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DJC1B - BUSINESS ORGANISATION AND MANAGEMENT

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DJCIB : BUSINESS ORGANISAITON AND MANAGEMENT

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DJCIB : BUSINESS ORGANISAITON AND MANAGEMENT

SCHEMES OF LESSONS

UNIT I : NATURE OF BUSINESS

Nature of business – definition – objectives – characteristics – business environment – micro and macro environments

CHAPTER – 1

MEANING

Business means the purchase or production and sale of goods or providing of services for profit which involves a risk of loss.

Any human activity involving production, extraction, processing or purchases of goods for selling them at a profit can be termed as "Business".

The term business means as state of being busy.

DEFINITION

In the words of Haney "Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling of goods"

In the words of Urwic and Hunt, "a business is any enterprise which makes, distributes or provides any article or service which other members of the community need and are able and willing to pay for"

"Business refers to a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted". – L.R. Dicksee

NATURE OF BUSINESS

1. All business activities are mainly concerned with the transfer or exchange of goods and services for value to satisfy human needs.
2. Business deals with goods and services.
3. Exchange of goods and services should frequently take place.
4. The profit motive is an important distinguishing feature of business.
5. Business has to meet the various types of risks and this may result in heavy loss and uncertainty of profit.

CHARACTERISTICS OF BUSINESS

The following are the essential features of a business.

1. An Economic activity

Business is an economic activity in which the goods and services exchanged for an agreed price.

2. Sale or transfer for value

In a business, there must be transfer of goods and services for value. Production or purchase of goods and services for personal consumption do not come under business.

3. Dealing in goods and service

Business transaction must relate to goods and services. Goods may be consumer goods or producers goods.

4. Recurrence of dealings

There must be regularity, continuity and recurrence of transactions. That is, there must be recurrence of purchase and sale of goods. A single transaction will not constitute a business.

5. Profit motive

Business is concerned with earning money. The main object of a business is to earn profit.

6. Dealings for a price

Manufacturing, buying and selling of goods and rendering of service are for a price.

7. Uncertainty of return

Business is full of uncertainties. It is due to changing socioeconomic and political environment factors. Therefore, business involves an element of risk and uncertainty.

8. Creation of utilities

Business creates utilities by means of production and distribution of goods and services. Business creates form utility, place utility, time utility. Transport renders place utility to the goods, warehousing renders time utility to the goods.

9. Business is a social institution

Business is a social institution. Business is an institution organized and operated to provide goods and services to society.

10. Business is social activity

Business is a social activity. Business provides the society the things it need is in order to improve the material well being of the person.

OBJECTIVES OF BUSINESS

The objective of a business may also vary from business to business and from time to time.

Objective of a business may be classified into the following groups.

I. Economic

II. National

III. Human

IV. Social

I. Economic objectives

Business is an economic activity which aims at earning profit. Following are the economic objectives of a business

1) Earning profit

2) Creation of demand

3) Optimum use of resources

4) Creation of utilities

1) Earning profit

The main objective of a business is to earn profit. A business needs profit not only for survival but also for growth and diversification.

2) Creation of demand

The business adopts various advertising measures to create demand of its goods and services.

3) Optimum use of resources

Limited resources are available to business. Available resources must be utilized effectively.

4) Creation of utilities

Creation of utility is another economic objective of business. A business enterprise creates time, place, possession and form utilities

II. National

Following are the national objectives of business

1) Ensuring social justice

2) Development of small entrepreneurs

3) Production according to national policies

4) National self sufficiency and export development

5) Development of skilled personnel

1) Ensuring social justice

A business is used to remove inequalities of opportunities and to provide a fair opportunities to all to work and progress.

2) Development of small entrepreneurs

The aim of business has to develop small entrepreneurs.

3) Production according to national policies

The national objectives of a business are to manufacture and distribute cheaper varieties of essential commodities to the weaker section of the society.

4) National self sufficiency and export development

One of the national objectives of a business is to increase export of trade. It leads to increase in international currency resources.

5) Development of skilled personnel.

Training is necessary both for skilled and unskilled personnel.

III. Human

Following are the human objectives of business.

1) Welfare of employees

2) Satisfaction of employees

3) Satisfaction of consumers

4) Satisfaction of shareholders

1) Welfare of employees

The employees of an organisation should be looked upon a human beings. They should be given a due share in profits.

2) Satisfaction of employees

A business enterprise has to provide job satisfaction to its employees by way of making the job interesting.

3) Satisfaction of consumers

A business has to earn profit after satisfying the needs of the consumers.

4) Satisfaction of shareholders

The management should give reasonable return on the money invested by the shareholders.

IV. Social

Following are the social objectives of a business.

1) Supply of goods or service

The responsibility of a business is to supply goods or service of right quality at right time, at the right place and at a reasonable price.

2) Avoid profiteering

A business should avoid profiteering. It must satisfy customer's needs.

3) Welfare of workers

The social objective of a business is the provision of welfare facilities to its employees.

4) Consumer's satisfaction

It is the responsibility of the business to satisfy the needs of consumers.

5) Proper returns to investors

A business should also satisfy its investors by providing necessary returns on investment (ROI) to them.

6) Co-operation with the government

Business should earn profit by servicing the society with the co-operation of the sort.

FUNCTIONS OF BUSINESS

The business has to perform the following functions

1. Production function
2. Marketing function
3) Finance function
4) Personnel function

1. Production function

Production function refers to the transformation of raw material into finished goods.

The production function involves the following activities

i) Production planning and control

ii) Materials management and

iii) Quality control

2. Marketing function

Marketing refers to the creation of time, place and possession utilities. "Marketing is the performance of business activities that directs the flow of goods and services from the producer to consumer or user". Marketing consists of the following functions.

i) Buying

ii) Assembling

iii) Selling

iv) Transportation

v) Storage and warehousing and

vi) Market information

3) Finance function

Finance is the life blood for every business. Finance function is performed by the finance department.

i) The provision of sufficient capital

ii) The proper utilization of funds invested in the business.

4) Personnel function

Personnel function is concerned with finding suitable persons and getting the best out of them. Personnel function is concerned with the following activities.

i) Recruitment

ii) Selection

iii) Training

iv) Promotion

v) Transfer

vi) Remuneration of employees

vii) Settling of industrial disputes

viii) Labour welfare.

ESSENTIALS OF A SUCCESSFUL BUSINESS

A business man has to coordinate various factors of production in order to achieve a given objective.

The following are the essentials of a successful business.

1) Setting objectives

2) Proper planning

3) Sound organisation

4) Proper financial planning

5) Location and layout of plan

6) Marketing system

7) Dynamic leadership

8) Arrangement of labour force

9) Building the organisation structure

1) Setting objectives

The main objective of a business is to be determined the objective first. Then only it is possible to determine the ways and means to achieve the objectives.

2) Proper planning

Planning is a basic managerial function. It involves planning for both present and future.

3) Sound organisation

An efficient organisation system is essential for the success of a business.

4) Proper financial planning

The requirements of finance and its possible sources should be decided at the time of starting an enterprise.

5) Location and layout of plan

Location of plant is an important factor which influences the success of a business. Location of a plant is influenced by the following factors namely availability of raw materials, labour, transport and finance.

6) Marketing system

Marketing management is concerned with the directions of purposeful activities towards the achievement of marketing goals.

Marketing management should decide about

i) the mode of transport

ii) the channels of distribution

iii) the marketing strategies

7) Dynamic leadership

The success of an enterprise will depend upon the efficiency of its management. To have efficient management, dynamic leadership is every essential.

8) Arrangement of labour force

A business man has to make an estimate of the requirements of the different categories of workers for various departments and arrange for their recruitment.

9) Building the organisation structure

Organisation structure involves dividing the total work of the enterprise into major functions like production, sales, finance, etc.

QUALITIES OF A SUCCESSFUL BUSINESS MAN

A business man should possess the following qualities.

1. Knowledge of business

A businessman should have a thorough knowledge of his business.

2. Firmness and courage

A businessman should have courage to achieve his goals and objectives.

3. Impressive personality

A pleasing personality is an asset to an entrepreneur personality includes sound character, morale, honesty, leadership qualities, sound mind, etc.,

4. Hard working

Hard work brings victory to the businessman. A businessman should be a hard worker.

5. Adaptability

A good businessman must act according to the changing environment. He should not hesitate to accept new development in technology and marketing.

6. Foresightedness

A businessman should be intelligent and have foresightedness.

7. Social responsibility

A good businessman fulfill certain social responsibility. He must be honest towards consumers, workers, suppliers, government and society.

8. Initiative

Success in business depends considerably on initiative.

9. Courtesy

To be a successful businessman courtesy is a must.

10. Disciplinarian

Discipline is one amount the qualities that must be possessed by is successful businessman. Good discipline increases the reputation to the business.

11. Cooperation

A businessman should co-operate with others and should also have the capacity to get co operation from them.

12. Assumption of responsibility

A business man should assume responsibility of various activities of his subordinates. The businessman should not try to shift his responsibility to others.

13. Sound common sense

Sound common sense is considered to be the best friend of businessman. In order to succeed, a businessman must combine both the theoretical and practical knowledge.

14. Accurate in thinking as well as actions

A successful businessman is always very accurate both in his thinking as well as actions. He must know what he is doing or talking.

THEORY QUESTIONS

1. What do you mean by Business?
2. List out the economic objectives of business
3. What are requisites of the successful business?
4. Explain the objectives of Business.
5. Discuss the functions of business.

CHAPTER – 2

BUSINESS ENVIRONMENT

MEANING

The term "environment" has a very wide connotation. It covers all the external factors – be it economical, political, and social or whatever it may be. Authorities on the subject have also defined the term beautifully.

The business environment is contains a number of factors. They are different types and influence the business also indifferent degrees. Of them certain factors have a favourable impact of sum business while other factors adversely affect them. A factor that has a favoruable effect on a particular business may have adverse effect on other business.

DEFINITION

In the words of Keith Davis, "the term environment of business may be defined is the aggregate of all condition, events and influences that surround and affect it". He further says. "The environment is broad and constantly changing"

Kenneth Andrews another notable author defined the term as follows

Environment of a company is the pattern of all extern influences that affect its life and development.

NATURE OF BUSINESS ENVIRONMENT

1. Business Environment is not static

Business environment is dynamic and every changing. It is not static. Many element in the undergo changes which makes the business also to change accordingly.

2. Internal and external environment

In business environment is not individual factor. In business environment contains there are a number of internal and external factors.

3. Change for a change

In present economy business enterprise needs to mould itself to fit in the environmental factors by changing programmes and policies. Consumer's tastes and preferences or changed from time to time along with change in government laws rules and social values. They have necessitated appropriate change in the business policies and decision according to the need of the hour. Its goes through attain the business objectives.

4. Strict Adherence to Rules and Regulations

In every country, Governments laid down rules and regulations to ensure healthy growth and development of the economic. A firm is required to operate the business as per the rules and regulations laid down the Government.

5. Complexity of environment

Business environment is complex. Technology development, Government rules and regulations, Labour environment and competitive environment are relatively complex in nature.

6. Mutually related

The dynamic factors of business environment are not self -reliant, but are mutual related. For Example the economic factor influences social factors, Political factors influences technical factors and both are dependent on each other

IMPORTANCE OF BUSINESS ENVIRONMENT

A proper understanding of the environment is very essential for the business executive to achieve success in his business. Failure to understand the environmental factors should create number of problems, which in fact are difficult to solve. It will reduce the profit margin and will make the opportunities for expansion to slip. But a proper appreciation of the environment factor will bring many benefits. They are as follows;

1) Successful conduct of business

The success of the business enterprise depends to a great extent on its awareness about its surrounding environment.

2. Opening of New avenues

Environment opens fresh avenues for the expansion of new entrepreneurial operations. When the business climate is favourable, new ideas, schemes and ventures may be put into action.

