

UNIT II ORGANIZING

• DEFINITION:

The term 'organisation' has been defined in a number of ways. For example, it has been called a system of communication, a means of problem solving, and a means of facilitating decision-making. In the broad sense, Organisation is defined as a group of persons working together for a common Purpose.

Some important definitions of the term organisation are given below-

“To organise a business is to provide it with everything useful to us functioning- raw materials, tools, capital and personnel.”
-Henry Fayol.

" A group of people who are co-operating under the direction of leadership the accomplishment of a common end." - Ralph C Davis

“In its broadest sense, organisation refers to the relationship between the famous factors present in a given endeavour. Factory organisation concerns self primarily with the internal relationships within the factory, such as responsibilities of personnel arrangement and grouping of machines and material control. From the standpoint of the enterprise as a whole, organization is the structure of relationship between the various factors in the enterprise.”

- William Spriegel.

➤ CHARACTERISTICS OF AN ORGANIZATION:

A proper analysis of the above definition reveals the following characteristics of an organization:

1. It is a group of individuals which may be large or small.
2. The group in the organisation works under the executive leadership.
3. It is a machine or mechanism of management.
4. It has some directing authority or power which Control the Concerned efforts of the group.
5. The division of labour, power and responsibilities are deliberately planned.
6. It implies a structure of duties and responsibilities.
7. It is established for accomplishment of common objectives.
8. It is functional concept.

➤ PRINCIPLES OF ORGANISATION:

Effective and efficient working of any organisation depends on how the managerial function of organisation is being performed. The function of organisation can be carried effectively with the help of under mentioned d principles:

1.Division of work: While structuring organisation, division of work, at the very outset, should be considered as the basis of efficiency. It is an established fact that group of individuals can secure better results by having division of work. Therefore, while

designing the organisation we should aim at making suitable grouping of activities. This is also called the principle of specialisation.

2. **Attention to objectives:** An organisation is a mechanism to accomplish certain goals or objectives. The objectives of an organisation play an important role in determining the type of structure which should be developed. Clearly defined objectives facilitate grouping of activities delegation of authority and consequently effective co-ordination

3. **Span of management:** Span of management also refers to span of control signifying the number of subordinates reporting directly to any executive. This principle was developed by Col. Urwick. It is an established fact that larger the number of subordinates reporting directly to the executive, the more difficult it tends to be for him to supervise and co-ordinate them effectively. This important principle of management should be kept in mind.

4. **Unity of command:** Organisation structure should also be designed in such a way that there exists unity of command in the sense that a single leader is the ultimate source of authority. This facilitate consistency in directing, co-ordinating and controlling to achieve the objectives.

5. **Flexibility:** While designing the organization it should be kept in mind that such organisational structure should not be regarded as static. Every organization is a living entity in a living environment which is changing. As such there must be sufficient room for changing and the structure in the light of environmental changes so that the ultimate objective of the organisation is achieved.

6. **Proper balance:** It is important to keep various departments of an organization in balance. The problem basically arises when an activity or a department is further divided and sub-divided into smaller segments. The problems of balancing also crops up with the growing of any organization in its size and functioning.

7. **Management by exception:** It is a fundamental principle that makes any organisation effective in its true sense. This principle signifies that problems of unusual nature only should be referred upward and decided by higher level executives in the managerial hierarchy, whereas the routine problems should be passed on to lower levels and resolved there. Application of this principle as such, certainly requires adhering to the principle of delegation of authority. The principle of exception is thus of significant practical utility and applies to all levels in the organization structure.

8. **Decentralisation:** This principle is of great significance to big organisation. Decentralisation implies selective dispersal of authority to help departments and units to run effectively and efficiently without frequent interruptions from the top of the enterprise. It requires very careful election of what decisions to push down into the organization, of what to hold at or near the top specific policy making to guide the decision-making, selection and training of people and adequate control. Decentralisation, as such, embraces all areas of management and evidently is of overwhelming significance in organization structure.

9. **Departmentation:** Departmentation is the process of grouping activities into units for purposes of administration. In other words, it denotes grouping of related jobs and activities without violating the principle of homogeneity over which and executive has authority to exercise and assert. The main advantages of departmentation is that it enables individual executive to manage his subordinates effectively since a manageable number of persons are brought under the direct supervision of individual executive.

