Centre For Distance and Online Education

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BC 303: PRINCIPLES OF BUSINESS MANAGEMENT
Semester IIIrd

Booklet –II

PunjabiUniversity, Patiala

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B.C. 303

PRINCIPLES OF BUSINESS MANAGEMENT-I

Centre for Distance Online Education Punjabi University, Patiala

LESSON NO. :   PART-I

UNIT NO. 2

Lesson No. 2.1   **Author : Bikram Jit Rishi**

MANAGEMENT BY OBJECTIVES

Lesson Structure:

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2.1.0   OBJECTIVES OF THE LESSON

The following lesson includes an important issue of Management by objectives given by Peter Drucker. After reading this lesson students would be able to know the concept, benefits of MBO, it's limitations and pre-requisites of effectiveness of an MBO programme.

2.1.1   INTRODUCTION

Management by objectives (MBO), also known as management by result, it is a process of defining objectives within an organization so that management employees agree to the objectives & understand what they need to do in the organization in order to achieve them.

The complexity of organizational structures and operations lead to the development of new management techniques. The changing patterns of workforce also lead to find out new methods of management. These new developments gave birth to the MBO (Management by Objective). The idea behind MBO was popularized by Peter Drucker who stressed that "business performance requires that each job be directed towards the objective of the whole business so it is a process by which managers and subordinates join hands together in identifying goal and setting up objectives and also develop plans for the achievement of these objectives.

The purpose of MBO is to give subordinates a chance in the goal setting and planning processing and also provide the clarification and explanation about the achievement of

these objectives.

So MBO can also be referred or described as management by Results or Goal Management. MBO is based on the concept that involvement leads to commitment and if an employee participated in goal setting as well as in setting standards for measurement of performance towards that goal, then the employee will be motivated to perform better and in' a manner that directly contributes to the achievement of organizational objectives.

MBO in itself is a goal oriented process. It is not a work oriented process. Achievement is more important than being busy in the work. So MBO is an aid to planning as well as motivating factor for employee. It is a comprehensive system based upon set objectives in which all members participate. These objectives are common objectives for all participants and the extent or reward for each member would be determined by the degree of achievement.

The major emphasis of MBO is on objectives, whereas the various methods of management help in measurement of results and MBO is also one of them. In this system objectives are matched with the resources. Objectives provide a platform where various departments are integrated and individuals working in these departments try to achieve the objectives. According to Koontz and weihrich," MBO is a comprehensive managerial system that integrates many key managerial activities in a systematic manner and that is consciously directed toward the effective and efficient achievement of organizational and individual adjectives".
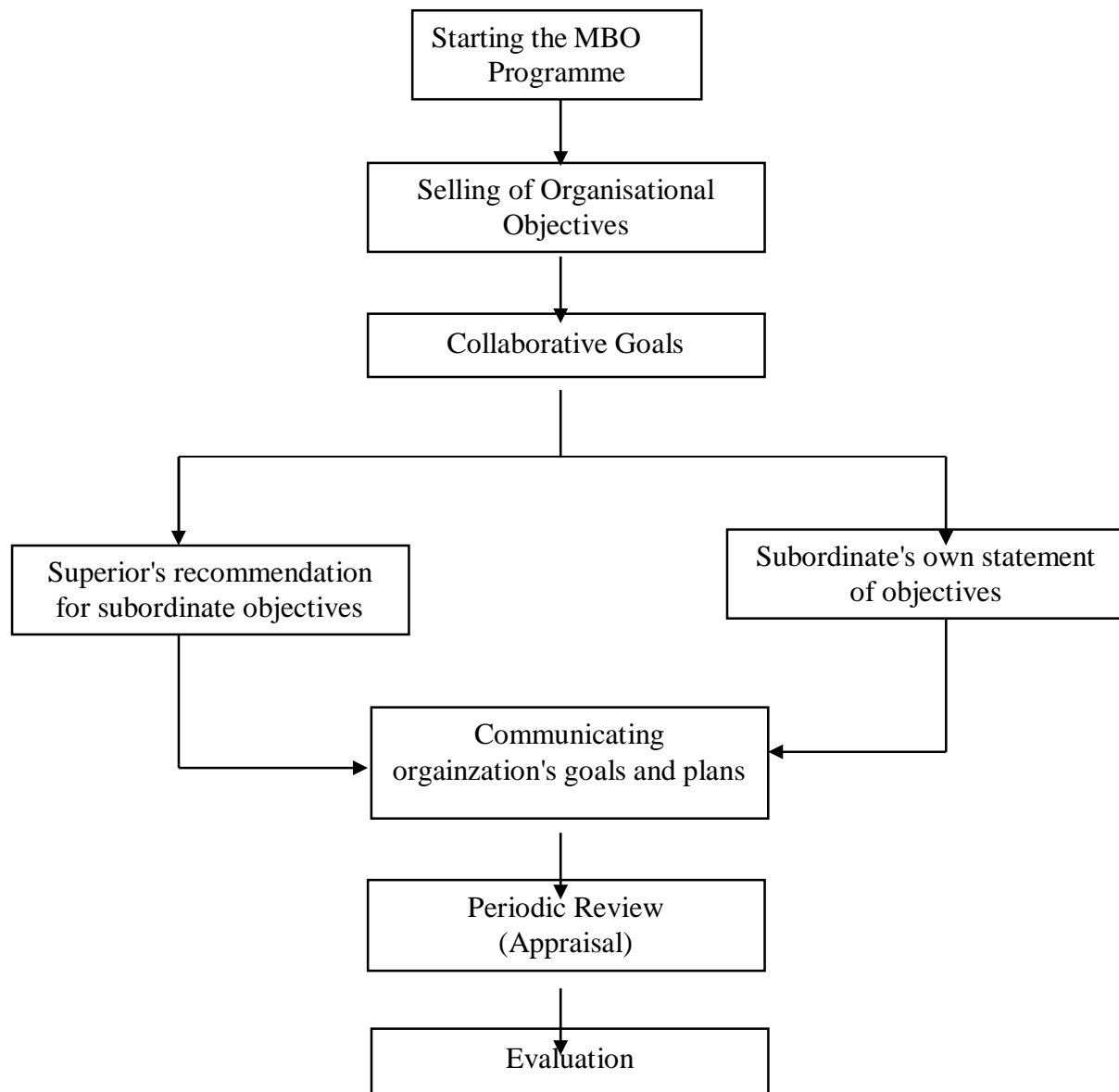
2.1.2 THE MBO PROCESS

MBO also known as management by results is a process of defining objectives within an organisation so that management and employers agree to the objectives and understand what they need to do in the organisation in order to achieve them. MBO is used to plan goals for the employees through their own participation. The goals will act as motivational factor and help in increasing employee efficiency. The setting of goals is not a simple thing. It requires lot of thinking and planning.

Definition- "MBO is a management practice which aims to increase organizational performance by aligning goals and subordinate objectives throughout the organization.

Management by objectives (MBO) is a strategie management model that aims to improve the performance of an organization by clearly definery objectives that are agreed to by both management and employees.

The setting of objectives requires following steps :

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                    │  Starting the MBO   │
                    │     Programme       │
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                    │ Selling of Organisational │
                    │     Objectives      │
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                    │  Collaborative Goals │
                    └─────────────────────┘
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              ▼                               ▼
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  │ Superior's recommendation│    │ Subordinate's own statement │
  │ for subordinate objectives│    │      of objectives       │
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                  │   Periodic Review   │
                  │     (Appraisal)     │
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                  │     Evaluation      │
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1. **Starting the MBO Programme:** MBO is a systematic technique to achieve the organisational objectives. So if any organization wants to implement MBO then it must have the support of top, middle and lower level management. MBO as a process gives emphasis on the rigorous analysis. The MBO process is not as simple as it appears to be. Managers need training and experience for developing the same.

2. **Setting up Organizational objectives:** The first basic phase in the MBO process is the definition of the organizational objectives. The objectives are usually set up by the top management in consultation with the middle and lower level managers. The objective should be specific and realistic. This process gets the group managers and the top managers to be jointly involved.

3. **Collaborative Goal Setting:** After the organizational goals have been set, it is very important that each individual manager must know in advance what he is expected to achieve. For this purpose the subordinates work with the seniors in setting their individual goals. The process of goal setting begins with superior's proposed recommendations for his subordinate's objectives. In turn the subordinate states his own objectives as perceived by him. Thereafter the final objectives for the subordinates are set by mutual negotiation between superior and subordinate.

4. **Communicating Organizational Goal and Plans:** Once the goals are set for each and every individual in the organization these are communicated to every one but before the communication, management must ensure that the subordinates are provided with necessary tools and materials to achieve these goals effectively. However, just like goal setting, the allocation of resources should also be done in consultation with the subordinates.

5. **Periodic review:** Review aspect of MBO tries to measure whether the subordinates are achieving the objectives or not. There may be a periodic review of progress between manager and the subordinates. Review is undertaken as an on going process with a view to find out deficiency in the working and also to remove it promptly. It is not merely undertaken to punish the non performer or to reward the performer. It is taken as a matter of system to ensure that everything is going as planned and the organization is able to achieve its objectives.

2.1.3   MBO CHARACTERISTICS

MBO is having the following characteristics:

1. **Derivation of plans:** Based upon the objectives, management drives various types of plans like long range, medium range and short range and also points out the steps required to achieve these. This information is provided to the employees.

2. **Job analysis and performance standards:** Each manager/employee analyse the job in order to identify the targets and provide a course of action to achieve these targets. Both the senior and subordinate agree on a plan of action by specifying the dates.

3. **Control:** The seniors use the control information like taking daily, weekly and monthly reports to find out whether the subordinates are achieving the targets or not.

4. **Performance review:** The subordinates are having normal contact with their bosses at regular intervals, to give the details about progress. In the meetings between the seniors and subordinates the difficulties are discussed, new targets are agreed and training needs are identified.

2.1.4   BENEFITS OF MBO

MBO provides specific objectives for each succeeding level (i.e., divisional, departmental individual in the organization.)

The benefits of MBO are many because MBO can be applied to many areas like performance appraisal, organizational development, long range planning and so on. Some of the benefits of MBO are:

1. **Better Management:** As MBO is a result oriented process and focuses on setting and controlling goals, it encourages managers to do detailed planning. Because of this detailed planning, resources and activities are put in such a way that they result into better performance. Thus with the help of MBO, performance can improve in four different ways: decreased time, decreased resources, increased quality and increased quantity.

2. **No Role ambiguity:** MBO provides key result areas where organizational efforts are needed. Since organizational objectives are defined very clearly, they help in relating the organization with its environment. Therefore any change in the environmental factors should be taken care of at the level of objectives setting itself. Thus it provides basis for long range planning in the organization. Once the

objectives are set very clearly both seniors and subordinates know what is excepted of them and hence there is no role ambiguity or confusion.

3. **Optimum utilization of human resources:** The seniors are required to establish measurable targets and standards of performance. Since these measurable targets are tailored to the particular abilities of the subordinates, it obtains maximum contribution from them thus providing optimum utility of Human resources.

4. **Personal Satisfaction:** MBO provides greatest opportunities for the personal satisfaction. This is possible because of two closely related phenomena.

  (I) Participation in objective setting

  (II) Rational performance appraisal.

  In the first case, people derive satisfaction because of the feeling that they are important to the organization. They enjoy considerable authority which is a source of better performance.

  In the second case, performance is based upon some specified criteria with commensurate rewards leaving least scope of personal factors, there is no unnecessary politics in activities.

5. **Better Communication:** It improves communication between management and subordinates. This continued feedback helps clarify any ambiguities and it helps in the improvement of total system in the organization.

6. **Career Development:** MBO often highlights the area in which the employees need further training. By taking keen interest in the development of skills and abilities of subordinates, the management provides an opportunity for strengthening those areas needing further refinement and thus leading to career development.

