is a situation of uncertainty while competitors entering the market with better technology represents a situation of risk. Planning reduces risk through forecasting.

It predicts future and discounts it to the present and enables the organisation to exploit environmental opportunities and overcome threats. It enables the organisations to operate in the complex environment of rapid technological changes, international competition, changing interests of business stakeholders etc.

11. Morale Boost Up:

If organisational plans succeed and goals are achieved successfully, managers and employees feel a sense of achievement and they feel morally committed to concentrate on organisational activities. Successful planning, thus, promotes success of the organisation.

12. Facilitates Delegation:

Good and well-designed plans enable managers to concentrate on strategic issues and delegate routine/operating activities to lower level managers. It, thus, facilitates delegation.

Advantages of Planning:

Now, after discussing the purposes, process of planning, and various types of plans, let us have a look at the advantages which can be derived from planning-

1. Planning helps to clarify objectives:

Planning focuses the attention of all people on the goals to be achieved. Such focus helps to give meaning and direction to activities, provide basis for determining effectiveness of activities, identify an individual's efforts with corporate aims and coordinate with efforts of other individuals.

2. Planning enables organization to adapt to uncertainty and change:

We live in a world of uncertainty and rapid change. To continue doing things as if the conditions of the past will continue in future would be disastrous. Planning does not reduce the uncertainty of the future but it increases one's readiness to meet it.

3. It enables choice:

By trying to become aware of the situation in the future, the planning process enables one to make a choice on the kind of position one would like to be in, instead of being caught unawares by an unanticipated future and forced into a position, which one does not like.

4. Planning gives competitive strength:

Study of what goes on in the environment is necessary for planning. In this process, the planner becomes aware of the market situation, customer expectations, new technology and products as well as of utilisation of resources. Planning suggests ways to produce more attractive outputs, thus becoming more competition helps to gain economical operations.

5. Planning enables resource allocation:

Resources are scarce. Operational departments will vie with each other to obtain available resources. A proper plan which relates objectives (to attain) with resource requirements helps judicious allocation.

6. Planning ensures economy:

It prevents wastage of men, money, machines, methods, materials, etc., by choosing the best course of action from many alternatives. Moreover, it secures consistency and joint efforts instead of individual piecemeal activity. It aims at replacing uneven flow of work by even flow of work. All these steps in planning leads automatically to economy.

7. It gives rise to efficient and coordinated efforts:

Individuals in an enterprise may differ in their outlook. But planning is done with an agreement upon certain basic factors and is designed to channellise decision-making towards unified objectives.

8. It helps in the performance of other functions:

It precedes the performance of all other functions of management like organizing, directing, staffing, and controlling.

9. It helps to facilitate control:

To control is to ensure that what is intended is achieved. Therefore, it is necessary to know beforehand what is intended. Planning clarifies intentions and thereby helps control.

Limitations to Planning:

Planning cannot be considered as all efficient in all circumstances.

It entails its own limitations:

1. Planning is an expensive and time consuming process:

Planning involves significant amount of money, time and also risk, without any assurance of the fulfilment of the organizational objectives.

2. Planning curbs the initiative of the manager:

Planning restricts the manager to make use of the most rational and risk free opportunities. It forces him to operate within the limits set by it.

3. Plans involve an element of uncertainty:

Plans are made to be implemented in future. The future environment is uncertain and is resistible to change. It can hardly be predicted accurately.

4. Planning beforehand is not always beneficial:

In case of the industries dealing in rapidly changing product, like industries producing fashionable article, working on a day to day basis is more economical than on plan basis.

5. Planning provides a false sense of security:

With the readymade plans the managers feel secure and certain in handling the affairs of the organization. In practice there may be events which occur suddenly for which there is no plan directive.

6. Planning delays action:

Planning is a lengthy process and the managers have to move from one stage to another systematically for preparing plan. The whole exercise takes a long time. This may give you adverse results specially when urgent action is needed.

7. Limitation of managers to plan:

In order to make plan, many intellectual activities including analysis, use of creativity, imagination and farsightedness are to be performed. But every manager may not necessarily possess these abilities, which put limitations on his part for preparing plans.

8. Planning cannot be viewed in isolation:

Planning by itself is not enough. Managers have to link up planning with other process, like organizing leadership communication, motivation, control and so on. For example budgets made as financial plans are useful only when organization strive to adhere the budgetary limit, and use the budgeted figures as standard for control.

However, these limitations do not undermine the need for planning. Planning is inevitable for organization success.

Some of the methods used to overcome the planning barriers are discussed below:

1. Understanding the Organizational Perspective Clearly:

The purpose of an organization should be very clear and be communicated clearly to every member of the organization.

2. Understanding the Purposes and Process and Plans:

Provide more information to employees about plans and their probable consequences so that they will understand the need for change, the expected benefits, and what is required for effective implementation.

3. Setting Realistic Goals:

Fear of failure and lack of confidence are also reduced by setting realistic goals and achieving them. The individual's immediate superior plays a key role in creating a climate in which difficult but attainable goals will be set. Providing training and guidance in ways to achieve such goals is one important step.

4. Develop a Good Information Network:

Sound information base helps in promoting effective planning.

5. Communication:

Effective and well communicative systems of planning help in bringing consensus on planning issues and do away with the misconceptions.

6. Participation:

Involve employees and other concerned groups, including stakeholders, in the planning process. One particularly useful technique for managing goal setting and planning is formal goal setting, a process of collaborative goal setting and planning.

The basic need to plan effectively is conscious and coordinated efforts towards it. The barriers, once identified can be tackled.

DECISION MAKING

Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions.Decision making may be reviewed as the process of selecting a course of action from among several alternatives in order to accomplish a desired result. The purpose of decision making is to direct human behaviour and commitment towards a future goal. If there are no alternatives, if no choice is to be made, if there is no other way-out, then there would be not need for decision making. It involves committing the organisation and its resources to a particular choice of course of action thought to be sufficient and capable of achieving some predetermined objective.

Managers at all level in the organisation make decision and solve problems. In fact, decision-making is the process of reducing the gap between the existing situation and the desired situation through solving problems and making use of opportunities. A decision is a course of action consciously selected from available alternatives, with a view to achieving a desired goal. It is an outcome of the judgement and represents a choice and commitment to the same. It is a final resolution of a conflict of needs, means or goals made are the face of uncertainty, complexity and multiplicity. A decision is conclusion reached after consideration it occurs when one option is selected to the exclusion of others – it is rendering of judgement.

Different management scholars have defined Decision making as follows:

George Terry
Decision making is the selection based on some criteria from two or more alternatives.

Heinz Weihrick and Harold Koontz
Decision making is defined as the selection of a course of action among alternatives, it is the care ofplanning.

Louis Allen
Decision making is the work a manager performs to arrive at conclusion and judgement.

Nature Or Characteristics of Decision Making

Decision making is globally thought to be selection from alternatives. It is deeply related with all the traditional functions of a manager, such as planning, organizing, staffing, directing and controlling. When he performs these functions, he makes decisions. However, the traditional management threorists did not pay much attention to decision making. Infact, the meaningful analysis of decision making process was initiated by Chester Bernard (1938) who commented, The process of decision are largely techniques for narrowing choice.

The nature of decision-making may be clearly understood by its following characteristics features:

1. Decision making is an intellectual process, which involves imagination, reasoning, evaluation andjudgement.

2. It is a selection process in which best or most suitable course of action is finalized from among several available alternatives. Such selected alternative provides utmost help in the achievement of organizational goals. The problems for which there is only one selection are most decision problems.

3. Decision making is a goal oriented process. Decisions are made to attain certain goals. A decision israted good to be extent it helps in the accomplishment of objectives.

4. It is a focal point at which plans, policies, objectives, procedures, etc., are translated into concrete actions.

5. Decision making is a continuous process persuading all organizational activity, at all levels and in thewhole universe. It is a systematic process and an interactive activity.

6. Decision making involves commitment of resources, direction or reputation of the enterprise.

7. Decision making is always related to place, situation and time. It may be decision not act in the givencircumstances.

8. After decision making it is necessary and significant to communicate its results (decisions) for theirsuccessful execution.

9. The effectiveness of decision-making process is enhanced by participation.

Elements of Decision Making

There are following elements in decision making:

- The decision maker.
- The decision problem or goal.
- Attitudes, values and personal goals of the decision maker.
- Assumption with regard to future events and things.
- The environment in which decision is to be made.
- Available known alternatives and their estimated or imagined outcomes.
- Analytical results in the whole perspective.
- The constraints.
- The act of selection or choice.
- Timing of decision.
- Proper communication of decision for its effective execution.

Importance of decision-making

1. **Implementation of managerial function**: Without decision-making different managerial function such as planning, organizing, directing, controlling, staffing can't be conducted. In other words, when an employee does, s/he does the work through decision-making function. Therefore, we can say that decision is important element to implement the managerial function.
2. **Pervasiveness of decision-making:** the decision is made in all managerial activities and in all functions of the organization. It must be taken by all staff. Without decision-making any kinds of function is not possible. So it is pervasive.
3. **Evaluation of managerial performance:** Decisions can evaluate managerial performance. When decision is correct it is understood that the manager is qualified, able and efficient. When the decision is wrong, it is understood that the manager is disqualified. So decision-making evaluate the managerial performance.
4. **Helpful in planning and policies:** Any policy or plan is established through decision making. Without decision making, no plans and policies are performed. In the process of making plans, appropriate decisions must be made from so many alternatives. Therefore, decision making is an important process which is helpful in planning.
5. **Selecting the best alternatives:** Decision making is the process of selecting the best alternatives. It is necessary in every organization because there are many alternatives. So decision makers evaluate various advantages and disadvantages of every alternative and select the best alternative.
6. **Successful; operation of business:** Every individual, departments and organization make the decisions. In this competitive world; organization can exist when the correct and appropriate decisions are made. Therefore, correct decisions help in successful operation of business.

Types of Decisions

Programmed and Non-Programmed Decisions: Herbert Simon has grouped organizational decisions into two categories based on the procedure followed. They are:

Programmed decisions: Programmed decisions are routine and repetitive and are made within the framework of organizational policies and rules. These policies and rules are established well in advance to solve recurring problems in the organization. Programmed decisions have short-run impact. They are, generally, taken at the lower level of management.

Non-Programmed Decisions: Non-programmed decisions are decisions taken to meet non-repetitive problems. Non-programmed decisions are relevant for solving unique/ unusual problems in which various alternatives cannot be decided in advance. A common feature of non-programmed decisions is that they are novel and non-recurring and therefore, readymade solutions are not available. Since these decisions are of high importance and have long-term consequences, they are made by top level management.

Strategic and Tactical Decisions: Organizational decisions may also be classified as strategic or tactical.

Strategic Decisions: Basic decisions or strategic decisions are decisions which are of crucial importance. Strategic decisions a major choice of actions concerning allocation of resources and contribution to the achievement of organizational objectives. Decisions like plant location, product diversification, entering into new markets, selection of channels of distribution, capital expenditure etc are examples of basic or strategic decisions.

Tactical Decisions: Routine decisions or tactical decisions are decisions which are routine and repetitive. They are derived out of strategic decisions. The various features of a tactical decision are as follows:

l Tactical decision relates to day-to-day operation of the organization and has to be taken very frequently.

l Tactical decision is mostly a programmed one. Therefore, the decision can be made within the context of these variables.

l The outcome of tactical decision is of short-term nature and affects a narrow part of the organization.

l The authority for making tactical decisions can be delegated to lower level managers because : first, the impact of tactical decision is narrow and of short-term nature and Second, by delegating authority for such decisions to lower-level managers, higher level managers are free to devote more time on strategic decisions.

Decision Making Process

The decision making process is presented in the figure below:

Specific Objective: The need for decision making arises in order to achieve certain specific objectives. The starting point in any analysis of decision making involves the determination of whether a decision needs to be made.

Problem Identification: A problem is a felt need, a question which needs a solution. In the words of Joseph L Massie "A good decision is dependent upon the recognition of the right problem". The objective of problem identification is that if the problem is precisely and specifically identifies, it will provide a clue in finding a possible solution. A problem can be identified clearly, if managers go through diagnosis and analysis of the problem.

1. ***Diagnosis:*** Diagnosis is the process of identifying a problem from its signs and symptoms. A symptom is a condition or set of conditions that indicates the existence of a problem. Diagnosing the real problem implies knowing the gap between what is and what ought to be, identifying the reasons for the gap and understanding the problem in relation to higher objectives of the organization.

2. ***Analysis:*** Diagnosis gives rise to analysis. Analysis of a problem requires: l Who would make decision?

l What information would be needed?

l From where the information is available?

Analysis helps managers to gain an insight into the problem.

3. ***Search for Alternatives:*** A problem can be solved in several ways; however, all the ways cannot be equally satisfying. Therefore, the decision maker must try to find out the various alternatives available in order to get the most satisfactory result of a decision. A decision maker can use several sources for identifying alternatives:

l His own past experiences

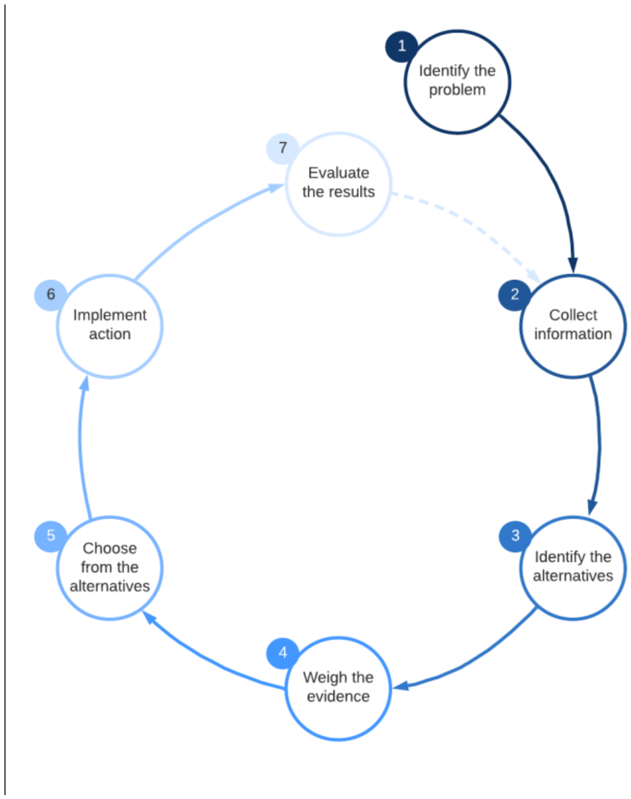
l Practices followed by others and

l Using creative techniques.

4. ***Evaluation of Alternatives:*** After the various alternatives are identified, the next step is to evaluate them and select the one that will meet the choice criteria. /the decision maker must check proposed alternatives against limits, and if an alternative does not meet them, he can discard it. Having narrowed down the alternatives which require serious consideration, the decision maker will go for evaluating how

each alternative may contribute towards the objective supposed to be achieved by implementing the decision.

5. ***Choice of Alternative:*** The evaluation of various alternatives presents a clear picture as to how each one of them contribute to the objectives under question. A comparison is made among the likely outcomes of various alternatives and the best one is chosen.
6. ***Action:*** Once the alternative is selected, it is put into action. The actual process of decision making ends with the choice of an alternative through which the objectives can be achieved.
7. ***Results:*** When the decision is put into action, it brings certain results. These results must correspond with objectives, the starting point of decision process, if good decision has been made and implemented properly. Thus, results provide indication whether decision making and its implementation is proper.



Strategy Formulation

Definition: Strategy Formulation is an **analytical process of selection of the best suitable course of action to meet the organizational objectives and vision**. It is one of the steps of the strategic managementprocess. The strategic plan allows an organization to examine its resources, provides a financial plan and establishes the most appropriate action plan for increasing profits.

It is examined through **SWOT** analysis. SWOT is an acronym for strength, weakness, opportunity and threat. The strategic plan should be informed to all the employees so that they know the company's objectives, mission and vision. It provides direction and focus to the employees.

Steps of Strategy Formulation

The steps of strategy formulation include the following:

Establishing Organizational Objectives: This involves establishing long-term goals of an organization. Strategic decisions can be taken once the organizational objectives are determined.

1. **Analysis of Organizational Environment**: This involves SWOT analysis, meaning identifying the company's strengths and weaknesses and keeping vigilance over competitors' actions to understand opportunities and threats.

