

In the present context, managing has become one of the most important areas of human activity because of increasing role of large and complex organisations in the society. Because of their increasing role, the organisations have attracted the attention of both practitioners and academicians to find out the answer of the question how these organisations can be made more effective. This has led to the development of a new field of study known as management. It has grown over the period of time and in today's context, it has emerged as one of the most important disciplines of study and research.

## Concept of Management

The study of a discipline should start with its definition delineating properly its contents and characteristics, defining its scope and boundary, and prescribing the objectives for which it stands. From this point of view, we can proceed only when we define management. However, a precise definition of management is not so simple because the term management is used in a variety of ways. Being a new discipline, it has drawn concepts and principles from a number of disciplines such as economics, sociology, psychology, anthropology, statistics, and so on. The result is that each group of contributors has treated management differently. For example, economists have treated management as a factor of production; sociologists have treated it as a class or group of persons; practitioners have treated it as a process comprising different activities. Naturally, all these divergent groups view the nature and scope of management from their own points of view. Thus, taking all these points of view together, it becomes difficult to define management in a comprehensive way. In the present context, the term management is used in three alternative ways:

1. Management as a discipline,
2. Management as a group of people, and
3. Management as a process.

### Management as a Discipline

Discipline refers to a field of study having well-defined concepts and principles. When we refer to management as a discipline, we include in it the various relevant concepts and principles, the knowledge of which aids in managing. From this point of view, management can be treated either as an art or science, the two basic and broad disciplines. However, since management prescribes various principles and how these principles can be applied in managing an organisation, it has the orientation of both, science and art, a phenomenon which will be discussed later in this chapter.

### Management as a Group of People

Sometimes, we refer to management as a group of people in which we include all those personnel who perform managerial functions in organisations. For example, when we talk about relationship between management and labour in an organisation, we refer to two distinct classes or groups of personnel in the organisation. In the first category, we include all those persons who are responsible for managerial functions and in the second category, we include non-managerial personnel. This approach of using management is quite popular; however, it does not serve our purpose of defining the term management.

### Management as a Process

In studying management discipline, we generally refer to management as a process. A process can simply be defined as systematic method of handling activities. However, the



management process can be treated as a complex one which can be referred to as an identifiable flow of information through interrelated stages of analysis directed towards the achievement of an objective or set of objectives. It is a concept of dynamic rather than static existence in which events and relationships must be seen as dynamic, continuous, and flexible, and as such, must be considered as a whole. Thus, management as a process includes various activities and subactivities. However, what these activities are must be defined precisely to understand the exact nature and scope of management. In a simple way, we can define management as what managers do. However, this definition, though simple, suffers from two limitations:

1. There is a problem in identifying the people in the organisation who can be called managers because there is no uniformity in the titles given to the people. For example, people may be called as president, chief executive or managing director at the top level. Similarly at the middle level, they can be called as executive or accountant, and at lower level as supervisor. Therefore, it becomes difficult to identify who is a manager and who is not; whose activities should be treated as managerial and whose activities as non-managerial. Thus, what should be studied is not clear.
2. Even if the problem of identifying people as managers is solved, the problem of identifying managerial activities still exists because people known as managers may perform different kinds of activities, some of which may not really be managerial. Therefore, unless some yardsticks are prescribed to distinguish between managerial and non-managerial activities, managerial activities cannot be identified.

In order to overcome these limitations, the total activities of an organisation can be divided into two groups: operational and managerial. Those activities which are of operative nature through which actual work is accomplished such as handling a machine by workers, putting the materials into godown, etc., are called operational activities. As against this, some activities are performed to get things done like a supervisor instructing a worker to do a particular job, or marketing manager instructing his salesmen to contact the customers to sell the product, etc. Such activities are different from the first group and are known as managerial activities. Thus, management can be defined as the process of getting things done by others. Management is invariably defined as the process of 'getting things done through the efforts of others', 'getting from where we are to where we want to be with the least expenditure of time, money, and efforts', or 'coordinating individual and group efforts toward superordinate goals'. Though these definitions of management as process use different terms, all of them convey the same set of meanings in their final analysis. However, the problem of defining management as a process is not over because of the existence of different approaches in this context too. Historically, four such orientations have been adopted in defining management process:

1. Production- or efficiency-oriented,
2. Decision-oriented,
3. People-oriented, and
4. Function-oriented.

**Management-oriented Definition.** Those who have put forward the concept



"Management is the art of knowing what you want to do and then seeing that it is done in the best and cheapest way."<sup>1</sup>

This definition emphasises relationship between efforts and results as the objectives of management but do not specify how these objectives can be achieved. To that extent, this definition does not offer exact explanation of the nature of management.

**Decision-oriented Definition.** Decision-oriented definition of management has been provided by decision theorists who have seen management process in terms of decision making. For example, Peter Drucker, a noted management thinker, has viewed that the life of a manager is a perpetual decision-making activity. Whatever a manager does, he does only through decision making. Decision-making power provides a dynamic force for managers to transform the resources of business organisations into a productive, cooperative concern.<sup>2</sup> These decision theorists have emphasised the role of decision making in management to such an extent that one of them has viewed that "management means decision making."<sup>3</sup> A more formal decision oriented definition of management has been provided by Stanley Vance as follows:

"Management is simply the process of decision making and control over the action of human beings for the expressed purpose of attaining pre-determined goals."<sup>4</sup>

The decision-oriented definition of management indicates that the basic activity of a manager is to make decisions and enforce these decisions. However, this does not provide the processes in which context decision making is applied.

**People-oriented Definition.** In this group of definition, management is defined as a process of coordinative efforts of people in organisations. Various authors have emphasised the role of people in the organisations. They have viewed that management is the direction of people and not of things; management is personnel management; and so on. Lawrence Appley has called management as personnel management and has defined it as follows:

"Management is the accomplishment of results through the efforts of other people."<sup>5</sup>

Koontz has defined management in similar way when he says that:

"Management is the art of getting things done through and with people in formally organised groups."<sup>6</sup>

These definitions, no doubt, offer better explanations of the nature of management though these do not specify the functions or activities involved in the process of getting things done by or with the cooperation of other people.

**Function-oriented Definition.** This definition puts emphasis on the various functions performed by managers in organisations though there is no uniformity in these functions in different definitions. For example, McFarland states that:

<sup>1</sup>Frederick W. Taylor, *Scientific Management*, New York: Harper Brothers, 1911.

<sup>2</sup>Peter F. Drucker, *Management Tasks, Responsibilities and Practices*, New York: Harper & Row, 1974.

<sup>3</sup>William E. Moore, *The Professions: Roles and Rules*, New York: Basic Books, 1978.

<sup>4</sup>Stanley Vance, *Industrial Administration*, New York: McGraw-Hill, 1959.

<sup>5</sup>Lawrence A. Appley, "Management—the Simplest Way," *Personnel* Vol. 19, No. 4, pp. 505-509.



"Management is defined for conceptual, theoretical, and analytical purposes as that process by which managers create, direct, maintain, and operate purposive organisations through systematic, coordinated, cooperative human efforts."

Function-oriented definitions of management are more relevant for understanding the exact nature and scope of management in spite of the fact that there is no unanimity over various functions. From this point of view, we can define management as follows:

"Management is a process involving planning, organising, staffing, directing, and controlling human efforts to achieve stated objectives in an organisation."

### Features of Management

In the light of the above discussion and definitions, basic features of management can be identified which are as follows:

**1. Organised Activities.** Management is a process of organised activities. Without organised activities, two groups of people cannot be involved in the performance of activities. Where a group of people are involved in working towards a common objective, management comes into existence. The organised activities may take a variety of forms ranging from a tightly-structured organisation to a very loosely-knit organisation. It can be a company like Tata Iron and Steel Company or a local social club. But all organisations have one thing in common; they want to progress efficiently towards the achievement of their objectives, through the coordinated efforts of people. This is done by management process. Therefore, where a single individual pursues his personal objectives, management has no operational meaning. However, when an attempt is made to channel the individual's quest for personal objectives along the lines that contribute to the overall objectives of the group, management becomes the means by which the random action is controlled.

**2. Existence of Objectives.** An objective or set of objectives should exist towards which the organised group activities are directed. Without objectives, it becomes difficult to define the direction where organised group activities would lead to. The existence of objectives is a basic criterion of every human organisation because all organisations are deliberate and purposive creation and, therefore, they should have some objectives. The objectives are agreed upon by the members of the group or the organisation. The organisational objectives are the desired state of affairs which an organisation attempts to realise. This realisation of objectives is sought through the coordinated efforts of the people constituting an organisation.

**3. Relationship among Resources.** Organised activities meant to achieve common goals are brought about to establish certain relationships among the available resources. Resources include money, machine, materials, and people. All these resources are made available to those who manage; they apply knowledge, experience, principles for getting the desired results. Thus, the essence of management is integration of various organisational resources. However, since people at operative level do the things by the use of various physical and other resources, it is more important for the management to take care of integration of human resources. Thus, management is concerned with the proper utilisation of human resources which, in turn, utilise other resources.

**4. Working with and through People.** Management involves working with people and getting organisational objectives achieved through them. The idea of working through people is

<sup>7</sup>Dalton E. McFarland, *Management Principles and Practices*, New York: Macmillan, 1974, p. 6.



interpreted in terms of assigning activities to subordinates. The superior-subordinate relationships are created because of organised activities. Through the process of assignment and reassignment of activities, the actual work is performed by people at the operative level which is the lowest level in an organisation. Thus, a sizeable proportion of management principles relates to how human beings can be put for better efforts in the organisation.

**5. Decision Making.** Management process involves decision making at various levels for getting things done by others. Decision making basically involves selecting the most appropriate alternative out of the several. If there is only one alternative, the question of decision making does not arise. The quality of alternative which a manager selects determines the organisation's performance, and the entire future of the organisation rests on the degree to which the right decisions are made by managers. Therefore, the success or failure of managers can be judged by the quality of decisions that they make.

There are various elements of management process. These are generally classified as planning, organising, staffing, directing, and controlling. The coordinated performance of these leads to the realisation of organisational objectives. This aspect of management process will be discussed in Chapter 3.



## **IMPORTANCE OF MANAGEMENT**

Management has been important to the daily lives of people in groups since long. Therefore, a question is raised that if the management has been so important for human lives, why it has assumed added importance in the present-day society. The possible answer of this question can be traced in the context of emergence of large-sized organisations. The management of these organisations has become much more complex than what it used to be earlier. Along with the size, another dimension which has added to the complexity of managing is the changing nature of society and its various constituents. Therefore, the issue before the present-day managers is how to take care of these changes so that organisations achieve their objectives. Thus, management has become crucial not only for the organisations but for the society too. Even classical writers on management have recognised its importance long back. For example, Urwick has commented that:



"No ideology, no ism, or political theory can win greater output with less efforts from a given complex of human and material resources, only sound management. And it is on such greater output that a higher standard of life, more leisure, more amenities for all must necessarily be found."<sup>13</sup>

The importance of management may be traced in the following contexts:

- 1. Effective Utilisation of Resources.** Management tries to make effective utilisation of various resources. The resources are scarce in nature and to meet the demand of the society, their contribution should be maximum for the general interests of the society. Management not only decides in which particular alternative a particular resource should be used, but also takes actions to utilise it in that particular alternative in the best way.
- 2. Development of Resources.** Management develops various resources. This is true with human as well as non-human factors. Lawrence Appley has emphasised that management is the development of people.<sup>14</sup> However, most of the researches for resource development are carried on in an organised way and management is involved in these organised activities. Thus, through the development of resources, management improves the quality of lives of people in the society.
- 3. To Incorporate Innovations.** Today, changes are occurring at a very fast rate in both technology and social process and structure. These changes need to be incorporated to keep the organisations alive and efficient. Business organisations are moving from primitive to sophistication. Therefore, they require high degree of specialisation, high level of competence, and complex technology. All these require efficient management so that organisations work in the most efficient way.
- 4. Integrating Various Interest Groups.** In the organised efforts, there are various interest groups and they put pressure over other groups for maximum share in the combined output. For example, in the case of a business organisation, there are various pressure groups such as shareholders, employees, government, etc. These interest groups have pressure on an organisation. In a more advanced and complex society, more such pressure is on the organisation. Management has to balance these pressures from various interest groups.
- 5. Stability in the Society.** Management provides stability in the society by changing and modifying the resources in accordance with the changing environment of the society. In the modern age, more emphasis is on new inventions for the betterment of human beings. These inventions make old systems and factors mostly obsolete and inefficient. Management provides integration between traditions and new inventions, and safeguards society from the unfavourable impact of these inventions so that continuity in social process is maintained.

## Nature of Management

The study and application of management techniques in managing the affairs of the organisation have changed its nature over the period of time. Though management as a practice came long ago, in fact, with the existence of human groups themselves, its impact as a formal body of knowledge has been felt much later, particularly during the last five-six

<sup>13</sup>Lyndall F. Urwick, *Elements of Administration*, New York: Harper Brothers, 1943.

<sup>14</sup>Appley, *op. cit.*



decades. Various contributions to the field of management have changed its nature, for example, from merely a practice to science also. Similarly, other changes have also occurred. Thus, the nature of management can be described as follows:

**1. Multidisciplinary.** Management is basically multidisciplinary. This implies that, although management has been developed as a separate discipline, it draws knowledge and concepts from various disciplines. It freely draws ideas and concepts from such disciplines as psychology, sociology, anthropology, economics, ecology, statistics, operations research, history, etc. Management integrates the ideas and concepts taken from these disciplines and presents newer concepts which can be put into practice for managing the organisations. In fact, the integration of knowledge of various disciplines is the major contribution of management and this integrated discipline is known as management. Therefore, the contributions in the field can be expected from any discipline which deals with some aspects of human beings.

**2. Dynamic Nature of Principles.** Principle is a fundamental truth which establishes cause and effect relationships of a function. Based on integration and supported by practical evidences, management has framed certain principles. However, these principles are flexible in nature and change with the changes in the environment in which an organisation exists. Because of the continuous development in the field, many older principles are being changed by new principles. Continuous researches are being carried on to establish principles in changing society and no principle can be regarded as a final truth. In fact, there is nothing permanent in the landscape of management.

**3. Relative, not Absolute Principles.** Management principles are relative, not absolute, and they should be applied according to the need of the organisation. Each organisation may be different from others. The difference may exist because of time, place, socio-cultural factors, etc. However, individuals working within the same organisation may also differ. Thus, a particular management principle has different strengths in different conditions. Therefore, principles of management should be applied in the light of prevailing conditions. Allowance must be made for different changing environment.

**4. Management: Science or Art.** There is a controversy whether management is science or art. However, management is both a science and an art. This will be elaborated later in this chapter.

**5. Management as Profession.** Management has been regarded as a profession by many while many have suggested that it has not achieved the status of a profession. This aspect will be discussed later in this chapter.

**6. Universality of Management.** Management is a universal phenomenon. However, management principles are not universally applicable but are to be modified according to the needs of the situation. Universality of management will be discussed later in this chapter.

The nature of management suggests that it is a multidisciplinary phenomenon; its principles are flexible, relative and not absolute. It is both science and art; it can be taken as a profession and finally it is universal. However, the last three aspects need further elaboration because of differing views over these aspects of management.

#### **MANAGEMENT: SCIENCE OR ART**

The controversy with regard to the nature of management, as to whether it is a science or an art, is very old. This controversy, however, is not very much in the air though the controversy is yet to be settled. Specification of exact nature of management as science or



art or both is necessary to specify the process of learning of management. It is to be noted that the learning process in science differs from that of art. Learning of science basically involves the assimilation of principles while learning of art involves its continuous practice.

Much of the controversy of management as science or art is on account of the fact that the earlier captains of industry and managers have used intuition, hunches, commonsense, and experience in managing organisations. They were not trained professional managers, although they were very brilliant and had developed commonsense through which they managed well. Commonsense and science differ in the following ways:

1. Commonsense is vague as compared to scientific knowledge.
2. Flagrant inconsistency often appears in commonsense whereas logical consistency is the basic of science.
3. Science systematically seeks to explain the events with which it deals; commonsense ignores the need for explanation.
4. The scientific method deliberately exposes claims to the critical evaluation of experimental analysis; commonsense method fails to test conclusions in any scientific fashion.

Science is based on logical consistency, systematic explanation, critical evaluation and experimental analysis. Thus, science can be defined as follows:

"Science is a body of systematised knowledge accumulated and accepted with reference to the understanding of general truths concerning a particular phenomenon, subject, or object of study."

Thus, science is a systematised body of knowledge. The process of scientific theory construction and confirmation can be viewed as involving the following steps:

1. The formulation of a problem or complex of problems based on observation;
2. The construction of theory to provide answers to the problem or problems based on inductions from observations;
3. The deduction of specific hypotheses from the theory;
4. The recasting of the hypotheses in terms of specific measures and the operations required to test the hypotheses;
5. The devising of actual situation to test the theorem; and
6. The actual testing in which confirmation does or does not occur.

### **Management as Science**

Judging from the above features of formulation of theory in science, management cannot be regarded as science because it is only half-way. It may be called 'inexact science' or 'pseudo-science'. Perhaps this is true for all social sciences of which management is a branch. Management is not as exact as natural or physical sciences are. This phenomenon can be explained as follows:

1. Science may be viewed in terms of its structure, its goals, and its methods. In terms of its structure, it is a number of scientific disciplines: physics, biology, psychology, economics, management and many others. Each of these sciences attempts to provide a set of internally consistent hypotheses, principles, laws, and theories dealing with an aspect of total knowledge. To the extent a science is mature, such internal consistency may be attained but there are many young sciences like management that only approximate this state.



2. One of the most important rules of science is that concepts have to be defined clearly in terms of the procedures involved in their measurement. One has to know exactly what one is talking about while using a particular term. Meanings have to be clear and unambiguous to avoid confusion and erroneous classification. However, in management, various terms are not used in the same way and giving same meaning. Even the major terms like management and organisation are used in different ways. The reason for this phenomenon is quite simple. Since the second decade of the last century, a number of disciplines have claimed to contribute to human knowledge of managing. These disciplines have been immature to be a science. The consequence has been almost unfathomable confusion over the various terms, a confusion in which ambivalence in using the various terms has played a conspicuous part.
3. In science, observations must be controlled so that causation may be imputed correctly. The most common method of eliminating a given factor as possible cause of an event is to hold it constant—to keep it from varying so that it cannot operate as a source of change. This is a difficult rule to follow, specially in studying organisational phenomena. Various research studies in management have suffered because of the bias of researchers. In many studies, for example, a variable that was thought to be irrelevant was found to exert a causal influence. However, the effort to identify factors that must be controlled and to develop procedures to accomplish this is a continuing one. To the extent that this effort is successful, reliability of perception and reasoning, and hence valid explanation, is possible.
4. Theories in science are in terms that permit empirical confirmation. Scientific statements are testable and the tests are capable of repetition with same result. Furthermore, explanatory statements are logically consistent with other explanatory statements that have been frequently confirmed. Thus, rationality of total scientific system is maintained. However, this does not happen in management exactly. Many of the management principles lack empirical evidences and are not testable. Further, these principles do not give similar results under varying conditions and, therefore, lack universal application. No doubt, attempts are being made to evolve principles in management on the basis of scientific observations which may have universal application, but still the process is in an evolutionary stage. Until such principles are not evolved, management cannot be called a science in its true sense.

The various factors analysed above suggest that management is not a pure science but it can be simply called 'inexact science'. This is so because management also makes use of scientific methods in evolving principles. Therefore, it bears partial characteristics of science. In fact, many people have suggested that with greater use of mathematics and statistics in management, the direction is towards more and more use of true science in management. This is true but it must be remembered that management is not becoming mathematics, rather mathematics is being used to explain, codify, and help to decide issues in management. Mathematics is a basic abstract science. It is fundamental to other sciences. For example, it is basic to the study of physics. But it is not the mathematics that is the science of management but the use of mathematics helps in relating and understanding the activity of management. The knowledge consists in how and where to use mathematics in solving issues of managerial difficulty. Science may contribute to the solution of managerial problems in two ways: (i) existing research and theory relevant to the problem may be brought to bear on its solution and (ii) where sufficient time is available,



concerned; there was considerable overlapping of time too, as shown in Table 2.1. The periods presented are approximate.

**TABLE 2.1: Evolution of management thought**

Management thought	Period
1. Early contributions	Upto 19th century
2. Scientific management	1900-1930
3. Administrative/operational management	1916-1940
4. Human relations approach	1930-1950
5. Social systems approach	1940-1950
6. Decision theory approach	1945-1965
7. Management science approach	1950-1960
8. Human behaviour approach	1950-1970
9. Systems approach	1960s onwards
10. Contingency approach	1970s onwards

Another classification of management thought and approaches is in the form of classical, neoclassical, and modern. *Classical approach* includes scientific management and administrative/operational management. *Neoclassical approach* includes human relations approach and some relevant part of social systems approach, decision theory approach, management science approach, and human behaviour approach. *Modern approach* includes systems approach, contingency approach, and some relevant portion of the above approaches not included in neoclassical approach. However, this classification is time-specific because what is modern in today's context, may not remain the same in future.

### EARLY CONTRIBUTIONS

Before the systematic study of management which started close to 19th century, contributions in the field came from a variety of sources. For example, the concept of organisation and administration existed in Egypt in 1300 B.C. Confucius's parables included suggestions for proper public administration and admonitions to choose honest, unselfish, and capable public officers long before Christ. Kautilya has offered sound principles of state administration in 320 B.C. Roman catholic church introduced the concept of staff personnel in church administration which was further carried on by military organisations. The cameralists, a group of German and Austrian public administrators and intellectuals, emphasised systematic administration as a source of strengths during 16th to 18th centuries. These contributions provided some insights about how resources could be utilised more effectively. However, these contributions were outside the field of business and other economic organisations.

In the field of business organisations, some stray contributions have come from Robert Owen, James Watt, Charles Babbage, and Henry Town. While Owen emphasised personnel aspects in management and advocated a number of benefits to employees, others concentrated on developing concepts relating to effective utilisation of resources at the shop-floor level. Their contributions came bit by bit and in haphazard manner and have failed to stimulate to study management as a distinct discipline. However, their ideas created an awareness about managerial problems. By the end of 19th century, a stage was set for taking systematic study of management and the beginning was made by Taylor in the early part of 20th century which took the shape of scientific management.



## TAYLOR AND SCIENTIFIC MANAGEMENT

The concept of scientific management was introduced by Frederick Winslow Taylor in USA in the beginning of 20th century. This concept was further carried on by Frank and Lillian Gilbreth, Henry Gantt, George Berth, Edward Felen, etc. Scientific management was concerned essentially with improving the operational efficiency at the shop-floor level. Taylor has defined scientific management as follows:

"Scientific management is concerned with knowing exactly what you want men to do and then see in that they do it in the best and cheapest way."<sup>1</sup>

Since Taylor has put the emphasis on solving managerial problems in a scientific way, often, he is called as 'father of scientific management' and his contributions as the principles of scientific management. Though his contributions have become traditional in present-day context, still the label scientific management is used for his contributions. It does not mean that present-day management thoughts and practices are not scientific. In fact, management as a science has been taken much later than the contributions of Taylor.

Taylor joined Midvale Steel Company in U.S.A. as a worker and later on became supervisor. During this period, he continued his studies and eventually completed his M.E. (Master of Engineering). Subsequently, he joined Bethlehem Steel Company. At both these places, he carried experiments about how to increase the efficiency of people. Even after his retirement, he continued to develop scientific management. On the basis of his experiments, he published many papers and books and all his contributions were compiled in his book '*Scientific Management*'. Taylor's contributions can be described in two parts: elements and tools of scientific management and principles of scientific management.

### Elements and Tools of Scientific Management

Taylor conducted various experiments at his work-places to find out how human beings could be made more efficient by standardising the work and better method of doing the work. These experiments have provided the following features of scientific management:

**1. Separation of Planning and Doing.** Taylor emphasised the separation of planning aspect from actual doing of the work. Before Taylor's scientific management, a worker used to plan about how he had to work and what instruments were necessary for that. The worker was put under the supervision of a supervisor commonly known as gang boss. Thus, supervisor's job was merely to see how the workers were performing. This was creating a lot of problems, and Taylor emphasised that planning should be left to the supervisor and the worker should emphasise only operational work.

**2. Functional Foremanship.** Separation of planning from doing resulted in development of supervision system which could take planning work adequately besides keeping supervision on workers. For this purpose, Taylor evolved the concept of functional foremanship based on specialisation of functions. In this system, eight persons are involved to direct the activities of workers. Out of these, four persons are concerned with planning: (i) route clerk, (ii) instruction card clerk, (iii) time and cost clerk and (iv) disciplinarian. The remaining four persons are concerned with doing aspect of the work. These are: (i) speed boss, (ii) inspector, (iii) maintenance foreman, and (iv) gang boss. All of them give directions to workers on different aspects of work. This is against unity of command principle as shown in Figure 2.1.