2.2. Organizational Change: MBO stimulates organizational change and provides a framework for planned change enabling the top management to initiate plan to direct and to control the direction and speed of change. Change is required in both internal and external factors. To cope up with the change in these factors organization has to change itself simultaneously.

6.5 LIMITATIONS OF MBO

MBO is not without the weaknesses. It has been found out that many organizations have been over whelmed by the problems of MBO and failed to

achieve the desired results. Some of the problems are inherent in MBO system while others emerge because of wrong implementation.

1. **Reluctancy of top managements:** In the classical structure of our organisations, the authority flows from top to bottom. This creates discipline and better performance, due to this reason top management is usually reluctant to support the process of MBO in which their subordinates would take equal part. Accordingly MBO can only succeed if it has the support of top management. In Indian organisations workers or employees are never given a chance to make their own goals. Indian organisations will take so much time to fulfil the basic conditions of MBO.

2. **Time and Cost:** MBO is the Process which requires large amount of the most scarce resource in the organization and it also requires the time of managers. This is also found out that MBO generates paper work because large number of forms are to be designed and put into practice. So there is a problem of communication and managers get frustrated. But these problems are transitory in nature and emerge only at the initial stages, once the MBO becomes part of the organisation these problems disappear.

3. **MBO Philosophy:** Sometimes MBO setting may not be liked by the subordinates. They may be under pressure to get along with the management when setting goals and objectives and these goals may be set unrealistically high. This may lower their moral and they may become suspicious about the philosophy behind MBO. As the review in case of MBO is done on regular basis, the managers seldom appreciate this. They take MBO as another tool for control. Moreover their old ways of thinking may put difficulty in the introduction of MBO in the organization. The overall philosophy behind MBO is never followed by any manager in India.

4. **Difficulty in goal setting:** The basic requirement of MBO is to set truly verifiable goals, against which performance can be measured easily. However for some areas setting of these type of objectives is difficult. Objectives are more in the form of statement rather than in quantitative form to reduce the possibility of setting unethical means for achieving results, top management must agree to reasonable objectives, clearly state behavioural expectations and give a high priority to ethical behaviour, rewarding it as well as punishing unethical activities.

5. **Inflexibility:** MBO represents the danger of Inflexibility in the organization

particularly when the objectives need to be changed. In a dynamic environment, a particular objective may not be valid for ever. In the context of revised objectives, changed premises or modified policies, it is useless to follow the old objectives. However many managers often hesitate to change objectives during a period of time.

6. **Failure to Give Guidelines to goal setters:** MBO like any other kind of planning cannot work if those who are expected to set goals are not given needed guidelines. Managers must know what the corporate goals are and how their own activity fits in with them. But if the goals are inconsistent, it is virtually impossible for manger to tune in with them.

7. **Emphasis on short term goals:** In case of MBO, the emphasis is more on short term goals. Since the goals are mostly quantitative in nature. It is difficult to do long range planning because all the variables affecting the process of planning cannot be accurately forecasted due to constantly changing socio-economic and technological environment.

8. Most managers may not be sufficiently skilled in inter personal interaction such as coaching and counselling which is extensively required.

9. The integration of MBO system with other systems like forecasting and budgeting etc. is very poor. This makes the overall functioning of all systems most difficult.

2.1.6 ELEMENTS OF MBO SYSTEM

The System of MBO vary from organization to organization. Sometime MBO is designed for a sub-unit or sometimes designed for the total organization. Most effective MBO programmes share the following six elements:

1. **Commitment:** To any programme to be very effective, manager's commitment to achieve personal and organisational objectives is required. After the setting of the objectives there should be a review of the programme and superiors should meet the subordinates to boost the morals.

2. **Top level goal setting:** Generally MBO starts with the goal setting by the top management, by considering the organizational strategy, the employees set their objectives for themselves, It should be matched with the objectives set by the top management. This procedure gives both managers and staff members a clearer idea of what top management hopes to accomplish and to show how their own work directly relates to achieving the organization goals.

3. **Participation:** As a general rule greater the participation of seniors and subordinates in the setting of goals, the more likely the goal will be achieved. One of the hallmarks of quality management programmes is the joint participation in setting up of goals.

4. **Individual Goal:** For a MBO programme, to be more effective each manager and staff member has clearly defined job responsibilities and objectives. The purpose of setting up of objectives in specific terms at every level is to help employees understand clearly just what they are expected to accomplish.

5. **Autonomy in implementation:** As soon as the objectives are agreed upon, the individual enjoys wide discretion in choosing the means for achieving them instead of following a guided path made by higher ranking superiors.

2.1.7 PREREQUISITES FOR EFFECTIVENESS OF MBO PROGRAMME

MBO is not only a technique it is an evaluation approach for the achievement of objectives of the organization. It is a part of the achievement of objectives of the organisation. It is a part of the motivational programme, planned technique and a development programme. Its proper effectiveness requires a basic change in the organizational culture and environment. There are some of the prerequisites required for effective MBO program.

1. **Basic purpose of MBO:** MBO has to achieve the objectives of the organization, so it is very important for any organization to be very clear about why it is implementing MBO? So "in nut-shell we can say that MBO should be an overall philosophy of management and the entire organization, rather than supply a divisional process. Flexk M. Lopex has observed "when an organization is managed by objectives it becomes performance oriented. It grows and it develops and it becomes socially useful.

2. **Formulation of Objectives:** The objectives should be clearly formulated, should be realistic and achievable. For example it is not realistic for R & D department of an organization to set a goal say 15 inventions per year. These goals should be set with the participation of subordinates.

   Second issue which is very important here is that over commitment leads to competitive rivalry and MBO generates commitment. This may be dangerous if it exceeds the limits. The persons responsible for introducing MBO must be certain that competing objectives are not set.

3. **Support of top management:** It is important to secure top management support and

commitment. Without this commitment MBO can never really be a success. The top managers and their subordinates should all consider themselves as players of the same team. This means that superiors must be willing to share the necessary authority with subordinates.

4. **Training for MBO:** All personnel involved should be given formal training in understanding the basis as well as the contents of the programme. Such education may include as to how to set goals, various methods for achieving the goals, the various methods of review and evaluation of performance and the various provisions to include any feedback that may be given.

5. **Participation:** In case of MBO, it requires the commitment on the part of each individual involved in this type of system. Their commitment in turn is a function of their identification with and participation in the system. The subordinate should not perceive that MBO is another technique being used by his superior to control his performance but he should also take it in right spirit. Such undesirable perception may be avoided by encouraging the subordinate to play an active role in the preliminary phases leading to the actual witting of the objectives.

6. The goal must be continuously reviewed and modified as the changed conditions require. The review technique should be such that any deviations are caught early and corrected.

7. If the full benefits of MBO are to be realized, it must be carried all the way down to the first line of the organization. There is a tendency for active participation in objective setting itself and for periodic feedback and review.

2.1.8 SUMMARY

MBO can be described as a process whereby the superior and subordinates of an organization jointly identify their common goals, define each individual's major area of responsibility in terms of results expected of him and use these measures as guides for operating the unit.

The MBO process includes (a) starting the MBO programme (b) setting up organizational objectives (c) collaborative goal setting (d) communicating organizations goals and plans (e) periodic review.

MBO characteristics are (a) Deviation of plans (b) Job analysis and performance standards (c) control (d) performance review.

The major benefits of MBO are (a) Better managing (b) No role ambiguity (c) Optimum utilization of human' resources (d) Personal satisfaction (e) Career

development (f) Organizational change.

Major limitations of MBO include (a) Reluctancy of top management (b) Time and Cost (c) MBO Philosophy (d) Difficulty in goal setting(e) Inflexibility (1) Failure to give guidelines to goal setters (g) Emphasis on short terms goals (h) Poor integration with other system.

Major elements of MBO are (a) Commitment (b) Top level goal setting(c) Participation (d) Individual goals (e) Autonomy in implementation.

Prerequisites for effectiveness of MBO programme are (a) Basic purpose of MBO (b) Formulation (c) Support of top management (d) Training for MBO (e) Participation (f) Continuous review.

2.1.9 EXERCISE
(A) Short Questions:
Q.1. Define MBO Process.
Q.2. Discuss benefits of MBO.
Q.3. State the limitations of MBO.
(B) Long Questions:
Q.1. What do you mean by management by objectives? Does the subordinate involvement in the decision making process helps or hinder the effective-operations?
Q.2. Elaborate the ways through which the effectiveness of MBO process can be improved?
Q.3. In your opinion what type of senior behaviour would result in the failure of MBO program?
2.1.10 SUGGESTED READINGS
1. Principles of Business Management
   By R.K. Sharma
   Shashi K. Gupta
   Kalyani Publishers
2. Principles of Management
   By R.N. Gupta
   Sultan Chand and Sons Ltd.

LESSON NO. 2.2	AUTOR : DR. GURPREET SINGH

BUSINESS ENVIORNMENT

2.2.0   Objectives
2.2.1   Introduction
2.2.2   Types of Environment
2.2.3   Macro Marketing Environment - PEST Analysis
2.2.4   PEST Analysis
2.2.5   PEST & PESTLE analysis
2.2.6   Micro Environmental Factors
2.2.7   International Marketing Environment

2.2.0   Objectives

After reading this lesson, students would be able to answer
- Types of Environment
- Macro Marketing Environment
- PEST Analysis
- Micro Environment

2.2.1   INTRODUCTION

The market environment is a marketing term and refers to factors and forces that affect a firm's ability to build and maintain successful relationships with customers.

Business Environment means a collection of all individuals, entities and other factors, which may or can effects its performance, profitability, growth and even survial. Marketing was about meeting needs and providing benefits and the customer should be the central focus of the business. The companies marketing strategy should be focused around this concept, however, there are factors within the companies marketing environment which can constrain this activity. These factors are both controllable and uncontrollable and have to be carefully monitored by the organization.

The term Marketing Environment is a marketing term and refers to factors that affect a Firm's ability to build and maintain successful relationship with customers. The companies marketing environment can be defined as the 'controllable and uncontrollable elements that influence the strategic direction of the company'. The company's marketing environment can be analyzed in two broad levels.

2.2.2 Types of Environment
- The macro environment involves looking at uncontrollable variables that influence company strategy.
- The micro environment involves analyzing controllable variables close to the company that the company does have an influence over. This usually involves undertaking a stakeholder analysis.

2.2.3 Macro Marketing Environment - PEST Analysis

An organization's success is influenced by factors operating in its internal and external environment; an organization can increase its success by adopting strategies which manipulate these factors to its advantage. A successful organization will not only understand existing factors but also forecast change, so that it can take advantage of change within the environments in which it operates.

2.2.2 PEST Analysis

The following type of forces influence an organization's operating environment:

• Pest Factors – These are external forces which the organization does not have direct control over these factors. PEST is an acronym and each letter represents a type of factor

1. Political   2. Economical   3. Social   4. Technological

2.2.5   PEST & PESTLE analysis

A PEST analysis is used to identify the external forces affecting an organization.This is a simple analysis of an organization's Political, Economical, Social and Technological environment. A PEST analysis incorporating legal and environmental factors is called a PESTLE analysis.

Political

The first element of a PEST analysis is a study of political factors. Political factors influence organizations in many ways. Political factors can create advantages and opportunities for organizations. Conversely they can place obligations and duties on organizations. Political factors include the following types of instrument:

- Legislation such as the minimum wages or anti discrimination laws.
- Voluntary codes and practices
- Market regulations
- Trade agreements tariffs or restrictions
- Tax levies and tax breaks
- Type of government regime e.g. communist, democratic, dictatorship
- Non conformance with legislative obligations can lead to sanctions such as fines, adverse publicity and imprisonment. Ineffective voluntary codes and

practices will often lead to governments introducing legislation to regulate the activities covered by the codes and practices.