3. Changes for growth

By identifying itself with the changing situations and environment, the firm can gain the popular support and win the confidence of the consumers and others.

4. Dynamism in Approach

Business enterprise is essentially a dynamic endeavour. Hence the business executive should be a dynamic personality.

5. Sales promotion strategies

A business enterprise is aware of the sales promotion strategies like advertisement, personal selling and other promotional measures

TYPES OF BUSINESS ENVIRONMENT

The business environment can be divided into two categories. The categories are as follows.

I) Internal Environment

II) External Environment

I) Internal Environment

The internal environment is controllable by the business upto a certain extent. The business has to indentify its internal environment. The following components are internal environment are considered as follows.

i. Management structure
ii. Labour management relations
iii. Management information system
iv. Value system
v. Internal power relationship
vi. Main objective of business
vii. Business strategies and policies
viii. Prospects of business development
ix. Availability of resources
x. Business ethics

II) External Environment

External business environment is concerned with the following

1) Micro Environment

2) Macro Environment

I) Micro environment

Micro environment includes those factors, which act and react in the immediate environment of the business enterprise. It includes suppliers of raw materials, marketing intermediaries, competitors in business, customers and also the public.

a) Competitors

In the market, there are many types of competitors. Such as from competitors, generic competitors desire competitors etc., which a business has to face.

b) Customers

The major task of a business is to create and sustain customers. There are many types of customer i.e. households, retailers, wholesalers, individual’s government bodies, foreign customers and so on business the selection of the customer segments should be made by considering profitability, stability, demand, dependability and so on.

c) Suppliers

Every business enterprise requires a number of suppliers. A supplier plays an important role in the smooth functioning of the business. A change in the behavior of the supplier may affect the company.

d) Public

Public is group, which have an impact of any organisation. There are various types of public namely local publics, media public, internal public, general public etc., Some companies are affected by such publics.

e) Marketing channels

Every business enterprise may be assisted by marketing channels, which include middlemen such as agents and merchants who help the company to find customers or close sales with them. Such marketing service agencies, which may assist the company is targeting and promoting its products to the right markets, are advertising agencies, media firms, consulting forms etc.,

II) Macro environment

The constituents of the macro environment of business are uncontrollable. The macro environment consists of societal forces, which affect the micro environment. These are demographic factors, economic factors technological factors and also political and cultural forces.

1) Geographical and Ecological or Natural Environment

The geographical situation, the physical feature, the climate rainfall, humidity, the vegetation etc., decide the type of living in a particular region. This is because the people of a particular geographical region will have similar testes, preferences and requirements. In

India, cotton textile industries are located in Mumbai and Coimbatore regions, Jute industries is located at Kolkata.

2) Demographic environment

Demography is study of human population with reference to its size density, distribution and other connected vital statistics. This information is very essential in modern days for planning and development and also for framing laws relating to society and business.

Demographic factors influence to a greater degree the working of business units.

The density of population the extent of their standard of living the level of their education and the nature of their occupation etc., greatly influence the type of business the entrepreneurs could under take. The business units require customers for its survival and growth, naturally business can thrive in populace regions through now-a-days transportation helps a lot in bringing the commodities to the scarcely populate areas.

Demographic factors such as size of the population, population growth rate, age comparison life expect any family size, spatial dispersal, occupational status, employment pattern, etc., affect the demand for goods and services. Market with growing population and income and growth markets. But the decline in the birthrates in countries like the United states have affected the demand for baby products. Johnson and Johnson have overcome this problem by repositioning their product lie baby shampoo by baby soap, promoting them also to the adult segment, particularly to the females.

Further, the literacy of population decides the nature of business the advertisement and marketing styles of the business.

A rapidly increasing population indicates a growing demand for many products. high population growth rate also indicates an enormous increase in labour supply. In labour is mobile between different occupations and regions its supply will be relatively smooth and this will affect the wage rate.

Further, the demographic factors may be recognized as the base for the government to proclaim its industrial policy and licensing. The government in their anxiety to develop backward regions may create the necessary infrastructure and facilities for the business to thrive in those areas under their policy of balanced regional development.

3) Economic Environment

Economic environment refers to those factors, which have impact on the working of business economic system, economic policy, nature of economy, trade cycles, consumer factor, economic resources level of income, the distribution of income and assets, statutory provisions, laws etc., For example economic policy of a company such as monetary and fiscal policy export-import policies, taxation policies, industrial policy etc., have direct import on the business activities in the company.

Economic conditions, economic policies and the economic system are the important external the constitute the economic environment of a business.

The economic conditions of a country for example, the nature of the economy the stage of the development of the economy, economic resources, level of income the distribution of income and assets etc., are among the very important determinants of business strategies.

The economic structure adopted, such as capitalistic, socialistic or mixed economy.

i) Capitalistic economy

The freedom of private enterprise is greater in the free market economy.

ii) Socialistic system

The state owns all the means of production, determines the goals of production and the control the economy.

iii) Mixed economy

Here both the private and public sector co-exist as in India.

4) Political Environment

Political environment is a set of complex laws, regulations and Government agencies. Political environment influences the business to a great extent. A stable and dynamic political environment is indispensable for growth and development of business. Political environment direct impact on the government policies, physical policies, import and export policies.

These political forces can be classified as

i) Long term forces

ii) Quick changes

iii) Cyclical changes

iv) Regional factors

5) Legal Environment

Business in a country can be started and can grow in to a big business only within the legal system of the country. In this connection all countries of the world have a separate set of laws for the control and direction of business.

The business law of the country is a complete system of regulations and interventions that form the legal environment of the business. All business managers should have the knowledge of business law for taking management decisions.

The most important laws and those the affect business are mentioned below.

i. Indian contract Act. 1872
ii. Companies Act 1956
iii. MRTP Act 1969
iv. IDRA Act 1951
v. FERA Act 1973
vi. Factories Act. 1948
vii. Capital issue Act. 1947
viii. Export and import control Act 1947
ix. Essential communities Act 1955
x. Laws relating to income tax, sales tax and other duties
xi. Partnership Act 1932
xii. Laws of stock exchange

6. Socio and Cultural Environment

Social and cultural environment exerts influence on the business to a greater extent. Social and cultural environment denotes the influence made by certain factors, which are beyond the control of the business. Such factors are people's attitude to work and wealth, role of family, marriage, religion and education, ethical issues and social responsiveness of business. Social and cultural environment is highly relevant for a business unit because it produces variety of goods, if get different type of employees and it has different obligation to society all of which depend upon the cultural sphere in which the business operates.

7. Technological Environment

Technology means "The systematic knowledge of the industrial Arts". Technique denotes the method of performance. These two are increasingly used in modern literature on industrial production. The present age is the age of technology.

Technological environment plays an important role in the development and success of business. Technological environment may include revelations, inventions break thorough etc., and many influence the ways of doing so that a businessman may design produce and arrange distribution.

Technology affects the business in two ways.

i. Its impact on the society and

ii. Its impact of business operations.

8. International Environment

International environment mainly affect those industries, which are directly depending upon imports and exports.

This environment is concerned with defence policy, foreign exchange policy, foreign policy, international trade agreements etc., There is no doubt that with the help of modern communication system and entry of multinationals, the distance between countries stands reduced.

THEORY QUESTIONS

1. Define the term Environment
2. Explain the nature of Business Environment.
3. What is the importance of Business Environment?
4. Discuss the various environments affecting business.
5. Explain the types of Business Environment

UNIT II : JOINT STOCK COMPANY

Joint stock company – definition – features – kinds – steps for incorporation – management – public enterprises – meaning – features – objectives – multinational companies – meaning – merits and demerits

CHAPTER – 3

JOINT STOCK COMPANY

MEANING

The word "company" refers to a voluntary association of persons formed for the purpose of carrying business.

A Joint Stock Company is a distinct type of business organisation. It has been evolved only to overcome the limitations of sole trader and partnership form of organisations. The advancement in science and technology and the impact of industrial revolution have all necessitated a large amount of capital investment and highly sophisticated managerial skill for running a large scale industry. A form of organisation required for running a large-scale industry has been evolved which is known as Joint Stock Company.

DEFINITION

Lord Justice Lindley has defined a Joint Stock Company as "an associations of many persons who contribute money or money's worth to a common stock and employ it for a common purpose". The common stock so contributed is denoted in money and is called the "capital" of the company. The persons who contribute it or to whom it belongs are its "members". The proportion of capital to which each member is entitled is his "share".

A simple definition of company is as follows "Company is an artificial person created by law with a distinctive name, a common seal, comprising of transferable shares, carrying limited liability and having perpetual succession".

According to Sec 3(1) (i) of the Indian Companies Act, a company is one formed and registered under this Act (or) an existing company.

FEATURES OF JOINT STOCK COMPANY

A close analysis of the above definitions reveals the following features of a joint stock company.

1) Distinct legal entity

A Joint Stock Company has got a separate legal entity. In other words, it is considered to be a "person" in the eyes of law. A joint stock company which is an artificial person can exercise all the rights to which a natural person is entitled to. As such a company possesses the right to own and transfer any property and to sue and be sued, in its own name.

2) Liability of members

Since the company has a separate legal entity the shareholders cannot be held liable for the debts of the company. The distinctive feature of a joint stock company is that the liability of the shareholders is limited to the extent of the value of the shares held by them. In case, a shareholder has paid part of the value of the shares held by him, his liability is limited to the extent of the unpaid amount on the shares.

3) Perpetual succession

A joint stock company has a continuous existence unlike a partnership or sole trading concern. Its continuity is not affected by the death, insolvency or insanity of any shareholder or even by a change in the composition of the management.

4) Separation of ownership and management

Even though the shareholders are the real owners of a joint stock company, the management is entrusted in the hands of the elected representatives of the shareholders known as "directors".

5. Common seal

Since the company is only an artificial person, it cannot sign documents by itself. Hence, a common seal of the company will be kept under the safe custody of the secretary and will be used only as per the instructions of the board of directors.

6. Transferability of shares

The capital of a company is divided into parts known as shares. Generally, shares are freely transferable. A shareholder is always free to withdraw from membership of a company by transferring his shares.

CLASSIFICATION OF COMPANIES

Companies may be classified form the point of view of (A) Incorporation, (B) Liability, (C) Public interest, (D) Inter company relationship, and € Jurisdiction of functioning.

(A) FROM THE POINT OF VIEW OF INCORPORATION

Companies can be incorporated in the following three ways, namely by charter, by statute or by registration.

1) Chartered company

If a company is incorporated under a special charter granted by the monarch, it is called a chartered company and it regulated by that charter. For example, the East India Company was incorporated by the grant of a special Royal Charter.

2) Statutory company

A company which is created by a special act of the legislature is called a statutory company and it is governed by the provisions of such an Act. The State Bank o India, the Reserve Bank of India, Life Insurance Corporation of India, etc., are examples of this kind. The audit of the account of statutory companies is conducted by the Auditor General of India.

3) Registered company

A company brought into existence by registration with the registrar of companies under the companies Act 1956 is called a registered company.

(B) FROM THE POINT OF VIEW OF LIABILITY

Companies which may be registered under the Companies Act are i) Limited companies, and ii) unlimited companies. Limited companies are further divided into companies limited by shares and companies limited by guarantee.

I) Limited liability company

Limited companies are those companies which are having limited liability. These type of companies are classified into tow types.

i) Companies limited by shares and

ii) Companies limited by guarantee.

i) Companies with liability limited by shares

In the case of these companies, liability being limited by shares, the members are called upon to pay only the unpaid amount of shares held by them [Sec. 12(2)(a)]. For example, a shareholder who has paid Rs. 50 on a Rs. 100 share, can be called upon to pay the balance of Rs. 50 and nothing more. Most of the companies formed these days are of this type.

ii) Companies with liability limited by guarantee

In the case of companies limited by guarantee, each member gives guarantee for the debts of the company up to a certain extent. This type of company is formed mostly when the business is of non-profit-making nature and has the object of promoting social and cultural activities. Trade associations, clubs and societies can be registered in this type.