<sup>1</sup>Frederick W. Taylor, *Scientific Management*, New York: Harper Brothers, 1911.



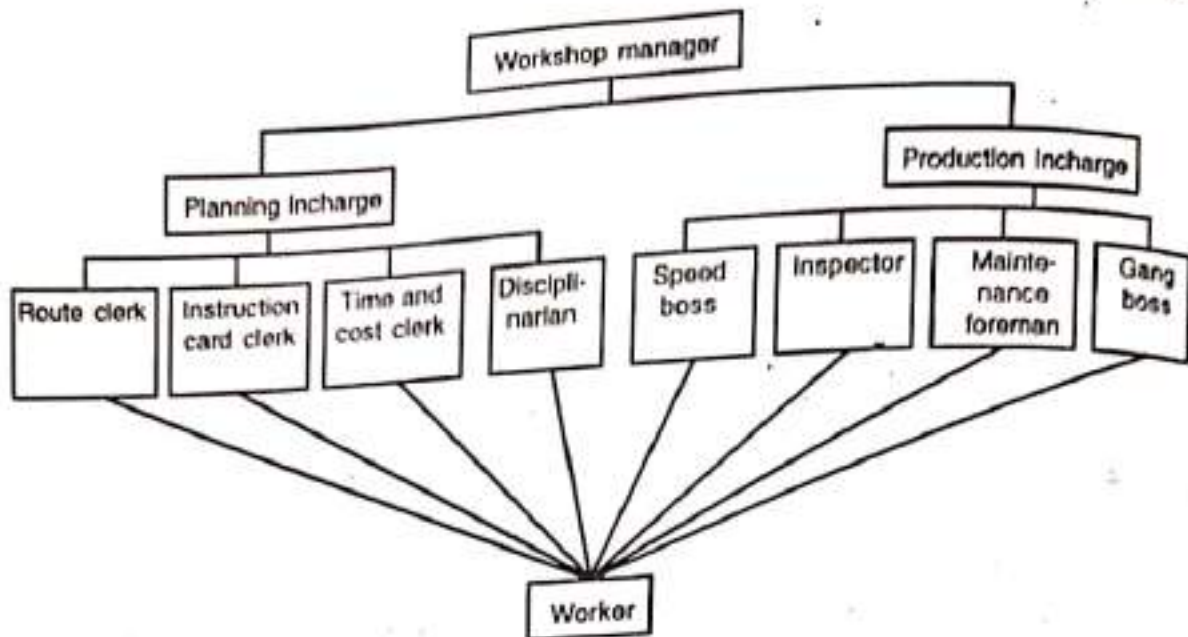


FIGURE 2.1: Functional foremanship

**3. Job Analysis.** Job analysis is undertaken to find out the one best way of doing the things. The best way of doing a job is one which requires the least movements, consequently less time and cost. The best way of doing the things can be determined by taking up time-motion-fatigue studies. (i) *Time study* involves the determination of time a movement takes to complete. The movement which takes minimum time is the best one. This helps in fixing the fair work for a period. (ii) *Motion study* involves the study of movements in parts which are involved in doing a job and thereby eliminating the wasteful movements and performing only necessary movements. Elimination of unnecessary movements in doing work reduces time taken in performing a work and also the fatigue of workers. (iii) *Fatigue study* shows the amount and frequency of rest required in completing the work. After a certain period of time, workers feel fatigue and cannot work with full capacity. Therefore, they require rest in between. When the rest is allowed, they start working with full capacity. Thus, job analysis, as given by Taylor, suggests the fair amount of a day's work requiring certain movements and rest periods to complete it.

**4. Standardisation.** As far as possible, standardisation should be maintained in respect of instruments and tools, period of work, amount of work, working conditions, cost of production, etc. These things should be fixed in advance on the basis of job analysis and various elements of costs that go in performing a work.

**5. Scientific Selection and Training of Workers.** Taylor has suggested that workers should be selected on scientific basis taking into account their education, work experience, aptitude, physical strength, etc. A worker should be given work for which he is physically and technically most suitable. Apart from selection, proper emphasis should be given on the training of workers which makes them more efficient and effective.

**6. Financial Incentives.** Financial incentives can motivate workers to put in their maximum efforts. If provisions exist to earn higher wages by putting in extra effort, workers will be motivated to earn more. Taylor himself applied the concept of differential piece rate system which was highly motivating. According to this scheme, a worker who completes the normal work gets wages at higher rate per piece and one who does not complete gets at lower rate. Thus, there is considerable difference in wages between those who complete the work and those who do not complete. To make the differential piece rate system work, Taylor has



suggested that wages should be based on individual performance and not on the position which he occupies. Further, the wage rate should be fixed on accurate knowledge and not on estimates.

**7. Economy.** While applying scientific management, not only scientific and technical aspects should be considered but adequate consideration should be given to economy and profit. For this purpose, techniques of cost estimates and control should be adopted. The economy and profit can be achieved by making the resources more productive as well as by eliminating the wastages. Taylor has clarified by giving examples of how resources are wasted by not following scientific management.

**8. Mental Revolution.** Scientific management depends on the mutual co-operation between management and workers. For this co-operation, there should be mental change in both parties from conflict to co-operation. Taylor feels that this is the most important feature of scientific management because in its absence, no principle of scientific management can be applied.

### Principles of Scientific Management

Taylor has given certain basic principles of scientific management. The fundamental principles that Taylor saw underlying the scientific management have been given below:

**1. Replacing Rule of Thumb with Science.** Taylor has emphasised that in scientific management, organised knowledge should be applied which will replace rule of thumb. While the use of scientific method denotes precision in determining any aspect of work, rule of thumb emphasises estimation. Since exactness of various aspects of work like day's fair work, standardisation in work, differential piece rate for payment, etc., is the basic core of scientific management, it is essential that all these are measured precisely and should not be based on mere estimates. This approach can be adopted in all aspects of managing.

**2. Harmony in Group Action.** Taylor has emphasised that attempts should be made to obtain harmony in group action rather than discord. Group harmony suggests that there should be mutual give and take situation and proper understanding so that group as a whole contributes to the maximum.

**3. Cooperation.** Scientific management involves achieving cooperation rather than chaotic individualism. Scientific management is based on mutual confidence, cooperation, and goodwill. Cooperation between management and workers can be developed through mutual understanding and a change in thinking. Taylor has suggested "substitution of war for peace, hearty and brotherly cooperation for contentment and strife, replacement of suspicious watchfulness with mutual confidence, of becoming friends instead of enemies. It is along this line, I say, that scientific management must be developed."<sup>2</sup>

**4. Maximum Output.** Scientific management involves continuous increase in production and productivity instead of restricted production either by management or by workers. Taylor hated inefficiency and deliberate curtailment of production. His concern was with the large size of the cake. In his opinion, "there is hardly any worse crime to my mind than

<sup>2</sup>Ibid.

<sup>3</sup>Ibid.



that of deliberately restricting output." He decried quarrel over production but welcomed quarrel over distribution, provided the product to be distributed had outgrown the size. Therefore, he advised the management and workers to "turn their attention towards increasing the size of the surplus until the size of the surplus becomes so large that it is necessary to quarrel over how it shall be divided."<sup>4</sup>

**5. Development of Workers.** In scientific management, all workers should be developed to the fullest extent possible for their own and for the company's highest prosperity. Development of workers requires their scientific selection and providing them training at the workplace. Training should be provided to workers to keep them fully fit according to the requirement of new methods of working which may be different from the non-scientific methods.

### Followers of Scientific Management

Other persons who worked to develop scientific management were Carl George Berth, Henry Gantt, Frank and Lillian Gilbreth, and Edward Felene to mention a few important. Berth worked with Taylor and later developed many mathematical techniques and formulae that made it possible to put Taylor's ideas into practice. Gantt developed graphic methods of depicting plans and making possible better managerial control. He emphasised the importance of time as well as cost in planning and controlling work. This eventually led to the development of famous Gantt Chart which is in wide use today and was the forerunner of such modern technique as Programme Evaluation and Review Technique (PERT). Frank and Lillian Gilbreth, a team of husband and wife, also tried to find out one best way of doing under the given set of realities. They also tried to look at the problems of workers from social and psychological point of view. Felene invited Gilbreth to apply scientific management to manage his departmental store. The major areas of concern were employee training and evaluation and human element in business. Later, he created Twentieth Century Fund, a famous research organisation still in existence.

### Critical Analysis of Scientific Management

Scientific management created awareness about increasing operational efficiency at the shop-floor level by adopting systematic methods as against the rule of thumb which was prevalent at that time. However, from the point of view of the development of theoretical framework, the principles of scientific management were more concerned with problems at the operating levels and did not emphasise management of an organisation from the manager's point of view. Therefore, it was more relevant from engineering point of view rather than management point of view. In fact, one author has later suggested that Taylor can be regarded as the 'father of industrial engineering' rather than the 'father of scientific management'. Similarly, persons advocating scientific management have emphasised physiological variables affecting human behaviour at workplace, both in terms of work efficiency and methods of motivating the workers. As such, the scientific management is more relevant to mechanisation and automation—technical aspect of efficiency—than the broader aspects of management of an organisation.

<sup>4</sup>Ibid.



Apart from the theoretical considerations, Taylor's scientific management was opposed by trade unions, industrialists, and general public. The opposition was so grave that Taylor had to defend his scientific management before a special US Congressional Committee in 1912. The introduction of scientific management led to the agitation by trade unions in different production units. The major reasons for the opposition of scientific management were as follows:

1. There were many of the followers of Taylor who took aggressive mechanical view of production and sidelined human aspect at the workplace. This created aggressive attitudes among workers.
2. The work used to be performed under close and strict supervision based on authoritarian approach. Workers were not allowed to raise their voice even for genuine grievances.
3. There was lack of scientific standardisation of work and whatever standards used to be set by the management, the workers had to follow strictly. Such standards often used to raise production norm without taking into consideration the factors affecting such a norm.
4. The most crucial element which was under contention was the differential piece rate system. The workers, even the efficient ones, and their unions, opposed this system on the plea that it was a new method of exploiting workers by the industrialists. It may be mentioned that trade unions were quite popular at that time.

### FAYOL'S ADMINISTRATIVE MANAGEMENT

Perhaps the real father of modern operational management theory is the French industrialist Henry Fayol. His contributions are generally termed as operational management or administrative management. Fayol's contributions were first published in book form titled '*Administration Industrielle et Generale*' in French language, in 1916. However, the book was not made available outside France and was not translated until 1929. Its English version was published in 1949 in the United States of America. Therefore, in the early period, Fayol's contributions could not make much impact on the development of management thought. However, after the publication of his book in English, he got prominence in the field of management very quickly.

Fayol looked at the problems of managing an organisation from top management point of view. He has used the term 'administration' instead of 'management' emphasising that there is unity of science of administration. For him, administration was a common activity and administrative doctrine was universally applicable. From administrative point of view, he placed commerce, industry, religion, philanthropy, and the State on equal footing. His administrative science can be applied equally well to public and private affairs. Therefore, management is a universal phenomenon. However, he has emphasised that principles of management are flexible and not absolute and are usable regardless of changing and special conditions.

Fayol found that activities of an industrial organisation could be divided into six groups:

1. Technical (relating to production);
2. Commercial (buying, selling, and exchange);
3. Financial (search for capital and its optimum use);
4. Security (protection of property and person);
5. Accounting (including statistics); and
6. Managerial (planning, organisation, command, coordination, and control).



Pointing out that these activities exist in business of every size, Fayol observed that the first five were well known, consequently he devoted most of his book to analyse the sixth, that is, managerial activity. Fayol has divided his approach of studying management into three parts: (i) managerial qualities and training, (ii) general principles of management, and (iii) elements of management.

### Managerial Qualities and Training

Fayol was the first person to identify the qualities required in a manager. According to him, there are six types of qualities that a manager requires. These are as follows:

1. Physical (health, vigour, and address);
2. Mental (ability to understand and learn, judgement, mental vigour, and capability);
3. Moral (energy, firmness, initiative, loyalty, tact, and dignity);
4. Educational (general acquaintance with matters not belonging exclusively to the function performed);
5. Technical (peculiar to the function being performed); and
6. Experience (arising from the work).

Fayol has observed that the most important ability for a worker is technical; the relative importance of managerial ability increases as one goes up the scalar chain, with insight becoming the most important ability for top level executives. On the basis of this conclusion, Fayol recognised a widespread need for principles of management and for management teaching. He held that managerial ability should be acquired first in school and later in the workshop. In order to acquire managerial knowledge, he developed principles of management to be taught in academic institutions.

### General Principles of Management

Fayol has given fourteen principles of management. He has made distinction between management principles and management elements. While management principle is a fundamental truth and establishes cause-effect relationship, management element denotes the function performed by a manager. While giving the management principles, Fayol has emphasised two things: (i) The list of management principles is not exhaustive but suggestive and has discussed only those principles which he followed on most occasions. (ii) Principles of management are not rigid but flexible. According to him, "there is nothing rigid or absolute in management affairs; it is all a question of proportion. Therefore, principles are flexible and capable of being adopted to every need. It is a matter of knowing how to make use of them which is a difficult art requiring intelligence, experience, and proportion."<sup>5</sup> Various principles of management are as follows:

**1. Division of Work.** Fayol has advocated division of work to take the advantage of specialisation. According to him, "specialisation belongs to natural order. The workers always work on the same part, the managers concerned always with the same matters, acquire an ability, sureness, and accuracy which increase their output. Each change of work brings in it training and adaptation which reduces output ... yet division of work has its limits which experience and a sense of proportion teach us may not be exceeded."<sup>6</sup> This division of work can be applied at all levels of the organisation.

<sup>5</sup> Henry Fayol, *General and Industrial Management*, (translated by Constant Storrs), London: Sir Isaac Pitman, 1949, p. 55. Earlier translation as *Industrial and General Administration* by J.A. Coubrough, Geneva: International Management Institute, 1929.

<sup>6</sup> *Ibid.*, p. 20.



**2. Authority and Responsibility.** The authority and responsibility are related, with the latter the corollary of the former and arising from it. Fayol finds authority as a continuation of official and personal factors. Official authority is derived from the manager's position and personal authority is derived from personal qualities such as intelligence, experience, moral worth, past services, etc. Responsibility arises out of assignment of activity. In order to discharge the responsibility properly, there should be parity of authority and responsibility.

**3. Discipline.** All the personnel serving in an organisation should be disciplined. Discipline is obedience, application, energy, behaviour, and outward mark of respect shown by employees. Discipline may be of two types: self-imposed discipline and command discipline. Self-imposed discipline springs from within the individual and is in the nature of spontaneous response to a skilful leader. Command discipline stems from a recognised authority and utilises deterrents to secure compliance with a desired action, which is expressed by established customs, rules, and regulations. The ultimate strength of command discipline lies in its certainty of application. Such a discipline can be obtained by sanctions in the forms of remuneration, warnings, suspension, demotion, dismissal, etc. However, while applying such sanctions, people and attendant circumstances must be taken into account. This can be learned by experience and tact of the managers.

**4. Unity of Command.** Unity of command means that a person should get orders and instructions from only one superior. The more completely an individual has a reporting relationship to a single superior, the less is the problem of conflict in instructions and the greater is the feeling of personal responsibility for results. This is contrary to Taylor's functional foremanship. On this conflicting view, Fayol suggested that, "I do not think that a shop can be well run in flagrant violation of this (unity of command). Nevertheless, Taylor successfully managed large-scale concerns. I imagine that, in practice, Taylor was also able to reconcile functionalism with the principle of unity of command but this is the supposition whose accuracy I am not in a position to verify." Fayol has considered unity of command as an important aspect in managing an organisation. He says that "should it (unity of command) be violated, authority is undermined, discipline is in jeopardy, order disturbed, and stability threatened. This rule seems fundamental to me and so I have put it to the rank of a principle."<sup>7</sup>

**5. Unity of Direction.** According to this principle, each group of activities with the same objective must have one head and one plan. Unity of direction is different from unity of command in the sense that the former is concerned with functioning of the organisation in respect of its grouping of activities or planning while the latter is concerned with personnel at all levels in the organisation in terms of reporting relationship. Unity of direction provides better coordination among various activities to be undertaken by an organisation.

**6. Subordination of Individual Interest to General Interest.** Common interest is above the individual interest. Individual interest must be subordinate to general interest when there is conflict between the two. However, factors like ambition, laziness, weakness, etc., tend to reduce the importance of general interest. Therefore, superiors should set an example in fairness and goodness. The agreement between the employers and the employees should be fair and there should be constant vigilance and supervision.

**7. Remuneration of Personnel.** Remuneration of employees should be fair and provide maximum possible satisfaction to employees and employers. Fayol did not favour profit-

<sup>7</sup>Ibid., p. 25.



sharing plan for workers but advocated it for managers. He was also in favour of non-financial benefits though these were possible only in the case of large-scale organisations.

**8. Centralisation.** Everything which goes to increase the importance of subordinate's role is decentralisation; everything which goes to reduce it is centralisation. Without using the term 'centralisation of authority', Fayol refers the extent to which authority is centralised or decentralised. Centralisation and decentralisation are the question of proportion. In small firms, centralisation is the natural order, but in large firms, a series of intermediaries is required. Share of authority and initiative left to intermediaries depends on the personal character of the manager, his moral worth, the reliability of his subordinates, and also on the conditions of the business. Since both absolute and relative values of managers and employees are constantly changing, it is desirable that the degree of centralisation or decentralisation may itself vary constantly.

**9. Scalar Chain.** There should be a scalar chain of authority and of communication ranging from the highest to the lowest. It suggests that each communication going up or coming down must flow through each position in the line of authority. It can be short-circuited only in special circumstances when its rigid following would be detrimental to the organisation. For this purpose, Fayol has suggested 'gang plank' which is used to prevent the scalar chain from bogging down action. His scalar chain and gang plank can be presented as follows:

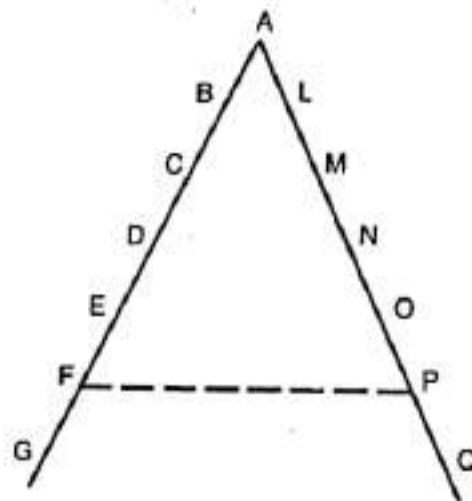


FIGURE 2.2: Scalar chain and gang plank

In Figure 2.2, A is the top man having immediate subordinates B and L. In turn B and L are having immediate subordinates C and M. This continues to the level of G and Q. Ordinarily, the communication must flow from A to B to C to D, and so on while coming from the top to down. Similarly, it must flow from G to F to E, and so on while going up. It means if any communication is going from F to P, it will flow from F to A via E, D, C and B and coming down to P via L, M, N and O. Fayol suggests that this scalar chain system takes time and, therefore, can be substituted by gang plank (dotted line) without weakening the chain of command. In order to maintain authority, it is desirable that superiors of F and P authorise them to deal directly provided each informs his superiors of any action taken. Fayol suggested that this system allows F and P to deal in a few hours with some questions or other which via the scalar chain would pass through twenty transmissions, inconvenience people, involve masses of paper, lose weeks or months to get to a conclusion, less satisfactory than the one which could have been obtained via direct contact.



**10. Order.** This is a principle relating to the arrangement of things and people. In material order, there should be a place for everything and everything should be in its place. Similarly, in social order, there should be the right man in the right place. This kind of order demands precise knowledge of the human requirements and resources of the organisation and a constant balance between these requirements and resources. Normally, bigger the size of the organisation, more difficult this balance is.

**11. Equity.** Equity is the combination of justice and kindness. Equity in treatment and behaviour is liked by everyone and it brings loyalty in the organisation. The application of equity requires good sense, experience, and good nature for soliciting loyalty and devotion from subordinates.

**12. Stability of Tenure.** No employee should be removed within short time. There should be reasonable security of jobs. Stability of tenure is essential to get an employee accustomed to new work and succeeding in doing it well. Unnecessary turnover is both cause and effect of bad management.

**13. Initiative.** Within the limits of authority and discipline, managers should encourage their employees for taking initiative. Initiative is concerned with thinking out and execution of a plan. Initiative increases zeal and energy on the part of human beings.

**14. Esprit de Corps.** This is the principle of 'union is strength' and extension of unity of command for establishing team work. The manager should encourage *esprit de corps* among his employees. The erring employees should be set right by oral directions and not by demanding written explanations. Written explanations complicate the matters.

### Elements of Management

Fayol holds that management should be viewed as a process consisting of five elements. He has regarded these elements as functions of management. These are planning, organisation, commanding, coordination, and controlling. He has regarded planning as the most important managerial function and failure to plan properly leads to hesitation, false steps, and untimely changes in directions which cause weakness in the organisation. Creation of organisation structure and commanding function is necessary to execute plans. Coordination is necessary to make sure that every-one is working together, and control looks whether everything is proceeding according to plan. Fayol holds the view that these functions are required at all levels of management and in all types of organisations.

The contributions of Fayol have made the real beginning of development of management as a separate field of study. He wrote as the practical man of business reflecting on his long managerial career and setting down the principles he had observed. His principles of management hold good even today, though pronounced long back. It was unfortunate that his contributions were not known to scholars in U.S.A., otherwise the development of management would have been much faster. In fact, many of the things were developed in management on the lines of Fayol much after his contributions.

### Relevance of Fayol's Principles

According to the classification of era of management development, Fayol's principles are treated as classical while present-day management adopts systems and contingency approach. This approach suggests that while managing an organisation, it should be treated as a system and management action should take into account the contingent factors both within and outside an organisation. However, this does not mean that Fayol's principles are not relevant to modern management; in fact, they have relevance to modern management.



### Contributions of Barnard

The contributions of Chester Barnard to management, particularly social systems approach, are overwhelming. His book *The Functions of the Executive* is regarded as the most influential book on the management during the pre-modern management era.<sup>19</sup> His analysis of the functions of executives, he has looked for their major tasks in the system in which they operate. In determining the tasks of executives, he has analysed the nature of cooperative social system, as he found non-logical factors also influencing human behaviour in the organisation. This is a marked departure from the earlier approach. The major contributions of Barnard can be presented as follows:

**1. Concept of Organisation.** Barnard suggests that classical concept of organisation does not fully explain the features of an organisation. He has defined formal organisation as a system of consciously coordinated activities of two or more persons. In his opinion, an organisation exists when the following three conditions are fulfilled: (i) there are persons able to communicate with each other; (ii) they are willing to contribute to the action; and (iii) they attempt to accomplish a common purpose.

**2. Formal and Informal Organisations.** An organisations can be divided into two parts: formal and informal. The formal organisation has consciously coordinated interactions which have a deliberate and common purpose. On the other hand, the informal organisation refers to those social interactions which do not have consciously coordinated joint purpose. The informal organisation exists to overcome the problems of formal organisation. In fact, Barnard has suggested that executives should encourage the development of informal organisation to serve as a means of communication, to bring cohesion in the organisation, and to protect the individual from dominance and onslaught of the organisation. Both the formal and the informal organisations depend on each other and there is continuous interaction between the two. Therefore, in managing an organisation, the manager should take into account both types of organisations.

**3. Elements of Organisation.** According to Barnard, there are four elements of a formal organisation. These are: (i) a system of functionalisation so that people can specialise, that is, departmentation; (ii) a system of effective and efficient incentives so as to induce people to contribute to group action; (iii) a system of power which will lead group members to accept the decisions of the executives; and (iv) a system of logical decision making.

**4. Authority.** Barnard does not agree with the classical view that authority transcends from the top to down. He has given a new concept of authority which is termed as 'acceptance theory of authority' or 'bottom-up authority'. In his opinion, a person does not obey an order because it has been given by a superior but he will accept a communication as being authoritative only when four conditions are met simultaneously: (i) he can understand the communication; (ii) he believes that it is not inconsistent with the organisational purpose; (iii) he believes it to be compatible with his personal interest as a whole; and (iv) he is mentally and physically able to comply with it.

**5. Functions of the Executive.** Barnard has identified three types of functions which an executive performs in a formal organisation. These are: (i) maintenance of organisational communication through a system of organisation, that is, through formal interactions; (ii) the securing of essential services from individuals in the organisation so as to achieve the organisational purpose; and (iii) the formulation and definition of organisational purpose.

<sup>19</sup>Chester I. Barnard, *The Functions of the Executive*, Cambridge, Mass.: Harvard University Press, 1938.