10. Efficiency: The organization should be able to attain the pre-determined objectives at the minimum cost. If it does so, it will satisfy the test of efficiency. From the point of view of an individual, a good organisation should provide the maximum work satisfaction. Similarly, from the social point of view, an organisation will be efficient when it contributes the maximum towards the welfare of the society.

11. Scalar principle: Scalar chain refers to the vertical placement of superiors starting from chief executive at the top through the middle level to the supervisory level at the bottom. Proper scalar chain or line of command is pre-requisite for effective organisation.

12. Unity of direction: This means that each should have one plan and one head. There should be one plan or programme for each segment of work which is to be required under control and supervision of one head or superior. If different plans or policies are followed in one department by the subordinates, confusion is bound to occur.

13. Continuity: The form of organisation structure should be such which is able to serve the enterprise to attain its objectives for a long period of time.

14. Co-ordination: The principle of co-ordination underlines that there should be proper liaison and co-operation between different departments and units of work. Unity of efforts for the accomplishment of desired objectives is the main aim of organisation. This can be achieved through the principle of co-ordination. Mooney and Reilly rightly pointed out the final objective of all organisation is smooth and effective co-ordination.

15. Authority and responsibility: Authority should commensurate with responsibility. While assigning the responsibility, authority should also be assigned. If authority is not granted, the subordinates cannot discharge their responsibility properly.

- **FORMAL AND INFORMAL ORGANISATION:** Formal organisation refers to the structure of relationships deliberately built up by the top management to realise the objectives. In this structure, responsibility, authority, accountability, lines of command, and positions and authority are clearly defined and declared. Each person is aware of his duties and authority. Every subordinate is expected to obey his supervisor in the formal chain of command. Each individual is fitted in the organisation like a cog in the machine. It is designed after careful identification, classification and assignment of business activities. So it is conscious creation of relationships. This structure of formal inter relationships is shown in the organisation chart and manual of the enterprise.

Chester Barnard refers to "an organisation as formal when two or more persons are consciously co-ordinated towards a common objective".

Informal organisation refers to the network of personnel and social relationships which arise spontaneously when people working together interact on personal whims, likes and prejudices. Such relations are not created by the top management and they are not recognised formally. Informal groups sometimes run parallel to the formal ones. Informal relations are not portrayed on organisation charts and manuals. An informal organization provides an opportunity to workers to come close to each other, develop a feeling of co-operation and co-ordination among themselves.

According to Chester I, Barnard, "informal organisation is a joint personal activity without a conscious joint purpose, even though contributing to joint results." informal

organisation is pervasive and based on informal authority, informal communication and informal leaders. It is fickle and changes from time to time.

➤ DIFFERENCE BETWEEN FORMAL AND INFORMAL ORGANISATIONS

The difference between formal and informal organisations enumerated briefly below

1. Formation: Formal organization is deliberately created by management. it is the result of a conscious and deliberate effort.

On the other hand, informal organization arises spontaneously and no conscious efforts are made to create it. It takes place on the basis of relationships, caste, culture, occupations and on personal interests etc. No delegation of authority is essential in informal organisation.

2. Basic: A formal organization is based upon rules and procedures, while an informal organization is based upon attitudes and emotions of the people. It depends on informal, social contacts between people working and associating with one another.
3. Nature: A formal organisation is stable and predictable and it cannot be changed according to the whims or fancies of people. But an informal organisation is neither stable nor predictable.
4. Set up: A formal organisation is a system of well-defined relationships with a definite authority assigned to every individual. It follows predetermined lines of communication.

On the contrary, an informal organization has no definite form and there are no definite rules as to who is to report to whom. Even a low-placed employee may have an informal relationship with an officer far above him in the formal hierarchy.

5. Emphasis: In a formal organization, the main emphasis is placed on authority and Functions. In an informal organization the stress is on people and their relationships.
6. Authority: In a Formal authority is attached to a position and it flows from top to bottom. Informal authority is attached to a person and it flows either down words or horizontally.
7. Existence: In a formal organization exists independently of the internal groups that are formed within it. But an informal organisation exists within the framework of a formal structure.
8. Rationality: A formal organisation operates on logic rather than on sentiments or emotions. All activities follow a predetermined course. As an association between like-minded people, an informal organisation has little rationality behind it. In an informal organisation, activities are influenced by emotions and sentiments of its members.
9. Depiction: Formal organisation can be shown in an organisation chart or a manual. But an informal organisation cannot be depicted in the chart or manual of the enterprise.

