Chapter-1

THE NATURE OF ORGANIZATIONS

Concept of Organization

Organization is an association of two or more individuals working together co-ordinatingly to achieve a common goal. In other word, an organization is a collection of people working together in a division of labor to achieve a common purpose.

Conclusively, people form an organization on the basis of their common goals, to make division of works on the basis of efficiency, to delegate the authority and responsibility, to maintain communication among them and to coordinate the activities among all the members.

"Organization is a systematic arrangement of people brought together to accomplish some specific purpose." _ **Decenzo and Robbins**

Characteristics of Organization

1. **Collection of people**: The concept of organization comes into existence when to more people come together to accomplish a definite goal. Therefore, organization is a human association in which, people interact with each other to produce a synergic effect and develop a network to communicate information and to maintain unity in work.
2. **Common goal**: The basis of an organization is a specific goal and it serves as a reason of its existence. All the activities of involved members, concentrate on the fulfillment of common goal.
3. **Division of work**: The total work is a divided into small units on the basis of their nature in an organization. Each work is assigned to different individuals according to their skills, abilities and experiences.
4. **Coordination**: Coordination is the process that integrates the function of different units of an organization; there should be good coordination among the departments and members through executive leadership.
5. **Hierarchy of authority**: Organization consists of a formal structure in which hierarchy of authority of each member is clearly defined. The hierarchy of authority is formed on the basis of degree of responsibility and accountability. It clarifies the role of each individual from top to the subordinate levels.
6. **Perpetual existence**: An organization is formed for an indefinite period to perform business for a long period of time. An organization continues its existence and operation even while changing in structure, membership, objectives and management.
7. **Environment**: An organization performs activities in a dynamic environment. It consumes resources from environment and also exports output to it. Basically, impact of external

environment like political, economic, socio-cultural and technology must be taken into consideration.

8. **Technology**: Technology refers to new knowledge, skills, ideas, procedures, equipment and tools. It is essential to convert raw materials into finished products. The use of appropriate technology in a job helps to develop working efficiency and also help to minimize the cost of output.

Organizational Goals

Concept

Goals are objectives or aims for which an organization is formed. And setting goals of an organization is the initial function of management. Goals, in fact, are what organizations want to achieve in future. They are the objectives toward which organizations direct their resources and efforts Goal gives meaning and purpose of the organization. They, on the one hand, determine the scope of future activities and serve as reference points to concentrate resources and efforts, on the other they determine the action to be taken at present to obtain result in the future.

"Organizational goals are the objectives that management seeks to achieve in pursuing the firm's purpose."--- **Moorhead and Griffin**

Purposes of Organizational Goals

1. **To provide guidance and unified direction**: Goals are the basis of future performance of organizations. By considering the goals managers of organizations provide guidance and unified direction to their members. Therefore, goals help every member of an organization to understand where the organization is heading for.
2. **To promote good planning**: Goals are the basis of planning, and a good planning focuses on goals. Managers formulate corporate, tactical and operational plans only by considering organizational goals. Organizational resources are allocated on the basis of goals, because the goals also facilitate in decision making.
3. **To serve as a source of motivation**: Specific, realistic and challenging goals serve as a source of motivation to employees. Such goals are the basis of motivation for efficient, skilled and hardworking employees. Likewise, goals motivate employees to devote their time efficiently.
4. **To provide effective mechanism for evaluation and control**: Goals provide an effective mechanism for evaluation and control of performance. They help to set a standard of performance of an organization. When standard goals are achieved, it is assumed that performance is efficient. But if actual performance is below standard, it is essential to corrective measures to improve future performance.

5. **To provide distinct image and identity**: Sound and realistic goals provide a distinct image and identity of an organization among the public. These distinctive image and identity facilitate to attract efficient and competent employees in the organization. Further, the involvement of skilled employees helps to maximize productivity and to improve quality of goods and services.
6. **To allocate and utilize resources properly** : Goals help to develop good plan, and good plan in turn, helps allocate and utilize available resources. In that sense, goals serve as guidance for the optimum utilization of resources. However, proper allocation of resources (such as human, physical, financial and information) depend on management skills and knowledge of managers. If the goals are clearly stated the wastage and misuse of resources can be minimized.

Types of Organizational Goals

A. ***<u>On the Basis of Levels of Management</u>***

a. **Corporate goal**: Corporate goals are formulated by top level management. These goals focus on the realization of the dream of the top level management. These goals reflect the direction in which an organization has to go and the roles each business unit in the organization has to play pursuing that direction. Corporate goals consist of vision, mission and strategic goals.

- **Vision**
  Vision refers to the long term aspiration of management. A clear vision provides the foundation for developing comprehensive mission statement and it visualizes the company's future strategy course. Vision answers the question "Where we want to be?"
- **Mission**
  Mission focuses on the vision of the organization. It also represents the philosophy and ideology of the organization. It is the statement of its fundamental unique purpose for setting a business apart from other similar firms, and for identifying the unique scope of the business operation in product and market terms. Mission forces managers to identify carefully for the scope of its product or service by answering the basis question of what its business is.
- **Strategic goals**
  Strategic goals are developed on the basis of mission focus on long term objectives of an organization. These strategic goals entail all the basic management functions by setting goals to excel the management of an organization. Generally, strategic goals are set for five to ten years. The examples of such goals are: profit maximization, quality improvement, new product development, allocation of resources, research and development etc.

b. Tactical goal

Tactical goals are developed on the basis of strategic goals. Middle level management sets these goals for one or more years by focusing on how to take the necessary actions to achieve the strategic goals. In these stage, strategic goals are classified into departmental goals like production, marketing finance, personnel etc.

c. Operational goal

Operational goals are developed on the basis of tactical goals. Lower level management consisting of supervisors and foreman are responsible setting these goals. These goals are basically set for day to day operations of an organization. In this stage, tactical goals are classified into small units to be achieved in a short span of time like in a day or a week.

B. On the Basis of Nature of Business and Environment

a. Survival goal

This goal is related to the existence of the organization. It focuses on minimum requirements of an organization to ensure its survival. When organizations face the problems like competition, global financial crises, shortage of funds, then it may be necessary for the organization to find new for survival.

b. Growth and profit goal

Most of the organization follow growth and profit goal. When an organization seeks to increase profit, it may become profit goal for that organization. Growth goal, on the other hand, mainly emphasize to increase sales and market share all the time.

c. Efficiency and leadership goal

Efficiency goal focuses on the minimization of the operation cost but maximization of productivity whereas leadership goal, on the other hand, refers to creating image and leading the industry. Organizations that focus on leadership goal put emphasis on innovation and quality improvements. They try to create distinct image in the industry sector.

d. Service and social responsibility goal

Service goal refers to putting effort to make customer satisfied by providing quality service. Social responsibility goal, on the other hand, puts emphasis on the highest degree of social responsibility. This goal refers to meeting the need of stakeholders including the interest of business itself.

C. ***On the Basis of Area***

a. **Production goal**

Production goal is necessary for manufacturing organizations. This goal focuses on production of quality goods in reasonable price at the right time. This goal is essential to fulfill the market demand and to meet organizational goal.

b. **Marketing goal**

Marketing goal focuses on fulfilling marketing mix; and the marketing mix consists of product, place, price and promotion. Therefore, marketing goal consist of distribution of quality product to needy customers at the lowest possible price, involving for the development promotion strategy to increase market shares through competitive strength.

c. **Finance goal**

Financial goal focuses on monetary management of the organization. And, the monetary management consists of preparation of budget; cash flow trend, position of working capital, cost of capital etc.

d. **Human resource goal**

This goal concentrates on recruitment, appointment and placement of right persons to the right jobs. It involves manpower development activities like training, workshop, seminar etc.

D. ***On the Basis of Time***

a. **Long - term goal**

Organizational mission and strategy are long term goals of an organization. Mission focuses on the vision of the organization by representing its philosophy and ideology. Long term goals often extend for ten years or longer.

b. **Medium -term goal**

Tactical goals are medium term goals of an organization. Middle level management sets these goals for one to five years. These are the sub-division of long term goals to be implemented in practice. In this stage, strategic goals are classified into departmental goals production, marketing, finance personnel etc.

c. **Short-term goal**

Operational goals are short term goals of an organization. These goals are developed on the basis of medium term goals. These goals are basically set for day to day operations of the organization or for one year or less.

Features of Effective Organizational Goals

1. **Specific:** An organizational goal must be clearly defined and achievable through organizational resources. It should not to be vague. For this, goals of each department and individual should be clearly stated. For instance, only increase in production is not specific, but 20% increase in production from the previous year is specific.
2. **Measurable**: The goal of an organization should be measurable in terms of quantity, cost, time and quality. It also helps to judge whether goals are achieved or not. For example, production of 100 units of output within one week at a cost of Rs.50 per unit, and quality should meet the N.S.(Nepal Standard) mark.
3. **Acceptable**: the goal should be acceptable and agreed upon by all members of the organization. Managers and subordinates should sit together and discuss the various aspects of the goals and should accept the result through mutual agreement. The goals should not be enforced upon the employees. To achieve the goals, all the members should work as a team.
4. **Realistic**: The goals must be achieved by the hard works of members, though they are challenging. Therefore, the management must set a realistic and challenging goal. For instance, increment of 100% sale may not be achievable but increment of 20% sale may be achievable.
5. **Time-bound**: The goals must be set for specific period of time. It should achievable within a defined time frame. It is essential because achievement of goals after the expiry of the defined time may be useless. If is delayed, competitors may take benefit. For instance, production of 100 units of output per day is a time-bound goal.
6. **Engaging**: It means organizational goals should be attractive and appealing to its member. Such engagement of people is possible only when concerned people participate in goal setting process. When goal setting is discussed with employees, they are more confident and supportive about themselves.
7. **Shifting**: During the course of organization life, the most consistent thing only organization will experience is change. It means the goal will shift or change over the course of time. The organization need to be flexible while they pursue their goals. In this rapidly changing environment organization that stick to the same goals for years can't successfully achieve them.
8. **Team effort:** People generally don't follow agreement thoroughly that were set with others. However, a team effort members will be more sensitive to continuing their goals because they will report their success and failure to their managers and supervisor. Team effort binds people together and puts emphasis to accomplish goal successfully.

Goal Formulation Process

1. **Environmental scanning**: Environmental scanning is the initial stage of the goal formation process. It is the process of accumulating and analyzing information from the environment. Basically, both internal and external environments are to be scanned to analyze their impact on organizational performance. SWOT analysis- the study of Strength, Weakness, Opportunities, and Threats- is helpful for environmental scanning.
   Strength and weakness are the outcome of internal environments and opportunities and threats are the outcome external environment. Internal environment involves organizational goal, culture, resource and structure; whereas external environment are political, economic and socio-cultural environment and technology.
2. **Formation of overall goal**: This is the second stage of goal formation process. In this stage, mission and strategic goals of an organization are defined. The top level management involves in setting the overall goals of an organization. For the overall goal formation, information from the environment should be collected and analyzed. It is a long term goal and directed by environmental trend and focuses on profit goal of the organization. In this stage, the management must fix the financial goal, product-market mix goal, and functional goal.
3. **Formation of specific goal**: This is the final stage of the goal formation process and involves sub-divisions of the overall goals of the organization. In this stage, contribution of each department, unit, branch and individual is defined to fulfill the overall goals of the organization. It is the short term goal and set for a day, a week, a month and so on. Middle and lower level management formulates it for them.

Approaches to Goal Formulation

1. **Top-down approach:** This is the traditional approach of the goal setting process. In this approach, top level management sets strategic, tactical and operational goals of the organization. In this approach the top level managers do not take any suggestion and feedback from middle and first line managers while setting goals. They believe that they know what is best because they can only see the big picture of the goal of the organization. The top level authorities may take suggestions and technical guidance from experts and professionals but they take the final decision themselves. They also formulate goals of the organization and circulate to subordinates for implementation.
2. **Bottom-up approach**: In this approach, middle and first line managers are given authority to set their own departmental and unit goals within the given framework. On the basis of the framework of corporate and strategic goal, middle and first line mangers set their unit and individual goals. In this approach the top- level managers integrate and unify the unit

goals in consultation with and consent of subordinates playing the role of facilitators and never interrupt in the goal setting process. However, top- level managers may modify the unit and individual goals but only with the consent of subordinates.

3. **Management by objective (MBO) approach**: Management by objective is a comprehensive technique applied for goal setting. Peter F. Drucker propounded this approach in 1954. In this approach, both top and operational level managers of an organization jointly identify the common goal; define each individual's major areas of responsibility in terms of the results expected from them. MBO process involves four steps consisting of collaborative goal setting, action plan development, periodic review of performance and performance appraisal.

Goal Succession

Concept

Goal succession is the act of intentional review and modification of existing goals. It is essential when existing corporate goal has been achieved or cannot be achieved in the exiting form due to environmental influence. In course of functioning due to environmental influence, it is necessary to modify the existing goals according to the time and situation to achieve the corporate goals. It is also the part of goal succession.

When the organization faces keen competition, declining sales, scarcity of funds and other environmental challenges, it needs to identify new goals for survival and perpetual existence of organization. For instance, in Nepal, during the political crises between, between 2055 to 2063, hotels and resorts modified their profit goals to survival goals.

Reasons for Goal Succession

1. **Achievement of original goal**: When original goal is achieved in a given period of time, it is essential to set a new goal, because it is a part of goal succession. For instance, a cement manufacturing company sets a goal to produce 1000 tons of cement in a process within six month and after achievement of this goal within the time it has to set anew goal for the next period.
2. **Non- achievement of original goal**: The non-achievement of original goal needs goal succession. When original goal cannot be achieved even by the hard work of management, it needs to review and modify the existing goal for perpetual existence of the organization. For instance, a business organization sets a profit goal for a fiscal year, but after some interval it is found that the stated profit cannot be achieved; and therefore, it sets a survival goal for that fiscal year.

3. **Change in environment**: Environment is dynamic and regularly influences organizational functioning. It is more difficult to forecast and predict environmental changes, basically, of external environment. Therefore, every organization needs to modify its original goal in accordance with the environmental changes.
4. **Organizational priority shifting**: Goal succession is the outcome of shift in organizational needs and priorities. Although there may be many objectives that an organization has to achieve, it becomes impossible to achieve more objectives at a time by mobilizing scarce resources. Therefore, an organization may modify its original goal on the basis of its available resources and priority.

Goal Displacement

Concept

Goal displacement is the act of unintentional change in the original goal into a new goal. In this situation, original corporate, strategic and operational goals are discarded and new goals are set for the survival of the organization. In goal displacement, existing resources are diverted from original goal to achieve new goal. For instance, many cinema halls in Nepal have been converted into party palaces and go-downs due to lack of audiences as movies are nowadays easily available through cable TV and in compact discs. In fact, in goal displacement, the organization involves in various activities such as:

- Substitutes its official strategic goals for some other goals,
- Pursues a goal for which it was not established,
- Pursues a goal for which resources were not allocated to it,
- Seeks a goal which is not known to serve.

Reasons for Goal Displacement

1. **Excessive delegation of authority** : Excessive delegation of authority to the subordinates may result in distortion of the original goal. Generally, the mangers delegates authority and responsibility to subordinates, but maintains proper supervision and control over their activities. But excessive delegation of authority and responsibility to subordinates without a proper controlling system may not meet the objectives of delegation and results in goal displacement.
2. **Subordination of organizational goal**: It is an acceptable principle that top priority must be given to the organizational goals. However, if employees give more priority to their individual goals by subordinating organizational goals, it results in goal displacement.

3. **Employees' attitude**: The management sets organizational goal and circulates them to the employees for their implementation. If employees have a positive attitude towards the organizational goals they can be achieved in an effective way. However, if employees and their unions have a negative attitude towards management decisions, they do not perform effectively, which may result in goal displacement.
4. **Vague goal**: An abstract and vague goal cannot be achieved. Generally, a goal must be specific and achievable within the defined time. However, if a goal is unclear, members of the organization cannot achieve with limited resources. In such a case, the management needs to displace the original goal.
5. **Bureaucratic difficulties:** The management develops rules, policies and procedures to perform organizational functions in a systematic way. However, it is essential to modify and amend such a system remains rigid and static, it may create difficulties to perform jobs effectively. Such difficulties arises in bureaucratic type of organizations.

<u>Problems of Goal Formulation</u>

The basis function of the top level management is goal setting. In setting goals, management faces many obstacles. Managers must understand the obstacles that can hamper the goal setting process. **Rocky W. Griffin**(2000)has identified the following six major barriers in goal setting.

1. **Inappropriate goal**: An unattainable goal is known as inappropriate goal. Organizational goals become inappropriate when the management lays more emphasis either on quantitative or qualitative measures. For instance, goals, especially those relating to financial areas, are quantifiable, objective and verifiable, while goal relating to employees' satisfaction and development are difficult to quantify. Similarly, putting too much emphasis on one type of goal to the exclusion of the other may create difficulties in the overall goal formation process of the organization.
2. **Improper reward system**: An improper reward system such as a major barrier to goal setting. In an 0organization there must be a balance in reward and goal setting efficiency of the employees. Because, the appropriate reward system encourages employees to devote their effort in the goal setting process. But if the management rewards employees for setting poor goal and does not reward or even penalizes them for setting proper goals, the employees get frustrated.
3. **Dynamic and complex environment**: The environmental change may create difficulty in goal formulation. The rapid technological innovation and keen competition can increase the difficulties of an organization to set goals. At present, it is difficult to assess accurately the future environmental opportunities and threats in goal achievement. Therefore, it is essential to amend organizational goals on the basis of environmental influence.

4. **Reluctance to set goals:** Some managers are reluctant to set goals for themselves and their subordinates may create barriers in the overall goal setting of the organization. If mangers set goals that are specific, concise, and time-bound, then the achievement of the goals is obvious. Mangers who consciously or unconsciously try to avoid this degree of accountability are likely to hinder an organization's goal setting. However, the reason for this reluctance may be lack of confidence or fear of failure.
5. **Resistance to change**: The resistance to change is another barrier for goal setting. Generally, people tend to resist change because of lack of confidence and conservative attitude. Members of an organization may fear losing their job due to change in goals. It happens due to lack of proper communication about the outcome of the goal change.
6. **Resource constraints**: Lack of sufficient resources may also create a barrier in goal formulation of the organization. Strong competition, time limit and government restrictions are common constraints in the goal setting process. Therefore, the management needs to consider available organizational resources in goal setting.

<u>Changing Perspective on Organizations</u>

1. **Open system**: Traditionally, organizations were viewed as a close system where they didn't consider social needs and expectation. In close system there is no interaction with the environment and organizations performing their business in this system are treated as machines.

   In an open system, there is regular interaction with the environment. The development of competition, technological change, change in government rules and regulations and change in social expectation creates challenges to the organizations.
2. **Organizations as culture**: Culture is the sum- total of values, norms, tradition, beliefs and assumption of an organization. These are the basis of organizational functioning. If any dispute and misunderstanding arises among members or between the management and the employees, organizational culture is taken as the basis to resolve such disputes. An organization having good culture can maintain social prestige and status. Therefore, to strengthen its existence every organization needs to develop a sound culture.
3. **Globalization**: The concept of globalization has been emerging today in business organization. Any quality product and service produced in one corner of any country can easily reach all parts of the world without any restriction and barrier. Especially, multinational companies are global players in business not only to survive but also to prosper. For instance, Coca-Cola, a USA based soft drink, gains about 80% of its profit from foreign sales in nearly 200 countries.

   The globalization brings the concept of keen competition among the entrepreneurs of the world. Therefore, present managers have to work by considering the global prospective.

Being innovative and adjustable to the changing environment of the business, they have to work with new situations, culture, people and also new parts of the world.

4. **Learning system**: It is fact that knowledge is power and present society is based on knowledge. In this competitive environment, customers expect new ideas, new things and creativity in product and service from any organization.

   Knowledge is not only confined to or acquired by managers; however, it can be learned from subordinates through interactions. Every employee involved in an organization may have specific or new knowledge in certain areas of management. Therefore, the most important job of present day managers is to manage knowledge of subordinates on the basis of requirement from outside sources to fulfill social expectation and to maintain the standard of the organization.

5. **Temporary employment**: The concept of employees' appointment on temporary basis, on contract basis or on daily wage system has been evolved in many organizations. Slowly the concept of permanent employment is being terminated due to priority to work rather than job security and flexibility of work schedule. On the basis of requirement, the tendency of outsourcing and sub-contracting for some minor jobs has emerged in many organizations.

6. **Workforce diversity**: Workforce diversity is concerned with involvement of heterogeneous nature of employees in an organization. Such diversity is increasing in organizations today because of changing population dimensions, to improve workforce, official pressure and increased globalization. Among, the several dimensions of diversity, the important ones are age, gender, and ethnicity.

   An efficient manager has to manage diverse workforce both from the individual and organizational approaches. The first approach involves development of better environment like understanding, empathy, tolerance, and willingness to communicate, the latter approach involves development of policies, practices, training, and good culture.

7. **Team empowerment**: Teams are formed today to formed a variety of jobs on the basis of requirement in the organization. The members of the team are experts in their own area of operation. The team members, thus, are the in-charge of their work and can perform their work themselves according to their own logic and knowledge. And the managers only communicate information and play the role of coordinators.

8. **Work time flexibility**: Work time flexibility is the emerging practice in competitive business organizations. It is contrast with traditional organizations, like in government offices, where working time for employees is fixed. In such organizations, workers work only for a fixed time specified by the management like from 10 AM to 5 PM. However, in competitive business organizations, the concept of twenty-four-hour operation has been evolved. For this, the total working hours are divided into shifts and workers are allowed to choose their shift according to their convenience.

9. **Participative culture**: The practice of participation of employees in planning and decision making has been emerged in modern organizations. In this practice the top-level management collects opinions, views and suggestions from subordinates before setting goals and taking any decision on its implementation. Basically, the concept of management by objective is implemented in practice, where all the members participate in the decision making.
10. **Technological development**: Technological development is ever growing and an emerging perspective in every organization. It emerges in every sector of social activity including transportation, communication, computer software, data processing works, machine and equipment etc. Such technological development tends to increase the aspirations and expectations of customers, investors, competitors, employees and other stakeholders of the organization.

    It is the responsibility of managers to keep in touch with any technological change in their own sector of business and grasp the opportunity to make business a success. They have to modify products and services on the basis of changing needs of the customers. Similarly, quality goods and services must be provided to the customers on the right time, cost and place through the use of modern technology.

CHAPTER-2 INTRODUCTION TO MANAGEMENT

Concept and Definition of Management

Management is the process of getting things done through others with the help of some basic activities like planning, organizing, directing, coordinating and controlling.

Management is the set of activities (including planning , organizing, leading and controlling) directed at an organization's resource (human, financial, physical and information) with the aim of achieving organizational goal in an efficient and effective manner**.**

BASIC RESOURCES ***FUNDAMENTAL FUNCTIONS*** ***STATED OBJECTIVES***

The 6Ms Process of management End results

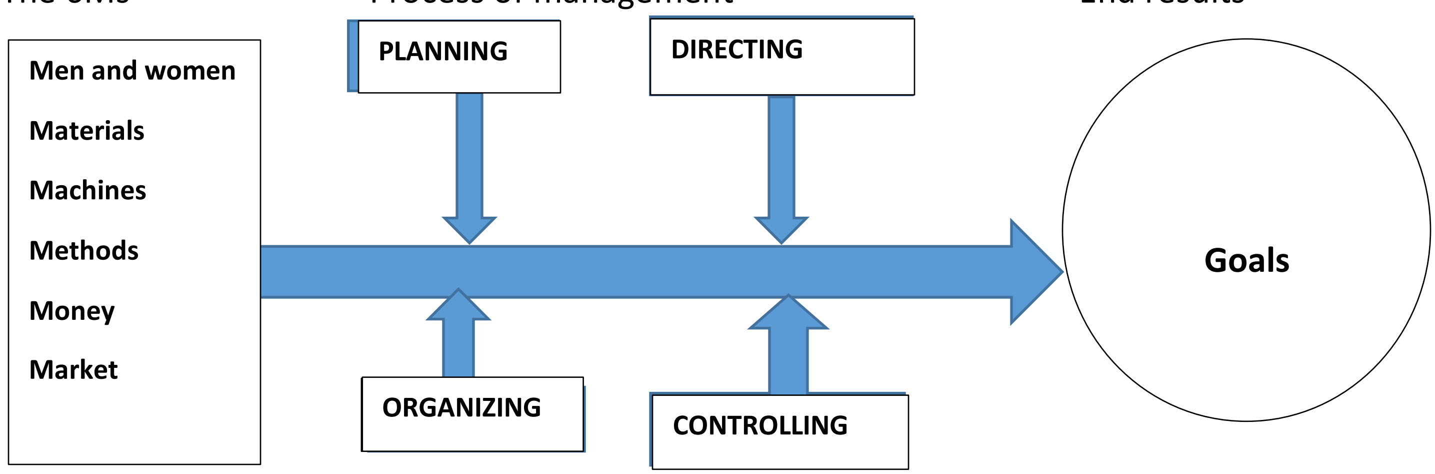


FIG: Management System

Source: Terry Franklin 2003, Principles of management

In conclusion, management is the process by which managers direct and control other people to concentrate and balance their efforts for efficiently accomplishing predetermined goals within the prevailing environment.

Characteristics of Management

1. **Goal oriented**: Every organization is established for a specific objective. management, under organization, is an instrument or system that contributes for the efficient use of human and other resources to achieve predetermined

objectives. And the main objective of management is to maximize productivity with optimum use of human effort.

2. **Universal activity**: Management is essential where there is human activity. It is also necessary in all types of organizations. The process of management may be different from organization to organization and place to place but the basic principles of management are the same.
3. **Social process**: Management is a part of social process to achieve the objectives by, with, and through the people. It utilizes human resources for the achievement of organizational goals. Management has to consider not only the organizational objectives but also the social objectives. It has to fulfill the needs of employees within the organizational resources.
4. **Dynamic/modifiable activity**: Management is the dynamic and continuous process. The management system of today may not be applicable or effective for tomorrow; therefore, management must be dynamic and flexible with the changing environment of the society. And it has to modify its style according to the time and situation to adjust the changing environment of a business.
5. **Group activity**: The concept of management is not applicable if there is only one person or proprietor. It requires a team, class or section of people involved in various managerial functions. It is essential to have a group of people involved in performing any activity to achieve common goals.
6. **Distinct process**: Management is a process involves various types of functions. One function of management is interrelated with another function. The management clearly defines the specific process of work to achieve a predetermined goal without considering any trial and error approach.
7. **Both science and art**: It is experimentally proved that science is a systematized body of knowledge, principle or truth. Similarly, art is the personal skill and ability to apply the scientific principles.
8. **A profession**: Profession involves the specific type of work, followed by special knowledge and education. With the development of joint stock companies and multinational companies the ownership and management has been different. Management of huge organizations has been entrusted in the hands of professionals having specific skill and knowledge.
9. **Multi- disciplinary in nature:** Management is multi- disciplinary in nature. So, many of the principles and techniques used in management are borrowed from a number of other disciplines like psychology, sociology, economics, and mathematics.

Principles of Management

1. **Division of work**: This principle is similar to the famous economist, Adam Smith's principle of division of labor. According to the principle, every employee is an organization must be assigned only a specific type of work to increase efficiency. The development of specialization ensures simplicity and accuracy in performance.
2. **Authority and responsibility**: Authority and responsibility are two interrelated terms in management. While authority is the power and right inherent in a managerial position through the manager commands subordinates, similarly responsibility is the obligation to be fulfilled by the subordinates. This principle emphasizes on the balance between authority and responsibility. Authority without responsibility can make a person irresponsible and there is possibility of misuse of power. Similarly, responsibility without proper authority makes a person ineffective.
3. **Discipline**: Discipline means obedience to superiors and their guidelines. It is also concerned to follow the rules, regulations and procedures of an organization. This principle is applicable to mangers and subordinates alike because all are within the rules of organizations.
4. **Unity of command**: According to this principle every worker/ subordinates must get orders and instructions only from one superior at a time. It means a subordinate should be accountable to a single superior at a time. Further, this principle is essential to fix the responsibility and avoid confusion.
5. **Unity of direction**: Unity of direction implies that there should be one head and one plan for a group of activities having a common objective. There must be one plan for common work and one in-charge to coordinate all the members of unit.
6. **Subordination of individual interest to general interest**: Individual interest means fulfillment of employees' objectives, while general interest means the fulfillment of organizational objectives. This principle concentrates on the basic management philosophy that individual objectives of employees are subordinate to the common objectives because achievement of group objectives in the long run helps to fulfill individual objectives. Hence, it is essential to reconcile individual objectives with that of group objectives.
7. **Remuneration of personnel**: It is the reward paid to the employees for their contribution. The remuneration should be acceptable both to the management

and employees. Wages should be determined by considering both employees' responsibilities, cost of living and financial condition of the organization. Basic wage should be fixe; besides, there should be provision of monetary and non-monetary incentives.

8. **Centralization and decentralization**: Centralization is the retention of decision making authority at the top level management. On the other hand, decentralization is the systematic division of decision making authority from top to bottom in a hierarchy. Generally, in small organizations where the range of activities is limited, centralization is preferred whereas in large organization decentralization is preferred.
9. **Scalar chain**: The scalar chain refers to the unbroken line of authority from top to bottom in hierarchy. This principle is important for systematic and orderly communication of information in an organization. Information has to be communicated through successive chain from top to bottom and vice versa. According to Fayol, the scalar chain must be strictly followed, except in emergencies.
10. **Order**: This principle is concerned with the systematic arrangement of materials and people. Fayol has classified order into two types: material order and social order. And placing machines and other physical things in proper place and quantity is material order, and placing right person to the right job is called social order. The material order emphasizes that all the physical resources necessary for proper functioning must be available at the right place at the right time.
11. **Equity**: This principle is concerned with kindness and justice to all the employees working in an organization. Being in the equity, management has to realize that loyalty and devotion can extracted from the members only through kindness and justice. Therefore, being concerned in it, management has to avoid the concept of favoritism and partiality among the employees.
12. **Stability of tenure**: According to this principle, employees must have a feeling of security of their job to continue the work efficiently. Instability of employees is the cause of poor management whereas the stability of employees helps to develop experience and efficiency.
13. **Initiative**: According to this principle, every employee should be given reliable freedom to exercise judgement in formulation and execution of plans. Obviously, employees do not expect any kind of interruption or guidance from superiors for minor technical work; instead, they want to fulfill their responsibility in their own

risk and knowledge. For instance, freedom provides a sense of self- motivation among the employees making them more dedicated and loyal towards the organization.

14. **Esprit De Corps**: Esprit De Corps is a proverb that means union is strength. It is possible only through harmony and mutual understanding among the workers. According to this principle, the manager has to take necessary steps to promote team spirit and develop a feeling of harmony among each other. Managers have to attain organizational objectives through group effort.

Process and Functions of Management

Managerial function includes all managerial activities from setting to taking essential steps to ensure and achieve organizational objectives. These functions are essential to create a better working environment to achieve predetermined objectives. The major functions of management include:

1. **Planning**

   Planning is the primary function of management. It involves selecting the objectives, policies, procedures and program to achieve a desired result. It is also the process of thinking before doing anything. Planning gives solution to various problems, which may arise in course of functioning. It minimizes future uncertainties and risk. It saves time, effort and cost of the organizations. Planning includes:

   - Setting organizational objectives.
   - Forecasting the events.
   - Formulating policies and procedures.
   - Preparing work schedule and budget.

2. **Organizing**

   Organizing is the process of identifying the major activities, grouping them into jobs according to the nature and assigning the jobs to different departments and individuals. It is concerned with developing the structure and framework and arranging required resources to perform required activities. Thus, it is the framework where all the mechanisms involved in achieving common objective being clarified. The major activity of organizing includes:

   - Identifying major activities.

- Grouping them into their managerial units.
- Assigning jobs to different departments and employees.
- Delegating necessary authority to fulfill given responsibility.
- Coordination of these activities and authority relation throughout the organization.

3. **Staffing**

   Staffing is concerned with recruitment, selection, appointment and placement of right person to the right job. Staffing is the life-blood of an enterprise which mobilizes all other resources for the achievement of common goals. Staffing is the continuous process for the continuous existence of an organization. Staffing includes:
   - Determining the total manpower requirement.
   - Recruitment, selection and appointment of right person to the right job.
   - Organizing seminar, workshop and training to develop employees' skill.
   - Performance evaluation, promotion and transfer of employees.
   - Remunerating employees according to their skill and ability.
4. **Directing**

   Directing is a complex function that includes all those activities which are designed to encourage a subordinate to work effectively and efficiently.it is concerned with instructing, guiding and inspiring subordinates to achieve organizational objectives. The direction function of management includes:
   a. **Supervision**: Supervision refers to the direct and immediate actions to the subordinates to ensure the execution of assigned works. The main motive of supervision is to ensure optimum utilization of human and physical resources so as to achieve organizational objectives.
   b. **Motivation**: Motivation is a psychological and human aspect.it is the process of stimulating subordinates to achieve predetermined goals. It is based on need and human behavior. As a social being, workers want fulfill their basic and social needs. They might be motivated both from financial and non- financial incentives.
   c. **Leadership**: Leadership is the art of influencing the behavior and performance of the subordinates. It is the ability to persuade others to make them work willingly to achieved desired goal. A person is said to

be a leader when he is able to influence others and they accept his guidance, suggestions and directions.

d. **Communication**: Communication is the process of transmitting ideas and information from one person to another. It is exchange of facts, opinion, ideas, and views among two or more persons. Effective communication system among all the stakeholders of an organization is essential for its successful operation. So, there must be an effective, direct, and clear communication system to follow information on various management levels.
e. **Coordination**: Coordination is the process of integrating all the units and departments of an organization. It is the process of orderly arrangement of group efforts to provide unity of action for the attainment of common goals. Different department and people perform different functions in an organization. Therefore, coordination among all departments is necessary to bring uniformity in action to achieve organizational goals.

5. **Controlling**
   Controlling is the process of setting a standard, measuring performance, comparing actual performance with that of planned performance and taking corrective action. Taking corrective action is necessary if actual performance is not in accordance with the planned performance. Controlling includes:
   - Setting standards.
   - Measuring actual performance.
   - Identifying deviation, if any, between actual and planned performance.
   - Taking corrective actions to achieve predetermined goals.

<u>Managerial Hierarchy/ Levels of Management</u>

The managerial hierarchy refers to the arrangement of managerial positions in an organization. The common managerial hierarchies practiced in different organizations are as follows:

- Top Level Management (Board of Directors, Chief Executives Officers)
- Middle Level Management (Department Heads)
- Lower Level Management (Supervisor, Foreman and Account-in-charge)

1. **Top Level Management**
   This is the highest level of managerial hierarchy and is also known as the brain of management. The top level management derives its power directly from the owners of the enterprise. In corporate enterprise, top level management constituted with a management committee elected directly from shareholders as members of board of directors. Besides, this level also includes a chief executive like a chairman, president, managing director or general manager. The basic functions of top level management are:
   - To define overall objectives of an organization.
   - To set up organizational structure to complete the work in efficient and systematic manner.
   - To prepare strategic plans and policies of the organization.
   - To direct, coordinate and lead all the subordinates.
   - To appoint departmental managers and guide them to do their work.
   - To exercise overall control of all members of the organization.
   - To evaluate and review the performance of all departments and take necessary steps to achieve organizational objectives.
   - To represent the organization to the outside world.
2. **Middle Level Management**
   Middle level management is the largest group of managers in most organizations. It is known as backbone of an organization. This level of management consists of departmental heads like human resource manager, production manager, marketing manager, finance manager, procurement manager and similar other positions. In some big organizations, this level of management may have two layers- senior and junior middle level managements. Head of the department come under the senior level whereas branch heads are considered as under junior level management. The top level management delegates a major part of its authority and responsibility to this level. This level plays the role of mediator between top and first line management. The basic functions of basic level management are:
   - To play the role of mediator between top- level and first line management.
   - To implement plans and policies laid down by the top level management.
   - To prepare departmental plans and strategies on the basis of guidance and information from top-level.