**6. Motivation.** Apart from financial incentives which have their own limitations in motivating the people, Barnard has suggested a number of non financial techniques for motivating people. Prominent among these are: opportunity of power and distinction, pride of workmanship, pleasant organisation, participation, mutual supporting personal attitudes, and feeling of belongingness.

**7. Executive Effectiveness.** To make the executive effective requires a high order of responsible leadership. While cooperation is the creative process, leadership is the indispensable fulminator of its force. Leadership is the most strategic factor in securing cooperation from the people. Executive leadership demands high calibre, technological competence, and technical and social skills. The executive leadership should not have preconceived notions and false ideologies. It should be above personal predilections and prejudices. The leadership is likely to commit the following four types of errors: (i) the oversimplification of the economy of organisational life; (ii) disregarding the reality of informal organisation and its necessity; (iii) an inversion of emphasis upon the objective and subjective aspects of authority; and (iv) a confusion of morality with responsibility. Therefore, executive should take adequate care to overcome these problems.

**8. Organisational Equilibrium.** Organisational equilibrium refers to the matching of individual efforts and organisational efforts to satisfy individuals. The cooperation of individuals with the organisation brings forth new activities. The organisation must afford satisfaction to individuals comprising it. This is required to maintain equilibrium in the organisation. This equilibrium is not static but dynamic. Demands and aspirations of individuals change and the organisation has to cope with the dynamic situation. The equilibrium of the organisation depends on the individuals working in it, other organisations, and the society as a whole. Thus, the organisation has to take into account the changes in the society. The organisational equilibrium can be perceived not only through logical appraisal but through analysis and intuition. Thus, many non-logical factors also enter into organisational analysis. Therefore, the reasons for an action should not only be logical but must also appeal to those attitudes, predilections, prejudices, emotions, and mental background that cover action.

The above contributions of Barnard show how he was concerned for the development of the organisation through social systems. His contributions are regarded quite high in management. This is evident by the ideas expressed by William Wolf about the book written by Barnard. The book is a sociology of management. Its style of writing was purposely pitched at a high level of discourse. Barnard was writing for social scientists, not for practitioners. He believed that the field of management was lacking in concepts and was clouded by ambiguous and even erroneous thinking. In a sense, he hoped that the functions would set things right and guide the social scientists to more realistic studies of organisation and management.<sup>20</sup>

## DECISION THEORY APPROACH

Decision theory approach looks at the basic problem of management around decision making—the selection of a suitable course of action out of the given alternatives. Major contributions in this approach have come from Simon. Other contributors are March, Cyert, Argyres, etc. The major emphasis of this approach is that decision making is the job of



Management functions, as pointed out earlier, are classified as planning, organising, staffing, directing, and controlling. All these functions are required to achieve the objective of an organisation. However, without setting the objectives there is nothing to organise, direct, or control. Therefore, every organisation is required to specify what it wants to achieve. Planning is basically related with this aspect.

## Concept of Planning

The meaning of the word 'planning' is something of a paradox. To some, it is an omnibus term having convenient utility and a generalised context extending from broad philosophical considerations to precise details. They think of it as specific activity; in contrast, others believe it is a part of, perhaps even a symbol for almost everything a person does. Then, too, the upsurge in planning has created many different kinds of planning, and this array of different entities, all identified by planning, has added to confusion. There are some who consider planning synonymous with decision making. This is also erroneous. Decision making is not the same as planning because one can make decisions in other activities also, though the role of decision making is highly important in planning.

Another confusion that arises in the concept of planning is the two words: planning and plan. Two words are similar but their meanings are different. There is fundamental difference between the two. **Planning** is an activity. It can be considered as consisting of a process, hence various sub-activities. On the other hand, **plan** is a commitment to a particular course of action believed necessary to achieve specific results. For example, Government of India prepares Five-Year Plans which consist of various actions to be taken, results to be achieved, and resources to be used. These are plans. The plans are prepared through the planning process which involves taking various activities to arrive at what is to be achieved, how to be achieved, and when to be achieved. Therefore, planning is taken as a process.

Planning as a process involves the determination of future course of action, that is why an action, what action, how to take action, and when to take action. These why, what, how, and when are related with different aspects of planning process. Why of action reveals that action has some objectives or the end-results which an organisation wants to achieve; what of action specifies the activities to be undertaken; how and when generate various policies, programmes, procedures and other related elements. Thus, all these elements speak about futurity of action. Terry has defined planning in terms of future course of action. He says that:

"Planning is the selection and relating of facts and making and using of assumptions regarding the future in the visualisation and formalisation of proposed activities believed necessary to achieve desired result."<sup>1</sup>

Thus, in planning, a manager uses facts, reasonable premises, and constraints, and from all these, he visualises and formulates what necessary activities are, how they will be conducted, and what will be their contribution to achieving desired results. McFarland has defined planning in terms of actions of anticipating, influencing, and controlling the nature and direction of change as he believes that the environment in which planning process is undertaken is too dynamic and changing. He defines planning as follows:

"Planning may be broadly defined as a concept of executive action that embodies the skills of anticipating, influencing, and controlling the nature and direction of change."<sup>2</sup>

<sup>1</sup>George R. Terry, *Principles of Management*, Homewood, Ill.: Richard D. Irwin, 1988, p. 157.

<sup>2</sup>Dalton E. McFarland, *Management Principles and Practices*, New York: Macmillan, 1974, pp. 315-16.



## Features of Planning

On the basis of the definition of planning, its following features can be identified:

1. Planning is a process rather than behaviour at a given point of time. This process determines the future course of action.
2. Planning is primarily concerned with looking into future. It requires forecasting of future situation in which the organisation has to function. Therefore, correct forecasting of future situation leads to correct decisions about future course of actions.
3. Planning involves selection of suitable course of action. This means that there are several alternatives for achieving a particular objective or set of objectives. However, all of them are not equally feasible and suitable for the organisation.
4. Planning is undertaken at all levels of the organisation because all levels of management are concerned with the determination of future course of action. However, its role increases at successively higher levels of management. Moreover, planning at different levels may be different in the context that at the top management level, managers are concerned about the totality of the organisation and tries to relate it with the environment while managers at lower levels may be involved in internal planning.
5. Planning is flexible as commitment is based on future conditions which are always dynamic. As such, an adjustment is needed between the various factors and planning.
6. Planning is a pervasive and continuous managerial function involving complex processes of perception, analysis, conceptual thought, communication, decision, and action. The very pervasiveness of these planning elements makes it difficult to identify and observe them in detail.

## NATURE OF PLANNING

The basic nature of planning may be understood in terms of it being a rational approach, open-system approach, and its pervasiveness.

### Planning: A Rational Approach

Planning is a rational approach for defining where one stands, where one wants to go in future, and how to reach there. The concept of rationality denotes the choice of appropriate means for achieving stated objectives. In organisational context, planning as a rational approach tries to fill the gap between actual status (current performance) and desired status (desired performance) as shown in Figure 6.1.

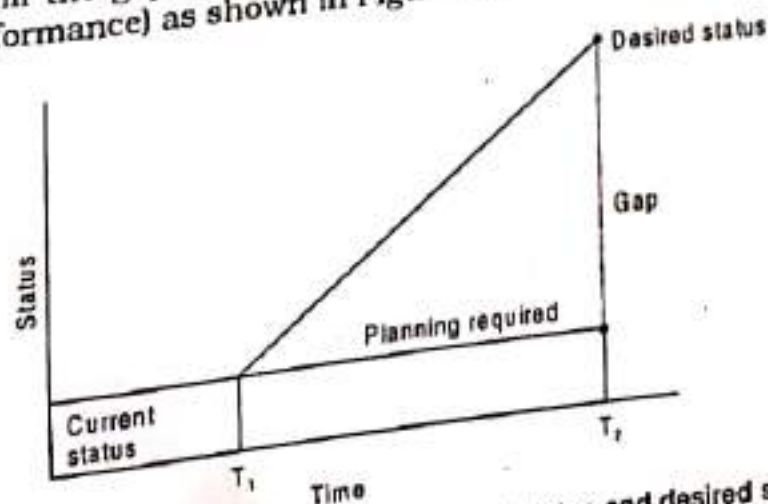


Figure 6.1: Illustrating current status and desired status



The difference between two time periods ( $T_1$  and  $T_2$ ) may vary between short term, say one year or so, and long-term, say 5 years or so or even more depending on the degree of futurity which an organisation takes into account for charting out its plan. The current and desired status is usually expressed in terms of objectives which can be achieved by an action or set of actions. For completing an action, various types of resources—human as well as non-human—are required. The rational approach of planning emphasises the most appropriate use of these resources.

### Planning: An Open System Approach

Planning adopts an open system approach. We have seen in Chapter 2 that an organisation is an open system. It takes inputs from the environment, processes these, and exports outputs to environment. The open system approach of planning indicates that the identification of gap between current status and desired status in future and the action required to bridge this gap is influenced by a variety of environmental factors—economic, political-legal, technological, socio-cultural, and competitive. These factors are dynamic and change with the time. Therefore, while adopting open system approach in planning, managers have to take into account the dynamic features of the environment.

### Pervasiveness of Planning

Planning is pervasive and extends throughout the organisation. Every manager has a planning function to perform. This stems from the fact that he is a manager and that planning is a fundamental management function. However, the pervasiveness of planning is commonly overlooked and planning is frequently considered as being the function of top-level managers. While it is true that they devote more of their time to planning and work with more vital issues than the managers of the middle and lower levels do, the fact remains that every manager has to perform planning within his particular area of activities. Top management is responsible for overall objectives and actions of the organisation. Therefore, it must plan what these objectives should be and how these can be achieved. Similarly, a departmental head has to devise the objectives of his department within the organisational objectives and also the methods of achieving these; a foreman has to devise the objectives of his shop and also how to achieve these. For example, budget, a part of plan in any organisation, is prepared at various levels. Each level contributes to the preparation of budget by contributing what his efforts will require in terms of allocation of resources and what his efforts will contribute in terms of results. Thus, planning activity goes in hierarchy as shown in Figure 6.2.



FIGURE 6.2: Planning at various levels of management



Like all the levels of management, planning exists in all the organisations regardless of its size or nature of activities. In large organisations, its presence is apparent due to some employees giving all or major portion of their time to planning efforts. For example, many large organisations have established separate corporate planning departments. Usually, in these cases, emphasis is given to such things as the allocation of available resources in the best manner to achieve basic goals and the courses of action for certain problems deemed most expeditious at the times and places. In small organisations, planning is commonly of a somewhat informal type. The owner/manager himself may do most of it. Relatively it is easy to plan for a small organisation because the objectives of such an organisation are simple; there are few people to deal with and the planning work itself is free from intricacy. Thus, planning is equally essential for the small and the large organisations.

### IMPORTANCE OF PLANNING

Planning has assumed great importance in all types of organisations—business or non-business, private or public sector, small or large, in developed countries or developing countries. The systems approach of management suggests interaction of an organisation with its environment on continuous basis. This interaction can better be maintained through efficient planning. In fact, in today's context, the difference between successful and unsuccessful organisations is because of planning activities undertaken by these. The organisation which thinks much ahead about what it can do in future, is likely to succeed as compared to one which fails to do so. For example, Reliance Industries Limited has achieved phenomenal growth within a short period of time because of its ability to plan to take up new projects. In particular, planning contributes in the following ways:

**1. Primacy of Planning.** Planning precedes all other managerial functions. Since managerial operations in organising, staffing, directing, and controlling are designed to support the accomplishment of organisational objectives, planning logically precedes the execution of all other managerial functions. Although all the functions intermesh in practice as a system of action, planning is unique in that it establishes the objectives necessary for all group effort. All other functions are performed to achieve the objectives set by the planning process. This can be presented as follows:

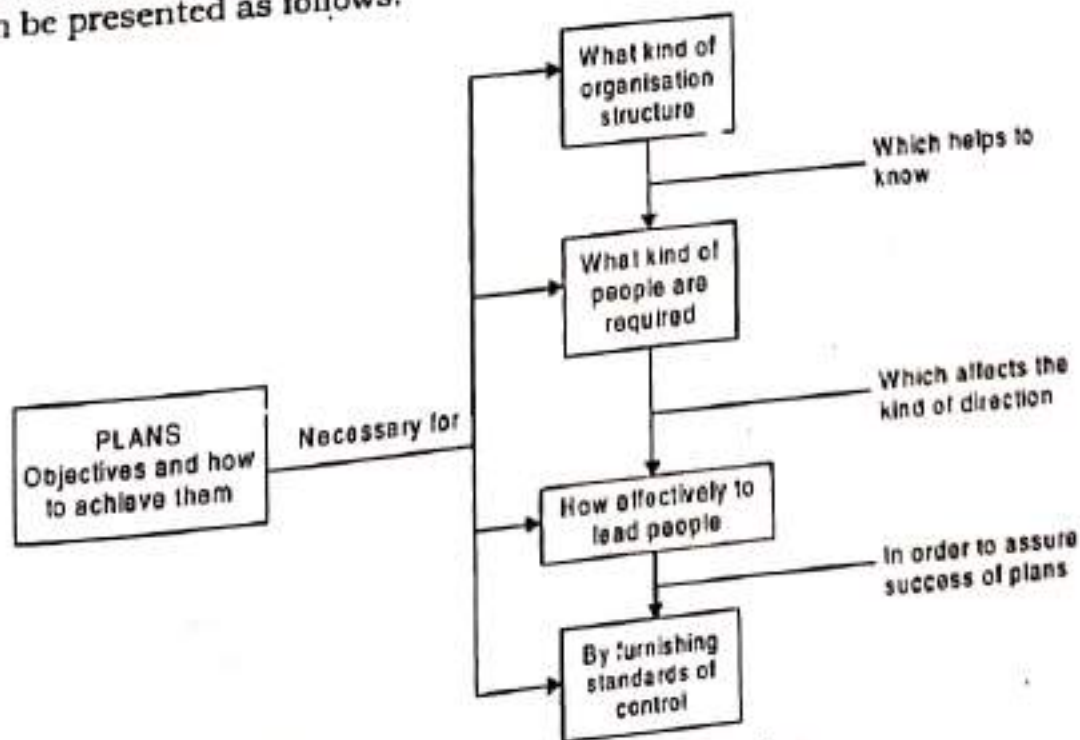


FIGURE 6.3: Primacy of planning



- 2. To Offset Uncertainty and Change.** There is continuous change in the environment and the organisation has to work in accelerating change. This change is reflected in both tangible and intangible forms. Tangible changes are in the form of changes in technology, market forces, government regulations, etc. Intangible changes reflect in changes in attitudes, values, cultures, etc. In order to cope up with the requirements of such changes, organisation must look ahead for its future course of action which is basically provided by planning process. Planning does not stop changes in the environment but gears the organisation to take suitable actions so that it is successful in achieving its objectives.
- 3. To Focus Attention on Objectives.** Planning focuses on organisational objectives and direction of action for achieving these objectives. Sometimes, people in the organisation may not be specific about its objectives because of lack of clarity and precise definitions. For example, often we take profit as the objective of a business organisation. It is too abstract to be pursued. In order to enforce managerial actions, this should be defined more precisely. When planning action is taken, these objectives are made more concrete and tangible. The objectives are defined in more meaningful terms so that managerial actions are possible. For example, even if the organisational objective is profit-earning, planning activity will specify how much profit is to be earned looking into all facilitating and constraining factors.
- 4. To Help in Coordination.** Though all managerial functions lead to coordination in the organisation, real beginning is made at the level of planning stage. Well-considered overall plans unify interdepartmental activities and consequently restrict the area of freedom in the development of purely departmental plans. Thus, various departments work in accordance with the overall plan, and harmony is achieved. It is true to say that coordination is essence of management and planning is the base for it.
- 5. To Help in Control.** Control involves the measurement of accomplishment of events against plans and the correction of deviations to assure the achievement of objectives as set by the plans. Thus, control is exercised in the context of planning action as standards against which actual results are to be compared are set up through planning. At the control stage, an attempt is made to monitor the performance on continuous basis so that immediate action is taken if anything goes wrong.
- 6. To Increase Organisational Effectiveness.** Planning ensures organisational effectiveness in several ways. The concept of effectiveness is that the organisation is able to achieve its objectives within the given resources. Thus, for effectiveness, it is not only necessary that resources are put to the best of their efficiency but also that they are put in a way which ensures their maximum contribution to organisational objectives. In fact, this can be done by taking appropriate planning. Planning states the objectives of the organisation in the context of given resources. Therefore, each resource of the organisation has a specific use at a particular time. Thus, planning along with control ensures that resources are put in action in a way in which these have been specified. If this is done, organisation will achieve effectiveness.

### STEPS IN PLANNING

It is not necessary that a particular planning process is applicable for all organisations and for all types of plans because the various factors that go into planning process may differ from plan to plan or from one organisation to another. For example, planning for a major action will take more serious evaluation of various elements necessary for planning but this may not be true for a minor one. Similarly, in a small organisation, planning process may not be taken in the same ways as in a large organisation. Here is given a



process of planning which is applicable for a major programme like opening of a new product line or acquisition of a major plant. With minor modifications, the process is applicable to all types of plans. Planning process is presented in Figure 6.4

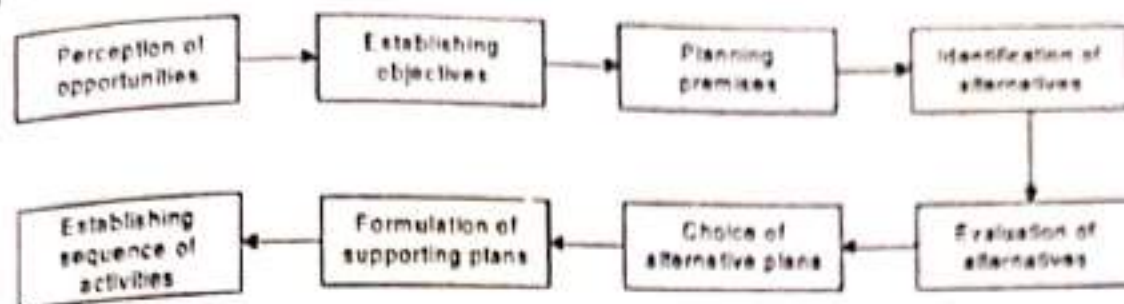


FIGURE 6.4: Planning process

The sequences of various steps in planning are in such a way that they lead to the translation of an idea into action by reaching to the state of establishing of sequences of activities. Each stage contributes to plan formulation in the following ways:

**1. Perception of Opportunities.** Perception of opportunities is not strictly a planning process. However, this awareness is very important for planning process because it leads to formulation of plans by providing clue whether opportunities exist for taking up particular plans. From this point of view, it can be considered as the beginning of planning process. Perception of opportunities includes a preliminary look at possible opportunities and the ability to see them clearly and completely, a knowledge of where the organisation stands in the light of its strengths and weaknesses, an understanding of why the organisation wants to solve uncertainties, and a vision of what it expects to gain. This provides an opportunity to set the objectives in real sense because the organisation tries to relate itself with the environment. In doing so, it takes the advantages of opportunities and avoids threats. This is a preliminary stage, hence the analysis of environment is not taken in very elaborate form but analysis relates to the determination of opportunities at first instance. Once the opportunities are perceived to be available, the other steps of planning are undertaken.

**2. Establishing Objectives.** At this stage, major organisational and unit objectives are set. Objectives specify the results expected and indicate the end points of what is to be done, where the primary emphasis is to be placed, and what is to be accomplished by the various types of plans. The organisational objectives should be specified in all key result areas. Key result areas are those which are important for organisation in achieving its objectives. These are identified on the basis of organisational objectives. For example, for an organisation, key result areas may be profitability, sales, research and development, manufacturing, and so on. Once organisational objectives are identified, objectives of lower units and sub-units can be identified in that context. Organisational objectives give direction to the nature of all major plans which, by reflecting these objectives, define the objectives of major departments. These, in turn, control the objectives of subordinate departments and so on down the line. Thus, there will be hierarchy of objectives in the organisation.

**3. Planning Premises.** After determination of organisational goals, the next step is establishing planning premises, that is, the conditions under which planning activities will be undertaken. Planning premises are planning assumptions—the expected environmental and internal conditions. Thus, planning premises are external and internal. External premises include total factors in task environment like political, social,



technological, competitors' plans and actions, government policies, etc. Internal factors include organisation's policies, resources of various types, and the ability of the organisation to withstand the environmental pressure. The plans are formulated in the light of both external and internal factors. The more individuals charged with planning understand and utilise consistent planning premises, the more coordinated planning will be. Forecasting plays a major role in planning premises.

The nature of planning premises differs at different levels of planning. At the top level, it is mostly externally focused. As one moves down the organisational hierarchy, the composition of planning premises changes from external to internal. The major plans, both old and new, will materially affect the future against which the managers at lower units must plan. For example, a superior's plans affecting a subordinate manager's area of authority becomes premises for the latter's planning.

**4. Identification of Alternatives.** Based on the organisational objectives and planning premises, various alternatives can be identified. The concept of various alternatives suggests that a particular objective can be achieved through various actions. For example, if an organisation has set its objective to grow further, it can be achieved in several ways like expanding in the same field of business or product line, diversifying in other areas, joining hands with other organisations, or taking over another organisation, and so on. Within each category, there may be several alternatives. For example, diversification itself may point out the possibility of entering into one of the several fields. The most common problem with alternatives is not that finding of alternatives only but to reduce the number of alternatives so that most promising ones may be taken for detailed analysis. Since all alternatives cannot be considered for further analysis, it is necessary for the planner to reduce in preliminary examination the number of alternatives which do not meet the minimum preliminary criteria. Preliminary criteria can be defined in several ways such as minimum investment required, matching with the present business of the organisation, control by the government, etc. For example, one company has defined preliminary criteria in terms of size of investment in new project and may not consider any project involving investment of less than Rs. 40 crores.

**5. Evaluation of Alternatives.** Various alternatives which are considered feasible in terms of preliminary criteria may be taken for detailed evaluation. At this stage, an attempt is made to evaluate how each alternative contributes to the organisational objectives in the light of its resources and constraints. This presents a problem because each alternative may have certain positive points on one aspect but negative on others. For example, one alternative may be most profitable but requires heavy investment with long gestation period; another may be less profitable but also involves less risk. Moreover, there is no certainty about the outcome of any alternative because it is related with future and future is not certain. It is affected by a large number of factors making the evaluation work quite complex. This is the reason why more sophisticated techniques of planning and decision making have been developed. Such techniques will be described in a later chapter.

**6. Choice of Alternative.** After the evaluation of various alternatives, the most fit one is selected. Sometimes, evaluation shows that more than one alternative is equally good. In such a case, a planner may choose more than one alternative. There is another reason for choosing more than one alternative. Alternative course of action is to be undertaken in future which is not constant. A course of action chosen keeping in view the various planning premises may not be the best one if there is change in planning premises. Therefore, planner must be ready with alternative, normally known as contingency plan, which can be implemented in changed situations.



**7. Formulation of Supporting Plans.** After formulating the basic plan, various plans are derived so as to support the main plan. In an organisation there can be various derivative plans like planning for buying equipments, buying raw materials, recruiting and training personnel, developing new product, etc. These derivative plans are formulated out of the main plan and, therefore, they support it.

**8. Establishing Sequence of Activities.** After formulating basic and derivative plans, the sequence of activities is determined so that plans are put into action. Based on plans at various levels, it can be decided who will do what and at what time. Budgets for various periods can be prepared to give plans more concrete meaning for implementation.

## Types of Planning

There may be several ways in which an organisation can undertake planning process though the basic steps involved remain the same in each way. Planning can be differentiated on the basis of coverage of organisational activities, importance of contents in planning process, time dimension in planning, approach adopted in planning, and degree of formalisation in planning process, as shown in Table 6.1.

**TABLE 6.1: Types of planning**

<i>Dimensions</i>	<i>Types of planning</i>
1. Coverage of activities	Corporate planning and functional planning
2. Importance of contents	Strategic planning and tactical/operational planning
3. Time period involved	Long-term planning and short-term planning
4. Approach adopted	Proactive planning and reactive planning
5. Degree of formalisation	Formal planning and informal planning

The above classification is not mutually exclusive but iterative. For example, strategic and tactical planning may be undertaken on the basis of proactive or reactive approach, or formal or informal basis. However, in each set of classification, the type of emphasis put in planning process differs.

### CORPORATE PLANNING AND FUNCTIONAL PLANNING

We have seen earlier that planning activity is pervasive and can be undertaken at various levels of an organisation. It may be for the organisation as a whole or for its different functions. Thus, based on the coverage of activities, there may be planning for the organisation as a whole, known as corporate planning or for its different functions, known as functional planning.