   Strengths and weaknesses are internal factors which the company has control over. Opportunities and threats, on the other hand, are external factors over which the company has no control. A successful organization builds on its strengths, overcomes its weakness, identifies new opportunities and protects against external threats.

2. **Forming quantitative goals**: Defining targets so as to meet the company's short-term and long-term objectives. Example, 30% increase in revenue this year of a company.
3. **Objectives in context with divisional plans**: This involves setting up targets for every department so that they work in coherence with the organization as a whole.
4. **Performance Analysis**: This is done to estimate the degree of variation between the actual and the standard performance of an organization.
5. **Selection of Strategy**: This is the final step of strategy formulation. It involves evaluation of the alternatives and selection of the best strategyamongst them to be the strategy of the organization.

   Strategy formulation process is an integral part of strategic management, as it helps in framing effective strategies for the organization, to survive and grow in the dynamic business environment.

Levels of strategy formulation

There are three levels of strategy formulation used in an organization:

- **Corporate level strategy**: This level outlines what you want to achieve: growth, stability, acquisition or retrenchment. It focuses on whatbusiness you are going to enter the market.
- **Business level strategy**: This level answers the question of how you are going to compete. It plays a role in those organization which have smaller units of business and each is considered as the strategic business unit (SBU).
- **Functional level strategy**: This level concentrates on how an organization is going to grow. It defines daily actions including allocation of resources to deliver corporate and business level strategies.

Hence, all organisations have competitors, and it is the strategy that enables one business to become more successful and established than the other.

Organising

Organising is that managerial process which seeks to define the role of each individual (manager and operator) towards the attainment of enterprise objectives; with due regard to establishing authority-responsibility relationships among all; and providing for co-ordination in the enterprise-as an in-built device for obtaining harmonious groups action.

As a function of management, organizing is a process; broadly consisting of the following steps:

(i) Determination of the Total Work-Load:

The very first step in the process of organizing is to make a determination of all the activities which are necessary to be undertaken for the attainment of the enterprise objectives. This step of organizing is, in fact, nothing but an estimation of the total work-load that must be done for realizing objectives.

(ii) Grouping and Sub-Grouping of Activities i.e. Creation of Departmentation:

Total activities determined for achieving enterprises objectives must be classified i.e. putting similar or related activities at one place in the form of a group or sub-group.

This step of organizing directly leads to the process of creating departments. If an enterprise is compared to a building; the creation of departments within it would amount to construction of rooms within the building each room meant for a specified special purpose.

(iii) Creation of Manager-Ship through Delegation of Authority:

After the scheme of departmentation is finalized; the next step in the process of organizing would be to entrust the responsibility for the functioning of each department to a distinct manager. Creation of manager-ship, in this manner, requires a requisite delegation of authority to each manager to enable the manager to take care of the job assigned to him.

(iv) Division of Work within the Departmental Set-Up-Human Organization:

Since no single individual can undertake the performance of the whole of the work assigned to one department; it becomes necessary to resort to division of work-assigning to each person only one part of the total job. As a result to undertaking division of work for all departments; there emerges a human organization within the enterprise.

(v) Arrangement of Physical Facilities to Personnel within the Departmental Set-Up-Material Organisation:

Each individual of the enterprise, working in whatever capacity, in any department, must need the basic physical facilities-raw materials, machines and tools, technology and other inputs-for the proper execution of the assigned task.

When physical facilities are made available to all personnel in all departments; there emerges a material organization (or a physical-technical organization) within the enterprise.

(vi) Definition and Establishment of Authority-Responsibility Relationships;

Having created manager-ship and a human organization within the enterprise; it becomes necessary to devise a system which provides for defining and establishing authority-responsibility relationships among all personnel-managers and operators.

As a matter of fact, such relationships must be defined and established throughout the enterprise both-horizontally and vertically.

Characteristics of Organisation:
Different authors look at the word 'organisation' from their own angle. One thing which is common in all the viewpoints is that organisation is the establishment of authority relationship among persons so that it helps in the achievement of organisational objectives.

Some of the characteristics of organisation are studied as follows:
1. Division of Work:
Organisation deals with the whole task of business. The total work of the enterprise is divided into activities and functions. Various activities are assigned to different persons for their efficient accomplishment. This brings in division of labour. It is not that one person cannot carry out many functions but specialisation in different activities is necessary to improve one's efficiency. Organisation helps in dividing the work into related activities so that they are assigned to different individuals.

2. Co-Ordination:
Co-ordination of various activities is as essential as their division. It helps in integrating and harmonising various activities. Co-ordination also avoids duplications and delays. In fact, various functions in an organisation depend upon one another and the performance of one influences the other. Unless all of them are properly coordinated, the performance of all segments is adversely affected.

3. Common Objectives:
All organisational structure is a means towards the achievement of enterprise goals. The goals of various segments lead to the achievement of major business goals. The organisational structure should build around common and clear cut objectives. This will help in their proper accomplishment.

4. Co-operative Relationship:
An organisation creates co-operative relationship among various members of the group. An organisation cannot be constituted by one person. It requires at least two or more persons. Organisation is a system which helps in creating meaningful relationship among persons. The relationship should be both vertical and horizontal among members of various departments. The structure should be designed that it motivates people to perform their part of work together.

5. Well-Defined Authority-Responsibility Relationships:
An organisation consists of various positions arranged in a hierarchy with well defined authority and responsibility. There is always a central authority from which a chain of authority relationship stretches throughout the organisation. The hierarchy of positions defines the lines of communication and pattern of relationships.

Basic Consideration

Basic Consideration means the consideration (whether in money or otherwise) to be paid or provided to the Provider for any supply or use of any goods, services or other things under this contract (other than tax payable pursuant to this clause).

Departmentation: Need, Significance and Process

Here we detail out the need and significance of departments, process involved and dangers of departmentation and factors influencing assigning of activities.

Organisation involves dividing and grouping of activities to be done in an enterprise. Division of work means the identification of activities which are to be done for the achievement of organisational goals. After identifying various activities, these are grouped together on some logical basis.

Departmentation is the process of grouping various activities into separate units of departments. A department is a distinct section of the business establishment concerned with a particular group of business activities of like nature. The actual number of departments in which a business house can be divided depends upon the size of establishment and its nature.

A big business enterprise will, usually, have more departments as compared to a small one. In the words of Allen, "Departmentation is a means of dividing a large and monolithic functional organisation into smaller, flexible, administrative units."

Need and Significance of Departments:

It is an established fact that there is a limitation on the number of personnel an enterprise or a supervisor can directly control. This limitation of control restricts the size of the enterprise unless it divides and groups its activities into departments. Departments comprise a framework for an organisation and enables it to expand indefinitely.

Departmentation aims at:

(i) Specialization of activities for efficient performance;

(ii) Simplifying the task of management within a workable span; and

(iii) Maintaining co-ordination and control of the various activities.

The advantages of departmentation can be summed up as:

1. It increases the efficiency of the enterprise since various activities are grouped into workable units.

2. It renders the task of fixation of accountability for results very easy since activities are well defined and responsibilities are clearly laid.

3. It provides for fixation of standards for performance appraisal and thus ensures effective control.

4. It creates opportunities for the departmental heads to take initiative and thus develop managerial facilities.

Process Involved in Departmentation:

The various steps involved in departmentation are:

1. To identify task or duties;
2. To analyse details of each task;
3. To describe the functions or to group similar activities
4. To entrust the grouped activities to departmental heads and
5. To define the authority and responsibility of departmental heads.

Dangers of Departmentation:
Although departmentation is very essential for the efficient running and control of a business.

There are a few dangers of departmentation which should be taken care of while assigning and grouping of activities :
1. Dividing the business house into various departments makes the co-ordination of various activities very difficult. To achieve individual efficiency, one department may work against the interest of another department thus reducing the overall efficiency and profitability of the business as a whole.

2. Departmentation creates difficulties of communication among the various departments of the organisation and renders planning and control more difficult.

3. Departmentation increases the levels of management which is more expensive and it also increases the gap between the top management and the workers.

Factors Influencing Assigning of Activities:
The following factors are to be taken into consideration while assigning activities into departments:
1. Specialisation:
While assigning activities into departments, care must be taken to ensure that the benefits of specialisation are achieved.

2. Control:
One of the primary aims of departmentation is to facilitate control. Departments should be so created as to fix clear responsibilities so as to enable effective control.

3. Co-Ordination:
Another factor that influences the assigning of activities should be grouped in such a manner that it does not become very difficult to co-ordinate the different activities of the business. It is necessary to get the co-operation of everybody in the organisation to make it a success. The goals of the business are common and everybody should try to achieve them in their respective fields. There should be some agency to co-ordinate the activities of various departments. Sales department should know the plans of production department and vice-versa. Similarly, other departments should also work in co-ordination with each other. A central body should act as a coordinating body.

4. Key Activities:
There are certain activities which are very crucial. Such activities should be placed in separate divisions.

5. Emphasis on Local Conditions:
While assigning activities proper emphasis should be given to local conditions at the places concerned, viz., the personality of the individuals who may be given the responsibilities, the nature of informal relationship among the people, the attitude of the people, etc.

6. Economy:

Another important factor to be considered while creating separate departments is the expense involved and economy in its operations.

BASES OR TYPES OF DEPARTMENTATION

1. By product or services

Here, every major product or service is organized as a separate department. Each department looks after production sales and finance of one product.

Merits

- It reduces the problem of co-ordination between departments
- It facilitates expansion and specialisation
- It is more flexible
- Evaluation is every easy.

Demerits

- There is duplication of physical facilities and function
- There may be under utilization or plant capacity
- Advantages of centralisation are not available

2. By function

Here, each major (or) basic function is organized as a separate department. Functions may be production, sales, finance, marketing etc.,

Merits

- It facilitates specialization, delegation of authority and effective control
- Evaluation is very easy
- Management is easier
- Duplication is avoided

Demerits

- Too much emphasis as specialization
- There may be conflicts between departments
- Co-ordination of activities is very difficult

3. By Time

Under this basis, activities are grouped on the basis of the time of their performance. For example, a factory operating 24 hours may have 3 departments one each for morning, day and night shifts.

4. By Customers

Here, activities are grouped according to the type of the customers.

Example

A large cloth store may be divided into wholesale, retail and export divisions. It is useful for bans, departmental stores etc.,

Merits

- Special attention may be given of each class of customers
- Specialisation is possible

Demerits

- It leads to duplication of activities
- There may be under utilization of facilities
- It is very difficult to co-ordinate the activities of different foundations

5. By location

Here, activities are divided into zone, divisions and branches, banks, insurance companies, transport companies etc., are using this.

Merits

- It gets the benefits of local operations
- It saves time and money
- It facilitates co-ordination of activities in a locality
- It facilitates expansion of business

Demerits

- There is problem of communication
- There is duplication of physical facilities
- Co-ordination and control of different branches become less

Types of Departmentation – On the Basis of Functions, Product, Regions, Process, Customers and Matrix (With Merits and Demerits)

There can be many methods of Departmentation. Every enterprise chooses the appropriate basis or method depending upon its objectives, size, etc.

I. On the Basis of Functions.

II. On the Basis of Product or Services.

III. On the Basis of Regions.

IV. On the Basis of Process.

V. On the Basis of Customers.

VI. On the Basis of Matrix.

I. On the Basis of Functions:

This is the simplest and the most prevalent basis for Functional Departmentation. Under this all the functions of similar nature are divided in different units which are called departments. For example- the functions of a manufacturing concern can be divided into production department, marketing department, financial department and personnel department.

Again, sub-departments can be established in each department. For example in the marketing department three sub-departments of sales, advertisement and market research can be established. The officers of the sub-departments are answerable to the head of the department and the head of the department is answerable to the general manager.

Departmentation on the basis of functions is shown in the following diagram:

Evaluation:

For the evaluation of Departmentation on the basis of functions, it is important to know its merits and demerits which are as under:

Merits:

(i) It is based on the principle of specialisation.

(ii) It establishes coordination on the departmental level.

(iii) It makes it possible to utilise the human and other resources effectively.

(iv) It makes effective control possible.

(v) It is simple and economical.

(vi) It is flexible and changes can be made according to the needs.

(vii) The principle of 'the unity of Command is well implemented.

Demerits:

(i) Employees happen to be expert in one function and it makes promotion difficult.

(ii) The weakness of one department affects the other departments.

(iii) All the departments function according to their sweet will making inter-departmental coordination difficult.

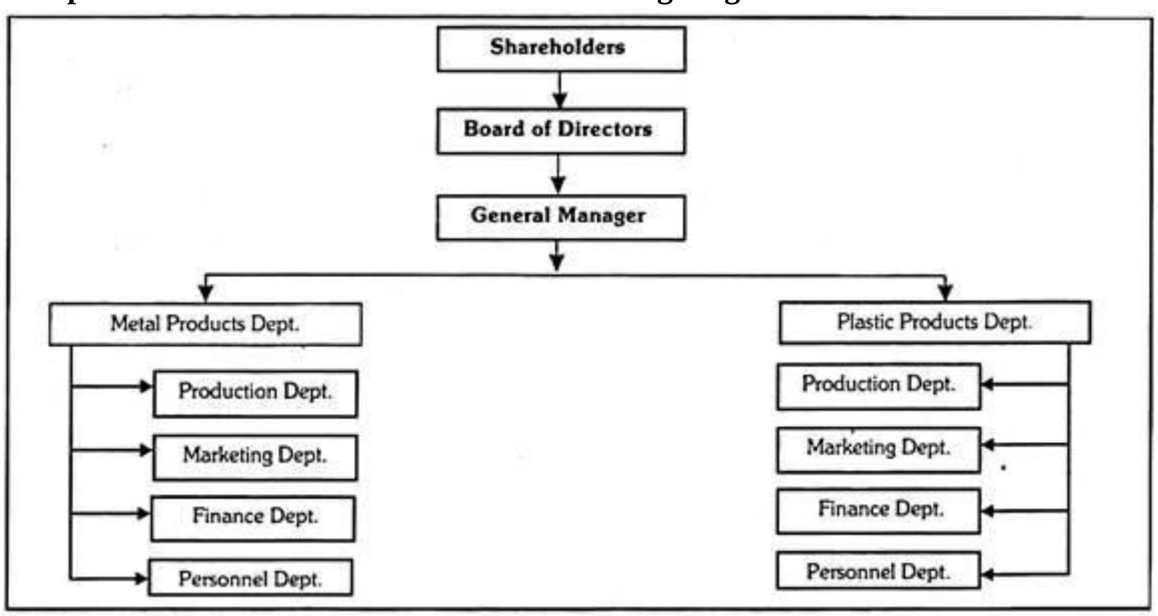
(iv) This system is a hurdle in the way of the complete development of the employees.

II. On the Basis of Product or Services:

If in a business enterprise many types of goods are manufactured, Departmentation is done on the basis of product instead of function. If it is not so, there is a constant fear that the production of some things and their marketing will consume much time while some other things will get only a little attention. Consequently, some products will be sold in greater number while the others will find little market.

To avoid such a situation all the functions of the enterprise are divided on the basis of product and distributed among different departments. The head of the department looks after all the functions connected with that product that is, purchase, sale, advertisement, production, financial, etc. All these functions are performed separately by different departments.

This process has been made clear in the following diagram:



Evaluation:

Departmentation on the basis of products have the following merits and demerits:

Merits:

(i) It is possible to give equal importance to every product.

(ii) Information about the profit and loss from every product is available.

(iii) Because for every new product a separate department can be opened, it is easy to expand the concern.

(iv) All the departments are independent units and, therefore, the weakness of one department does not affect the other.

(v) This system makes possible the complete development of the managers.

(vi) The managers get full opportunity to display their ability or competence.

(vii) The competition among all the product departments and their managers bring profitable results for the concern.

(viii) The benefits of specialisation become available.

Demerits:

(i) It increases expenses because of duplicity of functions in the product departments.

(ii) Resources are misused.

(iii) This system is suitable for the big concerns.