Economical

The second element of a PEST analysis involves a study of economic factors. All businesses are affected by national and global economic factors. National and global interest rate and fiscal policy will be set around economic conditions. The climate of the economy dictates how consumers, suppliers and other organizational stakeholders such as suppliers and creditors behave within society.

An economy undergoing recession will have high unemployment, low spending power and low stakeholder confidence. Conversely a "booming" or growing economy will have low unemployment, high spending power and high stakeholder confidence. A successful organization will respond to economic conditions and stakeholder behavior. Furthermore organizations will need to review the impact economic conditions are having on their competitors and respond accordingly.

In this global business world organizations are affected by economies throughout the world and not just the countries in which they are based or operate from. For example: a global credit crunch originating in the USA contributed towards the credit crunch in the UK in 2007/08.

Cheaper labour in developing countries affects the competitiveness of products from developed countries. An increase in interest rates in the USA will affect the share price of UK stocks or adverse weather conditions in India may affect the price of tea bought in an English café. A truly global player has to be aware of economic conditions across all borders and needs to ensure that it employs strategies that protect and promote its business through economic conditions throughout the world.

Social

The third aspect of PEST focuses its attention on forces within society such as family, friends, colleagues, neighbours and the media. Social forces affect our attitudes, interests and opinions. These forces shape who we are as people, the way we behave and ultimately what we purchase. For example in India attitude of people are changing towards their diet and health. As a result the India is seeing an increase in the number of people joining fitness clubs and a massive growth for the demand of organic food. Products

Population changes also have a direct impact on organizations. Changes in the structure of a population will affect the supply and demand of goods and services within an economy. Falling birth rates will result in decreased demand and greater competition as the number of consumers fall. Conversely an increase in the global population and world food shortage predictions are currently leading to calls

for greater investment in food production. Due to food shortages African countries such as Uganda are now reconsidering their rejection of genetically modified foods.

In summary organizations must be able to offer products and services that aim to complement and benefit people's lifestyle and behaviour. If organizations do not respond to changes in society they will lose market share and demand for their product or service.

Technological

Unsurprisingly the fourth element of PEST is technology, as you are probably aware technological advances have greatly changed the manner in which businesses operate.

Organizations use technology in many ways, they have

1.   Technology infrastructure such as the internet and other information exchange systems

2.   Technology systems incorporating a multitude of software which help them manage business.

3.   Technology hardware such as mobile phones, Blackberry, laptops, desktops, Bluetooth devices, photocopiers and fax machines which transmit and record information.

Technology has created a society which expects instant results. This technological revolution has increased the rate at which information is exchanged between stakeholders. A faster exchange of information can benefit businesses as they are able to react quickly to changes within their operating environment. However an ability to react quickly also creates extra pressure as businesses are expected to deliver on their promises within ever decreasing timescales.

For example the Internet is having a profound impact on the marketing mix strategy of organizations. Consumers can now shop 22 hours a day from their homes, work, and Internet café's and via 3G phones and 3G cards. Some employees have instant access to e-mails through Blackberry but this can be a double edged sword, as studies have shown that this access can cause work to encroach on their personal time outside work.

The pace of technological change is so fast that the average life of a computer chip is approximately 6 months. Technology is utilized by all age groups: children are exposed to technology from birth, a new generation of technology savvy pensioners known as "silver surfers" have emerged. Technology will continue to evolve and impact on consumer habits and expectations, organizations that ignore this fact face extinction.

PEST ANALYSIS

A PEST analysis is sometimes expanded to incorporate legal and environmental factors; this is known as a pestle analysis. There are many statutes books

containing company law as almost every aspect of an organization's operation is controlled through legislation from treatment of employees through to health and safety. Legal factors are important as organizations have to work within legislative frameworks. Legislation can hinder business by placing onerous obligations on organizations. On the other hand legislation can create market conditions that benefit business.

2.2.6   Micro Environmental Factors

These are internal factors close to the company that have a direct impact on the organization's strategy. These factors include:

Customers

Organizations survive on the basis of meeting the needs, wants and providing benefits for their customers. Failure to do so will result in a failed business strategy.

Employees

Employing the correct staff and keeping these staff motivated is an essential part of the strategic planning process of an organization. Training and development plays an essential role particularly in service sector marketing in-order to gain a competitive edge. This is clearly apparent in the airline industry.

Suppliers

Increase in raw material prices will have a knock on affect on the marketing mix strategy of an organization. Prices may be forced up as a result. A closer supplier relationship is one way of ensuring competitive and quality products for an organization.

Shareholders

As organization requires greater inward investment for growth they face increasing pressure to move from private ownership to public. However this movement unleashes the forces of shareholder pressure on the strategy of organizations. Satisfying shareholder needs may result in a change in tactics employed by an organization. Many internet companies who share prices rocketed in 1999 and early 2000 have seen the share price tumble as they face pressures from shareholders to turn in a profit in a market which has very quickly become overcrowded, many have failed.

Media

Positive or adverse media attention on an organization's product or service can in some cases make or break an organization. Consumer programmes with a wider and more direct audience can also have a very powerful and positive impact and forcing organizations to change their tactics.

Competitors

The name of the game in marketing is differentiation. What benefit can the organization offer which is better than their competitors? Can they sustain this differentiation over a period of time from their competitors? Competitor analysis and monitoring is crucial if an organization is to maintain its position within the market.

2.2.7 <u>International Marketing Environment (IME)</u>

IME is a set of controlable (internal) and uncontrolable (external) forces or factors that affect international marketing.

Entering global markets

There are a number of steps that need to be taken before you decide to enter international markets.

Analyze the international marketing environment. A PEST/STEP analysis needs to be conducted on the market you enter, to assess whether it is worthwhile or not. Let's briefly look at some factors that may influence an international decision.

Political factors

Consider:

The political stability of the nation: Is it a democracy, communist, or dictatorial regime?

Monetary regulations: Will the seller be paid in a currency that they value or will payments only be accepted in the host nation currency?

Economical Factors

Consider:

Consumer wealth and expenditure within the country,

National interests and inflation rate,

Are quotas imposed on your product?

Are the import tariffs imposed?

Does the government offer subsidies to national players that make it difficult for you to compete?

Social Factors

Consider

Language: Will language be a barrier to communication for you? Does your host nation speak your national language? What is the meaning of your brand name in your host country's language?

Customs: What customs do you have to be aware of within the country? This is important. You need to make sure you do not offend while communicating your message.

Social factors: What are the role of women and family within society?

Religion: How does religion affect behaviour?

Values: What are the values and attitudes of individuals within the market?

Technological

Consider:

The technological infrastructure of the market,

Do all homes have access to energy (electricity)?

Is there an Internet infrastructure? Does this infrastructure support broadband or dial up?

Will your systems easily integrate with your host countries?

Market entry methods

After assessing the environment in your selected country, how do you decide which are the best countries to enter? Paliwood (1993) suggests that before you enter an overseas market there are six factors that need to be considered:

Speed – How quickly do you wish to enter your selected market?

Costs- What is the cost of entering that market?

Flexibility – How easy is it to enter/leave your chosen market?

Risk Factor – What is the political risk of entering the market? What are the competitive risks? How competitive is the market?

Payback period – When do you wish to obtain a return from entering the market? Are there pressures to break even and return a profit within a certain period?

Long- term objectives- What does the organization wish to achieve in the long term by operating in the foreign market? Will they establish a presence in that market and then move onto others?

Trading overseas

There are a number ways an organization can start to sell their products in international markets.

1. Direct export : The organization produces their product in their home market and then sells them to customers overseas.

2. Indirect export : The organizations sell their product to a third party who then sells it on within the foreign market.

3. Licensing : Another less risky market entry method is licensing. Here the Licensor will grant an organization in the foreign market a license to produce the product, use the brand name etc in return that they will receive a royalty payment.

4. Franchising : Franchising is another form of licensing. Here the organization puts together a package of the 'successful' ingredients that made them a success in their home market and then franchise this package to oversea investors. The Franchise holder may help out by providing training and

marketing the services or product. McDonalds is a popular example of a Franchising option for expanding in international markets.

5. Contracting : Another form of market entry in an overseas market which involves the exchange of ideas is contracting. The manufacturer of the product will contract out the production of the product to another organization to produce the product on their behalf. Clearly, contracting saves the organization from exporting to the foreign market.

6. Manufacturing abroad : The ultimate decision to sell abroad is the decision to establish a manufacturing plant in the host country. The government of the host country may give the organization some form of tax advantage because they wish to attract inward investment to help create employment for their economy.

7. Joint Venture : To share the risk of market entry into a foreign market, two organizations may come together to form a company to operate in the host country. The two companies may share knowledge and expertise to assist them in the development of company, of course, profits will have to be shared out also.

Self Check Exercise

Q. How the knowledge of marketing environment helps in making marketing strategies?

Q. What do you understand by PEST ?

Q. What are micro environment factors ?

Organisation

2.3.0   Objectives
          The following lesson explains the concept of organising, which is the second function
of management. It includes the importance of organisation, types of structure, process in
organisational design, concept of Departmentation, delegation, decentratisation, committee
etc. the lesson also through light on the next function i.e. coordination.
2.3.1   Introduction
          Organisation is an essential part of human life. It indicates that life of human
beings is properly organised. We are born in organization, educated in organizations
and spend most of our lives working in organization. 'Organisation' implies the

formalized international structure of roles or positions.

2.3.2   Concept and Features

The concepts of organisation can be defined as the study of structure and design of organisation. It explains how organisations are actually designed and offer suggestions on how they can be constructed to improve organisational effectiveness. Tosi defined organisation theory as a set of inter related constructs, definitions and propositions that present a systematic view of behaviour of individuals, groups and sub-groups interacting in some relatively patterned sequence of activity, the intent of which is goal directed.

The definition emphasizes the study of human behaviour as individual, group and sub group. Organisation is used in management literature in two different ways

(i) As a structure and (ii) As a process

Organisational structure refers to the network of relationship among inviduals and position in an organisation. It is the skeleton framework of an enterprise, just like the architectural plan of building, designed to achieve its objectes. It is a mechanism which enables individuals to work together towards a commn goal. According to Mc Jailand, Organisation is "an identifiable group of people contributing their efforts towards the attainment of goals." It is a group of interacting and independent individuals working towards a common goal. Thus as a structure, organisation is the structure framework within which the efforts of different people are co-ordinated and related to each other. It is a blue print of how the management will like the various activities and functions to be performed. It is a structure manned by group of individuals who are working together towards a common goal. In this sense, organisation is a static mechanical entity.

2.3.3   Importance of organisation

Organisation is a mechanism which determines the relationship among various persons. With the help of well defined organisation, management is able to perform the functions of directions, co-ordination and control. Following are some advantages of good organisation.

1.   Helps in optimum utilization of technological inventions

The adjustment to new changes will require re-scheduling of duties and re-adjustment of duties and responsibilities in the organisation. There may also be a need to delegate new powers for making best use of technological innovations.

2.   Helps in administration

An organisation provides sound function for effective managerial control. The functions like co-ordination and control require a proper divison of various functions and their assignment to suitable persons. Best plans may fail if they are not executed properly. A good organisation is an asset to management. It achieves organisational goals through the exercise of effective control.

3.   Promotes growth and diversification

Areas and activities of business grow if it has a well knit organisation. There will be a need for employing more persons whenever expansion and diversification

takes place. A flexible organisational structure will enable the employment of more persons and disturbing the working.

4.   Easy co-ordination

Every organisation has a number of departments and sections and they are assigned different duties for achieving business objectives. A good organisation will divide and sub-divide the activities in such a way that the activities of different segments become complementary.

5.   Training and development of personnel

A good organisation provides for training and development to its employees. A clearly defined authority provides a scope for the talent. There will be sufficient scope to try new ideas in improving the working of organisation.