#### Corporate Planning

The term 'corporate planning' denotes planning activities at the top level, also known as corporate level, which cover the entire organisational activities. The basic focus of corporate planning is to determine the long-term objectives of the organisation as a whole, and then to generate plans to achieve these objectives bearing in mind the probable changes in environment. Because of long-term orientation involved and strategic aspects covered in corporate planning, it is also used as synonymous to long-term planning or strategic planning. However, some distinction exists among these at least at the conceptual level. Similarly, some authors use corporate planning as the total process of management. For example, David Hussey has defined corporate planning as follows:



"Corporate planning includes the setting of objectives, organising the work, people, and systems to enable those objectives to be attained, motivating through the planning process and through the plans, measuring performance and so controlling progress of the plan and developing people through better decision making, clearer objectives, more involvement, and awareness of progress."<sup>3</sup>

This definition of corporate planning is quite broad and may cover many management functions not necessarily related to planning aspect of management functions. For example, planning sets future course of action and its implementation is not strictly the planning function. Therefore, the concept of corporate planning should be taken as the total planning activities in the organisation and not the total management functions.

Similarly, corporate planning is used as long-range planning because long-range planning emphasises the future orientation of the process. However, there is growing opinion which disfavours the use of long-range planning as synonymous with corporate planning because it underemphasises the comprehensive nature of corporate planning. The process of corporate planning is concerned with all aspects and not only the long range. Although the future orientation is certainly the most important argument in favour of the process, long-range planning without the back-up of short-range planning will fail. Differences between corporate planning and long-range planning can be understood by classifying the more comprehensive corporate planning further into segments. Normally, corporate planning is divided into strategic planning or long-range planning and operational, tactical, or short-range planning.

### **Functional Planning**

As against corporate planning which is integrative, functional planning is segmental, and it is undertaken for each major function of the organisation like production/operation, marketing, finance, human resource/personnel, etc. At the second level, functional planning is undertaken for sub-functions within each major function. For example, marketing planning is undertaken at the level of marketing department and to put marketing plan in action, planning at subfunctions of marketing like sales, sales promotion, marketing research, etc., is undertaken. A basic feature of functional planning is that it is derived out of corporate planning and, therefore, it should contribute to the latter. This contribution is achieved by integrating and coordinating functional planning with corporate planning.

### **STRATEGIC PLANNING AND OPERATIONAL PLANNING**

Comprehensive corporate planning may be divided into strategic and operational depending on the direction of actions set in the organisation. One part of the planning sets future direction of the organisation and another part confines itself to devise actions to proceed in that direction. The former is known as strategic planning while latter is known as operational or tactical planning.

### **Strategic Planning**

Strategic planning sets the long-term direction of the organisation in which it wants to proceed in future. Anthony has defined strategic planning as follows:

"Strategic planning is the process of deciding on objectives of the organisation, on changes on these objectives, on the resources used to attain these objectives, and on the policies that are to govern the acquisition, use and disposition of these resources."<sup>4</sup>

<sup>3</sup>David Hussey, *Corporate Planning: Theory and Practice*, Oxford: Pergamon Press, 1988, p. 8.

<sup>4</sup>Robert N. Anthony, *Planning and Control Systems: A Framework for Analysis*, Boston: Harvard University Press, 1965.



Examples of strategic planning in an organisation may be: planned growth rate in sales, diversification of business into new lines, type of products to be offered, and so on. This way, strategic planning encompasses all the functional areas of business and is affected within the existing and long-term framework of economic, political, technological, and social factors. Strategic planning also involves the analysis of various environmental factors particularly with respect to how organisation relates to its environment.

A basic problem in strategic planning is the period for which plan is to be formulated. Normally, more than one year period is considered to be a long one. Usually, for most of the organisations, it ranges between 3 to 5 years. However, there should be some logic in selecting the right time range for planning. In general, since planning and forecasting that underlies it are costly, and organisation should not plan for a longer period than is economically justifiable; yet it is risky to plan for a shorter period. The choice of period lies in the 'commitment principle' which suggests that logical planning encompasses a period of time in the future necessary to foresee, as well as possible, the fulfilment of commitments involved in decisions made today. What the commitment principle implies is that long-range planning is not really planning for future decisions but rather planning for the future impact of today's decisions. In other words, a decision is commitment, normally of funds, direction of action, or other similar things. Therefore, the most striking application of planning period would be the setting up of time period long enough to anticipate the recovery of costs sunk in a course of action.

### **Operational Planning**

Operational planning, also known as tactical or short-term planning, usually covers one year or so. It is aimed at sustaining the organisation in its production and distribution of current products or services to the existing markets. Operational planning can be defined as follows:

"Operational planning is the process of deciding the most effective use of the resources already allocated and to develop a control mechanism to assure effective implementation of the actions so that organisational objectives are achieved."<sup>5</sup>

Operational planning taken in this way answers the questions about a particular function as follows:

1. Why is the action required?
2. What action is to be taken?
3. What will the action accomplish?
4. What are the results of the action required?
5. What objectives and conditions must be met?

Operational planning is undertaken out of the strategic planning. The various examples of operational planning may be adjustment of production within given capacity, increasing the efficiency of operating activities through analysing past performance, budgeting future costs, programming the comprehensive and specific details of future short-term operations, and so on.

### **Difference between Strategic Planning and Operational Planning**

Apart from the period of time involved in strategic planning and operational planning, there are certain differences between the two. The major differences between the two can be identified as follows:

<sup>5</sup>L.M. Prasad, *Business Policy: Strategy Management*, New Delhi: Sultan Chand & Sons, 2002, p. 46.



**1. Range of Choice.** Strategic planning guides the choice among the broad directions in which the organisation seeks to move and concerns the general planned allocation of its managerial, financial, and physical resources over future specified period of time. Operational planning, on the other hand, focuses on the ways and means in which each of the individual functions may be programmed so that progress may be made towards the attainment of organisational objectives. Usually, operational planning aims at contributing to strategic planning as the former tries to achieve results and actions suggested by the latter.

**2. Type of Environment.** The type of environment for two types of planning is different. Strategic planning takes into account the external environment and tries to relate the organisation with it. It usually encompasses all the functional areas of the organisation and is affected within the existing and long-term future characteristics of various environmental factors. The nature of external environment, thus, is of prime concern of strategic planners. Operational planning mostly focuses on internal organisational environment so as to make the effective use of given resources.

**3. Primacy.** Strategic planning precedes operational planning since the latter is primarily concerned with the implementation of the former. Strategic planning sets trends and direction for managerial actions; its time horizon is usually quite long. Operational planning is heavily concerned with short-term programmes implementing step by step progress towards basic organisational goals. In the short term, managers have to work within the framework of given resources as the functional capabilities of the organisation are generally restricted because in the short term, there cannot be fundamental change in these. Therefore, strategic planning must recognise the limits of what operational planning can realistically be undertaken in given time periods.

**4. Level of Formulation.** Strategic planning is formulated usually by top-level management and other specified planning staff in the organisation. At this level, managers can take overall view of the organisation and have necessary capability to relate the organisation with the external environment. Operational planning is usually spread over a wide range within the organisation and is generally performed by operating managers with the help of the subordinate staff. Since two planning groups are widely separated in the organisation, some incompatibility may exist between two types of planning. Therefore, there is a need for integrating these two in order to have better planning effects. If planning is taken as an integrated system, most of the problems of conflict between strategic and operational planning may be overcome.

## LONG-TERM PLANNING AND SHORT-TERM PLANNING

Planning is concerned with problems of future. Thus, a planning system must involve different degrees of futurity. Some parts of the organisation have requirements that entail planning for many years into the future, while others require planning over only a short horizon. Capital expenditure, for example, is more subject to long-range planning than any other area. Such plans frequently form the basis of other planning. The planning period is divided generally into (i) long term and (ii) short term. However, the time dimension of planning is not so obvious as it might appear. Many complex factors interact to determine planning period—the industry peculiarities, the market demand, the availability of resources, the lead time involved in the product life cycle, etc. Thus, what might be a long period of planning for one organisation, might be a short period for others.

What should be an ideal planning period depends upon commitment principle. Commitment principle implies that long-range planning is not really planning for future decisions, but rather planning the future impact of today's decisions. In other words, a



decision is a commitment, normally of funds, direction of action, or reputation. Thus, the commitment for different parts of organisation differs. Costs incurred on purchasing a machine may be recouped in ten years and management must foresee the situation for the coming ten years. Similarly, a small manufacturer of spare parts who completes his production cycle consisting of raw material acquisition, production, inventory, sales, and collection of money in six months or so requires a commitment period of six months only and the planning period covers only this period.

### **Long-term Planning**

Long-term planning is of strategic nature and involves more than one-year period extending to twenty years or so. However, the more common long-term period is 3 to 5 years. The long-term plans usually encompass all the functional areas of the business and are affected within the existing and long-term framework of economic, social, and technological factors. Long-term plans also involve the analysis of environmental factors, particularly with respect to how the organisation relates to its competition and environment. Sometimes, basic changes in organisation structure and activities become the real output of such plans. Examples of such changes may be new product, product diversification, individuals in the organisation, development of new markets, etc.

A distinction between short-range and long-range planning is often made on the basis of the period of time involved. Though there is a clear correlation between these kinds of planning and the length of time horizons, the more important distinction is on the basis of the nature of planning.

### **Short-term Planning**

Short-term planning, also known as operational or tactical planning, usually covers one year. These are aimed at sustaining organisation in its production and distribution of current products or services to the existing markets. These plans directly affect functional groups—production, marketing, finance, etc. Within its time dimension, they answer pertinent questions about a particular function as follows:

1. Why is the action required?
2. What action is to be taken?
3. What will the action accomplish?
4. What are the results of the action required?
5. What objectives and conditions must be met?

**Coordination of Short-term Planning and Long-term Planning.** In fact, in a successful planning process, short-term plans are made with reference to long-term plans because short-term plans contribute to long-term plans. As such, there is a need for coordination between these two plans. The managers should consider, while preparing the short-term plans, that they are contributing to the long-term plans. For this purpose, they should scrutinise the former in the light of the latter and subordinates should also be made aware of this fact. Sometimes, the short-term plans do not contribute to long-term plans, but contribute to the organisational objectives. In such a case, the long-term plans need to be modified. This can be done when there is flexibility in planning.

### **PROACTIVE PLANNING AND REACTIVE PLANNING**

Classification of planning into proactive and reactive is based on the organisation's response to environmental dynamics. We have seen earlier that planning is an open system approach and is affected by environmental factors which keep on changing continuously. However,



organisations' responses to these changes differ. Based on these responses, planning may be either proactive or reactive.

### **Proactive Planning**

Proactive planning involves designing suitable courses of action in anticipation of likely changes in the relevant environment. Organisations that use proactive planning use broad planning approaches, broad environmental scanning, decentralised control, and reserve some resources to be utilised for their future use. These organisations do not wait for environment to change but take actions in advance of environmental change. Most of the successful organisations, generally, adopt proactive approach in planning. In India, companies like Reliance Industries, Hindustan Lever, etc. have adopted this approach and their growth rate has been much faster than others.

### **Reactive Planning**

In reactive planning, organisations' responses come after the environmental changes have taken place. After the changes take place, these organisations start planning. In such a situation, the organisations lose opportunities to those organisations which adopt proactive approach because, by the time, reactors are ready with their plans, the contextual variables of planning show further changes. Therefore, their plans do not remain valid in the changed situations. This approach of planning is useful in an environment which is fairly stable over a long period of time.

### **FORMAL PLANNING AND INFORMAL PLANNING**

Classification of planning as formal and informal is based on the degree of formalisation which is used in undertaking planning activities.

#### **Formal Planning**

Formal planning is in the form of well-structured process involving different steps. Generally, large organisations undertake planning in formal way in which they create separate corporate planning cell placed at sufficiently high level in the organisation. Generally, such cells are staffed by people with different backgrounds like engineers, statisticians, MBAs, economists, etc., depending on the nature of organisation's business. These cells monitor the external environment on continuous basis. When any event in the environment shows some change, the cells go for the detailed study of the impact of the event and suggest suitable measures to take the advantages of the changing environment. The planning process that is adopted is rational, systematic, well-documented, and regular.

#### **Informal Planning**

As against formal planning, informal planning is undertaken, generally, by smaller organisations. The planning process is based on managers' memory of events, intuitions and gut-feelings rather than based on systematic evaluation of environmental happenings. Usually, the corporate planning affairs are not entrusted to any single cell or department but become the part of managers' regular activities. Since the environment for smaller organisations is not complex, they do reasonably well with informal planning process.

### **TYPES OF PLANS**

A plan, as defined earlier, is a commitment of resources to a particular course of action believed necessary to achieve specific results. From this point of view, there may be several types of plans, both major and minor. What managers fail to recognise is that there is a variety of plans. Often they consider a major programme or project as a plan like building a



Decision making is an indispensable component of management process and a manager's life is filled with making decisions after decisions. Managers see decision making as their central job because they constantly choose what is to be done, who is to do, when to do, where to do, and how to do. Looking at the role of decision making in management, William Moore has equated it with management when he says that "management means decision making."<sup>1</sup> Decision making, though permeates all managerial functions, is at the core of planning because it is the planning where major decisions are made which set the organisational tone. It is the stage at which major decisions regarding setting of organisational objectives, formulating major plans, laying down of policies, procedures, rules, etc. are made. Collectively, the decisions of managers give form and direction to organisational functions.

Decision making is both managerial function and organisational process. It is managerial function because it is a fundamental responsibility of every manager. It is organisational process because many decisions transcend the individual managers and become the product of groups, teams, committees, etc. In fact, more important decisions are made by group of managers rather by managers individually. Therefore, managers should develop decision making skills and acquaint themselves with the dynamics of decision making because of the following reasons:

1. Managers spend a great deal of their time in making decisions. In order to develop their decision-making skills, it is necessary that they know how to make effective decisions.
2. Managers are evaluated on the basis of quality of their decision making. To improve the quality of decisions, they should know how quality of decision making can be improved.

## Concept of Decision and Decision Making

Before we go through the various aspects of decision making, it is essential to go through the concept of decision making. The word 'decision' has been derived from the Latin word 'decidere' which means a cutting away or a cutting off, or in a practical sense. Thus, a decision involves a cut of alternatives between those that are desirable, and those that are not desirable. The decision is a kind of choice of a desirable alternative. Lopez has defined a decision as follows:

"A decision represents a judgement; a final resolution of a conflict of needs, means, or goals; and a commitment to action made in face of uncertainty, complexity, and even irrationally."<sup>2</sup>

Decision making is a process to arrive at a decision; the process by which an individual or organisation selects one position or action from several alternatives. Shull et al have defined decision making as follows:

"Decision making is a conscious human process involving both individual and social phenomenon based upon factual and value premises which concludes with a choice of one behavioural activity from among one or more alternatives with the intention of moving toward some desired state of affairs."<sup>3</sup>

Decision making, thus, is an act of projecting one's own mind upon an opinion or a course of action. In decision making, three aspects of human behaviour are involved: (1) cognition—activities of mind associated with knowledge; (2) conation—the action of the mind implied by such words as willing, desire, and aversion; and (3) affection the aspect

<sup>1</sup>William M. More, *The Professions: Roles and Rules*, New York: Basic Books, 1978.

<sup>2</sup>Pelix M. Lopez, *The Making of a Manager*, Mumbai: Taraporevala, 1977, p. 73.

<sup>3</sup>Fremont A. Shull, Andrew L. Delbecq, and Larry L. Cummings, *Organisational Decision Making*, New York: McGraw-Hill, 1980, p. 31.



of mind associated with emotion, feeling, mood, and temperament. Based on the above concept of decision making, its features can be derived as follows:

1. Decision making implies that there are various alternatives and the most desirable alternative is chosen to solve the problem or to arrive at expected results. A problem situation which does not have alternatives is not really a problem requiring solution though the problem may be quite injurious.
2. Existence of alternatives suggests that the decision maker has freedom to choose an alternative of his liking through which his purpose is served.
3. Decision making may not be completely rational but may be judgemental and emotional in which personal preferences and values of the decision maker play significant role.
4. Decision making, like any other management process, is goal-directed. It implies that the decision maker attempts to achieve some results through decision making.

### TYPES OF DECISIONS

Decision making is involved in every walk of life; it is relevant in organisational as well as non-organisational context. In organisational context, decisions may vary from the major ones like determination of organisational objectives or deciding about major projects to specific decisions about day-to-day operations. Therefore, there are different types of decisions which are made by managers in organisations and for each type of decision, decision-making variables and conditions differ. There are different ways in which organisational decisions may be classified. One way of classifying these decisions is to group them into routine and repetitive or non-routine. In another way, these decisions are classified as programmed or non-programmed. These are further classified as strategic and tactical decisions. Strategic decisions are non-routine and non-programmed while tactical decisions are mostly routine and programmed. Therefore, understanding of programmed and non-programmed decisions and strategic and tactical decisions is necessary for managers to enhance their decision-making skills.

#### Programmed and Non-programmed Decisions

Herbert Simon has grouped organisational decisions into two categories based on the decision factors which are taken into consideration. These are programmed and non-programmed decisions.<sup>4</sup>

**Programmed Decisions.** Programmed decisions are routine and repetitive and are made within the framework of organisational policies and rules. These policies and rules are established well in advance to solve recurring problems in the organisation. For example, the problem relating to promotion of employees is solved by promoting those employees who meet promotion criteria. These criteria are established by promotion policy and the managers have just to decide which employees meet criteria for promotion and the decision is made accordingly. Programmed decisions are comparatively easy to make as these relate to the problems which are solved by considering internal organisational factors. Such decisions are made by personnel at lower levels in the organisation where the environment affecting decision making is static and well structured.

**Non-programmed Decisions.** Non-programmed decisions are relevant for solving unique/unusual problems in which various alternatives cannot be decided in advance. For such decisions, the situation is not well structured and the outcomes of various alternatives

<sup>4</sup>Herbert A. Simon, *The Science of Management Decision*, Upper Saddle River, NJ: Prentice Hall, 1997.



cannot be arranged in advance. For example, if an organisation wants to take actions for growth, it may have several alternative routes like going for a grass-route project or taking over an existing company. In each situation, the managers have to evaluate the likely outcomes of each alternative to arrive at a decision. For evaluating the likely outcomes of these alternatives, the managers have to consider various factors, many of which lie outside the organisation. A common feature of non-programmed decisions is that they are novel and non-recurring and, therefore, readymade solutions are not available. Since these decisions are of high importance because of their long-term consequences, these are made by managers at higher levels in the organisation.

### Strategic and Tactical Decisions

Organisational decisions are classified as strategic and tactical or operational. The distinction between strategic and tactical decisions is required because authority for tactical decision may be delegated to lower levels in the organisation while for strategic decision, it cannot be delegated lower than a particular level in the organisation. However, the distinction between strategic and tactical decisions is not as fine as a manager would wish because both these decisions attempt to achieve organisational objectives. Moreover, what might be a strategic decision for one organisation may be tactical decision for another. Therefore, the nature of both decisions can be understood by analysing them in detail.

**Strategic Decision.** Strategic decision concept is based on strategy which is a major action plan in an organisation. Therefore, strategic decision can be defined as follows:

Strategic decision is a major choice of actions concerning allocation of resources and contribution to the achievement of organisational objectives.

In a strategic decision, following characteristics are present:

1. The decision is a major one which affects the whole or major part of the organisation.
2. It contributes directly to the achievement of organisational objectives. Though all decisions try to contribute in this direction, strategic decisions contribute directly and other decisions are derived from these.
3. A strategic decision may involve major departure from earlier ones concerning some organisational practices; for example, change in product mix, expansion of business, change in personnel policies, etc.
4. The strategic decision has normally three elements: (i) a course of action or plan which specifies the work to be done to achieve the result, known as action element; (ii) a desired result or objective to be achieved through the implementation of the decision, result element; and (iii) a commitment which directs some part of the organisation to undertake the course of action, makes the personnel involved responsible for attaining the objective, and allocates resources to them, commitment element.
5. The strategic decision is normally a non-programmed decision which is made under the condition of partial ignorance. The alternatives involved and the outcomes of these alternatives cannot be known in advance. This is so because strategic decision is to be taken in the context of environmental factors which are quite dynamic and uncertain.

**Tactical Decision.** Tactical or operational decision is derived out of strategic decision. It relates to day-to-day working of the organisation and is made in the context of well-set policies and procedures. The various features of a tactical decision are as follows:



1. Tactical decision relates to day-to-day operations of the organisation and has to be taken very frequently. The decision is mostly repetitive; for example, purchase of raw materials, assigning duties to employees, etc.
2. Tactical decision is mostly a programmed one. The decision is programmed through the prescription of policies, rules, procedures, etc. Therefore, the decision can be made within the context of these variables. Such prescriptions provide what to do in a particular case. When the case for decision making comes, the decision maker simply applies those prescriptions and decides the things.
3. The outcome of tactical decision is of short-term nature and affects a narrow part of the organisation. For example, purchase of raw materials in routine manner will affect production department for a short period because raw materials are purchased very frequently in the context of well-set policies.
4. The authority for making tactical decisions can be delegated to lower-level managers. This is done because of two reasons: *First*, the impact of tactical decision is narrow and of short-term nature. Therefore, the lower-level managers have adequate perspective to make such decisions. *Second*, by delegating authority for such decisions to lower-level managers, higher-level managers are free to devote more time on strategic decisions which are more important.

### DECISION-MAKING PROCESS

When a manager makes a decision, it is in effect the organisation's response to a problem. As such, decisions should be thought of as means rather than ends. Every decision is the outcome of a dynamic process which is influenced by multiple forces. This process is presented in Figure 10.1. However, this process should not be interpreted to mean that decision making is a fixed procedure. A process is basically a dynamic concept rather than static. Events and relationships are dynamic, continuous, and flexible and must be considered as a whole in which many forces interact; a force affecting others and being affected by others. Therefore, the decision-making process as presented in Figure 10.1 should be seen as sequential process rather than a series of steps to enable the decision maker to examine each element in the progression that leads to a decision. Moreover, the process reveals that it is more applicable to non-programmed decisions than to programmed ones. Problems that occur infrequently are unstructured, and are characterised by a great deal of uncertainty regarding their outcome, require the manager to utilise the entire process. For frequently occurring, structured problems, it is not necessary to consider the entire process. If a policy is established or a specific rule or procedure developed to handle such problems, it will not be necessary to develop and evaluate various alternatives each time the problem arises.

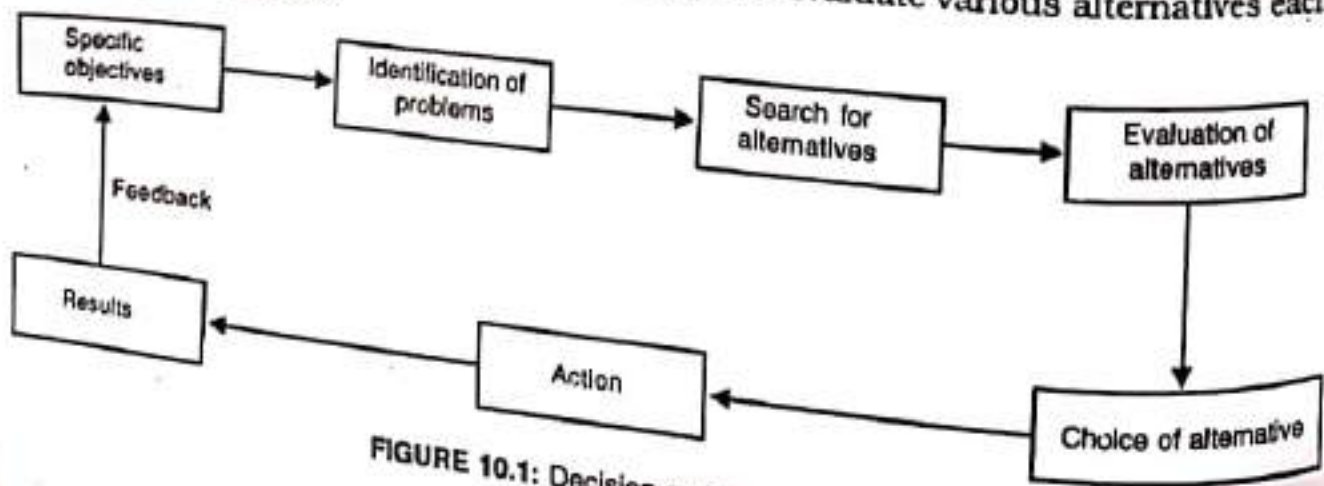


FIGURE 10.1: Decision-making process



**Specific Objective**

The need for decision making arises in order to achieve certain specific objectives. Every action of human being is goal directed. This is true for decision making also which is an action. Therefore, (the starting point in any analysis of decision making involves the determination of whether a decision needs to be made.) In fact, setting of specific objective itself is an outcome of an earlier decision. However, since the objective setting is an outcome of earlier decision, this may not be considered truly as the first step of decision process but provides framework for further decisions.