➤ Definition for DELEGATION:

“Delegation is the dynamics of management it is process a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique

organizational placement, can perform effectively and so that he can get others to help him with what remains.”

-Louis A. Allen

➤ **SIGNIFICANCE OF DELEGATION:**

Delegation of authority is of vital importance for effective and efficient functioning of an organisation. Delegation is widely recognised as an art of getting best results. It lessens the burden of top executives by relieving them of the botheration of taking routine decisions which others can take efficiently. This enables them in concentrating on vital aspects of Management. Delegation facilitates quick decisions relating to various matters because the authority of decision making has been distributed to many persons. It is considered to be one of the effective means of training subordinates and building morale by providing ample opportunities or executives development. Granting of authority stimulates subordinates to perform their duties well. It has a tonic effect on the psychology of the subordinates.

Delegation helps in maintaining healthy relationship between the manager and his subordinates by clearly definition the authority and responsibility of the subordinates. According to Douglas c. Basil, Delegation can be one of management’s best technique for satisfying and motivating subordinates to better performance. In terms of technical aspects of business, delegation through task assignment, can achieve faster decisions and eliminate cumbersome information system. In term of behavioural aspects, delegation can satisfy man’s demands for responsibility recognition, and the opportunity to exercise authority.”

The process of delegation greatly helps in managerial and executive development. By delegation important operation to be lower rank their morale can be enhanced as it provides as ample opportunity to them for their capabilities and talents.

Koontz, and O’ Donnell have rightly emphasized the importance of delegation of authority by saying ‘just as the authority is the key to the manager’s job, delegation of authority is the key to organisation.” Louis A. ALLEN has referred delegation as the dynamics of management. In brief it can be said that delegation of authority reduces the burden of the top executive, provides opportunities for the expansion of business administrative convenience and is greatly helpful in improving the morale and overall development of subordinates.

It has been rightly said that delegation is one of the main springs of effective management.

➤ **BENEFITS OF DELEGATION:**

The benefits of delegation are briefly discussed below:

1. It ensures co-ordination of various managerial activities.
2. It reduces the burden of the executives.
3. It facilitates expansion in and diversification of the business.
4. It encourages opportunities for division of labour.
5. It provides opportunity for development and training of young executives
6. It boosts up the morale of the employees, create confidence in them and ultimately brings efficiency in performance.

➤ **OBSTACLES OR BLOCKS OF AUTHORITY:**

Although delegation appears to be simple process, yet in practice, many difficulties come in the way of effective delegation. These difficulties may be grouped into three categories which are discussed below:

A. On the part of the Superior: Managerial failure in delegation crop up because of the following factors:

1. feeling of perfectionism: Some managers think that they can do the job better themselves and, for this reason, do not delegate authority. "I can do it better myself" fallacy hinders delegation of authority.
2. Lack of ability to direct: Lack of ability of the executive to identify and communicate the essential features of his plans, creates obstacles for effective delegation.
3. Lack of confidence in subordinates: Delegation implies a mutual trust and confidence between the manager and the subordinate. Lack of confidence in the ability, capacity and dependability of the subordinate obstructs the boss to delegate authority. If a manager has no confidence in the subordinates, he will not delegate authority to give them any chance to make mistake and learn how to take correct decision.
4. Lack of control: While delegating authority the manager must find means of assuring himself that the authority is being used to complete the given tasks. Where manager does not establish adequate controls or has no means of knowing the use of authority, he may hesitate to delegate the authority.
5. Cautious temperament and conservative attitude: The conservative attitude of manager and his cautious temperament generally act as obstacle in the delegation of authority, as the process of delegation involves risk which a manager with cautious temperament would not like to undertake.
6. Fear of competition from subordinates: Since in delegation of authority, subordinates learn to take decisions, then manager feel fear of competition from subordinates. This obstacle is usually unexpressed and may be unconscious.