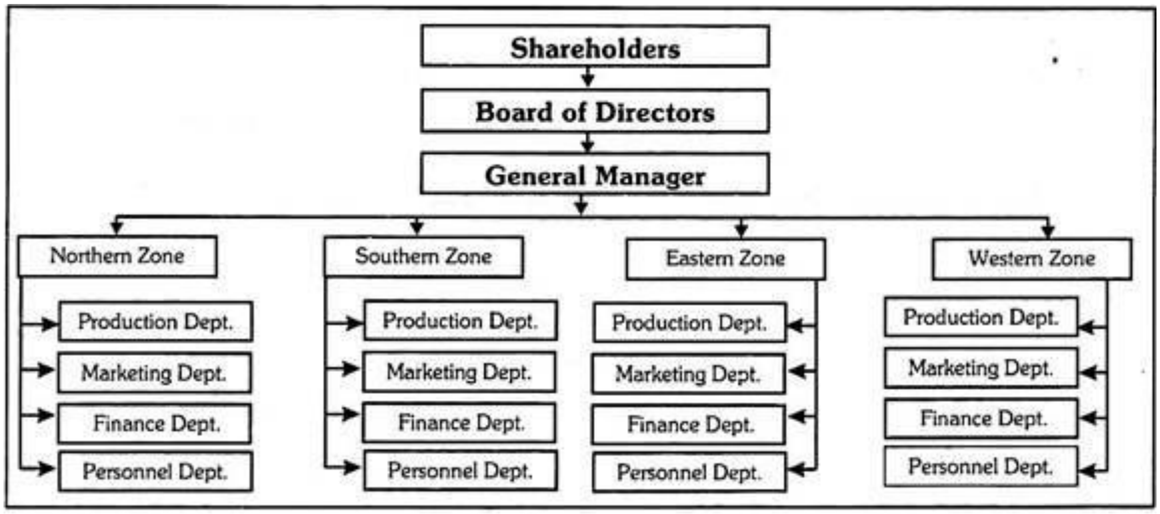
(iv) There is a difficulty in exercising control at the top hierarchy.

III. On the Basis of Regions:

Departmentation is done on the basis of regions when the customers of some business concerns are not confined to local regions but are spread over a larger region. The chief reasons for such Departmentation is intended to keep in mind the tastes and difficulties of the customers which happen to differ from region to region. If the business of a concern is spread all over the country, the business may be divided into four regions or zones instead of controlling the business from a single place.

For example- the division can be like North Zone, South Zone, East Zone, and West Zone. Each zone is in itself a complete business unit and for which a separate zonal manager is appointed. The zonal managers remain in touch with their customers and understand their problems. They can easily solve them.

Under each zone Departmentation can be done on the basis of either functions or products which have been made clear in the following diagram:



Evaluation:

The merits and demerits of Departmentation on the basis of regions are as under:

Merits:

(i) Because of the direct contact with the customers their problems can be easily understood and solved.

(ii) Local competition can be easily faced.

(iii) Effective regional control is possible.

(iv) Such an organisation has the benefit of local factors- like the raw material, labour, market, etc.

(v) Information about the local profit and loss position makes more investment possible in the profit yielding region.

(vi) The competition to show good profits among the regional managers benefit the concern.

Demerits:

(i) Some functions which can be handled more economically at the central level become expensive at the regional level.

(ii) Policies cannot be implemented effectively because of the distance between the planners and the implementers.

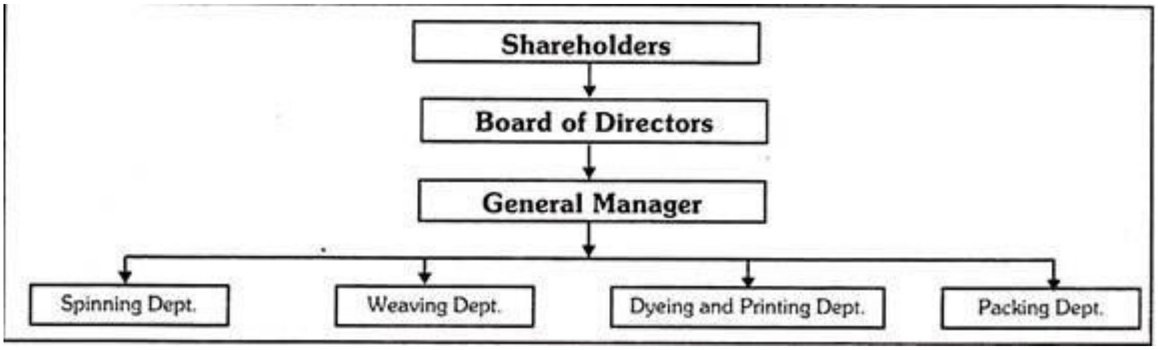
(iii) More managerial employees are required which increases expenses.

(iv) Control becomes difficult because of the distance between the head office and the regional offices.

IV. On the Basis of Process:

This method of Departmentation is profitable for those industrial concerns whose products have to pass through various processes. For example- in a cloth manufacturing concern Spinning, Weaving, Dyeing and Printing and Packing departments can be set up. In all the departments different machines are used to go through different processes which are run by specially qualified persons.

Departmentation on the basis of process has been shown in the following diagram:



Evaluation:

Departmentation on the basis of process has the following merits and demerits:

Merits:

(i) Human resource can be effectively utilised.

(ii) Expert employees can be appointed.

(iii) If the cost of production in a particular department is excessive, it can be closed down, and the same product can be purchased from the market.

(iv) If the cost of production in a particular department is very little, the department can be expanded and the manufactured product can be sold in the market to earn more profits.

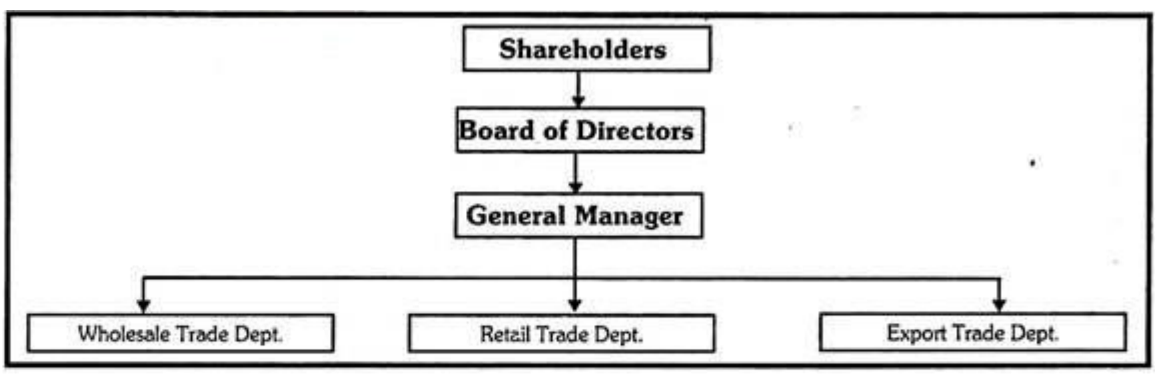
Demerits:

(i) In this method of Departmentation all the departments depend on one another. Hence, on the closure of one department the other departments close down automatically.

(ii) If a particular department produces an inferior product, the quality of the product in other department too goes inferior.

V. On the Basis of Customers:

This method of Departmentation is adopted in those business concerns that have to deal with various types of customers. For example- if a business concern has wholesale trade, retail trade and export trade, it can have three different departments for this purpose to look after all the three different types of customers as has been shown in the following diagram –



Evaluation:

Departmentation on the basis of customers has the following merits and demerits:

Merits:

(i) All the customers can be easily satisfied.

(ii) All the problems of the customers can be quickly solved because of the direct contact with all the different types of customers.

Demerits:

(i) Expenses are increased in spite of the difference in the size of departments because the facilities provided (in the form of managers and other employees) happen to be the same.

(ii) Because of the different types of customers the number of products manufactured increases for which the department of production has to face a difficulty.

(iii) Coordination is difficult.

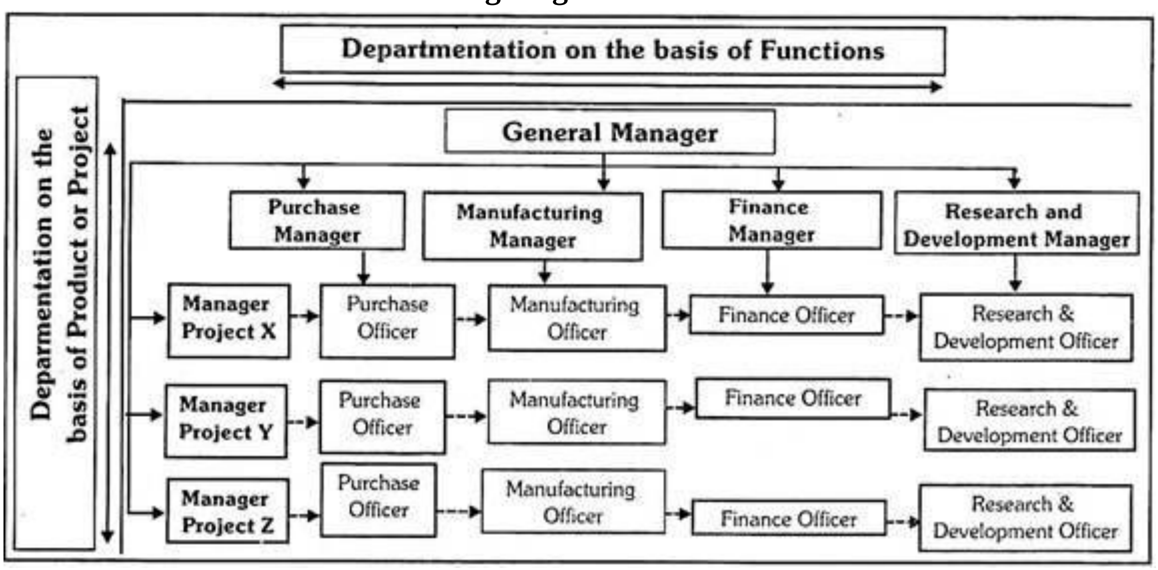
VI. On the Basis of Matrix:

This method of Departmentation is useful for those business concerns whose functions go on changing frequently. For example- an Engineering Company daily gets orders to manufacture new machinery. Similarly, a Construction Company gets contracts for building big buildings, roads, bridges, etc. In such concerns no single method or base of Departmentation is helpful and two and more than two methods are used simultaneously. Therefore, it is known by the names of combined, grid, etc.

Under this method both the methods – on the basis of functions and on the basis of products – are used in a combined manner. First of all the activities of a company are divided on the basis of functions and departments are established which happen to be the permanent departments of the organisation. For example- the purchase department, manufacturing department, finance department, research and development department, etc.

For all these departments permanent heads of the department are appointed who have the final authority regarding their departments. After the establishment of these permanent departments, the Departmentation on the basis of project or product is done the moment the concern gets an order.

This has been shown in the following diagram:



When the company gets a particular work a team comprising of officers from different functional departments is established under the leadership of Project Manager. For example- when the company gets an X project a separate manager is appointed for it and he is provided with a purchase officer, manufacturing officer, finance officer, and research and development officer as his helpers.

The manager concerned is responsible for the whole project and the moment the work of X project is completed, the Departmentation done on the basis of project will come to an end. Similarly, the work of Y and Z project will go on. Those officers who are provided as helpers to the project manager go back to their respective departments after the completion of their project.

The authority of the project manager over the members of his team is temporary as has been indicated in the diagram with the help of the dotted line. The managers of the functional departments have the orders of the General Manager to fully cooperate with the project managers. The Project Manager is an expert in all the activities connected with the project and, therefore, looks after all the aspects of the project, while, on the other hand, departmental managers are expert only in one particular work.

Evaluation:

Departmentation on the basis of matrix has the following merits and demerits:

Merits:

(1) Plenty of Specialists:

Under this method of Departmentation specialists become available in plenty. For example- heads of various departments created on the basis of functions are experts in their field. Project managers are experts in all the aspects of the projects. The officers have the full knowledge of their particular work. In this way the opinions of the experts can be fully exploited for profit.

(2) Flexibility:

General Manager of the concern can easily make changes in it according to the business opportunities. It means that in case of more projects, more projects managers can be appointed and in case of a few projects, the project managers can be shifted back to the routine functions of the concern.

(3) More Possibility of Expansion:

Departmentation on the basis of matrix increases the possibility of the expansion of the concern because the managers can establish separate departments in respect of each project.

(4) Economy in Costs:

On each project the number of people appointed happens to be according to the need and the remaining persons are put on the routine functions of the concern. In this way economy in costs is affected by making the optimum utilisation of human resources.

Demerits:

(1) Violation of the Principle of Unity of Command:

The principle of the unity of command is violated in such an organisation. The officers receive orders both from departmental managers and project managers. They have to carry out the orders of more than one manager which reduces their efficiency.

(2) Conflicts between Departmental Managers and Project Managers:

The aims and priorities of both the types of managers are different. The project managers desire that whenever they need some services, the departmental managers should immediately make them available. On the other hand, the departmental managers wish to maintain their time schedule in respect of every work, and that their services should be regularly utilised.

(3) Problem of Communication:

The members of the project team do not know whether they should consult the project manager or the departmental manager. Such an ambiguous situation creates problem of communication.

(4) Lack of Responsibility:

In case of failure the project managers blame the departmental managers and the departmental managers shift the responsibility to the project managers.

After studying the merits and demerits of Departmentation on the basis of matrix, we can conclude that this method is useful for the big business concerns who undertake the manufacture of machines or construction work. These days, however, this method is also employed in other business concerns.

Factors to be Considered in Departmentation:

While laying down the organisational structure on the basis of Departmentation the following facts should be taken into consideration:

(1) Specialisation:

Specialisation is the foundation of Departmentation and, therefore, whatever may be the method of Departmentation it must have a place for specialisation.

(2) Coordination:

A department should have the functions of the same nature so that coordination remains intact. Unnecessary and opposing functions should be excluded.

(3) Control:

That method of Departmentation happens to be good which can ensure control. Such a system should be established as can ensure the control of one man's work by another person.

(4) Significance of Activities:

Departmentation should be done in a manner so as to ensure more attention to the more significant activities. For example- if the advertisement happens to be a significant activity, it should be kept separate from the marketing department so that special attention can be given to it.

(5) Facilities Available:

While going through the process of Departmentation the facilities available in the concern should be kept in mind – facilities like the competence of persons, informal relations in the organisation, etc.

(6) Economy:

The number of departments in a business organisation increases administrative expenses. Therefore, it should be thoroughly considered as to how many departments are needed in a concern so that unnecessary expenses are avoided. For example- by not having a separate accounts department, it can be combined with the finance department and economy can be affected.

(7) To See the Competitors:

During the process of Departmentation care should be taken to know about the basis of Departmentation in the other business concerns having the same business . If that basis appears appropriate it should be adopted.

Thus, we find that Departmentation is not an easy job. Many factors have to be studied deeply to complete this process. Only after such a deep study the decision taken can prove to be useful.

"Departmentation is a process of dividing the large monoliths functional organization into smaller and flexible administrative units." – Koontz and O'Donnel.

DELEGATION OF AUTHORITY

Meaning and Definition

L.A. Allen defines delegation as "the entrustment of responsibility and authority to another and the creation of accountability for performance".

It is simply a matter of entrusting part of the work by the superior to his subordinates.

ELEMENTS OF DELEGATION OR ASPECTS OF DELEGATION

1) Duties

The delegator assigns duties. That is, the superior indicates what the sub-ordinate has to do. It may be expressed in terms of functions or results or objectives.

2) Authority

The delegator grants authority, that is, it gives the sub-ordinate the permission to do the delegated part of the work. It also grants him the authority to use certain powers and resources.

3) Obligation

The delegation creates an obligation. That is, the sub-ordinate takes on an obligation to his superior to complete the job. The sub-ordinate‟s obligation to do the task assigned makes him accountable to the delegator.

PRINCIPLES OF DELEGATION

1) Functional Definition

Before delegating authority, the manager should define clearly the functions to be performed by sub-ordinates.

2) Delegation by results expected

Authority should be delegated only after the results to be achieved by sub-ordinates are decided.

3) Authority should be co-extensive with responsibility

There must be a proper balance between authority and responsibility of a subordinate.

4) Responsibility cannot be delegated

When authority is delegated to a sub-ordinate by the superior, the superior does not pass on the responsibility for it.

5) Dual sub-ordination should be avoided

A member of an enterprise should have only one supervisor and dual subordination should be avoided.