**Problem Identification**

Since a particular decision is made in the context of certain given objectives, identification of problem is the real beginning of decision-making process. (A problem is a felt need, a question thrown forward for solution. It is the gap between present and desired state of affairs on the subject-matter of decision.) It is just like the diagnosis of patient by the doctor. When a doctor makes a diagnosis, he has a normal, healthy person and he also has a fairly clear concept of what a healthy person is. With this model as the desired result, he looks for disparities in the patient's actual state of health or factors which indicate that his future health will fall short of normal. In the case of management decision, however, a manager cannot rely on a commonly accepted norm such as healthy person. The objectives, if set precisely and specifically on the subject-matter of decision, will provide clue in identifying the problem and its possible solution. Further, in management, a problem exists whenever one faces a question whose answer involves doubt and uncertainty. If there is no solution to the problem, it cannot be treated as problem from decision point of view, though the consequences of not solving this problem may be terrible. (A problem can be identified much clearly, if managers go through diagnosis and analysis of the problem.)

**1. Diagnosis.** The term 'diagnosis' has come from Medical Science where it is used as the process of identifying a disease from its signs and symptoms. A symptom is a condition or set of conditions that indicates the existence of a problem. For example, a patient has certain symptoms on the basis of which his disease can be identified. Symptoms occupy an essential place in the problem-solving process for they signal the existence of problem and guide the search for the underlying problem. For example, if an organisation has high turnover of its employees, it indicates that something is wrong with the organisation. The symptom of high turnover may provide the clue to the real problem and managers can overcome the problem by taking appropriate action (decision making involves in taking action). Often managers fail to diagnose the problem correctly and sometimes they treat symptom as problem. Therefore, they should do this exercise very carefully. Diagnosing the real problem implies knowing the gap between what is and what ought to be, identifying the reasons for the gap, and understanding the problem in relation to higher objectives of the organisation.

**2. Analysis.** While the diagnosis of problem gives the understanding of what should be done in terms of decision making, analysis of problem takes it a step further. The analysis of the problem requires to find out who would make decision, what information would be needed, and from where the information is available. This analysis may provide managers with revealing circumstances that help them to gain an insight into the problem. The whole approach of analysis of problem should, however, be based around critical factors like the availability of information for making decision, criticality of decision, and the time available for making decision. For example, information may be available from external and internal sources and some of the information may not be available at all. Similarly, the



criticality of decision will determine the level at which the decision can be made. Thus, diagnosis and analysis of problem requiring decision will clarify what is needed and where the alternatives for doing the thing can be sought.

### Search for Alternatives

A thorough diagnosis defines both a specific problem and the situation in which the problem exists. With this definition in mind, a decision maker seeks possible solutions. A problem can be solved in several ways, however, all the ways cannot be equally satisfying. Further, if there is only one way of solving a problem, no question of decision arises. Therefore, the decision maker must try to find out the various alternatives available in order to get the most satisfactory result of a decision. Identification of various alternatives not only serves the purpose of selecting the most satisfactory one, but it also avoids bottlenecks in operation as alternatives are available if a particular decision goes wrong. However, it should be borne in mind that it may not be possible to consider all alternatives either because some of the alternatives cannot be considered for selection because of obvious limitations of the decision maker or information about all alternatives may not be available. Therefore, while generating alternatives, the concept of limiting factor should be applied. A limiting factor is one which stands in the way of accomplishing a desired objective. If these factors are identified, managers will confine their search for alternatives to those which will overcome the limiting factors. For example, if an organisation has limitation in raising sizable finances, it cannot consider projects involving high investment.

A decision maker can use several sources for identifying alternatives: his own past experience, practices followed by others, and using creative techniques. Past experience, applied in most cases of decision making, takes into account the actions taken by the decision maker in the past with obvious differences between the former challenges and the present one. The successful action of the past may become an alternative for the future. This is a very simple approach but has obvious limitations because there may be so much changes in the decision context that old action becomes totally irrelevant. Copying from the experience of others is another way of generating alternatives. Thus, alternatives used by successful decision makers can be thought of as alternatives of decision making. This is also practised by many organisations after making suitable amendments in the light of changed decision context. Importing of technology from foreign countries with suitable changes is good example of this type of alternatives. The third method of generating alternatives is through creative process where various exercises are taken to generate entirely new ideas. This aspect of search for alternatives will be discussed in a separate section of the chapter.

### Evaluation of Alternatives

After the various alternatives are identified, the next step is to evaluate them and select the one that will meet the choice criteria. However, all alternatives available for decision making will not be taken for detailed evaluation because of the obvious limitations of managers in evaluating all alternatives. The energy of managers is limited and psychologically most of them prefer to work on plans that have good prospect of being carried out. In narrowing down the number of alternatives, two approaches can be followed: constraint on alternatives and grouping of alternatives of similar nature. The decision maker develops a list of limits that must be met by a satisfactory solution. He may treat these limits as constraints, that is, he may check proposed alternatives against limits, and if an alternative does not meet them, he can discard it. In the second approach, various alternatives can be grouped into classes on some specific criteria important to decision making. A representative alternative



from one group may be selected for future analysis. Then having found the group that shows up the best, decision maker can concentrate on alternatives within this group. This method is very helpful in decision making regarding the location of plant, warehouse, etc.

Having narrowed down the alternatives which require serious consideration, the decision maker will go for evaluating how each alternative may contribute towards the objectives supposed to be achieved by implementing the decision. Evaluation of various alternatives dissects an alternative into various tangible and intangible factors. Tangible factors are those which can be quantified because they are quite obvious like the cost per unit, investment required, output to be received, etc. Such factors can be measured easily, though their happening may not be measured with certainty; for example, demand projection at a given price in a particular alternative. As against these, intangible factors are mostly qualitative and cannot be measured in terms of quantity. Therefore, some definitions can be used for such factors. For example, in a plant location, various non-economic factors like psychological problem arising out of displacement of persons from the plant site, ecological balance, etc., have to be taken into account which cannot be quantified. In evaluating an alternative, both these factors have to be taken into account. For determining the impact of a factor, various quantitative techniques have been developed which will be discussed in a separate section of the chapter.

### Choice of Alternative

The evaluation of various alternatives presents a clear picture as to how each one of them contributes to the objectives under question. A comparison is made among the likely outcomes of various alternatives and the best one is chosen. Choice aspect of decision making is related to deciding the most acceptable alternative which fits with the organisational objectives. It may be seen that the chosen alternative should be acceptable in the light of the organisational objectives. Thus, it is not necessary that the chosen alternative is the best one. This concept is based on the satisficing approach rather than the maximising approach of decision making, to be discussed later in detail. In choosing an alternative, the decision maker can go through three approaches: experience, experimentation, and research and analysis.

**1. Experience.** Managers can choose an alternative based on their past experience if they have solved similar problems earlier. Reliance on past experience plays a larger part than it deserves in decision making. Managers rely more on experience than alternative methods of choice. Past experience has some benefits but it has certain limitation that it blocks making correct choice specially when the environmental factors are more flexible.

**2. Experimentation.** Experimentation which is generally used in scientific enquiry involves that a particular alternative is put in practice, result is observed, and the alternative giving the best result is selected. For example, many organisations go for test marketing of their products before the products are really introduced in the market. During test marketing, the actions can be taken to change product features which are not acceptable. Experimentation as a method for choice of an alternative can be used on a limited scale because of cost and time factor.

**3. Research and Analysis.** Research and analysis is the most certain method of selecting an alternative, specially when major decisions are involved. This approach entails solving a problem first by comprehending it. This involves a search for relationships between the more critical variables, constraints, and planning premises that bear the objectives sought. In the second stage, the alternative is broken into various components. Their individual impact on objective is evaluated and the impact of all factors of an alternative is combined



to find out the total impact of the particular alternative. The one having the most positive impact is chosen. Since this requires making a lot of calculations, often the help of computer is taken. In fact, various computer-based models have been developed to make the choice of an alternative easier.

Though various approaches are available for choosing an alternative, the decision maker's personal values and aspirations affect what alternative will be chosen. In fact, in one way, the decision making is the translation of one's values and aspirations into action. Thus, the rational process of decision making is considerably affected by the personal factors. Further, managers should take into account the uncertainty of outcome of a decision. Therefore, they should be ready with alternative action if one fails. In order to do this, managers should often be ready with contingency plans.

### Action

Once the alternative is selected, it is put into action. Truly speaking, the actual process of decision making ends with the choice of an alternative through which the objectives can be achieved. However, decision making, being a continuous and ongoing process, must ensure that the objectives have been achieved by the chosen alternative. Unless this is done, managers will never know what way their choice has contributed. Therefore, the implementation of decision may be seen as an integral aspect of decision.

Once the creative and analytical aspects of decision making through which an alternative has been chosen are over, the managerial priority is one of converting the decision into something operationally effective. This is the action aspect of decision making. The basic difference between decision making as an analytical process and action is that the former requires the use of conceptual skills since it translates the abstract ideas into reality. For example, suppose that there is a change in consumers' tastes. This change is very abstract and cannot be seen unless some specific techniques and measurements are applied. How this change can provide opportunity to the organisation is mostly a conceptual exercise requiring managers to interpret what changes are taking place and what products or services will be preferred in the changed situation. Action, on the other hand, relates to putting a decision into practice so that objectives of decision are achieved. This practice will provide further feedback for evaluating the soundness of the decision and, if need be, a change in the decision.

Implementation of a decision requires the communication to subordinates, getting acceptance of subordinates over the matters involved in the decision, and getting their support for putting the decision into action. The decision should be effected at appropriate time and in proper way to make the action more effective. The effectiveness of action is important because it is only effective action through which organisational objectives can be achieved, and right decisions help in effective action.

### Results

When the decision is put into action, it brings certain results. These results must correspond with objectives, the starting point of decision-making process, if good decision has been made and implemented properly. Thus, results provide indication whether decision making and its implementation is proper. Therefore, managers should take up a follow-up action in the light of feedback received from the results. If there is any deviation between objectives and results, this should be analysed and factors responsible for this deviation should be located. The feedback may also help in reviewing the decision when conditions change which may require change in decision. Therefore, a successful manager is one who keeps a close look at the objectives and results of the decision and modifies his decision according to the changes in the circumstances.



## Approaches for Problem Solving

There may be several approaches for problem solving as each manager, as a problem solver, acts in his own ways. However, these approaches can broadly be classified into four broad categories:

1. Routine approach,
2. Scientific approach,
3. Quantitative approach, and
4. Creative approach.

### ROUTINE APPROACH

Routine approach of problem solving involves solving a problem using traditional means, or doing what has always been done when the problem of this type arose. In this approach, reference is simply made to history or precedent and the same answer used before is used now. Some organisations, particularly large ones and those which put emphasis on formalisation, develop standard operating procedures (SOPs) to solve problems of recurring nature. Standard operating procedures are formal rules for accomplishing tasks. These rules are developed over the period and guide the organisational members in a variety of procedures. Most procedures are formalised and written down, but many others are informal work practices. With the changing situations, these SOPs get on changing with the deletion of old procedures and addition of new ones. Another means under the routine approach is to solve problems by a superior order. Here, the problem-solver has no choice at all but follows the edict of his superior.

Though routine approach of problem solving is the most common with many organisations because it facilitates to follow similar practices throughout the organisation, it has some serious limitations. Noted industrial psychologist, Norman Maier, has suggested that managers should consider each problem with respect to its effect on the organisation's betterment as well as its employees, which he called *quality* and *acceptance* respectively.<sup>13</sup> In routine approach, both these elements are often missing.

### SCIENTIFIC APPROACH

Kepner and Tregoe have suggested scientific approach to managerial problem solving and decision making. They contend that "what a manager needs for effective problem analysis is an orderly system for processing information, a system in which certain steps follow others in a fixed order."<sup>14</sup> According to Kepner-Tregoe scientific approach, problem analysis has following features:

1. A problem analyser has an expected standard of performance against which to compare actual performance.
2. A problem is a deviation from a standard of performance (good or bad).
3. A deviation from standard must be precisely identified, located, and diversified.
4. There is always something distinguishing that which has been affected from that which has not.

<sup>13</sup>Norman R.F. Maier, *Problem-solving Discussions and Conferences: Leadership Methods and Skills*, New York: McGraw-Hill, 1983.

<sup>14</sup>Charles H. Kepner and Benjamin B. Tregoe, *The Rational Managers*, New York: McGraw Hill, 1985.



5. The cause of a problem is always a change that has taken place through some distinctive feature, mechanism, or condition to produce a new, unwanted effect
6. The possible causes of a deviation are deduced from the relevant changes found in analysing the problem.
7. The most likely cause of a deviation is one that exactly explains all the facts in the specification of the problem.

Generally, scientific approach of problem solving follows the following steps in sequence:

1. Identification of the proposition.
2. Acquiring preliminary observations about the proposition.
3. Stating tentative solutions to the proposition.
4. Investigating proposition thoroughly, using both current knowledge and controlled experiments.
5. Classification of relevant data obtained.
6. Stating tentative answer to the proposition.
7. Adjusting and stating answer to the problem.

### QUANTITATIVE APPROACH

With the introduction of computers in business problem solving, quantitative approach has been developed. The emphasis in the quantitative approach is on mathematical modelling of systems. Comparisons of various feasible actions such as cost minimisation, profit maximisation, return on investment, etc., are expressed by measurable values. The relationship of the factors for any given action is stated in mathematical form—by formula or action. By substituting different mathematical values for the variables of the equation, different results are obtained and evaluated in keeping with the requirements of the stated problem. Thus, quantitative approach of problem solving proceeds in the following manner:

1. Formulation of the problem.
2. Building a mathematical model to represent the system under study.
3. Deriving the answer from the model.
4. Testing the model and answer derived to ensure its practicability.
5. Placing needed constraints over use of model and answer.
6. Selecting the final answer.

There are various quantitative techniques for problem solving and decision making. Some of these techniques have been discussed later in this chapter.

### CREATIVE APPROACH

Some managers feel that problem solving and decision making should not be viewed as a logical action, that is, the problem need not be defined and strictly rational steps need not be taken to decide what to do. They point out that stated objectiveness are not needed. The decision maker studies the information, people, and facilities involved and concentrates on the interactions and the possible outputs from these resources. This is done through creative approach.

In today's dynamic environment, creativity is vital in decision making. There are various terms which are used as synonyms to creativity such as 'discover', 'invention', 'extending the boundary', etc. Examples of creativity in decision making may be creation of new product, creation of new method, creation of new market, and so on. In general usage, creativity means a talent for unique combination or unusual association of ideas. But since our



approach to creativity is on concentrating on decision making, such a definition is too broad. From a managerial perspective, creativity is the conceiving of original and unique alternatives to the solution of existing problems. Some writers have attempted to differentiate between different types of creativity; for example, viewing 'innovation' as something new, 'synthesis' as combining unrelated data into something new, 'extension' as expanding boundaries on innovation, and 'duplication' as copying others. However, nothing is ever really new. Rather all creativity is synthesis. Undoubtedly, some syntheses are more unique than others, but all creativity builds on the ideas and breakthroughs that have preceded. Thus, from decision making point of view, creativity can be thought of in terms of generating ideas which are unique to the solution of the problem under consideration. John Mee has defined creative thinking as follows:

"Creative thinking is the process of bringing a problem before one's mind clearly by imagining, visualising, supposing, musing, contemplating, or the like, and then originating an idea, concept, realisation, or picture along new or unconventional lines. It involves study and reflection rather than action."<sup>15</sup>

### Role of Creativity in Decision Making

Creativity is vital for decision making, whether it is organisational decision or personal decision. One skill that significantly differentiates good decision makers from poor is creativity. The creativity is required to develop alternatives, enrich possibilities, and imagine consequences. The role of creativity is maximum in generating alternatives which can be considered for evaluation and choice. Before a solution to a problem can be implemented, it must be developed. A point often overlooked is that any given solution is only one of a number of alternatives. In fact, there is no problem that has only one possible solution; and no decision maker should approach a problem with the assumption that it has only one solution. The concept of equifinality applies to problem solving. Equifinality suggests that final state can be reached from different conditions and by a variety of paths. The decision maker will be in a better position when he considers maximum alternatives through which he can solve the problem requiring decision. Since creative thinking is directed towards generating new ideas, more alternatives can be found out through this process.

Creativity is required specially for solving problems which are non-repetitive and unique. Such problems cannot be solved by known methods and past experience is not enough in this case. A fresh approach, a new twist, a novel arrangement of recognised parts, or the addition of a different material or system is often necessary to find an acceptable solution. Preferably, a manager should be able to create original ideas himself; at a minimum, he needs acumen in spotting good ideas of other people.

### Stages in Creative Process

Creativity is a very complex process. People believe that it is unexplainable and comes out of the clear blue sky for no apparent reasons. But this is not a good and valid explanation. and behavioural scientists believe that through specific process, creativity emerges. There are certain identifiable stages in creative process. These stages may be termed as saturation, preparation, incubation, illumination, and verification. A brief description of these stages will spell out their role in creativity.

**1. Saturation.** While it may be true that some new ideas may come just by the way but it is certain that most important way to get right ideas is to work on a baffling problem and work

<sup>15</sup>John F. Mee, "The Creative Thinking Process," *Harvard Business Review*, January-February 1956.



hand. For example, after careful review of a wide range of reports on creative activity, Ghiselin concludes that:

"Even the most energetic and original mind, in order to reorganise or extend human insight in any valuable way, must have attained more than ordinary mastery of the field in which it is to act a strong sense of what needs to be done, and skill in the appropriate means of expression."<sup>16</sup>

For a manager, it is essential that he is thoroughly conversant with the problem on hand. For him, saturation stage normally begins in thorough familiarity with a problem itself, its history, its importance, its relationship to other parts of the business, and its setting. This will provide the manager an insight in identifying the real problem and he can think for suitable solution. If the manager is clearly aware about the real problem, he is likely to think in direction which may be very relevant for problem solution.

**2. Preparation.** Knowledge alone, no matter how complete, does not generate creative ideas. The decision maker has to go through preparation stage at which he tries to collect information relating to the problem. He may recall his past experience and also study new materials. It should be recognised that something new does not come instantaneously or overnight. The preparation stage may last few minutes, hours, days, or weeks, or even years. At this stage, information must be mullied until what we might call mental digestion takes place. During this period, the person commonly suffers from anxiety and frustration specially if the preparation stage lasts for very long. At the preparation stage, creative thinker may deliberate about the problems with others. Deliberation usually includes three steps: (i) analysis, (ii) building relationships and patterns, and (iii) seeking useful rearrangements or combinations.

**3. Incubation.** If no solution of problem is found out at the stage of preparation, the creative person attempts to shelve the problem and to forget about it. He may engage himself in activities totally unconnected with the problem; he may listen to music, go for other entertainment, and so on. However, he may shelve the problem consciously but it exists in the subconscious mind. The difference between conscious and subconscious minds is that the former is the centre of logical thinking and people are aware about it while the latter is unknown but engages continuously in generation of ideas for the solution of problem even though people may not be aware about it. During the process of incubation, the mind will work subconsciously to create certain new ideas. This is so because a new idea is created in the subconscious mind after certain amount of sorting and manipulating of the multitude of information stored there. Subconscious mind can be compared with computer. In computer, certain input is stored which may be needed at a later stage. When any problem is presented, the computer manipulates the stored information until the right combination is reached. This new combination is different from any of the data stored in the computer. In the same way, the new combination may be generated in subconscious mind. However, there is a difference between the two. While in computer, the combination of data is based on mathematical relationship, normally called as programming, in the case of incubation in subconscious mind, there is less direct or determinable connection with the basic ideas and relationship between new ideas and data stored is nebulous.

**4. Illumination.** The illumination stage of creativity is characterised by a flash of insight or a sudden spontaneous solution. If the previous stages of creativity have been accomplished properly, the new data will be brought to mind. Many other ideas will follow in quick order; faster than what one's memory can absorb or retain them. Many flashes of ideas are lost, others rejected, while some are retained for further analysis. Sometimes, many ideas may come when one is not really thinking about the problem consciously. There are many cases

<sup>16</sup>Brewster Ghiselin, *The Creative Process*, Berkeley: University of California Press, 1961, p. 29.



where many great ideas have come in the minds of creative thinkers when they have not been engaged in thinking process consciously.

**5. Verification.** This is the final stage of creative process and involves verifying, modifying, or applying the ideas towards the solution of the problem under study. During this stage, mind sets about, by logical method or by experimentation, to prove or disprove the solution that has been suggested. Usually a check with cold reality reveals the need for adapting and refining the first conception of an idea. This is actually a very critical phase in creative process because new ideas are worthless until they come into full form and are available for consideration by those who can use them.

### Creativity and Innovation

Innovation can be generated through creative process. History of human civilisation is full of innovation of different types. Technological inventions have changed the pattern of human lives. In the present globalised and competitive environment in which customers' aspirations are increasing day-by-day, every forward-looking company is trying to satisfy its customers' needs in innovative ways. Innovation is the process of creating and doing new things. Everett Rogers has defined innovation as "any product, service, or idea that is perceived as new."<sup>17</sup> Thus, the idea may have a long history, but it is innovation to the person who sees it as new. Based on the nature of this newness, innovation is of three types: radical, systems, and incremental. **Radical innovation** is a major breakthrough as a result of technological invention that offsets industry as a whole. For example, invention of microchips has changed the face of computer industry—from large-sized punched-card-based to small-sized chips-based computers with much more memory and data processing. **Systems innovation** creates a new functionality by assembling parts in new ways. For example, creation of automobile engine was radical innovation and became a systems innovation when it was combined with bicycles to create different types of two-wheeler. **Incremental innovation** is the technical improvement and extends the applications of radical and systems innovations. Incremental innovations force organisations to continuously improve their products and services and keep abreast or ahead of the competition. In managing innovations, there are two types of strategic issues involved:

1. Innovation generation, and
2. Innovation diffusion.

### Innovation Generation

Innovation generation, whether radical, systems, or incremental, involves four stages:

1. Identification of need for innovation,
2. Idea generation,
3. Idea evaluation, and
4. Idea selection.

At each of these stages, issues involved are different.

**1. Identification of Need for Innovation.** An innovation is not useful unless it has social relevance. In fact, all technological inventions—radical innovations—have taken place to make the human life better. Therefore, the first issue in any innovation is to identify how it is going to change the social life. In an organisational context, the identification of need for innovation should be related to creating value to customers. Therefore, the customers and their needs are prime focus in an innovation.

<sup>17</sup>Everette M. Rogers, *Diffusion of Innovations*, New York: Free Press.



**2. Idea Generation.** At the level of idea generation for innovation, an exercise is undertaken to find out the way through which the needs of the society (customers in the case of a company) may be satisfied. Since this involves creativity, several methods may be used such as brainstorming, Delphi technique, market research, intuitions and hunches, and so on. The emphasis at this stage is to generate as many ideas as possible without restricting the relevance of an idea.

**3. Idea Evaluation.** After the generation of ideas through various sources, these ideas are evaluated against the set criteria. These criteria may be set either objectively based on certain parameters such as availability of resources for implementing innovations or subjectively based on personal preferences. Since the idea evaluation proceeds through a number of stages in sequence, evaluative criteria should be fixed for all such stages.

**4. Idea Selection.** After evaluation of various ideas, a particular idea is selected which meets the evaluative criteria most. Further activities take place for putting the innovation in operation.

### Innovation Diffusion

Innovation diffusion involves adoption of innovation. Rogers has defined innovation diffusion as "a process of spreading a new idea from its source of invention or creation to its ultimate users or adopters."<sup>18</sup> The process of innovation diffusion involves the following steps:

1. Awareness about innovation if it has taken place outside the organisation, for example, awareness about invention of a new technology;
2. Evaluation of appropriateness of innovation, that is, to find out whether the innovation adoption contributes positively;
3. Trial of innovation to check its feasibility; and
4. Adoption of innovation as the part of the organisation.



After analysing the creative phase of planning through which managers define what is to be done, the next issue comes before them is who will do it. Since the work is done by a number of persons working together, managers have to define who will do what and what will be relationship among these persons. This aspect is taken up by managers in the form of organising which basically involves analysis of activities to be performed for achieving organisational objectives, grouping these activities into various divisions, departments, and sections so that these can be assigned to various individuals, and delegating them appropriate authority so that they are able to carry on their work effectively. In management literature, sometimes, the terms organisation and organising are used interchangeably because the term organisation is used in many ways. Therefore, before going into dealing with various issues of organising, it is beneficial to be clear about organisation and organising.