II) Companies with unlimited liability [Sec. 12(2)(c)]

In an unlimited company, the liability of the members is unlimited and they can be called upon to pay unlimited amount to discharge in full the debts and liabilities of the company when it is wound up. Such companies are rare.

(C) FROM THE POINT OF VIEW OF PUBLIC INTEREST

From the point of view, of the companies may be 1) Private company, 2) Public company and 3) Government company

1) Private company

A private company has been defined as a company which requires a minimum number of two persons for registration and by its Articles (i) Limits the number of its members to 50, (ii) Restricts the transfer of its shares from one shareholder to another; and (iii) Prohibits an invitation to the public to subscribe to its shares and debentures.

2) Public company

In the case of public company the minimum number required to start is seven and there is no maximum limit. It can invite the public to subscribe for its shares and any person competent to contract can become a member. To commence its business, it must have atleast three directors and also it should obtain a certificate of commencement of business, from the registrar of companies.

3) Government company

A company is which not less than 51 per cent of the paid up share capital is held by the Central or State government or jointly by central and state governments is called a government company.

(D) FROM THE POINT OF VIEW OF INTER COMPANY RELATIONSHIP

From this point companies are classified into Holding company and Subsidiary company

Holding and Subsidiary Companies

A company becomes a holding company of another

i) If it can appoint or remove all or majority of the directors of the latter company or

ii) If it holds more than 50% of the equity share capital of the latter or

iii) If it can exercise more than 50% of the total voting power of the latter.

The other company which is so controlled is called subsidiary company.

(F) FROM THE POINT OF VIEW OF NATIONALITY

From this point companies are classified into a) Domestic company and b) Foreign company

a) Domestic Company

Companies registered under the Companies Act, 1956 or under earlier Acts are considered domestic companies.

b) Foreign Company

Foreign company means a company incorporated outside India but having a place of business in India. It has to furnish to the authorities the full address of the registered or principal office of the company or a list of its directors or names and addresses of the residents in India authorised to receive notices, documents, etc.

DISTINCTION BETWEEN PRIVATE COMPANY AND PUBLIC COMPANY

The following table shows the difference between public and private company.

No.	Point of Distinction	Private Company	Public Company
1	Number of Members	Minimum – 2 Maximum – 50	Minimum – 7 Maximum – No limit
2	Name	The name must include the words “Private Limited”.	The name must include the words “Limited”.
3	Name of Directors	Minimum – 2	Minimum – 3
4	Articles of Association	Must prepare its own Articles of Association.	May adopt Table A as given. in the Companies Act
5	Public Subscription	Cannot invite public to subscribe to its shares and debentures.	Generally invites public to subscribe to its shares and debentures.
6	Prospectus	Need not issue and file a prospectus.	Must issue and file a prospectus.
7	Allotment of shares	No restriction on allotment of shares.	Restriction on allotment of shares.
8	Commencement of business	Can commence its business immediately after getting the certificate of incorporation.	Can commence its business only after getting the certificate of commencement of business.

9	Transfer of shares	Restrictions on transfer of shares.	No restrictions on transfer of shares.
10	Share warrants	Cannot issue share warrants.	Can issue share warrants.
11	Statutory meeting and report	Not required to old statutory meeting or file a statutory report.	Must hold a statutory meeting and file a statutory report.
12	Directors	Qualification share are not prescribed.	Qualification share are prescribed.
		Need not retire by rotation every year.	Must retire by rotation every year.
		No restriction on the appointment, reappointment and remuneration.	Restriction on appointment, reappointment and remuneration.
		No limit on number of directorships.	Limit on number of directorships.
		Can borrow from their company.	Cannot borrow from their company without approval of the Central Government.
		Interested director can vote in the board meeting.	Interested director cannot vote in the board meeting.

MERITS AND DEMERITS OF JOINT STOCK COMPANY

Merits Joint Stock Company

1. Scope for expansion

A company can raise finance depending upon its requirements. Due to this benefit, a company can get the advantages of large scale production.

2. Financial strength

The number of members is more when compared to partnership. This facilitates the collection of large amount of capital. It can offer various types of securities to meet the requirements of different kinds of investors.

3. Limited liability

The liability of members is limited

4. Transferability of shares

Shares of a public company are freely transferable.

5. Management

In company form of organisation, ownership is separate from management. Due to the availability of large financial resources, a company can also employ professional management experts.

6. Stability

A company is an artificial person created by law with a perpetual succession and a common seal. It is not affected by the personal affairs of the member.

7. Lower tax liability

A company is charged lesser amount of tax when compared to sold trader and partnership business. The company is charged income tax at flat rate. There are many tax incentives given to corporate enterprises to reduce actual tax.

8. Diffused risk

The risk of business is shared by all the shareholders of the company. Therefore, the risk is diffused.

Demerits of Joint Stock Company

1. Difficulty and cost of formation

A company is required to fulfill a large number of legal formalities at the time of formation. It requires the services of specialized persons. This leads to increase the cost of formation.

2. Fraudulent management

Companies may be incorporated by some dishonest promoters and directors who may exploit the company's property and assets for making personal profit. It they act in good faith and for the benefit of the company, then the company can earn huge profits.

3. Lack of personal touch

In Joint Stock Company ownership is in the hands of shareholders and the management is vested in the hands of Board of Directors. Shareholders cannot manage the business as they are large in number and widely scattered.

4. Delay in decisions

All decisions are taken only at meeting of the company. The meeting may be convened only when there is requisite quorum. The meeting may be held only after a specified time interval. This leads to delay in decision making.

5. Speculation

The shares of a company are freely transferable. The shares are listed on the stock exchange to provide liquidity and marketability to the shares.

6. Oppression minority interest

Majority group always dominates over the minority group whose interests are never represented in the management.

7. Social evils

The company form of organisation is a large scale enterprise there is a decline in sales, then the loss will be increased.

PROMOTION AND FORMATION

The term, 'promotion' refers to the process by which the idea of forming a company takes a definite shape resulting in its incorporation. It is in fact the first stage of the formation of acompany.

Promoter

It is the promoter who gets the idea of starting a company and undertakes all the preliminary work necessary for its formation. Palmer explains the significance of the term promoter in the following words. " A promoter starts a scheme of forming a company, gets together the Board of Directors, retains bankers and solicitors, prepares or gets prepared memorandum and articles of association, provides the preliminary expenses, drafts the prospectus; in a word undertakes to form a company with reference to a given project and takes the necessary steps to get it going".

DIFFERENT STAGES OF PROMOTION

The first step consists in successfully choosing one amongthe many business opportunities, which is likely to be mostprofitable. Next step consists in examining the feasibility of theproject. The amount that may be required for acquiring plant and machinery, building and other fixed assets, working capitalrequirements are all calculated. He also assesses the availability ofraw materials, skilled as well as unskilled labour, power supply,etc, marketability of the product, etc. In other words he examinesthe viability and profitability of the project. The next stage consistsin selecting people who are desirous of associating themselves withhis scheme. The amount of capital, the place of its registered officeare all settled at this stage. The final stage is the registration.

INCORPORATION

For registering the company with the Registrar ofCompanies, the promoter has to initiate a number of steps as outlinedbelow.

1. Approval for the proposed name

A company can choose any name but it should not closelyresemble the name of an existing company. Hence the promoterhas to get the approval from the Registrar for the proposed name ofthe company.

2. Filing of Documents

The promoter has to get prepared the following documentsand file them with the Registrar of Companies of the State in whichthe registered office of the company is situated.

i) Memorandum of Association

This document which is of fundamental importance definesthe scope of activities of the company. It should contain the name,the place where the registered office is situated, authorised capitaland the objects of the business. It should be printed and dulystamped, signed and witnessed. A minimum of two persons in thecase of a private limited company and seven in the case of a publiclimited company must sign the document.

ii) Articles of Association

This contains the regulations connected with the internalmanagement of the company. This document must also be dulystamped and signed by the signatories to the memorandum andwitnessed.

iii) Original letter of approval

Original letter of approval of name be obtained from theRegistrar and be filed.

iv) A List of Directors

A list of directors who have consented to be its directorsmust be filed.

v) Written consent to act as directors

The directors have to give their consent in writing to act asits directors. They should also undertake to take the necessaryqualification shares and pay for them.

vi) Statutory declaration

A declaration stating that all the requirements of law relatingto registration have been complied with is to be filed. Thisdeclaration must be given by an Advocate of the Supreme Court orHigh Court, or by a Chartered Accountant who is engaged in theformation of the company or by a person named in the Articles as adirector or secretary of the company.

vii) The Registrar will scrutinize all the documents and if hefinds them in order, he will issue the Certificate ofIncorporation

This certificate is a conclusive evidence of the fact that thecompany has been duly registered. A private Limited company cancommence business on getting the certificate of incorporation, buta public limited company has to take some more steps for gettinganother certificate known as certificate for commencement ofbusiness.

ISSUE OF PROSPECTUS

The Board of directors should arrange for drafting aprospectus when it wants to approach the public for securing capital.A prospectus contains all essential points which would induce theinvesting public to apply for shares in the company. A copy of theprospectus must be delivered to the Registrar before issuing to thepublic.

Minimum Subscription

A company can proceed to allot shares only if minimumsubscription specified in the prospectus has been collected in cash.

Statement in Lieu of Prospectus

Where the promoters raise the entire capital through privatearrangement, there is no need to issue a prospectus. However, astatement in lieu of prospectus, the contents of which are similar toa prospectus, must be prepared and filed with the Registrar at leastthree days before allotment.

Filing of further documents

The following documents are also to be filed with theRegistrar.

1) A declaration that the minimum subscription stated in theprospectus has been collected in cash.
2) A declaration stating that each director has paid in cash for theapplication and allotment on the shares taken up by them.
3) A declaration that no money has become refundable toapplicants because of its failure to obtain permission for shares ordebentures to be dealt in on any recognised stock exchange.
4) A statutory declaration by the Secretary or one of its directorsstating that the above requirements have been complied with.If the Registrar is satisfied that these documents are in order,he will issue a certificate entitling the company to commencebusiness. It is only on getting this certificate, a public limitedcompany can start its business.

BASIC DOCUMENTS USED IN THE COMPANY

Memorandum of Association

It contains “the fundamental conditions upon which alonethe company is allowed to be incorporated. It defines the activitiesthe company is permitted to undertake. Any act done which isoutside the scope outlined in its memorandum is ultra vires (beyond thepowers of) the company and is not binding on it.

CONTENTS OF THE MEMORANDUM

A memorandum of Association must contain the following clauses viz

1. Name Clause

In this clause the name of a company is mentioned to establishits identity. It is the symbol of its existence. Undesirable name to beavoided. It should not imitate another company’s name. If it is a publiclimited company, it should end with the word ‘limited’. If it is a privatelimited company, it should end with the word ‘private limited’.

2. Situation Clause

The State in which a company has its registered office is to bestated here. Exact address within the State need not be given in thisclause. It determines the jurisdiction of the Registrar of Companies andof the court.

3. Objects Clause

This is the most important clause as it states the activities of thecompany. The objects lay down the maximum permitted range of activities.A company has the power to carry on only those types ofbusiness which are included in this clause. Any action beyond the powersof the company has no legal effect.

4. Liability Clause

This clause states that the liability of members is limited. In thecase of a company limited by guarantee, the amount each memberundertakes to contribute in the event of winding up, must also bementioned.

5. Capital Clause

The amount of share capital with which the company is to bregistered and its division into shares of fixed amount are also statedhere.

6. Association Clause or Subscription Clause

At least two persons in the case of a private limited companyand seven in the case of public limited company must sign thememorandum and agree to take the number of shares shown againsttheir names. Further they also express their desire to form themselvesinto a company in pursuance to the Memorandum of Association.