B. On the part of the subordinate: .

Even if the superiors are willing to delegate authority, the subordinates avoid shouldering responsibilities because of the following possible reasons

1. Dependence of the boss: If a subordinate finds it easier to ask the boss for taking decision while tackling problems, he may avoid accepting authority even though the boss may be prepared to delegate it.
2. Fear or criticism: If a subordinate fear that he will be criticised even for a small mistake, he will shirk from accepting authority.
3. Lack of self-confidence and fear of failure: A subordinate lacking in self-confidence will generally try to shirk responsibility even though the superior is prepared to delegate.
4. Lack of information and resources: Inadequacy of information and Lack of resources are other in the way of accepting authority by the subordinates.
5. Lack positive incentives: A subordinate may be unwilling in accepting more work delegated to him by boss if he does not get adequate positive incentives in the form of pay increase or improved opportunity for promotion, personal recognition and approval by the boss.
6. Overburdened with work: If a subordinate is already over burdened with work, he may not accept authority. This is legitimate reason for such refusal.

C. On the part of the organisation: The difficulties in delegation of authority may also lie within the organisation. They may include the following:

- (i) Vague organisation structure and non-clarity of authority and responsibility relationships.
- (ii) Inadequate planning and policy formulation.
- (iii) Infringement of the principle of unity of commands
- (iv) Lack of effective control of mechanism.

➤ **CENTRALISATION**

MEANING: Under Centralization, the executive reserves the work for himself instead of delegating to his subordinates and ultimately reserves authority. But where he is forced to delegate work, he may do so by not delegating adequate authority so that the subordinate must approach him to arrive at the appropriate decision.

According to Allen, "Centralization is the systematic and consistent reservation of authority at central points within an organization."

Centralization, according to Fayol, "is that organization where the role of the subordinates is reduced."

Thus, we see that in centralization, decisions regarding the work is made not by those doing the work, but at a point higher in the organization.

➤ Advantages of centralization: The following advantages can be drawn from centralization:

1.Facilitates personal leadership: In a small company, centralization is desirable since the leader has to take quick decisions. According to Louis A. Allen, "The small company can retain the advantages of centralization so long it continues to function as one entrepreneurial unit? that is, so long as it can operate effectively as a projection of the personality and skills of one outstanding leader.

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

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

4.Integration of total operation: In

Highly decent entrepreneurial units, it is very difficult to integrate the total operations of the enterprise. A centralized enterprise gets benefits of enduring nature (eg. stable market, efficient production etc.). Since it can keep all the departments of a company integrated "central direction is needed to keep all parts of the company moving harmoniously together toward a common objective." (Louis A. Allen).

5.Uniformity of action: In case of multi-units or multi-branches of, a company, so that there is

uniformity of action. To the extent that the company wishes all its unit to do the same thing in the same way or at the same time there must be centralization of the appropriate decisions. Uniformity is essential in matters like buying, selling, advertisement, personnel etc.

➤ **Limitations of centralization**

1. Centralisation of authority increases the burden on the top executives and little time is left for them for attending to important functions of administration like planning, organization, motivation, etc.
2. Centralisation hampers the growth of development of subordinates as they are not given any authority to take independent decisions. The sense of "oneness" disappears from the subordinates.
3. Centralisation tends to slow up the operations as most decisions are not taken at a point where the work is carried out but at a point higher in the organization.
4. It reduces the scope for specialization as the persons taking decisions at the top level with regard to various fields are not all-round experts.

➤ **DECENTRALIZATION**

Meaning

Decentralization can be viewed as an extension of delegation. When a part of the work is entrusted to others, it is known as delegation. Decentralization is an important segment of delegation and extends to the lowest level of the organization. A few definitions are given below:

- 1. "Decentralisation refers to the systematic effort to delegate lowest levels all authority except that which can only be exercised at central points."
-Louis A. Allen
- 2. "Decentralisation means the division of a group of functions and activities into relatively autonomous units with overall authority and responsibility for their operation delegated to a head of each unit."
- 3. Decentralisation is simply a matter of dividing up the managerial work and assigning specific duties to the various executive skills
-Newman, Summer and Warren

Thus, decentralisation is concerned with the decentralisation

Of decision-making authority to the lower levels of managerial hierarchy.

Degree of decentralisation

The degree of decentralisation is determined by:

- a. Nature of the authority delegated,
- b. How far down in the organisation it is delegated,
- c. How consistently it is delegated.

So, the degree of decentralisation is determined by the authority given. For example, manager A in a company is given the authority to buy certain material worth Rs.1500 where as manager B is allowed to do similar type of work to the extent of Rs.4500. It is pertinent that

the degree of decentralisation depending upon the power to take decisions vested in an officer without the need of getting consent of somebody else.