6) Well defined limits of authority

The limits of authority each sub-ordinate should be clearly defined. He will refer only those matters to the superior which are outside the limits of his authority.

OBSTACLES TO DELEGATION OR DIFFICULTIES IN DELEGATION OR PROBLEMS IN DELEGATION

A) On the Part of the superior

1) High performance standard

A superior who requires a very high performance standard will be never willing to delegate. He may feel that he can do better than his sub-ordinates.

2) Lac of confidence in the sub-ordinates

If the superior lacks confidence in the sub-ordinates, he will not delegate the authority.

3) Desire to dominate

A superior who desires to dominate others will not delegate the authority.

4) Inability to direct

A manager is not likely to delegate authority when he cannot issue suitable directions to guide the activities of sub-ordinates.

5) Absence of proper control

When the superior has no control over subordinates, he may not like to delegate his authority.

6) Risk of chance
If the superior is unwilling to take risk he will not delegate.
7) Fear of incompetency
Some executives have the fear that the sub-ordinate may outshine them.
B) On the part of the sub-ordinates
1) Dependence on the superior for decision
A sub-ordinate may not have the courage to take independent actions. Hence he may hesitate to accept any authority.
2) Fear of criticism
A sub-ordinate who does not like to be criticized by the superior will not accept delegation.
3) Lack of information and resources
If adequate information and resources are not available, the sub-ordinate will not accept delegation.
4) Lack of self-confidence
Sub-ordinates may not accept delegation when they lack self-confidence.
5) Inadequate positive incentives
If positive incentives are lacking, the sub-ordinates will not accept delegation.
6) Excessive work load
If the delegation increases the workload, the sub-ordinate may refuse to accept delegation.

HOW TO SECURE BETTER DELEGATION OR MAKING DELEGATION EFFECTIVE OR STEPS IN THE ART OF EFFECTIVE DELEGATION OR HOW TO OVERCOME WEAK DELEGATION OR SUGGESTIONS FOR EFFECTIVE DELEGATION
1) Establishment of definite goals
Objectives must be clearly defined for meaningful delegation.
2) Clear definition of authority
Responsibility and authority should be clearly defined. Everyone in an organisation should know about his job and power.
3) Proper motivation
Sub-ordinates should be given positive incentives like higher wages, recognition, importance etc., for accepting responsibility.
4) Appropriate environment
A work climate free from fear and frustration should be created.
5) Proper training
Sub-ordinates should be given adequate training for proper use of delegated authority.
6) Effective control
Adequate control system should be established to evaluate the performance of subordinates.

7) Proper communication
There should be free and open lines of communication.
IMPORTANCE OR ADVANTAGES OF DELEGATION
1. It enables the manger to concentrate on policy matters by distributing other works to others.
2. It facilitates quick decisions.
3. It helps to improve motivation and morals of sub-ordinates.
4. It manager can maintain healthy relations with sub-ordinates.
5. It binds formal organisation together.
6. It enables the manger to know the specialized knowledge of sub-ordinates.
7. It helps to ensure continuity in the business
CENTRALISATION AND DECENTRALISATION

According to Henry Fayol, "Everything that goes to increase the importance of the sub-ordinates is decentralisation, everything which goes to reduce it is centralization".

According to Louis Allen, "Centralisation is the systematic and consistent reservation of authority at central points within the organisation".

According to Louis Allen, "Decentralisation refers to the systematic effort to delegate to the lowest level of authority except that which can only be exercised at central point".

DELEGATION VS. DECENTRALISATION

S. No.	Delegation	Decentralisation
1.	It is a process or an act	It is the end result of delegation
2.	It denotes relationship between superior and a sub-ordinate	It denotes relationship between the top management and various departments
3.	It is essential for management process	It is optional as top management may or may not decentralize authority
4.	The delegator exercises control over the sub-ordinates	The control may be delegated to departmental heads
5.	It is a technique of management	It is a philosophy of management

ADVANTAGES OF DECENTRALISATION

1) Lesser burden on manager

Decentralisation helps to reduce the work load of executive. So they can concentrate mainly on policy matters.

2) Diversification possibilities

Decentralisation structure facilitated diversification. So the losses in one line may be compensated by the profit in other line.

3) Motivation of sub-ordinates

Decentralisation results in development of initative, responsibility and moral among employees.

4) Quick decision

Decision on any matter can be taken very quickly

5) Executive development

When authority is decentralised, subordinates get the opportunity of exercising their own judgement. So their executive knowledge is developed.

6) Intimate relationship

Due to better communication, intimate relationship between sub-ordinates and superiors can be developed.

DISADVANTAGES OR DECENTRALISATION

1) No uniformity of policy

It is not possible to enforce the uniformity of policy and procedures.

2) Duplication

As all the activities are not performed centrally, it is not possible to eliminate the duplication of activities.

3) Effective central is not possible

The activities of the enterprise cannot be effectively controlled because there is no uniformity of decision.

4) Lack of co-ordination

It creates the problem of co-ordination among the various departments.

5) Expensive

Decentralisation increase the administration expenses. Hence it is costly.

AUTHORITY AND RESPONSIBILITY

MEANING OF AUTHORITY

Authority may be defined as the legitimate right to give orders and to get orders and to get orders obeyed.

According to Herbert Simmon "Authority is the power to make decisions which guide the actions of others. The person who makes the decisions is the superior and the person who accepts them and is guided by them is called the sub-ordinate".

NATURE AND SOURCES OF AUTHORITY

There are three broad schools of thought regarding the source from which authority organisation.

1) The formal authority school

This school believes that authority formal structure of an organisation. It flow downwards through the process of delegation. Every manger in the organisation has only that much authority which has been delegated to him by his superior. Therefore his authority is known as formal authority.

2) Acceptance authority theory

Formal authority has no significance unless it is accepted by the sub-ordinates. Chester Barnard is the father of this school. According to this school of thought, the authority has its sources in the acceptance of the sub-ordinates.

3) Competence authority

According to this theory, an individual derives authority from his personal competence and skill.

LIMITS OF AUTHORITY

Many Legal, political, social and economic considerations have put limitations on the concept of authority. The articles of association sets limits to the authority of officers. The authority of executives is restricted by the object of the enterprise.

TYPE OF AUTHORITY RELATIONSHIP

Authority relationship are the binding forces which integrate different parts of an organisation. There are three types of authority relationship namely line, staff and functional.

Line authority

Line authority is the direct authority which a superior exercise over his sub-ordinates to carry out orders and instructions. It creates a direct relationship between superior and his sub-ordinates. Line relationship performs the following roles.

1) As a chain of command
2) As a carrier of accountability
3) As a channel of communication

Staff Authority

Staff authority refers to advisory. It involves giving advice and service to line managers on the basis of their specialized knowledge and skills. Staff may be divided into the following three categories.

1) Personal staff

They are advisor staff appointed at the top level **Example**. Private secretary

2) Specialized staff

They render service and advice to all departments in the organisation.

3) Central staff

They are appointed in the head office and help to solve the problems arising in different plants located in different places.

FUNCTIONAL AUTHORITY

It is a part of the line authority. It confers upon its holder a limited right to command over people in other departments concerning a particular function. For example, a personal manager may be authorized to command sub ordinates in other department in personnel matters. It occupies a midway position between line and staff authority.

Responsibility

It is an obligation of a sub-ordinate to perform the duty. It arises from the superiors sub-ordinate relationship.

Accountability

It is the obligation to carry out responsibility and exercise authority in terms of performance standard established by the superior.

Groups and Teams

A group is a collection of individuals who coordinate their efforts, while a team is a group of people who share a common purpose. In order to improve working relationships, it's important to understand the differences between the two to encourage healthy working dynamics. Learn more.

In order to improve working relationships it's important to understand the differences between a group vs. a team and how to encourage healthy communication styles in the workplace.

Group vs. team

A group is a collection of individuals who coordinate their efforts, while a team is a group of people who share a common goal. While similar, the two are different when it comes to decision-making and teamwork.

In a work group, group members are independent from one another and have individual accountability. On the other hand, in a team, team members share a mutual accountability and work closely together to solve problems. These dynamics inform the way tasks are handled and overall collaboration.

What is a group?

In short, a group is a number of people who work together. They have individual goals that they work toward collectively. While groups work toward separate goals, they have a related interest or identity that brings them together.

There are two types of groups: informal groups and formal groups. Informal groups are formed naturally around common interests, identities, or social goals. Formal groups are created by company leaders to perform a specific task for an organization.

Group advantages

There is some debate about whether groups or teams are better. The reality is, both have advantages and disadvantages, and it's up to you to decide which one is best for your needs. Here are some advantages of groups:

- Groups build temporary relationships: Since groups focus on individual members working in parallel to one another, they build temporary working relationships such as short-term external projects or temporary internal consulting.

- Groups are great for efficiency: While teams work to create efficiency for the greater good, groups focus on individual efficiency. This can improve effectiveness when looking at individual work and larger group objectives.
- Groups focus on individual growth: Since groups support individual work, they also focus on individual growth. This can be seen in the form of individual experts rather than a team of experts.

While working in a group environment has its advantages, it also has some disadvantages, too. Let’s look at some reasons why working in a group might not be right for you.

Group drawbacks

While groups support individual work and career growth, they don’t share all of the advantages of working in a team setting. These disadvantages include not connecting work to goals and the lack of team bonding.

Here are some disadvantages of working in a group:

- Groups can alienate individuals: Since groups work individually, there isn’t as much time spent on team building. This lack of teamwork can alienate individuals and cause communication issues.
- Groups don’t support organizational goals: Likewise, this lack of teamwork can cause a gap in organizational clarity. This makes it difficult to connect work to organizational goals and objectives.

These disadvantages are why some organizations prefer working in teams. That’s why it’s important to also understand the advantages and disadvantages of teams.

What is a team?

A team is a number of people who work together to accomplish a shared purpose or goal. Each team is the sum of its parts, which means members of the team rely on one another to accomplish the outcome.

Teams work together to solve problems, create new products, and other functions such as aligning passions and purpose. There are a few different types of teams, including cross-departmental teams, process teams, and self-managed teams. Each of these differs slightly but shares similar advantages and disadvantages.

Team advantages

Working in a team environment has many advantages that all come back to working toward the same goals and supporting members in a shared experience. Many organizations work in a team setting vs. a group setting as they prefer the advantages of collaboration. These include improved productivity and quicker problem solving.

Here are some advantages of working in a team:

- Teams build on collaboration and synergy: Teamwork can increase collaboration and synergy. These help support the overall goal and can aid in communication and organizational transparency.
- Teams encourage group productivity: While groups aid in efficiency, teams have the advantage when it comes to productivity. This is because team members support each other's work and help solve the overall problem, making the actual work more productive.
- Teams are better for problem solving: It's true that the more people brainstorm together, the better. This is why teamwork can help solve problems quicker and more effectively the first time around.

The advantages of working in teams can help organizations thrive thanks to teamwork and communication. That said, there are some disadvantages you should consider as well.

Team drawbacks

While teams have a variety of advantages, they also have some disadvantages. These disadvantages include struggling to support individual growth and efficiency issues.

Here are some disadvantages of working in a team:

- Teams don't always focus on individual growth: While not always the case, some teams struggle with fostering individual growth. This is because results are most commonly focused on the greater good than what's best for each person.
- Teams may struggle with efficiency: Teams have the advantage of productivity, though they can struggle with efficiency if the right organizational processes are not put into place. This can cause work to take longer than expected and deadlines to be missed.

While teams might struggle with these disadvantages, there are ways to minimize the effects with the right processes and leadership. The key is to facilitate organizational clarity that supports both teams and individuals.

How to lead groups vs. teams

Now that you know the advantages and disadvantages of groups vs. teams, you may be wondering how each translates into an organization. This is an important question to consider when gauging how to lead a group or team in your current organization.

Group-focused organizations:

When it comes to group organizational behavior, there is a lot to consider based on functionality and group dynamics. Group dynamics describe the interactions, attitudes, and behaviors between a set of people. These can negatively and positively affect teamwork depending on how they're set up.

Healthy group dynamics consist of fluid collaboration and transparency. Unhealthy group dynamics might consist of a lack of teamwork which results in individual isolation. To prevent unhealthy group dynamics, implement a team-focused strategy that focuses on breaking down communication barriers.

Group leadership tip: To prevent communication issues, organize team building games to encourage group collaboration and healthy dynamics.
Team-focused organizations:

Organizations that are focused around team dynamics tend to have more transparency and fewer communication issues. This is because teams work together toward a shared goal and focus on problem solving together.

This leads to a healthy organizational behavior and positive interdependent relationships. To take this one step further, keep collective goals in sight, and empower your team to rely on one another to meet those objectives.

Team leadership tip: Communicate both project goals and business goals to create transparency and align work with relevant objectives.

UNIT V
LEADERSHIP, MOTIVATION AND CONTROL

Concepts of Leadership

Leaders are made not born. If you have the desire and willpower, you can become an effective leader. Good leaders develop through a never ending process of self-study, education, training, and experience.This guide will help you through that process.

To inspire your workers into higher levels of teamwork, there are certain things you must be, know, and, do. These do not come naturally, but are acquired through continual work and study. Good leaders are continually working and studying to improve their leadership skills; they are NOT resting on their laurels.

Leadership is a process by which a person influences others to accomplish an objective and directs theorganization in a way that makes it more cohesive and coherent. Leaders carry out this process by applying their leadership attributes, such as beliefs, values, ethics, character, knowledge, and skills.

Although your position as a manager, supervisor, lead, etc. gives you the authority to accomplish certain tasks and objectives in the organization, this power does not make you a leader, it simply makes you the boss. Leadership differs in that it makes the followers want to achieve high goals, rather than simply bossing people around.

Bass' (1989 & 1990) theory of leadership states that there are three basic ways to explain how people become leaders. The first two explain the leadership development for a small number of people. Thesetheories are:

Some personality traits may lead people naturally into leadership roles. This is the Trait Theory.
A crisis or important event may cause a person to rise to the occasion, which brings out extraordinaryleadership qualities in an ordinary person. This is the Great Events Theory.

People can choose to become leaders. People can learn leadership skills. This is the Transformational Leadership Theory. It is the most widely accepted theory today and the premise on which this guide isbased.

When a person is deciding if she respects you as a leader, she does not think about your attributes, rather,she observes what you do so that she can know who you really are. She uses this observation to tell if youare an honorable and trusted leader or a self-serving person who misuses authority to look good and get promoted. Self-serving leaders are not as effective because their employees only obey them, not follow them. They succeed in many areas because they present a good image to their seniors at the expense of their workers.

The basis of good leadership is honorable character and selfless service to your organization. In your employees' eyes, your leadership is everything you do that effects the organization's objectives and their well-being. Respected leaders concentrate on what they are [be] (such as beliefs and character), what theyknow (such as job, tasks, and human nature), and what they do (such as implementing, motivating, and providing direction).

What makes a person want to follow a leader? People want to be guided by those they respect and who have a clear sense of direction. To gain respect, they must be ethical. A sense of direction is achieved byconveying a strong vision of the future.

THE TWO MOST IMPORTANT KEYS TO EFFECTIVE LEADERSHIP

According to a study by the Hay Group, a global management consultancy, there are 75 key componentsof employee satisfaction (Lamb, McKee, 2004). They found that:

- Trust and confidence in top leadership was the single most reliable predictor of employee satisfaction
  in an organization.
- Effective communication by leadership in three critical areas was the key to winning organizationaltrust and confidence:
- Helping employees understand the company's overall business strategy.
- Helping employees understand how they contribute to achieving key business objectives.
- Sharing information with employees on both how the company is doing and how an employee's owndivision is doing - relative to strategic business objectives.

So - you must be trustworthy and you have to be able to communicate a vision of where the organizationneeds to go. The next section, "Principles of Leadership", ties in closely with this key concept.