6.   Encourage initiative

A good organisational structure will provide sufficient scope for taking initiative. Persons are allowed to try new ideas for improving upon their work. The initiative and creativeness encouraged in organisation will make it dynamic and responsive to new situations. If persons are not encouraged to take new initiative then management will not be able to cope with changing business.

7.   Better Human Relations

Human relations improve in a good organisational set up. An organisation consists of human beings and their satisfaction, will help improving human relations. A clearly defined work, authority, responsibility and accountability will enable individuals to work in a free atmosphere. This will give job satisfaction to employees.

Organisation : A System

The latest development in the field of organisational theory is to view organisation as a system. System concept recognizes that organisations are made up of different components, each of which has unique properties like capabilities and mutual relationships and recognizes significance of synergism and the system ideas. The constituent elements of a system are linked together in such a complex way that action taken by one produce has far reaching effect on others. What the system approach requires the managers to do is to think in terms of the overall long range effect produced by the interactions and the interdependencies.

A system may be defined as a regularly interacting and interdependent group of items forming a united whole. Organisation is a system i.e. it is an entity comprises of interrelated and interdependent variable like individuals, formal and informal relationships and physical inputs including material, labour, information etc. Transformation is the flow of inputs to produce the required products or service. This brings out clearly functions and objectives of the organization i.e. to transform input and output.

The system view of organisation gives the complete picture of organisation as it considers the organisation in its totality. The interdependent variables of the system are individuals, formal organisation, informal organisation, structure of relationships and physical environment of work situation . These variables must be

linked together in order to interact, these linkages are very often described in terms of input output systems. The various elements which system analyses, are stability, growth and interaction. The goals are also related to one another. The last goals refer to system which provide a medium of association of members from which they get satisfaction. Another important point emphasized by Katz and Kahn is that, an Organisation is an open dynamic system. Organisation is always receptive to change and it is not closed to outside happening. Moreover, it doesn't restrict informal interaction by the individuals in the organisation.
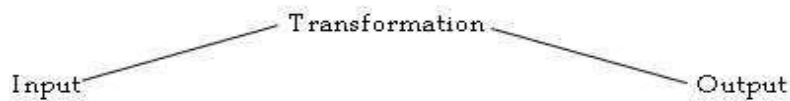
Growth means change and particurly for an open system. It means change along with directions, namely development and structural evolution. Development pertains to the unfolding of an organism from the employonic stage to the stage of maturity. Evolution refers to structural change in an organisation stemming from its adoption to new environment conditions. Growth is achieved generally after the organisation has attained stability of it is in a position to pull on its operations without having any set back. It should run smoothly to maintain stability. Once the organisation is stable, it becomes easier to achieve the goal of growth.

One of the greatest benefits of studying organising from a system point of view is, better understanding of perception of complex variable which the organisation involves. Focusing aims at interdependencies and inter-relatedness which generally lead to either better understanding or recognition of the areas where understanding is lacking. This in turn, can lead to better decision and thereby better management.

2.3.4   Type of organisation

Formal and Informal Organisation

When the activities of two or more persons are consciously co-ordinated towards a given objective, it is called formal organisation. Chester Bernard defines formal organisation as "a system of consciously co-ordinated activities or forces of two or more persons. He found that essence of formal organisation is for a common purpose and that formal organisation comes into being when persons (1) are able to communicate with one another (2) are willing to act (3) share the purpose.

Informal organisation refers to the relationship between people in an organisation not based on procedure and regulations but on personal attitudes, behaviours, prejudices, etc. It refers to what people actually do based not on procedures and regulation but on same taste, culture attitude etc. people work together because of their personal likes and dislikes. People with common interest may work beyond the confined formal relationships.

Modern management realizes the importance of both formal and informal

organisations. Persons in organisations are encouraged to meet privately because it serves the managements in a number of ways. Informal communication may help in sorting out many issues which may not find solution in a formal set up.

Designing of Organisational Structure

Organisational structure is a basic framework within which a manager's decision making behaviour takes place. Structure is what we call dealing with relationships. In simple words structure is the pattern in which various parts or components are interrelated or inter connected. Thus organisational structure is the pattern of relationship among various components or parts of the organisation. This prescribes the relationship among various activities and positions. Since these positions are held by various persons. The structure is a kind of relationship among people in the organisation.

It is useful to make distinction between basic structure and operating mechanism while taking decision about organisational design. Designing of basic structure involves such central issues as how the work of the organisation will be directed and designed among positions, groups, departments, divisions etc., and how the necessary coordination to achieve organisational objectives will be achieved. On the other hand, operating mechanism includes such factors as control, procedures, informations, systems, reward and punishment system, appraisal system and so on.

2.3.5   Need for formal organisational structure

1.   **Facilitating Management**

A properly designed organisation facilitates smooth operation of the enterprise while inadequate and faulty one may not only discourage but makes effective management impossible.

2.   **Encourage Growth**

The organisational structure is the framework within which an enterprise grows. This requires a flexible structure where changes can be incorporated. Thus a flexible structure ensures proper growth and development of people working in an organisation.

3.   **Optimum use of Technology**

Many new technological improvements are being made every day. The organisation can not remain indifferent towards these improvements, but it has to take the advantage of these. The advantages can best be realized by hearing a suitable organisational structure because on the one hand the use of a technology involves costs and one the other, it contributes to the objectives. A proper balance can be maintained only by a balanced organisational structure.

4.   **Encouraging Efficient use of Human Being**

An individual contributes his best when his satisfaction is at highest level. Most of the people get psychological satisfaction from their relationships and their working environment.

5.   **Stimulating Creativity**

A sound organisation based on specialisation stimulates creative thinking

and initiative by providing well defined area of work with provision of developing new and improved ways of working.

2.3.5.1   Planning for Organisational Structure

The organisational structure to be effective must meet certain criteria. Some of the major elements of planning of organisation structure are as follows :

1.   Consideration of Contextual Variables

An organisational structure is best which fulfils the demands of various contextual variables, namely, environment, technology, size and people.

2.   Departmentation

Departmentation is the process of arranging work according to functions, product and other organisational elements. Any base should provide (i) Facility in co-ordination (ii) Advantages of specialisation (iii) Minimum cost, (iv) development of individual.

3.   Balancing

Each function should be given importance with respect to its basic purpose in the organisation. Compromising in various elements give a balance and make a workable organisation structure.

4.   Focusing on Operating Responsibility

Organisational structure should clearly defines the responsibilities of all the individuals. So that they may come to know that what exactly is expected from them to perform. It will avoid any kind of confusion.

5.   Establishment of Span

In practice, the span may be very wide because a number of factors determine this. The span should be decided on the basis of its need at various levels of organisation.

6.   Facilitating Units

Departmentation and responsibility centres provided as to who will perform the work. The persons heading the responsibility centres need the help of facilitating units which are created in the organisation.

7.   Provisions of Top Management

The chief executive of the organisation is directly responsible for over all management. Thus, in designing organisational structure the role of top management and how it will participate in management process shouldbe provided.

8.   Structural Arrangement

Structural Arrangement deals with analyzing of status, position or rank. The status of various individuals reporting to a common superior should be kept on equal level as for as possible.

9.   Continuity

Structure is determined for meeting the needs of future period also.

2.3.6 Process of Organisational Design

There are two problems in organisational design, viz, difference and integration. Dalton et. al. Defines differentiation as the differences in cognitive and emotional orientations among managers. It is difference in functional departments and formal in structure.It depends upon the integration as quality of the state of collaboration that exists among departments which are required to achieve unity of efforts by the environment. Since various department are the parts of the whole system, they should not be considered in isolation of others as affecting the economies and efficiencies of work performance. Designing of one unit may be different from that of other. Applying the concepts of difference and integration to structural design requires activities in sequences; identification grouping and prescribing authority relationship among individual and groups.

1. Identification of Activities

In designing the structure, managers must identify the necessary activities that must be performed in order to achieve the organisational objectives. The deductive method of identifying activities is generally followed. This approach suggests that to achieve a particular goal, what steps and functions should be undertaken.

2. Grouping of Activities

Closely related and similar activities are grouped into departments or divisions because coordination of numerous activities can best be achieved by regrouping them on some basis of derivative departments.

3. Delegation of Authority

Since the assignment of job to an individual creates responsibility on his part, he must have corresponding authority to discharge his obligations. Responsibility and authority are collected and are taken to be as constant companions, because authority without responsibility is dangerous and responsibility without authority is an empty vessel. Through the process of delegation, authority structure in the organisation is created that who will interact with whom in performing his official duties.
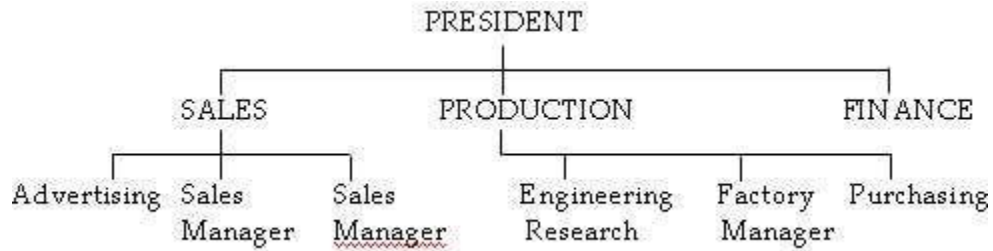
2.3.7 Departmentation

Departmentation refers to the formal structure of the organisation, composed of various departments and managerial positions and their relationship with each other. As an organisation grows, its departments grow and more submits are created, which in turn add more levels of management. This often creates less flexibility, adaptability and unit of action within the firm. Departmentation is the efficient and effective grouping of jobs into meaningful work units to coordinate numerous jobs for the expeditious accomplishments of the organisational objectives.

2.3.7.1 Types of Departmentation

Departmentation results from the division of work and the desire to obtain organisation units of manageable size and to utilize managerial ability. An organisational structure and design are shaped significantly by the departmentation. The major means of Departmentaion are by function, product territory, customer

process taskforce and matrix. An organiser is free to use any means to departmentation in constructing an organisation structure. In fact, in any given structure several means are typically used.
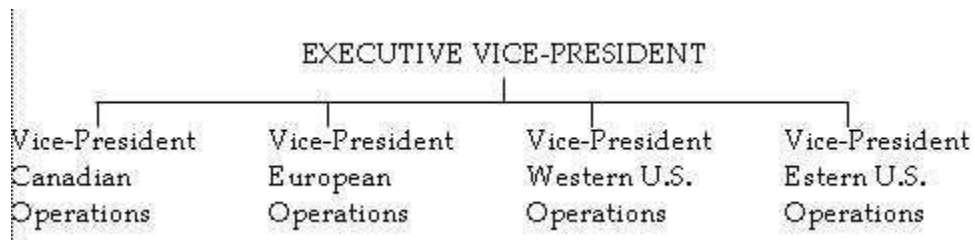
I.   Departmentation by Function

II.   Departmentation by Product

This method places all the resources and authority a manager to get a product or service produced and marked. IBM, in very simplified, looks like this.
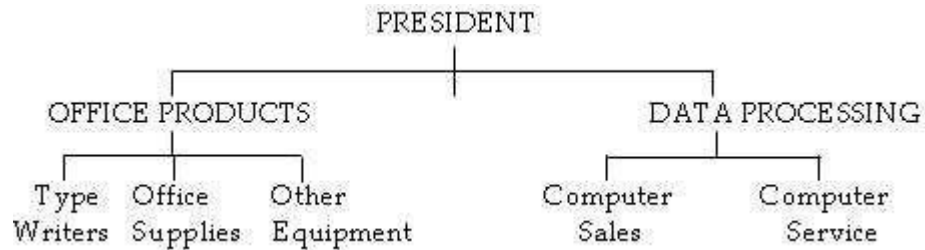

III.   Departmentation by Territory

This method is followed where nearness to local conditions prepares to offer advantages, such as low cost of operation and opportunities to capitalize an attractive local condition as they arises.