## Concept of Organisation and Organising

The term 'organisation' is used in many ways and in each way, the users use it in a specific reference. For example, Lyndall Urwick has observed that:

"In English-speaking countries, and particularly in the USA, the term organisation has two popular meanings or usages and these are incompatible. First, there is the meaning or usage in which the term was employed by the so-called classicists of management. There is a second usage of the term organisation which is very general particularly in the USA, but also in Great Britain. This is synonymous for the corporation or undertaking, the human group regarded as a whole. Thus, these usages of the same term are incompatible is obvious."<sup>1</sup>

It may be mentioned here that the classicists have used the term organisation in the form of organising which is a part of management process. Presently, the term organisation is used in the following ways with or without prefix or suffix:

1. as entity.
2. as group of people.
3. as structure, and
4. as process.

### Organisation as Entity

Most frequent use of the term organisation is as an entity and it is referred to as enterprise as a whole like company, corporation, partnership firm, etc. In this form, organisation is defined as collectivity of people for achieving common objectives. William Scott has defined organisations as follows:

"Organisations are collectivities of people that have been established for the pursuit of relatively specific objectives on a more or less on continuous basis."<sup>2</sup>

When the organisation is defined in this form, it has the following features:

1. **Identifiable Aggregation of Human Beings.** Organisation is an identifiable aggregation of human beings. The identification is possible because human group is not merely a number of persons collected at random, but it is a group of persons who are interrelated. Identifiable aggregation does not mean that all the individuals know each other personally because, in

<sup>1</sup>Lyndall F. Urwick, "That Word Organisation," *Academy of Management Review*, January 1976, pp. 89-92.  
<sup>2</sup>William R. Scott, "Theory of Organisations," in Robert E.R. Farris (ed.), *Handbook of Modern Sociology*, Chicago: Rand McNally, 1974, p. 488.



disciplining activities, but some kind of authority is essential for coordination in organisation. This may vary between complete self-discipline and complete autocracy.

**6. Rationality.** There is a rationality in coordination of activities or behaviour. Every organisation has some specified norms and standards of behaviour; such norms of behaviour are set up collectively by the individuals and every member of the organisation is expected to behave according to these norms or standards. The behaviour is governed by reward and penalty system of the organisation which acts as a binding force on its members. The desirable behaviour is rewarded and undesirable one is penalised. To enforce rationality in behaviour, organisation also provides way for substitution of its members.

These characteristics differentiate an organisation from other social units such as community, family, clan, friendship group, etc. However, modern organisations, though not all, tend to be large and complex. Such characteristics are important from the point of view of their management. In a large organisation, the members are arranged in a number of hierarchies which present some specific problems besides the usual ones associated with every organisation, large or small. Such problems may be in the form of increased distance between decision centres and actual operative levels. This feature makes the coordination more difficult.

### Organisation as Group of People

When organisation is defined as a group of people, it may be defined either as an entity as discussed earlier or any part of it. For example, when we refer to informal organisation, we refer to various groups of people in an organisation who create these groups on their own to satisfy their social needs. When organisation is referred to as a group of people, it is mostly referred to as different groups created either formally or informally. In this form, an organisation has the following features:

1. An organisation always refers to people.
2. The organisation is composed of people who interact among themselves.
3. The interactions are specified by some sort of structure, that is, who will interact with whom.
4. The interactions are meant to achieve some sort of objectives.

### Organisation as Structure

Organisation is also referred to in the context of structure which prescribes the relationships among individuals and positions that they hold. There may be different ways in which these relationships are prescribed. Structure tends to be somewhat permanent with a provision of incorporating changes whenever required. However, the use of the term structure to denote organisation is not used independently but is combined with the term organisation either in the form of organisation structure or structure of organisation.

### Organisation as Process

Classical theorists have used the term organisation in the form of process of organising through which organisation structure is created. Because of the use of the term organisation as a process, more confusion has been created in management literature. In the present context, the term organisation is mostly referred to as entity. Whenever it is used as a process, it is termed as organising rather as organisation. In this part of the text, we shall call it organising through which organisation structure is designed. Organising, being a process, consists of the following elements:

1. **Department**  
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identifying su  
(1) all the nec  
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Another iss  
Individuals is  
be put unde  
department

2. **Linking**  
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**1. Departmentation.** The first basic element in organising is the departmentation, that is, creating various departments, divisions, and sections in order to perform various organisational activities. For creating departments, it is necessary to identify those activities whose performance would lead to the achievement of organisational objectives. While identifying such activities and grouping them into departments, it must be ensured that (1) all the necessary activities are performed, (2) there is no duplication in performing various necessary activities, and (3) activities are performed in a synchronised and coordinated way. Another issue that emerges because of grouping of activities and assigning these to individuals is the determination of span of management, that is, how many individuals should be put under the direct supervision of a superior manager. Various issues involved in departmentation and span of management will be discussed in Chapter 12.

**2. Linking Departments.** After creating different departments (these may be called divisions, sections, etc. besides departments as all these emerge from grouping of activities), the next issue comes before the management is to decide how various departments of the organisation will be linked together so that they operate in a coordinated manner. The way these departments are linked together gives shape to overall organisation structure. Since there are different ways in which activities are grouped and linked, there are different forms of organisation structure which will be discussed in Chapter 13.

**3. Defining Authority and Responsibility.** When a particular activity or group of activities is assigned to an individual, he becomes responsible for the performance of those activities. He can discharge this responsibility properly only when he has corresponding authority. Therefore, he needs authority which comes to him through the process of delegation. This aspect will be discussed in Chapter 14.

**4. Prescribing Authority Relationships.** Since every individual who functions in the capacity of a superior has some authority, there is need for prescribing authority relationships among different individuals and departments in which they function. Such authority relationships may be in different forms because a particular activity of the organisation is related to other activities in different forms. This aspect of organising will be discussed in Chapter 15.

Various elements of organising do not show similar patterns in all organisations because two organisations may not be similar. Further, a particular organisation does not remain the same over the period of time. Therefore, a particular structure is not suitable for all organisations or for the same organisation over the period of time. Thus, there is need for designing structure according to the requirements of an organisation. In order to meet these requirements, either managers may go through the process of experimentation, that is, trial and error which is a costly affair or base their decisions on the previously developed theoretical framework. Organisation theory provides some insights about designing organisation structure by providing theoretical framework. Therefore, it is desirable to go through this theory.

## Concept of Organisation Theory

The word 'theory' and its meaning is derived from Greek word 'Theoria', meaning theorising, that is, looking at, viewing, or contemplating. Thus, theory is a systematic grouping of interrelated principles. Principles are fundamental truths, or what are believed to be truths at a given time, explaining relationships between two or more variables. From this point of view, Rudner has defined the concept of theory as follows:



Theory is a systematically related set of statements, including some law like generalisation that is empirically testable and the sort of systematic relatedness is deductive relatedness.<sup>3</sup>

Applying the concept of theory in organisation theory, it can be defined as the study of structure and design of organisation. It explains how organisations are actually designed and offers suggestions on how they can be constructed to improve organisational effectiveness. Tosi has added one more dimension in the concept of organisation theory and that is the analysis of human behaviour in interrelations. He defines organisation theory as

‘a set of interrelated constructs (concepts), definitions, and propositions that present a systematic view of behaviour of individuals, groups, and subgroups interacting in some relatively patterned sequence of activity, the intent of which is goal directed.’<sup>4</sup>

This definition emphasises the study of human behaviour as individual, group, and subgroup. However, this study is limited in the context of interactions only. Thus, behaviours, in general, do not fall within the purview of organisation theory. This analysis of interactional behaviour is necessary in understanding the dynamics of organisational design and structure. The various features of organisation theory can be presented below:

1. The use of the term ‘theory’ in the phrase ‘organisation theory’ does not quite square with its meaning to the philosophy of science. The reason is that various concepts and postulates in organisation theory do not meet the requirement of a theory. At best, organisation theory contains various formulations dealing with organisational phenomena. But there has been a general application of phrase ‘organisation theory’ to the various formulations which deal with the organisational phenomena.
2. Organisation theory can be treated as a macro examination of organisation because it analyses the whole organisation as a unit. Thus, it is different from organisation behaviour which deals with micro aspect of human behaviour in the organisation.
3. Organisation theory prescribes relationship among variables in the organisation. It is a set of variables describing the parameters of organisation and contains series of ‘if... then’ statements which predict the effect of certain structural arrangements on performance and behaviour of human beings in the organisation. Thus, it is different from ‘management theory’ which is basically a theory of practice interested in facts and sound principles. It prescribes what to do to accomplish a desired outcome.

Organisation theory has been classified into three groups: classical, neoclassical, and modern; though such a classification may not be universal and suitable for all time to come. For example, what is modern theory today may not be modern for tomorrow. However, this classification serves certain purpose, that is, the analysis of organisations from different viewpoints. The classification is based on the nature of organisations—structure, process, and interdependence—as perceived by various scholars engaged in the development of the field of organisation theory. Each of these categories represents a legitimate point of departure for enquiry of organisation; each has a set of value judgements and biases which affects the manner in which the organisations work. Different theories utilise different assumptions about the needs people wish to satisfy through organisations. Yet, each of them focuses on how organisations can be made more effective.

### CLASSICAL ORGANISATION THEORY

The term ‘classical’ means something traditionally accepted or long established. The classical theory is the beginning of the systematic study of organisations. The classical writers have

<sup>3</sup>Richard S. Rudner, *Philosophy of Social Science*, Englewood, Cliffs, N.J.: Prentice-Hall, 1966, p. 30.

<sup>4</sup>Henry L. Tosi, *Theories of Organisation*, Chicago: St. Clair Press, 1976, p. 7.



superior-subordinate relationships in the organisation. Functional process refers to the division of organisation into specialised parts and the regrouping of the parts into compatible units. Thus, each unit of the organisation may be functionally different than others; for example, marketing unit is different from production unit. Thus, while scalar process deals with the vertical growth of the organisation, functional processes are superimposed on each other; superior-subordinate positions are created in various departments and functions. There are five basic components of scalar and functional processes and departmentation, coordination by hierarchy, unity of command, delegation of authority, and line and staff relationships.

(a) *Departmentation*. Division of work or specialisation is usually accomplished through departmentation. Departmentation is the process of dividing the work of the organisation into various units or departments. The basic problem of departmentation is to find out the ways in which to group the tasks into individual jobs or to group into individual administrative units, to group units into larger units, and finally to establish the department at the top level so that costs involved in carrying out these organisational works are minimum.

(b) *Coordination by Hierarchy*. With jobs specialised and divided among units, coordination becomes necessary. Coordination can be achieved mainly through hierarchy or chain of command. The chain of command principle implies that every one from bottom to the top should have a superior to whom he is accountable. Therefore, coordination can be achieved in a better way if this chain of command is defined properly in the organisation.

(c) *Unity of Command*. Unity of command, as discussed in Chapter 2, means that a person in the organisation should receive orders from only one superior. The more completely an individual has a reporting relationship to a single superior, the less is the problem of conflict in instructions and greater is the feeling of personal responsibility for results.

(d) *Delegation of Authority*. Since assignment of activity to a person makes him responsible for achieving the results, he should be delegated authority to carry out his work. Delegation of authority means authorisation to an individual for making decisions. Through the process of delegation and redelegation, the authority is distributed at various points in the organisation.

(e) *Line and Staff Relationships*. Classical theory differentiates between line and staff relationships. Line relationship exists between superior and his subordinate in which a superior can direct the activities of his subordinate. He can give order and subordinate is obliged to carry out the order. On the other hand, staff relationship involves tendering the advice by staff personnel to line managers. It is not obligatory on the line managers to carry the work according to the advice. Line and staff relationships exist because of the functional process in the organisation.

**3. Structure.** Structure is the framework of the formal relationships among various tasks, activities, and people in the organisation. Organisation structure determines the efficiency of the individuals and hence of the organisation. Therefore, there should be logical and rational structure. The basic structural element in the classical theory is the position. Each position is made up of several expectations that others hold about the appropriate behaviour for the holder of the position. Various positions in the organisation are grouped in various ways—horizontally, vertically, or both. Each position holder is then sanctioned a certain amount of authority to perform organisational functions in a certain way. Depending on the distribution of authority, the organisation structure may be centralised or decentralised. In the case of centralisation, authority is concentrated in the higher positions



so that the principles do not become simply a part of the definition of an organisation. Since this has not been done with any consistency, the various classical principles become empirically vacuous.

Various criticisms of classical theory should not lead one to feel that it does offer any guidance for managerial action for organising. In fact many of the classical concepts are still valid. However, they have only limited applications. Therefore, managers should bear this fact while applying these concepts. For example, Scott has observed that:

"It would not be fair to say that the classical school is unaware of the day-to-day administrative problems of the organisation. Classical organisation theory has relevant insights into the nature of organisation, but the value of this theory is limited by its narrow concentration on the formal anatomy of organisation."<sup>9</sup>

### NEOCLASSICAL ORGANISATION THEORY

The neoclassical theory has developed as a reaction to rationality and efficiency obsession of the classical theory which failed to recognise the significance of the impact of human beings on organisation structure. Neoclassical theory has started its development from the findings of famous Hawthorne Experiments. Afterwards, many contributions have been added to the field. The essence of neoclassical theory is contained in two points: (i) organisational situation should be viewed in social as well as in economic and technical terms; and (ii) the social process of group behaviour can be understood in terms of clinical method analogous to the doctor's diagnosis of human organism. The neoclassical theory emphasises the task of complementing for some of the deficiencies in classical theory. This takes the postulates of classical model and modifies them to suit the needs of human beings in the organisation. Since the theory suggests only modifications in the basic postulates of classical theory, it is referred to as neoclassical theory. The main propositions of neoclassical theory are as follows:

1. The organisation is a social system.
2. The social environment of the job affects people and is also affected by them and not by management alone.
3. Informal organisation also exists within the formal organisation and it affects and is affected by the formal organisation.
4. Human being is not totally rational and his behaviour can be predicted in terms of social and psychological factors.
5. Human being has diverse motivational pattern and tries to fulfil different types of needs.
6. Often there is a conflict between individual and organisational objectives which increases the importance of integration between individuals and organisation.
7. Communication is necessary as it carries information necessary for organisational functioning and conveys the feelings and sentiments of people who work in the organisation.
8. Team-work is essential for cooperation among people. This is not achieved automatically but has to be achieved through behavioural approach.

<sup>9</sup> "Overview," *Journal of Academy of Management*, April 1961.



### Neoclassical Theory and Organisational Design

According to neoclassical theory, the organisation should be designed in such a way that meets the basic postulates of the theory as discussed above. The basic emphasis of neoclassical theory is on flat structure, decentralisation, and provision of informal organisation. It can be seen that this theory offers modifications over the classical organisation structure. For example, it accepts the concept of span of control but emphasises on wide span of control to give flat structure rather than narrow span of control resulting in tall structure as envisaged by the classical theory.

**1. Flat Structure.** Neoclassical theory suggests flat structure as against tall structure. Neoclassicists feel that tall structure is against the human beings. It suffers from the following problems: communication problem because of increased differentiation between decision makers and implementers, lack of motivation to people, and being expensive because too many levels are added in the organisation. As against this, flat structure with wide span of control is more suitable for motivating human beings in the organisation; communication chain is shorter; and it is free from hierarchical control.

**2. Decentralisation.** Neoclassical theory suggests decentralisation in organisation structure. Decentralisation is closely related to flat structure as wide span of control will result in horizontal increase of people. The decentralised structure offers various advantages and is in accordance with the various characteristics of human beings as identified by the neoclassicists.

**3. Informal Organisation.** A major departure of neoclassical theory from the classical theory is that the former recognises that in every formal organisation, informal organisation also exists. Formal organisation structure represents as closely as possible the deliberate intention of its framers for the purpose of interactions that are expected to take place among its members. The informal organisation, on the other hand, is created because of the limitations of the formal organisation to fulfil the members' needs, particularly the psychological needs. In an organisation, the behaviour of members is determined with interaction of formal and informal organisations. Since manager cannot control the informal organisation, he should make the best use of this in achieving the organisational objectives.

### Appraisal of Neoclassical Theory

Neoclassical theory has given a new dimension to the design and management of the organisation. It has recognised such important factors which were almost ignored by classical theory like informal organisation, informal leader, group norms, non-economic motivation, irrational behaviour, and so on. All these factors are important in understanding the organisational behaviour. Thus, neoclassical theory has tried to overcome many of the deficiencies of classical theory.

Neoclassical theory, however, is not free from shortcomings. It suffers from incompetency, a short-sighted perspective, and lack of integration among various facets of human behaviour studied by it. It has been criticised by many and criticisms range from 'human relations as a tool for cynical puppeteering of people' to 'human relations is no more than a trifling body of empirical descriptive information'. In fact, neoclassical theory has been called bankrupt. The major problems in neoclassical theory are as follows:

**1. Neoclassical theory lacks unified approach of organisation theory.** In fact, it is not a new theory at all. What actually has been done in this theory is merely modification of classical concepts and models. Therefore, it is merely concerned with organisational modification rather than organisational transformation. Thus, neoclassical theory suffers from the same problems as classical theory does.



2. Most of the assumptions of neoclassical theory on which it bases its recommendations for organisational design and operation are not true. The assumption that it is always possible to find out a solution that satisfies every body is not true. Thus, if basic assumptions are not true, how can recommendations based on these be practical? In the organisation, often there are sharp conflicts of interest among various groups in the organisation that are structural and not merely psychological. This aspect has not been dealt adequately.
3. Various structures and formats of organisations given by neoclassicists are not applicable to all situations. It is true that while designing an organisation, consideration should be given to the characteristics of people working in the organisation but humanistic organisation structure may have its own limitations. As will be seen later, a suitable organisation structure is one which takes care of different variables which affect the organisational functioning and people may be one of the various factors.

### MODERN ORGANISATION THEORY: SYSTEMS APPROACH

Modern organisation theory is a sophisticated and scientific way of explaining a complex organisation. This theory is comparatively systematic and highly constructive. It is not an instantaneous or overnight development but it is a composite representation of various contributions from different disciplines for more than two decades. Modern organisation theory can be understood in two approaches, though both of them are interrelated. These are systems approach and contingency approach.

Before the emergence of contingency approach in management, systems approach was treated to be the modern approach. Many of the writers have treated modern organisation and systems approach of organisational designs as synonymous. For example, Scott observes that:

"the distinctive qualities of modern organisation theory are its conceptual-analytical base, its reliance on empirical research data and, above all, its integrative nature. These qualities are framed in a philosophy which accepts that the only meaningful way to study organisation is to study it as a system."<sup>10</sup>

Modern organisation theory, as a systems approach, is an integrative one which considers the organisation in its totality. The study of system must rely on a method of analysis involving the simultaneous variations of mutually dependent variables. This is what systems approach of organisation theory offers. The concept and implications of systems approach to management has been presented in Chapter 2. Here we are presenting the relevant aspects of systems approach for organisational design. These are subsystems in the organisation and their linking and structural arrangement.

#### Subsystems in Organisation

Every system has subsystems which are interrelated to constitute system as entity. Since the organisation is a system, it contains various subsystems. Each subsystem is identified by certain objectives, processes, roles, structures, and norms of conduct. The various subsystems of the organisation constitute the mutually dependent parts. These subsystems interact and through interactions create new patterns of behaviour that are separate from but related to the pattern specified by the original system. This is known as emerged



behaviour. Since variables are interdependent, the true influence of altering one aspect of the system cannot be determined by varying it alone. Similarly, when any of the subsystems fails to function properly, the impact on other subsystems is immediate and affects the total organisation.

In an organisation system, there are various ways of classifying subsystems. For example, each unit of the organisation is a subsystem. There is another way of classifying subsystems which may be found in each functional unit. Accordingly, there are various subsystems in the organisation and have been classified in different ways. For example, Seiler has identified four components in an organisation system: human inputs, technological inputs, organisational inputs, and social structure and norms.<sup>11</sup> Kast and Rosenzweig have identified five subsystems: goals and value subsystem, psychological subsystem, technical subsystem, structural subsystem, and managerial subsystem.<sup>12</sup> Carzo and Yanouzas have identified three subsystems: technical subsystem, social subsystem, and power subsystem. The totality of these subsystems with their interconnections makes up the system of organisation.<sup>13</sup> However, within these subsystems, managerial subsystem should also be added so that managerial aspect is given due emphasis in designing the organisation structure.

**1. Technical Subsystem.** Technical subsystem is a vehicle for conduct of work in the organisation. It refers to the knowledge required for the performance of tasks, including the techniques used in the transformation of inputs into outputs. The basic component of the technical subsystem is a group of tasks or activities that can be performed by an individual. In performing the task, the individual has to play a role involving decision making, communication, and other actions which relate him with other parts of the organisation. Behaviour in the technical subsystem is governed by rules, procedures, policies, and other prescriptions. The basic purpose of the behaviour regulation is to make sure that jobs are performed as planned and to stabilise behaviour so that organisation's members may develop reasonable expectations of others' work behaviour in the organisation.

Technical subsystem, thus, constitutes the formal arrangement of the functions, relationships, and behaviour. However, behaviour in the organisation is not explained fully by the technical subsystem alone because there is a fundamental conflict between individual and the organisation system resulting from the demand made by the system and the individual expectancies regarding the work he has to perform. Thus, individual behaviour is modified by the existence of social subsystem. Unless this aspect is taken into account, behaviour cannot be predicted properly.

**2. Social Subsystem.** Every organisation has a social subsystem which is composed of individuals and groups in interaction. When people are set to perform their tasks, they develop some sort of informal relationships. These relationships are not patterned on formal basis but are different. Because of these informal relationships, there may be modification of expectancies of behaviour. The informal organisation expects certain norms of behaviour from its members and individuals have expectancies of psychological satisfaction they hope to derive from association with others on the job. Both these expectancies interact resulting in individuals modifying their behaviour according to group norms and the group modifying what it expects of individuals because of the impact of their personality factors on group norms.

<sup>11</sup> John Seiler, *System Analysis in Organisational Behaviour*, Homewood, Ill.: Richard D. Irwin, 1967.

<sup>12</sup> Fremont E. Kast and James E. Rosenzweig, *Organisation and Management: A Systems Approach*, New York: McGraw-Hill, 1974.

<sup>13</sup> Rocco Carzo and John N. Yanouzas, *Formal Organisations: A Systems Approach*, Homewood, Ill.: Richard D. Irwin, 1967.



**3. Power Subsystem.** Every organisation has a power subsystem and people in the organisation elaborate their behaviour through the power relationship. Power is one's ability to influence others to achieve desired results. Power distribution in the organisation is both formal and informal. That is why some people are more powerful in the organisation and some people are powerless in spite of occupying the similar power centres. Power subsystem is important to transform a decision into action in the organisation. Often there is hierarchy of power centres in the organisation because people aspiring for power have varying degrees of success as they have varying degrees of control on the means by which the power can be acquired such as formal position, job importance, expertise, personal characteristics, and coalition of individuals in the organisation.

**4. Managerial Subsystem.** When organisational units are arranged and operated as a system, each subsystem is viewed as a distinct entity and its relationship or contribution to the next level in the hierarchical structure is programmed and measured, but always in consideration of total system. Since organisations are deliberate and purposive creations, their management should lead towards the realisation of their objectives. Management of a system involves two processes: operation and review and control. Operation refers to conversion of inputs into outputs, commonly known as transformation or conversion process. Inputs may be in the form of information, materials, and energy. These inputs are allocated according to plan. However, the distribution of these inputs is also affected by social subsystem and power subsystem, more by the latter one. Operation of a system requires some sort of review and control to make it sure that it is going as it has been planned. If there is any discrepancy, this is overcome so that results are as planned.

Since an organisation has various subsystems, these should be linked properly so that the organisation can work as an entity. The way an organisation moves towards its equilibrium depends on the functional connectedness of its various parts. Successful working of the whole system requires two conditions: (i) enough connectedness among various parts of the subsystems so that operation of a subsystem can activate another and contributions of all can contribute to the whole; (ii) enough separation of the subsystems so that some specialisation of functions is possible and equilibrium can be achieved in the system as a whole. Various parts of the organisation are interlinked by certain activities known as *linking process*. Basically there are three linking processes: communication, decision, and balance. Communication as linking process evokes the activation in various parts of the organisation. It also works as control and coordination mechanism linking the various decision centres in the organisation so as to synchronise their functioning. Various parts of the organisation interact among themselves through communication. The second linking process is decision which refers to selection of an alternative based on some criteria. Thus, the basic criteria of decision making provide uniformity in the working of various subsystems. The third process balance refers to an equilibrium mechanism whereby various parts of the organisation are maintained in a harmonious structured relationship to each other. These three interlinking processes taken together will affect the functioning of individual subsystems as well as of the whole system.

### Systems Approach of Organisational Design

There are various implications of systems approach in management including organisational design. Systems approach of modern organisation theory has suggested three aspects relevant to design of organisation structure. These are modern organisational models, lateral relationships, and cybernetics.