- To divide work among subordinates and maintain coordination among them.
- To delegate authority and responsibility to the first line management.
- To make provisions of training, workshop, seminar and other activities.
- To submit progress reports and recommend valuable suggestion to the top level management.

3. **Lower Level Management**
   This level is known as first line or operating level of management. It is directly involved in the actual operation of production, marketing, financing, accounting, etc. this level consists of supervisors, foreman, sales officers, accounts officers, superintendents, and other operational heads. The basic functions of first line management are:
   - To make day to day plans and to implement plans formulated by middle level management.
   - To assign responsibilities and duties to the employees.
   - To provide necessary instructions and guidance to subordinates.
   - To manage resources.
   - To maintain close and harmonious relation among all the employees.
   - To perform intermediary functions between middle level management and operating level employees.
   - To submit progress report to the middle level management.
   - To operate and create better environment for work.

Types of Managers

Managers working in an organization may be classified into different groups. The common classification of managers can be made on the basis of levels and the nature of works.

On the Basis of Levels of Management

1. **Top Level Managers**
2. **Middle Level Managers**
3. **Lower Level Managers**
   (*note-already defined in level of management)

On the Basis of Nature or Area of Managerial Job

1. **Generalist manager:** Managers who perform different types of jobs in an organization as per the requirement are called generalist managers. They do not specialize in any special area. But they have to look after the overall activities of the organization apart from any particular area of operation. They have over workload, as they have to perform diverse nature of jobs. Chief executive officers, president, vice presidents, general managers or deputy general managers fall under this category.
2. **Functional managers:** Managers who specialize in specific area are functional managers. Their authorities, duties and responsibilities are already described in the job description. In practice, all department heads of a business firm are functional managers. In normal course of operation, they are accountable about the performance to their own department and unit.
3. **Staff managers:** They are professional and experts in a specific area of business. They are given no specific formal position in management level. However, they play the role of advisors between generalist and functional managers. They provide guidance and suggestion to both the above managers on the basis of requirement. Legal advisors, external auditors, management consultants are examples of such managers.

Managerial Skills

A skill is an ability to translate knowledge into action that result in desired performance. Whether they are top level managers, middle level managers, or lower level managers, working in the public or private sectors, all managers need specific skills to be effective.

1. **Technical skills:** Technical skill is the ability to use specific knowledge and expertise in order to deal with day to day problems or activities. This skill is highly necessary for lower level managers as they are closest to day-to-day activities and problems. The need and importance of technical skill usually diminishes with successive higher levels.
2. **Conceptual skills:** Conceptual skills consist of ability to visualize or conceptualize the whole organization by understanding internal as well as external realities. These skills are more important to top level managers as they are required to fully understand the organizational system, various subsystems and their

interrelationship, and the external environmental factors that influence the organization. The relevance of conceptual skill for lower level managers is substantially low as they are mainly concerned with their own unit's functions only.

3. **Human skills:** Human skill is the ability to work with other people in a cooperative manner. It involves understanding patience, trust and genuine involvement in interpersonal relationships. The human relations skill is essential at every level of management as it is the reflection of a manager's leadership abilities. Since the lower level managers are required to handle relatively larger number of people at the workplace, this skill is more important to them.
4. **Diagnostic or analytical skills**: This skill refers to a manager's analytical ability where a manager can logically and objectively investigate and analyze a problem or opportunity. It is needed to understand a situation in a particular context and make appropriate decisions. This skill is extremely significant to the performance of top level managers.
5. **Communication skills:** Communication skill is the ability to properly transmit ideas, information and understanding from one person to another. It is almost equally important for managers for all levels. Proper communication eliminates delays, misunderstanding, confusion, distortions and conflicts and improves coordination and control.
6. **Political skills:** The word "politics" has a bad reputation in the workplace, with connotations of manipulation and dark dealing.it actually means the ability to read the situation well, understand others and develop and use networks effectively to enhance one's personal and organizational agendas. Higher level managers are generally required to be more political to exert influence on their subordinates in order to get things done.
7. **Computer skills:** Computer skills involve the conceptual understanding of computers and, in particular, the ability to use the computer software to perform many aspects of one's job. Regardless the level of management and the type of organization, it is quite important these days.

Managerial Roles

1. **Interpersonal Roles**

   This role of managers relates to his contacts and dealings with other people. Manager, in this role, tries to maintain an interpersonal relationship with employees and outsiders on behalf of the organization. The interpersonal role of a manager includes:

a. **Figurehead**: Managers play this role when they perform duties that are ceremonial and symbolic in nature. These include greeting the visitors, distributing gifts, attending ceremonial functions etc.
b. **Leader**: Managers play this role when they perform official functions. And this role is essential to maintain discipline and efficiency among the staff of the organization. The leadership role involves directing, motivating, leading and controlling to carry out operating activities as per the organizational plans.
c. **Liaison**: Managers play this role when they work as connecting link between their organization and outside institution or people. This role of managers helps to maintain social and business relation with outsiders. Through this role, managers work as bridge between different units of the organization and outsiders.

2. Informational Role

Information is the lifeblood of an organization; and communication of day-to-day information is necessary in every organization. The role involves receiving, collecting and disseminating information.

a. **Monitor**: This role involves receiving information about internal performance of the organization and also external events. For this, a manager may appoint manpower of different skills to examine the environment in order to gather information about changes, opportunities and problems that may affect the organization. The formal and informal contacts are useful for collecting information.
b. **Disseminator**: This role involves transmitting relevant information to the members of the organization. And, this information may relate to the internal information and external environment.
c. **Spokesperson**: As a spokesperson, a manager formally relays information to people outside the organization. Performing such a role, the managers act as an agent of the organization. The manager explains the view point of enterprise on significant matters or answers queries of the people.

3. Decisional Role

Decisional role involves making choices to solve organizational problems. Collecting information and maintaining relationship with others serve as a basis for decision-making. The four important decisional roles are entrepreneur, disturbance handler, resource allocator and negotiator.

a. **Entrepreneur**: This role involves initiating change or acting as a change agent and taking risks for better performance. A manager develops new ideas and strategic models for implementation. First line supervisors continuously look, for new ideas or new methods to improve unit performance. For example, an effective marketing mangers continually seeks new product ideas.
b. **Disturbance handler**: This role involves taking corrective action when the organization faces unexpected disturbance like strike, feud between subordinates etc. The immediate step is to respond quickly and bring back/restore normality. As such, the managers have to handle a conflict tactfully.
c. **Resource allocator**: Resources include money, people, time and equipment. The manager has to allocate the scarce resources in many departments and units where they are most needed. Therefore, a manager has to decide exactly who should get what.
d. **Negotiator**: A manager must bargain with other units and individuals to obtain advantage for unit. The negotiations may concern work, performance, objectives, resources or anything else influencing the units.

Emerging Challenges for Management

1. **Globalization**: The introduction of network in transportation, communication, and economic interdependency has tied the people of the world together and causing the global to shrink. Any quality product or service produced in one part of a country can easily reach all parts of the world without any restriction or barriers. Since globalization has brought the concept of keen competition among the entrepreneurs of the world. Therefore, the present managers have to work hard be considering the global prospective. For that, they must be innovative and adjustable according to the changing environment.
2. **Development of environmentalism**: Environmental issues are major issues in management these days. These issues involve deforestation, global warming and depletion of the ozone layer, toxic waste and pollution of land, air and water.

   The green movement has spread in Europe, North America and other parts of the world to maintain the environmental ecology. Therefore, the present managers have the challenge to develop creative ways to make profit without harming the environment in the process of production.

3. **Quality of productivity**: The introduction of quality enhancement program provides, broadly, three positive results to the management. Firstly, the number of defects will be decreased causing low return of defects from customers. Secondly, when the number of defects goes down, the involvement of resources to rework on the defectives will decrease resulting in minimized wastage of resources. Thirdly, when employees become responsible to maintain quality, it reduces the need of quality inspectors as a result of which efficiency and effectiveness of the organization will improve. The maximization of productivity ultimately minimizes per unit cost of output.
4. **Ethics and social responsibility**: Ethics and social responsibility have become growing concerns for managers today. Ethics is an individual 's personal beliefs about what constitutes right and wrong. It is developed through family, experience, personal values, and morals, and situational factors. The most vital ethical concern of modern managers is to know how an organization treats its employees, how employees treat the organization and also how an organization treats other economic agents like customers, competitors, suppliers, union etc.
5. **Workforce diversity**: Workforce diversity is increasing in organizations today because of changing population dimensions. There are several dimensions of diversification; however, the important ones are age, gender, and ethnicity. From one angle it can be the source of cost advantage, source of resource acquisition, marketing, creativity, problem solving and system of flexibility. From another angle it could be a source of conflict in an organization.
6. **Innovation and change**: Innovation of new knowledge to fulfill the expectations of stakeholders is increasing today. It has become a fact of everyday life for everyone in business operation. At present managing change is a critical challenge to the managers. Change may occur in attitude and behavior pf stakeholders like competitors, customers, employees, suppliers, and lenders. It is an important responsibility of managers to handle such change in a scientific and practical way. They have to improve quality of products and service to fulfill the changing need of customers.
7. **Empowerment of employees**: Employees are the major element of the internal environment of an organization. To maintain mutual relation between managers and employees it is essential to delegate the decision making authority to subordinate level employees, which is a challenging task. At present, employees have become more powerful due to decentralized authority and labor unions

affiliated to political parties, and this has been a serious problem for many organizations.

8. **Knowledge management**: In this competitive, environment, knowledge has become power. And the society expects new ideas, new things and creativity in product or service from any organization. To fulfill such social expectations, the managers has to accumulate knowledge and ideas from all members involved in the organization.
9. **Technological management**: Today, technological development is an ever growing process. Technological development tends to increase the aspirations and expectations of customers, investors, competitors, employees and other stakeholders of an organization. The most important challenge of present- day managers is to identify and predict the ever developing new technology. The management of technology is newly emerged aspect in the field of management. It is the responsibility of managers to keep pace with the changes in technology and grab the opportunity to make business success.
10. **Multi culture effects**: Innovation of modern communication and transportation system has tied the multi- cultured people together. They work together to meet their common and professional objectives even if they have different traditions, values, social attitudes, religious belief and living approach. The involvement of cross- culture professionals in organizations is continuously increasing. Management is effective only when it is able to maintain coordination among multi culture professionals.

In the context of Nepal, political instability, powerful labor unions affiliated with political parties, rising public expectations and lack of skilled manpower due to brain drain are the major challenges for managers.

CHAPTER-3 MANAGEMENT : HISTORY AND CURRENT THINKING

Introduction

Management is as old as the human civilization. The concept of management has been in practice since ancient times. At present management has become a complex function, therefore, it attracts the attention of psychologists, sociologist, anthropologists, political scientists, economists and so on.

The Classical Theory

It is initial stage of the development thought. It focuses on efficiency and recommends that managers continuously try to increase the organizational efficiency to increase production. The classical theory includes three different approaches to management:

- Scientific management theory
- Administrative theory
- Bureaucratic theory

All the three theories were propounded on almost similar assumption and the practical effort of them is basically the same. They were developed at almost the same period of time and are compatible and complementary to each other.

Scientific Management Theory

The concept of scientific management is introduced to replace the traditional method of management. It concerned with development and application of scientific problem solving approach.

Therefore, scientific management involves studying each activity in detail to ensure that all activities of the organization are performed in an economic and effective manner.

Principles of Scientific Management Theory

Management principles are the statement of fundamental truth, which provide guidance for managerial decision making and action. Principles are derived through observation and analysis of events, which the manager has to face in actual practice. As a guide to the practice of management, Taylor developed the number of principles, which may be outlined as follows:

1. **Development of a science for each element of an individual's work**:

This principle suggests that the work assigned to each employee should be observed and analyzed in order to replace the old rule of thumb approach. Development of science for each element of individual's job requires that decisions should be made on the basis of facts rather than an opinions and beliefs.

2. **Scientific selection, training and development of workers:**

   This principle suggests that workers should be selected and trained in accordance with the requirements of the job to be entrusted to them. The physical, mental and other requirements should be specified for each job and workers should be selected and trained to make them fit for the job. The management has to design systematic training to improve their skills and efficiency making efforts to develop each employee's greatest efficiency.

3. **Close co- operation between management and workers**:

   Workers should understand that they cannot perform their work without the existence of the management and the management should understand that it has no identity without the existence of labor. Maximum prosperity for both cannot achieved in the absence of cooperation between management and workers.

4. **Equal division of work and responsibility between management and workers**:

   The task and related responsibility should be clearly divide among management and workers. The management should decide the time required for doing a particular work, while the responsibility for actually doing the work should be given to workers. Thus planning should be separated from doing.

5. **Maximum output in place for restricted output**:

   This principle is necessary for the prosperity of workers, owners and also to the society at large. Maximum production ensures more wages to workers because of piece rate system of wages. It also ensures maximum profit to owners because more volume of production minimizes cost per unit of output. It is also helpful to society as it upgrades the living standard of the people.

6. **Mental Revolution:**

   The workers and management should have a complete change of outlook, a mental revolution with respect to their mutual relations and in relation to the work efforts. Similarly, workers should attend to their jobs with utmost devotion and be careful not to waste resources of the organization. Instead of fighting for dividing the surplus, the management should co- operate to increase it.

Contributions of Scientific Management

The following are the important contribution of scientific management to the field of management:

i. It helps to increase production by using modern machines and tools, by planning and controlling and by optimum use of resources.
ii. It seeks to minimize the cost of production, which enables business firm to increase profit.
iii. It helps develop workers' efficiency by using improved machines and tools.
iv. It brings changes in the attitude of employer and employees.
v. It emphasizes on training and development of workers, which helps to increase output and reduces wastage of materials and time.

Limitations of Scientific Management

The following are the major limitations of scientific management:

i. It lays too much emphasis on technical aspects of the work by ignoring human interest.
ii. Employees are forced to work on the same task time and again leading to monotony. Workers have no life outside their work.
iii. In the name of increasing efficiency, workers are forced to speed up the process beyond their capacity.
iv. Workers/laborers are not allowed to take initiative. Foreman issue detailed set of instructions in respect of the job to be performed and the method of performing it.

Bureaucratic Theory

Max Weber (1864-1920)

Max Weber, a German sociologist, developed a theory of bureaucracy. Bureaucracy is a form of organization characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations and impersonal relations.

Bureaucracy theory of Max Weber is most common in large organization and government institutions. It is applicable in the organization where more numbers of employees perform their activities to meet common goals. There should be clear division of work, authority and responsibility and all the employees should be responsible for the immediate superiors.

Principles/features of Bureaucracy Theory

1. **Formal rules and procedures**: In every organization, there must be system and procedure for the completion of defined work. All the members of the organization from top to subordinate level have to follow these rules and procedures in every stage of their activities without breaching them.
2. **Functional specialization**: Work should be divided among the employees on the basis of their functional specialization. In other words, the placement of right person to the right job id the main theme of this principle.
3. **Well defined hierarchy of authority**: It emphases scalar chain of authority from top level to subordinate level. The well defined hierarchy of authority from highest level to the lowest level is essential to maintain unity in direction and in work.
4. **Supervision by a higher authority**: The higher level management delegates authority and responsibility to the subordinate levels essentially to solve the problems on the spot and complete the work in definite time. Thus, from time to time, higher level authority has to supervise the subordinates to know about their achievement and problems.
5. **Technical competent for employment and promotion**: This is one of the important features of bureaucracy theory. The recruitment, selection, appointment and placement of employees are considered on the basis of their technical competence. Similarly, for the promotion of employees, efficiency, knowledge, skill and experience are taken into consideration.
6. **All decision should be recorded**: Different acts are passed and actions are taken in various times. Those acts, actions and decisions should be recorded in a separate for future reference.
7. **Interpersonal relation**: In organization, interpersonal relation among employees should be maintained on the basis of rules and regulation. Personal relation is not taken into account.

Advantages of Bureaucratic Theory

1. **Focus on chain of command:** There should be hierarchy of authority involving superior subordinate relationship and chain of command. Every subordinate should be responsible only to his immediate superior which facilitate to fix responsibility.
2. **Proper division of work**: This theory involves proper division of work on the basis of nature. After such division each work should be entrusted to the employees based on their competency and functional specialization.
3. **Specific procedure**: There should be a system of rules, regulation and procedures. Ana all the members should consider the specified rules and regulations of the organization.
4. **Relationship based on position**: A rule of law leads to impersonally in interpersonal relations. Bureaucratic theory emphasizes interpersonal relations in the organization are based on positions and not on personalities. It helps to fix authority and responsibility.
5. **Focus on technical competency**: Work should be divided to the employees on the basis of functional specialization. And incentives and promotion of employees should be based on technical competence.
6. **Job security**: It emphasizes on job security of employees in the organization. The practice of any time termination of employees from the job must be avoided. It helps to develop dedication toward job loyalty toward organization is developed among the employees.

Disadvantages of Bureaucratic Theory

1. **Rigid rule and regulation**: this theory emphasizes on specified rules, regulation and procedures for completing any work. But, it becomes more difficult to modify rules and regulations according to changing environment of the society.
2. **Ignores innovation**: Creativity and innovation is essential for adaptation according changing environment of business. The top level management involves only in formulation and implementation of rules and regulations.
3. **Lack of effective communication**: The proper channel of communication should be followed for transforming information within and outside the organization. Since it needs more time and procedures for communicating information, the prompt communication is not possible.
4. **Problem of role conflict**: In some situation, role conflict may arise among employees due to outdated or unclear rules and regulation. Such

misunderstanding among employees can generate obstruction in fixation of responsibility and smoothness in performance.

5. **Ignores informal relationship**: It should not take into account the informal relationships between individuals working in the organization. Relationship among employees is maintained on the basis of designed authority.

Human Relation Approach

The term" human relations" is generally used to describe the ways in which managers interact with their subordinates. The famous Hawthrone studies undertaken by Elton Mayo and his colleagues laid the foundation for human dimension in organizations. Mayo was a professor at the Harvard business school. He conducted the series of experiments in 1924 to 1932 at the Hawthrone plant of Western electric company in Chicago. The study was conducted in four phases, which can be summarized as follows:

1. **Illumination experiment**: This experiment was started in1924 in Hawthrone Plant and continued for three years. The study was primarily conducted to measure the effects of lighting on the productivity of the workers in different departments of the organization. Illumination was manipulated for one group of workers and held constant for another group but in both, the conditions productivity increased. From the experiment it was observed that improved productivity could be gained not only by improved working conditions but also by promoting social relationships among workers as group members.
2. **Relay assembly test room experiment**: In this experiment two groups of six female telephone relay assemblers were put in separate rooms. In the process, frequent changes were made in their working conditions such as hours of work, no change was made in the other room.in spite of the frequent changes being made in working conditions over a period of several years, productivity tended to increase; even though it rose and fell irrationally.
3. **Mass interviewing program**: Under this phase a group of 20,000 workers were interviewed to elicit information on their perceptions on the working life. The focus of this interviewing program was on human relations rather than on physical working conditions. After completing interviews, it was confirmed that the importance of informal relations,

social and psychological needs influence the workers' behavior and their productivity.

4. **Bank wiring observation room experiment**: Under this experiments, 14 male workers were formed into a small work group and intensively observed for seven months in the bank wiring room. The men were engaged in the assembly of terminal banks for the use of telephone exchange. The purpose of the research was to make a more detailed analysis of the social relationships in a work group. From the experiment, the researchers concluded that employees would labor hard if they believe that the management was concerned about their welfare and supervisors paid special attention and care to them.

Contributions of Human Relation Theory

The results of the Hawthrone studies were published in 1941. The results have led to the increase in knowledge and understanding of workers and their works. The main contributions of Hawthrone studies can be summarized as follows:

i. Employees are not motivated solely by money. Personal and social factors are important to motivate employees' attitudes towards their work.
ii. The importance of recognizing the concept of "social man" became unavoidable.
iii. Management must understand and recognize interpersonal and relations on the job.

Limitations of Human Relation Theory

i. Human relation theory adequate focus on work. It lays all emphasis on interpersonal relations and informal groups.
ii. Human relations tend to neglect the economic dimension of work satisfaction.
iii. The human relation movement is anti-individualist. The discipline of the boss is simply replaced by the discipline of the group.

Behavioral Science Approach

Behavior science is concerned with scientific investigation, analysis and human behavior in organizations. A large number of behavioral scientists have made notable contributions to the management theory and practice. Notable scholars among them are Abraham Maslow, Douglas McGregor, Frederic Herzberg, Mary Parker Follet etc.

Abraham Maslow: Need Hierarchy Theory

Abraham Maslow, a human psychologist developed theory of human needs in 1943. He, in his theory suggested that people have a complex set of needs. People always have needs, and when one need is relatively fulfilled, others emerge in predictable sequence to take place. Human needs tend to follow a basic hierarchical pattern from the most basic needs are fulfilled, a person will not try to meet his higher level needs. His theory of motivation is based on some assumptions. They are:

- Human needs and motivates are complex.
- Needs from hierarchy
- Unsatisfied needs are the reasons of motivation.
- People seek growth and development.

The types of needs as per Abraham Maslow explained as:

1. **Physiological needs**: Physiological needs are also known as basic needs and are common to all individuals. These needs involve food, water, clothes, shelter, rest and other similar basic needs. These needs are at the lowest level in the hierarchy of needs. Such needs of employees might by satisfied by providing appropriate wage and better working environment.
2. **Safety/ security needs**: Every human being seeks physical safety and economic security. Generally, safety needs can be sub- divided into three types: e.g. economic security, physical security and social security. Economic security means an assurance about the fulfillment of basic needs on a continuous basis. Physical security needs include protection against unexpected events like fire, accident etc. Social security needs include a need for security in old age, fever, and permanent incapability. Management can motivate employees of this level providing the facility of job security, medical facility, provision of provident fund, life insurance facility etc.
3. **Social/affiliation needs**: Human beings are social animals. They always want to live in the society and want to consume social elements. These social elements include belongingness, friendship, love and affection, social acceptance, social status and prestige etc. management can motivate such employees by considering their social value. Generally,

management has to develop the feeling of belongingness, team spirit, promotion, authority on the basis of efficiency etc.

4. **Esteem/ ego needs**: These needs are psychological in nature and at right level in hierarchy. There are two types of esteem needs: self- esteem and public esteem. Self-esteem is the internal recognition and is concerned with self- respect. Public esteem is external recognition and is concerned with self-respect. Public esteem is external recognition and concerned with respect from others. In an organization, management can fulfill ego needs by defining position and by developing the system of reward and punishment.
5. **Self-actualization needs**: These are the highest level needs in Maslow's need hierarch. These are activated as a motivator when all other needs have been reasonably fulfilled. These needs are soul searching and inner oriented. These needs motivate to develop fully and realize one's capabilities and potentialities to the fullest extent possible. At this level, individuals seek challenging work assignment that allow for creativity and opportunities for personal growth and advancement. Self- actualized individuals are creative, independent, spontaneous, and have a good perception of reality. Management can motivate such employees by providing creative and challenging works. In fact, such workers expect decision making position.

Douglas McGregor: Theory X and Y

Douglas McGregor was the professor of management. He proposed two distinct views of human beings: one negative leveled theory X and another positive leveled theory Y.

Theory X is based on the traditional assumption about human behavior. The general assumption of theory X are:

- Employees inherently dislike work and whenever possible, will attempt to avoid it.
- Since employees dislike work, they must be corrected, controlled or threatened with punishment to achieve desired goals.
- Employees will avoid responsibility and seek formal direction whenever possible. Most workers place securities above all other factors associated with work and will display little ambition.

Theory Y is an optimistic view of workers. It believes in positive and intrinsic motivation. Theory Y represents participative management. The subordinates, managers and organization are seen as mutually supportive. This theory is based on the following assumptions:

- Work is natural activity like play or rest.
- People will become committed to organizational objectives if they are rewarded for doing so.
- People will exercise self- direction and self-control if they are committed to objectives.
- The average person can learn to accept and seek responsibility.
- Many people in the general population have imagination, ingenuity and creativity.

Frederic Hertzberg: Two Factor Theory

Frederick Hertzberg developed the two- factor theory for work motivation. He was among the first behavioral scientists to look at motivating employees from different angles. This theory is based on the contents of interviews conducted on 200 engineers and accountants. In carrying their research, Hertzberg and his associates asked participants to describe job experience that produced good and bad feeling about their job. From the research he found that there are two sets of needs or factors namely motivating factor and hygiene factor to motivate employees.

1. **Hygiene factors**: Hygiene factor is also known as dissatisfiers or maintenance factors. These factors are external to the job itself. The presence of these factors does not motivate employees, but their absence also causes dissatisfaction. When these factors are adequate, people will not be satisfied but they will not be satisfied either. Hygiene factor includes company policy and supervision, relationship with supervisor, working condition, salary, relationship with peers, personal life, relationship with subordinates, job security, status etc.
2. **Motivating factors**: Motivating factors are also known as motivators, satisfiers or job content factors. These factors are job centered and relate directly to the job itself. The presence of motivating factors causes high levels of motivation and job satisfaction, whereas their absence do not cause high dissatisfaction. These factors include achievement,

recognition, advancement, work itself, the possibility of personal growth, responsibility etc.

Contributions of Behavioral Science Theory

The main contribution of Behavioral Science Theory are:

- This theory has identified the role of human elements in organization.
- It has recognized the quality of leadership as important factor for the success of management.
- It has emphasized on non- financial rewards.
- It has greatly emphasized the role of individual psychology and group behavior for organizational effectiveness.
- This theory has emphasized the self- direction of subordinates through workers' participation in planning and decision making.

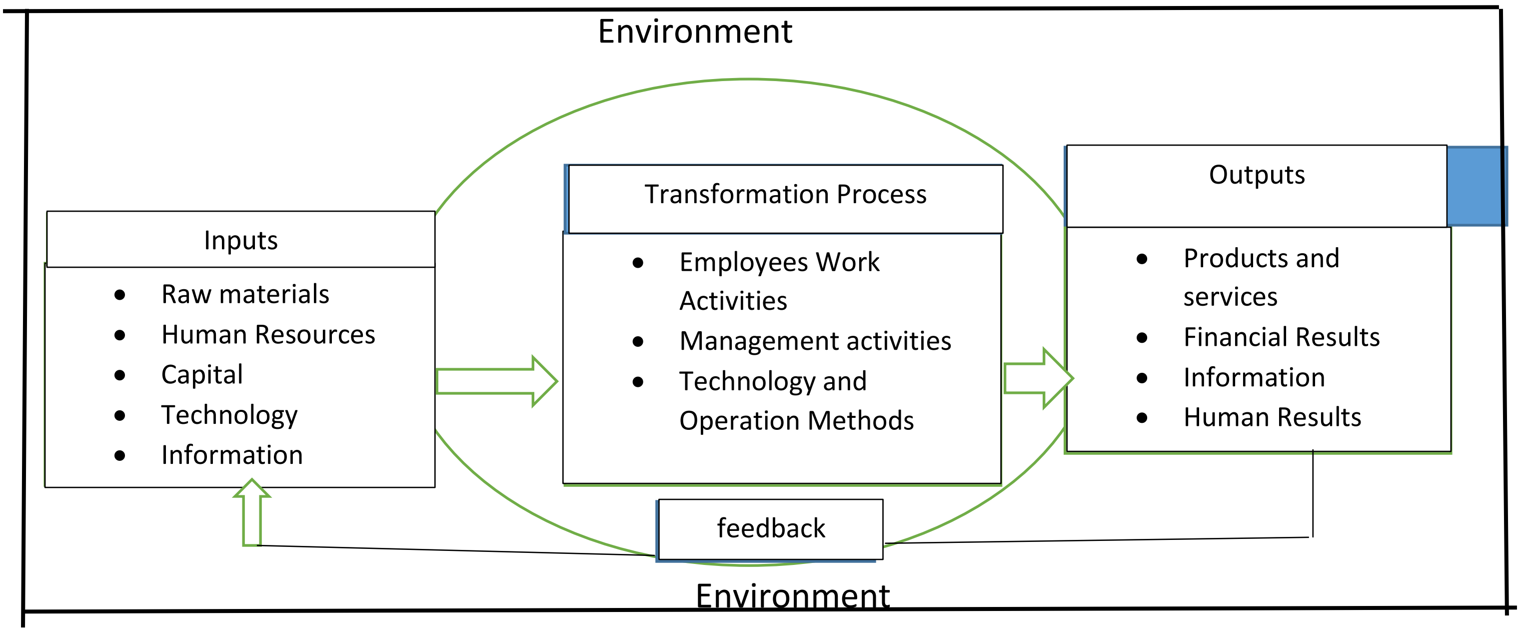
Limitations of Behavioral Science Theory

The following are the main limitations of behavioral science theory:

- This theory has neglected the economic dimension of job satisfaction.
- It has not considered situational variables.
- It has viewed management as nothing but applied behavioral science.
- It has a clinical bias and lack of scientific validity.

System Theory

System theory is new thinking in management literature. A system is a set of interrelated and interdependent parts of arranged in a manner that produced a unified whole. A system is not a mere collection of parts but an organic whole. The system is composed of a number of subsystems and all the subsystems are related to each other. An organizational sub system can be classified as physical, mechanical, biological and social. The system theory can be best studied on the basis of input, processing and output component as mentioned in the figure:



Elements of System Theory

1. **Goal orientation**: Every system is purposeful. It is directed towards achieving certain objectives.
2. **Subsystem**: The parts of components of a system are called subsystems. Each system may be a subsystem of a larger whole making another system. They interact with each other.
3. **Synergy**: Synergy means the whole Is greater than the sum of its parts. Thus synergic effect means 2+2=5. It means that the performance of the whole Is dependent on how well its parts are related and not on how well each parts operates.
4. **System boundary**: Every system has a boundary that separates it from its environment. The boundary determines which parts are internal to the organization and which are external. In an open system, the system boundary is flexible while in closed system it is rigid. Many organizations have flexible system boundary.
5. **Flow**: A system has flow of materials, information, money, human and other resources. These enter the system as input, undergo transformation process and find out as outputs in the form of product of service.
6. **Feedback**: The reaction and response to the environment is known as feedback. It is useful in evaluating and improving the functioning of the system. Hence, feedback is the key to system control.
7. **Open or close system**: Systems are of two types. An open system continually interacts within its environment whereas a closed system is self-contained and isolated from the environment.

Contributions of System Theory

- It provides conceptual framework for a meaningful analysis of management and organizations.
- It exhorts managers to analyze and understand every element of a problem in a relation with other elements.
- It tries to integrate various management theories by emphasizing physical aspects, behavioral aspects and environment considerations.

Limitations of System Theory

- It is too abstract and cannot be directly and easily applied to practical problems.
- It does not offer any tools and techniques of integration and nature of interdependencies between organizations and management
- It does not offer a unified body of knowledge.

Decision Theory

Decision theory looks management as a decision making process. The manager is regarded as the decision- maker and a major challenge for him is to take rational decisions. The success and failure of an organization greatly depends on the decision-making ability of manager. So, the manager must be rational in decision making and try to take the right decision on the basis of requirement, which is essential to maximize productivity.

Herbert Simon, Luther Gulick and Lyndall Urwik are major contributors to this theory. They express the managers' deciding rationally are able to achieve goals, so that, they must have clear understanding of an alternative course of actions to take the right decision. This theory consists of following characteristics:

- Management is basically a decision making process.
- Members of an organization are decision makers and problems solvers.
- Organizational effectiveness is judged on the basis of quality of managerial decisions.
- Participative approach is desirable in decision making.
- Proper information management system is essential for decision making.

The rational decision making consist of the following concept:

- Definition of the problem.
- Identifying relevant alternatives.
- Evaluating the alternatives.
- Selecting the best course of action.
- Implementation of action.
- Evaluating the result.

Contributions of Decision Theory

The following are the important contributions of decision theory:

- This theory is helpful in developing problem solving skills.
- It helps develop different mathematical and quantitative tools for decision making.
- It has emphasized the knowledge of economics in decision making.
- It has contributed much in information management.

Limitations of Decision Theory

The following are the main limitation of decision theory.

- This theory does not take the total view of the management.
- It is narrow and limited scope.
- It has ignored the situational variables.
- It has not stressed the human relation and behavioral aspects.

Management Science Theory

Management science theory is also called mathematical, quantitative, and operational research approach. This theory emphasizes on application of mathematics and statistics for taking decisions and solving management problems. This approach was originally developed during the Second World War to solve military problems by the U.K. and the U.S.A. in later years when the war ended, people made use of this technique in solving industrial problems too. The main feature of management science theory is the use of mixed terms of science from several disciplines. Joel Dean PMS Blackett are the main contributors of this theory. Management science approach focuses on solving the technical rather than human behavioral problems. And computer programs are used to analyze the problems. Now-a-days operation research terms are formed to solve complex management problems. The team consists of members from any fields. They analyze the problem and develop a mathematical representation.

Contributions of Management Science Theory

- Complex relations among variables can be expressed more effectively.
- It presents management with an objective basis for making a decision.
- It emphasizes the replacement of intuition and hunch by factual data and logical analysis in decision making process.

Limitations of Management Science Theory

- It does not deal with the people aspect of an organization.
- All the required data cannot be updated and are not accurate.
- It requires unrealistic or unfounded assumptions.

Contingency Theory

This theory is also called situational or practical approach to management. It is a relatively new thinking among management scholars and related to system approach. Practicing managers, consultants and researchers who tried to apply the concept of earlier management theories into practice and developed it. According to this approach, the best way to lead, plan, organize and conduct managerial activities varies with the situation. A particular method suitable in one organization at a time may not necessarily be suitable to another organization at other time. Hence, there are no plans, organization structures, and leadership styles or control technique that will fit in all situations since every organization is unique, management decision and structure must be unique. There are four contingency variables that determine management practice.

1. **Organizational size**: The number of people in an organization is a major influence on what managers do.
2. **Routineness of task technology**: Organizations apply technology to transform inputs into outputs. Routine technologies require organizational structures, leadership styles and control systems that differ from those required by non- routine technologies.

3. **Environmental uncertainty**: the degree of uncertainty caused by political, technological, socio-culture and economic change influences the management process. The best style in a stable environment may be totally inappropriate in a rapidly changing and unpredictable environment.
4. **Individual differences**: Individuals differ in terms of their desire for growth, autonomy, and tolerance of ambiguity and expectations. These and other individuals' differences are particularly important when managers select motivation techniques, leadership styles and job design.

Hence, the management cannot have ready-made universally applicable and acceptable principles to be applied to all situations as everlasting truth. Management needs to recognize the nature of technology, the variation human participants, and the wide diversity in environmental relationship. All managerial actions depend upon particular prevailing circumstances and situational factors. It requires managers to have a thorough understanding of the situation and the ways of tackling situations. Based on the above explanation, the following featured can be identified:

- Organizations are open systems and interact regularly with the environment.
- It is an integrative approach in a sense that it attempts to integrate in finding other managerial perspectives.
- It is applicable in intellectual dealings in which habits and customs cannot be taken for granted.
- It requires knowledge of various sets of situations and tools to work best.
- It is based on empirical researches and has developed its tools on real findings in varied situations.

Contributions of Contingency Theory

- Managers get help in innovating new and better approaches to meet complex situations.
- It gives them the capability to think in analytical, critical and multidimensional ways.
- Managers are given more freedom.
- Managers become more sensitive and alert.

Limitations of Contingency Theory

- It ignores the universally applicable principles.
- It fails to enlist all contingency variables.
- It focuses on mere situation but which tools should be used in what situation is not satisfied.
- It ignores human behavioral aspects.

Chapter-4 Environmental Context of Management

Concept of Business Environment

Business environment consists of all components of surroundings of a business organization, which affect or influence its operations and determines its effectiveness. Environment is dynamic and change according to time, it is also complex and difficult to forecast. Therefore, management needs to estimate and forecast environmental influence time and again to sustain its business operation in a competitive environment.

"Environment refers to institutions or forces that affect the organization performance." -**Stephen P Robbins and Marry Coulter**

"Business environment is the aggregate of all conditions, events, and influences that surround and affect it." **-Keith Davis**

Types of Business Environment: Internal and External

Broadly, there are two types of environments internal and external.