➤ **ADVANTAGES OF DECENTRALISATION**

1. Reduces the burden on top executive: Decentralisation relieves the top executive from the burden of performing various functions. Centralisation of authority puts the whole responsibility, on the shoulders of an executive and his immediate groups. This diminishes the time at the disposal of top executives to concentrate on other important managerial functions. So, the only way to lessen their burden is to decentralise the decision-making power with the subordinates.
2. Facilitates diversifications: Under decentralisation the diversification of products, activities and markets etc, is facilitated. A centralised enterprise with the concentration of authority at the top will find it difficult and complex to diversify its activities and start with additional lines of manufacture or distribution.
3. To provide product and market emphasis: A product loses its marketability when new products appear in the market on account of innovations and changes in the customer demand. Authority is given to the regional units to render instant service taking into account the price, quality, delivery, novelty, etc.
4. Executive development: When the authority is decentralised, executives in the organisation will get the opportunity to develop their talents by taking initiative to enable themselves to develop qualities for managerial position. The growth of the company rests on the capacity of the talented executives.
5. It promotes motivation: To quote LOUIS A. ALLEN, "Decentralisation stimulates the formation of small cohesive groups. Since local Managers are given a large degree of authority and local autonomy, they tend to weld their people into closely knit, integrated groups." This improvement is morale of employees as they are also involved in decision-making process.
6. Better control and supervision: Decentralisation ensures effective control and supervision at the subordinates of the levels where the authority to make independent decisions. As a result, they have that knowledge about the particular assignment under their control and will be in a position to make amendments and take corrective action.

➤ **ORGANIZATION LEVELS AND SPAN OF CONTROL:**

Span of management or control refers to the number of subordinates who report to a manager or the number of subordinates a manager can effectively supervise. It is also called span of supervision. A manager should not have more subordinates, looking to him for guidance, than he can effectively manage. Because there is a limit to the number of persons a manager can supervise with effect, even though this limit varies depending on situation, the result is the existence of organisation levels. The relationships between the span and organisation levels are shown in figure. A wide span of management is associated with the organisational levels. A narrow span results in many levels.

The major problem in this regard is to decide how wide a span should be i.e., to decide how many subordinates a superior can manage. If the span is small, an executive may tend to over supervise and may even do spoon feeding to his subordinates. On the other hand, if the span is large, executive may not be able to supervise the subordinates effectively and they may start thinking that they are too remote from the point of control and may tend to become

careless company feel that they are impersonal and unimportant part of the organization machinery.

Research studies of management have found that this number (span) is usually 4-8 subordinates at the upper levels of organization and 8-15 or more at the lower levels. However, this is nothing definite. The relative advantages and disadvantage of narrow and wide spans are show below.

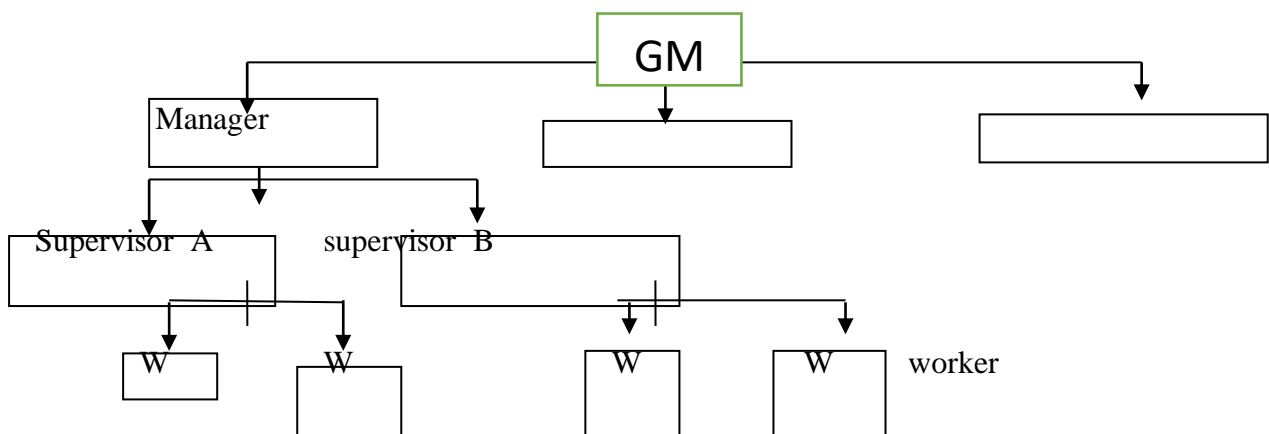
➤ Organization with narrow span:

ADVANTAGES:

- Close supervision
- Close control
- Fast communication between subordinates and superiors.