IV.   Departmentation by Customer

This organisational form is used when great emphasis is placed on effectively serving different customer types.
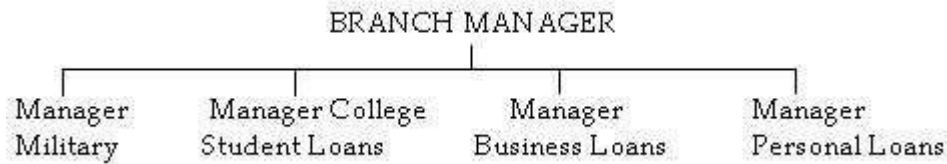
V.   Departmentation by Process

This is logical when the machines or equipment used require special skill for operating or area of a large capacity which eliminates organisational dividing or have technical facilities which strongly suggest a concentrated location. Economic and technological considerations are the foremost reasons for the adoption of process departmentation.

VI.   Departmentation by Task Force

This involves assigning a team or task force to a definite project or block of work which extends from the beginning to the completion of wanted and definite type and equality of work. A task force is usually relatively small, perhaps not over a dozen members. It exits for the life of the projects and its then disbanded. It has a leader, it is self contained and includes all the necessary and skill for performing the work.

<div align="center">Self Check Exercise No. 1</div>

Questions :   Define Informal Organisation.

2.3.8   New Approach to Organisational Design

The new approach to organisation concentrates on three crucial variables :

-       The intrinsic properties of the task alongwith a competence from repetitive to unique.

-       The personality (norms an aspiration) and the completeness (expertise) of the personal within a unit.

-       The institutional and/or historical circumstances associated with the unit.

This approach identifies subsystem of a complex organisation, each with its appropriate strategy of planning, control, rewards, and boundary negotiations. These subsystems are viewed along a competence from dependence on hierarchical concepts to autonomous units or project.

Based upon five observable characteristics of an organisational group structure, group roles, group processes, group style, and group norms of recommendation of organisational design strategies provide the following guidelines.

1.   A routine situation that deals with a task requiring similar or repetitive solutions, calling for Taylor's functional specialists in the design.

2.   The engineering situation that deals with non repetitive solutions by persons who are professionally educated, calling for professional staffs in the structure to advice line managers.

3.   The craft situation that deals with uniquely different but respectively

processed output, calling for a flexible and person oriented structure, output ill-defined, calling for a flexible and group design with considerable participation.

Project organisation is one that can be tailored for a particular mission or project to co-ordinate action towards the completion of the project while retaining the advantages of functional specialists. Whereas the classical approach is built around authority centres and the participative approach is build around people. Project organisation is designed to meet the demands of a particular job. A functional specialist can be hired for a particular project. When the project is finished, however the specialists return to the functional department, thus retaining relationship with others in the specialty.

With the rapid development of multinational firms, a third design has evolved that uses the matrix approach. Multinational firms have used one of three bases for developing their designs.

- Grouping functional specialists such as productions, marketing and finance together.
- Geographical grouping by contents or regions.
- Product grouping with similar product in distinct divisions which operated globally.

The problem in selecting any one of these is that there are rational advantages for each yet each had definite shortcomings.

As a result of the rapid technological break through in the 1980's and the industrial competition by an increasing number between developed and developing countries, a new organisational design for the 1980's evolving a dynamic network structure. At this stage of the evolution, a small central organisation, which serves as a switch board for connecting other companies to perform crucial functions in which local suppliers have special advantages, directs operations on a contract basis. The Promises of this organisational design are, its flexibility, its adaptability to change, and its focus on those functions in which the organisation has clear advantages, its weakness are the loss of control by the central organisation, the instability of dynamic shifts in operations and the potential competitive threat of present contractors moving into the market with their own dynamic network.

2.3.8.1   Span Vs Levels

Organisational levels exist because there is a limit of number of persons, a
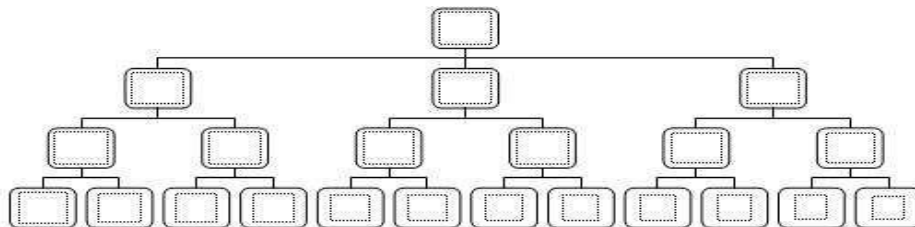
manager can supervise effectively, even though this limit varies.

Organisation with Narrow Span (with many organisational level)

Span of Control refers to the number of immediate subordinates who report to a manger. Wide span of a manager who has a relatively larger number of immediate subordinates usually results in few organisational levels and a "flattering out" of the structure. Small number of organisational levels make the communication easy, but wide spans are challenging to a manager in as much as the scope of operation is broadened and the opportunity is present to grow and show what can be done. In contrast, narrow span expedite more personalized manger-subordinate relationships, with relatively many levels.

Organisation levels

Division of activities into departments and hierarchical organisation and the creation of multiple levels, are not compatibly desirable in themselves.

Levels are expensive will go up as more money and efforts are required as because of additional managers, staff to assist them, and the necessity of coordination departmental activities plus the cost of facilities for such personal.

These levels complicate communication. An enterprise with many levels has greater difficulty in communicating objectives, plans and policies downward through the organisation structure than the firm in which the manger communicates directly with employees.

Finally, many departments and levels complicate planning and control. A plan that may be definite and complete at the top level loses co-ordination and clarify as it is sub divided at lower levels. Control becomes more difficult as level and mangers are added.

The span of control depends upon factors like capability of the manger, nature of work and capability of the subordinates. It differs from level and can be increased with proper training of personal.

2.3.9   Delegation, Decentralisation, Committee System and co-ordination

2.3.9.1   Delegation and Decentralisation

The task involved in the management of an enterprise are too big for an individual. No individual can perform all activities himself. Therefore, the total work of an organisation is divided among different persons. Every individual is given some authority so that he can accomplish his task. Every manager shares his authority himself. After assigning duty and granting authority to subordinates, a manager holds them accountable for proper discharge of duty. This part of the organising processes is known as delegation of authority.

Delegation is the assignment of responsibility or authority to another person to carryont specific tasks/activites. Delegation of authority is the process a manager follows in dividing the work assignment to him so that he performs that part which only he because of his unique organisational placement can perform electively and so that he can get others and giving to help with what remains.

In simple words, delegation means assigning work to others and giving them authority to do it. It involves granting right of decision making in certain defined areas and charging the subordinate with responsibility for carrying out the assigned tasks.

The Characteristics of Delegation

1. Delegation takes place when a superior grants some directions to a subordinate. The subordinate must act within the limits prescribed by the superior.
2. A manager cannot delegate authority which he doesn't possess.
3. Generally authority regarding routine decisions and for execution of policies is delegated to subordinate.
4. The extent of authority which is delegated depends upon several factors e.g. ability of executive to whom authority is to be delegated, the ability of the subordinates to accept delegation, the philosophy of management, the confidence of superior in his subordinates etc.
5. Delegation may be specific or general, written or implied, formal or informal. Delegation doesn't mean avoiding decisions or abandonment of work.

Importance of Delegation

1. It enables the managers to distribute their workload to others. By reducing the workload for routine matters, they can concentrate on the policy matters.
2. Delegation helps to improve the job satisfaction, motivation and morale of subordinates. It helps to satisfy their need for recognition, responsibility and freedom.
3. By clearly defining the authority and responsibility of subordinates, a manager can maintain healthy relationship with them.
4. Delegation enables a manager to obtain the specialized knowledge and expertise of subordinate.

The Process of Delegation

1. Determination of results expected : First of all a manager has to define the results he wants to obtain from the subordinates for the achievement of organisational.
2. Assignment of Duties : The manager then assign specific duties to each subordinate. He must clearly define the functions of each subordinate. Duties should be assigned according to the qualifications, experience and aptitude of the employees.
3. Granting of Authority : Assignment of duties is meaningless unless adequate authority is given to the subordinates. By granting authority, subordinates are permitted to use resources and to take decision.
4. Creating accountability for performance : The subordinates to whom authority is delegated must be subordinates. To whom authority is delegated must be answerable for the proper performance of assigned duties and for

the exercise of delegated authority.

Dencentralization of Authority

Decentralization is the process of redistributing or dispersing functions, powers, people or things away from central location or authority while centralization especially in government sphere, is widely studied and practiced. Decentralization of authority means dispersal of authority throughout the organisation. Decentralisation refers too systematic delegation of authorities to lowest level except which can only be exercised at central points. It is the distribution of authorities throughout the organizations.

Absolute Decentralisation implies no control over activities of subordinates which can not be possible. Therefore effective Decentralization requires a proper balance between dispersal of authority among lower levels and adequate control over them. Decentralisation should not be confused with dispersion of physical facilities and operations. Geographical dispersion of activities should be differentiated from decentralization of authority.

	Delgetation		Decentralisation
1.	It is a process of doing an act.	1.	It is end result of delegation.
2.	Relation between superior and subordinate.	2.	Top management and various Departments.
3.	It is essential for management process.	3.	It is optional.
4.	Superior exercises control.	4.	Control is delegated.
5.	It is a technique of management.	5.	It is a philosophy of management.

2.3.9.2   Authority Relationship

Authority is the cement of organisation or the thread by which different units of the organisation are integrated. Without authority a manager ceases to be a manager.

In the management, authority may be defined as the right to guide and to direct the actions of others to secure from them responses which are appropriate to the attainment of goals of the organisation. It is the right to decide and to direct others to perform certain duties. It refers to the right to make decisions and to get the decisions carried out. It is the right to act.

According to Bernard, "authority is the character of communication in a formal organisation by virtue of which it is accepted by a contributor or to members of the organisation as generating the action he contributes, that, is a governing or determining what he does or is not to do so far as the organisation is concerned."

In the words of Simmon, "authority may be defined as the power, to make

decisions which guide actions of other." The main characteristics are as follow :

1. The authority given to position is legal and legitimate. It is supported by tradition, law or standards of authority. Authority is formal in nature.
2. The authority enjoyed by a position is not unlimited. The extent and limits of authority or position are defined in advance.
3. Authority is a relationship between two individuals-one superior and the other subordinate.
4. Authority is used to achieve organisational goals. The basic purpose behind the use of authority is to influence the behaviour of the subordinates in terms of doing right things at right time so that the organisational objectives are achieved.
5. Authority gives the right of decision-making.

Difference between Authority and Power

	Authority		Power
1.	Right to do something.	1.	Ability to do something.
2.	Derived from organisational position	2.	Derived from many resources.
3.	Always flow downwards.	3.	Flows in all directions.
4.	Legitimate.	4.	May be legitimate or illegitimate.
5.	Narrow-term	5.	Broad concept.
6.	Visible from organisation chair.	6.	Not visibile from organisation chair.

Scope of Authority

The authority of any position in the organisation is not absolute. It is restricted by several internal and external factors. In an organisation, the scope of authority decreases as it moves toward lower level. It is maximum at top levels and minimum at the lower level.

The use of authority by a manner over his subordinate is restricted by the following :

1. Biological Limitations : A manager cannot ask a subordinate to do something managerial authority to a great extent.
2. Physical Limitations : Physical laws, climate, geographical factors etc. restrict managerial authority to a great extent.
3. Legal Constraints : A manager has to exercise his authority within the bounds of various laws passed by the Central and State Government.
4. Social Constraints : Social factors restrict the exercise of authority by manager.
5. Organisational Limitations : A manager's authority is restricted by the objectives, politicies, rules, procedures and budgets of an organisation.
6. Economic Constraints : Market forces and other economic conditions restrict

managerial authority. A sales manager cannot ask his sales persons to sell products at a higher price in a highly competitive market.