ARTICLES OF ASSOCIATION

It is another important document as it contains the rules andregulations for its internal functioning of the company.

CONTENTS OF THE ARTICLES

The more important contents to be contained in the Articles are listedbelow

1) The extent to which the regulations in Table A are to be excluded.
2) Adoption or execution of preliminary contracts if any.
3) Share capital, different classes of shares, rights attached thereto,etc.
4) Allotment of shares, calls on shares.
5) Procedure relating to forfeiture of shares and their re-issue.
6) Issue of share certificates and share warrants.
7) Rules regarding transfer of shares and transmission of shares.
8) Conversion of shares into stock.
9) Payment of underwriting commission on shares and debentures.
10) Alteration of share capital.
11) Qualification and remuneration of directors.
12) Borrowing powers of directors.
13) Appointment, qualifications, powers, duties, remuneration, etcof managing director, manager and secretary.
14) Appointment of directors.
15) Rules regarding use of common seal of company, Board meetingsand voting rights of members, proxies and polls.
16) Procedure for conducting different kinds of general meetings.
17) Payment of dividends, creation of reserve, etc.
18) Issue of redeemable preference shares, if any.
19) Winding up.

In the case of companies with the liability limited by guarantee,the articles must also state the number of members with which thecompany is to be registered. It must also state the extent of liabilityin the event of winding up. In the case of a private company thearticles must also contain the following provisions.

a. Restricting the right to transfer shares, if any
b. Limiting the number of its members to 50 excluding the past andpresent employee members
c. Prohibiting any invitation to the public to subscribe for any sharesin or debentures of the company
d. Prohibiting any acceptance of deposits from the persons otherthan the directors, members or their relatives.

PROSPECTUS

Any document issued by a company inviting the public tobuy shares or debentures comes under the definition of prospectus.It serves as a "window through which a prospective investor canlook into the soundness of a company's venture" By going throughthe information and other particulars, the prospective investors areencouraged to invest in the shares of the company. A private limitedcompany is prohibited from issuing a prospectus.

CONTENTS OF THE PROSPECTUS

In order to protect the interests of the investors thefollowing points must be given in a prospectus:

1) The main objects of the company.
2) The names, addresses, description and occupations of thesignatories to memorandum and the number of sharessubscribed by each of them.
3) The kinds of shares with their total numbers and rightsattaching to each class of shares.
4) Qualification shares which a member must hold in order tobe eligible for election as director. It is fixed by the Articles
5) The names, addresses, descriptions and occupations, theinterest, rights and remuneration of the directors, managingdirectors and the secretaries and treasures.
6) The minimum subscription required for allotment of shares
7) The amount payable along with application and on allotment of each class of shares which is being issued.
8) The time during which subscriptions list will remain open

9) The main points of any contract or proposed contractrelating to preferential rights given to shares or debenturesof the company.
10) The amount of premium or discount on shares
11) The names of underwriters if any.
12) Particulars about reserves and surpluses.
13) The amount of preliminary expenses.
14) The names and addresses of the auditors.
15) Particulars regarding voting rights at the meetings of thecompany.
16) A report by the auditors regarding the profits and losses ofthe company.

CHAPTER – 4

PUBLIC ENTERPRISES

MEANING

Public enterprise means a concern which is owned and managed by the State or any other Public authority

DEFINITION

"Public enterprise means state ownership and operations of industrial, agricultural, financial and commercial undertakings" – AH. Hanson.

"Public enterprises are autonomous or semi autonomouscorporateions and companies established, owned and controlled by the state and engaged in industrial and commercial activities – N. N. Mallya.

FEATURES OF PUBLIC ENTERPRISES

Following are the characteristics of public enterprise

1. State ownership

A public enterprise is either wholly or jointly owned by the central or state government.

2. State control and management

A public enterprise is managed and controlled by the Government and the Government appoints managerial personnel.

3. State financing

The entire finance or bulk finance is provided by the Government.

4. Service motive

A public enterprise is primary run with service motive.

5. Public accountability

The public sector enterprises are financed and managed by Government. Public enterprises are accountable to their performance to the public.

6. Different forms

Public enterprises are of different forms such as departmental undertaking, public corporations, public enterprises managed like a company.

7. Public Audit

Public enterprises are accountable to the public. Therefore, public enterprises are subject to government audit.

OBJECTIVES OF PUBLIC ENTERPRISES

1. To provide employment opportunities

Public enterprises provide employment opportunities in productive and nonproductive lines.

2. To assist private enterprises

Public enterprises help the private enterprises to grow.

3. To provide commercial organisation for specific schemes

Some of the schemes of the Government are effectively carried out through public enterprises.

4. Balanced Development

Public financial institutions pay special consideration to backward states and areas. Special concessions are given by way of incentives, underwriting etc.,

5. To assist private enterprises

Public enterprises help the private enterprises to grow. It provides financial assistance for sick industries.

KINDS OF PUBLIC ENTERPRISES

There are three different types of form of organisation used for the public enterprises

I Departmental Organisation

IIPublic Corporation

III Government Companies

`I Departmental Organisation

A departmental organisation is organized, managed and financed by the Government.

Examples

Postal and Telegrams, Radio, Indian railways

Features

i. The departmental form of organisation is run by a department of the ministry under a minister.
ii. Managed by the Government officers.

iii. It get allotments of money through union budget. The finance is received from the treasury.
iv. Being an integral part of the Government, a departmental undertaking cannot be sued at law without the consent of the government.

Merits

i. Effective control can be exercised over the public enterprise by the parliament.
ii. The Government has total control over these undertakings. As such it can fulfill its social and economic objectives.
iii. The possibilities of misuse of their funds are considerably reduced.

Demerits

i. Government decisions regarding appointment and promotion of the employees and so on. Because of these reasons important decisions get delayed.
ii. Flexibility is necessary for a successful business that the demand of the changing times may be fulfilled.
iii. On account of the Parliamentary control difficulties come in the way of day-to-day administration.

IIPublic Corporation

Public corporation is a legal entity created by the Government. It enjoys autonomy and is free from the Government Control. It gives the details regarding powers and duties and the type of organisation and privileges.

Examples

Indian food corporations, Life insurance corporations of India, Indian air transport, industrial finance corporation

Features

1) Autonomy

Public corporations are given autonomy and exempted from following the regulatory and prohibitory laws as may be applicable to other Government undertakings.

2) Independent finance

The Act which creates the public corporation prescribes the sources of finance. Usually it is borrowed from the public and government and / or from the public and from the revenues of sale of goods and services. The Act prescribes the procedure of appropriation of profit to the Government. It also stipulates the purposes for which the public corporation can spend.

3) Service motive

The primary motive of corporation is public service rather than private profits. It is beneficial to the nation.

4) Commercial Audit

In public corporation the audit is carried out by the comptroller and auditory General or India.

Advantages

The advantages of Public corporations give below

1. Expert management

These enterprises are run on business principles under the guidance of expert and experienced directors. So it increases the productivity.

2. Flexibility

It is flexible and autonomous as like private enterprises.

3. Government ownership

The public corporation is wholly owned by the central and / or state governments.

4. Utilization of finance

A public corporation is free from rigid control of the Government.

5. Continuity

Being a distinct legal entity, it is not affected much by political changes.

Demerits

1. Unsuitable

It is unsuitable for large small enterprises

2. Difficulties in formation

It is very difficult and time consuming to set up a public corporation because a special law has to be passed in the Parliament.

3. Inflexibility

It is very difficult to change the objects and powers because the special law has to be amended by the parliament or by the state legislature.

III Government Companies

Section 617 of the Indian Companies Act defines Government Company as that in which not less than 51% of the paid up share capital is held up by the central government, or by the state government or governments, or jointly by the central and state governments. A subsidiary company of a government is also a government company. E.g. Indian Telephone Industries Ltd., Hindustan Machine Tools Ltd.,

Features

i. The government company is governed by the Companies Act 1956.

ii. Government Company as that in which not less than 51% of the paid up share capital is held up by the central government, or by the state government or governments, or jointly by the central and state governments.

iii. Government company is governed by Memorandum of Association and Articles of Association which outlines the objectives and rules of internal management.

iv. Government company is subject to audit and accountable to the parliament.

Advantages

i. A public enterprise is made to feel and act like a private enterprise. So it compete with private enterprises.

ii. It is free from Government interference.

iii. A Government company, as compared to other public enterprises, can be easily formed as there is no need to get a bill passed by the parliament or state legislature.

Disadvantages

i. Since a public enterprise is formed by the executive action of the ministry, its constitutional responsibility to the parliament is evaded.

ii. Since directors are the salaried persons like other servants, they do not actively work in the enterprises.

CHAPTER – 5

MULTINATIONAL COMPANIES (MNCs)

MEANING

The term "multinational" consists of two different words, 'multi' and 'national.' The prefix 'multi' means 'many', while the word 'national' refers to nations or countries. Therefore, amultinational company may be defined as a company that operates in several countries. Such a company has factories, branches and in more than one country. According to the United Nations Commission on Multinational Corporations, a multinational corporation is a corporation which operates, in addition to the country in which it is incorporated, in one or more other countries. A multinational corporation is also known as a transnational corporation, namely, *'Global giant',* or 'World enterprise' or 'international enterprise'. All forms of business organisation that transcend political frontiers may be called as multinational firms. In simple words, a multinational company is a company carrying on business in two or more countries. According to Neil H.Jocoby "A multinational corporation owns and manages business in two or more countries"

A multinational company is one whose ownership is accommodated in more than one country. Products are manufactured in many countries and sold in many countries. For example Toyata of Japan General Motors of U.S.A. Indian Oil Company of India are Multinational companies.

IacquesMaisonrogue, the president of IBM world trade corporation defines MNC as a company that meets the following five criteria

1) It operates in many countries at different levels of economic development.
2) Multinationals manage its local subsidiaries.
3) It maintains complete industrial organisations, including research and development and manufacturing facilities in several countries.
4) I has multinational central management.
5) It has multinational stock ownership.

FEATURES

1. A multinational company is operated in more than one country simultaneously.
2. It is generally very large in size.
3. Its purpose is to reduce transport costs and to make use of raw materials, labour, capital and market of foreign countries.

There are 500 to 700 MNCs operating in the world today, half of them are U.S multinationals and the rest are based outside United States. The multinationals based in the USA have the largest share of foreign direct investment, followed by the U.K, Germany, Japan, Switzerland, France and Canada. In underdeveloped countries the investment and employment created by the MNCs have been chiefly concentrated in about a dozen nations, namely, Brazil, Mexico, Hong Kong, Philippines, Singapore and South Korea. According to the study of International LabourOrganisation (ILO) Latin America accounts for about 60% of the MNC employment in developing countries, followed by Asia 30% and Africa 10%. Foreign investment has moved to a limited number of developing countries which offer political stability and a convenient economic environment, including tax incentives, large markets, cheap labour and easy access to oil and other natural resources.

EXAMPLES

A few examples of multinational companies are given below:

1. Unilever Limited

It is a British company that has subsidiaries and branchesin several countries. It established a subsidiary company calledHindustan Lever Limited in India.

2. Union Carbide

It is an American company, which has plants and subsidiariesin several countries including India.

3. International Business Machine (IBM)

It is an American company having branches in severalcountries.

4. Philips

It is a Dutch Company having a subsidiary company calledPhilips India (Now Pieco Electricals Co) in India.

5. Coca Cola Corporation

It is an American company manufacturing and selling softdrinks in several countries.According to Peter Drucker, there is a good feature forMNCs in the coming years. Govt. policy is also favourable towardsmultinationals. On account of the economic reforms made by theGovernment MNCs are going to be benefited. Inviting foreign capital, automatic clearance will help the MNC’s to grow anddevelop in India.

MERITS OF MNCs

1. Investment

They increase the investment level and increase the income and employment in the host country.

2. Managerial skill

They increase the managerial skills by employing sophisticated management techniques.