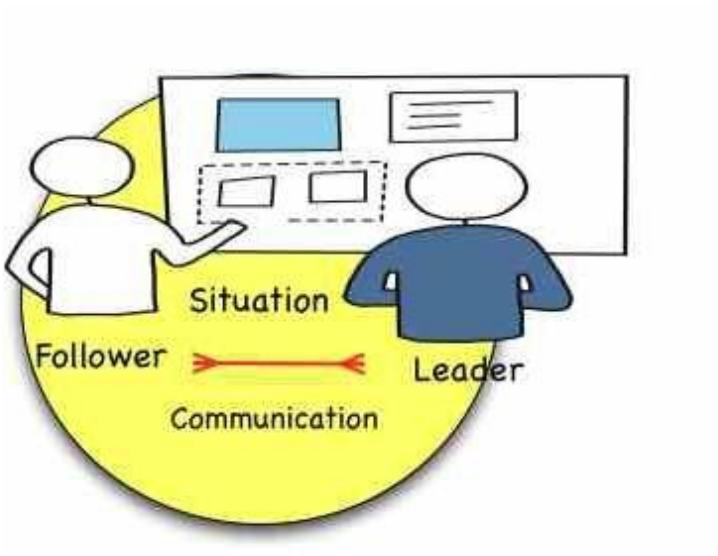
PRINCIPLES OF LEADERSHIP

- To help you be, know, and do; (U.S. Army, 1973) follow these eleven principles of leadership (laterchapters in this guide expand on these and provide tools for implementing them):
- Know yourself and seek self-improvement - In order to know yourself, you have to understand your
  be, know, and do, attributes. Seeking self-improvement means continually strengthening your attributes. This can be accomplished through self-study, formal classes, reflection, and interactingwith others.
- Be technically proficient - As a leader, you must know your job and have a solid familiarity with your
  employees' tasks.
- Seek responsibility and take responsibility for your actions - Search for ways to guide your organization to new heights. And when things go wrong, they always do sooner or later - do notblame others. Analyze the situation, take corrective action, and move on to the next challenge.

- Make sound and timely decisions - Use good problem solving, decision making, and planning tools.
- Set the example - Be a good role model for your employees. They must not only hear what they are expected to do, but also see. We must become the change we want to see - Mahatma Gandhi
- Know your people and look out for their well-being - Know human nature and the importance of
  sincerely caring for your workers.
- Keep your workers informed - Know how to communicate with not only them, but also seniors andother key people.
- Develop a sense of responsibility in your workers - Help to develop good character traits that will
  help them carry out their professional responsibilities.
- Ensure that tasks are understood, supervised, and accomplished - Communication is the key to thisresponsibility.
- Train as a team - Although many so called leaders call their organization, department, section, etc. a
  team; they are not really teams...they are just a group of people doing their jobs.
- Use the full capabilities of your organization - By developing a team spirit, you will be able toemploy your organization, department, section, etc. to its fullest capabilities.

FACTORS OF LEADERSHIP

There are four major factors in leadership:



Follower:
Different people require different styles of leadership. For example, a new hire requires more supervision than an experienced employee. A person who lacks motivation requires a different approach than one with a high degree of motivation. You must know your people! The fundamental starting point is having a good understanding of human nature, such as needs,

emotions, and motivation. You must come to know your employees' be, know, and do attributes.

Leader:
You must have an honest understanding of who you are, what you know, and what you can do. Also, notethat it is the followers, not the leader who determines if a leader is successful. If they do not trust or lack confidence in their leader, then they will be uninspired. To be successful you have to convince your followers, not yourself or your superiors, that you are worthy of being followed.

Communication:
You lead through two-way communication. Much of it is nonverbal. For instance, when you "set the example," that communicates to your people that you would not ask them to perform anything that youwould not be willing to do. What and how you communicate either builds or harms the relationship between you and your employees.

Situation:
All are different. What you do in one situation will not always work in another. You must use your judgment to decide the best course of action and the leadership style needed for each situation. For example, you may need to confront an employee for inappropriate behavior, but if the confrontation is toolate or too early, too harsh or too weak, then the results may prove ineffective. Various forces will affect these factors. Examples of forces are your relationship with your seniors, the skill of your people, the informal leaders within your organization, and how your company is organized.

Attributes:
If you are a leader who can be trusted, then those around you will grow to respect you. To be such aleader, there is a Leadership Framework to guide you: BE KNOW DO

- BE a professional. Examples: Be loyal to the organization, perform selfless service, take personal
  responsibility.
- BE a professional who possess good character traits. Examples: Honesty, competence, candor,commitment, integrity, courage, straightforwardness, imagination.
- KNOW the four factors of leadership - follower, leader, communication, situation.
- KNOW yourself. Examples: strengths and weakness of your character, knowledge, and skills.
- KNOW human nature. Examples: Human needs, emotions, and how people respond to stress.
- KNOW your job. Examples: be proficient and be able to train others in their tasks.
- KNOW your organization. Examples: where to go for help, its climate and culture, who theunofficial leaders are.
- DO provide direction. Examples: goal setting, problem solving, decision making, planning.
- DO implement. Examples: communicating, coordinating, supervising, evaluating.
- DO motivate. Examples: develop morale and esprit de corps in the organization,

train, coach, counsel.

Environment:
Every organization has a particular work environment, which dictates to a considerable degree how its leaders respond to problems and opportunities. This is brought about by its heritage of past leaders and itspresent leaders. Goals, Values, and Concepts

Leaders exert influence on the environment via three types of actions:

- The goals and performance standards they establish.
- The values they establish for the organization.
- The business and people concepts they establish.

Successful organizations have leaders who set high standards and goals across the entire spectrum, suchas strategies, market leadership, plans, meetings and presentations, productivity, quality, and reliability. Values reflect the concern the organization has for its employees, customers, investors, vendors, and surrounding community. These values define the manner in how business will be conducted.
Concepts define what products or services the organization will offer and the methods and processes forconducting business.

These goals, values, and concepts make up the organization's "personality" or how the organization is observed by both outsiders and insiders. This personality defines the roles, relationships, rewards, andrites that take place.

Roles and Relationships:
Roles are the positions that are defined by a set of expectations about behavior of any job incumbent. Each role has a set of tasks and responsibilities that may or may not be spelled out. Roles have a powerfuleffect on behavior for several reasons, to include money being paid for the performance of the role, there is prestige attached to a role, and a sense of accomplishment or challenge.

Relationships are determined by a role's tasks. While some tasks are performed alone, most are carried out in relationship with others. The tasks will determine who the role-holder is required to interact with, how often, and towards what end. Also, normally the greater the interaction, the greater the liking. This in turn leads to more frequent interaction. In human behavior, it's hard to like someone whom we have nocontact with, and we tend to seek out those we like. People tend to do what they are rewarded for, and friendship is a powerful reward. Many tasks and behaviors that are associated with a role are brought about by these relationships. That is, new task and behaviors are expected of the present role-holder because a strong relationship was developed in the past, either by that role-holder or a prior role-holder.

Culture and Climate:

There are two distinct forces that dictate how to act within an organization: culture and climate. Each organization has its own distinctive culture. It is a combination of the founders, past leadership, current leadership, crises, events, history, and size. This results in rites: the routines, rituals, and the "waywe do things." These rites impact individual behavior on what it takes to be in good standing (the norm) and directs the appropriate behavior for each circumstance.

The climate is the feel of the organization, the individual and shared perceptions and attitudes of the organization's members. While the culture is the deeply rooted nature of the organization that is a result oflong-held formal and informal systems, rules, traditions, and customs; climate is a short-term phenomenon created by the current leadership. Climate represents the beliefs about the "feel of the organization" by its members. This individual perception of the "feel of the organization" comes from what the people believe about the activities that occur in the organization. These activities influence both individual and team motivation and satisfaction, such as:

How well does the leader clarify the priorities and goals of the organization? What is expected of us?What is the system of recognition, rewards, and punishments in the organization?

- How competent are the leaders?
- Are leaders free to make decisions?
- What will happen if I make a mistake?

Organizational climate is directly related to the leadership and management style of the leader, based on the values, attributes, skills, and actions, as well as the priorities of the leader. Compare this to "ethical climate" -- the "feel of the organization" about the activities that have ethical content or those aspects of the work environment that constitute ethical behavior. The ethical climate is the feel about whether we dothings right; or the feel of whether we behave the way we ought to behave. The behavior (character) of the leader is the most important factor that impacts the climate.

On the other hand, culture is a long-term, complex phenomenon. Culture represents the shared expectations and self-image of the organization. The mature values that create "tradition" or the "way wedo things here." Things are done differently in every organization. The collective vision and common folklore that define the institution are a reflection of culture. Individual leaders, cannot easily create or change culture because culture is a part of the organization. Culture influences the characteristics of the climate by its effect on the actions and thought processes of the leader. But, everything you do as a leaderwill affect the climate of the organization.

Leadership Models:

Leadership models help us to understand what makes leaders act the way they do. The ideal is not to lockyourself in to a type of behavior discussed in the model, but to realize that every situation calls for a different approach or behavior to be taken. Two models will be discussed, the Four Framework Approachand the Managerial Grid.

Four Framework Approach

In the Four Framework Approach, Bolman and Deal (1991) suggest that leaders display leadership behaviors in one of four types of frameworks: Structural, Human Resource, Political, or Symbolic. The style can either be effective or ineffective, depending upon the chosen behavior in certain situations.

Structural Framework

In an effective leadership situation, the leader is a social architect whose leadership style is analysis and design. While in an ineffective leadership situation, the leader is a petty tyrant whose leadership style is details. Structural Leaders focus on structure, strategy, environment, implementation, experimentation, and adaptation.

Human Resource Framework

In an effective leadership situation, the leader is a catalyst and servant whose leadership style is support, advocation, and empowerment. While in an ineffective leadership situation, the leader is a pushover, whose leadership style is abdication and fraud. Human Resource Leaders believe in people and communicate that belief; they are visible and accessible; they empower, increase participation, support, share information, and move decision making down into the organization.

Political Framework

In an effective leadership situation, the leader is an advocate, whose leadership style is coalition and building. While in an ineffective leadership situation, the leader is a hustler, whose leadership style is manipulation. Political leaders clarify what they want and what they can get; they assess the distribution of power and interests; they build linkages to other stakeholders, use persuasion first, then use negotiationand coercion only if necessary.

Symbolic Framework

In an effective leadership situation, the leader is a prophet, whose leadership style is inspiration. While in an ineffective leadership situation, the leader is a fanatic or fool, whose leadership style is smoke and mirrors. Symbolic leaders view organizations as a stage or theater to play certain roles and give impressions; these leaders use symbols to capture attention; they try to frame experience by providing plausible interpretations of experiences; they discover and communicate a vision.

This model suggests that leaders can be put into one of these four categories and there are times when one approach is appropriate and times when it would not be. Any one of these approaches alone would be inadequate, thus we should strive to be conscious of all four approaches, and not just rely on one or two. For example, during a major organization change, a structural leadership style may be more effective than a visionary leadership style; while during a period when strong growth is needed, the visionary approach may be better. We also need to understand ourselves as each of us tends to have a preferred approach. We need to be conscious of this at all times and be aware of the limitations of our favoring just one approach. For an activity, see Bolman and Deal's Four Framework Approach.

Managerial Grid

The Blake and Mouton Managerial Grid (1985) uses two axes:

- "Concern for people" is plotted using the vertical axis
- "Concern for task" is along the horizontal axis.

They both have a range of 0 to 9. The notion that just two dimensions can describe a managerial behavior has the attraction of simplicity. These two dimensions can be drawn as a graph or grid:

Most people fall somewhere near the middle of the two axes. But, by going to the extremes, that is, people who score on the far end of the scales, we come up with four types of leaders:

- Authoritarian
- Team Leader
- Country Club
- Impoverished .

Authoritarian Leader (high task, low relationship)
People who get this rating are very much task oriented and are hard on their workers (autocratic). There is little or no allowance for cooperation or collaboration. Heavily task oriented people display these characteristics: they are very strong on schedules; they expect people to do what they are told without question or debate; when something goes wrong they tend to focus on who is to blame rather than concentrate on exactly what is wrong and how to prevent it; they are intolerant of what they see as dissent (it may just be someone's creativity), so it is difficult for their subordinates to contribute or develop.

Team Leader (high task, high relationship)
This type of person leads by positive example and endeavors to foster a team environment in which all team members can reach their highest potential, both as team members and as people. They encourage the team to reach team goals as effectively as possible, while also working tirelessly to strengthen the bonds among the various members. They normally form and lead some of the most productive teams.

Country Club Leader (low task, high relationship)
This person uses predominantly reward power to maintain discipline and to encourage the team to accomplish its goals. Conversely, they are almost incapable of employing the more punitive coercive and legitimate powers. This inability results from fear that using such powers could jeopardize relationships with the other team members.

Impoverished Leader (low task, low relationship)
A leader who uses a "delegate and disappear" management style. Since they are not committed to either task accomplishment or maintenance; they essentially allow their team to do whatever it wishes and prefer to detach themselves from the team process by allowing the team to suffer from a series of power struggles.

The most desirable place for a leader to be along the two axes at most times would be a 9 on task and a 9 on people -- the Team Leader. However, do not entirely dismiss the other three. Certain situations might call for one of the other three to be used at times. For example, by playing the Impoverished Leader, you allow your team to gain self-reliance. Be an Authoritarian Leader to instill a sense of discipline in an unmotivated worker. By carefully studying the situation and the forces affecting it, you will know at what points along the axes you need to be in order to achieve the desired result.
For an activity, see The Leadership Matrix.

The Process of Great Leadership
The road to great leadership (Kouzes & Posner, 1987) that is common to successful leaders: Challenge the process - First, find a process that you believe needs to be improved the most. Inspire a shared vision - Next, share your vision in words that can be understood by your followers. Enable others to act - Give them the tools and methods to solve the problem.
Model the way - When the process gets tough, get your hands dirty. A boss tells others what to

do, a leader shows that it can be done. Encourage the heart - Share the glory with your followers' hearts, whilekeeping the pains within your own.

Bass' Theory of Leadership:

Bass' theory of leadership states that there are three basic ways to explain how people become leaders (Stogdill, 1989; Bass, 1990). The first two explain the leadership development for a small number of people. These theories are: • Some personality traits may lead people naturally into leadership roles. This is the Trait Theory. • A crisis or important event may cause a person to rise to the occasion, which brings out extraordinary leadership qualities in an ordinary person. This is the Great Events Theory. • People can choose to become leaders. People can learn leadership skills. This is the Transformational or Process Leadership Theory. It is the most widely accepted theory today and the premise on which this guide is based.

Concept of Motivation

The term motivation is derived from the Latin word movere, meaning “tomove”.

Motivation can be referred as a combination of motive and action. Motivation is an action word that influences every aspect of our daily lives.Motivation is fundamental in the level of success an individual attains.
Motivation is a personal and internal feeling. This feeling arises from needsand wants.

Motivation is continuous process because as our one need fulfills it gives rise to other needs. There is general agreement that people are motivated in situations where they can participate, they can feel accomplishment and receive recognition for their work, where the communication is frequent and there are opportunities for career and knowledge growth

Definitions

J.E.Ormrod defines motivation as an internal state that arouses us to action, pushes us in particular direction and keeps us engaged in certain activities. William G Scott defines motivation is a process of stimulating people to action to accomplish desired goals.

Kinds of Motivation

Motivation can be intrinsic or extrinsic; Positive or Negative

-

1. **Extrinsic motivation**

Motivation that comes from an external source

Examples: Climate in an organisation, Leadership styles, Autonomy, Rewards, and Punishments etc.

A study published in Arabian Journal of Business and Management Review in 2o17 reveals that extrinsic motivation plays a great role to enhance the productivity of an employee.

2. Intrinsic motivation

The source of the motivation comes from an internal factor.
Examples: Belief, Attitude etc.

3. Positive Motivation:

It is the reward based motivation.

4. Negative Motivation:

It is the fear or punishment based motivation

Source: Misra,G.http://pdpnotesbygm.blogspot.com/2013/10/motivation-14.html

Benefits of Motivation

- Puts human resources into action.
- Improves level of efficiency of employees.
- Leads to achievement of organizational goals.Builds friendly relationship.
- Leads to stability of work force.

In a nutshell

- Motivation boost the morale of employee.Motivation develop sound team spirit.

- Motivation is quality oriented.

- Motivation can develop co-ordial and conducive environment Motivation enhances the productivity.
- Motivation can retain employee in an organisation.

- Motivation can stimulate employee to achieve organisational goals. Motivation prepares employee responsible and challenging jobs.
- Motivation promotes healthy competition among employees.