Internal Environment

All conditions and forces within the organization affection a business operation is internal environment. Such environmental components can be controlled by the management. The components of internal environment consist of owners or shareholders, broad of directors, resources and organizational structure and organizational culture.

1. **Owners**: Owners are the investors who have the direct interest in the welfare and prosperity of business organization. They have the legal right on the property and assets of the business. In sole trading concerns they are known as sole proprietors, in partnership form as partners and in joint stocks of the companies, they are known as shareholders. Depending upon types of organizations and the nature of business, they are directly and indirectly involved in management of the business.
2. **Broad of directors**: Members of broad of directors are the representatives of shareholders who are directly involves in the day-to-day operations of the company. Their responsibility is to run the business in the best interest of the shareholders and other stakeholders. They are also involved in the preparation of long term plans and business strategies of the organization.

3. **Organizational resources**: For effective operation of the business, every organization needs resources consisting of human, financial, physical and information. The success and failure of the organization depends upon the effective and efficient utilization of these resources.
4. **Organizational structure**: Organizational structure is the foundation of an organization involving job definition, division of work, hierarchy of authority and responsibility and coordination among all the departments and members. It defines the formal relationship among executives and subordinates and also helps maintain functional network among them.
5. **Organizational culture**: Organizational culture is the set of values that helps its members understand what the organization stands for, how it does things and what it considers important. It is a system of shared beliefs held by the organization's members. In every there are systems of values, symbols, rituals, and practices that have evolved over time.

External Environment

The external environment refers to forces and institutions outside the organization that potentially can affect the organization's performance. The external environment is made up of two components, the specific or task environment and general environment.

Specific or Task Environment

The task management consists of specific organizations or groups that influence the organization's performance. Such environments have a direct and immediate impact on the managerial decision and actions and are directly relevant to the achievement of organizational goals. The task environment consists of competitors, customers, suppliers, government, pressure groups, media, financial institution and strategic allies.

1. **Customers**: Customers pay money for goods and services and are the main source of revenue. They represent potential uncertainty to an organization because their taste and preferences may change with in time and fashion. A satisfied customer of today may not be satisfied tomorrow through the same kind of goods and services. Therefore, it is necessary to collect information about preferences and demands of customers through market research, survey and report from representatives and other means.

2. **Suppliers**: Suppliers are the parties and institutions that supply materials, machines and other resources to organizations. The management of every organization seeks to ensure regular and steady flow of needed of inputs as a reasonable price. However, if suppliers do not supply materials in time and also charge high price, it reduces the organizational effectiveness.
3. **Competitors**: Competition is the basic feature of an open market economy. Competitors are the rivals that compete with the organization for resources. No business organization can its competitors and their business strategy. Therefore, a manager of an organization should have the ability to forecast customers' demand and develop new strategies to increase market share.
4. **Government**: The government is concerned with regulating new rules and regulation for the welfare and wellbeing of the society. It also enacts various rules and regulations to control unfair business practices and to protect public interest. A new legislation enacted by the government to protect public interest may create new challenges to business organizations.
5. **Pressure groups**: Pressure groups are special interest groups, which may also create problems and difficulties in business activities. They exert considerable influence by using the media to draw attention to their positions. These pressure groups consist of labor unions affiliated with political parties, consumers' associations, human rights activists, environmental associations, media, social institutions etc.
6. **Financial institutions**: Financial institutions consist of commercial banks, development banks, finance companies, insurance companies etc. they supply short and long term credit to business firms. Their credit policy directly affects the operation, expansion and diversification of business activities.
7. **Strategic allies**: When two or more companies work together in a joint together in a joint venture or other partnership form, it is known as strategic allies. Such allies help to get expertise from other companies to gain new business ideas and knowledge.

General Environment

General environment refers to the institutions and forces that create overall context of an organization. This environment is also known as macro environment. It is controllable in comparison to the micro environment. Thus, general environment comprises general trends and forces that may not immediately affect the organization but sooner or later will alter the way organization operates.

Basic Components of External Environment

Economic Environment

Economic environment plays a significant role in the business system because the condition of the economy and in present and in future affects the fortunes and strategy of the organization. The economic environment of the businesses includes the following factors:

1. **Economic system**: The economic systems prevailing in a country determines the scope of private business and its activities. The prevailing economic systems can be grouped into three categories such as:
    a. **Free Market Economics (Capitalism):** In a free market economy, all the factors of the production such as land, labor and capital are privately owned and production is carried on by private enterprises. What to produce, how to produce and whom to produce, all these economic problems and settled by the forces of demand, supply and market mechanism. USA and Japan present examples of free market economy.
    b. **Centrally Planned Economics(Communism):** Under the centrally planned economic system, the state owns all the means of production and determines the goals of production. The consumption pattern is decided by the state. North Korea and Cuba present the examples of centrally planned economies.
    c. **Mixed Economics**: The system of mixed economy falls between the two extremes capitalism and communism. In a mixed economy, both the public sector and private sector co-exist as in Nepal and India. In many mixed economies, several basic and strategic industries are owned and managed by the state. The state regulates the activities of the private sector so that it may serve the interest of the nation rather than its own interest.
2. **Economic policies**: The economic policies of the government also influence the business policies of an organization. Key economic policies influencing business organizations are as follows:

a. **Monetary Policy:** It is concerned with money supply, interest rates, credit availability and exchange rates. It effects the level of spending and cost of capital.
b. **Fiscal Policy**: it deals with the collection and spending of money by the government. It is concerned with the use of taxation and government expenditure to regulate economic activities.
c. **Industrial Policy**: It makes conditions favorable or unfavorable for business. Incentives, licensing, infrastructure, technology transfer and other facilities given to business create favorable condition for business.
d. **Commercial Policy**: It indicates the import – export policy consisting of export duty, customs duty, clearance charge etc.

3. **Economic Conditions**: Economic condition fluctuate continuously. They indicate the health of the economy in which the business organizations operate. The major elements of economic conditions are as follows:
   a. **Stage of Economic Development**: An economy can be least developed, developing and developed. Such stages of economic development influence on the business activities.
   b. **Income Distribution**: Income provides ability to spend for business purpose increasing purchasing power. Per capita income people should be strong.
   c. **Employment**: Employment situation also influence on business activities. It determines purchasing power of people and availability of labor. During the high employment condition, economy grows faster and increases purchasing capacity of people.
   d. **Trade Cycle**: Trade cycle also indicates the economic conditions of the country. The stage of trade cycle can be prosperity, recession, depression and recovery. Each stage affects the health and operation of business organizations.
   e. **Inflation**: It refers a sustained rise in the general price level of goods and services. Inflation reduces the purchasing power of consumers. It seriously affects the business activities.
4. **Economic Integration**: Economic integration is also known as regional economic groups. It is an association of nations in a particular region of the world. It is involved in promoting trade and socio-culture

ssrelations among the member countries and providing financial aid to them.

The South Asian Association for Regional Cooperation(SAARC), Association of South East Nations(ASEAN), the European Union(UN), North American Free Trade Agreement(NAFTA) are some examples of regional economic groups that have promoted economic integration.

Socio-Cultural Environment

The socio-cultural environment is made up of institutions and other forces that affect a society's basic values, perception, preferences, and behaviors. Socio- cultural forces usually influence the welfare of a business firm over the period of time. We have ever changing society. A good socio-cultural environment analysis combines the following components:

1. **Social Environment**: Social environment refers to all the social surroundings that influence business organizations. It involves the following elements:
   a. **Demographics**: Business is started from people. Demography is concerned with human population and or people and its distribution. It includes the following elements:
      - ❖ **Size Distribution and Growth of Population**: Larger size, distribution and growth of population indicate growing business opportunities. The large size of population is attractive to business organizations. For instance, the large size and growing rate of population of India and China have attracted many investors from capital-rich countries to reap the benefits of the large size of market.
      - ❖ **Age Composition**: it is also an important demographic factor that influences the business activities. Product demand differs according to age group or composition.
      - ❖ **Urbanization**: When people migrate from rural areas to urban areas they naturally adopt the urban life-styles. It creates a large market for consumer durable, furnishing, fashion-related products and beauty aids.
      - ❖ **Migration**: It is the population movement from one geographical range to other. It may occur as population migrates from one country to another country, from rural to

urban, and then suburban areas.it is also influences business activities. For example, migration of people from Hill and Terai to Kathmandu has created new demand for convenience and shopping goods.

b. **Social Institutions**: They consist of family, reference group, and social class. They also influence on business activities:
    - **Family**: it is constituted by two or more persons related by blood, marriage and adoption who reside together. Family plays an important role in influencing consumption pattern. Thus, managers need to understand the nature of family's influence on its member and the way in which purchase decisions are made by the members.
    - **Reference Group**: They consist of group that have direct or indirect influences on the attitudes and behavior of people. For examples, famous film stars, musicians, other popular personalities fall in reference group. Reference group serve as a point of comparison or reference for an individual in the formation of either general or specific values, attitudes, or behavior.
    - **Social class**: Social class indicates societal stratification. Members of a social class share similar values and attitudes. Generally, individual can be categorized in one of the four informal social class structures: the affluent class (i.e. high class), the middle class, lower middle class and the poor. Social class shows distinct product and brand preferences in areas such as clothing, home, furnishing, automobile, etc.

c. **Social change and Mobility**: Social change and mobility are the realities of today. Change and mobility are making things different. They are reflected by one-child family, disintegrating joint family, married working women, delayed marriages and social pressures against environment pollution. Such change implies modification in relationship and behavior patterns of individual and groups in a society.

2. **Cultural Environment**: Culture refers to habit, tradition, morality, belief, values and so on derived by individual as a member of the society. It differs in different region, different races and community

even in the same country. Business organization should be produce clothes, food, drinks, etc. according to the culture of the people. People consume new clothes, delicious foods, superior drinks, meat etc., during the time of festival. Due to this, the demand for such goods is high during the time of festival. The demand for gold and jewelry is high during the time of wedding season. It involves the following factors:

a. **Religion**: Religion refers to a specific and institutionalized set of beliefs and practices generally agreed upon by a number of persons or society. Different people have own religion, religion of people creates own lifestyle and attitude. They want to fulfill interest as per their religion.
b. **Attitude**: An attitude can be defined as any affective reason to a person object, ideas or activity. It is created by culture. Work motivation, profit motivation, attitudes towards gift-giving, meaning of body gestures and attitudes towards time vary from culture to culture.
c. **Values and Beliefs**: The values and beliefs are the norms of the society. They affect the attitude to towards business and work itself. For example, employees' value and beliefs about various work- related issues like working hours, work shift, supervision, technology employed, organizational reforms, and so forth have significant effects on their work attainment.
d. **Language:** it is medium of expressing views, ideas, knowledge, experiences, etc. It may differ on the basis of castes and ethnicity. Generally, language represents the tradition and culture of the society. It also affects the needs and wants of the people.

Political-Legal Environment

Political- legal environment offers the environment in which the managers have to operate their business organizations. The important forces are:

1. **Political Environment**: Political environment consist of factors related to management to public affairs. It consists of the following components:
   a. **Political System**: It is an important factor of political environment. It includes political ideology, election process, the process of government formation, etc. Besides, political stability or instability also

consists in it. A stable, efficient, and honest political system is essential for the growth of business organization.

b. **Political Institutions**: Political institutions include legislature(Parliament), executive (Government), and Judiciary (Court of Law) which affect business organizations.

   - **Legislature**: It is the parliament that is regarded as the mirror of public opinion. It performs the function such as formulating laws, making policies, approving budget. Legislature, thus, has profound effect on the business. Legislature decides what should be size, nature of business, who can operate what type of business, how the earning of the business should be distributed, what types of rules and regulations should be obeyed by the business, what contribution should be made to the government, what type of work should be done or not in the interest of people.
   - **Executive:** It is known as the government consisting of council of minister and bureaucracy. The functions of executive particularly is to implement to decisions made by the legislature. Therefore, executive has great influence on businesses.
   - **Judiciary**: It is also known as courts. It decides whether the government is functioning according to the rules and regulations enacted by the legislature and whether they are inconsistent with given law or not. The judiciary serves as watchdog. It settles the issues between government and people and between people and people.
   - **Other Constitutions Bodies**: The new constitution, 2072 has made some provisions about other constitutional bodies such as Commission for the Investigation of Abuse of Authority, Auditor General, Public Service Commission, Election Commission, National Human Rights Commission, National Natural Resources and Fiscal Commission, National Women Commission etc. activities of such constitutional bodies have effects on business activities.

c. **Political Philosophies**: They are the ideologies that a state has adopted. The political philosophies can be democratic, socialism or mixed.

- ❖ **Democratic Philosophy** ensures the human rights of the citizens. It gives emphasis to the role private sectors in business activities. In the **socialism philosophy**, the power remains in the hand of the state. The government plays important roles in socialist countries. In the **mixed political philosophy**, the power lies in the hands of both the people and the state. In such political philosophy, the private sector and state play important roles in organization in the economy. So, business organizations and mangers should analyze political philosophies.

d. **Pressure Groups:** They are special interest groups, which may also create problems and difficulties in business activities. They exert considerable influence by using the media to draw attention to their positions. The pressure groups consist of labor unions affiliated with political parties, consumers' associations, human rights activities, environmental associations, media, social institutions, feminist groups, trade associations, etc.

2. **Legal Environment**: It is critically important for the prosperity of business. This environment plays crucial role in business decision-making by affecting production and marketing activities. There are many legal provision regarding minimum wage, health and safety standard, pollution control standard, fair pricing and marketing behavior. The following are common components of legal environment:

   a. **Legislation/ Laws**: Legislations relating to business aim to protect consumers from unfair business practices and organization from unfair competitions. Legislations regarding standardization, patents, trademark, intellectual property, copyright etc., protect the business organization.

   b. **Courts**: They are also included in the legal environment of business. They solve the legal problems. There may be different types of courts according to the level and nature of legal problems. However, according to the new constitution 2072, the following courts will remain in Nepal:

      - ❖ Supreme Court
      - ❖ High Court
      - ❖ District Court
      - ❖ Specialized Courts

c. **Legal Administrators**: They are the law implementation bodies. They are government bodies, police, jails, advocates, etc.

Technological Environment

Technology is a systematic application of scientific or other organized knowledge to practical tasks. Technological environment helps to shape changes in styles of life with the help of technology. A good technological environment analysis combines the following components:

1. **Level of Technology**: Managers must adopt the level of technology to satisfy the customers' needs, Now-a-days most of the people need high technology products. There are five levels of technology in business.
    - ❖ Manual Technology: It human-based technology. It uses more manpower.
    - ❖ Mechanized Technology: It is machine based technology. It uses power in the production process.
    - ❖ Automated Technology: It is based on machines that operate automatically.
    - ❖ Computerized Technology: it is based on use of computer-based machines. Digital technology is computerized technology.
    - ❖ Robotized Technology: It is based on use of robots. This technology is guided by computerized software programmes.
2. **Pace of technological Changes**: Technology is dynamic. Its pace of changing is very fast. The change of technology leads to immediate impact in business of managers. It creates both opportunity and threats to the business organization. A business can only be successful if it is able to grab the opportunities created by the changing technology.
3. **Technology Transfer**: Technology transfer means to import new and advance technology from developed countries to technologically developing countries. Technology can be transferred through globalization, projects, trade, technical assistance, training and publication, etc.
4. **Research and Development (R & D) Budget**: Customers' need keep on changing. Old technology may be useless to fulfill the changing needs. So, it is necessary to develop new technology. Research and development is the main basis of development of new technology and innovation. So managers should pay attention towards this aspect. For this, it is essential

to invest a certain part of the budget of the business organization in research and development work.

Global Environment

The global environment includes relevant new global markets, existing markets that are changing, important international political events, and critical cultural and institutional characteristics of global markets. Globalizations of business markets creates both opportunities and challenges for firms.

Some global organizations such as world Trade Organization (WTO), World Bank and International Monetary Fund (IMF) have positive impact on development of global business. Global environment involves the following steps:

- Global economy
- Global market scenario
- Global consumerism
- Global laws and provision
- Global political condition, etc.

Social Responsibility of Business

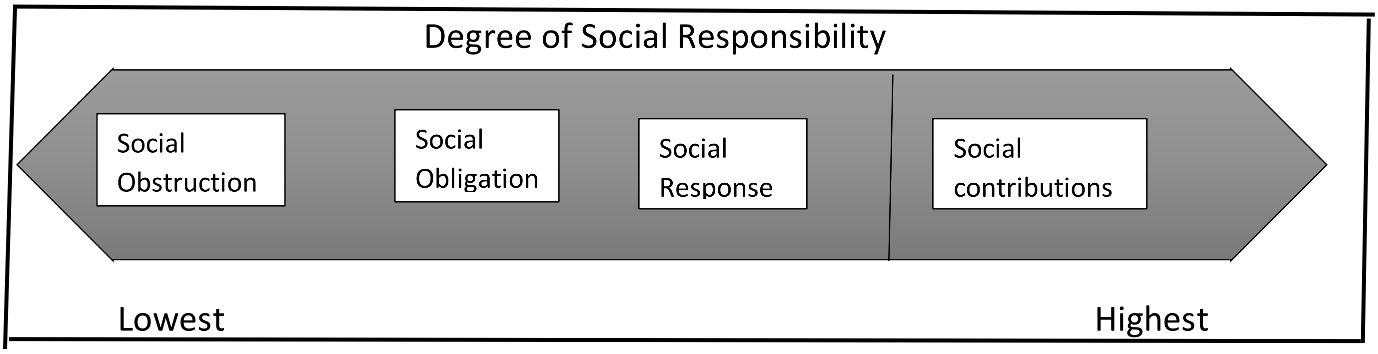
Social responsibility is the obligation of an organization to protect social norms and rules within which the organization is operating. Business organizations are established, exist and perform functions in the society. They also expand and diversify their business activities in the society. They utilize natural resources in production and distribution activities according to their convenience and facility. It is responsibility of business organization to perform their activities within the existing rules, regulations and norms of society.

" Social responsibility is the set of obligations an organization has to protect and enhance the society in which it functions." **-Ricky W Griffen**

Therefore, social responsibility is the obligation of an organization to protect social norms and rules within which the organizations perform business activities to fulfill their objectives of earning profit and enhancing wealth.

Approaches to Social Responsibility

Ricky W Griffen has given four approaches to social responsibility. Brief descriptions of these approaches are:



1. **Social obstruction**: This is very traditional and classical view of social responsibility. According to this approach, the main motive of business is to earn profit for the welfare of owners or shareholders. The managers of this approach emphasize only on economic welfare of the firm.
2. **Social obligation**: This approach is one step forward than social obstruction but is most consistent with the arguments used against the social responsibility. The managers of this approach also emphasize that their job is to earn profit. For instance, as per legal provision it is necessary to install standard equipment to control pollution but managers may install inferior quality equipment, which may not control environmental pollution.
3. **Social response**: This approach of social responsibility is improved than social obligation. The managers following this approach fulfill their legal and ethical environments for social responsibility and also will go beyond these requirements in selected cases. This willfully participate in social welfare programs but it is essential that they be encouraged by somebody else.
4. **Social contribution**: This approach considers the highest degree of responsibility. The managers in this approach believe that they are the good citizens of the society and proactively seek opportunities to contribute in social welfare programs. They willingly participate in social welfare activities, education, sports, health, sanitation and charity. The fulfillment of social responsibility will automatically meet the economic objectives of business organizations.

<u>Areas of Social Responsibility</u>

1. **Towards Investors (Shareholders)**

Shareholders are the owner of the business firm. They invest capital for the establishment of the business and bear risk of losses. They also take part in the management directly or as a representative of shareholders. Shareholders have direct interest in the welfare and development of business towards the shareholders are:

- To ensure safety of capital investment.
- To provide fair and regular return on investment in terms of dividend.
- To provide correct and regular information of financial and other transactions.
- To offer reasonable opportunities to shareholders for participating in planning and policy making.
- To maximize value of capital investment through optimum utilization of resources.

2. **Towards Consumers**

Consumers are the main source of revenue. They are the basis of growth and development of businesses. In competitive business, consumers' satisfaction is the main purpose of business. It is essential to take some steps to satisfy the needs and expectations of consumers. The major responsibilities of business towards consumers are:

- To supply better quality goods at the right time in reliable price.
- To take necessary steps to improve quality, reduce price and development of network for distribution.
- To provide after-sales service on the basis of nature of product.
- To perform research and developmental work for better quality and for new products.
- To avoid unfair trade practices like black marketing, adulteration false advertising etc.

3. **Towards Employees**

The employees are directly involved in production and distribution functions of the organization. They have direct interest in the welfare and development of business. Since they are the assets of business organization, their welfare is the main responsibility of the management. Employees should be treated as part of the organization and should encourage and motivate them for their better performance. The organizations should provide both financial and non-financial incentives to develop a sense of belonging among the employees. The following are the responsibilities of business towards the employees:

- To provide job security.

- To provide fair wages and other benefits like bonus, allowances, share of profit etc.
- To ensure welfare facilities like further education, promotion, medical facilities, foreign visit, training etc.
- To provide favorable working environment and recognition of their performance.
- To provide opportunity to participate in management and career development.

4. **Towards Government**

   Government is responsible for the administrative and developmental work of the country. It protects and controls all the business activities and creates business opportunities in new areas. All the business activities should be conducted within the rules and regulation of the government. A business concern cannot be established and perform business without co-operation of government. The major responsibilities of business towards the government are:

   - To follow strictly the government rule, regulations and laws.
   - To pay tax to the government honestly and regularly like value added tax, income tax, customs duty etc.
   - To avoid monopolistic and unfair trade practices.
   - To support to solve national problems such as unemployment, poverty, illiteracy, family planning etc.
   - To emphasize on fair dealing in import and export trade to maintain the reputation of the nation.

5. **Towards Community (Public)**

   Business organizations have responsibilities towards the general public. And they perform their business activities in a community and normally public expect from them. Business organizations should take necessary steps for the economic and social well-being of the community are:

   - To check environmental pollution and maintain environmental ecology.
   - To create employment opportunities for the people.
   - To take necessary steps for maximum utilization of resources available in the society.
   - To maintain and develop social and culture values and norms.
   - To involve in social welfare programs like education, health, games and sports etc.

Business Ethics

Ethics is the set of moral principles and rules guiding an individual's behavior. It is the basis of determining right or wrong in a given situation. It is an individual's personal perception and belief while taking a decision. Ethical behavior of an individual depends upon the moral standard or codes of conduct determined by society. Managerial ethics is the standard of behavior that guides individual managers in their work. It is the moral principles and rules of conduct that is applied in the business. It is generally accepted that business should be conducted according to certain self-recognized moral standard of the managers. Making ethical choices can be difficult for managers. Though it is compulsory to obey the law but acting ethically goes beyond mere compliance with the law.

Significance of Business Ethics

Ethics is derived from the society and the norms, values, beliefs, culture and standard of the society determine it. The following are the common significance of business ethics:

1. **Promotes goodwill and image**: Ethical business dealing helps to promote goodwill and image in the society. The supply of goods and services by considering quality, quantity, time and price expected by the customers facilitates to gain their trust. For this, the concept of artificial shortage, black marketing, inferior quality etc. must be avoided.
2. **Helps maintain better relation with stakeholders**: Ethical behavior helps to maintain better relation with different interested groups consisting of employees, customers, suppliers, lenders, government etc. an ethical manager always tries to fulfill the needs and requirements of these stakeholders.
3. **Less interference from government**: In case a business is not ethical, it will certainly attract intervention of the government. However, an ethical businessman never performs any business activity by violating government rules and regulations.
4. **Promotes fair competition**: Business ethics helps to promote fair competition among the firms. It discourages businessmen to involve in unfair trade practices like artificial shortage, black marketing, adulteration, obsolescence etc.
5. **Promotes social responsibility**: The manager performs business in the society to fulfill his economic objectives. Business ethics guides managers

to involve in social welfare programs like participating in education, health, sports, environmental protection etc.

6. **Improve working environment**: Business ethics guides managers to develop a better working environment in the organization. He tries to motivate employees by introducing a feeling of justice, equality, freedom, belongingness, sense of responsibility and ownership.
7. **Helps to increase market share**: An ethical business practice of a manager helps an organization gain prestige and reputation in the society. In the long run it helps increase market share of the business firm.

Emerging Business Environment in Nepal

1. **Emergence of Open Market Economy**: After the restoration of democracy in 1990, government has adopted a liberal and open market economic policy. In this policy, economic freedom has been given to private business organizations by minimizing administrative hurdles in licensing, registration, incorporation etc. Now, private enterprise and entrepreneurs have freedom to choose the line of business on the basis of their interest with nominal administrative formalities and scope.
2. **Increasing Role of Private Sectors**: The open market economy has increased the role of private sectors in economic activities. They have started to play major roles in the economic development of the nation. The invest not only in general lines of business but also involve in core areas of economic activities. The government has terminated the monopoly power of public enterprises in hydropower, telecommunication, water supply, airlines etc.
3. **Private Sector's Investment in Infrastructure Development**: The free market economy policy of the government has also encouraged private investment in infrastructure development of the nation. Private company including foreign investors started to invest in infrastructure areas of the nation consisting of hydropower, telecommunication, transportation, water supply and health education etc.
4. **Emergence of Multinational Companies**: The economic liberalization policy of government has opened the door to multinational companies to perform business activities in Nepal. They involve in commercial, industrial and also in auxiliary services through joint venture with Nepalese entrepreneurs. Generally, they involve in banking, finance, insurance, soft drink, cold drink, hotel industries, education, telecommunication, hydropower etc.

5. **Development of Information Technology**: The rapid development of information technology(IT) has also affected the Nepalese business. The use of IT resources consisting of computer programs, e-mail, internet, network system, e-commerce, fax etc. increase the efficiency of business organizations. Many business organizations like banks, finance companies, educational institutions, hotels and restaurant, telecommunications, airlines, manufacturing and trading organization use IT resources.
6. **Emergence of Consumerism**: The evolution of free market economy has diverted the concept of seller's market to consumer market. Open market policy has developed a competitive environment among the manufacturers and suppliers and has provided selection facility to the consumers. Business organizations have developed different strategies to draw the attention of customers and to satisfy them. Customers can purchase goods and services on the basis of their needs and requirements.
7. **Growth and Service Sectors**: There has been growth of service sectors in Nepal in recent years. Entertainment industry is flourishing. Newspapers, printing services, radio broadcasting services, cinema and television broadcasts are now fast expanding in the country. Modern services have been fast emerging in the country, are courier services, credit cards, car rental services, telecom and internet services, and fax and e-mail services.
8. **Shifting Social Cultural Values**: Nepalese socio-cultural values are shifting day-by-day. The modern means of communication like mobile, telephone, e-mail, fax, internet, television, etc. are promoting western culture in the country. Celebration of Valentine day, Western New Year, friendship day and Christmas are common in urban teenagers. Cross-cultural influences are increasing in Nepalese societies. Traditional cultural values and norms are changing. These all have created new business scope in Nepal.
9. **Rising Customer Awareness**: Urbanization is growing significantly in Nepal. Modern society and culture are expanding in Nepal. People's education level is also increasing. Their excess to information technology is also increasing. Brand awareness and consciousness are increasing.
10. **Workforce Diversity**: Population dimension of Nepalese people is changing. A wide variety of factors such as globalization, ethnicity, an aging population, entry of females and minorities into new career, knowledge-based workers, work teams, virtual employees and part-time

or contingent employees have created much more heterogeneous workforce in Nepal.

11. **Rise in Online Business**: The use of modern technologies is common now-a-days in Nepalese organizations the access to internet and information technology is increasing. Because of it, online business is rising. E-business is getting popular.
12. **Use of Social Media**: The use of social media is getting popular in Nepal. People are spending many hours in social media like Facebook, Twitter, Instagram, etc. Because of these social media, people's excess to information is also increasing and the social media is taking as the means of fast advertisement.

CHAPTER- 5 PLANNING AND MAKING DECISIONS

Planning

Planning is one of the major functions of management. It is to decide future course of action. It is systematic activity which determines when, how and who is going to perform a specific job. Planning involves defining the organization's goals, establishing an overall strategy for achieving these goals, and developing plans for organizational work activities.

Stephen P. Robbins: "Planning is deciding about what to do, how to do it, when to do it, and who is to do it. It provides the ends to be achieved."

Thus, planning involves setting objectives and developing appropriate courses of action to achieve these objectives. Objectives provide direction provide all managerial decisions and actions. Planning provides a rational approach for achieving predetermined objectives.

Types of Planning

A. Types of Planning According to Managerial Hierarchy

According to managerial hierarchy there are three types of plans. They are:

1. **Strategic Plans**: Strategic plans are documents prepared by top level management to guide the organization in the process of performing its activities in order to achieve its long-term objectives. A strategic plan also tells managers the goals of the plan period and how the objectives are to be achieved. These plans usually designed for a period of four or five years or more.
2. **Tactical Plans**: Tactical plans are prepared and implemented to achieve part of the strategic plans. Tactical plans are often developed by senior and middle management and implemented by middle and junior managers. The time frame for tactical plans is between few months to five months to five years.
3. **Operational Plans**: These plans focus on carrying out tactical plans to achieve operational goals. These plans are to deal with what to be done at the sub-system of the organizational (the very grassroots level) the development of operational plans involves middle and junior managers.

There are two basic forms of operational plans; single-use plan which is developed to carry out a course of activities that recur regularly over a period of time. The time frame for operational plan ranges from one month to one year.

B. Types of Planning According to Time

According to time there are three types of plans. They are:

1. **Long-term Plans**: These are the plans formed by an organization to guide it in the process of performing its activities in order to achieve long-term objectives. They guide managers and other employees to be aware of the long journey ahead, the difficulties and the benefits that can result. These plans are usually designed for a period of five years and more.
2. **Intermediate Plans**: These are the plans set by and for middle level management. They are set to allocate divisional activities like production, finance, marketing, personal and others. They focus to get the things done complete. These plans are usually designed for a period of more than one year to five years.
3. **Short-term Goals**: These are the operational plans set by and for middle level management. They determine the each and every activity of the department. The time frame for these plans is range from one month to one year.

C. Types of Planning According to Frequency of Use

According to frequency of use, there are two types of plans. They are follows:

1. **Single Use Plans**: Single use plans are devised to meet the demand of a particular situation and are not meant to serve as standing guides to thinking and action. These plans are prepared for non-repetitive activities and they are used only once. Single use plans include programmes, projects, schedules, budgets etc.
2. **Standing Plans**: Standing plans are also known as repeated-use plans. These plans are formulated by the managers at different levels and meant for repeated use as and when the occasion demands. Examples of standing plans are mission, objectives, policies, procedures, rules, strategies, etc.

D. Types of Planning According to Flexibility

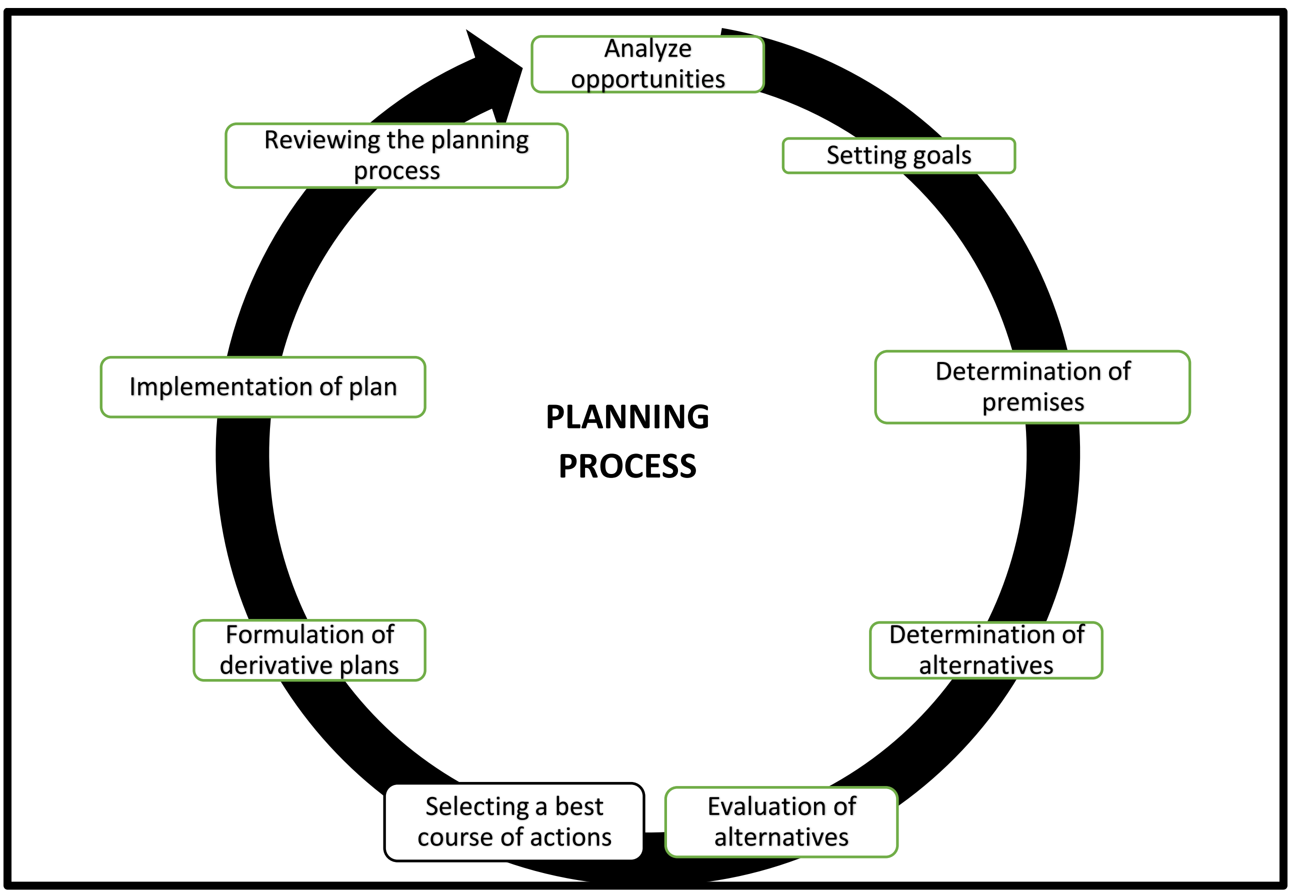
According to flexibility plans can be classified in two groups:

1. Specific Plans: Examples of specific plans are specific procedures, budget allocation, specific schedules of activities, etc. Such plans cannot be misunderstood and misinterpreted.
2. Flexible Plans: These are the plans that can be smoothly adjusted without delay to the requirement of changing condition without serious loss of economy or effectiveness. Flexible plans are also known as directional plans, which provide general guidelines.

E. <u>**Types of Planning According to Formality**</u>

1. **Formal Plans**: They are the plans designed to identify objectives and to structure the major tasks of the organization to accomplish them. Formal plans are approved officially.
2. **Informal Plans**: They are not approved officially but followed to achieve the objectives of organization.

<u>Planning Process/Steps</u>



1. **Analyze opportunities**: This is the pre-step of planning. The management has to analyze the Strength, Weakness, Opportunities and Threats (SWOT) from the changing environment of the business. Strength and weakness are the outcome of internal environment like availability of materials, machines, manpower, organizational structure, technology adopted etc.it is essential to make a detailed study of the above factors and should consider it while setting goals.
2. **Setting goals**: This is the first and actual starting point of planning. The objectives must be specific, clear and practical. They should be time- bound and expressed in numerical terms. They should not be idealistic or over ambitious. A minor mistake in setting objectives might affect the implementation of a plan. Therefore, the management has to define the objective clearly by considering organizational resources and opportunities.
3. **Determination of premises**: Premises are assumptions of the future on the basis of which the plan is formulated. The future environment is estimated on the basis of forecasting. Premises may be tangible and intangible or internal and external. Tangible premises involve capital investment, units of production, unit sold, cost per unit, time available etc. Similarly, intangible premises involve employees' s moral, goodwill, motivation, managerial attitude etc. Internal premises involve money, materials, machines and management whereas external premises involve competitors' strategy, government policy, technological change, and social and cultural beliefs.
4. **Determination of alternatives**: Management needs to identify various alternative courses of action for the achievement of organizational objectives for this, it is essential to identify all the possible alternatives. The management must develop alternatives through support of experienced and intellectual experts in management.
5. **Evaluation of alternatives**: This is a logical step to evaluate each and every alternative from cost and benefit point of view. Each alternative is studied and evaluated in terms of some common factors such as risk, responsibility, planning, premises, resources, technology etc. Therefore, management must apply a broad-based analytical approach for the evaluation of available alternatives.
6. **Selecting a best course of action**: Management selects the best course of action after evaluating all the alternatives. For this, purpose management

has to consider past experience, present situation and future contingencies of such decision. Besides, it needs to forecast about the comparative cost and benefit factors.