2.3.10 Line and Staff Organisation

Line and staff organisation is a combination of line and functional structure. Under it, line authority flows in a vertical line in the same manner as in the line organisation. In addition, staff, specialists are attached to line positions to advice them on important matters. These specialists do not have power of command over subordinates in other departments. They are advisory in nature. When the work of line executive increases, they need advice, information and help of specialists. Therefore, staff positions are created to support the line manager. Every staff specialists, however, has line authority over the subordinates in his own department.

Works manager is a line manger in an organisation whereas legal advisor can be considered as staff manager.

<p align="center">Self Check Exercise No. 2</p>

Explain the concept of Delegation?

2.3.11 Committee Relationship

A committee is a group of persons formed to discuss and deliberate on problems and to recommend solutions. Its area of operation is determined by its constitution. It may be authorised to deal with all or specific activities. Generally, the scope of its activities is limited and it can not handle problems not assigned to it. Members of committee have authority to go into details of the problems. This authority is expressed in terms of one member one vote. A committee may be constituted at any level of organisation and its members may be drawn from various departments. According to Allen, "A committee is a body of persons appointed or elected to meet on an organized basis for the consideration of matters brought before it."

Types of Committees

1.   Standing or adhoc committee : A standing or permanent committee exists continuously for an indefinite period of time. On the other hand, an adhoc or temporary committee is constituted for a specific purpose. It is dissolved when the purpose is served.

2.   Executive or advisory committee : An executive committee has the authority to make and execute decision. On the contrary and advisory committee has authority only to make recommendations.

3.   Line or staff committee : A line committee is a plural executive as it co-ordinates and controls the activities of the subordinates. But a staff committee simply disseminates information, advice and assistance to line managers.

4.   Formal or informal committee : Formal committees are duly constituted by management as per organisational policies and rules. These are the part of the organisational structure and are depicted on the organisation chart. Informal committees are not constituted and no specific responsibilities are assigned to them. They arise when some employees informally meet and discuss common problems

due to the desire for group thinking.

Advantages

1.   Pooling of knowledge and judgement : In committee decision making, combined judgement and experience group of persons are brought together for the solution of intricate problems. There is an exchange of ideas and opinions.

2.   Effective Co-ordination : Committee serves as an important technique of unifying and integrating various point of views by bringing together managers from different departments.

3.   Motivation through participation : By allowing the people to participate in the decision making process, committee helps to improve the loyalty and commitment of employees.

4.   Representation of diverse interest groups : Committees are useful means for giving representation to various interest groups. Such representation helps to avoid conflict among groups.

Disadvantages :

1.   Expensive : Committee meetings are a costly affair both in terms of money and time.

2.   Slow Decision : A lot of time is involved in calling meeting, debates and discussion of the issue etc. Most of the time committee tend to be indecisive.

3.   Compromise Decisions : While reaching a decision, committee tends to accommodate opposite view points.

4.   Divided Responsibility : The responsibility for wrong decisions by a committee can not be fixed for one individual.

2.3.12 Co-ordination

Co-ordination is the effort to ensure a smooth interplay off the functions and forces of all the different components parts of organisation so that its purpose will be realized with a minimum of friction and a maximum of collaboration. Co-ordination is the process whereby an executive develops as orderly pattern of group effort among his subordinates and secures unity of action in the pursuit of common purpose.

Co-ordination is a conscious and natural process of pulling together the different parts of an organisation and unifying them into a team of achieve predetermined goals in an effective manner. According to Henery Fayol, "to co-ordinate is to harmonize all the activities of an organisation so as to facilitate its working and its success."

"Co-ordination is the orderly synchronization of effects of the subordinates to provide the proper amount, timing and quality of execution so that their unified efforts lead to the stated objectives namely the common purpose of the enterprise." It involves blending the activities of different individuals and the group for the achievement of common objective.

Co-ordination as The Essence of Managing

Several authors regard co-ordination as one of the functions of management. In reality co-ordination is the very essence of management because of the basic objective management is to integrate and harmonize human efforts. It is the epitome

of the management process as managerial functions are instruments to secure co-ordination. Co-ordination makes planning more effective, organisation more well-knit, staffing more realistic, directing more efficient and controlling more regulative.

Criteria for more effective Co-ordination

1. Each department should work in harmony with others.
2. Each dept/division should be precisely informed as to how much share it must take in common risk.
3. The working schedules of the various departments and divisions should be constantly attuned to situation.

Need and Significance of Co-ordination

1. Unity in diversity : An organisation is characterized by diversity of resource, skills, activities, perceptions and view points of its members. Co-ordination is the basis mechanism for creating unity in diversity.
2. Team work : Without Co-ordination, member of a group will pull in different directions and may work at cross purposes. The efforts, energies and skills of various persons must be integrated to achieve group efforts and team work.
3. Conflicting goals : Each department or division of an organisation has its own goals. In practice, each department or individual becomes so committed to its goals that it may overlook the goals of the organisation.
4. Growth in size : In large organizations, the number of jobs and employees is also large. Co-ordination becomes difficult due to complex organisational structure.
5. Specialisation : Specialisation leads to a narrow outlook. Specialists performing the various tasks know very little of other jobs and differences in outlook lead to frequent disruptions.
6. Human nature : People in general are preoccupied with the work of their own departments or units and fail to appreciate the role of other departments or units. Deliberate efforts are required to maintain co-ordination between different departments and units.

Principles of Co-ordination

1. Early beginning : Co-ordination must begin in the early stages of planning and policy formulation.
2. Direct personal Contact : Direct personal contact or inter personal relationship is the most effective method of creating mutual understanding and confidence.
3. Continuity : Co-ordination is a continuous or never-ending process. Therefore managers must never stop to make efforts towards co-ordination.
4. Self Co-ordination : Self Co-ordination requires effective communication across the departments so that they are able to appreciate the functioning of related department.

2.3.13 Summary

To organise means grouping of activities, for attaining organisational objectives. Organising is the second function of management. It is important because it helps in administration, promotes diversification, helps in achieving coordination, and encourages initiative and better human relations. There is a need for formal organisational structure. Departmentation, decentralization, delegation etc. are the part of this function. Coordination is also a necessary function of management. Some principles of co-ordination are, early beginning, direct personal contact, continuity etc. w

2.3.14 Key words

Centralisation	-	Authority in the hands of a few or one.
Accountability	-	To be held responsible.
Delegation	-	To give authority/power
Co-ordination	-	To work in harmony

2.3.15 Answers of Self Check Exercises

Self Check Exercise No. 1

Ans. Informal organisation means relationship between people in an organisation which are not based on procedure and regulations but on personal attitudes, behaviours and prejudices of the members.

Self Check Exercise No. 2

Ans. When some duty is given to a person in an organisation, some authority should also be delegated. For discharging of obligations, there must be some corresponding authority alongwith responsibility.

2.3.16 Suggested Readings

1. Rue, Lisslie, and Byars, Lyold : Management : Theory and Application Richar Irwin, 1977.

2. Dale Ernest, Management : Theory and Practice, Mc Graw Hill Book Company, New York, 1973.

3. Polland, Harold : Further Developments in Management, Thought Heinemann, London, 1978.

4. Banerjee, Shyamal : Principles and Practice of Management, Oxford and IBH Publishing Co. New Delhi, 1982.

5. Dale Earnest : Reading's in Management Landmarks and New Frontiers, Mc Graw Hill Book Co., New York.

2.3.17 Questions for Practice (Multiple Choice)

Tick the correct answer

1. Decentralisation means -
   (a) Power with one person
   (b) Power with many persons.   (Correct answer is b)

2. What is the difference between authority and power?

Ans. Kindly refer to 4.9.2

Organisation Structure

Lesson structure

The   typically hierarchical arrangement of lines of authority, communications, rights and duties of an organization. Organizational structure determines how the roles, power and responsibilities are assigned, controlled, and coordinated, and how information flows between the different levels of management.

A   structure   depends   on   the organization's objectives and strategy.   In a centralized structure, the top layer of management has most of the decision making power   and   has   tight control over departments and divisions.   In   a decentralized   structure,   the   decision making power is distributed and the departments   and   divisions   may   have   different degrees of   independence.

A company such   as Proctor   &   Gamble that sells multiple products may organize their structure so that groups are divided according to each product and depending on geographical area as well.

An organizational chart illustrates the organizational structure.

2.4.1 Organization As A Structure

An organizational struture defines how activies such as   task   allocation, coordination, and supervision are directed toward the achievement of organization aims. Organization structure affects organizational action ad provides the

foundation on which standard operaling procedures and routines rest. The term organisation can be studied as a structure and also as a process. In a static sense, organisation is a structure. A group of people functions within this structure and try to accomplish certain objectives. Organisation is a structure for the conduct of business activities efficiently. In the words of Kast and Rosenzweig, "structure is the established pattern of relationships among the component parts of the organisation". In this sense, Organisation structure refers to the network of relationships among individuals and positions in an Organisation.

2.4.2 Organisation As A structure - Implies four Elements

a) Intentionally created: In order to attain specific goals, Organisation structure is deliberately created which converts resources (of management) into a productive enterprise.

b) Provides framework: Organisation structure usually takes the shape of a pyramid. Once established, it acts as a framework that can either constrain or facilitate managerial actions.

c) Use of Chart: In an Organisation, the structural relationships are normally shown through Organisation charts. These charts indicate the intended final relationships at a given time.

d) Provides formal picture: Organisation structure may be horizontal or vertical. The horizontal aspects display basic departmentalization and vertical aspects display creation of hierarchy of superiors and subordinates

2.4.3 Types Of Organisation Structure

Organisation structure is defined as "The logical arrangement of task and the network of relationships and roles among the various positions established to carry out the activities necessary to achieve the predetermined objectives of business". Internal Organisation structure constitutes the arteries and veins through which the blood of work flows in the body of Organisation.

Internal Organisation structures can be broadly classified into the following types/forms:
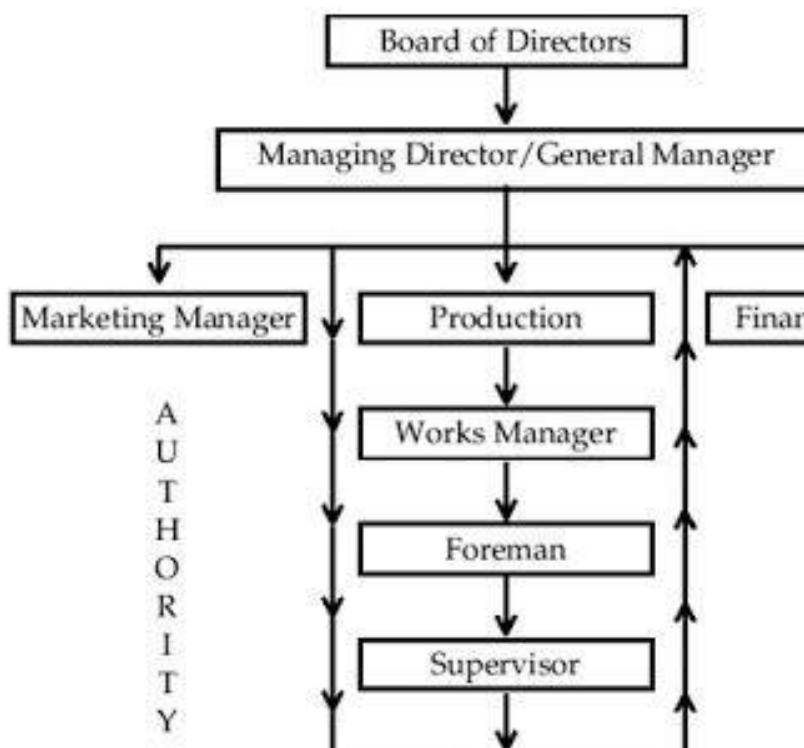
    2.4.3.1   Line Organisation structure.
    2.4.3.2   Functional Organisation structure.
    2.4.3.3   Line and staff Organisation structure.
    2.4.3.4   Matrix Organisation structure.