3. Domestic enterprise

They support the domestic enterprise operations and assets the domestic suppliers.

4. Competition

They help in increasing the competition and remove the domestic monopolies.

5. Production

They try to equalize the cost of factors of production around the world.

6. Research and Development

They conduct efficient research and development and contribute to the inventions and innovations.

7. Exports and Import

They enable the host country to increase their exports and decrease their import requirements.

8. Integration

They provide an efficient means of integrating national economies.

DEMERITS OF MNCs

1. Employment

They may retard growth of employment in the home country.

2. Monopoly powers

They may destroy competition and acquire monopoly powers.

3. Profit maximization

MNC’s technology is designed for worldwide profit maximization and is not for the development of needs of poor countries.

4. Avoid tax

MNC’s avoid taxes by manipulation the transfer pricing.

5. National interest

MNC's through their power and flexibility may under control and mine the national economic autonomy that is detrimental to the national interest of the countries.

Theory Questions

1. What do you mean by Joint Stock Company?
2. Who is called promoter?
3. What do you mean by multinational companies?
4. Discuss the merits and demerits of Joint Stock Company.
5. Explain the merits and demerits of Multinational Companies.

UNIT III : MANAGEMENT

Management – meaning – nature and functions of management – planning – meaning – types of plans – objectives – planning process – policies and procedures – decision making – types of decisions – techniques of decision making

CHAPTER – 6

CONCEPT OF MANAGEMENT

MEANING OF MANAGEMENT

The term management has been used in several ways. Some of the important meanings are as follows

1. Management as a resource

Like land, labour and capital, management is a factor of production.

2. Management as a group

Management comprises of all those persons (group) who guide and co-ordinate the efforts of other people to achieve specified objectives.

3. Management as a field of study

It implies a separate branch of knowledge consisting of principles and techniques for tackling managerial problems.

4. Management as a process

It refers to a series of inter related functions like planning, organizing, staffing, directing and controlling.

DEFINITIONS OF MANAGEMENT

Lawrence A. Appley "Management it the art of getting things done through the efforts of others".

D.J. Clough "Management is the art and science of decision making and leadership".

NATURE AND CHARACTERISTICS OF MANAGEMENT

The nature of management is as follows

1. Management is universal

Management is required in every form of group activity whether it is a family, a club, a government, an army or a business enterprise. Hence it is universal.

2. Management is purposeful

Management is a process of achieving results.

3. Management is an integrative force

It integrates human and other resources.

4. Management is a social process

It is a social process because it is concerned with inter personal relations.

5. Management is multi-disciplinary

Management depends upon wide knowledge derived from several disciplines like engineering, sociology, psychology, economics etc.,

6. Management is a continuous process

Management is a dynamic and on-going process.

7. Management is intangible

Management cannot be seen

8. Management is an art as well as a science

It contains a systematic body of theoretical knowledge and knowledge and it also involves the practical application of such knowledge.

MANAGEMENT VS. ADMINISTRATION

There has been a controversy on the use of tow terms namely management and administration. Three views have been expressed by various authorities on the subject. They are as follows.

1. Administration is different from management

Oliver shelder was the first person to make a distinction between management and administration. According to him administration is a determinative function concerned with the determination of objectives and policies while management is an executive function involving the implementation of policies and direction of efforts for the achievement of objectives.

2. Administration is a part of management

This view is given by breach. Breach regards "management" as the genetic term which includes administration.

3. Administration and management are one

This view is given by Fayol. He makes no distinction between the two terms. In fact, the term administration is used for the higher executive functions in government circles, while the term management is used for the same function in the business world.

MANAGEMENT – ART, SCIENCE OR PROFESSION

Management as an Art

Art involves the practical application of theoretical knowledge and skills to achieve desired results. Management is an art because of the following reasons

1) The process of management involves the use of practical know how and skills.
2) The process of management is directed towards the achievement of concrete results like profits, growth etc.,
3) Like any other art, management is creative.
4) Like any other art, management is a personalized process. Every manager has his own approach to problems.
5) Good management is effective management. It depends upon the effective achievement of goals.

Management as a science

Science is an organized or systematized body of theoretical knowledge pertaining to a particular field of enquiry.

Management is a science because it contains all the characteristics of science.

1) There is a systematized body of knowledge in management, like budgeting, cost accounting, ratio analysis etc., in the field of management.
2) The principles of management have been developed through continuous observation and empirical verification.
3) Management principles are capable of universal application.

Management as a profession

Profession involves the application of expert knowledge for the solution of specific problems. It is guided and governed by a code of conduct and social responsibilities. The management provides expert knowledge which helps the manager in dealing with problems of management. He is expected to act with integrity. Hence, management is considered as a profession also.

LEVELS OF MANAGEMENT

There are three levels of management like

1) Top management 2) Middle management 3) Lower management

1) Top management

Top management consists of the board of directors and chief executives may be known as manager, managing director, managing agent, secretaries and treasures and deputy general manager. They are responsible for policy making appeal and review of operations.

2) Middle management

It consists of head of departments and superintendents. They have to take instructions from the chief executive and direct and guide the supervisors. They have to co-ordinate all the activities. They are 1) Head of Departments 2) Superintendents.

3) Lower management

It consists of foreman and first line supervisors. They have touch with the workers. They have to guide and direct the workers. They have maintain high morale among the workers.

FUNCTIONS OF MANAGEMENT

The various functions mentioned by different experts may be classified into the following seven categories.

1) Planning 2) Organising 3) Staffing 4) Directing 5) Controlling 6) Co-ordination 7) Decision making

1) Planning

Planning is the primary functions of management. Planning is deciding in advance what is to be done. It is the determination of a course of action to achieve the desired result. It is a mental process requiring the use of intellectual facilities, foresight, imagination and sound judgment.

2) Organising

Organising is the process of establishing authority relationship among the member of the enterprise. It creates a structure of duties and responsibilities. It helps to avoid duplication of work. It should be designed to fit into the needs and objectives of particular enterprise. It consists of the following:

- Identification and grouping of work activities
- Definition and delegation of responsibility and authority
- Establishment of authority responsibility relationship

3) Staffing

Staffing is the process of filling all position in the organization with adequate and qualified personnel. It includes i) Selection ii) Communication iii) Participation iv) Appraisal v) Counselling vi) Training vii) Compensation viii) Dismissal etc.,

4) Directing

Directing is the managerial function of guiding, supervising, motivating and leading people towards the attainment of objectives. It is the executive function of management

Directing includes the following activities

- Issuing orders and instruction.
- Guiding and teaching the subordinates in the proper methods of work.
- Supervising their subordinates.
- Leadership it is the quality of the behaviours of individual whereby they guide people or their activities in an organized effort.
- Communication it is the process of passing of information and understanding. The management has to establish and maintain the channel of communication.
- Motivation a manager must motivate people to highest productivity.

5) Controlling

Controlling consists of the steps taken to ensure that the performance of the organizing conforms to the plan.

It involves the following steps

- Establishment of standards.
- Recording the actuals and comparing it with the standards.
- Finding out the difference between actual and standard.
- Taking corrective action.

6) Co-ordination

Co-ordination is concerned with unifying the actions of a group of people. It is the orderly arrangement of group effort to provide unity of action to achieve a common purpose.

7) Decision making

Decision making is the process of choosing a course of action from available alternatives. This process involves understanding the problems, collecting information, developing and evaluating alternatives and choice of a solution and its evaluation.

CHAPTER – 7

PLANNING

MEANING

Planning is a process of thinking before doing. It is deciding in advance what is to be done, when, where, how and by whom it is to be done. Thus, a plan is a determined course of action.

DEFINITION

"Generally speaking, planning is deciding in advance what is to be done" – M.H. Newman.

"A plan is a trap laid to capture the future" – Allen.

IMPORTANCE / OBJECTIVES / SIGNIFICANCE OF PLANNING

Planning is important for the following reasons

1. To focus attention on objectives

Every organization exists to achieve objectives. Planning concentrates attention on objectives.

2. Reduces uncertainty and risk

Planning enables the business to forecast the future. Hence planning helps to reduce uncertainty and risk.

3. Provides efficiency in operations

Planning facilitates fuller utilization of available resources. Hence, it provides efficiency in operation.

4. Facilitates control

With proper planning, control of activities at different levels can be effectively achieved.

5. Helps in co-ordination

Sound planning co-ordinates all the activities and resources of an organization.

6. Unity of action

All activities in the organization follow a definite pattern. Hence, there is the unity of action.

7. Guides decision making

By foreseeing future, planning helps in taking future oriented actions.

8. Provides a basis for decentralization

Planning helps in the delegation of authority to lower levels of management.

LIMITATIONS OF PLANNING

Planning suffers from the following limitations

1) Uncertainty

Planning is based on forecasts about the future. Hence the results may not be accurate.

2) Rigidity

Planning has predetermined objectives, policies, procedures etc,. It is to be followed as it is. Hence it leads to rigidity.

3) Time consuming and expensive process

Planning is said to be time consuming and expensive process.

4) Unsuitability

Pre determined objectives, policies, procedures etc., are not suitable in all occasions.

5) False sense of security

Manager may feel that all problems will be solved once the plans are put into operation. It creates false sense of security in the organisaiton.

6) External forces

The effectiveness of planning may be affected by external forces like government control, natural calamities etc.,

NATURE / CHARACTERISTICS OF PLANNING

1) Planning is closely associated with the objectives of an organisation.
2) Planning is primarily concerned with looking into the future.
3) Planning involves selection of the best alternative.
4) Planning is comprehensive and includes every course of action.
5) Planning is an interdependent process.
6) Planning is flexible as it is based on future conditions which are always dynamic.
7) Planning is directed towards efficiency.
8) Planning is the thinking process.
9) Planning is the primary function of management.
10) Planning is a continuous process.

STEPS IN PLANNING

1) Recognition of the need for action

The management first identify the problem that requires planning.

2) Establishing objectives

The manager must determine the organization objectives in a clear manner.

3) Establishing planning premises

This involves the collection and dissemination of the facts and figures necessary for planning to future course of enterprise.

4) Identifying alternative course of action

The various available alternatives should be examined in the light of planning premises.

5) Evaluating alternatives courses

The various alternatives are to be evaluated through operation research.

6) Selecting the best course

After evaluation, the best alternative is selected.

7) Formulating derivation plans

After formulating the basic, plan, various plans are derived for departments, units, activities etc.,

8) Establishing the sequence of activities

Then the sequence of various activities is determined.

COMPONENTS OF PLANNING OR TYPES OF PLANS OR METHODS OF PLANNING

Depending on their nature and scope, plan can be classified as follows

A) Standing or Repeated use plans or Multi use plans

1) Objectives

2) Policies

3) Procedures

4) Rules

5) Strategies

B) Single use plans or Adhoc plans

1) Programmes

2) Budgets

3) Projects

A) STANDING OR REPEATED USE PLANS OR MULTI USE PLANS

1) Objectives

Objectives are goals established to guide the efforts of the company and each one of its sections and departments. There must be clarity and precision in setting the objectives.

The common objectives are profit-making, cost reduction, increase in productivity, goodwill, personnel development, employee relation and social responsibility.

In fixing objectives, the management has to determine both long term objectives and short term objectives.

Objectives are described as end-points of planning.

Merits of objectives

1) It brings unity of planning
2) It facilitates co-ordination of works, efforts and resources of the enterprise.
3) It is the effective means to decentralize the authority.
4) It motivates the individuals.
5) It provides the basic standards for control.

Limitations of objectives

1) It is very difficult to define the objective
2) It is very difficult to devise suitable means.
3) It is very difficult to avoid conflicts.
4) Budget estimates may be inaccurate.

HOW TO GET OVER THESE LIMITATIONS

The following guidelines are to be followed to avoid the problems in setting objectives.

1) Objectives must be specific.
2) It should be realistic
3) It should be backed by suitable sub goals
4) It should be flexible

2) Policies

Policies are guides to thinking and action of subordinates for the successful achievement of business objectives.