Motivational steps

- Sizing up

- Preparing a set of motivating tools Selecting and applying motivators Feedback

Reasons for demotivation

- No recognition

- Setting of unrealistic goals Overloaded Micromanagement
- Lack of opportunity

- Unpleasant organizational environment Job-security

Strategies of Motivation

- ✓ Financial
- ✓ Non-financial
- ✓ Goal-setting
- ✓ Participation
- ✓ Job enrichment
- ✓ Reinforcement
- ✓ Transcendental meditation

- ✓ Job enlargement
- ✓ Quality of work life

Rules of Motivation

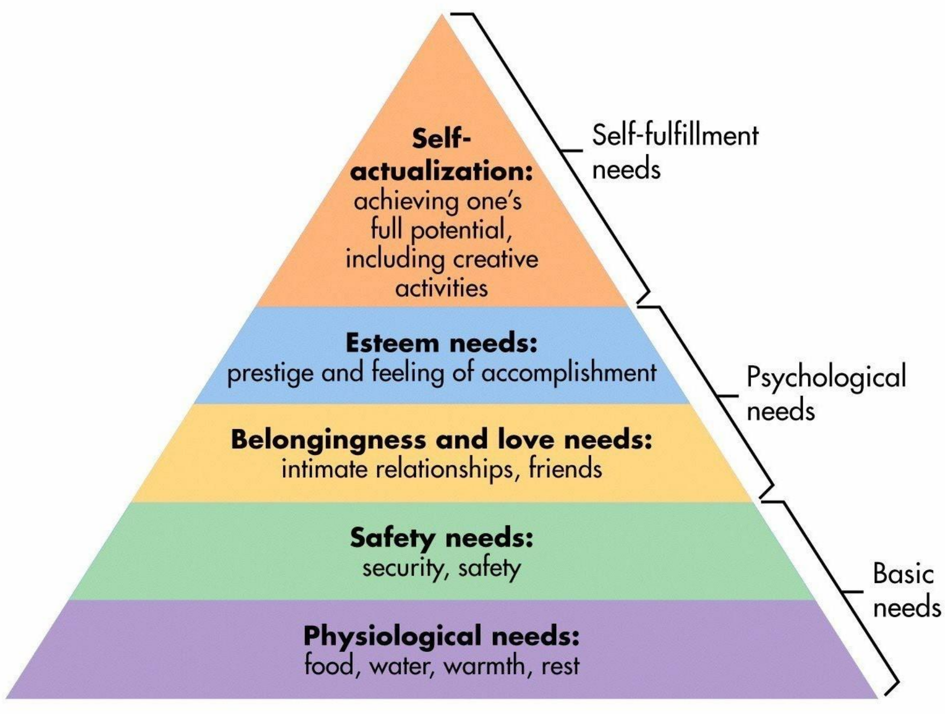
- ✓ Motivation should not be the same.Goals should be SMART.
- ✓ Motivational efforts should be based on sound theory.Should appeal feelings and emotions.
- ✓ Relate organization interest with employee interest at the time of motivating the employee.
- ✓ The GoldiRock rule.

Maslow's Hierarchy of Needs Each of us is motivated by needs. Our most basic needs are inborn, having evolved over tens of thousands of years. Abraham Maslow's Hierarchy of Needs helps to explain how these needs motivate us all. Maslow's Hierarchy of Needs states that we must satisfy each need in turn, starting with the first, which deals with the most obvious needs for survival itself. Only when the lower order needs of physical and emotional well-being are satisfied are we concerned with the higher order needs of influence and personal development.

Maslow's Hierarchy ofNeeds

Maslow's hierarchy of needs is a motivational theory in psychology comprising a five-tier model of human needs, often depicted as hierarchical levels within apyramid.

Needs lower down in the hierarchy must be satisfied before individuals can attend to needs higher up. From the bottom of the hierarchy upwards, the needs are: physiological, safety, love and belonging, esteem and self- actualization.



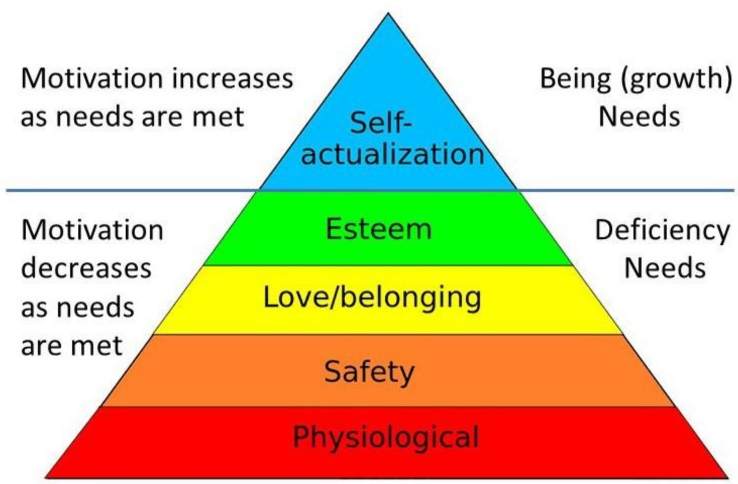
Deficiency needs vs. growth needs

This five-stage model can be divided into deficiency needs and growth needs. The first four levels are often referred to as deficiency needs (*D-needs*), and the top level is known as growth or being needs (*B-needs*).

Deficiency needs arise due to deprivation and are said to motivate people when they are unmet. Also, the motivation to fulfill such needs will become stronger the longer the duration they are denied. For example, the longer a person goes without food, the more hungry they will become.

Maslow (1943) initially stated that individuals must satisfy lower level deficit needs before progressing on to meet higher level growth needs. However, he later clarified that satisfaction of a needs is not an "all-or-none" phenomenon, admitting that his earlier statements may have given "the false impression thata need must be satisfied 100 percent before the next need emerges"

When a deficit need has been 'more or less' satisfied it will go away, and our activities become habitually directed towards meeting the next set of needs that we have yet to satisfy. These then become our salient needs. However, growth needs continue to be felt and may even become stronger once they have been engaged.



Growth needs do not stem from a lack of something, but rather from a desire to grow as a person. Once these growth needs have been reasonably satisfied, one may be able to reach the highest level called self-actualization.

Every person is capable and has the desire to move up the hierarchy toward a level of self-actualization. Unfortunately, progress is often disrupted by a failure to meet lower level needs. Life experiences, including divorce and loss of a job, may cause an individual to fluctuate between levels of the hierarchy.

Therefore, not everyone will move through the hierarchy in a uni-directionalmanner but may move back and forth between the different types of needs.

The original hierarchy of needs five-stage model includes:

Maslow (1943, 1954) stated that people are motivated to achieve certain needs and that some needs take precedence over others.

Our most basic need is for physical survival, and this will be the first thing that motivates our behavior. Once that level is fulfilled the next level up is what motivates us, and so on.

The original hierarchy of needs five-stage model includes:

1. **Physiological needs** - these are biological requirements for Human survival, e.g. air, food, drink, shelter, clothing, warmth, sex,sleep.

   If these needs are not satisfied the human body cannot function optimally. Maslow considered physiological needs the most importantas all the other needs become secondary until these needs are met.

2. **Safety needs** - protection from elements, security, order, law, stability, freedom from fear.

3. **Love and belongingness needs** - after physiological and safetyneeds have been fulfilled, the third level of human needs is social and involves feelings of belongingness. The need for interpersonal relationships motivates behavior

   Examples include friendship, intimacy, trust, and acceptance, receivingand giving affection and love. Affiliating, being part of a group (family, friends, work).

4. **Esteem needs** - which Maslow classified into two categories: (i) esteem for oneself (dignity, achievement, mastery, independence) and
   (ii) the desire for reputation or respect from others (e.g., status,prestige).

   Maslow indicated that the need for respect or reputation is most important for children and adolescents and precedes real self-esteem ordignity.

Self-actualization needs - realizing personal potential, self- fulfillment, seeking personal growth and peak experiences. A desire “tobecome everything one is capable of becoming”

Maslow posited that human needs are arranged in a hierarchy:

Maslow continued to refine his theory based on the concept of a hierarchy ofneeds over several decades (Maslow, 1943, 1962, 1987).

Regarding the structure of his hierarchy, Maslow (1987) proposed that the order in the hierarchy "is not nearly as rigid" (p. 68) as he may have implied inhis earlier description.

Maslow noted that the order of needs might be flexible based on external circumstances or individual differences. For example, he notes that for some individuals, the need for self-esteem is more important than the need for love. For others, the need for creative fulfillment may supersede even the most basicneeds.

Maslow (1987) also pointed out that most behavior is multi-motivated and noted that "any behavior tends to be determined by several or all of the basicneeds simultaneously rather than by only one of them".

Herzberg's Two-Factor Theory of Motivation

In 1959, Frederick Herzberg, a behavioural scientist proposed a two-factor theory or the motivator-hygiene theory. According to Herzberg, there are some job factors that result in satisfaction while there are other job factors that prevent dissatisfaction. According to Herzberg, the opposite of "Satisfaction" is "No satisfaction" and the opposite of "Dissatisfaction" is "No Dissatisfaction".

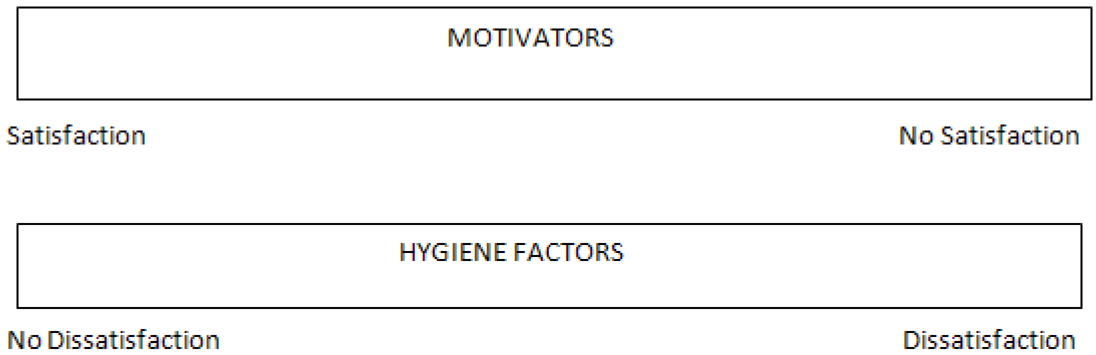


FIGURE: Herzberg's view of satisfaction and dissatisfaction

Herzberg classified these job factors into two categories-

a. **Hygiene factors-** Hygiene factors are those job factors which are essential for existence of motivation at workplace. These do not lead to positive satisfaction for long-term. But if these factors are absent / if these factors are non-existant at workplace, then they lead to dissatisfaction. In other words, hygiene factors are those factors which when adequate/reasonable in a job, pacify the employees and do not make them dissatisfied. These factors are extrinsic to work. Hygiene factors are also called as **dissatisfiers or maintenance factors** as they are required to avoid dissatisfaction. These factors describe the job environment/scenario. The hygiene factors symbolized the physiological needs which the individuals wanted and expected to be fulfilled. Hygiene factors include:
    - Pay - The pay or salary structure should be appropriate and reasonable. It must be equal and competitive to those in the same industry in the same domain.
    - Company Policies and administrative policies - The company policies should not be too rigid. They should be fair and clear. It should include flexible working hours, dress code, breaks, vacation, etc.
    - Fringe benefits - The employees should be offered health care plans (mediclaim), benefits for the family members, employee help programmes, etc.
    - Physical Working conditions - The working conditions should be safe, clean and hygienic. The work equipments should be updated and well-maintained.
    - Status - The employees' status within the organization should be familiar and retained.
    - Interpersonal relations - The relationship of the employees with his peers, superiors and subordinates should be appropriate and acceptable. There should be no conflict or humiliation element present.
    - Job Security - The organization must provide job security to the employees.

b. **Motivational factors-** According to Herzberg, the hygiene factors cannot be regarded as motivators. The motivational factors yield positive satisfaction. These factors are inherent to work. These factors motivate the employees for a superior performance. These factors are called satisfiers. These are factors involved in performing the job. Employees find these factors intrinsically rewarding. The motivators symbolized the psychological needs that were perceived as an additional benefit. Motivational factors include:

- Recognition - The employees should be praised and recognized for their accomplishments by the managers.
- Sense of achievement - The employees must have a sense of achievement. This depends on the job. There must be a fruit of some sort in the job.
- Growth and promotional opportunities - There must be growth and advancement opportunities in an organization to motivate the employees to perform well.
- Responsibility - The employees must hold themselves responsible for the work. The managers should give them ownership of the work. They should minimize control but retain accountability.
- Meaningfulness of the work - The work itself should be meaningful, interesting and challenging for the employee to perform and to get motivated.

Limitations of Two-Factor Theory

The two factor theory is not free from limitations:

1. The two-factor theory overlooks situational variables.
2. Herzberg assumed a correlation between satisfaction and productivity. But the research conducted by Herzberg stressed upon satisfaction and ignored productivity.
3. The theory's reliability is uncertain. Analysis has to be made by the raters. The raters may spoil the findings by analyzing same response in different manner.
4. No comprehensive measure of satisfaction was used. An employee may find his job acceptable despite the fact that he may hate/object part of his job.
5. The two factor theory is not free from bias as it is based on the natural reaction of employees when they are enquired the sources of satisfaction and dissatisfaction at work. They will blame dissatisfaction on the external factors such as salary structure, company policies and peer relationship. Also, the employees will give credit to themselves for the satisfaction factor at work.
6. The theory ignores blue-collar workers.

Despite these limitations, Herzberg's Two-Factor theory is acceptable broadly.

Implications of Two-Factor Theory

The Two-Factor theory implies that the managers must stress upon guaranteeing the adequacy of the hygiene factors to avoid employee dissatisfaction. Also, the managers must make sure that the work is stimulating and rewarding so that the employees are motivated to work and perform harder and better. This theory emphasize upon job-enrichment so as to motivate the employees. The job must utilize the employee's skills and competencies to the maximum. Focusing on the motivational factors can improve work-quality.

Theory X and Theory Y

In 1960, Douglas McGregor formulated Theory X and Theory Y suggesting two aspects of human behaviour at work, or in other words, two different views of individuals (employees): one of which is negative, called as Theory X and the other is positive, so called as Theory Y. According to McGregor, the perception of managers on the nature of individuals is based on various assumptions.

Assumptions of Theory X

- An average employee intrinsically does not like work and tries to escape it whenever possible.
- Since the employee does not want to work, he must be persuaded, compelled, or warned with punishment so as to achieve organizational goals. A close supervision is required on part of managers. The managers adopt a more dictatorial style.
- Many employees rank job security on top, and they have little or no aspiration/ ambition.
- Employees generally dislike responsibilities.
- Employees resist change.
- An average employee needs formal direction.

Assumptions of Theory Y

- Employees can perceive their job as relaxing and normal. They exercise their physical and mental efforts in an inherent manner in their jobs.
- Employees may not require only threat, external control and coercion to work, but they can use self-direction and self-control if they are dedicated and sincere to achieve the organizational objectives.
- If the job is rewarding and satisfying, then it will result in employees' loyalty and commitment to organization.
- An average employee can learn to admit and recognize the responsibility. In fact, he can even learn to obtain responsibility.
- The employees have skills and capabilities. Their logical capabilities should be fully utilized. In other words, the creativity, resourcefulness and innovative potentiality of the employees can be utilized to solve organizational problems.

Thus, we can say that Theory X presents a pessimistic view of employees' nature and behaviour at work, while Theory Y presents an optimistic view of the employees' nature and behaviour at work. If correlate it with Maslow's theory, we can say that Theory X is based on the assumption that the employees emphasize on the physiological needs and the safety needs; while Theory X is based on the assumption that the social needs, esteem needs and the self-actualization needs dominate the employees.

McGregor views Theory Y to be more valid and reasonable than Theory X. Thus, he encouraged cordial team relations, responsible and stimulating jobs, and participation of all in decision-making process.

Implications of Theory X and Theory Y

Quite a few organizations use Theory X today. Theory X encourages use of tight control and supervision. It implies that employees are reluctant to organizational changes. Thus, it does not encourage innovation.

Many organizations are using Theory Y techniques. Theory Y implies that the managers should create and encourage a work environment which provides opportunities to employees to take initiative and self-direction. Employees should be given opportunities to contribute to organizational well-being. Theory Y encourages decentralization of authority, teamwork and participative decision making in an organization. Theory Y searches and discovers the ways in which an employee can make significant contributions in an organization. It harmonizes and matches employees' needs and aspirations with organizational needs and aspirations.