DISADVANTAGES:

- Superior tend to get too much involved in subordinate's work
- Many levels of management
- High cost due to many levelsif management
- Excessive distance between lower level and top level
- Complicates planning and control process.



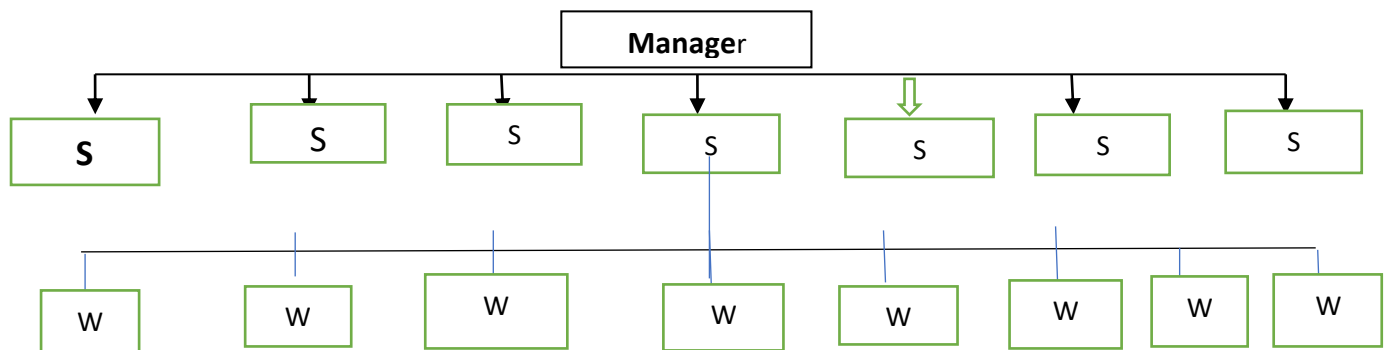
• Organization with wide span:

Advantages:

- Superiors are forced to delegate
- Clear polices must be made
- Subordinates must be very carefully selected

Disadvantages:

- Tendency of overloading superiors to become decision bottle necks.
- Danger of superior's loss of control
- Requires managers with exceptional qualities.



COORDINATION

- **DEFINITION:**

Co-ordination is the unification, integration, synchronization of the efforts of group members so as to provide unity of action in the pursuit of common goals. It is a hidden force which binds all the other functions of management.

According to Mooney and Relay, “Co-ordination is orderly arrangement of group efforts to provide unity of action in the pursuit of common goals”.

According to Charles Worth, “co-ordination is the integration of several parts into an orderly whole to achieve the purpose of understanding.

2. Co-ordination principles are: -

- a. Co-ordination through Planning
- b. Co-ordination through Organizing
- c. Co-ordination through Staffing
- d. Co-ordination through Directing
- e. Co-ordination through Controlling

A. Co-ordination through planning: - Planning facilitates co-ordination by integrating the various plans through mutual discussion, exchange of ideas.

e.g.:- Co-ordination between finance budget and purchase budget

B. Co-ordination through Organizing: - Mooney considers co-ordinates as the very essence of organizing. In fact when a manager groups and assigns various activities to subordinates, and when he

creates department's co-ordination uppermost in his mind.

C. Co-ordination through Staffing: - A manager should bear in mind that the right no. of personnel in various position with right type of education and skills are taken which will right men on the right job.

D. Co-ordination through Directing:-The purpose of giving orders, instruction & guidance to the subordinates is served only when there is a harmony between superiors & subordinates

E. Co-ordination through Controlling: - Manager ensure that there should be co-ordination between actual performance & standard performance to achieve organizational goals.

From above discussion, we can very much affirm that co-ordinates is the very much essence of management. It is required in each & every function and at each & every stage & therefore it cannot be separated.

3.CONTROLLING

Meaning and Definition:

It is the process that measures current performance and guidance towards some predetermined goals. The essence of control lies in checking existing actions against some desired results determined in the planning process

Managerial functions commence with planning and end at controlling. The other functions like organizing, staffing and

Directions are the connecting links between planning and controlling.