Policies give a concrete touch to objectives. However, it should be noted that policies do not provide any decision as such.

CHARACTERISTICS OF GOOD POLICY

1) A policy should provide one broad outline
2) Policies should be consistent
3) The enterprise should have a adequate number of policies.
4) Policies should be sound and logical in every respect

KINDS OF POLICIES

1. Internal or originated policies

These are policies formulated by the members of management at different level top, middle and lower.

2. External or imposed policies

An imposed policy is a policy that is imposed by some external force like the government, trade union or a trade association. For example labour policies.

3. Appealed policies

An appealed policy is formulated when a sub-ordinate refers an exceptional problem to his superior and appeals for a policy decision.

4. Stated or explicit policies (policy manual)

These are those which are in writing or in print and form part of the enterprise manual or records.

5. Unstated or implied policies

These are policies which are nor recorded in writing or in print. Example Customer is always right.

MERITS OF POLICIES

- It provides guides to thinking and action and provide support to the sub-ordinates.
- It saves time and effort by pre deciding problems.
- It permits delegation of authority to managers at the lower levels.
- It delimits the area within which a decision is to be made.

LIMITATION OF POLICIES

- It cannot provide a solution to every problem.
- It serves only as guidelines to thinking and action by mangers.

- Policies are no substitute for human judgments.
- It serves no room for imaginative

3) Procedures

Procedures can be defined as “the process of establishment time sequences for work to be done”

That is, procedures are concerned with fixing a time table for starting a given work, going through the different phases ant its completion.

Procedures are framed in keeping with the objectives and policies.

Procedures are of great use in case of repetitive work.

MERITS

1) It is the basis of control that is, it provides a good standard for the manager to appraise his employees.
2) It ensures uniformity of action.
3) It decreases the need for further decision making.
4) It increases co-ordination among the employees and the departments.

LIMITATIONS

1) Procedures, once established, are allowed to remain even after they have lost their utility.
2) To remain effective, procedures are to be constantly reviewed and evaluated.

4) Rules

A rule is a decision made by the management regarding what is to be done and what is not be done in a given situation.

It applies to specific situations. A rule is definite and rigid. It allows no deviation. The break of rules carries a penalty. Example: “No smoking in the factory”.

5) Strategies

A strategy may be defined as an administrative course of action designed to achieve in the case of difficulties.

Essentially, a strategy involves preparing oneself for unforeseen and unpredictable factors.

EVALUATION OF STRATEGY

The following criteria may be used to judge the appropriateness of the business strategy.

1) A strategy must be consistent with the goals and policies of the organization.

2) It should be designed to fit the opportunities and threats of external environment.
3) Time is an important element of a strategy.
4) A strategy must be reality.
5) Every strategy contains an element of risk proper match should be created between risk and return.
6) A strategy should be workable.

B) SINGLE USE PLANS OR ADHOC PLANS

1) Programmes

A programme is a specific plan devised to meet a particular situation. It is a co-ordination of policies, procedures, rules, budgets, etc., for the specific purpose of carrying out a particular course of action. It is a single use plan.

Merits

1) They provide practical guides to managerial activities.
2) Being result oriented, it provides greater motivation.

Limitation

1) Due to want of immediate results, procedures are devised hastily. It increases the chances if their failure.
2) For successful execution of each short range programmes, involvement of all segments of the enterprise is necessary.

2) Budgets

A budget is a statement of expected results expressed in numerical terms for a definite period of time in the future.

It may be prepared in terms of time, materials, money or other units.

Merits

1) It is one the basis of a budget that management determines its future course of action.
2) A budget has a definite time frame.
3) A budget aims at specific, well defined targets.
4) Budgeting provides attainable targets which provide motivation.
5) Budget is the basis of control.

Demerits

1) Budgeting does not allow freedom to function in a flexible manner.
2) It relies mostly on past experience.
3) Budgeting hampers initiative.

4) Budgets estimate may inaccurate

3) Projects

A project is a single use plan which is part of a general programme.

Difference between objectives and policies

S. No.	Objectives	Policies
1.	Determines what is to be done	Determines how the work is to be done
2.	End-points of planning	Mode and manner in which objectives are to be achieved.
3.	Determined by top level management.	Determined by top and middle levels.
4.	One objective may require more than one policy.	Every policy related to one particular objective.
5.	Ends towards which activities are directed.	It is the guide lines.

Difference between policies and procedure

S. No.	Policies	Procedure
1.	Guides to decision making	Guides to action
2.	Providing norms for thinking	Detailed and rigid
3.	Form part of strategies	Serve as tactical tools
4.	Formulated by top level management	Formulated at middle and lower levels

Difference between policies and rules

S. No.	Policies	Procedure
1.	A general statement	A most specific statement
2.	Guide to decision making	Guide to behavior
3.	Lays down management attitude	Indicates what should or should not be done
4.	Flexible	Rigid
5.	Provides discretion during implementation	Provides no scope for discretion

Difference between policies and strategies

S. No.	Policies	Strategies
1.	Guides to thinking and action	Provided direction in which human and physical resources are deployed.
2.	Contingent decisions meant for repetitive situations.	Guidelines for making decisions.
3.	Taking for problems about which facts are known.	Taken problems which alternatives cannot be analysed in advance.

PLANNING PREMISES OR FACTORS AFFECTING FORECASTING

All managerial plans are based on certain assumptions which may be called "planning premises". It constitutes the ground on which plans will stand. The suitability of the plans will depend upon the premises. It the premises change, the plans will have to be modified. Planning premises may be classified as

1) Non-controllable premises
2) Semi-controllable premises
3) Controllable premises

1) Non-controllable premises

These are assumptions about the economy, the political situations, the tastes of the people and such other factors which cannot be controlled through management policies and decisions.

2) Semi-controllable premises

These include assumptions about those factors which are only partially controllable through suitable management policies and decisions. For examples, industries demand the firm's share in the market, union-management relations.

3) Controllable premises

Controllable premises are those premises which are under the control of the management. They are assumptions based on the production, finance, marketing etc.,

ESSENTIALS OF A SOUND PLAN

1) It should be based on clear objectives
2) It must be simple and easy to understand
3) It should be flexible
4) It must be balanced

5) It should provide standards
6) It should be economical
7) It should be practicable
8) It should provide for proper analysis and classification of actions
9) It should be clear, specific and logical
10) It should be capable of being controlled

CHAPTER – 8

DECISION MAKING

MEANING AND DEFINITION

Decision making is a mental process. It is a process of selection of one best alternative for doing a work.

According to Haynes and Massie “A decision is a course of action which is consciously chosen for achieving a desired result”.

CHARACTERISTICS

1) Decision making is a process of selection
2) Decision is aimed at achieving the objectives of the organization
3) It also involves the evaluation of available alternatives
4) It is a mental process
5) It involves rationality
6) It involves a certain commitment

IMPORTANCE OR SIGNIFICANCE

Decision making is an integral part of every manager’s job all the managers takes decision. It covers all the areas of business. Decision-making is an important functions of management.

It is through decision making that plans and policies are translated into concrete choice. Decision making is the vehicle for carrying managerial workload and discharging managerial responsibilities. The quality of decision determines the success or failure of management.

TYPES OF MANAGERIAL DECISIONS

1) Organizational and personal decisions

In an organization, when an individual takes decisions as an executive for the organization. These are known as organizational decisions. Authority for such decisions can be delegated.

An executive can take decisions about himself which are personal decisions. Such decisions cannot be delegated to others.

2) Routine and strategic decisions

Routine decision are taken in the context of day-to-day operation of the organization. Authority for such decisions is generally delegated to lower levels in the organization.

Strategic decision are those which are taken during the current time period but whose primary effect is felt during some future period. These decisions are taken at higher level of management.

3) Policy and operating decisions

Policy decisions are fundamental nature. They set the basic goals and direction of the enterprise. These decisions relate to policy matters. They are taken by top management to operating decisions are related with the day-to-day operation of the business. They are made for executing policy decisions. They are taken by middle and lower managers.

4) Programmed and non-programmed decisions

Programmed decisions are normally of repetitive nature and are taken within the broad policy structure. These are normally taken by lower level management, such as granting leave to an employee, purchase of materials in normal routine, etc.,

Non-programmed decision one of non-repetitive nature they are considered as unique in nature, such as opening new branch at a new place, introduction of the new product in the market etc.,

5) Individual and group decisions

Decisions taken by a single individual are called individual decisions. They are taken in the context of routine or programme decisions.

Group decisions are those taken by a group of persons. It creates better co-operation in the organization. But group decision making is more time consuming and more costly.

FACTORS INVOLVED IN DECISION MAKING

The following two types of factors are to be considered while making decisions.

1) Tangible factors

These are those factors which can be measured. It included fixed costs, operating costs, profits, man-hours, machine-hours and quantity of output. They are closely interrelated.

2) Intangible factors

These are those factors which cannot be measured. It includes employee morale, rate of technical change, quality of labour relations, consumer behavior etc. they are as important as tangible factors.

CONDITIONS OF DECISION MAKING

In order to make correct decisions, the decision maker must know the conditions under which decisions are to be made. The conditions are certainty, risk and uncertainty.

1) Certainty

If the manager has sufficient information about all elements affecting the decision, the conditions of certainty exists conditions for certainty exist in case of routine type of decisions in the organization. However, the conditions of certainty do not exists for most of the organizations decisions.

2) Risk

Most of the decisions are made under the conditions of risk. In such a condition, information available in incomplete, results are not totally known. The decision maker has to select the alternative which give him the largest expected value.

3) Uncertainty

Conditions of uncertainty exist when the probabilities of occurrence of various outcomes are unknown. There are too many unknown facts and a manager cannot predict it. For example, marketing a new product involves uncertainty. It is very difficult to make decisions under uncertainty.

RATIONAL DECISION MAKING

Decision making is an essential process in management planning. It is amental process. Whatever process is followed, it must be rational decision making. Rational decision making is a process of problem solving in a scientific, systematic, objective and reasoned manner.

Rational decision making also implied complete knowledge of the facts so that problems are properly discovered and defined, alternative courses of actions are developed and then final choice is made.

STAGES (OR) PHASES IN THE PROCESS OF RATIONAL DECISION MAKING OR STEPS

In the process, the managers have to function in the following manner.

1) The problems

The first step is to determine what is the real and correct problems. A writer problem statement should be prepared, specifying the nature and magnitude of the problem. The problem is to be identified by taking an overall view of the situation. Clear understanding of the problem is necessary.

2) Analysing the problem

The next step is to analyse the problem to determine its causes and scope. It depends upon the quality of the information used. Information is collected from external and internal sources.

3) Developing alternative solutions

The decision maker has to develop alternative solutions for the problem. It is the best guarantee for ensuring adequate attention on the part of managers.

The principle of limiting factor should be kept in view during the search of alternatives. Past experience, consultation with experts and brainstorming are useful techniques for generating alternatives.

4) Evaluation the alternatives

The decision maker has to evaluate the various alternative and select one that will best contribute to the goal. They are evaluated by taking both tangible and intangible factors. Various theories and techniques were developed to evaluate the various alternatives.

5) Selecting the best solution

The best among the various alternative should be selected. While selecting, factors, like risk, economy of efforts, timing and limiting factors should be considered adequately.

Koonty and O' Donnel have suggested the following bases for the selection.

a) Experience

While making the choice, the manager is guided by past experience, the past error may be corrected in the new decision.

b) Experimentation

It suggests that a particular alternative should be put in practice and the result should be observed and the alternative giving best result should be selected.

c) Research and analysis

This involves a search for the limiting variable and their placement in a logical relationship to each other as they affect goals.

6) Implementing the Decisions

After an alternative is selected, it is put into action. This requires the communication of decision to sub-ordinates, getting acceptance to the decision, and getting their support and co-operation for conversing the decision into effective action.