2.4.3.1. Line Organisation Structure

Line Organisation (also called Military/Scalar Organisation) is the oldest and the simplest form of internal Organisation structure. It was first developed by the Roman army and later adopted by armies all over the world. Factory owners also used line Organisation structure in its purest form in the nineteenth century in England.

In the line Organisation, the line of authority moves directly from the top level to the lowest level in a step-by-step manner. It is straight and vertical. The top-level management takes all major decisions and issues directions for actual execution. The general manager, for example, issues order to various departmental managers. Thereafter, the departmental manager issues instructions to works manager. The works manager will issue instructions to foreman. In this manner, the orders and instructions will be issued to the workers working at the lowest level. Thus authority moves downward and also step-by-step. The responsibility, on the other hand, moves in the upward direction.

Line Organisation structure is given in the following chart:

2.4.3.1.1 Advantages of Line Organisation Structure

Simplicity: Line Organisation structure is easy to understand and follow by superiors and subordinates. It is simple and clear as regards authority and accountability.

Prompt decisions: Line Organisation facilitates prompt decision-making at all levels as the authority given is clear and complete.

Discipline: It brings discipline in the Organisation due to unity of command, delegation of authority and direct accountability.

Economical: Line Organisation is economical as experts are not appointed.

Attraction to talented persons: Line Organisation brings out talented workers and develops in them quality of leadership. It offers opportunities of self-development to employees.

Quick communication, high efficiency, flexibility and high employee morale are some more advantages of line Organisation structure.

2.4.3.1.2   Limitations of Line Organisation Structure

Heavy burden on line executives: The line executives are given too many duties and responsibilities. Even the quality of the decisions of executives may suffer due to heavy burden of duties and responsibilities.

Non-availability of services of experts: There is absence of skilled experts in line organisation. Expert assistance is not available promptly when needed by line executives.

Favoritism: There is wide scope for favoritism and nepotism in the line organisation. Leadership of departmental executive is autocratic due to heavy concentration of powers. He may favour some employees at the cost of others.

Too much dependence on limited executives: In the line organisation, all powers are concentrated in the hands of a few executives. Naturally, the success and stability of the entire organisation depends on their personal skill, initiative and interest. Special difficulties arise when one executive is to be transferred/replaced/promoted.

Rigidity: There is rigidity in the working of line organisation.

Delays in communication, limited freedom to employees and unsuitability to modern large business units are some more demerits of line Organisation.

2.4.3.2   Functional Organisation Structure

F.W.Taylor, founder of scientific management, conceived the functional Organisation structure. According to him, it is unscientific to overload a foramen with the entire responsibility of running a department. He introduced a system of functional foremanship in his Organisation. In his functional foremanship, there will be eight specialists' foremen who will be required to guide, direct and control the work. Workers at the plant level will have to follow the instructions of all these eight specialists called bosses.

In the functional Organisation suggested by F.W.Taylor, the job of management is divided according to specialization. As a result, functional departments are created. For example, the personnel department will look after the recruitment, selection, training, wage payment, etc. of all persons of the Organisation. Similar will be the position of other departments like production,

sales, etc. The scope of work of the department is limited but the area of authority is unlimited.

In the functional Organisation structure, there will be separation of planning of work and execution of the plan prepared. The basis of division is the function and naturally the Organisation structure created will be called "Functional Organisation".

In the functional foremanship, there will be eight specialists/functional heads called bosses. Out of eight bosses, four bosses will be at the planning level and the remaining four will be at the slop floor level.

2.4.3.2.1   Foremen At Planning Level (Planning Dept.)

Time and Cost Clerk: He is concerned with preparing standard time for the completion of certain piece of work and compiling the cost of that work.

Instruction Card Clerk: He lays down the exact method of doing the work. He specifies the tools to be used for conducting the production and also gives other instructions on the instruction cards prepared by him.

Route Clerk: The route clerk lays down the exact route through which each and every piece of work should move through various stages till completion. He decides the production schedule and the sequence of steps by which the production process is to move.

Shop Disciplinarian: He is concerned with the discipline, insubordination, violation of rules of discipline and absenteeism. All cases relating to these matters will be managed by the shop disciplinarian.

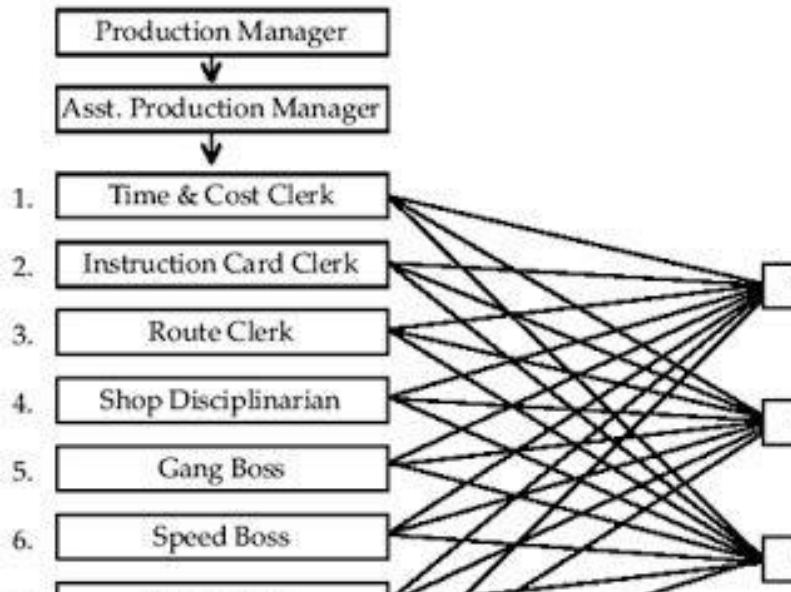### Foremen At Shop Floor Level (Shop Floor)

Gang Boss: He assembles and sets up various machines; and tools for a particular piece of work. He is in-charge of assembling line of production.

Speed Boss: He is concerned with the speeding of machines used for production. He keeps proper speed of the machines and see that workers complete the production work as per the schedule time.

Repair Boss: The repair boss looks after the proper maintenance of machines, tools and equipments required during the production process.

Inspector: The inspector controls quality of the products by keeping adequate check/control when the production work is in progress.

The functional Organisation structure is given in the following chart:-

```
        Production Manager
              ↓
      Asst. Production Manager
              ↓
1.      Time & Cost Clerk
2.      Instruction Card Clerk
3.         Route Clerk
4.       Shop Disciplinarian
5.          Gang Boss
6.          Speed Boss
```

2.4.3.2.2   Merits of Functional Organisation Structure

Facilitates specialization: Functional Organisation structure facilitates division of work and specialization. Each boss has specialized knowledge of his functional area. He is in a better position to guide and help the workers.

Benefits of large-scale operations: Functional Organisation offers the benefit of economy of large-scale operation. In this Organisation, one administrative unit manufactures all products. The available machinery, equipment and facilities are used fully for large-scale production.

Facilitates effective coordination: Functional Organisation facilitates effective coordination within the function. This is possible as one boss is in-charge of a particular function and he looks after all activities, which come within that function.

Operational flexibility: Functional Organisation possesses operational flexibility. Necessary changes can be introduced easily to suit the needs of the situation without any adverse effect on the efficiency.

Ensures effective supervision: Functional Organisation facilitates effective supervision by the functional heads and foremen. Due to specialization, they concentrate on the specific functional area and also keep effective supervision on their subordinates.

2.4.3.2.3   Demerits of Functional Organisation Structure

Absence of unity of command: Unity of command is absent in the functional Organisation as each worker gets orders and instructions from several bosses.

Fixing responsibility is difficult: In functional Organisation, responsibility is difficult to fix on a specific person. This is because the responsibility itself is divided among many.

Unsuitable to non-manufacturing activities: Functional Organisation can be introduced in the case of manufacturing activities. However, its application to non-manufacturing activities such as marketing, etc. has not been successful.

Costly: Functional Organisation is costly, as more specialists are required to be appointed.

Creates confusion among workers: Functional Organisation is based on specialization as function is taken as a base for dividing the work. The authority is overlapping the responsibility is divided. This confuses workers.

Conflicts among foremen, delays in decision-making and limited discipline within the departments are some more demerits of functional Organisation.

2.4.3.3 Line and Staff Organisation Structure

In the line and staff Organisation, line executives and staff (specialists) are combined together. The line executives are 'doers' whereas staff refers to experts and act as 'thinkers'. The following chart shows line and staff Organisation structure:
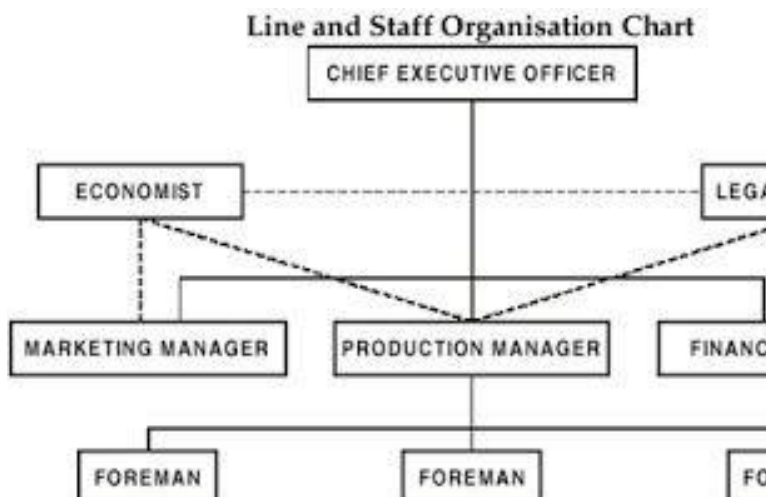
The line executives are concerned with the execution of plans and Policies. They do their best to achieve the organizational objectives. The staff concentrates their attention on research and planning activities. They are experts and conduct advisory functions.

Staff specialists are regarded as 'thinkers" while execution function is given to line executives who are "doers". The staff is supportive to line. The staff specialists offer guidance and cooperation to line executives for achieving organizational objectives. This reduces the burden of functions on the line executives and raises overall efficiency of the Organisation. For avoiding the conflicts between line and

staff, there should be clear demarcation between the line and staff functions. This avoids overlapping of functions and possible conflicts. In short, the line and staff functions are different but are supportive and can give positive results if adjusted properly i.e. by avoiding the conflicts. They suggest/recommend but have no power to command the line executive. However, their advice is normally accepted because of their status in the Organisation.

According to Louis Allen, "Line refers to those positions and elements of the Organisation, which have the responsibility and authority and are accountable for accomplishment of primary objectives. Staff elements are those which have responsibility and authority for providing advice and service to the line in attainment of objectives".

2.4.3.3.1 Characteristics of Line and Staff Organisation

Planning and execution: There are two aspects of administration in this Organisation, viz., planning and execution.

Combining line and staff: Planning function is entrusted to staff specialists who are 'thinkers' while execution function is given to line executives who are 'doers'. The staff is supportive to line.

Role of authority: The line managers have authority to take decisions as they are concerned with actual production. The staff officers lack such authority.

Guidance from staff: The staff provides guidance and advice to line executives when asked for. Moreover, line executives may or may not act as per the guidance offered.

Exercising control: The staff manager has authority over subordinates working in his department.

Scope for specialization: There is wide scope for specialization in this Organisation as planning work is given to staff and execution work is given to line executives.

Possibility of conflicts: Conflicts between line and staff executives   are   quite common in this Organisation but can be minimized through special measures.

Suitability: Line and staff Organisation structure is suitable to large-scale business activities.