7. **Formulation of derivative plans**: After selecting the course of action, it is essential to formulate action plans for each department of the organization. These action plans involve formulation of policies, rules, schedules and budget to achieve defined objectives.
8. **Implementation of plan**: After selection of a course of action and preparation of derivative plans, if not implemented, the plan remains in paper only. This step brings all the procedures of plan into action. For the implementation of a plan, the management needs to take some steps such as to communicate with subordinates who initiate plans into action, provide necessary instruction and guidance, make arrangement of all resources like materials, machines, money, equipment etc. And make timely supervision and control of subordinates.
9. **Reviewing the planning process:** Planning is a continuous function and lasts till the organization is in existence. For this, it is necessary to know about the actual performance. The managers can take corrective action in proper time only after evaluating the actual performance. A right decision at the right time is necessary to achieve objectives according to plan. It is also essential to adapt with the changing environment of the business.

Importance of Planning

Planning is a primary and inseparable function of management. It is the continuous process up to the existence of organization. It defines a clear line of action so that wastage of resources can be minimized. A good planning is the foundation of an organization and a sign of efficient management. The following are the importance of planning:

1. **Focus on goal**: Every organization is established with a definite objective and all the activities of the organization concentrate to achieve defined objectives. Plan helps to draw the attention of the manager and other employees to the same objectives. It also eliminates confusion and haphazard activities. It facilitates in bringing unity in action and coordination among all the units of works. Therefore, good planning is the sign of management by objectives.

2. **Minimize uncertainty**: Planning is a must to minimize future risk and uncertainty.it involves forecasting and anticipating future uncertainty and changes. It is well known that future is uncertain and changeable. Planning estimates anticipated future changes and makes necessary provision to overcome such changes.
3. **Maintain effective control**: Planning is the basis of control. It determines the standard of work to be performed. Management provides instruction and guidance to do the work on the basis of a plan. It helps to compare actual performance with that of planned performance. Control without planning is not possible. However, planning makes control effective and meaningful.
4. **Innovation and creativity**: As an intellectual exercise, planning encourages innovative thought and creative action among the managers. An effective plan forces managers to think about the best objective and best alternative course of forces managers to think about the best objective and best alternative course of action. It contributes in motivating and developing morale and among the employees. It is also essential to maintain up-to- date position in business operation and face business complexity. Thus, a sound plan contributes in developing innovating ideas and creative action.
5. **Organizational effectiveness**: Planning helps eliminate wastage and utilize available resources in the best possible way. It leads to maximize productivity and minimized cost of output. Planning is the foundation for the successful completion of organizational activities. Therefore, a sound planning contributes in minimizing cost of production and developing organizational effectiveness.
6. **Economy in operation**: Planning avoids the concept of trial and error or hit and miss or random activity. It selects the course of action, which is beneficial from the organizational point of view. It defines the clear line of action for all level of management. It helps to bring a system in the organization which ultimately contribution in developing working efficiency of all members.
7. **Facilitates coordination**: Planning is a primary function, which maintain coordination with other functions of management. It clearly defines objectives and strategies to be achieved and brings other

functions of management in action.it also plays important role to maintain close relation among all the departments. This is necessary to develop a feeling of team spirit among all the members of the organization.

8. **Avoid business failure**: The basic motive of planning is to overcome the probability of business failure. Besides, it also defines a clear line of action for every member. It helps to maintain unity in action, better coordination among all the members of the organization. Ultimately, it contributes to maximize productivity and minimize cost of output.

Strategic Planning

Strategic planning is the comprehensive master plan stating how the organization will achieve its mission and objectives. It is a dynamic and long range planning which focuses on the organization as a whole. It is the process of determining how to achieve long term goals, minimum of five years, with use of available resources in dynamic environment. Basically, the top level management consisting board of directors and chief of executive formulate the strategic plan.

Formulation of Strategic Plan

The formulation of strategic plan consists of following steps:

1. **Identifying organization's current mission, goals and strategies**: The identification of organizational current mission, goals and strategies is the initial step of strategic plan formulation. First, mission is the reason for the existence of an organization. It tells who are and what we do as well as what we would like to become. Mission also developed by top level management, which defines the fundamental unique purpose that sets an organizations of the similar type. Second, goals are the planned to results to be achieved. Goals specify what is to be accomplished whom and should be shown in quantitative terms, if possible. They should be consistent with the mission of the organization. Third, strategy is a comprehensive master plan stating how the organization will achieve its mission and goals. It determines the basic long- term objectives of organization and adoption of course of action and allocation of resources necessary to achieve the goals.

It maximizes competitive advantages and minimizes competitive disadvantages.

2. **Analyze the external environment**: The analysis of external environment is the second step in the strategic planning process. It refers to forces and institutions outsides the organization that can potentially affect the organization's performance. The external environment is made up of two components, the specific and task environment and general environment. The task environment consists of customers, suppliers, competitors, government, pressure groups, financial institutions, and strategic allies. Similarly, general environment consists of politics, economy, society, culture and technology.
3. **Identifying opportunities and threats**: After analyzing the external environment, managers need to identify opportunities that can be capitalized and threats that an organization my face. Opportunities that can be capitalized and threats that an organization may face. Opportunities are the positive trends and scope in the external environment factors and threats are the negative trend challenges to the organization.
4. **Analyzing internal environment**: All conditions and forces within the organization affecting business operation are internal environment. Managers need to analyze the internal environment to know about the position of resources. The components of internal environment can be controlled by the management. These components consist of owners or shareholders, board of directors, resources and organizational structure and organizational culture.
5. **Identifying strengths and weaknesses**: Analysis of internal environment facilitates in identifying strengths and weaknesses of an organization. Strengths are the activities that the organization does well or unique resources that it has. Weaknesses are the activities that the organization does not do well or resources it needs but does not possess. Therefore, in the formulation of strategic plan it is necessary to identify the strength plan it is necessary to identify the strengths to capitalize and weakness to overcome them.
6. **Formulating strategic plan**: On the basis of identification of organizational mission and environmental analysis, strategies are developed for corporate, business functional levels. For this, managers need to develop

and evaluate strategic alternatives and then choose a strategy that gives their organization the most favorable competitive advantages.

Implementation of Strategic Plan

Strategic implementation is the method by which strategies are operationalized or executed within the organization. A manager should implement the strategic plan to achieve defined goals. The formulation of strategic plan becomes fruitful only after its proper implementation. The following strategies should be taken into consideration foe effective implementation of strategic plan:

1. **Organizational structure**: For proper implementation of strategic plan it is essential to develop an organizational structure. It is a network of assigned tasks, defined roles and designed relationships among the organizational members. In the organizational structure, division of activities, interaction and behavior of the members are also specified. It defines the pattern of formal relationship of the superiors and subordinates and also their authorities and responsibilities.
2. **Communication**: All members concerned should be communicated the strategic plan for its implementation. All the members of the organization must be clear about their respective duties and responsibilities. It is the part of the top level managers to communicate all strategic plans to their subordinates for proper implementation.
3. **Technology**: Technology consists of knowledge, equipment, method and process implemented for production and distribution. Effective implementation of strategy requires application of new and advanced technology. For introduction of new products, diversification of existing line and for expansion of business, it is essential to redesign the existing production process and develop new infrastructure facilities.
4. **Provision of resources**: Organizational resources are the main source of implementation of strategic plan. These resources consist of human, financial and physical resources, and technology. It is the duty of the top level management to acquire the required resources for effective implementation of strategic plan.
5. **Group and team work**: For effective implementation of strategic plan, it is essential to focus on participative management. The concept of team

work and group effort must be developed in the organization. The works should be assigned to different groups consisting of experts of different of works. The required authority and responsibility should be selected be delegated to the team. The top-level management should play the role of a supervisor to provide guidance and suggestion.

6. **Motivating employees**: Motivation is an important tool to inspire and encourage the employees. For effective implementation of strategic plan, there must be reward and punishment system in the organization. Rewards may be financial and non-financial. The employees should be rewarded on the basis of their efficiency.
7. **Leadership**: An effective leadership is necessary to implement the strategic plan. All the activities of the organization concentrate on the activity of the leader; therefore, the leader must be dynamic and energetic. He has to supervise, guide, motivate and influence the subordinates for effective implementation of strategic plan.
8. **Monitoring and evaluation:** The manager should monitor the activities of subordinates regularly to ensure their proper performance. Similarly, the actual performance achieved should be evaluated with planned performance at fixed intervals. Such timely evaluation of actual performance achieved with that of planned performance helps to take corrective action which finally facilitates to achieve strategic goals.

Tactical Planning

Tactical planning is short-range planning that emphasizes the current operations of various parts of the organization. It is the plan that determines how specific tasks can best be accomplished on time with available resources.

Tactical planning is developed for achieving tactical goals of an organization and to implement specific plan. Tactical plans define the actions of major departments that are required in the execution of strategic plan. Managers use tactical planning to outline what the various parts of the organization must do for the organization to be successful at some point one year or less into the future. Tactical plans are usually developed in the areas of production, marketing, personnel, finance, and plant facilities.

Comparing and Coordinating Strategic and Tactical Planning

The main different between strategic planning and_tactical planning are summarized below:

Area of Difference	Strategic Planning	Tactical Planning
1.Individuals involved	Strategic plans are usually developed by upper-level management. Upper-level managers are involved to formulate strategic plans because they generally have a better understanding of the organization as a whole than lower-level managers do.	Tactical planning usually developed by middle-level management. Middle-level managers involved to formulate tactical plans because they generally have a better understand of the day-to–day organizational operations than upper-level managers do.
2.Facts on which to base planning	Strategic planning emphasizes analyzing the future.	Tactical planning emphasizes analyzing the everyday functioning of the organization.
3.Amount of detail in plans	Strategic plans are based primarily on a prediction of the future. So, these plans are generally less detailed than tactical plans.	Tactical plans are based on known circumstances and day-to-day operations that exist within the organization. So, these plans are generally more detailed than strategic plans.
4.Uncertainty	It is generally based on long-term forecasts about technology, political environment, etc. and is more uncertain.	It is generally based on the past performance of the organization and is less uncertain.
5.Decision	It decides the major goals and policies for allocation of resources to achieve these goals.	It decides use of resources for achieving each goal.

The Planning and Levels of Management

Planning is performed at multiple levels within an organization. However, the scope and nature of activities of the planning process often differ at each level of the management. Based on level of management the planning can be segmented into the following three categories:

1. **Strategic Planning**: Planning starts at the top of an organization with strategic plans. Strategic plans are set by the board of directors with the involvement of chief executive officer(CEO) and high ranking managers. The

term strategy implies a game plan made to allocate resources, fix priorities and decide actions to implement. Plan is set for the application of whole organization and involves decisions such as merging one organization with the other one, acquiring a new firm, transferring skills from one unit to others, etc.

2. **Tactical Planning**: It is set by the middle level management integrating ideas of strategic plans. This planning involves the process of translating broad strategic plans and goals into more specific plans and goals that are relevant to a definite areas of organizational functioning like production, marketing or human resource. Tactical planning is coordinative in nature as it is concerned with implementation of strategic plans by coordinating the work of different departments and activities in the organization.
3. **Operational Planning**: It is prepared by lower level management. Operating planning involves the process of identifying specific procedures and processes to carry out organizational activities associated with workplaces of different departments. It is done to perform routine tasks such as production runs, delivery schedules, human requirements, arrangement of machinery and production facilities, etc. it provides detail breakdown of budget, time horizon, manpower requirements, responsible persons and the like to support to achieving strategic goals. Operational planning is set at the lower level focusing more specifically in small set of activities. This planning is preserve of lower level managers such as foremen, supervisors and inspectors.

Meaning and Concept of Decision Making

Decision making is an indispensable component of management process. It is also known as the heart of management. In general terms decision making is the process of selecting a best course of action out of many available alternatives. It is the process of identifying and defining the problems, developing alternative solutions, evaluating them in terms of possible consequences and choosing the best solution among them and implementing the decision effectively.

Approaches of Decision Making

The main approaches to decision making may be studied in the following three dimensions:

1. **Classical approach:** This is also known as prescriptive, rational or normative model. It specifies how decision should be made to achieve the desired outcome. Under this approach, decisions are made rationally and are directed toward a single and stable goal. It is applied in certainty condition in which the decision maker has full information relating to the problem and also knows all the alternative solutions. It is an ideal way in making a decision. This model assumes the manager as a rational economic man who makes decisions to meet the economic interest of the organization. This model is based on the following assumptions:
   - The decision maker has a clear, well-defined goal to be achieved.
   - All the problems are precisely defined.
   - All alternative courses of action and their potential consequences are known.
   - The decision maker can rank the entire alternatives on the basis of their preferred consequences.
   - The decision maker can select the alternative that maximizes outcome.
2. **Behavioral approach**: This approach is also known as descriptive approach and administrative model. The theory is proposed by Herbert A Simon, a well real life situations. Managers have limited and simplified view of problems because they do not have full information about the problems, do not possess knowledge of all possible alternative solutions, do not have the ability to process environmental and technological information and do not have sufficient time and resources to conduct an exhaustive search for alternative solutions to the problems. Therefore, this model is based on two concepts: **bounded rationality and satisficing**.
   - ❖ Bounded Rationality: Simon believed that managers are bound by limited mental capacity and emotion, as well as, by environmental factors over which they have no control. Real life challenges, time and resources limitations, political pressure and other internal and external factors force the manager to work under the condition of bounded rationality. Therefore, the manager cannot take a perfectly rational decision.
   - ❖ Satisficing: It is the selection of a course of action whose consequences are good enough. Bounded rationality forces managers to accept

decisions that are only 'good enough', rather than ideal. Such managerial decisions become rational but within the limits of managers' ability and availability of information. Managers make decisions based on alternatives that are satisfactory. The examples of satisfying decisions are fair price, reasonable profit, adequate market share, proper quality products etc.

3. Implicit favorite model/Retrospective approach

   This approach is applicable in non-programmed decisions. In this approach, the manager first chooses an alternative solution to the problem and highlights its strength, and compare with other alternatives and then identifies its drawbacks. This is done with a view to proving that the alternative selected by him is the best solution to the given problem.

Types of Decisions

1. **Programmed and Non-Programmed Decisions**
   - **Programmed decisions** are routine and repetitive in nature. Managers can solve problems easily an in-depth without deep study by considering the past decision for similar of problems. Generally, such decisions are taken by first line managers on the basis of framework of policies, rules, regulations and standard operating procedures of the organization. In practice, more than 90% of managerial decisions are of this type.
   - **Non-programmed decisions** are also known as unique or creative nature decision. They are novel and consequential in nature. In case of such a decision, there are no existing policies or standard operating procedures available to guide the decision maker. Decisions such as product diversification, changing marketing strategy, dropping an existing product, new investment and all policy decisions are of this type.
2. **Routine and Basic decisions**
   - **Routine decisions** are related with day-to-day operation of the organization. Such decisions are taken promptly and also implemented in a similar way. In regular activities of the organization, many repetitive problems may arise. Such problems create obstructions in the smooth performance of the organization. The

examples of routine decisions involve exchange of work between co-workers, repair and maintenance of machines, making availability of raw materials for production process etc.

- ❖ Basic decisions are also known as strategic decisions. Such decisions are necessary for long run survival and growth of business activities of the organization. Generally, top level management is responsible for taking such type of decisions. For examples of such decisions are: investment of extra capital, expansion of business, replacement of plant and machines, recruitment and selection of new staff etc.

3. Organizational and Personal Decisions

- ❖ **Organizational decisions** are also known as formal or official decisions. In such decisions, the decision maker has to consider his official authority before he comes to any decision. Besides, he has to fulfill all the official procedures, system and formalities for taking any decision. The examples of official decisions are appointment, promotion, transfer of employees etc.
- ❖ **Personal decisions** are also known as informal or individual decisions. Such decisions are taken on the basis of personal skill, knowledge and capacity of the individuals. Such decisions do not affect regular performance of the organization because they are made on the basis of personal interest, desire and necessity of the decision maker. To get voluntary retirement from service, reject promotion, refuse to go for higher education etc. are examples of personal decisions. And personal decisions cannot be delegated to others.

4. Individual and Group Decisions

- ❖ In individual decisions, a single person is involved in the decision making process like the general manager, departmental manager etc. Here, the decision maker has to consider organizational objectives and working environment while taking decisions. For this, he has to use his personal knowledge, skill, idea and experience to decide any matter. In large organizations, the operational chief executive has the sole authority to take decisions, which are of operational nature.
- ❖ In group decisions, a group of persons are involved in the decision making process like the board of directors, management committee, partners etc. Such decisions are taken in large organizations like in

Joint Stock Companies, Partnership firms, co-operative organizations etc. In such decisions, a group of authorities discuss the subject matter in detail and finally come to a decision through mutual consent or majority of votes.

5. **Policy and Operational Decisions**
    - **Policy decisions** are taken by the top-level management and have long-term impact in the organizational performance. These decisions involve introduction of new rules, regulations and programs, amendment of existing rules, introduction of new products or service etc. generally, the top level management has to consider the impact on future performance while taking such decisions.
    - **Operational decisions** are taken by the lower level management and are concerned with the day-to-day works of the organization. Such decisions are taken for the implementation of plans and policies formulated by the top level management. These decisions involve change in schedule of works, amount of remuneration to employees, set-up of machines and equipment etc.

Decision Making Conditions

There are different conditions in which decisions are to be made. Managers sometimes have an almost perfect understanding of conditions surrounding a decision, but in other situations they may have little information about those conditions. Generally, the decision maker makes decision under the condition of certainty, risk and uncertainty.

1. **Certainty**: Certainty is a condition under which the manager is well informed about possible alternatives and their outcomes. There is only one outcome for each choice. When the outcomes are known that their consequences are certain, the problem of decision is to compute the optimum outcome. Similarly, if there are more than one alternative, they are evaluated by conducting cost studies of each alternative and then choosing the one which optimizes the utility of the resources. the condition of certainty exists in case of routine decision such as allocation of resources for production, payment of wages and salary etc. There is little ambiguity and relatively low chance of making an impractical decision.

2. **Risk**: A more common decision making condition is a state of risk. In such a condition, managers have knowledge about alternative course of action but outcomes are associated with probability estimates. It is more difficult to predict future conditions without full information, so the outcome of an alternative cannot be accurately determined. Therefore, managers can guess the probable outcome on the basis of their experience, research and other available information. They can choose an alternative with highest expected outcome. However, such decisions are largely subjective as no accompanied by moderate ambiguity and chances of an impractical decision.
3. **Uncertainty**: A state of uncertainty occurs when managers are unaware of the problem they face. They do not know all the alternatives, the risk associated with them or the likely consequences of each alternative. This uncertainty arises from the complexity and dynamism of contemporary organization and their environments. Managers have limited information to calculate the degree of risk, so statistical analysis is not possible. The condition of uncertainty arises when the organization introduces a new or innovative product or service; adopts new technology, selects new advertising program etc.

Concept of Management by Objectives

Management by objectives (MBO) is a comprehensive management system based on measurable and participatively set objectives. MBO has come a long way since it was first suggested by Peter Ducker in 1954 as a means of promoting managerial self-control.

Management by objectives (MBO) is a system in which specific performance objectives are jointly determined by the subordinates and their superiors, progress toward objectives periodically reviewed, and rewards are allocated on the basis of the progress. It is also called **"Management by results", "Management by Goals and Results" and "Goals Management".**

In short, the whole idea of MBO is based on assumption that collaboratively set objectives elicit commitment of the subordinates that leads to improved performance.

Factors Necessary for a Successful MBO Program

1. **Top management support and commitment**: It is essential that MBO should have the support and commitment of the top management without this support, MBO can never be a success. The superiors must be willing to delegate and share the authority with the subordinates. They should consider the subordinates as part of the team for decision making.
2. **Clear goal setting**: The objectives should be clearly formulated, must be realistic and achievable. They should be clearly formulated, must be realistic and achievable. The goals and target neither be very high nor very low.
3. **Participative goal setting**: The objectives and goals should be set with the active participation of the subordinates. There should be effective two way communication between the superior and the subordinates for setting the goals, and for discussing the subordinates problems. These objective must be properly communicated and clearly understood and accepted by all. MBO works best when the goals are willingly accepted.
4. **Overall philosophy of management**: MBO should be treated as on overall philosophy of management and the entire organization. It should not be simply a performance appraisal technique or a divisional process. It should change and replace all the old systems rather than just being added to them.
5. **Decentralization of authority**: MBO will not be effective if the manager is not willing to delegate sufficient authority to the subordinates. The subordinates who have been given challenging assignments through discussion with the superior must be given adequate authority to accomplish their goals otherwise they will resist the setting of clearly defined goals.
6. **Revision and modification goals**: The goals must be continuously reviewed and modified, as the changed conditions require, to avoid inflexibility. The review technique should be such that all deviations are caught early and corrected.
7. **Training and education about MBO**: Being a comparatively new system of management, MBO needs to be properly understood by the managers as well subordinates so that the benefits and positive contribution of MBO can be fully reaped. The organizational members must be educated about the concept, purpose and mechanics of MBO.

8. **Integration of MBO with other organizational sub-systems**: MBO cannot be implemented as an isolated programme. It should be accepted as a style of managing and should be synthesized with the organizational climate and sub-system like planning, delegation of authority, performance evaluation, rewards and benefits, and feedback and controlling. The system should be absorbed wholly by all departments and members of the organization.
9. **Allow sufficient time for MBO to mature and succeed**: MBO is not a magic wand that will solve all the problems of the organization instantly. It is a new approach, a new thinking of managing organizations. It must be allowed sufficient time to show results. It usually takes about 4 to 5 years for MBO to evolve into a full-blown system that ties together such areas as planning, control, performance appraisal and the reward system.

Group Decision Making

A group is collection of two or more individuals, working for a common goal and is interdependent. They interact significantly to achieve a group objective. They achieve greater (volume and quality) than the sum total of individual contribution.

Thus, group decision making refers to decisions taken collectively by a group of people. In other words, if the decisions taken collectively, it is called group decision making. It is collective way of making decisions.

Advantages of Group Decisions

The advantages of group decision making are as follows:

1. **Increased acceptance**: Those who play an active role in group decision making and problem solving tend to view the outcomes as "ours" rather than "theirs".
2. **Greater pool of knowledge**: A group can bring much more information and experience to bear on a decision or problem than an individual acting alone.
3. Different perspectives: Individuals with varied experience and interests help the group see decision situations and problems from different angles.
4. **Greater comprehension**: Those who personally experienced the give-and-take of group discussion about alternative courses of action tend to understand the rationale behind the final decision.

5. **Training ground**: Less experienced participants in group action learn how to cope with group dynamics by actually being involved.

Decision Making Process

Decision making is a continuous and dynamic process. It involves a series of steps. Managers have to follow these steps while taking any decision:

1. **Identification of problems:** The first step of the decision making process is to identify the main problems. Generally, problems arise when there is deviation between actual and planned performances. The reasons for the deviation may be external and internal factors. It is believed that identification of problems is the completion of half of the decision making process. It is similar to diagnosing a disease, which helps in providing the right medicines to patients. Similarly, when a problem is correctly understood, it becomes easy to solve.
2. **Analysis of problems:** After the recognition of problems, another step of the decision making process is to analyze the problems. For this, a decision maker has to accumulate all the facts, data and information related with problems. The number of facts and the volume of information depend upon the nature and complexity of the problem. It is the part of the decision maker to study the main reasons of problems and their impact on short as well as long-term organizational performance.
3. **Development of alternatives:** A problem may have various alternative solutions. Therefore, all possible solutions should be identified and studied. The decision maker should be creative and innovative to identify all the alternative solutions. The identification of a wide range of alternatives provides more freedom for brainstorming. The development of alternative solutions is a mental and creative work which requires discussion and creativity.
4. **Evaluation of alternatives**: After development of alternative solutions, each alternative should be studied and evaluated in terms of the decision making process. They should be studied by considering the efforts involved and outcome expected. Generally, the following queries should be taken into consideration while evaluating any alternative solution; firstly, whether the alternative solution is feasible in terms of cost, time, legal constraints, human

and other resources; secondly, whether the alternative is satisfactory for solving problems; thirdly, whether the consequences of the alternative are favorable to the organization.

5. **Selection of best alternative**: This is the final stage of the decision making process after evaluation of various alternatives. In it, the management has to select the best course of action from many alternatives. Management also has to consider both short term as well as long term impact of alternative on organizational performance. The evaluation of alternative should be made on the basis of their volume of benefit and cost. The selection of the best solution helps for implementation and to gain positive outcome in organizational objectives.
6. **Implementation of alternative**: This is the operational part of the decision making process. After the selection of the best alternatives, another task of the management is to implement it. The decision maker should use his alternatives and communication skills for successful implementation of the decision. For this, the decision maker has to delegate authority to the subordinates on the basis of given of responsibility. Management has to consider that organizational objective can be achieved only if the course of action is implemented in the best possible way.
7. **Review of implementation**: The outcomes of implementation should be monitored and evaluated from time to time. This is essential to know about the feedback of the performance. A follow up and review of the actual achievement is essential. Therefore, an effective follow-up can control the major deviation between work achieved and work planned

CHAPTER -6 ORGANIZING FUNCTIONS

CONCEPT

Organizing is the second function of management. Organizing is the process of making preparation to achieve the planned results by identifying the detailed activities to be performed, classifying them into manageable units and establishing productive relationship among various situations. Arranging the activities in such a way that they systematically contribute to the accomplishment of organizational goals. Therefore, organizing function involves a series of activities consisting of:

- Identification of specific activities.
- Grouping of activities into jobs.
- Assignment of jobs to formal groups.
- Establishing a network of authority and responsibility relationship.
- Providing framework of measurement, evaluation and control.

Principles of Organizing

Principles are the fundamental truth and system which are applied in the process of functioning. The major principles of organizing are discussed as follows:

1. **Unity of objectives:** This principle implies that the objectives of various departments and sections of the enterprise must be formulated in such a way that every individual can contribute his/her efforts for a single objective. This is essential to complete the work on time.
2. **Specialization:** Each individual of enterprise should be given specific work on the basis of his ability. In such a situation, employee can concentrate in single work with greater efficiency. And such a repetitive functioning of a specific work builds-up confidence among the workers to complete the work within determined standard, time and cost.
3. **Co-ordination:** Co-ordination is the process of organizing. All the departments and persons involved in various activities have a common goal. To achieve so, co-ordination among various departments and their activities is one of the parts of organizing. The principle not only facilitates to maintain harmonious working relation among departments and

employees but also integrates the efforts of all individuals of the enterprise.

4. **Authority and responsibility:** Authority and responsibility are two wheels of a cart having a strong balance between authority and responsibility. Without proper authority, an employee cannot fulfill his responsibilities effectively. Likewise, sufficient authority to an employee without responsibility may result in the misuse of authority. Therefore, there must be a balance between authority and responsibility.
5. **Unity of command:** According to this principle, an employee should receive orders and instructions only from one superior at a time., he cannot fulfill his duties on time. He comes into confusion for taking priority of instructions of superiors. Therefore, there must be unity of command in the enterprise.
6. **Scalar chain:** This principle implies the unbroken line of authority from top level to the lowest level of an enterprise. This principle clarifies the authority responsibilities relationship among superior and subordinates. The chain of command must be clear and short for its effectiveness.
7. **Span of control:** This principle refers that there should be a limited number of subordinates so that their work can be effectively supervised. The narrow span ensures close and effective supervision as there are limited numbers of subordinates under a supervisor. In the similar manner, wide span makes simple supervision of subordinates. Therefore, depending upon nature and size of the enterprises, there must be manageable number of subordinates under a superior so as to make effective supervision.
8. **Exception:** This principle emphasizes that the top level management must concentrate only on exceptional and creative issues. These activities involve planning, policy making, setting long-term objectives and formulation of strategies. The repetitive and operational activities should be assigned to the subordinate levels.
9. **Efficiency:** The efficiency of an organization is measured by its capability to achieve the predetermined objectives effectively and efficiently. For this purpose, optimum utilization of available resources is most essential. Management has to make plan and develop strategy for better utilization of resources including manpower.
10. **Balance:** There must be equal division of work among all departments and sections of an organization. There must be a balance between efficiency

and efforts. The work should be entrusted to a particular department on the basis of its capability. The feeling of overemphasis to a particular department or person must be avoided.

11. **Homogeneity:** According to this principle every department should be assigned only homogeneous functions. It means functions of a similar nature and having the same objectives should be divided into one group.
12. **Continuity:** Organizing is a continuous process up to the existence of the enterprise. Where organizational structure should be reviewed and revised according to changing environment of the business.
13. **Simplicity:** This principle emphasizes that the management must design the simple organizational structure. It should be designed in such a manner that all the members of the organization can understand it easily.
14. **Flexibility:** the organizational structure must be flexible. It should be designed in such a manner that it is adaptable to the changing environment of the business. The management must provide flexibility within the structure so that it would facilitate changes in organizational structures as and when it is needed.
15. **Personal ability:** This principle focuses on the development of personal ability of all the workers working in the organization. For this purpose, there must be the proper system of recruitment, selection, appointment and placement of appropriate workers in right place. Besides, there should be the provision of training, workshop, supervision, seminar, further education of the employees.

Process of Organizing

Organizing is the process of establishing relationship among the members of the enterprise. The relationships are created in terms of authority and responsibility. Each member is the organization is assigned a specific responsibility or duty to perform and is granted the corresponding authority to perform and is granted the corresponding authority to perform his duty. The various steps involved in this process are:

1. **Division of work**: The first step is the division of work into specific jobs. The main function is divided into sub-functions. Each function or job is entrusted to suitable individual. Jobs may further be subdivided as per requirement. The idea behind division of work is increasing output and improving the efficiency and productivity of workers. It also helps in the introduction of mechanization and specialization.

2. **Departmentalization:** The second step of organizing is the grouping of similar, identical and related jobs into larger units, called section, department or divisions (i.e. departmentalization)
3. **Hierarchy:** The third step in the process of organizing is the certain of authority relationship among different job positions. The organization establishes hierarchy between superiors and subordinates, so that organizational work could be carried on without any confusion, disturbance and misunderstanding. Authority flows downward from top managerial positions to lower rank in hierarchical order. The authority goes on decreasing gradually at every downward step.
4. **Coordination:** In this step, activities are coordinated by setting up mechanism for integration. Communication channels and committees are used for coordination.

Approaches to Organizing

Organizing is the process of prescribing formal relationships among people and resource to achieve organizational goals. There are different approaches to organizing structure, jobs and assigning jobs to the people. Some of these approaches are as follows:

1. **Classical Approach:** This approach is also known as classical theory of organization. Under this approach, the classical writers have viewed organization as a machine and human beings as different components of that machine. It has its origin in the writing of Taylor.
2. **Behavioral Approach:** It is also known as neo-classical theory of organization. It has introduced the human relations approach in the classical theory of organization. The main prepositions of this theory are: (1) The organization is general is a social system composed of several interacting parts; (2) The social environments on the job affect people and are also affected by them; (3) Besides formal organization, informal organization also exists and it affects and is affected by formal organization; (4) Integration between organizational and individual goals is a must; (5) Man's behavior can be predicted in terms of social factors at work; (6) Man is diversely motivated and social-psychological factors are important; (7) Man's approach is not always rational; (8) Team-work is essential for cooperation and sound organizational functioning; and (9) Effective communication is necessary for sound organization.

3. **Contingency Approach:** It is also known as modern organization theory. Contingency approach states that organizing is depended on situational factors. The most important is technology, environment, organization size, organizational life cycle, etc. According to contingency approach each situation is unique and demands unique organization structure. There is no one best way. But, in practice, it is difficult to identify relevant situational factors.

Departmentalization

Departmentalization is the process of logical grouping the similar nature functions into manageable units for the purpose of overall coordination of organizational resources. In an organization, many persons perform various functions in different situations. It is not possible to perform all types of work at a time and by same group of people. It is essential to classify activities into manageable units. **Therefore, departmentalization is the process of dividing the large and complex organizational functions into small and flexible units to complete the work in efficient and effective manner**.

Types/Bases of Departmentalization

The following are the major basis of departmentalization in an organization:

Departmentalization by Functions

This is the common and popular basis of departmentalization of an enterprise. Under this form, various departments are created on the basis of nature of functions to be performed like production, marketing, finance, sales etc. A department head or manager is appointed to supervise and control the activities of the concerned department. All departmental heads are specialists and experts in their own area of business. Since the members working in a department have similar background and interest, it gives rise to specialization which makes manpower more efficient and skilled.

Departmentalization by Product/Service

This method of departmentalization is used specially by those manufacturing firms that involve in large scale and various lines of product and services. A separate department is created for a single product or product line and all functions like production, finance, marketing, personnel etc. of one department are brought together under the concerned department. Each department is independent and responsible to improve and expand its business performance. The department manager is responsible for its revenue, expenses, profits, loss, failure, success.

Departmentalization by Customers

This type of departmentalization is applied to those organizations which deal differently with different customers. Types of customers are the key basis of departmentalization of the enterprise. Banking organizations create departments on the basis of customer service like deposit, cash withdrawal, letter of credit, loan etc. Similarly, business organizations can be divided into industrial product buyers and consumer product buyers. Likewise, consumer product buyers again can be classified into wholeseller, retailer and final consumers.

Departmentalization by Territory

This form of departmentalization is applied specially in those organizations that involve in business activities in different geographical locations. It is also appropriate for large scale enterprises which is geographically spread out in many locations like insurance companies, banks, transport company, chain stores. All activities of specified territory are assigned to a particular department or regional manager. Activities are grouped into development regions, zones, districts, provinces etc. In such departmentalization, the local customers are served by the divisional managers while the plans and policies are formulated by the head office.

Departmentalization by Process

This method of departmentalization is applicable in those organizations where production activities need some distinct process. Specially, this method is used in large scale manufacturing concerns such as textile, cement, chemical, medicine, etc. The activities are grouped on the basis of process. The activities of each process are assigned to a departmental head who is responsible for all the functions of the concerned department. This is to maintain working efficiency of each process and to economize productivity. For example, department of a textile industry may be formed into ginning, spinning, weaving, dyeing and finishing department.

Departmentalization by Time

Time is also a basis of departmentalization in many organizations, especially, those that involve in public utility, production or service. Generally, hospitals, hotels, telecommunications and other public utility organizations which work around the clock from departments on the basis of time shift such as day, evening and night shifts. Therefore, a separate department is created on the basis of shift and a departmental head is appointed for each shift to maintain controlling of the activities of the concerned shift.

Delegation of Authority

Delegation of authority is the process of assigning work to subordinates and giving them necessary authority to do the work effectively. It is the process by which managers assign a portion of their workload to others. The concept of delegation has been developed due to the increase in the business size and its complexities.

Thus, delegation of authority refers to the downward transfer of authority from a superior (manager) to a subordinate. It is a pre-requisite to the efficient functioning of an organization because it enables a manager to use his time on high priority activities. It also satisfies the subordinate's need for recognition and provides them with opportunities to develop and exercise initiation.

Steps of Delegation of Authority

The steps of delegation of authority comprises of the following steps:

1. **Assigning Specific Duties**

The first step of delegation of authority is assigning specific duties to the individual. In all cases, manager must be sure that the subordinates assigned to specific duties has a clear understanding of what these duties entail.

2. **Granting Appropriate Authority**

The second step of delegation process involves granting appropriate authority to the subordinate – that is, the subordinate must be given the right and power within the organization to accomplish the duties assigned.