7) Feedback and control

Once the decision has been put into practice, actual results of action should be compared with the expected results. If there is any deviation, this should be analysed and factors should be located. According to the factors, the decision can be modified.

CONDITIONS FOR A RATIONAL DECISIONS

1) The decision maker must have a definite goal
2) The decision maker must have clear understanding of courses
3) He must have the ability to analyse and evaluate alternatives.
4) He must be willing to optimize by choosing the alternatives.
5) There are no limits to computations that can be performed to decide best alternative.

Limits on rationality

It is not possible to achieve complete rationality in decision making due to the following factors.

1) A decision is made for future and future involves uncertainties.
2) Decisions are made to achieve goals and goals cannot be defined accurately.
3) All alternatives cannot be worked out.
4) There is lack of complete knowledge as regards outcomes of alternative solutions.
5) Several human limitations introduce subjectivity in decision making e.g. Memory, Reasoning, Objectivity and Perception.

TECHNIQUES OF DECISION MAKING

Several techniques have been developed to half the decision maker. They are as follows.

1) Marginal analysis

Under this method, the extra cost resulting from the addition of one more unit is compared with the benefit the point where the extra cost is equal to the extra profit is the one where the profits are maximum.

But this technique can be used only when full information regarding the various components of cost and clear distinction between variable cost and fixed costs are known.

2) Cost effectiveness analysis

It is a technique for choosing from among alternatives to identify a preferred choice when objectives are less specific. It is used to compare alternatives where the optimum solution cannot be conveniently reduced to monetary terms. It can be made most systematic through the use of models and other operation research techniques.

3) Risk analysis

Under conditions of uncertainty, it becomes necessary to determine the nature and size of the risk involved. Every decision is based on the interaction of a number of critical variables, many of which have an element of uncertainty. A probability curve is developed for each variable. With the help of such data, a manager is better able to assess the probability of achieving a best estimate and can see the chances that he might have in case he is satisfied with a lesser return.

4) Linear programming

It is a technique for determining the optimum combination of limited resource to minimize costs or to maximize profits. It has been used in managerial decision making for production planning, warehouse location, determining transport routes etc,. In this technique, equations are used to express inter relationship between the variables.

5) Operation Research (OR)

Operation Research is the application of scientific method to the study of alternatives in a problem situation, with a view to providing alternative basis for arriving at an optimum solution in terms of goals.

OR involves the construction and testing of a model several techniques of operation research like probability theory, new work analysis, quaseeing theory, etc., have been developed for analyzing the problems.

It is used in managerial decision making for inventory control, production planning, plant layout, quality control etc.,

But this technique can be applied only when all the elements of the problem can be quantified.

6. Simulation

It is a technique of reproducing the phenomena likely to occur in actual practice. Simulation is based on the probability factors. Random numbers are assigned to each likely even depending on the probability of its happening his enables one to determine the cost and benefit of each course of action.

However, the calculation involved in this technique are complex.

7. Brain storming

Under this technique, a small group of persons are stimulated to creative thinking. A problem is given and ideas are invited. Later these ideas are critically examined and the best ideas are selected. Maximum group participation and minimum criticism are employed. No evaluation of ideas is done during discussion. It generates some novel ideas form which unique solution can be found.

8. Delphi technique

In this technique, a panel of experts is appointed who are physically separated and unknown to each other. Suggestions are invited for a problem from them. These suggestions are compiled then it is submitted to them for inviting further suggestions. This process is repeated again and again to get a final solution. This helps to improve the quality of decisions.

PROBLEMS OR HURDLES IN DECISION MAKING

1) Indecisiveness

Some managers cannot come to a conclusion due to fear of its outcome.

2) Time Pressures

Some times, the problem is so urgent that requires immediate solution. In such a situation decision may not be correct.

3) Lack of Information

Due to lack of information, there may not be sound decision.

4) Confusing symptoms with causes

Very often people try to cure the symptoms rather than causes.

5) Failure to evaluate correctly

Sometimes the evaluation of the alternative course of action may not be correct.

KEY TO SUCCESS IN DECISION MAKING

1) The managers must anticipate organizational problems and develop diagnostic skills.
2) They must set decision making goals.
3) The source and accuracy of information should be verified.
4) The managers don’t be afraid to develop innovative alternative.
5) The managers must be flexible
6) Evaluation and follow up the decision is essential.

Theory Questions

1. What do you mean by Management?
2. What do you mean by policies?
3. What are the features of decision making?
4. Discuss the functions of management.
5. Explain the steps in planning.
6. Discuss the types of decision making.

Unit IV

UNIT IV : ORGANISING

Organising – meaning – importance – principles of organisation – steps – departmentalisation – delegation of authority and responsibility – types of organisations

CHAPTER – 9

ORGANISING

MEANING

Organisation involves division of work among people whose efforts must be co-ordinated to achieve specific objectives and to implement pre-determined strategies.

DEFINITION

Theo Haiman "Organising is the process of defining and grouping the activities of the enterprise and establishing the authority relationship among them.

Organisation as a process

The word organisation is often used in the sense of an act or process or arrangement. The term organisation is used in two different senses organisation as a process and organisation as a structure.

Example

When we say that the students of B. Com are efficient in organising the association meeting, we refer organisation as a process.

ORGANISATION AS A STRUCTURE

The word organisation is also used in the sense of structure of relationship.

Example

When we say that "College Students Union" is an organisation formed by the college students, we refer organisation as a structure.

STEPS IN ORGANISATION OR PROCESS OF ORGANISATION

The main steps involved in the process of organising are as follows.

1. Determination of activities

From the nature of the business and the purpose of the enterprise, the total volume of work is ascertained which is divided into different activities.

2. Grouping of activities

Correlated and similar activities are grouped into separate departments which may again the sub-divided into different sections.

3. Allocation of duties

The next step is the appointment of persons and defining their responsibilities. It ensures certainty in the work performance.

4. Delegation of authority

It refers to the grant of required authority or power by superior to sub-ordinates. It enables the sub-ordinates to perform the duties assigned.

5. Defining authority relationship

After granting authority relationship between different members of the organisation are created. It is known as superior sub-ordinate relationship. Each and every individual should know who is his superior.

6. Providing right environment

It involves provision of physical means and generating or right atmosphere in the organisation. It enables the workers to perform the work efficiently.

IMPORTANCE OF ORGANISATION OR PURPOSE OR ADVANTAGE OF ORGANISATION

1) Aid to management

Organisation is the mechanism through which management coordinates and controls the business. It serves an instrument to achieve the objective of the enterprise.

2) Facilitates growth

It provides division of work. Division of work is the frame work within which an organisation grows.

3) Ensures optimum use of resources

A good organisation adopts new technology. New technology ensures optimum use of resources.

4) Stimulates creativity

Sound organisation encourages creative thinking and imitative on the part of employees.

5) Promotes human relations

A good organisation provides better term work. Hence, it promotes human relations.

6) Facilities continuity

A good organisation provides scope for training and development of employees at all levels. It helps the stability or employees in the organisation.

7) Helps in co-ordination

Organisation makes for co-operation.

PRINCIPLES OF ORGANISATION

To ensure success of an organisation, the following principles of Koontz and O' Doneel must be observed.

1. Unity of objective

Every part of the organisation and organisation as a whole must have only one objective and work towards it.

2. Efficiency

Organisation should be efficient to attain the objectives of minimum cost.

3. Span of control

A manager can directly supervise only a limited number of executives. It is said that a minimum of sub-ordinationates can be supervised by a manager.

4. Division of work

A good organisation should consist of departments. It will improve the efficiency of an enterprise.

5. Functional definition

The duties and authority relationship in a good organisation must be properly and clearly defined otherwise confusion will arise.

6. Scalar principle

The chain of command or the line of authority must be clearly defined for building up sound organisation. Every sub-ordinate should know who is his superior.

7. Exception principle

A good organisation is an arranged that only exceptionally complex problems are referred to the higher levels of management and routine matters are dealt with the executives at lower levels. This is called as exception principle.

8. Unity of command

In a good organisation, each sub-ordinate should have only one superior. This helps in fixing responsibilities.

9. Unity of direction

There must be only one plan for a group of activities directed towards the same end. For that, planning is a must.

10. Responsibility

In a good organisation the superior in responsible for the acts of his sub-ordinates.

11. Authority and responsibility

The authority and responsibility must be co-extensive (or equal in an organisation)

12. Balance

A good organisation must be balance with reference to centralisation and decentralisation.

13. Flexibility

The organisation structure should be adaptable to changing circumstances.

14. Continuity

The organisation structure should be there for a long period of time.

FACTORS INFLUENCING ORGANISATION OR ORGANISATION STRUCTURE

The main factors determining organisation structure are as follows.

1) Size and complexity

Size of the enterprise and complexity of the operations are the important factors or organisation structure. In general larger organisations have complex structure.

2) Technology

Technology is another factor affecting the organisation. The space of management and the nature of work flow various according to the technology.

3) People

The personalities, values and attitudes of managers effect delegation of authority and span of management.

4) Environment

The environment is an important factor affecting the organizational design.

ELEMENTS OF ORGANISATION PROCESS

It consists of the following elements

1. Departmentation
2. Delegation
3. Decentralisation

DEPARTMENTATION

Meaning

Departmentation is the process of grouping activities into units for purposes of administration. The administrative units may be divisions units or branches.

It is the part of the organisation process.

NEED AND IMPORTANCE OF DEPARTMENTATION

1) Specialisation

Deparmentation enables an enterprise to take advantage of specialization. Division of work becomes possible.

2) Expansion

Grouping of activities and personnel into departments makes it possible to expand an organisation.

3) Autonomy

Departmentation results in division of enterprise into semi autonomous units. It provides job satisfaction.

4) Fixation of responsibility

The responsibility can be easily fixed due to departmentation.

5) Appraisal

Appraisal or manager all performance become easier.

6) Management development

Departmentation simplifies training and development of executives.

7) Administrative control

Departmentation facilitates administrative control.

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

FACTORS IN DEPARTMENTATION OR FUNDAMENTALS OF DEPARTMENTATION OR CHOOSING A BASIS FOR DEPARTMENTATION

1) Specialization

Departmentation should give the advantages of specialization. Specialization may be functional or products.

2) Control

Departmentation should facilitate control. Control helps to achieve the objectives of the organisation.

3) Co-ordination

Co-ordination in the performance of different activity is necessary so that they contribute maximum towards organizational objectives.

4) Attention

The various activities should be given adequate attention.

5) Local conditions

Local factors should be considered properly in the scheme of departmentation.

6) Economy

Creation of a new department involves extra cost. Hence attention must be given to the cost also.

7) Human consideration

The existence of informal groups cultural patterns, value system, attitudes of personal etc., should be given due consideration.

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 sub-ordinate.

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 sub-ordinates.

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.

DIFFERENCES BETWEEN LINE AND STAFF AUTHORITY

S. No.	Line authority	Staff authority
1.	Executive authority	Advisory authority
2.	Right to command	No right to command
3.	Vide powers	Limited powers
4.	It is the life blood of the firm	More appendage to line 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.

KINDS OF ORGANISATION

1) Formal organisation

This refers to the structure prescribed by the management. Everybody has to follow it. It insists upon rules and regulations.

2) Informal organisation

This is based on personal attitudes. It is created by likes and dislikes. It does not arise out of rules.

TYPES OF ORGANISATION

Line or Military or Traditional or Scalar or Hierarchical Organisation

Here, authority flows from top to bottom vertically. A person in the organisation is answerable to only one superior. Equals cannot command one another. No-body can cross the line.

General Manager

↓

Production Manager

↓

Foreman

↓

Workers

Merits

- It is simple to understand
- It fixes responsibility on the person
- It provides for uniformity in control
- It ensures quick decisions
- It ensures proper discipline among the employees

Demerits

- It is inflexible
- It lacks expert advice
- Communication is inadequate
- It provides scope for favouritism

FUNCTIONAL ORGANISATION

A functional organisation is one where the work is organized in the basis of specialization. The whole task of the organisation is divided according to function involved. Each function is managed by an expert in that area. Every functional expert enjoys functional authority over sub-ordinates in other department.