2.4.3.3.2   Merits of Line and Staff Organisation

Less burden on executives: Line executives get the   assistance   of   staff specialists.This reduces the burden of tine executives. This raises overall efficiency and facilitates the growth and expansion of an enterprise.

Services of experts available: The benefits of services of experts are provided to line managers. Highly qualified experts are appointed and they offer guidance to line executives.

Sound decision-making: Line and staff Organisation facilitates sound management decisions because of the services of experts and specialists. The decisions are also taken in a democratic method i.e. in consultation with the experts.

Limited tension on line managers: The pressure of work of line bosses is brought down as they are concerned only with production management.

Benefits of specialization: There is division of work and specialization in this Organisation. Naturally, the benefits of division of work and specialization are easily available.

Training opportunities to employees: Better opportunities of advancement are provided to workers. The scope for learning and training for promotions are available.

2.4.3.3.3   Demerits of Line and Staff Organisation

Delay in decision-making: The process of decision-making is delayed, as line executives have to consult staff experts before finalizing the decisions. The decisions of line managers are likely to be delayed due to this lengthy procedure.

Buck passing among executives: The line bosses are concerned with actual execution of work. However, they depend on staff experts for guidance. If something goes wrong, the attempt is made to pass on the blame by one party to the other. Thus, there is shifting of responsibility or buck-passing.

2.4.3.3.4   Conflicts between line and staff executives:

In this Organisation, quarrels and conflicts between line managers and staff specialists are quite common. The line managers are generally not interested in the advice offered by experts. Secondly, specialists feel that the line bosses lack knowledge of new ideas. Such conflicts lead to bitterness.

Costly Organisation: Line and staff Organisation is a costly Organisation as the line executives are supported by highly paid staff executives who are experts. All this adds to the overhead expenses and the cost of production increases.

Complicated operation: This Organisation is too complicated in actual operation because of dual authority, division of functions and too much dependence on staff. The unity of command principle is violated.

Internal discipline is affected adversely: The internal discipline is likely to be affected adversely due to decentralisation and division of loyalty of subordinates.

2.4.3.4 Matrix structure

The matrix structure groups employees by both function and product. This structure can combine the best of both separate structures. A matrix organization frequently uses teams of employees to accomplish work, in order to take advantage of the strengths, as well as make up for the weaknesses, of functional and decentralized forms. An example would be a company that produces two products, "product a" and "product b". Using the matrix structure, this company would

organize functions within the company as follows: "product a" sales department, "product a" customer service department, "product a" accounting, "product b" sales department, "product b" customer service department, "product b" accounting department.

• Weak/Functional Matrix: A project manager with only limited authority is assigned to oversee the cross- functional aspects of the project. The functional managers maintain control over their resources and project areas.

• Balanced/Functional Matrix: A project manager is assigned to oversee the project. Power is shared equally between the project manager and the functional managers. It brings the best aspects of functional and projectized organizations. However, this is the most difficult system to maintain as the sharing of power is a delicate proposition.

• Strong/Project Matrix: A project manager is primarily responsible for the project. Functional managers provide technical expertise and assign resources as needed.

Matrix structure is only one of the three major structures. The other two are Functional and Project structure. Matrix management is more dynamic than functional management in that it is a combination of all the other structures and allows team members to share information more readily across task boundaries. It also allows for specialization that can increase depth of knowledge in a specific sector or segment.

There are both advantages and disadvantages of the matrix structure; some of the disadvantages are an increase in the complexity of the chain of command. This occurs because of the differentiation between functional managers and project managers, which can be confusing for employees to understand who is next in the chain of command. An additional disadvantage of the matrix structure is higher manager to worker ratio that results in conflicting loyalties of employees. However the matrix structure also has significant advantages that make it valuable for companies to use. The matrix structure improves upon the "silo" critique of functional management in that it diminishes the vertical structure of functional and creates a more horizontal structure which allows the spread of information across task boundaries to happen much quicker. Moreover, matrix structure allows for specialization that can increase depth of knowledge & allows individuals to be chosen according to project needs. This correlation between individuals and project needs is what produces the concept of maximizing strengths and minimizing weaknesses.

Centalisation and Decentralisation

Lesson Structure

  I.   Centralisation: Meaning, Advantages and Limitations!
  II.   II.Advantages of Centralisation:
  III.   Limitations of Centralisation:
  IV.   Decentralisation: Meaning,   Advantages   and
         Disadvantages!
  V.   Advantages of Decentralisation:
  VI.   Disadvantages of Decentralisation:

I. Centralisation : Meaning, Advantages and Limitations!

In every organisation of any size there are a number of different
levels of executives

performing various functions.

The main managerial function is concerned with the responsibility of
decision-making. Centralisation and decentralisation describe the
manner in which decision-making responsibilities are divided among
executives at different hierarchical levels. Centralisation and
decentralisation constitute an important problem in an organisation
and relates to whether authority should be concentrated or
dispersed throughout the organisational structure:

In the words of Henry Fayol, "Every thing that goes to increase the
importance of subordinate's

 role is decentralisation, everything that goes to reduce it is
centralisation". In the words of Allen," Centralized on is the

systematic and consistant reservation of authority of central point in the organizations.

Centralisation and decentralisation are both complimentary to each other. There can neither be complete decentralisation nor centralisation. For example, if a manager delegates all his authority, his status as a manager would cease to exist and on the other hand if he keeps the whole authority at central point, there would be no subordinates and no organisation will exist.

As a result, equilibrium between the two is always necessary. Centralisation and decentralisation are, therefore, tendencies like 'hot' and 'cold', the extremes of both are undesirable, yet both are necessary for efficient functioning of an enterprise.

Centralisation:

Meaning:Under Centralisation, the executive reserves the authority with himself instead of delegating it to his subordinates and ultimately reserves authority. But where he is forced to delegate, he may do so by not delegating adequate authority so that the subordinates must approach him to arrive at the appropriate decision.According to Allen, "Centralisation is the systematic and consistent reservation of autority at central points within an organisation".

Centralisation, according to Fayol, "It is that organisation where the role of the subordinates is reduced".Thus, we see that in centralisation decisions regarding the work are made not by those doing the work, but at a point higher in the organisation.

   II.Advantages of Centralisation:

The following advantages can be drawn from centralisation:

1. Facilitates Personal Leadership:In a small company, centralisation is desirable since the leader has to take quick decisions. According to Louis A. Allen, "The small company can retain the advantages of centralisation so long it continues to function as one entrepreneurial

unit; that is, so long as it can operate effectively as a projection of the personality and skills of one outstanding leader".

2. Less Skilled Subordinates:An enterprise running on the lines of centralisation need not have highly skilled subordinates. It results in the economy of wages and salaries.

3. Handling Emergencies:In the centralised organisation, emergencies can be handled promptly. The more acute the emergency or the more competitive the situation, the greater is the need for centralised decision-making.

4. Integration of Total Operation:In highly decentralised entrepreneurial units, it is very difficult to integrate the total operations of the enterprise. A centralised enterprise gets benefits of enduring nature (e.g., stable market, efficient production etc.).Since it can keep all the departments of a company integrated "central direction is needed to keep all parts of the company moving harmoniously together towards a common objective." (Louis A. Allen).

5. Uniformity of Action:Centralisation of decision-making is essential in case of multi-units or multi-branches of company, so that there is uniformity of action. If the company wishes all its units to do the same thing in the same way, there must be centralisation. Uniformity is essential in matters like buying, selling, advertisement, personnel etc.

III. Limitations of Centralisation:

1. Centralisation of authority increases the burden on the top executives and little time is left for attending to important functions of administration like planning, organisation, motivation, etc.

2. Centralisation hampers the growth and development of subordinates as they are not given any authority to take independent decisions. The sense of " Oneness' disappears from the subordinates.

3. Centralisation tends to slow up the operations as most of the decisions are not taken at a point where the work is carried out but at a point higher in the organisation.

4. It reduces the scope for specialisation as the persons   taking decisions at the top level

iv. Decentralisation: Meaning, Advantages and Disadvantages!

Meaning:Decentralisation can be viewed as an extension of delegation.When a part of the work is entrusted to others, it is known as delegation. Decentralisation extends to the lowest level of the organisation.

A few definitions are given below:

1. "Decentralisation refers to tire systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points." —Louis A. Allen

2. "Decentralisation means the division of a group of functions and activities into relatively autonomous units with overall authority and responsibility for their operation delegate to timd of cacti unit.'— Earl. P. Strong

3. "Decentralisation is simply a matter of dividing up the managerial work and assigning specific duties to the various executive skills."— Newman, summer and Wairen

Thus, decentralisation is concerned with the decentralisation of decision-making authority to the lower levels in

 managerial hierarchy.

Degree of Decentralisation:

The degree of decentralisation is determined by:

(a) Nature of the authority delegated,

(b) How far down in the organisation it is delegated,

(c) How consistently it is delegated.

So, the degree of decentralisation is determined by the authority given. For example, manager A in a company is given the authority to buy certain material worth Rs. 1500 whereas manager B is allowed to do similar type of work to the extent of Rs. 4500.It is clear that the degree of decentralisation is less in case of A. Similarly decisions about the matters referred, measurethe degree of decentralisation depending upon the power to take decisions vested in an officer without the need of getting consent of somebody else.

V. Advantages of Decentralisation:

1. Reduces the burden on top executives:

Decentralisation relieves the top executives of the   burden   of performing various functions. Centralisation of authority   puts   the whole responsibility on the shoulders of an executive   and   his immediate group. This reduces the time at   thedisposal   of   top executives who should concentrate on other important managerial functions. So, the only way to lessen their burden is to decentralise the decision-making power to the subordinates.

2.   Facilitates   diversification:Under   decentralization,   the

diversification of products, activites and markets etc., is facilitated. A centralised enterprise with the concentration of authority at the top will find it difficult and complex to diversify its activities and start the additional lines of manufacture or distribution.

3. To provide product and market emphasis:A product loses its

market when new products appear in the market on account of innovations or changes in the customers demand. In such cases authority is decentralised to the regional units to render instant service taking into account the price, quality, delivery, novelty, etc.

4. Executive Development:When the authority is decentralised,

executives in the organisation will get the opportunity to develop their talentsby taking initiative which will also make them ready for managerial positions. The growth of the company greatly depends on the talented executives.

5. It promotes motivation:To quote Louis A. Allen, "Decentralisation stimulates the formation of small cohesive groups. Since local managers are given a large degree of authority and local autonomy, they tend to weld their people into closely knit integrated groups." This improves the morale of employees as they get involved in decision-making process.

6. Better control and supervision:Decentralisation ensures better control and supervision as the subordinates at the lowest levels will have the authority to make independent decisions. As a result they have thorough knowledge of every assignment under their control and are in a position to make amendments and take corrective action.

7. Quick Decision-Making:Decentralisation brings decision making process closer to the scene of action. This leads to quicker decision-making of lower level since decisions do not have to be referred up through the hierarchy.

VI. Disadvantages of Decentralisation:

Decentralisation can be extremely beneficial. But it can be dangerous unless it is carefully constructed and constantly monitored for the good of the company as a whole.

Disadvantages of decentralisation are:

1. Uniform policies not Followed:Under decentralisation, it is not possible* to follow uniform policies and standardised procedures. Each manager will work and frame policies according to his talent.

2. Problem of Co-Ordination:Decentralisation of authority creates problems of co-ordination as authority lies dispersed widely throughout the organisation.

3. More Financial Burden:Decentralisation requires the employment of trained personnel to accept authority, it involves more financial burdenand a small enterprise cannot afford to appoint experts in various fields.

4. Require Qualified Personnel:Decentralisation becomes useless when there are no qualified and competent personnel.

5. Conflict: Decentralisation puts more pressure on divisional heads to realize profits at any cost. Often in meeting their new profit plans, bring conflicts among managers

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