Controlling men at work is as old a function as the human civilization. It is a fundamental function in every sphere of life-the family, the academic institutions, the trade, commerce and industry, the government and even religious places.

Thus, control is a never-ending activity just as planning and motivating activities are. The managerial function of controlling implies, "measurement of performance against the standard and the correction of deviations to ensure accomplishment of goals as per plan." Thus, control is the process that measures current performances and guides them towards some predetermined objectives.

In the words of Koontz and O 'Donnell, "Controlling is the measuring and correcting of activities of subordinates to ensure that events conform to plans."

Controlling involves comparison of actual performance with the planned performance. If there is any difference or deviation, then finding the reasons so that they don't re-occur in future and that organizational objectives are fulfilled efficiently.

4. NATURE AND IMPORTANCE OF CONTROLLING

>Goal oriented

> Pervasive

- > Continuous
- > Forward looking
- > Involves looking back
- > Action oriented
- > Primary function- performed at all level
- > Brings back management cycle back to planning

1. Goal Oriented: Controlling is directed towards accomplishment of organizational goals in the best possible manner.

2. Pervasive: Controlling is an essential function of every manager and exercised at all level of management.

3. Continuous: It is not an activity to be pursued in the end only. It has to be done on a continuous basis.

4. Forward looking: It is related to future because it seeks to improve future results on the basis of experience gained in the past.

5. Involves looking back: Controlling involves measurement of actual performance and its comparison with the desired performance. It is the process of checking and verification

6. Action oriented: Control has no meaning if no corrective action is taken, so timely action should be taken to prevent deviations

7. Primary Function of Management: - controlling is performed at all levels and in all types of organizations.

8. Brings back management cycle back to planning: Control should not be viewed as the last function. In fact, it links back to planning Controlling involves

- * Comparing actual performance with standards
- * Finding out deviations
- * Taking corrective action so that they don't repeat in future

• **IMPORTANCE OF CONTROLLING:**

Control is an indispensable function of management without which even the best of the plans may go vary.

1. **HELPS IN ACCOMPLISHING GOALS:**
 - Ensures achievement of organizational objectives by identifying Deviations and indicating corrective action.
 - Controlling ensures that all activities in the organization take place according to the plans.
2. **HELPS IN JUDGING ACCURACY OF STANDARDS:**
 - Enables management to verify whether the standards set are accurate, achievable and objective.

- An efficient control system reviews and revises standards from time to time to match them with organizational and environmental changes.
- 3. HELPS IN MAKING EFFICIENT USE OF RESOURCE:
 - Reduces wastages and spoilage of resources.
 - When each activity is performed according to the pre-determined standards and norms it ensures that work is done in the most efficient and effective manner.
- 4. HELPS TO IMPROVE EMPLOYEE MOTIVATION:
 - Employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised.
 - These reports become the basis for giving promotions, increments etc. to the employees.
 - This motivates them to give a good performance.
- 5. ENSURES ORDER AND DISCIPLINE:
 - Creates an atmosphere of order and discipline in the organization.
 - Subordinates are under a vigil at all times and they perform their functions efficiently.
 - It also leads to check over dishonesty and chances of fraud in the company
- 6. FACILITATES CO-ORDINATION:
 - This is because each department and employee is governed by predetermined standards which are well coordinated with one another.
 - This leads to unity of directions and ensures overall accomplishment of organization objectives.

❖ STEPS IN THE PROCESS OF CONTROL:

1. Setting performance standards:

- A standard is a criterion against which actual performance is compared.
- Can be quantitative (-eg costs, revenue, units to be produced, time spent in performing a task etc.).
- Managers fix standards in the light of organizational goals. As they serve as the basis of control, they should be set carefully. They should satisfy the following requirements:
 - Standards should be simple and easy to understand both for short and for long term
 - They should be achievable (not too high)
 - As far as possible they should be set in precise quantitative terms. So that it makes comparison easier e.g., in terms of profits, cost, units (reduction of defects from 10 in every 1000 pieces produced, to 5, produced in a quarter.)
 - Should be flexible enough to be modified when the need arises, in view of the changes taking place both in the internal as well as external business environments

2. MEASUREMENT OF ACTUAL PERFORMANCE:

- Performance should be measured in the same units in which standards are set as this would make the comparison easier. Also performance measurement should be objective and reliable
- Measurement of work can be done:
 - After the task is completed or
 - During the performance whenever it is possible e.g. In a case of assembling task each part produced should be checked before assembling.
- There are several techniques for measurement of performance
- Performance of an employee may require personal observation or preparation of performance report by his superior
- Measurement of company's performance may involve calculation of certain ratios like gross profit, net profit, return on investment etc. at periodic intervals
- Progress of work in certain operating areas like marketing may be measured in terms of number of units sold, increase in market share etc.
- Efficiency in production may be measured by counting the number of pieces produced etc.
- In small scale operations each piece may be checked, while in large organization, this could not be possible. So certain pieces could be checked at random. This is called sample checking.