Taylor recommended a functional organisation at the work shop level. The workers receive instruction from more than one superior. He suggested the following eight types of experts (or) foreman at the workshop level.

1) Route clerk – Who determines the path of work.
2) Instruction card clerk – Who instructs the above method or work.
3) Time and cost clerk – Who determines time required for the job and the payment for it.
4) Shop disciplinarian – Who takes action in indiscipline.
5) Gang Boss – Who assembles tools and materials required for the job.
6) Speed Boss – Who controls the speed of work
7) Repair Boss – Who maintain the machines in the working order.
8) Inspector – Who finally checks the quality of work done by the workers.

General Manager

↓

Production Manager

F_1 F_2 F_3 F_4 F_5 F_6 F_7 F_8

Workers

F_1	–	Route clerk	F_2	–	Instruction card clerk
F_3	–	Time and cost clerk	F_4	–	Shop disciplinarian
F_5	–	Gang boss	F_6	–	Speed boss
F_7	–	Repair boss	F_8	–	Inspector

Merits

1) It promotes division of work and leads to specialization
2) Due to employment of experts the worker's efficiency is improved.
3) Production is increased due to specialization.
4) The work load of the executive is reduced.
5) It provides scope for expansion due to mass production.

Demerits

1) Since there are number of divisions, co-ordination becomes difficult.
2) For a mistake, responsibility cannot be easily fixed on a particular person.
3) Decision – making process is slow.
4) The worker is accountable to several superiors.

LINE AND STAFF ORGANISATION

It is a balance between line and functional organisation. Under this system, authority flows straight from top to bottom. But there will be separate staff to advise the top management and provide services to lower level. The staff cannot issue orders.

Engineering Staff -----------→ **General Manager** ---------------→ **Research Staff**

↓

Account Staff ----------------→ **Production Manager** ---------------→ **Selling Staff**

↓

Store Staff --------------------→ **Foreman** ---------------→ **Repair Staff**

↓

Workers

Merits

- It is superior to line organisation because the services of experts are available.
- It is superior to functional organisation because the response ability can be fixed.
- More jobs are created.

Demerits

- Experts do not have authority. Hence their advices are ineffective.
- There are chances for conflicts between people in line and staff.
- Relationship is not clear as in line organisation.
- Committee – When for the same work, many staff are appointed. It is called as a committee. Committees are found only in top level. They replace staff functions.

Merits

- Decisions of the committees will be accurate.
- Decisions will be impartial because they analyse merits and demerits.
- Committees promote co-operation and term spirit.

Demerits

- It causes delay in taking decisions
- It is expensive
- Sometimes, the decisions of the committees are not implemented for lack of authority.

ORGANISATION CHART

Organisation chart is a graphic portrayal of the various positions in the enterprise and the formal relationship among them. It is a blue print of the company's organisation structure.

PURPOSE (OR) ADVANTAGES (OR) USES OF CHART

1) Relationship can be clearly illustrated and more easily understood.
2) Responsibility is clearly defined.
3) A completed picture of the organisation is given in a simple way.
4) It provided a framework for classification and evaluation of personnel.

LIMITATIONS OF ORGANISATION CHARTS

1) It fails to reveal informal relations.
2) It does not represent flexibility which exists in a dynamic organisation.
3) It fails to show how much authority an individual can exercise.
4) Poor designed charts may cause confusion.

ORGANISATION MANUAL

It is a small hand book or book let containing detailed information about the objectives, policies, procedure, rules etc., of the enterprise. It often included job descriptions. It also consists of records of top management decisions, standard practices and descriptions of various jobs.

THEORY QUESTIONS

1. Definition of organizing
2. What are elements of delegation?
3. What do you mean by organisation chart?
4. What do you mean by organisation manual?
5. What is the importance of organisation?
6. What are merits of delegation of authority?

UNIT V : COMMUNICATION

Communication – meaning – importance – channels and methods of communication – barriers to communication

Controlling – meaning – basic steps in controlling – requirements of an effective control process

CHAPTER – 10

COMMUNICATION

MEANING AND DEFINITION

The word "Communication is derived from the Latin word "Communis" which means common. Thus communication means sharing ideas in common.

Communication may be defined as interchange of thoughts and information to bring about mutual understanding.

NATURE OF COMMUNICATION OR FEATURES OR CHARACTERISTICS

1. Two-way process

Communication is a two way process, involving a sender and a receiver.

2. Message to be understood in the same sense

The message should be understood by the receiver in the same sense as intended by the sender.

3. Message must have substance

It should contain information or ideas.

4. Pervasive function

It is used by manager's at all level of organisation.

5. Ongoing process

There must be continuous exchange of ideas and information.

6. Everything done to convey meaning

In includes everything done to convey meaning.

7. Formal or informal

Formal communication follows the formal channels provided in the organisation structure. But informal communication (grapevine) are not provided in the organisation structure.

ELEMENTS OF COMMUNICATION PROCESS OR STEPS

1. Sender

The person who sends a message is known as the sender or the source. He initiates the process of communication. He is also known as communicator.

2. Message

Message is the subject matter of communication. It may contains facts, ideas (or) feelings.

3. Encoding

It is the act of translating the message into words.

4. Channel

It is the media through which the message passes from the sender to the receiver.

5. Receiver

The person who receives the message is called receiver. He is also known as communicatee.

6. Encoding

The receiver converts symbols, signs or pictures into meaning.

7. Feedback

It is the response, action or reply by the receiver. When the sender receives feedback, the communication process in complete.

CHANNELS OR TYPES OR COMMUNICATION

Channels of communication may

(A) Formal Communication

(B) Informal Communication

A. Formal communication

Formal communication is the transmission of information or direction in the formal organisation structure. When a manager directs his deputy to do something. It is an example of formal communication.

There are three forms of formal communication namely

1) Downward communication

2) Upward communication and

3) Horizontal communication

1) Downward communication

It refers to the flow of information from a superior (higher level) to a sub-ordinate (lower level), orders, instructions, circulars, manuals, notices, etc., belong to this category. The purpose of this is to issue orders and instructions to the sub-ordinates.

2) Upward communication

It refers to the flow of information from the sub-ordinates to the superior positions. The main purpose of this communication is to know the superior the progress of the sub-ordinates. Reports, suggestions, complaints and grievances belong to this class.

3) Horizontal communication

It refers to the transmission of information among the positions at the same level of organisation. It is also known as lateral or sideward communication. It takes the form of letters, telephone talks, face-to face contacts and inter-departmental committee meetings.

B. INFORMAL COMMUNICATION OR GRAPEVINE

It is the communication between members of a group on the basis of informal relations and understanding among people at the same and different levels.

Merits of informal communication

1) It is easier and faster than formal communication.
2) It is the main source of information about the feeling and attitudes of employees.
3) It helps to satisfy the information needs of the employee.
4) It motivates people and builds team work.

Demerits of Informal Communication

1) It gives inaccurate and baseless information
2) It is very difficult to assign responsibility for false information.

DIFFERENCE BETWEEN FORMAL AND INFORMATION COMMUNICATION

S. No.	Formal Communication	Informal Communication
1.	Official channel	Unofficial channel
2.	Part of organisation structure	Cuts across formal relationship
3.	Oriented towards goals and tasks of the enterprise	Directed towards goals and need satisfaction of individuals
4.	Impersonnel	Personal and social
5.	Stable and rigid	Flexible and instable
6.	Slow and structured	Fast and unstructured

MEDIA (OR) METHODS OF COMMUNICATIONS

There are three important types of communication media

1) Oral communication

2) Written communication

3) Gestural communication

1) Oral communication (or) Verbal communication

Oral communication involves exchange or message through spoken words. It may take place (a) face to face communication and (b) through mechanical devices like telephone. Face to face communication may take place through lectures, group discussions, interviews, committee meetings, broadcasts and social gatherings.

Merits

1. Economical

It saves time and money

2. Personal touch

It is more effective

3. Speed

It is faster than written communication.

4. Flexibility

It is flexible

5. Quick response

Response or action can be obtained on the spot.

Demerits

1. Lack of record

It does not provide permanent records.

2. Time consuming

Oral communication in the form of face to face talk may become time consuming and costly.

3. Lengthy message

If there is a lengthy message, oral communication may not give good results.

4. Physical distance

When there is a long physical distance between the speaker and the listener, oral communication may be ineffective.

5. Mis-understanding

Poor vocal expression may lead to misunderstanding.

2) Written communication

Written communication means sending the message through written words. It is in the form of letters, circulars, memos, bulletins, instruction cards, manuals, handbooks, reports, turns etc.

Merits

1. Effectiveness

It is more clear and specific.

2. Lengthy message

If the message to be communicated is lengthy, written communication is more effective.

3. Economical

It is cheaper when the receiver is situated at distant place.

4. Repetition

It can be used again and a gain

5. Permanent record

It is used as a reliable card for future reference.

Demerits

1. Time consuming

It requires greater time in the preparation and transmission of message.

2. Expensive

It is more expensive especially for transmitting short messages over short distances.

3. Inflexible

A written message once sent cannot be withdrawn.

4. Little secrecy

It is very difficult to maintain complete secrecy.

5. Lack of personal touch

It lacks personal touch.

6. Misunderstanding

There is a greater change of the message being misunderstood.

3) Gestural communication

Communication through gestures or postures in known as gestural communication. It is often used to supplement oral communication. It is very useful in conveying feelings, emotions and attitudes. For example gestures by the audience indicates response or reaction to the oral message.

BARRIERS TO COMMUNICATION (OR) PROBLEMS (OR) FAILURES

A) ORGANISATIONAL BARRIERS

1) Inadequate policies, rules and procedures

When organisation policies, rules and procedures are not clear, flow of communication is not smooth.

2) Status patter

Problem in communication also arise from the relative positions of the superior and sub-ordinates in the organisation.

3) Long chain of command

In the organisation structure, there are several levels of authority. Hence communication have to pass through this chain. As a results, there are delays in communication. Sometimes, the message may be altered at every stage.

4) Inadequate facilities

Meetings, conference, suggestion scheme grievance procedures etc,. Help to ensure affective communication. When these facilities are inadequate, there will be delay in communication.

B) MECHANICAL BARRIERS

1) Overloading

When the number of messages is greater than the capacity of communication channel there is overloading it results in delay and breakdown in communication.

2) Semantic barriers

Sometimes the message is not expressed in clear language. Sometimes the receiver may not interpret it correctly.

3) Noise

It may be due to noise in transmission and fault in the instrument.

4) Filtering

It is caused due to the distance between the sender and the receiver.

C) PERSONAL BARRIERS

1) Lack of attention or interest

When the receiver is not attentive to the message, communication may not be effective.

2) Failure to communicate

A manager sometime may fail to communicate effectively.

3) Hasty conclusions

The receiver may be by nature a person in a hurry. Without going through the message carefully he may come to the conclusions according to his own opinions. It leads to wrong interpretations.

4) Distrust of communicator

When the receiver lacks confidence on the sender, he may receive the message with doubt.

5) Love for status go

When the message disturbs the existing state of affairs of the receiver, he may ignore it.

6) Improper state of mind

When the receiver is not in a mood to receive the message is likely to be in effective.

CHAPTER – 11

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 co-ordination 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.

THEORY QUESTIONS

1. Define “Communication”.
2. What are elements of communication?
3. What do you mean by downward communication?
4. What do you mean by controlling?
5. What are the features of controlling?
6. Explain the process of Controlling.
7. Discuss the factors affecting the communication.

Prepared by
Mr. S. SIRILARUN
Head and Assistant Professor in Commerce (C.A)
Aditanar College of Arts and Science, VirapandianPatnam, Tiruchendur - 628 216.