Communication: Meaning, Characteristics, and Other Details

Meaning of Communication:

The word communication has been derived from the Latin word 'communis' which means 'common'. Thus, communication means sharing of ideas in common. "When we communicate," says Wibur Schramn, "we are trying to establish a 'commonness' with someone. That is we are trying to share information, an idea or an attitude. The essence of communication is getting the receiver and the sender 'turned' together for a particular message."

According to the shorter Oxford English Dictionary, communication means "the imparting, conveying or exchange of ideas, knowledge, etc., whether by speech, writing or signs." Communication takes place when one person transfers information and understanding to another person. It refers to the exchange of ideas, feelings, emotions, knowledge and information between two or more persons.

There is a communication when you talk or listen to someone. For instance, a teacher while delivering his lecture communicates to his students. But if he speaks or writes in a language which is not understandable to his students, there is no communication. When you read a book, its author communicates to you. But communication does not mean merely written or oral messages.

It includes everything that may be used to convey meanings from one person to another, e.g., movement of lips or the wink of an eye or the wave of hands may convey more meaning than even written or spoken words. In fact, communication is the process of conveying message from one person to another so that they are understood.

In business management, ideas, objectives, orders appeals, observations, instructions, suggestions etc. have to be exchanged among the managerial personnel and their subordinates operating at different levels of the organisation for the purpose of planning and executing the business policies. The following standard definitions will further help to understand the meaning and concept of communication in management.
"Communication is the sum of all the things one person does when he wants to create understanding in the mind of another. It is a bridge of meaning. It involves a systematic and continuous process of telling, listening arid understanding."—Louis A. Allen.

"Communication as any behaviour that results in an exchange of meaning."—The American Management Association.

"Communication may be broadly defined as the process of meaningful interaction among human beings. More specially, it is the process by which meanings are perceived and understandings are reached among human beings."— D.E. McFarland.

"Communication is a way that one organisation member shares meaning and understanding with another."—Koontz and O'Donnell.

Characteristics Nature of Communication:
From the analysis of above-mentioned definitions we get the following essential features of communication:
1. It Involves at Least Two Persons:
Communication involves at least two persons, a sender and a receiver. The sender is called communicator and the receiver of the message is known as communicate. A person who speaks, writes or issues some instructions is the sender and the person for whom the communication is meant or who receives the message is the receiver or communicates.

2. Message is a Must:
A message is the subject matter of communication. e.g., the contents of the letter or speech, order, instructions or the suggestions. A communication must convey some message. If there is no message there is no communication.

3. Communication May be Written, Oral or Gestural:
Communication is generally understood as spoken or written words. But in reality, it is more than that. It includes everything that may be used to convey meanings from one person to another, e.g., movement of lips, or the wink of an eye or the wave of hands may convey more meaning than even written or spoken words.

4. Communication is a Two Way Process:

It involves both information and understanding. Communication is not complete unless the receiver has understood the message properly and his reaction or response is known to the sender. Understanding is the end result of communication but it does not imply agreement.

5. Its Primary Purpose is to Motivate a Response:

The primary purpose of communication is to motivate response or influence human behaviour. There is no doubt that motivation comes from within but communicator can also motivate people by good drafting of message, proper timing of communication, etc. To create understanding, communication should be relevant to the situation. It must always be remembered that communication is a means of motivating and not an end itself.

6. Communication may be Formal or Informal:

Formal communication follows the formal channels provided in the organisation structure. For example, the Managing Director communicates with the departmental heads, say Finance Manager, finance manager communicates to deputy finance manager, the deputy finance manager with accounts officer and so on.

In simple words, in informal communication, there is no direct communication between the Managing Director and the accounts clerks. Informal communication flows from informal channels of communication which are not provided in the organisation structure. These channels develop among members because of personal contacts through working with each other.

7. It Flows Up and Down and also from Side to Side:

Communication flows downward from a superior to subordinate and upward from subordinate to a superior. It also flows between two or more persons operating at the same level of authority.

8. It is an Integral Part of the Process of Exchange:

It refers to the exchange of ideas, feelings, emotions and knowledge and information’s between two or more persons.

Elements of Communication:

The basic elements of communication are:

1. Communicator:

The sender, speaker, issuer or writer-who intends to convey or transmit a message.

2. Communicate:

The receiver for whom the communication is meant. He receives the information, order or message.

3. Message:
The subject matter of communication i.e., the content of the letter, speech, order, information, idea or suggestion.

4. Communication Channel:
The media by which the information and understanding are passed from the sender to the receiver. It serves as link between the communicator and the communicate i.e., the levels of organisation or relationships that exist between different individuals or departments of an organisation.

5. Response or Feedback:
The effect, reply or reaction, of the information transmitted, on the communicate i.e., successful, no communication or miscommunication.

The Process of Communication:
1. The communicator first of all, formulates a clear idea about facts, opinions or information he wants to convey.

2. The idea is then translated by him into words (spoken or written), symbols or some other form of message which he expects the receiver to understand. This process is known as encoding of the message.

3. The communicator selects a suitable media for the transmission of the message, e.g., telephone, telegraph or television. The message is conveyed with the help of the media selected.

4. The message is then received by the communicate. He tries to understand it by decoding the message.

5. The communicate acts upon the message as he has understood it.

6. Finally, the effectiveness of communication is measured through feedback. If the communication brings in the desired changes in the actions or behaviour of the receiver, it is said to be successful communication. In case, there is no change in the actions or behaviour, there is no communication, and if it leads to undesirable changes it is a case of miscommunication.

The process of communication is illustrated in the figures.

Models of Communication Process:
Three models have been given by different authors to explain the process of communication.

These models are explained as follows:

(i) Shannon-Weaver Model

(ii) Berlo Model

(iii) Transactional Process Model.

(i) Shannon-Weaver Model:
Cloude E. Shannon and Wanen Weaver have based their model of communication process on the information theory. They have given a mechanical approach to the theory of communication. This model basically aims at ensuring that the information which is communicated is both accurate and correct.

The information theory involves the following steps:

This model does not include any feedback, since the same process will follow for feedback also where the receiver will become the sender.

According to this model the communication problems can arise at any of the following three levels:
(i) Technical level:
How effectively the communication can be transmitted?

(ii) Semantic level:
How precisely do the transmitted communications convey the desired message?

(iii) Effectiveness level:
How effectively does the received meaning affect the conduction in the desired way.

(ii) Berlo Model:
Dank K. Berlo has given the first widely accepted model of communication process which presents communication as a dynamic interactive process. His model is popularly known as the Dynamic Process Model.

This steps and parties involved in this model are:
Berlo Model of Communication Process:
According to Berlo, thus, communication is an ongoing and continuous process whereby feedback is also an important part.

(iii) Transactional Process Model:

Communication theorists view communication as a transaction process. Theorists like Wenburg and Wilmont state that "all persons are engaged in sending (encoding) and receiving (decoding) and each person is affecting the other".

This model believes that there is a continuous process of feedback in the communication process as shown in the following figure:

From organisational point of view transactional approach is much more accurate and useful way of viewing communication than the other methods.

Need or Purpose of Communication:

The main purpose of communication is to effect change in someone i.e., to influence action or to secure inaction in the overall interest of an enterprise. It enables us to understand others and to make ourselves understood. Without communication we cannot live or work together in an organised way. It is a flux that binds people together in an organisation. The basic purpose of communication is to facilitate and lubricate the organisation. It helps management of planning effectively and controlling efficiently.

John G. Clover has outlined the following important purposes of communication:

1. To keep employees informed.

2. To provide employees with orders and instructions in connection with their duties.

3. To solicit information from employees which may aid management.

4. To make each employee interested in his respective job and in the work of the company as a whole.

5. To express management's interest in its personnel.

6. To reduce or prevent labour turnover.

7. To instill each employee with, personal pride in being a member of the company.

Essential Characteristic or Principles of an Effective Communication System:

From the above discussed steps for making effective communication, we can derive the essential characteristics of an effective communication system.

To sum up, the following principles or characteristics must be provided in an effective communication system:

1. Clarity and completeness of message.

2. Adequate briefing of the recipient.

3. Correct idea of objectives.

4. Integrity and consistency.

5. Motivation.

6. Proper feedback.

7. Proper timing.

8. Use of appropriate media.

9. Use of informal communication.

10. Principle of flexibility.

The American Management Association has given following commandments of good communication:

1. Seek to clarify your ideas before communicating.

2. Examine the purpose of each communication.

3. Consider the total physical setting whenever you communicate.

4. Consult with others, where appropriate, in planning communication.

5. Be mindful, while you communicate, of the overtones as well as basic content of your message.

6. Take the opportunity, when it arises, to convey something of help or value of the receiver.

7. Follow-up your communication.

8. Communication for tomorrow as well as today.

9. Be sure your actions support your communications.

10. Seek not only to be understood but understand.

Barriers to Communication

There are many reasons why interpersonal communications may fail. In many communications, the message (what is said) may not be received exactly the way the sender intended. It is, therefore, important that the communicator seeks feedback to check that their message is clearly understood.

The skills of Active Listening, Clarification and Reflection may help but the skilled communicator also needs to be aware of the barriers to effective communication and how to avoid or overcome them.

There are many barriers to communication and these may occur at any stage in the communication process. Barriers may lead to your message becoming distorted and you therefore risk wasting both time and/or money by causing confusion and misunderstanding.

Effective communication involves overcoming these barriers and conveying a clear and concise message.

Common Barriers to Effective Communication:

- **The use of jargon.** Over-complicated, unfamiliar and/or technical terms.
- **Emotional barriers and taboos.** Some people may find it difficult to express their emotions and some topics may be completely 'off-limits' or taboo. Taboo or difficult topics may include, but are not limited to, politics, religion, disabilities (mental and physical), sexuality and sex, racism and any opinion that may be seen as unpopular.
- **Lack of attention, interest, distractions, or irrelevance to the receiver.** (See our page **Barriers to Effective Listening** for more information).
- **Differences in perception and viewpoint.**
- **Physical disabilities such as hearing problems or speech difficulties.**
- **Physical barriers to non-verbal communication.** Not being able to see the non-verbal cues, gestures, posture and general body language can make communication less effective. Phone calls, text messages and other communication methods that rely on technology are often less effective than face-to-face communication.
- **Language differences and the difficulty in understanding unfamiliar accents.**
- **Expectations and prejudices which may lead to false assumptions or stereotyping.** People often hear what they expect to hear rather than what is actually said and jump to incorrect conclusions. Our page **The Ladder of Inference** explains this in more detail.
- **Cultural differences.** The norms of social interaction vary greatly in different cultures, as do the way in which emotions are expressed. For example, the concept of personal space varies between cultures and between different social settings. See our page on **Intercultural Awareness** for more information.

A skilled communicator must be aware of these barriers and try to reduce their impact by continually checking understanding and by offering appropriate feedback.

A Categorisation of Barriers to Communication

Language Barriers

Language and linguistic ability may act as a barrier to communication.

However, even when communicating in the same language, the terminology used in a message may act as a barrier if it is not fully understood by the receiver(s). For example, a message that includes a lot of specialist jargon and abbreviations will not be understood by a receiver who is not familiar with the terminology used.

Regional colloquialisms and expressions may be misinterpreted or even considered offensive. See our page: **Effective Speaking** for more information.

Psychological Barriers

The psychological state of the communicators will influence how the message is sent, received and perceived.

For example:

If someone is **stressed** they may be preoccupied by personal concerns and not as receptive to the message as if they were not stressed.

*Stress management is an important personal skill that affects our interpersonal relationships. See our pages **Stress: Symptoms and Triggers** and **Avoiding Stress** for more information.*

Anger is another example of a psychological barrier to communication. When we are angry it is easy to say things that we may later regret, and also to misinterpret what others are saying.

More generally people with **low self-esteem** may be less assertive and therefore may not feel comfortable communicating - they may feel shy or embarrassed about saying how they really feel, or read unintended negative sub-texts in messages they hear.

Physiological Barriers

Physiological barriers to communication may result from the receiver's physical state.

For example, a receiver with reduced hearing may not fully grasp the content of a spoken conversation especially if there is significant background noise.

Physical Barriers

An example of a physical barrier to communication is geographic distance between the sender and receiver(s).

Communication is generally easier over shorter distances as more communication channels are available and less technology is required. The ideal communication is face-to-face.

Although modern technology often helps to reduce the impact of physical barriers, the advantages and disadvantages of each communication channel should be understood so that an appropriate channel can be used to overcome the physical barriers.

Systematic Barriers

Systematic barriers to communication may exist in structures and organisations where there are inefficient or inappropriate information systems and communication channels, or where there is a lack of understanding of the roles and responsibilities for communication. In such organisations, people may be unclear of their role in the communication process and therefore not know what is expected of them.

Attitudinal Barriers

Attitudinal barriers are behaviours or perceptions that prevent people from communicating effectively.

Attitudinal barriers to communication may result from personality conflicts, poor management, **resistance to change** or a **lack of motivation**. To be an effective receiver of messages you should attempt to overcome your own attitudinal barriers to to help ensure more effective communication

How to overcome communication barriers

- **Be aware of language, message and tone:**

The sender should ensure that the message should be structured in clear and simple language. The tone of the message should not harm the feelings of the receiver. As far as possible, the contents of the message should be a concise and unnecessary use of technical words should be avoided.

- **Consult others before communication:**

When you're planning the communication, suggestions should be invited from all the individuals concerned. Its main benefit will be that all those people who are consulted at the time of preparing the communication preparation will add to the success of the communication system.

- **Communicate according to the need of receiver:**

The sender of the communication should organize the formation of the message not according to his or her level, but he or she should keep in mind the point of understanding or the surroundings of the receiver.

- **Consistency of Message:**

The message sent to the receiver should not be self- opposing. It should be in unity with the objectives, programmes, policies and techniques of the organization. When new information has to be sent inlay of the old one, it should always make a declaration of the change; otherwise, it can raise some doubts and queries for the same.

- **Follow up Communication:**

In order to make communication successful, the management should frequently try to know the weaknesses of the communication structure. In this situation effort can be made to know whether to lay more hassle upon the formal or the informal communication would be suitable.

- **Make sure to receive proper feedback:**

The reason for feedback is to find out whether the receiver has appropriately understood the meaning of the information received. In face-to-face communication, the reply of the receiver can be understood. But in the case of written communication or other forms of communications, some correct process of feedback should be adopted by the sender.

Conclusion:

Communication is way essential, that makes the moving parts of human relations function smoothly. Therefore, the meaning of communication cannot and should not be underestimated.

COORDINATION

Meaning of Coordination:

Cooordination is very essential in management. Business has various functions. These functions are performed by different individuals.

Moreover, performance of these functions requires division of work and grouping of activities and making decisions at different levels.

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

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

In the words of Mcfarland, **"Co-ordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of actions in the pursuit of a common purpose."**
In an organisation, a number of persons work and every individual work is related with others. Since all persons in the organisation contribute to the same end result, their contributions should be maximum. Therefore, it is the task of the manager to put together all the group efforts of the enterprise, and harmonies them carefully so as to give them commonness of purpose.

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

Features of Coordination:
The principal features of co-ordination may be stated as follows:
1. Co-ordination is concerned with the integration of group efforts and not individual effort:
It involves the orderly arrangement of the activities of a group of people. However, individual performance is related to the group performance. Co-ordination makes the individual efforts integrated with the total process.

2. Co-ordination is the concerted efforts of requisite quality and quantity given at the proper time:
In other words, co-ordination denotes co-operation i.e. collective efforts, plus time element and direction element. According to Haimann : **"Co-ordination is the orderly synchronization of efforts of the subordinates to provide the proper amount, timing and quality of execution so that their unified efforts lead to the stated objective, namely the common purpose of the enterprise."**
3. Co-ordination is a continuous and dynamic process:
It is a continuous concept in the sense that it is achieved through the performance of functions. And it is dynamic in nature because the functions themselves are dynamic and may change over the period of time.

4. Co-ordination has three important elements, namely, balancing, timing and integrating:
Co-ordination of different activities becomes possible only when different duties are performed in the right time and in the right quantity.

As for example, if the purchase department of an enterprise buys the required raw material in right time and in right quantity and supplies them to the production department, the production department produces the commodities in right time and in proper quantity; and the sales department of the enterprise can execute the order placed by a customer within the specified time.