3. **Acceptance of the Assignment**

At this stage, the subordinate either accepts or rejects the tasks assigned to him/her by the superior or manager. If the subordinate refuses to accept the duty and the authority to perform it, then the manager looks for the other person who is capable of and willing to undertake the assignment.

4. **Creating the Obligation**

The last step involves creating obligation for the subordinate to perform the duties assigned. Once the assignment is accepted by the subordinate, then he/she becomes responsible for the completion of the duty and is accountable to the superior for his/her performance. So, the subordinate must be aware of the responsibility to complete the duties assigned and must accept that responsibility**.**

Obstacles (Barriers) of Delegation of Authority

A. Obstacles related to Supervisors and Managers

Despite knowing the importance of delegation of authority, superiors sometimes do not delegate work to subordinates. This is because of the following reasons:

1. Reluctance to delegate

Its first kind of obstacle of delegation of authority that is related to the supervisors and managers**.** When they feel that they can do better, employees are not capable enough, or take much time to explain, they will be reluctant to delegate authority. Some managers are so disorganized that they are unable to plan work in advance and as a result cannot delegate properly.

2. Fear of competition

The manager may not delegate authority due to the fear on his part that the subordinate may excel in the work and may be promoted. Though this barrier is usually unexpressed and unconscious, it is real.

3. Lack of Ability to Direct

In delegation, superior needs to direct and provide necessary instructions and guidelines to subordinates. If the manager has no ability to direct, he may hesitate to delegate authority.

4. Incompetence of Subordinate

Subordinates may lack of competence to do the delegated jobs in effective manner. Lack of confidence is yet another serious problem standing in the way of subordinate's accepting the authority.

B. Obstacles related to Subordinates

Subordinates present the following obstacles and barriers to effective delegation:

1. Fear of Doing Mistakes

Some subordinates fear that if they make mistakes in carrying out the delegated responsibilities, their superiors will criticize them for unfavorable outcomes. This fear discourages them from taking added responsibilities.

2. Inadequate Motivation

Delegation of authority involves additional responsibility. Suitable motivation (financial/ non-financial) and incentives must be provided to encourage those subordinates who prove their spirit. Lack of motivation or incentive is another reason why subordinates do not show any preference for authority.

3. Lack of Information System

Subordinate may hesitate to accept a new assignment if they believe that they lack the necessary information and resources to perform the job well.

4. Convenience

Sometimes subordinates prefer the work done by superiors rather than assuming responsibility for the same, for the sake of convenience. They simply want their bosses to make the decisions.

C. Obstacles Related to Organizations

Some of the obstacles related to organizations are:

1. Size of The Organization

A small-sized organization will not have too many jobs to delegate to subordinates. It is, thus, not responsive to delegate of tasks.

2. No precedent of Delegation

Merely because organizations have not earlier been following the practice of delegation sometimes makes them continue with the practice of not delegating the jobs.

3. Degree of Centralization and Decentralization

Efficient delegation is affected by the degree to which organization distributes the decision making power to various organizational units. A highly centralized organization is obstructive to the process of effective delegation.

4. Lack of control

The success of delegation can be measured only if the organization has a proper control system. The absence of such a system would only make delegation a useless exercise.

ELEMINATING OBSTACLES TO THE DELEGATING PROCESS

Eliminating obstacles to the delegating process is important to managers because delegating has significant advantage for the organization. Because of this delegation the organization gets larger, assistance from subordinates in completing tasks the manager simply wouldn't have time for otherwise. That’s why managers need to eliminate obstacles to the delegation process. For this, they can follow following ways:

1. Accept the need for delegation

When superiors are reluctant to delegate because they want to do things themselves rather than allowing subordinates to do, they should realize the need for delegation. In fact, more the delegation, more successful will be an organization.

2. Confidence in Subordinates

Rather than feeling that subordinates are not capable of accepting responsibilities so that delegator does not take the risk of delegation, the delegator should understand that a person learns through mistakes and if he/she commits mistakes, he/she will try to find solutions to the problems also. If subordinates make mistakes, superior should guide them rather than not delegating at all.

3. Communication

Where delegation becomes ineffective because subordinates do not have information for making decisions, an effective communication system should be developed so that information flows freely from superiors to subordinates. Delegatees should be allowed to freely discuss the problems with the delegators.

4. Motivation

Subordinates should be motivated to accept the responsibilities by providing financial and non-financial rewards like status, recognition etc.

5. Effective Control System

Since ultimate responsibility for the work assigned is that of the delegator, he/she should ensure that subordinates perform well by setting standards of performance against which actual performance shall be measured. Delegator should check the activities of delegates rather than not delegating.

6. Choose the Right Person for the Right Job

Lack of confidence in subordinates can be overcome by dividing the work into units and sub-units and assigning to person most suitable for the job. There should be proper matching of the job and the person performing it.

7. Clarity of Tasks

The responsibilities or tasks delegated to subordinates should be clearly defined in terms of results expected out of those tasks. Knowing their job and goals to be achieved out of them will enable the subordinates perform the delegated task better.

8. Monitoring the Critical Situations

Subordinates may make mistakes, however efficient they are at work. Superiors should overlook minor deviations with respect to delegated tasks and focus on major deviations in the tasks assigned. This promotes better response and a sense of responsibility amongst employees.

CENTRALIZATION

The systematic reservation of decision making authority at the top level management is centralization. It reduces the role of subordinates and the top level assumes full responsibility of the business. Top level managers have direct control over each and every business activity of the organization while the decision making authority is also vested on them.

ADVANTAGES OF CENTRALIZATION

The following are some of the advantages of centralization:

1. Facilitates unified direction

Top level managers take all the decisions in centralization. It is not necessary to consult and take consent of subordinates while taking a decision. The subordinates perform all the on the basis of instructions which facilitates for the maintenance of uniformity and consistency in performance.

2. Simplifies Structure

In centralized organization, the structure tend to be simple and clear. It involves two levels- managerial and operating levels. Managerial level is responsible for decision making whereas operating level is responsible for execution.

3. Facilitates quicker decisions

Centralization facilitates quicker decisions as one manager takes all the decision. Managers can take suggestions and guidance from experts and professionals, but the final decision is taken by him. Quick decision is essential for the success of the business in this competitive environment.

4. Economy in Operation

In centralization, many levels and positions of management are reduced. It minimizes overhead cost of the organization. It also helps in effective utilization of skilled, qualified and experienced members.

5. Integrates Operation

Centralization helps to integrate and unify all the operations of the organization. The top level manager maintains close supervision of the subordinates and their functions. On the basis of requirement, a manager takes quick decisions to maintain control over the activities of the employees.

6. Suitable for small firms

Centralization is highly appropriate for small business organizations performing business in a competitive environment. In such organizations, managers can personally look after the overall activities of the organization.

DISADVANTAGES OF CENTRALIZATION

The some of the disadvantages of centralization are;

1. Unsuitable for large organizations

Centralization is inappropriate and impractical in large organizations having various branches in different locations. It is difficult to communicate managerial decisions to different operating levels in the management hierarchy. Top level managers cannot effectively supervise and control all the activities of the organization.

2. Manager is overburdened

In centralization, top level managers are overburdened with authority and responsibility while managing each and every activity of the organization. He cannot devote sufficient time in other major issues. It tends to decrease working efficiency in the organization.

3. Possibility of power misuse

Centralization of authority at the top level may result in under-utilization of power. Top level managers may exercise their powers on the basis of their personal judgement. This may lead to misuse of authority if the managers lack proper skills and ability.

4. Low morale and motivation

In centralization, middle and lower level managers feel uncomfortable while performing the assigned task. They do not have the required authority to deal with the problems effectively. They do not get an opportunity to show and develop their potentiality. The lack of motivation tends to affect the morale of subordinates.

5. Lack of environmental adaptation

Business environment is dynamic, and, therefore, it changes according to time. In business, it is essential to take quick decisions to resolve problems of concerned departments or branches. Centralization is not applicable in dynamic environment as flexibility will not come promptly from the top level.

6. Inappropriate for routine decisions

In centralization, top level managers devote maximum time in taking routine decisions. Therefore, they cannot devote more time in non- programmed decisions. This will have a negative impact on the long-term performance of the organization.

DECENTRALIZATION

Decentralization is the philosophy of systematic and scientific delegation of managerial authority to middle and lower level managers in accordance with their responsibility. This philosophy states that the top level management should keep limited authority and delegate maximum authority to operating levels. **Top level management has to play the role of supervisors.**

ADVANTAGES OF DECENTRALIZATION

Brief discussion of advantages of decentralization are:

1. Relief to top level management

In decentralization, most of the routine managerial responsibilities are delegated to middle and lower managers. It minimizes the excessive workload of the top manager. It gives sufficient time to the top level managers to concentrate on non- programmed decisions like planning, policy making, strategy formulation etc.

2. Facilitates manager's development

In decentralization, appropriate responsibility and authority is delegated to subordinate level managers. It gives them an opportunity to hone their skills and efficiency so as to get promotions. Therefore, decentralization creates the reserve of talency.

3. Possibility of better decisions

Decentralization delegates the decision making authority to the managers nearest to the level of operation. The managers working nearest to the operation are in a better position to understand the complexity of the problems. This helps in taking a better decision to solve a problem**.**

4. Effective control

In decentralization, it is convenient to set standards of performance. This helps to compare actual performance with the standard more quickly. This helps in taking prompt decisions to correct deviations. This leads to maintaining effective control.

5. High morale and motivation

Decentralization is highly motivational as it gives the subordinates the freedom to act and take decisions. This develops among the subordinates a feeling of status and recognition and ultimately a feeling of dedication, commitment and belongingness. This, likewise, helps in maintaining high motivation and morale of subordinates.

6. Facilitates diversification

The addition of new product lines or expansion of existing lines of business develops complexity in an organization. This also develops a challenge to the top level manager. The top level manager can meet such challenges by delegating authority to his subordinates by. He can only play the role of coordinator.

7. Environmental adaptation

A dynamic environment may create problems in different units. In decentralization, decision making authority is given to the operating level managers. This facilitates quicker and flexible decisions on the basis of situation.

DISADVANTAGES OF DECENTRALIZATION

Some of the disadvantages of decentralization are;

1. Increase in expenditure

Decentralization needs qualified, competent and skilled managers at the middle and lower levels. They are to be paid remuneration on the basis of their qualification on the basis of their qualification and experience. Besides, there is the possibility of duplication of effort, which unnecessarily may increase cost of production.

2. Conflict

In decentralization, the top level management puts more pressure on departmental managers to increase output and revenue. In such a situation, every department lays more emphasis on their own departmental goals instead of corporate goals. This may give rise to inter- departmental conflict and too much fragmentation creates problems in coordination and control.

3. Unsuitable for emergency situations

In decentralization, lower and middle level managers are assigned authority only for routine decisions. Whenever they face complex and non programmed problems they cannot take decisions due to limited authority.

4. Maximizes risk

The decision making authority is delegated to the subordinate level. If subordinates are unskilled and incapable, they may take wrong decisions, which may increase the risks and result in losses.

5. Difficulty in communication

In decentralization, different departments may be formed in various locations and authority and responsibility are assigned to the departmental heads. If the network system to communicate information is unclear, communication will be distorted.

6. Unsuitable for specialized services

The concept of decentralization is not applicable in all types of services. It is not suitable for specialized nature of services like accounting, human resource, engineering, surgery etc.

MECHANISTIC ORGANIZATION

Mechanistic structure, also known as bureaucratic structure, describes an organizational structure that is based on a formal and centralized network. **It is a rigid and tightly controlled structure characterized by high specialization, narrow span of control, high formalization and a limited information network.** The whole structure is organized like a well-designed machine. Decision making is centralized at the top level management. Subordinates are expected to follow the directions of management without any questions. The mechanistic form is appropriate for traditional hierarchy way of organizing.

ORGANIC ORGANIZATION

Organic organization model is a structure that is highly adaptive and flexible according to changing environment. **They are more flexible and open. Tasks are less rigidly defined allowing people to adjust to situational requirements. It emphasizes on team specialization. Decision making is decentralized to subordinate levels.** Communication is lateral among various functional departments. Work, over here, is frequently organized around team of employees as it is needed. Though employees are highly trained and empowered to handle various activities and problems independently, they need to consider minimum formal rules and regulations and small direct supervision from superiors.

ORGANIZATION ARCHITECTURE

Organization architecture refers to the structure by which an organization integrates the human activities and capital resource utilization within a structure of task allocation and coordination to achieve desired outcomes and performance for both short and long run.

Organization architecture is the totality of a firm's organization, including organization structure, control systems, incentive systems, culture and people. It is a network of relationships among these elements of an organization. Thus, effective organization architecture is essential for systematic and uniform functioning of the organization.

(A) VERTICAL DIFFERENTIATION

Vertical differentiation refers to the location of decision making responsibilities within a structure (centralization/decentralization) and also to the number of layers in a hierarchy (either tall/flat). It indicates who has the authority to make decisions and who is expected to supervise which subordinates. Basically, it determines reporting relationships and the nature of structure in terms of tall or flat.

(i) Tall Hierarchy or Structure

The organization which constitutes of different hierarchy levels is tall hierarchy or structure. With this structure, an organization will have a numbers of managers, each of which will be responsible for controlling a portion of the organization. The lowest layer includes employees with no managerial authority. These employees report to the next layer, or the first layer of management. Large, complex organizations often require a taller hierarchy. In its simplest form, a tall structure results in one long chain of command similar to the military. As the organization grows, the number of management levels increases and the structure grows taller. In a tall structure, managers form many ranks and each has a small area of control.

(ii) Flat Hierarchy or Structure

A flat hierarchy or structure refers to an organization structure with few or no levels of management between management and staff level employees. The management trusts the employees and authority is decentralized. The flat structure is very beneficial in completely eliminating bureaucracy and middlemen. It focuses on empowering employees rather than adhering to chain of command. By encouraging autonomy and self-direction, flat structure attempts to tap employees creative talents and to solve problems by collaboration. Mostly, small companies use flat structure to get benefits such as faster response time to changing conditions and customer preferences.

(B) HORIZONTAL DIFFERENTIATION

Horizontal differentiation refers to the formal division of the organization into sub units. It is the basis for dividing work into specific jobs and tasks and assigning those jobs into units. Departmentalization is the example of such differentiation. The types of such differentiation are; functional, multidivisional, geographic and matrix.

(i) Functional Organizational Structure

Under functional organization structure, the organization is divided into a number of functional areas. Each function is managed by an expert in that area. Under it, various activities of the enterprise are classified according to certain functions like production, sales, purchase, finance, personnel etc. and are put under the charge of functional specialists who directs the subordinates in his particular area of business operation.

(ii) Multi- Divisional Structure

Multi-divisional is structure composed of self-contained divisions based on products, customers, technology and geographical areas. Each division contains the major functional resources it needs to persue its own goals with little or no reliance on other divisions. This structure is used when a company produces many products or provides service to different types of markets. Here, the key functional activities are present in each division.

(iii) **Geographic Structure**

Organizations having larger market and network of distribution use territorial or geographical structure. It is an organization structure where company hierarchy is divided on the basis of geographical location in which the company operates which is headed by central head office.

(iv) Matrix Organization Structure

Matrix organization is a newly evolving organization structure which has received considerable attention in the developed as well as developing countries. This organization is formed to complete various types of project of specific and unique nature. This is also known as project management structure. It requires diverse technical and administrative experts to adjust efficiently with the dynamic and rapidly changing environment of the business.

Each employee in a matrix unit reports to two bosses-a functional manager and a product or project manager. This means that there are dual lines of authority in the matrix organization.

A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix). In contrast, functional and divisional structures depend primarily on vertical flows of authority and communication. Despite its complexity, the matrix structure is widely used in many industries, including construction, healthcare, research and defense.

Modern Organizational Structures

(i) Team Based Structure

A team is a group whose individual efforts result in positive synergy through coordinated efforts. It refers to two or more persons who interact and influence each other toward a common purpose.

Teams facilitate employees' participation in opening decision. Nowadays, business organizations are adapting such team in their organizational structure. A team based structure attempts to combine both horizontal and vertical coordination through structuring people into cross-functional teams. Cross-functional teams consist of members from different departments and work areas.

For example, an information systems company might have development teams, product teams and application teams who, respectively, are responsible for: (a) new product development, (b) service and support of customer groups, and (c) customizing products to particular customers (or customer groups). Each of these teams will have a mix of specialists within it.

(ii)Network Structure

The network structure is a form of organizing in which many functions are contracted out to other independent firms and coordinated through the use of information technology networks. The network structure is a series of independent firms or business units linked together by computers in an information system that designs, produces, and markets a product or service. This structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Companies like Nike, Reebok and Benetton use the network structure in their operations function by subcontracting manufacturing to other companies in low-cost.

(iii)Committee Organization Structure

A committee is a group of persons formed to discuss and deliberate on problems and to recommend or decide solutions. **Thus, committee organization structure is the structure where authority and responsibility are jointly held by a group of individuals rather than a single manager.** It represents a group of people with knowledge in various fields. It is formally constituted to solve specific problems. The primary function of the committee is to suggest and guide the management in decision making procedures and solve the problems of various departments. **The types of committee can be Executive Committee, Advisory Committee and Ad hoc Committee.**

(iv) 360 Degree Structure

360 structure is a technique that is systematic collection of performance data on an individual group, derived from a number of stakeholders like immediate supervisors, team members, customers, peers, and self. In fact, anyone who has information on how an employee does a job may be one of the appraisers. This method is also known as multi-rater feedback, multi-source feedback, full- circle appraisal and group performance review. This structure is highly useful in terms of broader perspective, greater self-development and multi- source feedback. It is generally used for evaluating managerial performance.

LESSON -7 LEADERSHIP

Concept of Leadership

Leadership is the ability to persuade others to seek defined objectives enthusiastically. Leadership is an important and necessary skill for achieving group performance. It is the art of influencing and inspiring the behavior of others in accordance with requirement. It is the personal quality of individual who organizes the efforts of individuals and directs them to achieve common objectives.

Leadership is applicable to the managers. And a successful manager must have leadership qualities to influence the behavior of his subordinates. He has to lead his subordinates in such manner that organizational and individual objectives can be achieved. Thus, the manager must have complete vision of how to operate resources and achieve organizational objectives.

" Leadership is the art of process of influencing people so that they will stripe willingly and enthusiastically toward the achievement of group goals."

- Knootz and Weihrich

Nature/Characteristics of Leadership

1. **Process of international influence**: Leadership is a process of interpersonal influence. A manager is said to be a leader when he is able to influence his subordinates in accordance with organizational requirements.
2. **Leaders and followers**: There should be mutual relation between a leader and followers. Followers are supposed to follow their leaders' foot/steps only by getting inspiration from his conduct, ability and behavior. Similarly, followers influence the leader through their performance, effort and behavior.
3. **Common goals**: Leadership aims at the pursuit of common goals, in other words, a leader and followers must have the common objectives. Leader directs and guides the followers to gain planned objectives. Followers also perform their activities accordance with the directions from the leader. Thus, the interests of individuals and those of organization should be same.

4. **Continuous exercise**: Leadership is a continuous managerial process till the existence of an organization. There managers have to influence the behavior and performance of subordinates on a regular basis. Hence, it is the responsibility of the manager to direct and guide the subordinates regularly.
5. **Leadership is situational**: The role of leadership assumes significance in critical situations. It is the duty of the leader to inspire subordinates to overcome the critical situation and help them to lead to the destination in a successful way. A leader must be innovative and creative to handle difficult and unexpected situations.
6. **Rest on power**: Leadership rests on power rather than formal authority. Here, power focuses on the personal outstanding qualities of the leader through which he influences the followers. In the context of the manager, some formal authority is rested due to managerial designation.
7. **Blend of inspiration, motivation and communication**: Leadership is a blend of inspiration, motivation and communication. It is the process of influencing the behavior and performance of followers by inspiring them. A leader has to apply appropriate motivational tools (incentives) to inspire subordinates. In the absence of any element, a leadership mission cannot be successful.

Functions of Leadership

1. **Goal determination**: This is a primary function of a manager. As a leader of the organization. It is the responsibility of the manager to establish organizational objectives. He determines both short-term and long-term goals of the organization. For setting goals, he might have to take technical and logical support from skilled persons.
2. **Coordinate organizational activities:** A leader plays the role of coordinator. Organizational are divided into different groups on the basis of these nature. A separate department is created for each work and handed over to a responsible person. It is the responsibility of the manager to maintain coordination among all the departments and their activities.
3. **Represent the organization:** As a leader, a manager represents his group and also the organization. He makes agreement and contract with outside organizations and authorities on behalf of the organization. He also

represents the organization while participation in meetings, conferences, seminar and other programmes.

4. **Integrate objectives:** A manager plays an important role in integrating both individual and organizational objectives. In it the workers might see their best performance when they feel that their personal objectives will be fulfilled after the attainment of organizational objectives. This objective is a part of managerial functions of the leader to develop such an environment in the organizational. Thus, when employees perform their best effort and efficiency, it will become easy to gain organizational objectives.
5. **Direct and motivate staff:** The manager is responsible for implementing plans. After designing the organizational structure, a manager has to divide work among the staff and give clear instructions on how to discharge the given responsibilities.
6. **Organize activities:** As a head of the organization, a manager has to organize many activities of the enterprise. These activities involve production, distribution etc. which are essential to achieve planned objectives. At the initial stage, it is essential to identify various types of activities to be performed in the organization. And again on the basis of their nature, they should be divided into groups and delegated to responsible employees.
7. **Encourage teamwork:** the feeling of teamwork among all the authorities of the organization is a must to gain common objectives. It is the responsibility of leaders to encourage all the subordinates to work as a group. For this, he has to maintain coordination among all the departments and individuals working in the organization.
8. **Communication:** Communication is an important tool for the flow of information in and outside the organization. The manager provides instructions, guidance and suggestion to the subordinates through appropriate means of communication. In the similar manner, he gets feedback of output and problems also through the means of information. Thus, it is the responsibility of the manager to develop a proper communication system in the organization.
9. **Take initiation:** Change in organization structure, procedures and process of work is a must to adjust with the changing environment of business. Therefore, a successful leader always initiates changes in accordance with

requirements. He should overcome the resistance of change by showing positive impact of changes on organizational affairs.

10. **Control and supervision:** Controlling is one of the important functions of manager to measure actual achievement of work with that of planned works and take corrective action. For this, it is the responsibility of the manager to supervise the performance of subordinates according to time and situation. But, a corrective action must be taken if any defect in the activities is found.

Leadership Styles

Leadership is the process of influencing the subordinates so that they can perform their works willingly and enthusiastically to achieve common goals. The philosophy of leadership might either be superior oriented or subordinate oriented. The widely accepted leadership styles are as follows:

1. **Autocratic Leadership:** this is also known as authoritarian and dictatorial leadership. In this leadership, the leader has the sole authority to take a decision. In other words, a leader believes in centralized power and expects all decision from him without consultation with subordinates. He always expects subordinates to accept his decisions without any comment. In short, he behaves like a dictator.

   As a leader, manager centralizes total power with him and enjoys full authority and bears responsibility of the organization. He determines plans and policies independently and implements them according to his knowledge and logic. He never takes any suggestion and guidance from his subordinates.

   In autocratic leadership, there is the system of one-way communication. In it the information of instruction and guidance only flows from top level to the subordinate level. This autocratic leadership can be sub-classified into two group strict autocracy and benevolent autocracy.

   In strict autocracy, a leader always uses negative motivation. He motivates the subordinates by threatening them with penalty, punishment, demotion etc. A leader is all in all in each and every activity of the organization. In benevolent autocracy, a leader uses positive motivation. He encourages the subordinates by giving incentives like promotion, more remuneration etc. in some situation, he also takes suggestions and guidance from subordinates.

2. **Democratic Leadership:** This is liberal type of leadership which is also known as participative leadership. Under this type of leadership, a leader believes in decentralization of power and invites subordinates in the decision making process. This leadership style is suitable and practicable where subordinates are trained, experienced and skilled. The upper level of management is responsible for the preparation of plans and policies whereas subordinates are responsible for their implementation. It emphasizes participative management.
   In democratic leadership, a two-way communication system exists. There the information of instruction and guidance flows from the top level to the subordinates whereas the information of achievement, problems and suggestions flows from the subordinate level to the upper level. Here, a leader always uses positive motivation and encourages subordinates by providing rewards and incentives. The feeling of team is developed among all the employees.
3. **Laissez-Faire or Free Rein Leadership:** Under this style, leaders avoid power and responsibility. They grant authority and responsibility to groups. The role of the leader, here, is to provide advice and direction as requested by the subordinates. Group members perform everything themselves. Leader behaves primarily as a group and plays the role of a member only. The concept of management by exception promotes this type of style, where subordinates themselves plan, control, evaluate and decide and the manager interferes exceptionally. This style is suitable for highly trained and professional staff.
4. **Paternalistic Style:** Under this style, the leader assumes paternal or fatherly role. He works to guide, protect and keep followers, who work together as a member of a family happy. He makes provision for good working conditions and other necessary services. It is hoped that under such leadership, workers will work hard out of gratitude.
   In fact, each leadership style is effective when it matches the needs of the situation, the attitude and belief of work group and leader. Practically, all leaders have to involve themselves actively in the work of a group.

Approach to Leadership

Broadly, there are three approaches to leadership which are described

Below:

1. ***Trait Approach to Leadership***

The trait approach to leadership is based on early research which assumes that a good leader is born and not made. It is a modification of the great man theory which assumes that leadership qualities can be acquired. The trait theory of leadership emphasizes that there are certain identifiable qualities that good leaders must possess. Trait approach considers leadership as a set of qualities possessed by an individual. Leadership qualities may be in-born or they may be acquired through higher education, training and practice. Trait theory is useful in developing training programmes for managers at various levels.

Some researchers on trait theory emphasizes on intelligence, initiative, self-confidence, and individually being superior ability for leadership. Others stress intelligence, scholarship, dependability, responsibility, social participation and socio-economic status as the requisites of leadership. However, the common traits necessary for successful leadership are intelligence, initiative, imagination, optimism, enthusiasm, courage, creativity, originality, communicative ability, self-confidence, human understanding and a sense of fair play.

Brief description of some common traits that an effective leader should possess are as follows:

i. **Achievement drive:** Leadership having such trait have clear vision about the objective of the organization and procedures of achieving predetermined objectives. They exhibit a high level of effort. They have a relatively high desire for achievement. They are ambitious, they have a lot of energy, they are tirelessly persistent in their activities and they show initiatives.

ii. **Leadership motivation:** Leaders possess an intense desire to lead others to achieve common goals. They have skill to encourage subordinates to do the assigned job according to best of their ability. They have knowledge about the needs and requirements of subordinates and how to apply appropriate motivational tools at the right time.

iii. **Honesty and integrity:** Successful leaders are trustworthy, reliable, and open. They build trustworthy relationship between themselves and with followers by showing true behavior. A trustworthy leader can win the confident of subordinates. Besides, leaders integrate both organizational objectives and individual objectives of the employees.

iv. **Self-confidence:** Leaders belief in own-self and their ideas and ability. They have confidence for any kind of work they are doing. They have knowledge about the outcomes of decision and activities. They guide and lead the subordinates along with most enthusiastic lines of action. They take decision with full of confidence by showing the subordinates that they have ability to do things better.

v. **Cognitive ability:** Leaders are capable of exercising good judgement, strong analytical abilities, and conceptually skilled. They have the ability to maintain impartiality and judgement. They take various types of decisions in different situations. But they have ability to take the right decision at the right time.

vi. J**ob related knowledge:** Leaders have technical knowledge on all the activities done in the organization. They have knowledge about how to start work, its procedures and accomplishment of task. They are experts and they can technically guide the subordinates towards the most efficient and economic completion of job.

vii. **Emotional maturity:** Leaders are well adjusted and never suffer from severe psychological disorders. They are flexible and dynamic. It is well known that social environment is changeable according to time. Successful leaders need to adapt themselves with the changing environment. For this, they need to modify behavior on the basis of time and situation.

viii. **Creativity and originality:** A leader must be creative in generating new ideas, concept, and knowledge for better performance of the organization. He should maintain keep in touch with the changing technology in the concerned areas of business. He should take decision and action on the basis of own originality. Imitation or copy from others must be avoided while taking any important decision.

ix. **Organizing ability:** A leader must have an organizing ability. He must have the ability to make appropriate division of works among subordinates. Besides, he should possess ability to arrange physical facilities and modern technology on the basis of requirement. He needs to establish well defined productivity relations among all the subordinates. It is essential to maintain coordination output within minimum cost and efforts.

2. ***Behavioral Approach to Leadership***

Behavioral theory attempts to describe what an effective leader should perform in the day-to-day management. An effective leader is one who performs those acts, and who supports group to achieve objectives. The overall goal of the behavioral approach is to identify and measure relevant leadership actions and behavior that leads to enhance subordinates productivity and morale. Hence, the attention has shifted from who the leaders are to what the effective leaders do, how they delegate tasks, how they communicate try to motivate employees. The four leadership behavior studies that attempt to identify the leadership behavior are explained below:

A. The Ohio State Studies

A group of researchers at Ohio State University conducted and extensive study of leadership behavior and effectiveness. The basic purpose of this study was to identify independent dimensions of leader behavior and to determine the effect of these dimensions on the work performance and satisfaction. After considerable research and analysis, the researchers concluded that there are two dimensions of leader's behavior: initiating structure and consideration.

i. **Initiating structure:** Initiating structure refers to the extent to which a leader is likely to set goals, define structure and organize task. In this dimension leader is task oriented and concerned with utilization of resources to accomplish group goals. The leader involved in planning, coordinating, directing, problem solving etc. Leaders scoring high initiating structure could achieve high productivity or performance.

ii. **Consideration:** Consideration is described as the extent to which the leader has supportive work relationship. In this dimensions, leader is employee oriented and concerned with the quality of relationship with subordinates. The quality of leadership is characterized by warmth and mutual trust, good relations and a respect for feelings, ideas and suggestions of group members. There is a strong concern for followers' comfort, well-being, status and satisfaction. The leader is friendly, approachable and treats subordinates fairly.

The two leadership orientations discussed above are independent of each other. However, the studies concluded that the combination of high consideration and high initiating structure in leader behavior were likely to result in high productivity and satisfaction at the same time.

B. The University of Michigan Studies

Researchers at the University of Michigan, leads by Rensis Likert began studying leadership in the late 1940s. the purpose of this study was to identify the behavior characteristics of leaders that were related to performance effectiveness. After studying a large number of supervisors in several factories, the Michigan group came up with two dimensions of leadership behavior employee oriented. They also identified three critical characteristics of effective leaders- task- oriented behavior, relationship-oriented behavior and participative leadership.

i. **Employee oriented:** In this dimensions, leader emphasized on interpersonal relations. Managers using employee oriented leader behavior allowed sufficient freedom and provided necessary assistance to subordinates. They take personal interest in the need of employees. They emphasize on interpersonal relations, and took a personal interest in the hands of their employees. Their primary concern is the welfare of subordinates. Managers having employee oriented belief that if good relation is maintained with employees they do assigned job by developing the feeling of self - responsibility.

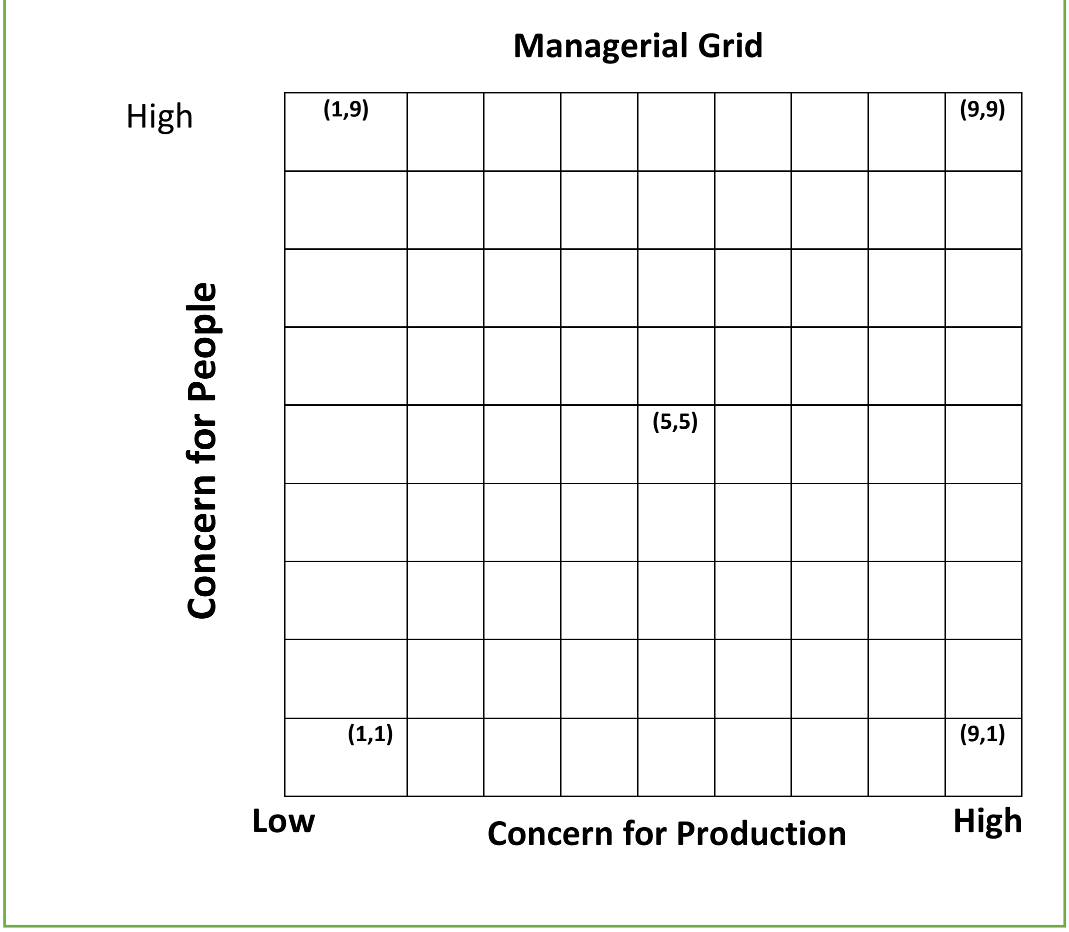
ii. **Production oriented:** In this dimension leader emphasizes on technical and task aspect of job. The main concern is to accomplish group task. Leader paid close attention to subordinates' work, explained work procedures and regarded group members as focal point. They provide necessary resources essential for smooth functioning of the organization. Managers having production oriented belief that task is the primary concern of subordinates and relationship is maintained with subordinates on the basis of task performance.

    However, Michigan researchers strongly favored employee-oriented leadership behavior. Employee-oriented leaders are associated with high group productivity and higher job satisfaction. Production oriented leaders are associated with low group productivity and lower job satisfaction.

C. The Managerial Grid

Industrial psychologists Robert R. Bake and Jane S. Mouton developed the managerial grid to explain leaders' behavior. They popularized the Ohio State Studies by restating manager-leader two major concerns as being for people and for production. According to this theory, leaders are most effective when they achieve a high and balanced concern for bot people and task.

Building on the work of the researchers at these Universities, Robert Blake and Jane Mouton (1990s) proposed a graphic representation of leadership styles through a managerial grid. The grid involved two dimensions of leader behavior, concern for people and concern for production. Each dimension is ranging from low (1) to high (9), thus creating 81 different positions in which the leader's style may fall. The following figure shows the five dimensions of leadership approach that is considered by the leaders:



i. **Impoverished leadership (1, 1):** Leaders with this approach are low on both for production and people dimensions and exercise minimum effort to get the work done from subordinates. The leaders are considered ineffective wherein their action is merely aimed at preserving job and seniority.

ii. **Task management leadership (9, 1):** This leadership also called dictatorial or perishes style. The style is based on Douglas McGregor's theory X of motivation. Leaders focus only on task by planning and controlling the production environment. The leader believes that efficiency can result only through proper organization of work systems and through elimination of people wherever possible. This dimension can definitely increase the output of organization in short run but due to the strict policies and procedures, there is the possibility of high labor turnovers.

iii. **Middle-of-the-Road leadership (5, 5):** This is basically a compromising style wherein the leader attempts to maintain a balance between goals of company and the need of people. Leaders give equal value both for production activities and maintaining good relation with employees. The leader does not push the boundaries of achievement due to which average performance is possible in the organization. Here neither employee satisfaction nor production targets are fully achieved.

iv. **Country Club Leadership (1, 9):** This is a mutually respectful style of leadership which is characterized by low task and high people orientation. In this dimension, leader gives more attention to the needs of employees and provides them a friendly and comfortable working environment. The leader feels that such behavior with employees will lead to self-motivation and they do assigned job with full of enthusiasm.

v. **Team leadership (9, 9):** This dimension of leadership is characterized by high people and task focus. It is based on Douglas McGregor's theory Y of motivation. According to Blake and Mouton it is taken as most effective style of leadership. The leader feels that empowerment, commitment, trust, and respect are the key elements for developing good working environment.