Systems approach of organisational design recognises



## Departmentation

The first real task in designing an organisation structure is the identification of activities and to group them properly. The process of grouping the activities is commonly known as departmentation. The terms used to denote the departments that result from departmentation vary a great deal. In business organisations, such terms as division, department, and section are used; in government, these are called branch, department,



regiment and section, in military, these are referred to as battalion, group, company, etc. Moreover, the terms used to designate departments may vary in different organisations of the same nature. However, the process of departmentation will remain the same.

### **Need and Importance of Departmentation**

The basic need for departmentation arises because of specialisation of work and the limitation on the number of subordinates that can be directly controlled by a superior. Therefore, if there is no departmentation, there would be serious limitation on the size of the organisation. Grouping of activities and consequently of personnel into departments makes it possible to expand an organisation to any extent. However, when departments are created to overcome this basic limitation, they serve a number of other functions leading towards the organisational efficiency. The major importance of the departmentation is along following lines:

**1. Advantages of Specialisation.** Probably the most important single principle in an analysis of the classical approach to organisational design is specialisation of work. This principle affects everyone every day. The basic advantage of the specialisation lies in terms of efficiency with which the work is performed because a person focuses his attention on a narrow aspect of the work and he gets mastery over that aspect. Naturally, this results in performing the work more efficiently. Thus, if the managerial function is conceived as a set of activities facilitating the work of the organisation, these activities can be carried out more efficiently and effectively through the division of work leading to specialisation of managerial function.

**2. Fixation of Responsibility.** Departmentation helps in fixing the responsibility and consequently accountability for the results. Responsibility can be discharged properly when it is clear, precise, and definite. Through departmentation, the work is divided into small units where it can be defined precisely and responsibility can be fixed accurately. The manager concerned to whom responsibility is given can be delegated corresponding authority. When both responsibility and authority are clearly specified, a manager knows what exactly he has to do in the organisation. This helps the manager to become more effective.

**3. Development of Managers.** Departmentation helps in the development of managers. Development is possible because of two factors. First, the managers focus their attention on some specific problems which provides them effective on-the-job training. Second, managerial need for further training can be identified easily because the managers' role is prescribed and training can provide them opportunity to work better in their area of specialisation. Thus, need for training and its methods can be easily identified.

**4. Facility in Appraisal.** Managerial performance can be measured when the area of activities can be specified and standards in respect of these can be fixed. Departmentation provides help in both these areas. When a broader function is divided into small segments and a particular segment is assigned to each manager, the area to be appraised is clearly known; the factors affecting the performance can be pointed out more easily. Similarly, standards for performance can be fixed easily because factors affecting the work performance can be known clearly. Thus, performance appraisal will be more objective when departments have been created.

**5. Feeling of Autonomy.** Departmentation provides motivation by developing feeling of autonomy to the extent possible. Normally, departments are created in the organisation with certain degree of autonomy and freedom. The manager incharge of a department can take independent decisions within the overall framework of the organisation. Thus, he enjoys satisfaction of being important to the organisation. This feeling itself is a source of better performance among managers.



## BASES OF DEPARTMENTATION

The managerial problems associated with departmentation are directly related to the degree to which individual jobs have been specialised, that is, the number of ways to group jobs increases with the number of different specialised jobs. Thus, a small business owner employing three-four persons may not require any departmentation because he can control all the persons personally himself. However, the situation will be different if we consider an organisation like Tata Iron and Steel Company where large number of employees are employed. Therefore, there is a need of departmentation along some common factors, that is, common factors for achieving organisational objectives are grouped together to constitute departments. Since the nature of these factors varies, these can be determined on several bases. Therefore, there are several bases of departmentation. The more commonly used bases are: function, product, territory, process, customer, time, etc. Some of these bases are internal operation-oriented like function, process, time while others like product, territory and customer are output-oriented.

### Function

The grouping of common or homogeneous activities to form an organisational unit is known as functional departmentation, that is, the units are organised around common functions. Functional departmentation is the most widely used basis for organising activities and is present almost in every large organisation at some level. Since functional departmentation can be adopted at various levels of the organisation, the various functions of the organisation are divided into basic and secondary functions.

**Basic Functions.** The basic or major functions are those which are essential for the organisations and their operations contribute to the organisational efficiency. Davis has called these functions as 'organic functions' because their performance is vital and essential to the basic survival of the organisation and values created by them are indispensable.<sup>3</sup> For example, in a manufacturing organisation, basic functions may be production, marketing, and finance. Similarly, in a finance company, financing activities (raising and disbursing financial resources) may be basic functions. Thus, basic functions are determined on the basis of their importance to the achievement of organisational activities.

**Secondary Functions.** When departments are created on the basis of major functions and a manager feels that his span of management is too wide to manage effectively or take the advantages of specialisation, he may create departments within the major functional department. Such departments will be created by dividing the major function into sub-functions. This process may go down further when a secondary function may also be divided into sub-functions. For example, marketing department may be created at the top level. However, in order to perform marketing function properly, particularly in large organisation, it may be divided into selling, marketing research, advertising, etc. Further, advertising may be divided into print media advertising, T.V. advertising, etc. Thus, the process of functional differentiation will continue through several levels in the organisation.

Besides basic and secondary functions, large organisations may also require some functions to be performed which will be helpful for the basic functions. Such functions may be referred to as staff or service functions which provide help to basic (line) functions. Thus, a functional departmentation will include both line functions as well as staff functions depending on the need of the organisation. Organisation chart based on functional departmentation will be as follows:

<sup>3</sup>Ralph C. Davis, *The Fundamentals of Top Management*, New York: Harper Brothers, 1971.



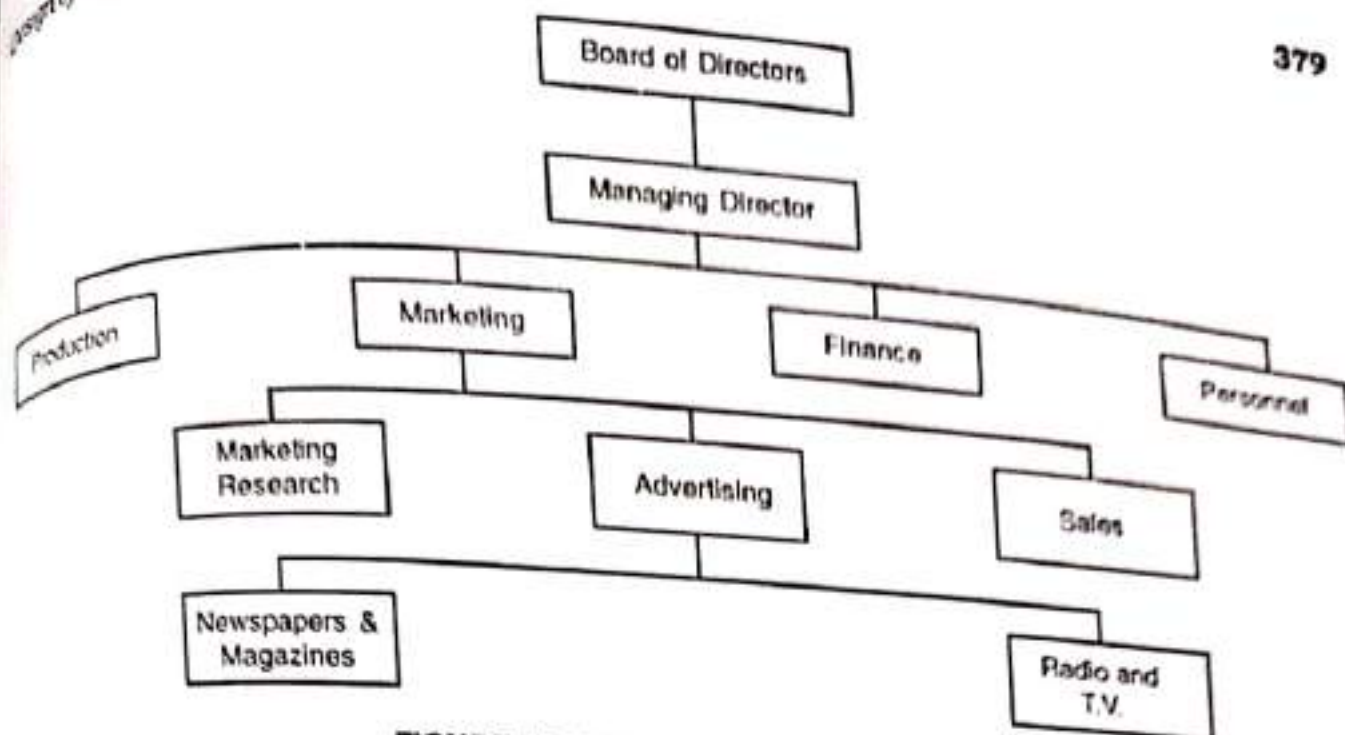


FIGURE 12.1: Functional departmentation

Functional departmentation can continue as long as a sound basis for functional differentiation exists. After that, some other basis of departmentation may be used. For example, in sales department, further departmentation may be on the basis of territorial consideration.

Functional departmentation is most commonly used because it offers certain advantages which include advantages of specialisation, ensuring performance of activities necessary for the achievement of organisational objectives, elimination of unnecessary activities, easier control over functions, easier way for pinpointing training needs of the managers, and maintaining the relative importance of functions in the organisation. However, functional departmentation cannot be carried too far in the organisation. Moreover, there are many problems associated with functional departmentation such as lack of responsibility for the end results, over-specialisation and consequently lack of general management point of view, and problems of conflicts and coordination among functional departments. Therefore the functional departmentation is useful only up to top or immediately below the top level.

### Product

Product departmentation involves the grouping together of all activities necessary to manufacture a product or product line. As the organisation grows in size, it becomes difficult for managers to coordinate the activities of the expanding product lines. One commonly adopted strategy is to establish departments based on products. Product departmentation is preferred for product expansion and diversification when manufacturing and marketing characteristics of each product are of primary concern. It is generally used when the product is relatively complex and a great deal of capital is required for plant and other facilities such as automobile, electronics, etc. In fact, many large companies are diversifying in different fields and they prefer product departmentation. For example, DCM Limited has more than twenty products and hence products as the basis of departmentation. Within each major product department, major and subsidiary functional departments can be created. For example, the departmentation of an automobile organisation may be as follows:



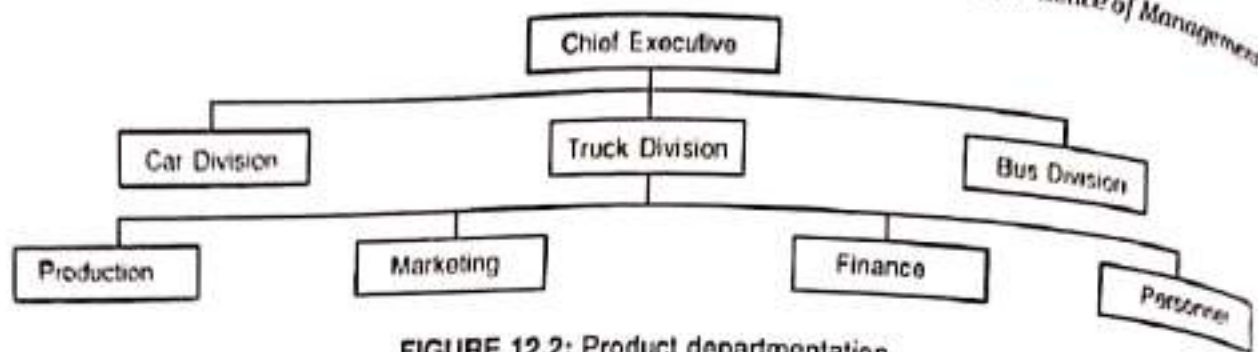


FIGURE 12.2: Product departmentation

The product departmentation can be extended further. For example, if the above organisation is manufacturing light commercial vehicles for different uses, this division may be further grouped on that basis like mini bus, delivery van, ambulance, etc.

Product departmentation offers several advantages, particularly to an organisation having multiple products or operates in a single industry with products for different uses as above. This basis pays attention to product lines, reduces problems of coordination for different products, provides opportunities for further diversification and expansion of organisation, and provides product specialisation necessary for managers specially when each product is different from others. However, it presents problems at the top management level for coordination, multiplicity of efforts because same functional facilities are required for different products, and problem in maintaining economical central staff services. That is why a mixture of product and functional bases are adopted.

### Territory

Territorial or geographical departmentation is specially useful to large-sized organisations having activities which are physically or geographically spread such as banking, insurance, transportation, etc. In such a case, all the activities in a given area of operations are grouped into zones, divisions, branches, etc. The assumption is that if markets are widely dispersed, an improved cost-profit situation will result if all activities affecting a product line or service in a specific geographical region are grouped together. For example, Life Insurance Corporation of India has grouped its activities as shown in Figure 12.3.

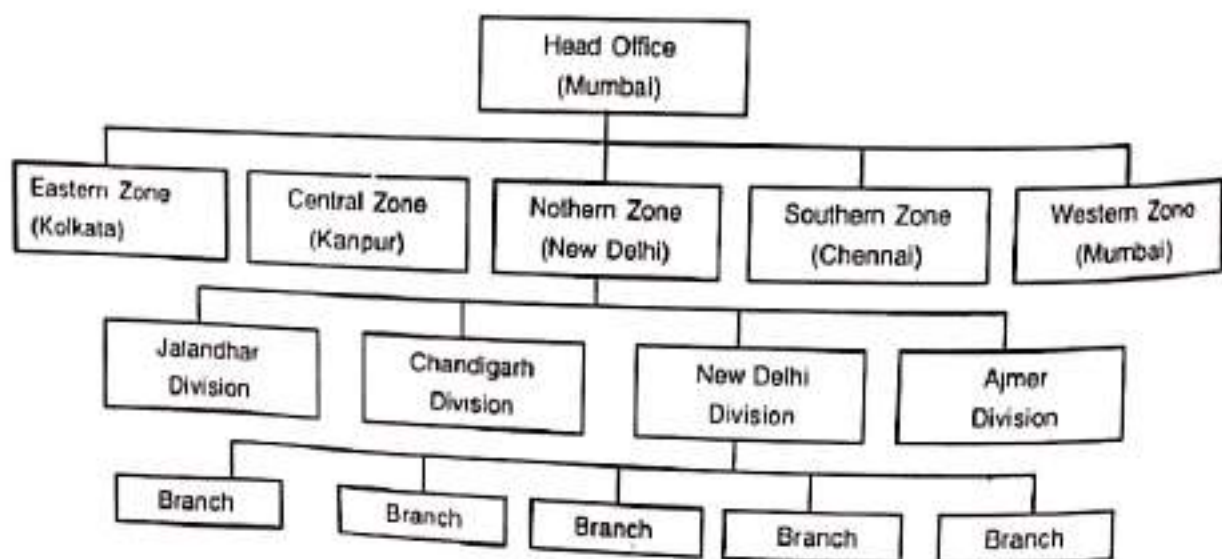


FIGURE 12.3: Territorial departmentation of L.I.C. of India



Territorial departmentation is specially suitable to large-scale organisations or other organisations whose activities are physically or geographically spread. In such cases, territorial departmentation provides certain efficiency in operation. Local factors such as customers, culture, styles, preferences, etc., always affect organisational functioning. In fact, the same kind of work is always different when location is different. Thus, knowledge of local conditions is an important element in effective management. Moreover, some costs of operations can be saved, for example, serving of customers at different locations. The corresponding facilities are created looking into the needs for local conditions. Further, territorial departmentation may provide training to managers to look after every aspect of organisational operations. Therefore, they can develop the skills of looking at the organisation as a whole and can progress at the top level of the organisation where general management skills are needed.

Territorial departmentation presents certain problems. Therefore, adequate provisions should be made to overcome these problems. The first most important problem is that of communication. However, this problem can be overcome without much difficulty once the system of communication is developed added with modern communication facilities. Another problem which comes in the way is the distance between policy framers and policy executors. Often both of them are at a distance not only in terms of physical distance but also in terms of mental distance because of different local conditions. However, this problem can be overcome by providing suitable training to the managers concerned. Some problems of coordination may also arise between top-level and territorial-level managers as some of the functions are to be performed at the head office level. This arrangement requires many managers with general management skills. Therefore, training and development should be a continuous process.

### Process

In process departmentation, processes involved in production or various types of equipments used are taken as basis for departmentation. When the production activities involve the use of several distinctive processes, these can be used as the base for grouping of activities. Such activities may be textiles, oil production, etc. For example, departmentation in the manufacturing department of a textile organisation may be as follows:

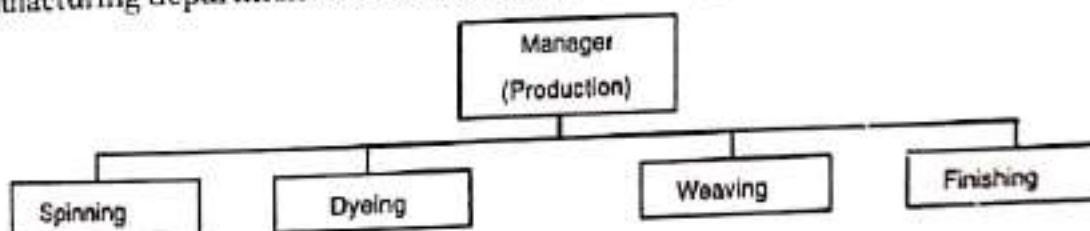


FIGURE 12.4: Process departmentation

The basic purpose of such departmentation is to achieve economic advantages. The processes are set in such a way that a series of operations is feasible making operations economic. For example, in the case of a textile unit, the raw material (cotton, synthetic fibres) has to pass through the production processes mentioned above. In such a case, efficiency can be achieved if departments are created for each process as each has its peculiarities. It provides advantages of specialisation required at each level of total processes; maintenance of plant can be done in better way; and manpower can be utilised effectively.

This arrangement has the problem of coordination because the work of each process is dependent fully on the entire process. Therefore, there are chances of conflicts among managers looking after different processes. However, this problem can be overcome by developing suitable norms and understanding among managers.



### Customer

Customer-based departmentation is basically market-oriented in which departments are created around the markets served or around marketing channels. While both these approaches to departmentation are used to emphasise marketing and make it more effective, they differ in some respects. Grouping of activities around marketing channels involves making an organisation structure reflect the ways an organisation reaches an ultimate customer; market-centred grouping supports marketing efforts for different types of customers. Therefore, such a grouping is suitable to those organisations which either serve different customers such as a pharmaceutical company supplying to hospitals, government, retail stores, etc., or applying different marketing channels like wholesale, retail, instalment and hire-purchase, export, etc. Customer-based departmentation may appear as follows:

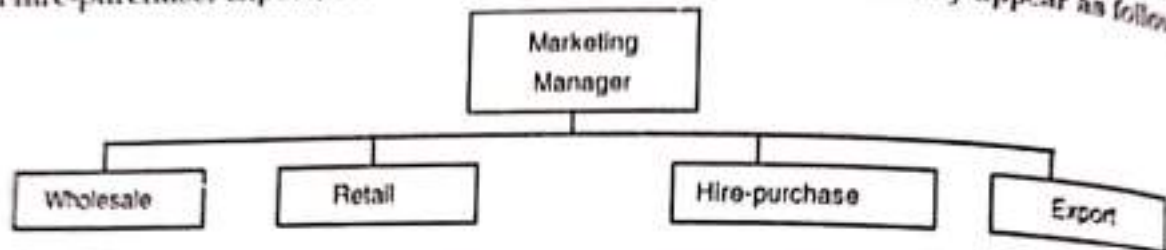


FIGURE 12.5: Customer departmentation

The most important advantage of customer departmentation is that it focuses on customers who are the ultimate suppliers of money to the organisation. Therefore, different types of customers can be satisfied easily through specialised staff. In fact, the basic idea of this departmentation is to provide services to clearly identified groups of customers. Each group of customers has different purchase behaviour, payment schedule, demand pattern, etc. Therefore, they can be attracted to the organisation's business by satisfying them through providing services most suitable to each of them.

This method may have certain disadvantages, specially when it is followed very rigidly. Coordination between sales and other functions becomes difficult because this method can be followed only in marketing division. Duplication and confusion may arise in product, research and development activities as well as in manufacturing, as the market-oriented managers demand special attention and services. This may generate more conflicts in the organisation. Further, there may be underemployment of manpower in some departments, specially when demand for that customer group decreases. Therefore, customer-oriented departments should be created to the extent they justify their existence.

### Time

In some organisations, where work is performed throughout day and night, the work is divided into shifts. Thus, when an organisation operates on three shifts, three different departments may exist: one department for each shift though they all may be alike in terms of objectives and activities. The basic idea is to get the advantages of people specialised to work in a particular shift.

### Alpha-numerical

In this method, the departments are created on the basis of persons or an alphabet. A certain number of persons are kept under supervision of one person irrespective of the fact what they do, where they do, and how they do. This method is suitable for the organisation having a large number of operatives. This method is used at lower levels of hierarchy and is quite frequent in military organisation where, at the lowest level, the soldiers are grouped on the basis of number.



Before we proceed further, let us discuss two types of teams which are found frequently in organisations. These are committee and task force.

### COMMITTEE

Committees are found in every large organisation. These committees are constituted at various levels of the organisation to perform functions assigned to them. Literally, the word 'committee' means those to whom some matter or charge is committed. Thus, a committee may be defined as a group of persons in an organisation for making or recommending certain decisions. On the basis of this definition, following broad characteristics of a committee may be spelled out:

1. A committee is a group of persons; there should be at least two persons. There is no limitation on the maximum number of persons. However, if number of persons rises above seven, communication tends to become centralised because committee members do not have adequate opportunity to communicate directly with one another.
2. A committee is charged with dealing with specific problems and it cannot go in for actions in all spheres of activities. There are strictly defined jurisdictions within which a committee is expected to justify its existence. Beyond these limited spheres, a committee is doomed to fail as an organ of action.
3. Members of the committee have authority to go into details of the problems. This authority usually is expressed in terms of one vote for each member.
4. A committee may have the authority either to make a final decision or it may merely deliberate on problems without authority to decide.
5. A committee may be constituted at any level of organisation. Moreover, the members of a committee may be drawn from various levels. Thus, there can be several types of functional committees in an organisation such as finance committee, budget committee, purchase committee, grievance committee, welfare committee, and so on.

### Group Behaviour in Committee

A committee is created to solve the problems which are normally not to be solved by individuals. The committee decides the matter through meetings. The term 'meeting' refers to group deliberation through which members are able to communicate face-to-face with each other. Thus, committee meeting is a type of group behaviour. Since committee is a formal group, its process must conform to organisational prescriptions. However, all aspects of committee meeting cannot be prescribed. Moreover, many deliberations may not take place according to prescriptions. Overall group behaviour in a committee meeting can be analysed as follows:

1. **Chairman-members Relationship.** A committee may have its own structure with responsibility and authority entrusted to every member. This is done to facilitate the working of the committee. However, all members enjoy equal authority based on one-man one-vote. The chairman (chairperson in the case of female) of the committee may be given more authority in the form of a casting vote to break deadlock and to arrive at some decision. It is the responsibility of chairman to integrate the ideas of committee members. Deliberations and discussions are held under his guidance and control. Sometimes, a committee may be leaderless and agenda, and deliberations can be integrated by members themselves on self-integration basis. However, in organisational situations, this does not normally happen. A committee without a chairman is not expected to work effectively.



**1. Participation.** Group behaviour in committee tends to enforce participation from every member. Since a person is appointed in a committee because he has to contribute something, he does this through his participation in committee meetings. Participation of members is important for arriving at some decision on a matter. When members participate in deliberations, they are likely to change some of their stands held as independent social element to relatively involved social element. This often brings mutually agreed upon decisions.

**2. Group Pressure.** Often there is considerable group pressure in committee meetings and individual members exert pressure on the ideas, suggestions, comments, and judgements of others. The group pressure is exerted because of two reasons. *First*, it is generally felt that very act of integrating and pooling of ideas and views within the group results in a product that is greater than the sum of individual contributions. Members are brought to conform to group thinking so that some decisions are arrived at. Even if a member has high ideas than what the group can assimilate and raises the group discussion much above, he tends to fall within the line. If he is left alone for making decisions, these can be influenced by his own prejudices and committee members may not like it. Since decisions are arrived at through one man-one vote basis, such a person has no alternative except to accept the majority thinking. *Second*, the more loyalty one member feels towards other members of the committee, the more he tends to conform to group pressure. Therefore, the need of a member to be liked and respected makes him to work according to the general thinking of the group.