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

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

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

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

7. Co-ordination may be internal or external:

Co-ordination, as a blending factor of all activities and efforts, is to be exercised both within and outside the enterprise. That is to say, co-ordination may be internal and external. Internal co-ordination means the co-ordination of activities between the employees, between the departments and managers at different levels inside the enterprise.

Outside the enterprise, the work of co-ordination is extended to bring about a harmonious relationship with the activities of the competitors, suppliers and customers; the technological and technical advances of the time, the regulatory measures of the government, the national and inter-national inter-dependence as well as with the wishes and wants, likes and dislikes of the consumers, employees and owners.

8. Co-ordination may be horizontal and vertical:

Horizontal co-ordination refers to co-ordination between the horizontal departments of the same level in the managerial hierarchy. For example, co-ordination is necessary between the sales manager, works manager, finance manager and the buyer, so that when the sales department is ready to sell the new product, the production department will be in a position to fill the orders; and the financial arrangements have been made so that the necessary funds are available to have the suitable raw material and other factors.

Co-ordination of various functions between the independent managers calls for a greater ability on the part of the superior manager. He has to ensure greater understanding between the departmental managers so that they may cooperate.

On the other hand, vertical co-ordination takes place between the various links of the different levels of the organisation. For example, take the case of production department where we have the works manager and under him the superintendent and then the foreman, and, lastly, the workmen.

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

Importance or Necessity of Coordination:

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

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

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

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

Therefore, the inter-relationship among the functioning of purchase department, production department and sales department demands the establishment of co-ordination.

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

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

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

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

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

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

4. Co-ordination can produce something greater out of the collective efforts of the individuals:
Properly co-ordinated group efforts achieve a greater result than what is possible from the isolated efforts of the individuals.

5. Co-ordination provides a balance between the people of different capacities and abilities:
It compensates the shortcomings of one by the strength of the other.

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

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

8. Co-ordination is a basic element in all effective organisations and is said to be the first principle in organization:
It makes planning more purposeful, organisation more well-knit and control more regulated.

Principles of Coordination:

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

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

2. Early Beginning:

Co-ordination can be achieved more readily at the initial stages of planning and policy-making. Therefore, direct contact must begin in the very early stages of the process. If an order for the supply of a particular goods has been booked and the raw materials to produce them are not available, there will be trouble.

Contact among the purchasing manager, production manager and sales manager at art early Stage would have made it possible to know whether the order could be executed.

3. Continuity:

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

4. Reciprocal Relationship:

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

5. Pervasiveness:

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

6. Leadership:

Leadership is the most effective instrument of co-ordination. A leader in a group is the coordinator of the group activities. He harmonizes all efforts of persons in the group. A manager does not himself produce anything nor does he sell anything in the market.

He gets the commodities produced by the workers and gets them sold in the market by the salesmen. In fact, he provides leadership and co-ordinates various functions.

7. Timing:

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

8. Balancing:

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

9. Integrating:

All activities, decisions and opinions are to be integrated to achieve the enterprise objective.

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

Techniques of Coordination:

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

1. Simplified Organisation:

In large organisations, there is a tendency towards over- specialisation. The organisation gets divided into a whole series of units each one of which concentrates just on its own task. In fact, each unit tends to be bureaucratic and its activities become ends in themselves instead of being means to the overall ends of the organisation.

This creates problems of co-ordination. The remedy for this lies in placing the closely-related functions and operations under the charge of an executive who functions as a coordinator. Re-arrangement of departments may also be considered to bring about a greater deal of harmony among the various wings of the organisation.

Furthermore, clear-cut organisation structure and procedures that are well-known to all concerned will ensure co-ordination. Organisational procedures should cover all activities and each person must be given to understand what he is responsible for and how his work is related to that of other individuals.

2. Harmonized Programmes and Policies:

The ideal time to bring about co-ordination is at the planning stage. The plans prepared by different individuals or divisions should be checked up to ensure that they all fit together into an integrated and balanced whole. The coordinating executive must ensure that all the plans add up to a unified programme.

Moreover, co-ordinated activities must not only be consistent with each other, but also be performed at the proper time.

3. Well-designed Methods of Communication:

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

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

4. Special Coordinators:

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

5. Co-ordination by Committees:

Co-ordination in management by committees is achieved through meetings and conferences. Sometimes different committees are appointed to look after different areas of management, namely, Purchase Committee, Production Committee, Sales Committee, Finance Committee, etc. These committees take the group decision by exchanging their views and ideas and so it has coordinating elements.

6. Group Discussion:

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

7. Voluntary Co-ordination:

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

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

8. Co-ordination through Supervision:

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

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

CONTROLLING

MEANING AND DEFINITION

Controlling means examination and evaluation of the work done by sub-ordinates in different departments in an organisation.

In the words of Allen, "Control means to guide something in the direction it is intended to do".

According to Koontz and O‟ Donnell, "the managerial function of controlling is the measurement and correction of the performance of activities of sub ordinates in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished.

NATURE (OR) CHARACTERISTICS OF CONTROL

1) Essential Function of Management

Control is an essential function of management. It is performed by the manager at all levels of management.

2) Ongoing process

Control is an ongoing process. It involves continuous measurement of results and review of standards.

3) Forward working

Control is forward working because past cannot be controlled. However, always past performance is measured and on that basis corrective action is taken.

4) Control involves measurement

Control is process of measurement, comparison and verification.

5) The essence of control is action

The purpose of control is achieved only when corrective action is taken to correct deviation.

6) Control is an integrated system

Control is a co-ordinated structure of activities.

BASIS STEPS IN CONTROLLING (OR) ELEMENTS OF CONTROL PROCESS (OR) CONTROLLING PROCEDURE

The process of control involves the following steps.

1) Fixation of standards

A standard is a criterion against which results can be measured. It refers to the enterprise goals, objectives, targets etc. the actual performance is achieved against it. It should be stated in tangible terms such as output of goods, costs, profit, time etc. standards should be accurate, objective, precise, acceptable and workable. It should be flexible – It should be in measurable terms. Standards can even be set for intangible items like results to be expected from training, advertisement campaign, employee morale etc.,

2) Measurement of performance

It involves the measurement of performance in respect of a work in terms of control standards. Then it is to be communicated to the person concerned for reasons of deviations and taking corrective actions.

If the work involved is of a technical nature, actual performance can be easily measured. In case of less technical kinds of work performed at places away from the workshop assembly (or) accounting machines, the measurement is difficult.

3) Comparing performance with the standard

To find out the extent of deviations, if any, the actual results are compared with the standards. After finding out the deviations the causes of the variations must be ascertained correctly. The causes may be controllable or uncontrollable. The important deviations should be reported to the manager through control reports. The report must contain both the extent of deviations and the reasons for the variation.

4) Correction of deviations

The final step in control is to correct deviations. It is essential not only to rectify the present deviations but also to prevent it in future. Corrective action involves

- Review of plans and objectives
- Change in the assignment
- Change in the existing techniques of direction or control
- Change in organisation structure
- Making provisions for new facilities. But corrective action should be implemented promptly and effectively.

CHARACTERISTICS OF AN IDEAL CONTROL SYSTEM (OR) ESSENTIALS OF EFFECTIVE CONTROL SYSTEM (OR) PROCESS

The following are characteristics of an ideal control system.

1) Suitability

The control system should be appropriate to the nature needs and circumstances of the enterprise and each level of activity inside it.

2) Flexible

The control system should be flexible so that is remains workable in the case of changed plans, unforeseen circumstances or outright failures.

3) Economical

A good control is one that can be easily installed. It is maintained with less cost.

4) Simple

To be effective, a control should be easy to understand and operate.

5) Objective

A control system should be objective and impersonal it should not be subjective and arbitrary. For this, standards should be clear, definite and stated in numerical terms.

6) Prompt

To be effective, a control system must report deviations quickly. Corrective action should also be taken without delay.

7) Forward looking

A control system is ideal only when it points out deviations even before they take place.

8) Suggestive

A good control system should also indicate solutions to the problems caused by deviations.

9) Strategic point control (or) Control by exception

A good control system should focus attention on critical points or key points which are to be regulated.

10) Motivational

Control system should motivate both controller and controlled.

11) Pragmatic

The control system should concern itself with practical results and view things in a matter of fact and practical way.

IMPORTANCE (OR) SIGNIFICANCE (OR) ADVANTAGES (OR) POSITIVE RESPONSE TO CONTROLS

A good control system provides the following advantages.

1. Basis of planning

It enables the management to verify the quality of various plans and policies. It reveals deficiency in planning so that suitable action can be taken to improve it.

2. Appraisal of performance

It provides standard for the appraisal and measurement of actual performance.

3. Co-ordination

It helps in achieving co-ordination which is the essence of management.

4. Efficiency in the organisation

It ensures efficiency and effectiveness in the organisation by using all the available resources. It also helps o increase the efficiency of the employees.

5. Extension of decentralization

It makes the sub-division of work possible, assignment of responsibilities to lower levels feasible and the policy of exceptions a success.

6. Check on the sub-ordinates

A control system ensures the achievement of objectives.

LIMITATION OF CONTROL

1) An organisation cannot control external factors like technological changes. Changes in fashion, government policy etc.,

2) In some areas like human behaviours, employee morale etc., standards of performance cannot be defined in quantitative terms.

3) Control may not be acceptable to employees. The reasons for employees objections to control are as follows.

1) Misunderstanding

When the system of control is not clearly understood by the employees, they may object it.

2) Lack of freedom

The employees may resist control if they feel that is will reduce their freedom.

3) Fixing of responsibility

When it is not possible to fix responsibility for results, control becomes ineffective.

4) Standard

If the standard of performance of employees is not properly fixed, the employees will not accept it.

5) Bias

In measuring the actual performance of the employees, especially in case of personal observation, there is a possibility of bias.

6) Close control

Employees are likely to resent very close control.

4) Control is a time consuming and expensive process

SCOPE (OR) AREAS OF CONTROL

1) Control over policies

Policies are controlled through policy manuals.

2) Control over organisation

Organisation is controlled through organisation charts and manuals.

3) Control over personnel

Personnel director or manager prepares control plan for having control over personnel.

4) Control over wages and salaries

It is done by job evaluation and merit rating.

5) Control over costs

It is done through cost standards and budgetary control.

6) Control over methods

It is done by conducting periodic analysis of activities of each department.

7) Control over capital expenditure

It is done through capital budgeting, project anlayse, cost of capital etc.,

8) Control over production

It is done through budgets and production control technique.

9) Control over research and development

It is very difficult to have direct control over it because they are in technical nature.

10) Control over external relations

Public relations department is responsible for controlling the external relations of the enterprise.

11) Overall controls

It is effected through budgetary control.

CONTROLLING AND OTHER FUNCTIONS (OR) BASIC REQUIREMENT OF CONTROL (OR) PLANNING IS THE BASIS, ACTION IS THE ESSENCE, DELEGATION IS THE KEY AND INFORMATION IS THE GUIDE TO CONTROL

1) Planning

Control is designed to achieve the objectives. Objectives are set through planning. Unless objectives are clear and specific, it is not possible to exercise control. Thus control is not possible without planning.

2) Information feedback

Control involves the comparison of actual with the standard. Such comparison is only when the management is supplied with adequate information at the right time. Hence the effectiveness of the control system depends upon the information at the right time. Hence the effectiveness of the control system depends up the information system of the organisation.

3) Delegation of authority

Correct action can be taken only when adequate authority has been delegated to detect deviations and to correct time.

4) Remedial action

There is no control until action is taken to rectify the mistake and deviations. Thus planning is the basis, action is the essence. Delegation is the key and information is the guide to control.

"PLANNING IS LOOKING AHEAD AND CONTROL IS LOOKING BEING" – DISCUSS

Planning and control are two important management functions. Generally, speaking, planning deciding is advance what is to be done. Hence, it is said that planning is looking ahead.
Control is a measuring and corrective device. The basic idea of control is comparison of actual performance with standard, as actual performance relates to past, it is said that control is looking being.
But both are intimately related. Planning is deciding the course of future action while control is ensuring their realization. Though control looks being, its nature is also forward looking.

METHODS (OR) TECHNIQUES (OR) DEVICES (OR) TOOLS OF CONTROL (OR) AIDS

The large number of technique have been developed for managerial control. They are classified as follows.

A) TRADITIONAL CONTROL TECHNIQUES

1) Budgetary control

A budget is quantitative expression of plan of action. It serves as an aid to coordination of plan, implementation of plan and control of performance. It provides a standard by which actual operations can be evaluated. Deviations are corrected. Budgetary control is a device to control the operations of the business with the help of a budget.

2) Personal observation

By periodically observing the sub-ordinates, their work methods, their attitude towards work and their final results, a superior can exercised effective control. It has good effect on workers. But the manager cannot use this method due to lack of time.

3) Statistical control

Statistical data in the form of average, percentages, ratios, correlation etc., are used for the purpose of statistical control. Statistical tables, graphical charts and reports are used in production control quality control, inventory control etc. To control the particular problem areas, the preparation and use of special reports it also very common.

4) Standard costing

Standard costing involves preparation of standard costs and comparison of actual costs with standard costs to find out variations. The variances are then analysed and necessary actions is taken to correct them. It is helpful in work simplification, budgeting and incentive plans. But it is time consuming and expensive.

5) Profit and loss control

It denotes the analysis of profits, revenues and expenses of each branch or product division against the budgeted figures. Any deviation between the standard and the actual performance on these accounts are anlaysed and corrective action is taken.

6) External audit control

It involves audit of the financial accounts of an enterprise by a qualified chartered accountant. It is compulsory in case of Joint Stock Company. It is used to safeguard the interests of the shareholders against the manipulations and malpractices of the management.

7) Break-even point analysis (or) Cost-volume analysis

Break-even point is the point where there is no profit and not loss. The break-even chart shows the break-even point. It can be expressed in terms of units produced, in percentage of plant capacity of in amount of sales. It predicts the profit at different levels of sales of production volume. It is used in taking decisions relating to expansion, product mix, selling prices etc.,

8) Over all control criteria

It is required to judge the total effectiveness of an organisation. It evaluates management‟s total efforts. Some of the important tolls for this are as follows.

- Budget
- Internal audit
- Inter firm comparison
- Ratio analysis
- Value analysis
- Written and comparative reports from different departments.

9) Return on investment control

Under this, the performance of each department is judge of the basis of return of investment secured by it. The rate of return is calculated by dividing net profit by total investment. It serves as the best indicator of success or failure of each unit. But actual rate of return has no meaning unless there is standard rate of return with which it can be compared.

B) MODERN CONTROL TECHNIQUES

1) Management audit

It is an independent and critical examination of the entire management process to measure the effectiveness of management as a whole. Its object is to determine whether or not managerial functions are being performed efficiently. It helps to point out defect in organizational policies and procedures. But its effectiveness depends upon the qualifications, experience and approach the management auditor.

2) Responsibility accounting

It is concerned with the cost accumulation by responsibility centers. Costs are divided into controllable and uncontrollable. Every manager is made responsible for costs of his department. The head of a responsibility centre has to ensure that the controllable costs does not exceed the prescribed limit. It focuses on management by objectives.

3) Human resource accounting

It is defined as "a process of identifying and measuring data, about human resources and communication this information to the interested parties". It facilitates the efficient management of human resources.

4) Net work techniques

PERT and CPM are the two important network techniques.

a) Programme Evaluation and Review Technique (PERT)

PERT is an integrated management control system designed to plan time and cost of completing a project. A programme consists of several activities and sub-activities. These activities must be completed in a proper sequence to minimize time and costs be completed. It is useful in the allocation of resource among tasks.

The steps involved in PERT analysis are as follows.

1) Indentify the activities that must be performed in a project.

2) Arrange these activities in a proper and logical sequence in the form of a network.

3) Estimate the time required to complete individual activities and the entire project.

4) Determine the critical path which involves the activities which can be completed in time without delay

5) Improve upon the initial plan and control the project PERT focuses attention of critical activities and thereby facilitates control by exception. But it is not very useful in planning and control of routine activities.

b) Critical path method (CPM)

Like PERT, CPM identifies the critical elements of a project and facilitates control by exception. It is used for planning and controlling the most logical sequence of activities for completing a project. It is helpful in the optimum use of resources. It provides a standard method of communicating project schedules and costs.