D. The Scandinavian studies

Swedish and Danish business leaders and academicians carried research on leadership pattern for effective functioning of the organization. The major foundation stone of Scandinavian leadership approach are respect for the individual, a holistic view, a humanistic and value based approach with a multiple stakeholder focus.

The Scandinavian studies resulted in the emergence of a new dimensions called development-oriented behavior. According to these studies, leaders who embrace change and encourage new ideas and practices are successful. These studies identified that in a changing world, effective leaders would exhibit development oriented behavior which consists of:

- Value experimentation
- Seeking new ideas
- Generating and implementing change
- Respect for individual
- A holistic, humanistic and value based approach with a multiple stakeholder focus
- Empowering and enabling environment which stimulates creativity, innovation and collaboration
- Trust, care and concern as key values

3. ***Contingency Approach to Leadership***

Contingency approach assumes that appropriate leader behavior varies from one situation to another. The effectiveness of leadership depends on the interaction of the leader's personal characteristics, the leader's behavior and factors in the leadership situation. A successful leader must be adoptive and flexible. As the situation changes, the leader must change his style of leadership. The situation theory contends that there is no one best style of leadership universally applicable for all situations. The situational approach to leadership is based on the assumption that all instances of successful leadership are somewhat different and requires a unique combination of leaders, followers and situations. This interaction is commonly expressed in formula:

$$SL = f\ (L, F, S)$$

Where SL stands for successful leadership, F stands for function, and L, F and S are the leader, the follower and the situation respectively.

A. Fiedler Model

Fred E. Fiedler developed the first contingency model in 1967. Fiedler and his associates made an extensive research for more than thirty years and developed theory called Fiedler's Contingency Theory. He proposed that effective group performance depends on the proper match between the leader's style of interacting with his followers and the degree to which the situation allowed the leader to control and influence. The basic characteristics of Fiedler's contingency theory are as follows:

1. **Classification of leaders:** Leaders have either a relationship-oriented style or a task-oriented style.
   - **Relationship-oriented leaders** are most effective in moderately favorable situations.
   - **Task-oriented leaders** are most effective in extremely favorable or unfavorable situations.
2. **Classification of situation:** The situation is contingency dimension. It is classified into:
   - Very favorable situation
   - Very unfavorable situation
   - Moderately favorable situation

Fiedler identified three variables to determine the ideal leadership style given below:

i. **Leader-member Relations**: They are the degree of confidence, trust, and respect members have in their leader. The relations can be good or bad depending upon the degree of cohesion, co-operation and level of conflict prevailing between the leader and led. Good relations contribute to very favorable situation to the leader.

ii. **Task Structure:** It is the degree to which the job assignments are procedurized. It can be structured or unstructured. High task structure is related to a task where all actions required to taken are explained in sequential manner and employees understand and anticipate what is coming next. On the contrary when a task is unstructured, the employees do not know as to how to handle the work and group-member's role became ambiguous.

iii. **Position Power:** In this situation power derived by the leader from his formal position and other power bases are not considered. Fiedler feels that a leader having a strong power position can obtain (wield) followership more easily than a leader not having a formal power base.

3. **Matching leaders and situations:** Fiedler's theory concludes that leaders and situation should be matched to achieve maximum

leadership effectiveness. Leadership effectiveness is determined by the fit between leader and the situation. Based on his research, Fiedler concluded that:

- ❖ Task-oriented leaders tend to perform better in very favorable situations and very unfavorable situations.
- ❖ Relationship-oriented leaders tend to perform best in moderately favorable situations.

4. **Improving implications:** Leaders cannot easily change their style, so Fiedler recommends changing situations to fit the leader or assigning leaders to situations which they will be most effective. There are two ways to improve leadership effectiveness:
    - ❖ Change the leader to fit the situation.
    - ❖ Change the situation to fit the leader.

B. Path Goal Theory

Path goal Theory was developed by Robert House in 1971. It is based on expectancy theory of motivation. Like other situational models, the Path Goal Theory attempts to predict leadership effectiveness in different situations. The term path goal is derived from the belief that effective leaders clarify the path to help their followers get from where they are to achieve their work goal and make the journey along the path easier by reducing road blocks. Path Goal Theory states that effective leaders influence employees 's satisfactions and performance by making their need satisfaction contingent on effective job performance.

Employees make optimum contribution to the organizational goals where they perceive that their personal satisfaction is dependent on their effective performance. He should provide guidance and support to remove difficulties in achieving the goals. Path Goal Theory identifies four types of leader behavior to motivate and satisfy employees.

i. **Directive behavior:** The leader clarifies performance goals of employees. He specifies the means and procedures of achieving those goals. He also specifies the minimum standard need to be maintained in performance. It is the same as task-oriented and initiating structure behavior. The leader tells subordinates what is expected of them and provide specific guidance, rules, regulation and standards.

ii. **Supportive behavior:** Such behavior provides psychological support for subordinates. It refers to the degree of support that a leader wants to extend to his subordinates to achieve goals. The leader is friendly and approachable, makes the work more pleasant, treat employees equally and shows concern for the status, needs, and well-being of employees. The style is similar to the consideration in Ohio State Studies.

iii. **Participative behavior:** It refers to the degree of encouragement that a leader provides to subordinates to participate in decision making and problem solving. Participative leaders actively consult with employees, ask for their suggestions and take these ideas into serious consideration before making a decision.

iv. **Oriented behavior:** it refers to the degree of encouragement that a leader a leader provides to subordinates to reach their goals. In order to make achievement in the organization, the leader sets challenging goals, expects employees to perform at the highest level to achieve predetermined goals. He believes that employees do their best to achieve these goals. Leader expects continuous improvement in employees' performance to maintain predetermined standard.

Path Goal Theory proposes two classes of situational variables- personal characteristics of group members and environmental conditions. An effective leader is one who understands the characteristics of subordinates and environmental situation and who matches his behavior accordingly.

Path Goal Theory is more elaborate than Fiedler's contingency theory because it takes into account both the personality characteristics of subordinates as well as situational variables. It not only suggests what type of leader may be effective in a given situation but also explains why the leader is effective.

C. *Hersey and Blanchard's Situational Theory (Life Cycle Theory)*

One of the most widely followed leadership model is the situational leadership theory developed by Paul Hersey and Kenneth Blanchard. Situational leadership is a contingency theory that focuses on followers. Successful leadership is achieved by selecting the right leadership style, which they argue is contingent on the level of the followers' maturity. It was originally known as "life-cycle-theory".

The theory is based on the inter-play among three major variables. They are:

a. **Task behavior:** it is the extent to which a leader spells out to subordinates what to do, where to do it, how to do it. Leaders who use precise direction and light controls are engaged in close supervision of their subordinates.
b. **Relationship behavior:** It is the extent to which a leader listens, provides support and encouragement, and involves subordinates in the decision making process.
c. **Followers readiness (maturity):** It is the follower's ability and willingness to perform the prescribed tasks.

Four Leadership Styles and Followers Readiness (Maturity)

Hersey and Blanchard explain four styles of leadership that match different maturity levels of subordinates telling (S_1), selling (S_2), participating (S_3) and delegating (S_4). Similarly, the maturity level of subordinates is divided into four levels: Low (M_1), Low to moderate (M_2), Moderate to high (M_3), and High (M_4).

Leadership Styles Appropriate for Various Maturity Levels	
Maturity Level	**Appropriate Style**
M_1 Low maturity Unable and unwilling Or insecure.	S_1 Telling. High task and Low relationship behavior.
M_2 Low to Moderate maturity Unable but willing or Confident.	S_2 Selling High task And High Relationship behavior.
M_3 Moderate to High maturity Able but unwilling or Insecure.	S_3 Participating. High relationship And Low task behavior.

M_4 High maturity Able competent And willing/confident.	S_4 Delegating Low relationship and Low task behavior.

Emerging Approaches to Leadership

Leadership is the skill or art of influencing and inspiring the behavior of others in accordance with requirement. Several new approaches to leadership are emerging which provide a new perspective on leadership. Some of the common approaches are as follows:

i. **Charismatic leadership:** In charismatic leadership followers make attributions of heroic or extraordinary abilities when they observe certain behavior of leader. They are found to have extremely high confidence, dominance and strong convictions in his beliefs. It is a leadership characteristic that inspires and influences followers toward actions to carry out a vision. The behavior attributions of charismatic leader are vision and articulation, sensitivity to environment, sensitivity to members' needs, personal risk taking, and performing unconventional behavior. Subordinates believe that leader has vision, communicate high performance expectation, convey new set of values, and self-sacrifices. Some examples of charismatic leaders are Abraham Lincoln, Mahatma Gandhi, Nelson Mandela, Steve Jobs etc.

ii. **Transformational leadership:** This approach consists of leaders who provide individualized consideration and intellectual stimulation, and who possess charisma. Transformational leaders guide and motivate followers in the direction of established goals and clarifying role and task requirements. They inspire follower to put extra effort to achieve group goals. They shift values, belief and needs of their followers. They are change agents who energies employees and direct them to a new set of corporate values and behavior.

iii. **Visionary leadership:** Visionary approach is the ability of leaders to create and articulate a realistic, credible, attractive vision for future objectives and functioning of the organization. Leaders have clear vision that can propose an innovative way to improve organizational performance. They are optimistic and always see new opportunities to improve performance. Leaders are clear about where they are going and what they will have to do to get there. They accept personal responsibility for success or failure of performance.

iv. **Substitutes for leadership:** Substitutes for leadership theory states that different situational factors can enhance, neutralize, or substitute for leader behaviors. Substitutes are variables that make leadership unnecessary for subordinates and reduce the extent to which subordinates trust on their leader. Self-leadership can serve as a substitute for leadership. This approach supports the subordinates to become self-leaders. For this, purpose subordinates should be able and professional oriented. In organization there should be the provision of employee empowerment and self-managed work teams that reduce leadership needs.

v. **Coaching approach:** coaching approach of leadership is becoming recognized as a most effective method for developing of new leaders. Individual coaching creates an open and accepting climate for employees to solve tough problems, take decisions, learn more about themselves, and develop their leadership skills. It is suitable for senior employees because of their need for the most efficient, confidential and personalized approach.

Coaching provides the level of confidentially that allows the real issues to be tackled. Senior executives have very limited time available to focus on their own development. It facilitates to reduce conflict, open communication, more job satisfaction and an increased overall level of job satisfaction and productivity.

Team Management

Concept of Team

A team is a small number of people with complementary skills who are committed to a common purpose, common performance goals, and an approach for which they hold themselves mutually accountable. A work team generates positive synergy through coordinated effort. Their individual efforts result in a level of performance that is greater than the sum of those individual inputs.

Thus, team refers to a special type of group. Its members have complementary skills and are committed to a common purpose or set of goals for which they hold themselves mutually accountable.

Types of Team

Work teams are responsible for a specific set of task. Based on their objectives teams may be classified as problem-solving team, cross-functional team, virtual team and self-managed team.

1. **Problem-solving Teams:** Problem solving teams are temporary teams established to solve specific problems in the workplace. These teams typically composed of 5 to 12 employees from the same department who meet each week to discuss ways of improving quality, efficiency, and the work environment. An example of problem solving team is 'quality circle'. Quality circle is a team of 8 to 10 employees and supervisors who share an area of responsibility. They meet regularly to discuss their quality problems, investigate causes of the problems, recommend solutions, and take corrective actions.
2. **Cross-functional Teams:** Cross- functional teams are made up of employees from about the same hierarchical level, but from different work areas, who come together to accomplish a task. Such teams are an effective way to allow people from diverse areas within an organization (or even between organization) to exchange information, develop new ideas and solve problems and coordinate complex projects. Their early stages of development are often very time consuming as members learn to work with diversity and complexity. There are two types of cross-functional teams. They are:
    - **Task force:** It is nothing other than a temporary cross-functional team.
    - **Committees:** Composed of groups made up of members from across departmental lines.
3. **Virtual Teams:** With the introduction of advanced information technology, the requirement that groups be made up of members in face-to-face interaction is no longer necessary. Members can now communicate at a distance through electronic means, such as e-mail, chat rooms, phone conference, faxes, satellite transmission, and websites. Also, those performing in telecommuting jobs often include responsibilities to serve on virtual teams.
4. **Self-managed Teams:** Another type of teams commonly being used in organizations is the self-directed or self-managed team. Self-managed teams (SMT_S), which are sometimes called process teams, are responsible for producing an entire product, component, or services. Employees are assigned to them on a full-time basis and they have a

longer duration. Team members combine skills to produce an important organizational outcome, such as an automobile engine (production process) or the installation of a computer system for a customer (customer service process).

Conflict

Meaning and Concept of Conflict

Conflict is a common occurrence in organizations. It is a process that involves people disagreeing. Conflict is a process in which one party perceives that its interests are being opposed or adversely affected by one or more other parties. It is the result of misunderstanding among person, among groups and among organizations.

Ricky W. Griffin: "Conflict is a disagreement among two or more individuals, groups, or organizations."

Types of Conflicts

Conflict may broadly be classified into the following categories:

1. ***Functional and Dysfunctional Conflict***
   a. **Functional Conflict:** Conflicts that supports the individual and group goals, which leads to higher performance is called functional conflict. functional conflict is also known as **constructive conflict.** This conflict is issue-oriented. It is of administrative or technical nature. It will have positive effects on individuals, groups and organizations. Such conflict surfaces during crucial organizational problems and helps decision makes to work on these problems.
   b. **Dysfunctional Conflict:** The conflict that hinders individual or group performance is called dysfunctional conflict. It is the **destructive form of the conflict** that affects individuals, groups and the organization as a whole. This conflict is personality-oriented. It is based on animosities and deep-rooted personal feeling and attitudes among members.
2. ***Task, Process and Relationship Conflict***
   a. **Task Conflict:** Task conflict refers to conflict regarding the goals and content of the work. It results from task interdependence, task ambiguity and the differences in work orientation. Task conflict can be good in certain circumstances, such as in the early stages of decision

making, because it stimulates creativity. However, it can interface with complex tasks in the long run.

b. **Process Conflict:** Process conflict occurs when the parties agree on the goals and content of work but disagree on how to achieve the goals and actually do the work.
c. **Relationship Conflict**: Relationship conflict occurs when the parties have interpersonal issues. It is based on interpersonal relationship. It involves frictions and interpersonal hostilities.

3. **Vertical, Horizontal and Line and Staff Conflict**
   a. **Vertical Conflict:** It refers to conflict that might take place between different levels of hierarchy. Conflicts between subordinates and superior occur due to incompatibility. It is generally caused because of differences in perception, value systems, goals that may be assigned, cognition and difference in individual behavior.
   b. **Horizontal Conflict:** It is caused due to incompatibility of goals, sharing limited resources and differences in time orientation. It leads to tension, misunderstanding and frustration on the part of both the parties. Horizontal conflict relates to employees or group at the same level.
   c. **Line and Staff Conflict:** This conflict has been tradition. Line authority creates product and services and contributes directly towards the revenue generation. While staff authority assists line authority and acts in advisory capacity. Staff and line authority have a different predispositions and goals. So, conflict occurs when there is encroachment in each other's authority.

Managing Conflict in Organization

Conflict is a fact of organizational life. It is situational that arises when one party perceives that its interests are being opposed or negatively influenced by other parties.

Conflict has both negative and positive consequences in organization. Management of conflict thus, involves conflict stimulation technique and conflict resolution techniques.

A. ***Conflict Stimulation***

Conflict stimulation is the creation and constructive use of conflict by manager. Its purpose is to bring about situation where differences of opinions are exposed for examination by all. The presence of too much satisfaction, low rate of turnover, shortage of new ideas, strong resistance to change, concentration on compromise in decision making and excessive efforts at avoiding conflict is indicative of the need for conflict provocation. In such situations, the management would adopt a policy of conflict stimulation. The techniques for stimulating functional conflict are as follows:

1. **Communication**: Communication can be used to stimulate conflict in organization. Ambiguous or threatening messages can be used to increase conflict levels. Sometimes, managers can also repress information or bypass traditional channels to encourage potential conflicts.
2. **Bringing in outsiders**: Another useful method for stimulating conflict is to bring in one or more outsiders who will shake things up and present a new perspective on organizational practices. Outsiders may be new employees. Current employees assigned to an existing work group, or consultants or advisors hired on a temporary basis.
3. **Firing an insider**: Manager can fire current member of the group. It creates employee dissatisfaction and that leads to conflict in organization.
4. **Organizational restructuring**: Organization can be restructured to stimulate conflict. Organizational restructuring can be done through realigning work groups, altering rules and regulation, increasing job interdependence, making structural changes through downsizing to disrupt the status quo.
5. **Appointing a Devil's Advocate**: A 'devil's advocate' is a person who purposely presents arguments that run counter to those proposed by the majority or against current practice. Such a person plays the role of critic in order to stimulate discussion.
6. **Rewarding dissent**: Rewarding the dissent can stimulate conflict in organization. Individuals, who challenge the status quo, suggest innovative ideas, offer divergent opinions, and demonstrate original thinking need to be rewarded visibly with promotion, salary increase, and other positive reinforces.

B. Conflict Resolution

When a potentially harmful situation exists, a manager needs to engage in conflict resolution. The techniques for resolving conflicts are as follows:

1. **Accommodating:** The accommodating approach emphasizes cooperation instead of forcefulness. A person places his interests last and allows the other party to put his interests. Sharing of opinions removes misunderstanding and both parties realize that they are not far apart. It may be useful when the conflict is associated with aggressive feelings among the parties and temporary solutions are needed in the short run.
2. **Collaborating:** the collaboration style involves parties working together to resolve issues and problems themselves. Both parties come to the table with win-win attitudes. This win-win approach favored when both sides have important differences but everyone agrees to work together. Manager may choose to collaborate by showing a high degree of assertiveness and cooperativeness.
3. **Avoiding:** this approach involves one of the conflicted parties avoiding communicating about or confronting the problem. This approach is considered by hoping that it will be resolved automatically passing of time. In certain situations, it may be appropriate to avoid a conflict. This technique is useful when issues involved in conflict are of very minor nature or when more important issues deserve attention.
4. **Compromise:** This is the traditional method of conflict resolution. It is a process of bargaining where the parties negotiate on the basis of give and take principle to arrive at a mutually acceptable agreement. It is commonly used where the conflict involves differences in goals, attitudes or values. There is no distinct winner or loser because each party is expected to sacrifice something in exchange for a concession.
5. **Confrontation:** Conflict can be faced directly. In this approach, management directly handles the situation and deals with conflicting parties. Assertiveness is the main aspect of this approach. A mutually satisfactory solution is found through face to face meeting of the parties concerned. However, the specific techniques can be organizational redesign and interactive problem solving through open discussion.

Concept of Motivation

Motivational is a human psychological aspect. It is the process of encouraging and stimulating the individuals to do the assigned job according to the best of their ability. It is the process of creating willingness among the employees to do the assigned work in the best possible way. It is the act of inspiring employees to devote maximum effort to achieve organizational objectives.

" Motivation can be defined as a willingness to work to expand energy to achieve a goal or reward." - Dale S Beach

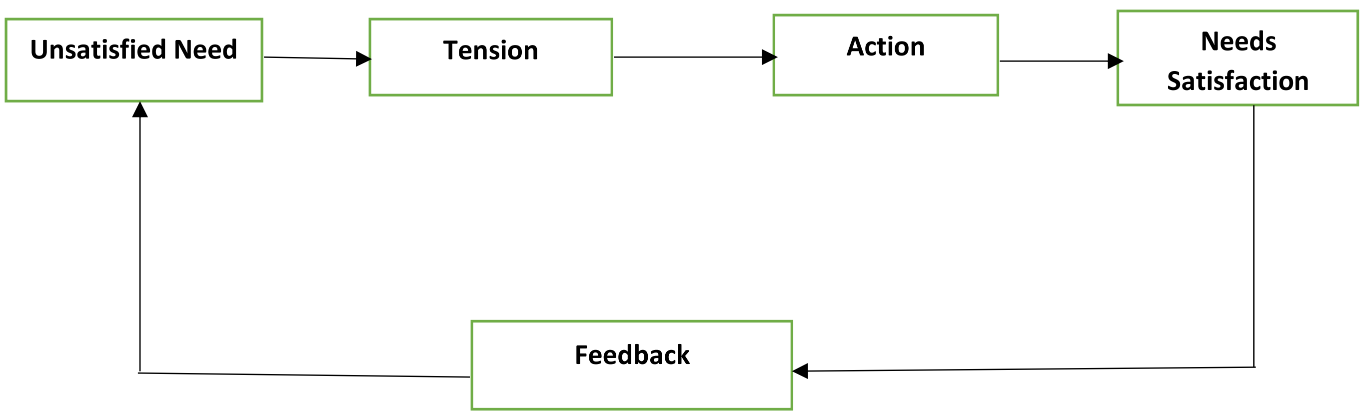
Therefore, motivation is the art of inspiring and encouraging subordinates to do work in an effective way so that both organizational and individual goals can be achieved.

<u>Process of Motivation</u>

The process of motivation is defined as:

1. **Unsatisfied Need:** Unsatisfied need is a state of having unfulfilled needs which create tension. The process of motivation begins with an unsatisfied need, which are anything that employee want and do not have.
2. **Tension:** In common usages, the work tension has a negative connotation. But some tension is absolutely necessary. For motivation to occur, we must have functional tension. This is what gives us the energy to perform.
3. **Action:** Action refers to the outward action of individuals directed towards some goal. These actions performed so that the required goals can be achieved.
4. **Need Satisfaction**: It is by satisfaction of needs. It can be through reward and punishment. This achieves goals.
5. **Feedback:** Feedback indicates how well the goal is achieved and needs are satisfied.

It can be shown on diagram which is as:



Strategies for Motivating Employees

Management can use a variety of strategies and techniques to motivate employees. Some important strategies to motivate employees are given below:

1. **Financial incentives:** Money is regarded as a symbol of social prestige, recognition and achievement in the materialistic world. People satisfy their higher order needs by money. Wages, salary, profit sharing, leave with pay, medical reimbursement etc. motivates employees to perform better. These facilities help to retain productive employees.
2. **Participation:** Participation refers to involvement of employees in planning and decision making. This helps to fulfill esteem needs to employees. Participation is one way of developing initiatives among employees. Participation encourages brainstorming which helps for developing innovative ideas to solve complex problems.
3. **Delegating of authority:** Delegation of authority is assigning certain part of work to subordinates and giving them the required authority the assigned task effectively. It helps for training and development of subordinates. It helps to develop high moral and motivation of subordinates.
4. **Job security:** Job security implies that employees would continue on the same job in the same organization. They enjoy economic and social security through health and welfare programs, security against sickness, disability and old age provision. Employees will be motivated towards their job if they have a feeling of job security and future provision.
5. **Job enlargement:** Job enlargement is concerned with addition of extra job responsibility of same level to the employee. It refers to mounting complexity of the job. Job enlargement allows opportunity to make use of their minds and makes them able to perform varieties of task independently.
6. **Job enrichment:** Job enrichment is concerned providing higher level job responsibility to employees. In other words, it refers to vertical expansion of a job by adding planning and evaluating responsibilities. Employees are empowered to assume some tasks typically done by their managers. It increases freedom, responsibilities and independence.
7. **Job rotation:** Job rotation refers to shifting an employee from one job to another job. It reduces the boredom and disinterest through diversifying

the employees' activities. The basic purpose of job rotation is to increase the skill and knowledge of employee about related jobs.

8. **Reinforcement:** Reinforcement is a formal and powerful tool for motivation. Behavior which appears to lead a positive consequence needs to be repeated while behavior that leads negative consequence not to be repeated. Reinforcement can be positive and negative. People' s behavior can be motivated by providing rewards.
9. **Quality of work life:** Quality of work life is an attempt to develop a formal program to integrate employee needs and well-beings with the intension to improve productivity. Quality of work life ensures greater worker empowerment, adequate and fair compensation, safe and healthy working conditions and higher level of job satisfaction.
10. **Competition:** Competition is widely used tool for motivation. Employees in organization compete with each other to fulfill their ego needs. The person who is considered the best is awarded with the popular prize. Competition may be in terms of sales, production, safety measures and so on.

<u>Lesson-8 Fundamental of Influencing and Communication</u>

Influencing

Fundamentals of Influencing

Influencing is the capacity or power of persons or things to be a compelling force to produce effects on the actions, behavior, opinions, etc., of others. It is the process of guiding the activities of organization members in appropriate directions.

Influencing involves focusing on organization members as people and dealing with such issues as morale, arbitration of conflicts, and the development of good working relationships. In fact, the ability to influence others is a primary determinant of how successful a manager will be.

Influencing People

Influencing is one of the basic functions within the management process. This function is also commonly referred to as motivating, leading, directing, or actuating. An appropriate direction is any direction that helps the organization move toward goal attainment. The ultimate purpose of influencing is to increase productivity.

Influencing Subsystem

Like the planning and organizing functions, the influencing function can be viewed as a subsystem within the overall management. The following figures shows the elements of the influencing subsystem.

1. **Input:** The input of this subsystem is composed of a portion of the total resources of the overall management system. Mainly, people, money, raw materials and machines are the key inputs in this subsystem that help to generate outputs.
2. **Process:** The process of the influencing subsystem involves the performance of six primary management activities such as:
    - Leading
    - Motivating
    - Considering groups
    - Communicating
    - Encouraging creativity and innovation

- ❖ Building corporate culture.

3. **Output:** Managers transform a portion of organizational resources into appropriate organization member behavior mainly by performing these activities. So, the output of influencing subsystem is creating appropriate organization member behavior.

Concept of Communication

Communication is the process of transferring information from one person to another having common interest or objectives. It is the exchange of facts, opinions, ideas, suggestion and other information from one person to another. In other words, it is the transfer of meaning and understanding between people through verbal and non-verbal means in order to gain affect behavior and achieve results.

"Communication is "an exchange of facts, ideas, opinions or emotions by two or more persons." - Newman and Summer

" Communication is the transfer of information from a sender to receiver with the information being understood by the receiver." - Knootz and Weihrich

Communication is continuous function till the existence and functioning of the organization. It is the basis of organizational function. Thus, communication is the process of transmitting information from one person to another in a clear and meaningful manner. In business organization it is essential to maintain coordination among the group force and their efforts.

Nature/ Characteristics of Communication

The nature and characteristics are as follows:

1. **Two-way process**: Communication can take place only when there are at least two persons. One person has to convey some message and another has to receive it. For example, in a classroom, the teacher conveys information to a group of students.
2. **Knowledge of Language**: For communication to be successful, the receiver should first of all understand the message. For this, the sender must speak in a language that is known to the receiver. For example, if the receiver cannot understand English and the sender the message conveys his ideas in English, the communication will be a failure.

3. **Meeting of Minds Necessary**: The receiver must understand the message in the way the sender wants him to understand. For this consensus is required.
4. **Message**: The sender of message must have somethings really worthwhile for the receiver. For example, if certain botanical names are explained to a student learning commerce, he may not show any interest.
5. **Gestures**: Communication need not necessarily be made orally or in writing. Certain gestures or actions may also convey one's willingness or understanding of a given problem. Nodding of heads, rolling of eyes, movement of lips etc., are some of the gestures normally used to convey certain ideas.
6. **Pervasive**: Communication is found in all levels of management. The top management conveys information to middle level and vice-versa. Similarly, the middle level management conveys information to the supervisory staff and vice- versa. There is a flow of communication in all directions in a workplace.
7. **Continuous Process**: In any workplace, someone will be conveying or receiving some information or the other always. Sharing or exchanging information is an ongoing activity.
8. **Basis of action and co-ordination**: Communication is the most important element of action and coordination. The managers provide direction to subordinates through the use of means of communication. It helps to implement plans and policies. Besides, it contributes to maintain coordination among work groups to develop the concept of team spirit.

Structure of Communication

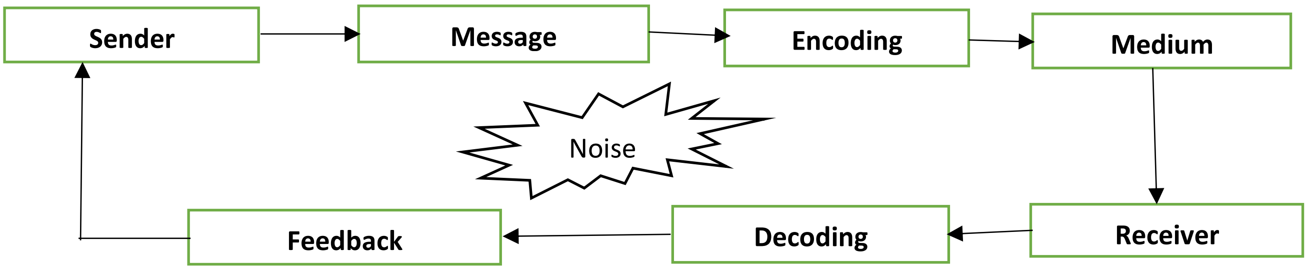
Communication structure is an established network in which the information flows to many directions on the basis of requirement. It is helpful to determine speed, accuracy and smoothness of information flow. It acts as linkage among employees. The structure of communication in organizations are:

1) **Downward Communication**
2) **Upward Communication**
3) **Two – way Communication**
4) **Horizontal Communication**
5) **Diagonal Communication**

(NOTE: These communications are explained on the topic of TYPES OF FORMAL COMMUNICATION briefly)

Process of Communication

Communication is the process of exchanging information from one person to another. The process of communication begins when one person (sender) wants to transmit a fact, idea, opinion, and other information to someone else (receiver). Generally, the following are the steps essential to fulfill the communication process: sender or source, message, encoding, medium, decoding, receiver, feedback and noise.



i. **Sender:** The sender is the source of information. He may be the manager, non-manager, departments or organization itself. A manager may communicate to other managers, subordinates, supervisors, clients, and customers and to outsiders. Basically, the sender is the initiator of the process of communication. Therefore, the sender must conceptualize the message before it is encoded.

ii. **Message:** It is the subject matter of communication which the sender wants to convey to the receiver. It may consist of facts, opinions, ideas, request, and suggestion etc. of the sender. The sender expresses his views, ideas and facts in terms of messages either in written or verbally to the receiver.

iii. **Encoding:** It is the process of giving a form and meaning to the message. It is concerned with systematic presentation of subject matter of communication. When the sender expresses message in terms of words, symbols, gestures, drawing, or other means are forms of encoding. The main purpose of encoding is to translate thoughts and feelings into a code that others are able to understand.

iv. **Medium:** It refers to the selection of channel of communication to convey encoded messages to the receiver. It bridges the gap between the sender and the receiver in communicating message of common interest. For instance, an oral communication can be made through telephone, mediator, group discussion etc. whereas written communication can be made through the means of letter, memo, report, newspaper etc.

v. **Receiver:** The receiver is the second person in the communication process. He receives messages, understands the same, and takes necessary steps for response. From the technical point of view, communication becomes complete only when it is received and understood by the receiver. Therefore, an effective message communicated must be receiver-oriented, not sender oriented.

vi. **Decoding:** Decoding refers to the process by which receivers translate the message into terms meaningful to them. It is the process of interpreting messages by the receiver. It is essential to get the knowledge or meaning of message as per the intension of the sender. The effectiveness of communication ca be realized only when the receiver is able to decode message in accordance with the sender's intensions.

vii. **Feedback:** It is the final stage in the communication process. Feedback determines whether the message is clearly understood and whether required action is taken by the receiver as intended by the sender. When the receiver is able to decode messages received from the sender, he provides the response on time. The feedback to the sender completes the process does not fulfill the objectives of communicating message.

viii. **Noise:** Noise is any element or condition that disturbs or interferes in the effectiveness of communication. It disturbs the free flow of information from one person to another. Noise consists of sound of radio, loudspeaker, machines, vehicles etc. It also involves sloppy handwriting, slow voice, soft speech etc.

Types of Communication

Communication can be classified into different types on different types on different basis. The following are the basis of classification of communication:

- Formal Communication
- Informal Communication
- Interpersonal Communication
- Non-verbal Communication

Formal Communication

It is an authentic and officially written communication with documentary evidence and passing through established channels. The formal communication is controlled and regulated by the organization. It decides which information to share, with whom, and when. Official letters, memos, notices, newsletter, reports, sales-force meetings etc., are the examples of formal communication. Formal communication follows a prescribed path. It can be of following types:

1. **Downward communication:** The flow of information from superior to subordinates in the management hierarchy is known as downward communication. Basically, information of instruction, plans, policies and direction formally flow from the upper level to the lower level. Such information is essential to maintain regular operation of the organization and to meet planned objectives.
2. **Upward Communication:** The flow of information from subordinates to superiors in an organization is known as upward communication. Generally, information of achievement of work done, problems faced in performance, suggestions, grievance etc. are communicated from the lower level to the upper level. Such information enables the management to know what is actually happening in all the departments of the organization. It helps the manager to maintain effective control over organizational performance and which is a must to complete managerial job.
3. **Two-way communication:** It is the communication from both ways between superiors and subordinates. It is used in direct marketing. It can be used for coordination and inter-departmental problem solving.
4. **Horizontal communication:** It is the sideward flow of information among the employees having equal level of authority. In such a communication system, employees of the same level exchange their ideas, views, experience, and knowledge among each other. For instance, exchange of information between a marketing manager and a production manager.
5. **Diagonal communication:** In such a communication system, employees of the different levels exchange their ideas, views, experience, and knowledge among each other. For instance, exchange of information between a marketing manager with a production supervisor and vice-versa.

Informal Communication

Informal communication is not planned by the organization , hence no lines of communication exist. This type of communication takes place due to absolute desire of an individual to communicate with others. This type of communication takes place during lunch, or coffee/tea breaks and during social gatherings. This type of communication is also called "grapevine". This major types of grapevine chains can be:

1. **Single Strand:** Person X tells something to person Y, who tells it to person Z, and so on in the line. In this chain, each person tells to the one next to him or her.
2. **Gossip:** One person seeks out and tells everyone the information of an interesting but non-job-related nature. In this chain, one person tells the information to all.
3. **Probability:** Individuals offer information to others indifferently. In this chain, one person randomly tells the information to others.
4. **Cluster:** Person X conveys the information to a few selected others. In this chain, the person tells the information to the selected ones.

Interpersonal Communication

Interpersonal communication is the communication between two or more persons. It includes face-to-face, telephone, group meetings, formal presentation, memos, traditional mail, e-mail, fax, hot lines, teleconference, videoconferences, etc. Interpersonal communication can be oral or written. They are as follows:

1. **Oral communication:** It is direct interpersonal contact between communicator and communicate. The communication is expressed by words of mouth. Oral communication is used when both (sender and receiver) are present. It is face to face communication. It is more effective than written communication because the receiver not only hears the contents of the message but also is influenced by the tone, pitch, gestures, speed and even volume of conversation.
   It is direct, simple form of communication which is the least expensive and yet the most effective. Feedback is spontaneous and any error in the message is corrected immediately.
2. **Written communication:** It is a system by which the communicator establishes indirect relationship with the communicate through written documents. This is one of the formal communication systems. This includes written words, graphs, diagrams, picture, etc. Written

communication is extensively used in organizations. The circular, magazines, notes and manuals are some common force of written communications.