**3. Decision Process.** Decision making in committee is through the process of committee deliberations. Normally, group decision making passes through three stages. *First*, at the initial stage, the group tries to acquire the largest pool of common information about the facts of the situation. *Second*, the group tries to make inference and evaluation of information and to form common opinions in a general way. *Third*, it gets around more specific suggestions and solutions to the problem. After agreement is achieved on the essential facets of the situation, every member is given opportunities to express his views. At this level, there may be emotional tension in deliberations and the chairman should direct the group back to the facts and begin anew from there. This returning back to the facts of the problem works as cooling effect on the members and agreement may be arrived at because members may look at the problem in a sounder way.

A question arises: Is unanimous agreement a necessary prerequisite to effective committee decision? Though some sort of unanimity is necessary, too much agreement may be as bad as too little agreement. Without agreement, a committee member can be held responsible for carrying out a decision he did not support, or which he even opposed. Divided votes may also set up cleavages which disintegrate the group. On the other hand, too much unanimity may create unhealthy practice because unanimity becomes goal of the committee meeting causing a person to suppress his ideas which may be useful to the committee. This may be frustrating to committee members. Therefore, instead of unanimity, the efforts should be to reach at agreed decisions. Unless the decision is of utmost importance to the dissenter, agreement of most of the members should be sufficient. The idea should be not to involve in too long deliberations in order to arrive at unanimity for the sake of unanimity.

### Reasons for Use of Committee

A committee is created to carry out responsibilities that would otherwise be given to a single individual. However, there are many situations and reasons that one individual may not have the responsibilities too heavy to carry on and instead a committee may be appointed. Therefore, a committee scores over individuals because people in group interact differently than individuals. Group dynamics gives the committee certain potential advantages over



individuals acting alone. Therefore, the use of committees is widespread in most of the organisations, even in most autocratic organisations. The major reasons of the use of committees are as follows:

**1. Pooling of Knowledge and Experience.** The most important advantage in using committees is that knowledge and experience can be pooled together and decisions can be arrived at through group deliberation and judgement. A committee works on the theme that 'two heads are better than one'. A group of people can bring to bear a greater variety of opinion, a more thorough probing of the problem and its facts, and a more diverse training in specialised aspects. Therefore, committees can be used specially for solving those problems which do not fall within the jurisdiction of a single function or division. Normally, very few organisational problems fall entirely into a single area; normally, they require the use of expertise of individuals with different backgrounds.

**2. Facility for Coordination.** Committees are very useful for coordinating activities among various organisational units. When it is necessary to integrate and unify various viewpoints which cannot conveniently and effectively be coordinated by individuals, the committee may be useful in bringing all those concerned together. A committee is specially useful for coordinating, planning, and execution of programmes. In modern large organisations, it is too difficult to coordinate every activity, every subordinate plan, and every expenditure. A committee can bring all these together. It permits the individuals not only to obtain first hand a picture of overall plans and of their place in them but also to contribute suggestions on the spot for improvement of plans. Thus, the committee provides the opportunity for reaching agreement on the steps of coordination.

**3. Representation of Interest Groups.** Committees are often used to give representation to various interest groups. Such types of committees are quite popular in government, educational and other institutions where people from diversified groups should have their say in the functioning of the organisation. Even in business organisations, such committees may be set up, for example, board of directors, grievance committee, welfare committee, and so on. The representation of various groups may ensure that these groups will feel a sense of loyalty and commitment to the decisions reached.

**4. Fear of too much Authority in a Single Person.** Sometimes, committees are constituted to avoid the concentration of too much authority in a single individual. This problem is more prominent in government and educational organisations and less in business organisations. In order to provide safeguards and checks against the misuse of too much authority, the line authority for certain actions can be delegated to a committee rather than to an individual. Board of directors is appointed to check the excessive use of authority by the chief executive. Similarly, in the case of internal operations, such a committee may be appointed where misuse of authority may be prominent. For example, bonus committees often result from such a reason, and major financial and capital investment policies are developed by committees, partly because of unwillingness to trust a single individual with complete authority to make such important decisions.

**5. Consolidation of Authority.** A committee can be used to consolidate splintered authority. A manager of a department or of a section may have only limited amount of authority necessary to accomplish a programme. Therefore, the manager cannot solve a problem without simultaneous exercise of authority by other managers related to the problem. In such a case, either the problem may be referred upward for a decision or it may be assigned to a committee with membership of all managers related with the problem and the problem can be solved without referring it upward. The solution of problem through committee is possible because it has been able to consolidate the splintered authority. However, frequent consolidation of authority through committees is not a good sign for sound organisational structure.



**6. Transmission and Sharing of Information.** Committees are useful for transmission and sharing of information. All parties and persons interested in a problem have simultaneous face-to-face communication through the proceedings of committee meetings. Doubts and ambiguities may be removed at the spot. This saves lot of time in communication. The spoken word, with the possibilities for overtones and emphasis and the opportunities for clarification, may carry its point better than even carefully written communication. Moreover, some objectives and policies of the organisation may not precisely be stated in writing and these can be communicated effectively through committee meetings.

**7. Motivation through Participation.** People do better when they participate in decisions affecting their working because when they participate in decision making, they accept and live with that decision; they feel committed to the decision. This feeling of involvement and commitment motivates them for better performance. Committees permit wider participation of persons related to a particular problem. However, the use of committees to motivate people to get decisions or programmes accepted requires skillful handling of committee meetings otherwise they may bring worse results.

**8. A Tool of Management Development.** A committee can be used as a tool of management development like many other tools. A manager can be developed through learning from experience. While experience of a manager on his job may restrict him to know about his job only, committees may widen his knowledge and he can learn how his job is related with others; in what ways it affects others and is affected by others. Such types of learning enable him to take an integrated view of solving various problems faced by him.

**9. Avoidance of Action.** A committee can be used to avoid action on a problem being faced by the manager. He may not like to take action but he may not be in a position to avoid action also. Therefore, he can find out the best solution to refer the matter to committee. Thus, a committee can be used to cool off agitation and temper on the part of affected people. It can be used as means to overcome resistance, pressure, or opposition from parties involved in an issue. Such committees are more prominent in government and other organisations run through democratic process. Even in business organisations too, such a committee can be appointed to avoid actions, for example, solving problems faced by workers.



## Delegation of Authority

Delegation of authority is one of the important factors in the process of organising. It is essential to the existence of a formal organisation. The organisational units created through the process of departmentation require the authority to the managers charged with their respective management. Assignment of activities to various managers creates responsibilities and in order to carry out these responsibilities, managers need appropriate authority. In fact, the authority should match responsibility.

To delegate means to grant or confer. Here, delegation means conferring authority from one manager or organisational unit to another in order to accomplish particular assignments. A manager simply does not delegate authority; he delegates authority to get certain work accomplished. By means of delegation, the manager extends his area of operations, for



without delegation, his actions are confined to what he himself can perform. Delegation of authority has following features:

1. Delegation is authorisation to a manager to act in a certain manner. The degree of delegation prescribes the limits within which a manager has to decide the things. Since formal authority originates at the top level, it is distributed throughout the organisation through delegation and redelegation.
2. Delegation has dual characteristics. As a result of delegation, the subordinate receives authority from his superior, but at the same time, his superior still retains all his original authority. Terry comments on this phenomenon like this: "It is something like imparting knowledge. You share with others who then possess the knowledge, but you still retain the knowledge too."<sup>19</sup>
3. Authority once delegated can be enhanced, reduced, or withdrawn depending on the situation and requirement. For example, change in organisation structure, policy, procedure, methods, etc., may require change in the degree of delegation of authority.
4. Delegation of authority is always to the position created through the process of organising. The individual occupying a position may exercise the authority so long as he holds the position. Therefore, the authority is recovered fully from the individual when he moves from the particular position.
5. A manager delegates authority out of the authority vesting in him. He cannot delegate which he himself does not possess. Moreover, he does not delegate his full authority because if he delegates all his authority, he cannot work.
6. Delegation of authority may be specific or general. Delegation of authority is specific when courses of action for particular objectives are specified. It is general when these are not specified, though objectives may be specified.

### Steps in Delegation

The distribution of authority throughout an organisation does not occur automatically. Rather, it is deliberate design or plan by which a manager makes his authority effective and influential. This requires delegation of authority through particular steps. The entire process of delegation of authority can be completed through the following four steps: (1) determination of results expected; (2) assignment of duties, (3) authorisation for actions, and (4) creation of obligation. Let us now explain briefly these steps.

**1. Determination of Results Expected.** Authority should be delegated to a position according to the results expected from that position. Since authority is intended to furnish managers with a tool for so managing as to gain contributions to the organisational objectives, it is essential that authority delegated to a manager is adequate to ensure the ability to accomplish results expected. It implies that results expected from each position have been identified properly. To the extent there is clarity in these, delegation will be effective. Therefore, the first requirement is the determination of contributions of each position which is largely a step undertaken at the stage of creating various positions.

**2. Assignment of Duties.** The second step is the assignment of duties to the subordinate. Duties can be described in two ways: First, these can be described in terms of an activity or set of activities; for example, selling activity to salesman. According to this view, delegation involves assignment of these activities by a manager to subordinate. Second, duties can be described in terms of results that are expected from the performance of activities, for example,

<sup>19</sup>Terry, *op. cit.*, p. 338.



how much sale is to be achieved by salesman. Assignment of duties in terms of results expected works better because a subordinate is likely to get psychological satisfaction from his work, and he will have advance notice of the criteria on which his performance is to be judged. A man's duties will be clear to him only when he knows what activities he must undertake and what goals he must fulfil.

**3. Authorisation for Action.** The third aspect involves granting of permission to take actions like making commitments, use of resources, and other actions necessary to get the assigned work done. This problem is essentially one of determining the scope of authority to be delegated to each particular subordinate. In the delegation process, the manager confers upon a subordinate the right to act in a specified way or to decide within limited boundaries. The subordinate exercises the authority in conformity with his understanding of the intentions of the superior who delegates it to him and within the framework of such controls as the superior deems it wise to establish. The process of delegation states out the boundaries of permissible actions, separating them from actions which are not permissible. The central problem, therefore, is to determine what scope of authority the superior wishes his subordinates to exercise. A ground rule in this context is that the scope of authority allocated to individuals by the superior is inseparably linked with the activities allocated to them.

**4. Creation of Obligation.** The last aspect of delegation is to create obligation on the part of subordinate for the satisfactory performance of his assignments. As discussed earlier, a subordinate is responsible for the total activities assigned to him and not only for the activities actually being performed by him. The sense of obligation required arises from the maintenance of responsibility by the superior and an accompanying insistence that the work performed must meet his expectations.

### **Principles of Delegation**

Delegation of authority is a conscious effort on the part of the manager. Therefore, in delegating authority, he should observe certain principles so as to make delegation effective. Unless these principles are observed, delegation may be ineffective, consequently, organisation may fail and the managerial process may be seriously impeded. Following are such principles:

**1. Delegation by Results Expected.** As discussed earlier, delegation should be based on results expected from a position in the organisation. Since authority is intended to achieve certain outcomes in the organisation, it should be adequate to achieve those outcomes. A manager is expected to perform better if he knows what he has to contribute and he has commensurate authority for that. Delegation by results expected implies that planning exercise has been taken and goals for each position have been set, communicated, and properly understood by those who are responsible for achieving these goals. Often managers fail to delegate adequately because either they have very vague ideas about the contributions of their subordinates or they just do not bother to determine whether the subordinates have authority to do the things.

**2. Functional Definition.** Closely related with the principle of delegation based on results expected is principle of functional definition. In an organisation, the activities are classified and grouped to create departments or units. Each department contributes to organisational objectives but at the same time has its own objectives. Thus, there is a need for coordination of objectives and activities of the department in such a way that they contribute maximum to the organisation. This gives rise to the principle of functional definition. The more a department has clear definitions of results expected, the more effective it will be.



delegated, and authority and informational relationships with other departments, the more adequately the department can contribute towards accomplishing organisational objectives.

**3. Clarity of Lines of Authority.** Each position in the organisation is linked with others through authority relationships; some directly through line authority, others indirectly. More clearly these lines of authority are defined, more effective is the delegation of authority. In this respect, classical authors have given two principles which guide the delegation of authority. These principles are scalar chain and unity of command. Scalar chain principle refers to the chain of direct authority relationship from superior to subordinate throughout the organisation. Clearer the line of authority from the top manager to every subordinate position in the organisation, the more effective will be responsible decision making and organisational communication. The other principle, that is, unity of command suggests that a subordinate should be responsible to a single superior and he should receive instructions from the same superior only. The more complete an individual has a reporting relationship to a single superior, the less is the problem of conflict in instructions and greater the feeling of personal responsibility for results.

**4. Level of Authority.** Authority level principle suggests that maintenance of intended delegation requires that decisions within the authority competence of individuals are made by them and not referred upward in the organisation structure. Thus, managers should make whatever decisions they can in the light of their delegated authority and only matters that authority limitations keep them from deciding should be referred upward. This is possible if authority delegation is clear and managers at each level are sure what authority they have.

A problem comes when two or more managers can decide the things jointly without referring the matter upward but singly none of them can decide. Such a matter may be related with inter-departmental functioning. A single manager cannot make decision because of splintered authority. Splintered authority exists wherever a problem cannot be solved or a decision made without pooling the authority delegation of two or more managers. For example, production manager of plant A can reduce his costs by some procedural changes in plant B. However, he cannot do this unless he pools his authority with manager of plant B. Alternatively, he can refer the matter upward and positive thing can happen by the action of common superior. In such a case, it is preferable to consolidate and pool splintered authority rather than referring the matter upward for decision. Splintered authority cannot be wholly avoided in making decisions. However, recurring decisions on the same matters may indicate the need for reorganisation and redelegation of authority.

**5. Absoluteness of Responsibility.** Responsibility is an obligation to get the assigned work done. Since responsibility cannot be delegated, a superior cannot be absolved of his responsibility for the activities assigned to his subordinates. Similarly, responsibility of subordinates to their superiors for performance is absolute; once they have accepted an assignment and the authority to carry it out, superiors cannot escape responsibility for the performance of activities of their subordinates.

**6. Parity of Authority and Responsibility.** A common saying in management is that 'authority and responsibility should always be equal. It implies that since authority is the discretionary right to carry out assignments and responsibility is the obligation to accomplish them, authority should correspond to the responsibility. Thus, responsibility for actions cannot be greater than authority delegated, nor should be less. This parity is not mathematical but, rather, coextensive, because both relate to the same assignment.



is accountable to his superior in turn. This requires that the delegator must make a careful selection of the person to whom the work is delegated. He must be sure that the man is able to carry the degree of responsibility and effort contemplated in the assignment. Apart from selection, the delegants have to be properly trained and oriented to certain work because many times, superiors concerned may not have authority to select their own subordinates. Further, the superior should not delegate beyond the capacity of his subordinates.

**6. Tying Delegation with Planning.** A pitfall in delegation is that sometimes it is undertaken without consideration of what is to be achieved by delegation. To delegate without knowing and keeping in mind objectives leads to chaos. Therefore, authority should never be delegated to the managers before the objectives are clear. Authority is utilised to achieve objectives and the extensiveness of the authority should be in keeping with the type of activities performed in attaining the objectives. It is better to delegate authority for achieving specific results. Specific results and objectives for each activity can be defined when there is proper planning in the organisation.

**7. Delegating Authority for Whole Job.** It is better to give the delegant a chance to participate in a complete undertaking. Broad rather narrow projects serve best imagination and stimulation of ideas. Such assignments serve as an effective means of testing a man's ability to manage and of building his confidence. Frequent delegation on the same subject-matter may convey a feeling that the delegator does not want to do the job and wants to get rid of unpleasant job through delegation. However, through the delegation for whole job, this problem can be overcome.

**8. Developing Appropriate Control Techniques.** Since a delegator remains responsible even for the tasks he has delegated to his subordinates, he must ensure that his subordinates get the work done. Therefore, proper control and monitoring techniques should be developed to ascertain that delegated authority is being used properly. This does not, however, mean that control techniques interfere unnecessarily with the day-to-day functioning of the subordinates. These should be broadbased and should focus attention on major deviations from the plans.

## Centralisation and Decentralisation

Another highly important issue in organising is the extent to which authority is centralised, or its opposite, decentralised, in a formal organisation structure. In management, centralisation refers to concentration of authority and decentralisation dispersion of authority. However, both these terms are used to give various connotations. These words are used in the context of administrative processes, physical and geographical location, various functions being performed, or degree of delegation of authority. When these terms are used in the context of physical or geographical location, physical or geographical decentralisation refers to dispersion of an organisation's operations throughout the country. The functional decentralisation refers to dispersion of organisational functions into separate autonomous units, for example, production, marketing, finance, etc. However, both these classifications of centralisation or decentralisation are merely descriptive and not analytical. Therefore, the terms are used with certain prefixes like geographical decentralisation or functional decentralisation. It is the degree of delegation of authority that conveys the meaning of centralisation or decentralisation in management, though in this case too, people prefer that these terms should be used along with 'of authority' to make them more clear and explicit such as 'centralisation of authority' or 'decentralisation of authority'.



When centralisation and decentralisation are used in the context of degree of authority at various levels and associated management practices, they denote different degrees of delegation of authority. For example, Allen has defined both the terms as follows:

"Centralisation is the systematic and consistent reservation of authority at central points within an organisation. Decentralisation applies to the systematic delegation of authority in an organisation-wide context."<sup>20</sup>

Thus, centralisation refers to the reservation of authority at the top level of the organisation and decentralisation refers to systematic delegation of authority in the organisation. However, there can neither be absolute centralisation nor there can be absolute decentralisation. The concepts of centralisation and decentralisation are two extreme points in the matter of distribution of authority in the organisation. In between these two extreme points, there may be continuum of authority distribution.

### Delegation and Decentralisation

Delegation and decentralisation should not be confused because of the tendency of using two terms interchangeably. Though these terms are closely related, decentralisation is much more comprehensive than delegation. Thus, both these terms should be used differently. The major difference between delegation and decentralisation may be identified in two ways: *first*, decentralisation is used to mean several types of dispersal other than of authority also, *second*, even in the context of authority, the terms denote different degrees of authority at various levels and, consequent managerial process.

As discussed earlier, decentralisation is used to denote dispersal of physical facilities place-wise or function-wise. In these terms, decentralisation means that various facilities are located at different places or have been put for various functions. Through geographical or functional dispersal, an organisation tries to achieve its objectives by taking the advantages of different local conditions prevailing at each location or specialising in various functional areas with each area being different from others. In such kind of decentralisation, it is not necessary that the authority is also decentralised because many organisations have been able to run the affairs even with centralised authority though the system will work better with decentralised authority.

Even in the case of authority, delegation and decentralisation are different. Delegation merely denotes the authorisation of managers at various levels to make decisions. Authority at various levels of the organisation is required because managers can fulfil their commitments properly when they have authority commensurate with responsibility. However, sometimes, there may not be parity of authority and responsibility and a manager may have more authority than his responsibility. Since decentralisation reflects the dispersal of authority to the ultimate level of the organisation, it can be said to be the result of systematic delegation of authority. However, decentralisation goes one step further. In decentralisation, a manager becomes autonomous with the operation of concept of ultimate responsibility. Therefore, in a decentralised structure, a manager enjoys autonomy but at the same time, he is held responsible for the contributions of total facilities put under his control. Thus, besides delegation of authority, there may be other variations in management process in a decentralised structure as compared to that of a centralised structure. From this point, decentralisation suggests a different kind of managerial culture and philosophy than mere delegation though effective delegation of authority is a pre-requisite for the success of decentralisation.

<sup>20</sup>Louis A. Allen, *Management and Organisation*, New York: McGraw-Hill, 1958, pp. 157-58.



## Factors Determining Degree of Decentralisation

A basic question that arises while designing the organisation structure is *how much to decentralise the authority?* Managers cannot ordinarily be for or against decentralisation of authority. They may prefer to delegate authority, or they may like to make all decisions. Although the temperament of individual managers affects the extent of authority delegation, other factors also affect it. Most of these factors may be beyond the control of individual managers. Such factors are of the following types:

**1. Size of Organisation.** Decentralisation depends on the size of the organisation. The larger the size of an organisation, the more urgent is the need for decentralisation. In a large organisation, more decisions are to be made at more places. In such cases, it becomes difficult to coordinate them. The complexities of the large organisation may require major issues to be passed down the line for discussion. Managers at various levels are to be consulted. This process may take sufficiently long time resulting in slow decision making. Slow decision making may be quite costly to the organisation. Therefore, to minimise the cost, authority should be decentralised whenever feasible. The costs of large size may be reduced by bifurcating the organisation into a number of units. Considerable increases in efficiency are likely to result from making the unit small enough for its top executive to be near the point where decisions are made. This makes speedy decisions possible, keeps managers from spending time coordinating their decisions with many others, reduces the amount of paper work, and improves the quality of decisions by reducing their magnitude to manageable proportions.

**2. History of the Organisation.** Decentralisation of authority depends on the way the organisation has been built up over the period of time. Normally, those organisation which expand from within or expand under the direction of the owner-founder show a marked tendency to keep authority centralised. This is the reason why organisations belonging to many industrial houses have been designed on centralised basis. On the other hand, organisations that represent amalgamations and consolidations are likely to show a definite tendency to retain decentralised authority specially if the acquired unit is operating profitably. Moreover, the management process and pattern of acquired organisation, once independent one, cannot be changed immediately so as to centralise the authority. Therefore, at least for some time, the acquired unit will enjoy considerable autonomy.

**3. Management Philosophy.** The management philosophy of top-level managers has considerable influence on the extent to which authority is decentralised. In fact, decentralisation is a kind of management philosophy to regulate organisational process including decision making. In many cases, top managers may see decentralisation as a way of organisational life that takes advantage of the innate desire of people to create, to be free, or to have status. They may find in it a means to harness the desired freedom to economic efficiency. On the other hand, many top managers may keep authority with them not merely to gratify a desire for their status or power but because they simply cannot give up activities and authorities they enjoyed before they reached the top or before the organisation expanded from a small one.

**4. Availability of Managers.** Availability of managers directly affects the degree of decentralisation because exercise of authority requires competence on the part of those who exercise authority. If better quality managers are available, there is more chance for decentralisation because of two reasons. First, these managers can handle the problems of decentralised units effectively. Second, such managers have higher need for degree of autonomy which is possible in decentralised structures only. Moreover, decentralisation also works as training ground for managers which increases the ability of good managers.



**5. Pattern of Planning.** Planning is usually the most crucial management function in thinking about decentralisation. Other functions of management, namely organising, staffing, directing, and controlling are also important but assigning those activities to managers at various levels typically depends on how planning duties have been allocated and the extent to which planning activities have been undertaken. Allocation of planning activities may be subject-wise and type of plan-wise, that is, what subjects can be decided at what level and what type of plan can be formulated at what level. In the organisation having carefully drawn standing plans, the chance for decentralisation is high because managers can make decisions within the context of those plans without referring the matters under decisions upward. Similarly, if they have been made party to the planning process, other functions which are to be performed within the context of planning process, can be easily decentralised.

**6. Control Techniques.** Development and use of control techniques affect the degree of decentralisation by ensuring whether the performance at various levels and points of the organisation is in line with planning. Higher the degree of development and use of control techniques, better is the prospect for decentralisation. In fact, improvements in statistical devices, accounting control and other techniques have helped make possible the current trend towards decentralisation. In the absence of adequate control techniques, either there is less chance for decentralisation or it may not work properly.

**7. Decentralised Activities.** In many cases, decentralisation of authority becomes necessary because there is decentralisation based on other factors like economies of division of labour, the opportunities for using physical facilities at various locations, and the nature of work. For example, the activities of banking, insurance, and transport organisations have to be decentralised. Although this kind of decentralisation may be geographic or physical in nature, it influences the decentralisation of authority. In fact, some organisations with diverse locations may form local board of directors. For example, State Bank of India operates on the basis of local board of directors with each zone having its own board of directors.

**8. Rate of Change in Organisation.** The rate of change in the organisation also affects the degree to which authority may be decentralised. If the business of the organisation is fast developing and it is facing the problems of expansion, there is more chance that authority will be decentralised because in this case, top managers will have to share disproportionate decision making and consequently overburdened. This problem can be overcome by delegating authority at the lower levels. As against this, in old, well-established, or slow-moving organisations, there is a natural tendency to centralise authority because few major decisions are made and, in most cases, decisions are programmed requiring insignificant amount of analysis and time.

**9. Environmental Influences.** Besides the various factors discussed so far which are mostly internal to the organisation, there are environmental influences also which determine the degree of decentralisation. Among the most important environmental forces are the government regulations over the private business and leave very little scope to the use of discretionary power of the manager. For example, business covered by administered prices like fertilisers, etc., requires less time of manager's in determining the price structure and sometimes even distribution pattern. Thus, even marketing functions throughout the country may be centralised. Moreover, since top management itself does not have authority over these aspects, there is no question of its delegation.