<u>Non-verbal Communication</u>

Non-verbal communication is sending and decoding messages with emotional content. The transmission and receipt of messages by some medium other than oral or written is non-verbal communication. It is very useful to express feelings, attitude and emotions. Basically, friendliness, respect, acceptance, rejection, dominance, submissiveness, anger, fear, and humor are conveyed primarily by nonverbal signals. A good and efficient manager should be aware of the importance of non-verbal communication and recognize its potential impact.

Important dimensions of non-verbal communication are follows:

1. **Body postures:** It consists of different postures of the body that convey certain meaning. Gestures can add or detract from the verbal message. hands gestures help emphasizes points, but fidgeting sends the message that the speaker is nervous and lacks confidence. In the United States, holding the thumb and first finger in a circle means OK. In Brazil it is an insult and may provoke a fight.
2. **Facial expression:** Emotions such as happiness, satisfaction, anger, fear, and confusion are signaled by facial expressions. Smiling conveys happiness and warmth. Along with the handshake, a smile a probably one of the most effective ways to establish a positive connection with a new acquaintance.
3. **Verbal intonation:** It refers to the tone in a voice. Emotions such as attentiveness, friendliness, anger, or fear are transmitted by the tone in a voice. Aspects of the tone of voice that communicate different emotional states include pitch, loudness, speed, clarity of speech, and inflection. Therefore, it is a good practice to speak clearly, emphasize key words, and use variable speed and inflection at appropriate times to keep the audience interested.
4. **Eye movement:** Eyes are the most expressive component of facial expressions, a glance, a stare, a smile or some provocative movement of the body conveys a lot. In business communication, it is important for both parties to make some eye contact, but prolonged eye contact may be interpreted as aggressiveness or inappropriate intimacy.

5. **Touch:** Touch signals liking, acceptance, and friendship. Even more than eye contact, touch should be used sparingly in business situations. Unwanted touching in Nepalese workplace is a form of sexual harassment. For example, in France it is common for employees who are good friends to greet each other with a kiss on the cheek.

Barriers to Effective Communication

Communication is regarded as providing a basis for the operational life of the organization. However, in practice some barriers emerge in communication, which may create problems in its effectiveness. Effective communication may be interrupted in any organization are as follows:

A. Organizational Barriers

In some case, organizational system and belief itself creates problems for free flow of information. It creates difficulty in transforming information to targeted authority which also creates problem to meet objectives.

i. **Organizational Policy:** Organizational policy regulated by the management regarding communication system provides overall guidelines to the members to use the defined network. The policy may be in written form or it is understood from the behavior of the top management. Therefore, in the absence of supportive policy of the top management, information cannot reach the direction where it is required, so the communication flow will not be smooth and adequate.

ii. **One-way Communication System:** In an organization, if the communication system is only one-way-from top level to subordinates there is the possibility of development of grievances among subordinates.

iii. **Lack of Confident in Subordinates:** Some conservative managers perceive that their subordinates are not skilled and competent to bear responsibility. Such a belief may distort the free flow of communication in the organization.

B. Physical Barriers

Internal structure of the organization and layout of office machine and equipment also create barriers in the transformation of information. These create difficulty for free, clear and smooth flow of information. Brief explanations of these barriers are as follows:

i. **Physical Distance:** The location of departments and branches in different geographical and regional distances may breakdown communication flow of an organization. It is difficult to communicate the required information to different locations if appropriate communication network is not developed in the organization.

ii. **Structure:** Hierarchy structure creates status difference among the members of an organization. Generally, the members at the subordinate level fear and hesitate to communicate message to the upper level. This also breaks down communication flow in an organization.

iii. **Noise:** Noise from external environment creates problem in understanding the messages in accordance with the sender's intentions. When the receiver is unable to understand the message he can't provide a response. Therefore, noise also breaks down communication feedback.

C. Psychological Barriers

These barriers are generated due to human perception, lack of skill and negative thinking of top level managers. Such psychological factors create difficulty for productive flow of information and create problems in meeting defined objectives. A brief explanation of these barriers is as follows:

i. **Distrust of Communication:** Many subordinates do not belief on the superior's messages thinking that they might change, cancel, or modify to their own view and ideas. In such superiors is not taken seriously by the subordinates.

ii. **Superiority Complex:** Superiority complex of the higher authority also creates barriers in the free flow of information. Such managers feel themselves superior and would not like to talk and communicate with subordinates thinking that it is below their dignity.

iii. **Premature Evaluation:** Premature evaluation is concerned with evaluating the subject matter before getting detailed information. Generally, employees at the subordinate level go for premature evaluation of communication.

D. Semantic Barriers

These barriers created due to use of difficult and insensitive language by the sender. Brief explanations of these barriers are as follows:

i. **Harsh Language:** The use of harsh or poor language will emotionally affect the sentiment and ego of the receivers. In such cases, receivers try to resist the senders and may not provide any response. An egoistic receiver may respond in a negative way, which may be the reason of misunderstanding and conflict.
ii. **Misleading translation:** Wrong translation of messages received also creates barriers in communication. For instance, middle level managers receive communication from the top level which has to be translated by them in simple language for the use of first line managers. But if they translate the messages in a wrong way it creates confusion to the first line managers.
iii. **Technical Language:** Some managers use technical terms in communication. The use of such technical terms creates confusion to the ordinary receivers; therefore, they do not provide any response to the sender.

E. <u>Technological Barriers</u>

These barriers are formed due to defect in technology used and overload in information. Brief explanations of these barriers are as follows:

i. **Mechanical Barriers:** IN some cases, mechanical devices used in the communication process may suffer mechanical defects, for instance technical faults in telephone line, defects in computer software, internet network problems etc. create serious communicating problems.
ii. **Loss of transmission:** Generally, a verbal message when it is in course of transmission may lose some of its main contents. In a similar way, due to limited memory power of the receiver, there is also a possibility of loss of content of the message.
iii. **Information Overload:** Manager may receive information from various sources. In fact, because of advance in communication technology difficulty may arise not from the absence of information but from excessive information. In such a situation, he cannot absorb adequately all messages directed to him. He may leave a majority of important messages, which in fact means that these messages are not studied in detail.

Measures overcoming Communication Barriers

Communication is regarded as a basis for providing the operational life of an organization.it is important for securing smooth functioning of an organization to achieve organizational goals. Many barriers arise in course of communication, however, all attempt must be made by the management to minimize these barriers. The following common measures can be applied to minimize barriers and to enhance effective communication:

i. **Effective Listening:** Effective listening is a must to understand the message. The manager responds to the message only if he is able to listen the message properly and understands its meaning. For this, it is essential to encourage someone to express his true feelings, desires, and emotions. An effective listening helps to understand the messages in a said manner. Clear message also helps the receiver to provide response in a systematic way.

ii. **Utilizing feedback:** Feedback is an important element of effective two-way communication. Communication process is incomplete without feedback, as the sender has no way of knowing whether his communication has been successful or not. It is essential both in written, verbal and non- verbal communication. Direct and immediate feedback is possible in face to face communication. An organization must develop a two-way communication system for effective utilization of feedback.

iii. **Regulating information flow:** Regulating the flow of communication ensures an optimum flow of information to managers. It reduces communication overload to the managers. Optimum flow of information provides sufficient time for managers to make a detailed study of each and every message. For this, exceptional principal should be taken into every message. For this, exceptional principle should be taken into consideration. This principle states that information which is significant from the policies and procedures of the organization should only be brought to the attention of the manager.

iv. **Two-way communication:** Two-way communication is essential in every organization to make communication more effective. Both the sender and receiver should give more attention to fulfill its objectives. In management hierarchy, there must be two-way systems of communications i.e. from top level to subordinates and vice versa. Top managers should get information from subordinates to know the progress of jobs and problems in performance. This is helpful in taking right decisions in proper time.

v. **Simplifying language:** As far as possible the sender should use simple language in communication. The sender should use the word and sentences considering the level of knowledge of the receiver. The use of complex, multi meaning words and proverbs must be avoided because it may create confusion in the minds of the receiver. He may interpret the communication differently and also respond in a different way. Such wrong interpretation and response will not meet the objectives of the sender.

vi. **Avoid information overload:** A manager receives many information from various sources. This information is the basis of office operation. However, all these information are not equally important in organizational performance. In fact, because of advances in communication technology, difficulty may not arise from the absence of information but from excessive information. Therefore, important information should be taken into consideration and useless information should be discarded.

vii. **Create an Environment of Trust and Confidence:** In communication, there must be an environment of trust and confidence between the sender and the receiver. In an organization, top management must create the environment of trust and confidence. It requires that the management must develop sound policies and put them in writing in front of subordinates. Further, the policies should be administrated judiciously and fairly without fear or favor.

viii. **Reduce Psychological Barriers:** Psychological barriers consist of distrust of communicator, superiority complex, individual perception, premature evaluation, no attention etc. subordinates should believe in the superior's messages and implement his instructions and guidance properly. The top level manager should avoid the feeling of superiority complex in communication information with subordinates there must be the same perception between the manager and subordinates regarding organizational performance and goals. The manager and subordinates must avoid both premature evaluation of the message. The receiver must pay proper attention on information to understand it.

Chapter-9 Control and Quality Management

Concept of Control

Controlling is the process of measuring and comparing actual performance achieved with that of planned performance and taking corrective step if any deviation is found between actual and planned performance.

In other words, controlling is the function of management, which measures consistency between actual achievement and pre-determined goals.

" Controlling is determining what is being accomplished, that is, evaluating performance and if necessary, applying corrective measures so that performance takes place according to plans." **-George R. Terry**

Characteristics of Control

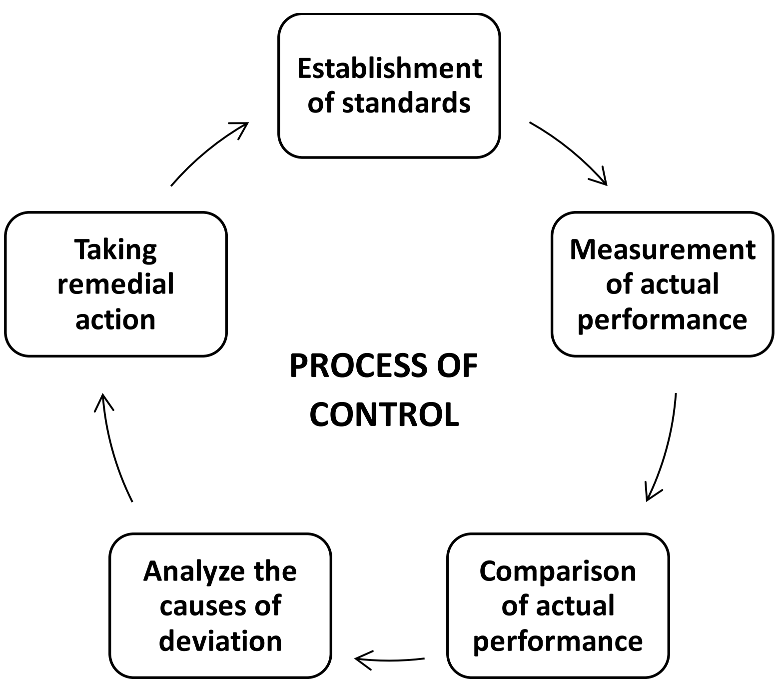
1. **Management function:** Controlling is important function of management. It is the controlling function that brings about a balance between planned and actual performance. Without controlling, other functions of management becomes worthless.
2. **Pervasive function:** Controlling is pervasive function in all levels of management from top level to the first line. However, the degree of control depends upon the nature of management and level of responsibility and authority. Generally, the chief executive controls departmental managers, departmental managers control supervisors, supervisors control the operating level employees.
3. **Continuous process:** Controlling is a never ending process and lasts till the organization is in existence. It involves a continuous analysis and study of implementation of standards, policies and procedures of the organization.
4. **Dynamic process:** The standards of operation of an organization will be reviewed on the basis of the changing environment of the business. The procedures and system of control must be changed to adapt with the changing standards of operation. The manager has to introduce new

techniques and strategies so that he is able to control the performance in a systematic way.

5. **Forward looking:** Controlling is not concentrated on the past and present performance only; it also focuses on future performance. The early detection of weakness and errors in work contributes in taking corrective action in time. This leads to effectiveness in future performance and will prevent such repetition of defaults in the future.
6. **Measurement and comparison:** Controlling is the managerial tool which compares actual performance achieved with planned performance. Frequently, the authority concerned measures actual performance with planned performance and it takes necessary steps of correction if there is any deviation.
7. **Corrective action:** Controlling is the management function through which a manager takes necessary steps if actual work done is not in accordance with a plan. Tactful action at the right time is the essence of controlling.

<u>Process of Control</u>

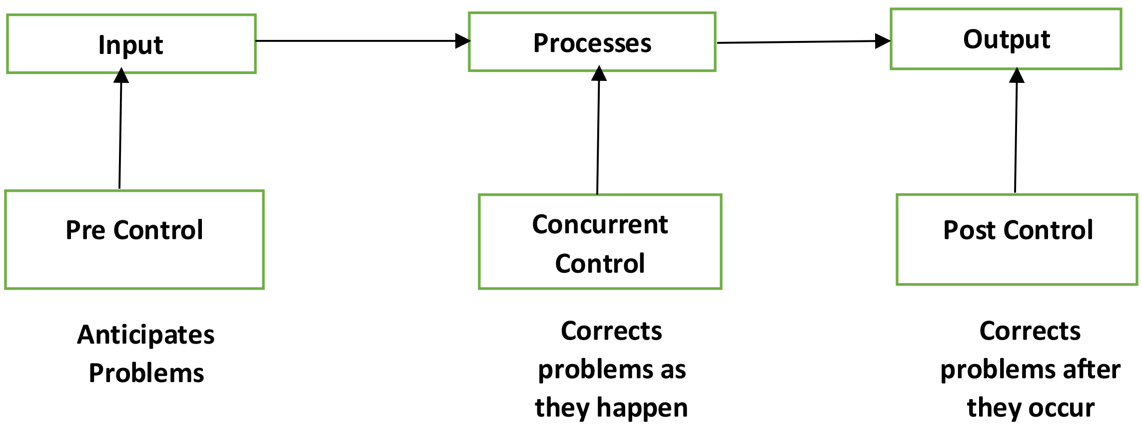
Managers need to study various factors before taking any action. It is necessary to consider some process for taking the right decision. The following are the major steps in the process of controlling.



1. **Establishment of standard:** The process of controlling starts with the establishment of a standard of performance. The standard of performance must be practically attainable and should be the basis of comparison with actual performance. The standard of performance may either be tangible or intangible. Tangible standards can be expressed in numerical terms. Again, tangible standard may be classified as: quantitative standard, monetary standard, time standard and financial standard. Intangible standards involve competency of managers, employees' morale, reputation of enterprise, good public relation and so on. Therefore, managers need to set both quantitative and qualitative standard of performance of the organization.
2. **Measurement of actual performance:** The second step in the controlling process is the measurement of actual performance achieved with that of planned performance. The measurement of actual performance must be done in accordance with the standard laid down. It makes measurement easier and meaningful. Therefore, there must be a provision of measurement from time to time even when the actual performance is still in operation.
3. **Comparison of actual performance:** This step of controlling process focuses on the detailed study actual performance and comparison against standard performance. Such comparison shows the range of deviation of actual performance achieved from that of the standard defined. If the range of deviation between actual and standard deviation, it can be ignored. However, if the range of negative deviation is more than the standard, it is essential note such steps deviation for necessary steps. Hence, comparison of actual performance is helpful to identify weaknesses and strengths in any part of performance.
4. **Analyze the cause of deviation:** A detailed study of each and every part of performance guides in finding out the cause of deviation in actual performance. The causes of deviation of actual performance gained against the standard defined might be due to external environment, internal environment, defects in planning, organizational defects, and others. Therefore, it is essential to detect where the problem lies so that corrective action can be taken in the right time.
5. **Taking remedial action:** The final step of controlling process is to take corrective action so that actual performance come to the level of standard performance. The management must have a strategy to remove limitation in

internal environment through modification and to adjust itself with the external environment. Generally, remedial action might involve modification and improvement in planning, betterment of internal environment, organizational structuring, placement of right person to the right job, the betterment in directing techniques.

Types of Control System



1. **Pre-control:** The pre-control is also known as **feed-forward** or **preventive control**. It is specified at the time of formulation of planning. It is future directed control. It allows management to prevent problems rather than solving them occurs. It predicts problems that the management may face in future and identifies the steps to be taken to resolve them. It also tries to anticipate deviation in advance and allows corrective action to be taken before the problem arises. Organizational plans such as strategies, policies, and procedures are pre-control devices.
2. **Concurrent control:** Concurrent control is also known as **real time** or **steering control** as the technique of controlling activates in the process of functioning. In this system, supervisors direct the work of subordinates so that they perform their work properly. In this process of functioning, if any problem takes place, it is identified and analyzed and corrective measures are taken before any major damage occurs. It is a continuous process and necessary adjustments that are made in activities to meet the desired standard. Examples of concurrent control are quality control chart in an industry, inventory control, production control, etc.

3. **Post control:** Post control is also known as **post-action control** or **feedback control**. It takes place after the activity is over. Management, under which, can take corrective action after analyzing deviation from the planned results. In other words, it is the process of adjusting future action on the basis of information about past performance. Post control technique in fact provides corrective feedback which facilitates the management to take necessary steps to improve future performance. For example: When a sales goal is set, the sales team works to reach the goal for three months and at the end of three month managers review the results and determine whether sales goals was achieved.

Characteristics of an Effective Control System

Controlling system is necessary in all types of organization. But a good control system should ensure achievement of every objective of the organization. Some of the major feature of a good controlling system are as follows:

1. **Suitability:** A better control system should be appropriate according to the needs of the organization. It must be adjustable according to the nature, type, size and requirement of the organization. Similarly, control system of a manufacturing concern may vary from the control system of a trading house, service and so on.
2. **Simplicity:** Controlling system must be simply so that it is easy to understand and operate. The management has to introduce a simple controlling so that every levels of authority can understand and operate it easily. The new scientific type of controlling, if possible, should be introduced in clear and understandable way.
3. **Objectivity:** A good control must meet the objectives of the organization. Every organization is established for specific goals and for this, standards of performance are determined. Therefore, a controlling system should be ensured that actual performance must be in accordance with the standard defined. The concept of personal likes and dislikes should not be taken into consideration.
4. **Economical:** A controlling system must be within the financial capability of the organization. It must be economical in design and in the implementation

process. Therefore, controlling system must consider the cost benefit concept. It means, the output of controlling must be more that its input.

5. **Comprehensive:** A good controlling system must cover all the key functional areas of the organization. It must be comprehensive in design and functioning. More concentration should be given on those functional areas where controlling is essential.
6. **Capable to communicate:** A better control system must be capable to communicate with the concerned authority. In other words, communication system must be clear, effective and scientific. It needs not only the mere flow of information from top level to the subordinates but the flow of information must be in the right time.
7. **Suggestive:** A good control system must be suggestive in its motive. It involves the measurement of actual performance with that of planned performance and finds out the deviation. Therefore, the controlling system must commence from the measurement of actual performance against planned performance to suggest remedial action.
8. **Flexibility:** A good control must be flexible. This is a must to adjust with the changing environment. The controlling system of today may not be effective for tomorrow as objectives, plans, activities, people, external, conditions, etc. changeover time.it needs to be amended according to the time and the situation.
9. **Forward looking:** The control system should be directed towards the future. If controls details do not relate to future, they are of no use as they will not be able to suggest the measures to be taken to avoid recurrence of variations in the future.

Potential Barriers to Successful Controlling

Effective control system is essential to maintain a balance between the standard set and actual performance achieved. Many problems may arise in the course of functioning. The following are the potential barriers to successful controlling:

1. **Over control:** Unnecessary pressure on employees' s behavior and their functions may create problems in effective control. Problems arise when employees perceive that the management attempts to limit their freedom

unnecessarily. This can increase employees' frustration and thereby reduce their morale.

2. **Inappropriate focus:** Focus on a certain aspect while taking decisions may create problems in effective control. For example, unnecessary focus on increasing sales volume to maximize profit without considering quality of product or services may decrease goodwill in the long run. Employees oppose such narrow focus.
3. **Reward for inefficiency:** Employees should be rewarded on the basis of their efficiency and skill. Rewarding employees without considering their efficiency creates problems in control. If more incentive is given to an inefficient employee as compare to an efficient employee, it creates frustration among the efficient employees.
4. **Maximum accountability:** When an employee or group of employees complete their given job and report to the concerned authority, it is said that they have fulfilled their accountability. But without setting standards and delegating authority, if more responsibility is given to an employee, it may create problems on work effectiveness.
5. **Coordination problem:** In an organization, many departments are formed on the basis of nature of works. Each department is independent to perform its activities. However, works of one department is inter-related to the works of other departments. If interdependent departments perform their functions without considering the functions of other departments, it is more difficult to maintain coordination.
6. **Imbalance in authority and responsibility:** Authority is related to power that is inherent in managerial positions whereas responsibility is the obligation t be fulfilled by subordinates. If there is lack of balance between authority and responsibly it is more difficult to implement the control in an effective way. When subordinates have given more authority than responsibility, there is possibility of misuse of authority. Similarly, when subordinates have more responsibility than authority they cannot accomplish assigned job effectively.
7. **Ineffective communication:** Effective communication ensures smooth functioning in the organization. It is essential to develop a formal system of communication to pass information within and outside the organization. However, if managers are unable to minimize communication barriers, it

becomes difficult to maintain effective control over the activities of subordinates.

Quality Control System

Concept of Quality

Quality is the perception of excellence viewed by customers to satisfy their needs. It is a sense of appreciation that a product or service is better than others.

" Quality is the degree of excellence at an acceptable price and the control of variability at an acceptable cost." - **Robert A Broh**

" Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs."

- American Society for Quality Control

In conclusion, quality is the excellence of the products in terms of its performance, reliability, durability, serviceability, and so on.

Factors Affecting Quality

Quality is the level of excellence viewed by customers to satisfy their needs. The greater the perceived value of product or service, the higher is customer expectations for quality. The effective management of quality depends upon a number of factors consisting of:

1. **Policy:** The top management establishes policies regarding product quality. These policies specify the level of quality to be achieved in a product or service. Managers generally consider three factors in determining policy for quality. The product and services market, its competition and image. Quality levels in competitive market also affect policy because the company's product must have the quality to succeed in the market. Production of inferior quality product may spoil long term interests of the organization.
2. **Information:** The top management must acquire the right information about customer needs and expectation and the competitors' s quality standards. Nowadays, advanced computer technology is facilitating organizations to quickly obtain and evaluate information about the quality of products.

3. **Engineering and design:** Product engineering and design ensures new products in less time with better quality at lower cost. The production department has to produce a product at a reasonable cost with better quality. It is the engineer or designer who must translate the policy into actual product or service. Innovation and creativity helps to design a product having superior quality. The basic purpose of designing is to avoid defective production.
4. **Materials:** The top management must realize that quality product can be produced only by using good quality raw materials. They need to terminate contract with lower quality vendors and maintain long term relationships with better ones.
5. **Equipment:** The use of automatic machines, computer software and robotics makes the output uniform and qualitative. Machines, equipment and tools used in the production process should be advanced and automatic.
6. **People:** Employees are very important components for maintaining and improving quality. Well experienced and dedicated employees can contribute more to improve quality. Functioning independently, or in a group, they can improve the quality of a product and service. Therefore, the management has to guide employees on total approach of quality.

Total Quality Management (TQM)

Total quality management is a management strategy that is designed to bring awareness of quality in all organizational processes. Total quality management consisting of quality of return to satisfy some specific needs of shareholders, quality of products and services to satisfy some specific needs of the employees in the organization.

TQM ensures that things that are done rightly for the first time, and defects and waste are eliminated from operations. An organization that adopts TQM must implement changes in all areas of management.

TQM has four objectives:

- **Better, less variable quality of product or service.**
- **Quicker less variable response in process to customer needs.**
- **Greater flexibility in adjusting to customers shifting requirements.**

- **Lower cost through quality improvement and elimination of non-value adding work.**

Tools for TQM

Organizations can apply several tools and techniques to improve quality. The popular among them are benchmarking, outsourcing, speed. ISO 9000 and statistical quality control techniques.

1. **Benchmarking:** Benchmarking is an evaluation and comparison of own products and process against the very best in the market. Benchmarking involves looking similar firms to examine how they have achieved the best performance levels and to understand the process they use. Application of benchmarking involves four steps.
    - Understand in detail the existing business practice.
    - Analyzing the business process of others.
    - Compare own business performance with that of others analyzed.
    - Implementing the steps necessary to close the performance gap.
2. **Outsourcing:** Outsourcing is the process of providing some parts of jobs to other organizations to bring quality and cost benefit. If an organization performs each and every activity by itself, they may not be able to perform it in an efficient manner and the quality of products and service will also be inferior. Therefore, the organization needs to identify certain areas that can be outsourced to minimize the cost of operation and to produce higher quality.
3. **Speed:** Speed is the time required to perform specific activity for an organization. It is required in every area including development, production and distribution of products or services. Many organizations are using speed for competitive advantage today. Increasing speed will give organizations a strategic advantage and helps them to complete the task more effectively. It involves not only doing the same thing faster but also rethinking and redesigning the whole business cycle.
4. **ISO 9000:** ISO 9000 is the international standard set for the product and service by the international body. It was founded on 23 February 1947. Its headquarters is in Geneva, Switzerland. There are five sets of standards covering areas such as product testing, employee training, record keeping,

supplier relations and repair policies and procedures starting 9000 to 9004. Firms that meet these standards apply for certification and are audited by a firm's domestic affiliate organization. **Nepal Bureau of Standards and Metrology adopts this standard in Nepal**. This office reviews every aspect of the firm's business operation in relation to standards and grant ISO 9000 certificate who meet the standards.

5. **Statistical Quality Control (SQC):** Statistical quality control is asset of specific statistical techniques which is applied to monitor the quality of goods or services. It is based on statistical and probability theories. It seeks to control the quality through incoming materials, processing and outputs produced. Control charts are constructed to set the acceptable lower and upper limits of an aspect that we want to control in an item. All finished products may not be exactly the same and therefore, some limits or tolerance must be set so that if the finished product falls within these set limits, it can be considered of acceptable quality.
6. **Just-In-Time(JIT) Inventory Management**: This is the inventory system control method. Under it, inventories are received just-in-time to be used up by production.
7. **Right the First Time** : Under this, employees ensure quality while they work. They do the right things first time. The result is zero defects. Do it right the first time approach focuses on designing and building quality into the product. This approach is much less costly than fixing or throwing away substandard parts and finished products.

Deming Management

Deming management is the application of the principles of W. Edwards Deming an American scholar, in management. According to **Deming**, management is the creation and continuous improvement of organizational systems. The implementation of such creative and improved management system leads to increase in value in the management system in its products and services. Continuous improvement is essential in the management system in this internationally competitive world characterized by rapidly changing technology and customer demand for higher levels of the values. Deming believes that the manager's job is to seek out and correct the causes of failure, rather than merely identify failures after they occur.

Principles of Deming Management

Robert Kreitner has suggested the following four principles of Deming's quality management:

1. **Quality improvement drives the entire economy:** quality improvement is essential to reduce waste and inefficiency. It helps to increase higher productivity, greater market shares and new business and employment opportunities.
2. **The customer always comes first:** Satisfied customer is essential for organizational success. As such, an organization must produce goods and services on the basis of customers' needs and expectations.
3. **Do not blame the person, fix the system:** Deming disagreed on blaming a particular person or department for inferior quality. Management, work, rules, technology, organizational structure and culture, all are responsible for inferior quality. Employees will produce superior quality if the system is redesigned to improve it.
4. **Plan- Do- Check- Act:** He suggested a four step process for the application of TQM which is popularly known as **PDCA** cycle. **Plan** is ahead for change which involve analyze and predict result. **Do** involve execution of plan as pilot project. **Check** involves the study of result of pilot project. **Act** is concerned with implementation of plan for improving products or services.

Deming's Quality Management Techniques

The following are the fourteen techniques suggested by Deming to maintain total quality management:

1. **Create constancy of purpose:** The management must make all efforts of constant improvements in products and services to remain competitive in the market. Quality and not profit should be the organization's purpose. According to Deming, profit is automatically had when the organization is able to maintain quality.
2. **Adopt the new philosophy:** According to Deming, modern method and advanced technology should be applied to improve product and service quality. All organizational members should support new culture and dedicate themselves to improving quality.

3. **Cease dependence on mass inspection:** Quality can be maintained by improving the process and not by inspecting. Inspection on faulty products is unnecessary if quality is maintained from the very beginning. According to Deming, once errors occur, efficiency and effectiveness are already lost.
4. **End the practice of awarding business on price tag alone:** Purchasing department normally gives orders to the lowest price vendors. But they do not ensure quality materials and supplies. Therefore, it is essential to maintain long term loyal and trusting relationship with a single supplier who deals with quality.
5. **Seek continuous improvement:** Management must continuously improve the production process for better productivity and lower cost. In other words, it is the responsibility of the management to innovate alternatives to reduce waste and to improve quality.
6. **Institute modern methods of training on the job:** Generally, junior workers learn their job from seniors who were never trained formally. It may not develop the new scientific knowledge and skills among them. On the other hand, on-the-job training helps them to increase the required knowledge and skills to complete a given job.
7. **Institute leadership:** The responsibility of managers and supervisors is to help workers to reach their full potentiality. They need to adopt and institute leadership to help workers to do a better job. Management must ensure that immediate action is taken on reports of inherent defects, poor tools, unclear operational definition.
8. **Drive out fear:** The feeling of fear of employees to express their views, opinions, and ideas must be avoided. For this, the management needs to encourage effective two-way communication.
9. **Break down barriers between staff areas:** The management must break down barriers between departments and staff areas. The practice of team work and group efforts must be encouraged. Employees can improve productivity by learning from one another and coordinating efforts regardless of their functional expertise.
10. **Eliminate slogans and targets:** Deming suggested that signs, slogans and targets to motivate and inspire employees must be eliminated. It is necessary to focus on continuous improvement on quality. Effective leadership and continuous improvement of the system helps to meet the target.

11. **Eliminate numerical quotas**: Deming advocates that only focus on numerical quotas may diminish the quality. Manager should focus on quality instead of blindly pursuing numbers.
12. **Remove barriers to pride of workmanship:** The management should support the employees to overcome the obstacles that may arise in course of functioning. It is necessary to improve continuously the management system, inadequate instruction, faulty equipments and defective materials.
13. **Institute a vigorous program of education and training:** According to Deming, both management and workers must be educated and trained in the new methods to improve quality. Introducing a teamwork culture and the philosophy of TQM is helpful to improve quality.
14. **Take action to accomplish the transformation:** According to Deming, all organizational members must understand these 14 points and work together to reach quality goals. The management must develop strategic plans in order to achieve the highest level of quality. Neither the worker nor the management alone can improve the quality.

Quality Improvement Process

Edward Deming, who developed total quality management, has recommended four steps for improving quality of products and services. **These four steps involve Plan, Do, Check, and Action (PDCA). Sometimes it is also known as by Plan, Do, Study and Action (PDSA).**

1. **Plan:** At the beginning stage, managers need to identify and understand their problems or the opportunity that they can take advantages. For this purpose, they need to explore information for generating and screening ideas which is essential for developing rational plan. Plan should be formulated by focusing objectives. Customers' needs and expectations are the primary consideration for formulation of planning for quality improvement.
2. **Do:** Once managers have identified a potential solution of problem it is essential to test it with scale as pilot project. The pilot project test program can be organized in a geographical area or with a particular demographic. This will support the managers to assess whether their proposed changes achieve the desired outcome. If any problem is identified in pilot project phase, necessary steps must be taken to solve the problem in the do phase.

3. **Check (Study):** In this step, managers analyze result of their pilot project against the expectations that ids defined in plan. It facilitates to assess whether the idea has become effective or not. If the pilot project idea is become success, the managers can think for implementation. If it becomes failure, managers need to work again from plan and do. It is helpful in finding out the cause of deviations and evaluating their impact on the final product and market share.
4. **Act:** This is implementation part of quality improving. This is where managers implement their solution as far possible in effectively. It focuses on taking proper action to maintain standard and to improve process. This step deals with market research and aims to prevent problems rather than correct them.

Managers need to focus on continuous improvement pf quality of product and service to meet the changing expectation of customers. Therefore, PDCA/PDSA is taken as continuous task as moving circle. It is not only a process with a beginning and an end. Deming's PDCA cycle aims at developing teamwork with respect to product development, manufacturing, sales and market research for betterment of organization and customers.

The following are the steps of the quality improvement process:

1. **Choose an area of improvement:** At this first step, an area of improvement is chosen, which often is called the improvement "theme". Either management or an improvement team may choose following area or theme for quality improvement:
    - Reduction of production cycle time.
    - Increase in the percentage of non- defective units produced.

- Increase in on-time delivers.
- Reduction in employee absenteeism.

2. **Organize a quality improvement team:** At this step, quality improvement team is organized. This team may include following types of members.
   - One or more associates directly responsible for the work being done.
   - One or more customers receiving the benefits of the work.
   - One or more suppliers providing input into the work.
   - A member of management.
   - Perhaps one or more experts in areas particularly relevant to solving the problem and making the improvement.
3. **Identify "Benchmarks":** At this step, quality improvement team identifies benchmarks (i.e. the best performance). The team compares with best performers and identifies how much improvement is required to match the best performance, for example, a pizza company may discover in this step that the benchmark (i.e., the fastest average time between the moment an order is taken until the moment of front-door delivery) established by a competitor is 20 minutes. Suppose the company's current average delivery performance is 35 minutes. That leaves a minimum possible improvement pf 15 minutes on the average.
4. **Perform analysis of current performance:** At this step, the team performs an analysis to find out how current performance can be improved to meet, or beat, the benchmark. It can current performance can be improved to meet, or beat, the benchmark. It can analyze the factors such as potential problems related to equipment, materials, work methods or people etc.
5. **Perform pilot study:** The team performs a pilot study to test the selected remedies to the problem. It tries to find out the area for further improvement such as customer service, company's overall sales capacity, new delivery, system standard, etc.
6. **Management implements the improvements:** Finally, the management implements the improvements. Such incremental improvements can greatly enhance a company's competitiveness. The key, therefore, is to continually improve both product and process.

Chapter- 10 Managing in the Global Arena

Concept of Globalization

Globalization is the tendency of businesses, technologies and philosophies to spread throughout the world. It ensures free flow of ideas, goods and services all over the world. It also increases the global connectivity and interdependence in political, economic, cultural, technological and environmental spheres. Globalization brings the concept of keen competition among the entrepreneurs of the world.

Globalization makes the business environment increasingly global even for domestic firms. Globalization creates opportunities for all. It stimulates economic growth; raises the income of consumers, and helps to create jobs in all countries that participate in the global trading system.

" Globalization is the process by which an activity or undertaking becomes worldwide in scope." **- Sundaram and Black**

However, the concept of globalization may be studied at two levels i.e. **macro level and micro level**. **Macro level** globalization focuses on **world economy**. According to this view, globalization is a process of development of the world into a single integrated economic unit. On the other hand, **micro level** globalization emphasizes on **globalization of business**. This concept views that the entire world is a single market and the corporate strategy of a business should be modified on the basis of changing global business environment.

Nature of Globalization

Globalization has the following features:

1. **Integration:** Globalization integrates the economic, political, and cultural systems across the globe. It helps to combine national economy with international business. It supports a shift towards a more integrated and interdependent world economy.
2. **Open market economy:** Globalization emphasizes on open market economy. It facilitates liberal and private economy. The role of the government in business is minimized. It brings the concept of keen competition among entrepreneurs of the world.

3. **Modern communication and transportation:** Globalization needs the use of modern means of communication and transportation system. It also provides importance to the use of modern means of transportation for quick delivery of products and services.
4. **Free movement of factors of production:** Globalization emphasizes on free and open market economy where private entrepreneurs have a major role in business. It facilitates free movement of factors of production consisting of capital, manpower, materials, management and technology at the international level.
5. **International operations:** In globalization, business activities are done at the international level. Goods and services move in any part of the world without legal restriction and barrier. Entrepreneurs having quality goods and services can perform business activities in any part of the world on the basis of economic gain.
6. **Formation of multiple units:** Globalization facilities to establish many manufacturing company establishes its production units in different countries in accordance with commercial advantages. However, product quality is maintained in products produced in all the units.
7. **Advanced technology**: Globalization facilitates free movement of products and factors of production worldwide. It raises competition among national and international entrepreneurs.

Effects of Globalization

There is a great debate on whether globalization is good or bad. Some pessimists have viewed that it has increased interdependence upon while optimists say that it is a means of better lives for all. Globalization can have positive and negative effects on cultural, political and economic life. It affects internal and external policies. Therefore, the effect of globalization can be studied both from positive and negative angles:

Positive Effects

The following are the positive impacts of globalization:

1. **Maximize productivity:** Globalization facilitates easy access to international market. It gives more priority to specialization and economies of scale. Quality products or service can entire the international market easily. The expansion of trade transaction of a business organization provides pressure to increase production. Large

scale of production ultimately minimizes per unit cast which helps to face competition in the market.

2. **Develops living standard:** Globalization is considered to be an important means of developing the living standards of people. Global business facilitates the people to understand culture, tradition, customs, education system, health facility, and economic condition etc. of different countries. People try to accept the good concepts of other communities which helps to develop their living standard.
3. **Transfer of capital and technology:** Many big business houses of developed countries have started establishing their production units in developing countries. They invest their huge capital to install plants and also to operate production activities. Therefore, globalization benefits developing countries by transferring capital and new technology.
4. **Increase in employment:** Multinational countries are important sources of employment. They provide employment opportunities to the people of the host country both in administrative and technical work according to their skill and knowledge. This helps the people of the host country to obtain new knowledge, ideas, experience, skills and efficiency. Besides, it also helps in raising the living standards of the people.
5. **Elimination of trade barriers:** Multinational companies help minimize trade barriers in the international level. They play important roles in eliminating trade barriers and obstruction in international trade. Multinational companies perform business under an efficient management system using the latest technology in various parts of the world. As a result, they put pressure on the authorities of host countries to eliminate trade and other administrative barriers. World Trade Organization(WTO) has been playing a major role in eliminating unnecessary trade barriers and other obstructions for business activities at the international level.
6. **Promote international co-operation:** Multinational companies play important role in the development of mutual co-operation among various countries of the world. Today, international relation and co-operation is based on financial assistance and economic development. For this, multinational companies contribute more to developing mutual co-operation among friendly nations.
7. **Support for industrialization:** Industrialization is a must to upgrade the economic level. Globalization supports industrialization of a country in

two ways, firstly by creating a new market and secondly by transferring capital and technology. Globalization initiates an open marketing economy where quality products and service can entire freely in any part of the world. Similarly, it creates a great scope for investment in friendly nations. Therefore, globalization supports industrialization in many developing countries.

8. **Growth in Export:** Export is one of the common methods of globalization. Labor intensive products are exported from developing countries and capital intensive products are exported from developed countries. Thus, globalization helps increase trade, especially increases exports from developing to developed countries.
9. **Utilization of Local Resources:** Globalization promotes local resource to global market. Multinational company, by using its technical and management skills, makes best use of natural, materials, and human resources of different countries.

Negative Effects

The following are the impact of globalization:

1. **Displacement of local industries:** A major limitation of globalization is displacement of medium and small scale local industries. Local industries cannot compete with multinational companies because the latter produce in large scale and use advanced technology. Medium and small scale cottage industries of the host country either displace or surrender to the multinational companies.
2. **Economic exploitation:** Globalization opens the world market for all business organizations. In an open market economy, multinational companies are the main players in world economy. They utilize raw materials and labor force of host countries at cheap price. They pay fewer wages to local employees as compared to the employees of the parent country. But they charge a high price for their branded finished products.
3. **Deterioration of national sovereignty:** In an open market economy, multinational corporations gain economic power. They may apply unnecessary pressure to political parties and even to the government of the host country to modify their rules and policies for their own benefits. In some situation, globalization may deteriorate the sovereignty of host countries.

4. **Initiates monopoly power:** Globalization initiates monopoly power to the multinational corporations. The product specialization and efficient management system of multinational corporations contribute to developing their monopoly power even in a competitive market.
5. **Creates threats to social and cultural values:** Globalization facilitates free movement of goods and services in any part of the world. It also carries the cultural and social norms and values of one country to another. Such transformation of culture and social system from one community to another may overlap with the cultural norms and values of one community. Therefore, globalization creates a disorder in cultural norms, beliefs and values in many countries.
6. **Increases competition:** Globalization is a threat to domestic industries of developing countries. It creates competitive environment even in the domestic market. Medium scale and small scale end even large scale national companies cannot compete with multinational corporations.
7. **Environmental Degradation:** Since global companies are temporary tourists of the country, they do not have long-term commitment in economic upliftment of the people of the country. They take opportunities from the country, but do not care about long- term negative effects. For example, they empty natural resources such as gas, oil, forest and mineral, do not feel it necessary to take into account environmental degradation, safety of workers, local welfare and health. Thus, global companies damages natural environment of developing countries.
8. **Unequal Partnership:** Economic liberalization, privatization, equality are the bases of globalization. Developing countries should work with developed countries. Actually it is unequal partnership. Developing countries do not have competitive power. Greater benefits are raped by developed countries.

Fundamentals of International Management

The international management involves systematic operation of business of an organization that conducts business in two or more countries. The management of a business organization involved in international business can face more complexity while doing business activities as compare to internal business. Managers need to understand various factors within the country, host country and of internal levels that can affect in the business activities of the organization. The following are the fundamental understanding necessary in international management:

1. **Social and cultural values**: One of the fundamental requirement of international management is to understand social and cultural values of the people of host country and region. The components of socio-cultural values involve language, religion, regional values, demographic constitution, tradition, customs, cost structure, labor mobility etc. of host country. For example, customers of a country may not be interested in the same products and service as those living in another country. Managers involve in international business management need to understand socio-cultural value of the people of host countries.
2. **Economic condition**: The economy has direct impact on business so before planning for global business it is essential to do detail research about the economic condition the countries where to operate business. The fundamentals of economic factors involve gross domestic products, per-capita income, economic class structure, supply and demand condition, inflation rate, financial transactions and banking facility, etc. of host country.
3. **Political and legal environment**: The political and legal environment of foreign countries has a direct effect on business. These factors can vary from one country or region to another. Management of a business must comply with the laws, rules, policies and other requirements of the countries where it wants to do business. Some of the fundamentals of political legal environment affecting international business are law, provision of licensing and permits, taxes and fees system, import-export tariffs, currency risks in host country. Other political and legal risks and restrictions involve investment restriction, operational restrictions, discriminatory restrictions, quota system, etc. A manager managing international business should consider these factors while doing business in host country.
4. **Geographical factors**: The change in geography can create some challenges in international business. It is essential to make detail study about the impact of change in geographical situation before involving in any international business. Geographical factors provide impact on climatic conditions, transportation facility, communication system, water supply, electricity supply, etc. Thus, knowledge of geographical distribution of places is necessary for managing international business.
5. **Technological development**: Technology is a fundamental element that managers should consider before expanding business at international

level. The availability of skilled manpower in host country for operating technology adopted by the organization should be studied. Moreover, it is essential to maintain close observation over the technology created and adopt by the competitors.

6. **Capability of the organization**: For entering into the global market the management should carry out an audit of its resources and capabilities. The organization should have competitive advantages in terms of market knowledge, technology, portfolio of products and services, strategic partners, and other factors. An organization having sufficient resources, modern technology, good market research, network of communication and distribution can involve in global business.

Multinational Company

The concept of multinational company is the outcome of the development of the mutual cooperation among friendly nations, development of new technology, mass production and development of global company. Generally, a company that performs its business in two or more countries is a multinational company. Multinational companies are incorporated in a country but they perform their business in many countries of the world. Especially, they perform business operations throughout the world through their branches, subsidiaries or agents. The business activities are managed and controlled by the head office of the company which is situated in the mother country.

"Multinational companies are corporations which have their home in one country but operate and live under the laws and customs of other countries as well."

- David E. Lilenthal

Therefore, we may conclude that a multinational company is acorporation which performs business at the international level under its ownership, management and control.

The united Nations recognizes around 650 companies or corporations as multinational companies in the world, whose transactions were above a certain level specified by the UN. Some of them are:

- IBM Corporation, USA
- General Electric, USA
- Coca-Cola company, USA
- Pepsi-Cola company, USA
- Nestle company, Switzerland
- Hitachi, Japan
- Dunlop, UK
- Ford Motor Corporation, USA
- Panasonic Corporation, Japan

The development of multinational companies in the world also encourages many multinational companies to launch their production units in Nepal. Some examples of joint-ventures multinational companies in Nepal are:

- Unilever Ltd.
- Colgate-Palmolive
- Union Carbide (Nepal Battery)
- L.G. Television
- Radisson Hotel
- Surya Tobacco Co. Pvt. Ltd
- Bottlers Nepal (Coco-Cola)
- Nepal Arab Bank Ltd.
- Standard Chartered Bank
- Himalayan Bank
- Nepal SBI Bank Ltd.
- Dabur Nepal (P) ltd, etc.
- Tuborg Beer
- San Miguel Beer
- Life Insurance Corporation Nepal

<u>Characteristics of Multinational Company</u>

The major characteristics of a multinational company may be studied under the following headings:

1. **Large scale operation:** Large scale operation is the most important feature of a multinational company. It performs large scale business operation by investing a huge capital. The large scale production minimizes per unit cost and helps to face competition in the market.
2. **Advance technology:** Advancement is modern science and technology is one of the major features of a multinational company. Multinational companies establish research and development departments for the research and invention of new technology in production, distribution and for promotion of business activities. They also transfer new technology in to developing countries through their branches and subsidiaries which are helpful for industrialization.
3. **Mass Production and Distribution:** A multinational company is established with huge capital and high technology. It has massive production and distribution network of goods and services. Multinational company produces capital and consumer goods in larger quantities and distributes them all over the world.
4. **Efficient management:** Efficient management is one of the main reasons for the successful operation of a multinational company. It hires efficient and skilled manpower. It has the capacity to hire professionals by paying high remuneration.
5. **Ownership and control:** The ownership of multinational companies remains both with parent company and the subsidiary company. However, major shares of the subsidiary companies established in various countries are contributed by the parent. Therefore, the parent company plays a major role in the management and control of the subsidiary companies.
6. **Multiple Currencies:** Since multinational company operates in two or more countries, it deals in multiple currencies. The values of currencies keep changing. The risks of future exchange rate shifts are high.
7. **Monopoly market:** The product specialization and efficient management system of multinational companies contribute to developing their monopoly power even in a competitive market. The use of latest

technology, own trade mark, goodwill, along with better distribution system and promotional network are the main components of multinational companies.

Types of Multinational Company

Multinational companies may be of various types on the basis of their nature business. The following are the common types of multinational companies (Shapiro, 1996).

1. **Raw material seekers:** These are the earliest forms of multinational companies. These multinational companies spread in different parts of the world in search of raw materials. They purchased the raw materials from local markets in the cheapest price, processed the raw material locally and delivered them to their local home country for production of finished products. In the colonial era, multinational companies of Western European countries exploited maximum raw materials found in many overseas countries. The present multinational companies involve in raw material dealing are crude oil, gas and mining companies. These companies purchase raw materials from the international market and deliver them to their home country for processing.
2. **Market seekers:** These are common types of present day multinational companies. They enter the foreign market to produce and sell their products. The main motive of such multinational companies is to expand their business at international level. At present many multinational companies of the US, Japan and other developed countries have started investing in India and China by considering the huge market.
3. **Cost minimizers:** These multinational companies seek to invest in countries where the production cost is low. The main motive of such companies is to minimize cost of product and service. They install plants in the countries where labor and energy cost is low. This helps to meet the purchasing power of customers of host countries. For example, many Japanese companies like Sony, Toyota, National Panasonic, Honda, Suzuki, etc. have established their production plants in China, India, Malaysia, Singapore, Taiwan, Thailand, etc. this is helpful in minimizing cost of Japanese branded products because comparatively these countries have low labor and energy cost.

Advantages of Multinational Company

The advantages of multinational company may be studied under the following headings:

1. **Huge capital and modern technology:** Investment of huge capital and introduction of modern technology in the host country is one of the most important advantages of a multinational company. It helps to minimize the scarcity of capital in the host country. Similarly, modern technologies are introduced in production of goods and services.
2. **Mass and qualitative products:** The main advantage of multinational company is that it produces goods at a larger scale. It maintains international standard in its products and services. It lays emphasis on quality. For mass and quality productions, it mobilizes skilled and efficient manpower and modern technology.
3. **Efficient management:** The success or failure of an organization totally depends on its management system. Multinational company gives priority to efficient and up-to-date management system. For this, it hires skilled and technical employees and introduces modern system of management.
4. **Minimum cost of production:** The huge investment and mass production helps to minimize per unit cost of products because the fixed cost remains constant at any level of output. Therefore, a multinational company lays emphasize on mass production of goods and services. Such technique helps minimize the per unit cost of production and can supply quality products in the competitive market.
5. **Research and development:** Research and innovation is essential for the development of an organization. Research and investigation help discover new knowledge and ideas. These innovations and discoveries help in introducing new products, services, and knowledge. Investment in research and development is the main reason for the success of multinational companies.
6. **Employment opportunities:** Multinational companies are important source of employment. They provide employment opportunities to the people of host countries both in the administrative and technical jobs.
7. **Maximize government revenue:** Multinational companies contribute more to the increment in government. They involve in mass production and distribution activities throughout the country. As a result, they earn

more profits and pay income tax. Besides income tax, multinational companies pay various taxes to the government like added tax, export duty, etc.

8. **Elimination of trade barriers:** Multinational companies play important roles in eliminating trade barriers and obstructions in international trade. Multinational companies perform business under an efficient management system using the latest technology and sell quantity products at moderate price. As a result, they put pressure on the authorities of host countries to eliminate the trade and other administrative barriers.
9. **International cooperation:** Multinational companies play important role in the development of mutual cooperation among various countries of the world. Today, international relation and cooperation is based on financial assistance and economic development. For this, multinational companies contribute more in developing mutual cooperation among friendly nations.
10. **Balance of Payment:** Multinational companies contribute to maintain balance of payment by balancing international trade of the host country. They introduce products in host countries which may substitute for import. This helps minimize import from foreign countries and can save foreign currencies.

Disadvantages of Multinational Company

The major disadvantages of the multinational company may be studied under the following headings:

1. **Displacement of local industries:** Displacement of local industries is the major disadvantages of a multinational company. Local industries cannot compete with multinational companies because the latter produce goods and services at a larger scale by using modern technology. Medium and small scale cottage industries of the host country are either displaced or the surrender to the multinational companies.
2. **Outflow of capital:** Generally, in the initial stage, multinational companies bring in huge capital in the host country. They invest capital for establishment of plants and to manage working capital. But as professional business concerns, their main objective is to earn maximum profit. Therefore, in the long run, multinational companies earn more

profit by implementing their efficiency and network. They transmit huge profit to their parent country after the payment of necessary taxes.

3. **Economic exploitation**: To earn maximum profit, a multinational company utilizes raw materials and labor force of the host country at a cheaper price. It means, it purchases raw materials at a minimum cost. Similarly, it pays minimum wages to employees as compared to employees of the parent country.
4. **Consumer exploitation:** Multinational companies enjoy monopoly in the market. They capture the market by using various techniques like developing network for promotion, product differentiation, maintaining brand image and fame, etc. they can charge any price for the products and exploit customers by charging a high price.
5. **Inequality to staff:** A multinational company appoints staff both from the parent country and the host country. It hires higher level authority from the parent country and their remuneration, allowances and other facilities are also high. However, it appoints lower level employees from the host country who are paid less remuneration and facilities. Therefore, a multinational company treats the local employees as second grade citizens by providing minimum remuneration and allowances.
6. **Influence in politics:** multinational companies are financially strong. As a result, they may influence policy makers of developing countries in introducing rules and regulations in their favor.
7. **Social inequality:** Multinational companies never think about the needs and wants of the poor people. Their aim is to attract the higher income group of society towards their luxury products. The poor section of the society cannot buy their products. As a result, they create the gap between the rich and the poor.
8. **Transfer of Inferior Technology:** Technology transfer to the host country is one of the parts of multinational companies. But in practical sense, the multinational companies never transfer the up to date technology. They handover only dated or inappropriate technology to the host country.

Digital Dimensioning and Planning, Organizing, Influencing, and Controlling

The development of information technology emerges the concept of digitization in business operation. Entrepreneurs started to invest more resources on online activities which have shifted business emphasis to digital sources of revenue and digital channels. The growth of the digital economy has made people more familiar with digital products and services.

Many business organizations consisting of manufacturing trading, service and even retail shops started to involve in digital system for promoting business. It supports to improve working efficiency through automation, create better customer experiences, and improve employees' productivity. Digital information system provides support for accomplishment of managerial functions such as planning, organizing, influencing and controlling.

1. **Digital dimensioning and planning:** There is close relation between digital dimension and planning. Planning is the process of determining objectives and selecting a best course of action for achieving predetermined objectives. Managers can anticipate future course of action by analyzing past and present information. Digital dimension of business supports to the managers to collect and analyze information within time and in systematic way.
2. **Digital dimensioning and organizing:** Organizing is the process of maintaining structural relationship among various positions of an enterprise. It involves proper division of work, assigning job to employees, formulation of rules and regulation, developing working procedures and system. It also involves defining authority and responsibility of all the employees of the enterprise. Digital dimension of business can provide such information in systematic way which facilitates the mangers for effective organization of business.
3. **Digital dimensioning and influencing:** Influencing is an ability or power of a person that is used for changing the behavior and activities of other individuals in accordance with requirement. It is an important element of a successful leadership. Digital dimensioning of business helps to managers to gain knowledge of how to do business by using information technology and network system. It facilitates the managers to influence upon the behavior and activities of subordinates.

4. **Digital dimensioning and controlling:** Controlling is a process of measuring actual performance achieved with that of planned performance and taking corrective step if any deviation is found between actual and planned performances. The deficiency in actual can be due to various reasons such as inefficiency of employees, insufficiency of capital, shortage of raw materials, defects in machines and equipment or due to unexpected change in external environment. The digital system of business supports to the managers for identifying them to take corrective measure in time.

THANK YOU

Chapter- 11 Management Trends and Scenario in Nepal

Growth of Business Sectors in Nepal

The history of institutional of business in Nepal is not so very old. Many traditional cottage and small scale industries were started from the very beginning of civilization which is still in existence. The growth of business sectors in Nepal may be studied under the following stages:

1. **Pre-unification stage:** Organized industries were lacking before the unification of small states by the king Prithvi Narayan Shah in Nepal. However, small scale and agricultural based industries were available in those scattered states. Lichhavi and Malla dynasty are known as the golden age of traditional products, specially handi-craft products.
2. **Unification stage:** The unification of various scattered regimes contributed for the institutional development of the industry. It contributed for expansion and diversification of production, especially in domestic and cottage industries. The unification of regimes created more areas for business operation and as a result the development in industrial productivity also increased to fulfill the needs of the people of the country. It contributed for the expansion and diversification of business activity not only throughout the nation but also to the China and northern territories of India.
3. **Post-unification stage:** Post-unification period is the age of modern industrialization. An industrial Boards was established in 1935 A.D., viz. "Udhyog Parishad", to produce goods under medium and large scale industry. The first company act was enacted in 1936 A.D. and the same year, Nepal's first Joint Stock Company, Biratnagar Jute Mill was established. Nepal Bank Ltd. Was established in 1937 A.D. to provide financial support to industry and commerce. In between fifteen years of period about 63 industrial units were opened with a total capital investment of Rs.72millions. However, most of those industries went into liquidation after Second World War due to lack of proper plan and feasibility.

   Nepal sign a trade treaty in 1923 with British Government of India. After independence of India, the democratic government of both the countries signed a trade and commerce treaty in 1950. A new treaty between two countries was signed in 1971 for five years. In 1978 three new agreements were signed: the treaty of trade, the agreement of checking unauthorized trade and treaty of transit. In 1991, Nepal and India signed two separate treaties on trade and transit and agreed on a new arrangement for corporation in controlling unauthorized trade. The treaty of trade of 1991 was amended later in December 1996 to increase the traditional connection between the markets of the two countries.

The formal trade and payment agreement between Nepal and China was signed in 1974. In 1981, the authorities of both the countries had signed another agreement to strengthen the economic and trade relation between the two countries.

4. **Trade diversification stage:** Nepal has traditional trade relation with India and China form earlier period. However, after 2007 B.S. democratic government has taken trade diversification policy to expand trade transactions at international level. For this purpose, government had taken some steps for the development of infrastructure facilities. It had enacted export import control act 2013; Nepal Agency Act 2014, Private Firm Registration Act 2016, Foreign Act 2035, etc. Prior to 1969, Nepal's foreign trade was confined to India, but at present due to trade diversification policies of the government, it has gradually diverted to third countries. Liberal policy of government has contributed more for the development of productivity in private sectors.

Up to now, Nepal has trade relation with near about hundred friendly nations of the world. From 2004 Nepal has become member of World Trade Organization. The industrial policy 2010 has been enacted to attract domestic and foreign investment. Bilateral Investment Promotion and Protection Agreement(BIPPA) have been signed between the Nepal and India to promote investment in industries and commerce.

Major Industries of Nepal

Industrialization is essential for economic prosperity of the nation. All developed countries are developed because of their emphasis on industrialization. The institutional development of industries in Nepal has a short history. Biratnagar Jute Mill, which was established as a joint venture industry in 1993 B.S., is considered the first institutional industry of Nepal

However, in 1990, the government enacted economic liberalization policy and started to privatize public enterprises. Many industries and companies were established under the joint venture of Nepalese entrepreneurs and foreign investors in different sectors like banking and finance, cigarette, cement, textile, hotel, tourism, etc. The major industries of Nepal may be classified into four forms:

1. **Manufacturing Industries**
    - Food, beverage and tobacco industries
    - Textile and garment industries
    - Leather and foot wear industries
    - Non-metallic industries
    - Chemical industries
    - Mechanical industries
    - Electrical and electronic industries
2. **Export Oriented Industries**
    - Carpet Industry
    - Garment industry
    - Leather industry
    - Handi-craft industry
    - Agro and forest based industries
3. **Import Substituting Industries**
    - Pharmaceutical industries
    - Food and beverage industries
    - Chemical industries
    - Iron and steel industries
    - Tobacco industries
    - Electrical industries
    - Electronic industries
    - Cement industries
    - Paper industries
    - Sugar industries
4. **Tourism Sector Industries**
    - Tourism industry
    - Transportation industry
    - Information and communication
    - Construction industry
    - Financial Institutions

Existing Management Practices in Nepalese Organization

Management practice refers to all activities and procedures that managers follow to perform managerial functions. A number of organizations of different nature are operating in Nepal. Some are manufacturing, while others service organizations. All the activities and procedures that these organizations follow to perform managerial functions are known as existing management. Practices in Nepal.

Studied conducted in Nepal indicate a number of managerial features and practices. These features and practices can be characterized by the following ways:

1. **Planning Practices:** Planning involves the process of making decision to select the future course of actions. Some of the practices of planning in general are as follows:
   - Organizations set planning to decide the future direction. In Nepal, 'top-down' approach of planning is commonly practiced. Managers plan and give instructions which are implemented by lower level staffs. 'Bottom-up' approach of planning is rarely used.
   - Nepalese managers tend to dislikes pre-determined courses of action is based on their experience and interest.
   - In Nepal, most of organizations prepare annual budget and operational plans of one year only. Long term strategic plans are lacking.
2. **Decision making practices:** Decision making is the process of identifications of problems, analyzing the problems, development the alternatives, evaluations of the alternatives and selecting the best alternatives. Some of the practices of decision-making in general are as follows:
   - Decision making is highly centralized in public enterprise and private enterprises. It is due to the politically appointed managers in public enterprises and friends and relatives in private enterprises.
   - In Nepalese organization, top managers are very powerful and highly authorized, middle and lower level managers have to be dependent on top level managers in making decision. Middle and lower level managers have to wait for orders to impart their duties.

- ❖ Decision-making in Nepalese organizations are not effectively implemented. Implementation lack effective monitoring, evaluation and follow-up. Feedback system is not used properly.
- ❖ Nepalese managers usually postpone the decisions for tomorrow and tomorrow never seem to come. This is the great art of decision avoiding.

3. **Organizing practices:** Organizing is the process of combining together all the organizational resources and establishing the productive relations among them. It prescribes formal relationship among people and resources, to achieve organizational goals. Some of the practices of organizing in general are as follows:
   - ❖ The authority is generally centralized at the top. Various positions are arranged in hierarchically. Organizational structures are unnecessarily long and rigid.
   - ❖ Authority is based on the classical view that it originates at the top. Managers tend to delegate responsibility without authority. Accountability is generally missing in Nepalese organizations.
   - ❖ Resources are allocated on the direction of powerful managers. Since organizations bureaucratic design, delegation of authority and responsibility are done at the whim of top level managers rather than in a way to solve organizational goals.
   - ❖ In many organizations there is no matching of people, job and departmental needs. Objectives of different functional departments are not properly integrated with marketing plans or organizational goals.
   - ❖ There is lacking of use of informal groups, boundaryless organization, virtual organizations and learning organizations.
4. **Staffing practices:** staffing is one of the basic functions of every organization. It involves manpower planning, recruitment, selection, orientation and placement, training and development, remuneration, performance evaluation, promotion and transfer etc. Some of the practices of staffing in general are as follows:
   - ❖ Nepalese managers have little faith in the capacity of subordinates. There is no environment of trust and teamwork.
   - ❖ Participative management is lacking in Nepalese organization.
   - ❖ Public enterprise use advertisement for recruitment in private organization. However, selection in both public and private

organization is heavily influenced by 'source-force and favoritism'.
   - ❖ Appointing the new staff is depending on the top level managers' institution.

5. **Motivation practices:** Motivation is the act of inspiring the organizational members to devote maximum efforts to achieve the common goal of the organization through different means.
   - ❖ Managerial effectiveness is low in Nepal. Managers lack requisite skills and training.
   - ❖ Motivating has not received adequate attention in Nepalese organizations.
   - ❖ Managers assume that employees work for money and are lazy. The low level of wages increases the dissatisfaction among them.
6. **Leadership practices:** Leadership is an ability of influencing people after developing organizational vision and goals. Some of the practices of leadership in general are as follows:
   - ❖ Most of Nepalese organizations have autocratic leadership style. They have highly centralized authority structures.
   - ❖ Leader in major enterprise is appointed politically. Managers change with changes in the government. Hence, they do not feel accountable for the development of organization.
   - ❖ Managers are weak in leadership capabilities, employees are weak in communication and interpersonal skills and workers lack vocational knowledge.
   - ❖ Some multinational companies are practicing democratic leadership style in Nepal. They encourage participation in decision making and assume responsibility.
7. **Conflict management practices:** Conflict refers to all kinds of oppositions or antagonistic interaction between and among individuals and groups. It is the responsibility of managers to recognize the positive and negative effects of conflicts and try to handle them in time. Somme of the practices of conflict management in general are as follows:
   - ❖ Conflicts are so common in Nepalese organizations. They are viewed as harmful, destructive and unnecessary. Nepalese managers do not believe in the necessary of conflict. They do not stimulate and manage conflict.

- ❖ Mostly conflicts are personality based. It lacks issue-orientation. Departmental managers are concerned about the interest of their own departments.
- ❖ Communication breakdown and misunderstanding, personality clashes, statue and role inconsistencies are some of the major cause of conflicts in Nepalese organizations.
- ❖ Unclear authority-responsibility relationship and competitions for limited resources are also the causes of conflicts.

8. **Communication practices:** Communication is the process of the transmitting ideas and thoughts from one person to another for the purpose of creating understanding on the thinking of the person receiving the communication. Some of the practices of communication in general are as follows:
    - ❖ Effective communication is lacking in Nepalese organizations. Their managers lack communication skills. They regard communication as a less important aspect of management.
    - ❖ The high centralized organization structures in Nepal favor communication from top to bottom. Upward communication is often ignored.
    - ❖ The communication process generally suffers from unclear and contradictory messages. The decoding tends to lack mutual compatibility. The meaning gets distorted.
    - ❖ Semantic problems also serve as barriers to communication because Nepal has multiple languages and jargons.
9. **Control practices:** Control is the major management function to ensure that resources are utilized properly in the direction of achieving pre-determined plans and objectives. Some of the practices of control in general are as follows:
    - ❖ In Nepal, control is generally used for threat and punishment rather than correction of poor performance to achieve planned goals.
    - ❖ Setting rational standard measuring actual performance against the predetermined plan is really practiced. So, there is no proper system of the controlling mechanism in Nepal.
    - ❖ Increasing organizational politics of holding power and favoring only the employees with the same ideology and political beliefs are common in most of the organizations.

- ❖ More emphasis is laid on post-control rather than pre-control.
- ❖ Managers do not show seriousness in quality control.

Business Culture

Concept of Business Culture

Culture involves accepted norms, values and traditional behavior shown by individuals or groups. In other words, culture can be defined as an evolving set of collective beliefs, values and attitudes of individuals and groups. The culture of each country has shown by its own beliefs, values and activities. However, culture also evolves over time.

Business culture is the part of culture which involves norms and values considered by the managers while doing business activities. Culture provides impact on management practice, decision making procedures and all business functions from business planning day-to-day business operation.

Managers and subordinates of an organization must learn how people interact, do activities; realize which is good or bad. The impact of culture at the organizational level ranges from investment and organizational design to strategy formulation.

Nepalese Business Culture

The following are the common overview/features of Nepalese business culture:

1. **Traditional operation:** Most of Nepalese business organizations have traditional operation system. They do not consider modern approach of management for enhancing quality of product and service. They lack modern technology in production, distribution, promotion and other operational activities. It is the reason that they unable to face competition in market.
2. **Family owned enterprises:** Major portion of private business enterprises are owned and managed by the family members. It is the reason that all the executive posts of business are hold by them. They maintain centralized decision and control over the operation of the enterprise. They have not given decision making authority to subordinate level staff. Employee cannot show their skills, efficiency and creativity while doing job. Therefore, there is lack of motivation among staff.

3. **Low share of corporate entities:** In Nepal, corporate entities have minimum share in volume of business. Public enterprises have investment only in limited areas of business. They involve tele-communication, airlines, banking, insurance, petroleum, cement, food supply, and other selected business operation. Major portion of business volume is covered by private enterprises. They only consider for short term return on investment. They do not deem for term business operation.
4. **Influence on socio-culture values:** Business culture also provides influence on socio-culture values of the people. Development of private sector enterprises and multinational companies in Nepal provide impact on socio-culture values of Nepalese people. They introduce new concept, ides, model, design, structure and strategy to promote business activities. They do such activities to draw the attention of new customers. It is the reason that western culture stared to influence Nepalese culture.
5. **Problem of integration:** Most of the business enterprises of Nepal have lack of integration of organizational objectives with that of plans, policies, programs and strategies. Managers set high optimistic and imaginary objectives which are not achievable in practices. Besides, they do not formulate strategies, plans and policies by focusing predetermined objectives. It is the reason that most of the objectives are not achieved in practice.
6. **Lack of trust:** There is lack of trust among the stakeholder of Nepalese business organizations. Managers do not belief on subordinates and they do not provide decision making authority to them. Similarly, shareholders have no complete trust over the activities and performance of managers. There is lack of mutual relation with government authorities and business communities.
7. **Difference in code of ethics:** Ethics involves the norms, values and morality that are taken into consideration while doing business. It directly focuses on right or wrong, good or bad. However, in Nepal there are differences in code of ethics among the managers and among other stakeholders. For example, some managers do business activities only for fulfillment of short term expectation of investors.
8. **Autonomy:** The decision making authority is highly centralized. Major portion of business are owned and managed by families. Therefore, executive level positions of the organizations are vested to family members. They do not decentralize decision making authority to

subordinate level employees. In some case autonomy decision may be the reason of wrong decision that would not give expected outcome.

9. **Resistance to change:** Change is natural and inevitable because social environment in changeable. Management needs to introduce new concept, idea, working procedures, and technology to adapt with changing environment of the society. Nepalese culture is that most of employees create resistance to change. They do not accept change due to feeling of job insecurity, decline in status, lack of knowledge, negative attitude about change, etc.
10. **Lack of delegation of authority:** Most of Nepalese business are owned by private enterprises there is the system of centralized authority. Managers never delegate decision making authority to subordinates. They do decision based on their skill, efficiency, knowledge and requirement. Therefore, subordinates have no scope for development of managerial skills. However, some corporate enterprises have provision of delegation of authority to subordinates on the basis of their skills and job responsibility.

Major Problems Facing Business in Nepal

The following are the common problems of Nepalese industries:

1. **Policy related problems:** There is inconsistency in government policies and regulations regarding industrial development. This has become a hurdle in the management practice of major industries. The contradictory provisions mentioned in the industrial and fiscal policies create problems in industrial development. The regular change in tax rules and procedures also creates problems to the managers. Uncontrolled open border with India has promoted unauthorized trade which creates major problems to Nepalese industries.
2. **Demand related problems:** The per capita income of a majority of Nepalese people is very low. Therefore, their purchasing power is also limited. As such, Nepalese industries are not operating at their full capacity due to low demand of their products. They are also unable to compete with cheap Indian and Chinese products. Nepalese products are even not accessible in all parts of the country due to unavailability of transportation facilities.
3. **Human resource problems:** Many Nepalese institutions are suffering from a lack of skilled manpower. Human resource is important for

mobilizing the capital, machines, and technology to maximize productivity. Capable and skilled executives who would manage business in a competitive environment are scarce in Nepal. Insufficient managers cannot develop new strategies and policies to promote business.

4. **Capital and technological problems:** Many Nepalese business institutions are suffering from shortage of capital and advanced technology. They need capital to establish and operate industries. High rate of interest and demand of collateral by the banks are major difficulties in securing loans for business. Similarly, unnecessary and time consuming administrative procedures are responsible for not getting bank loans easily. Many industries are not in a position to incorporate the latest technology for production and quality enhancement.
5. **Infrastructure problems:** Nepalese industries are suffering from a problem of infrastructure facilities. Infrastructure facilities involve facility of road transport, electricity, water supply, communication, drainage, etc. These facilities are must for the establishment and operation of industries. In road transportation, only trucking service is available. This service bears more cost and also suffers from many problems like highway blockade, strike, syndicate system etc. At present, the irregular supply, load-shedding and low voltage of electricity is a major problem for industries. Besides, per unit cost of electricity is also very high in Nepal. For communication of information, government postal service is not reliable and private courier service is expensive. Poor drainage for industrial wastage has resulted in pollution in industrial areas.
6. **Labor union problem:** Lack of mutual trust between labor unions and management has created problems in many industries. Labor unions and affiliated to political parties. In some cases, the create problems not for their legitimate demands, but they are motivated from their political parties. Many industries are closed and many are diverted to other countries due to strike, lockout illogical demands of the labor unions.
7. **Raw material problems:** Many industries are suffering from the problem of unavailability of quality raw materials. In some cases, raw materials available in Nepal become more costly than those imported from other countries. Many industries import raw materials from India for their industries. The quality of imported raw material may not meet the international standards. Besides, it bears more transportation costs.

Therefore, Nepalese industries are unable to face competition even in the national market.

8. **Lack of mutual trust:** Mutual trust between government authorities and the private sector is lacking. After the 1990_s, the government introduced a liberal and free market economy where private sectors could play an important role in the in the industry and commerce sector. However, the government' s emphasis is only on formulation of policies and controlling the activities of private entrepreneurs. The attitude of the government authorities is not helpful. They rather create problems to managers in many situations.
9. **Security problem:** Many industries feel insecure while operating their business activities. Political stability is necessary for industrial development of any country. Political instability has created many problems in the business communities. Managers feel insecure by theft, crimes, donation, raids and other unsocial activities. The government is unable to provide security to industries.

THANK YOU