3. COMPARING ACTUAL PERFORMANCE WITH STANDARDS:

- Such comparison will reveal the deviation between actual and desired results.
- If there is a match between them then controlling ends there only. But if there is a mismatched deviation then the manager finds out the extent of such deviation.

4. ANALYSING DEVIATION:

- All deviations need not be brought to the notice of top management. Deviation in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas.
- Also, it is important to determine the acceptable range of deviations. Deviations can be analysed in two ways:
 - Critical point control:
 - It is neither economical nor easy to keep a check on every activity in an organization.
 - Control should focus on key result areas (KRA'S) which are critical to the success of an organization.
 - This is because if anything goes wrong at the critical points, the entire organization suffers. E.g. In a manufacturing organization, an increase of 5% in labour cost may be more alarming than a 15% increase in postal charges.
 - Management by exception:
 - This is principle of management control emphasizes that a manager who tries to control everything may end up controlling nothing.
 - So he should make a priority list and bring to the notice of top management only significant deviations which go beyond the permissible limits.

5. TAKING CORRECTIVE ACTION:

- When the deviations are within acceptable limits, no corrective action is required.
- However, when deviations go beyond the acceptable range, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

- Corrective action may involve:
- Training of employees if targets could not be met/ assigning additional employees or equipment to the project and permission from overtime work etc.
- Where deviations cannot be corrected through management action means that plans are unrealistic.
- So plans need to be re-framed if they are over stated (when performance can't be improved further) or under stated (when performance is higher than the standards.)

6. REQUIREMENTS OF EFFECTIVE CONTROLLING TECHNIQUES

- **Feedback:** Feedback is the process of adjusting future actions be upon the information regarding past performance. Feedback may be the control system very effective.
- **Objective:** Control system should be objective and understanding objective controls specify the expected results in clear and define terms and leave little scope for argument by the employees. To avoid aristocracy.
- **Suitability:** The control system should be appropriate to the nature and needs of the activity. The controls used in production different than the one used in finance and personal. Hence every organization should evolve suitable control system that serve specific needs.
- **Prompt reporting:** The control system should provide for prompt and timely reporting without any delay. Delayed reporting may leave to ineffective control actions. Prompt reporting will help that managers to take immediate corrective action before the problem occurs.
- **Forward looking:** Effective control system most focus on how the future actions will conform to plans.
- **FLEXIBLE:** The standards will be altered from time to time. Hence the control system should be flexible in accordance with the modified standards.
- **ECONOMICAL:** The benefits derived from the control system should be more than the cost involved in implementing it.
- **Simple:** The control system should be simple to understand and implement
- **EFFECTIVE AND OPERATIONAL:** A control system should not only detect deviations but should also provide solutions to the problems that cause deviations. It must disclose where and how the failures are occurring, who is causing them and how they should be dealt with.
- **MOTIVATION:** A good control system should motivate people to achieve higher performance. The control is to be so designed that it includes positive reactions from employees. The purpose of control is to prevent and not to punish.

7. METHODS OF ESTABLISHING CONTROL

Various methods are used by the management for controlling the various deviations in the organization. Some of the important methods of establishing control are discussed below.

- i. Personal observation: This is the oldest and simple method of control. The manager personally observes the operations in the work places. Any deviations observed are corrected immediately then and there itself. However, this is a time-consuming technique and may not be liked to be observed by workers.
 - ii. Budgeting: A budget is a statement of anticipated results during a designated time period expressed in financial and non-financial terms. The budgets process typically involves the use of cost standards. Budgets are made for a specific period like monthly, quarterly or annually. The budgets are prepared on the basis of the purpose like sales budgets, capital expenditure budget, advertisement budget, R and D budget etc.
 - iii. Cost accounting and cost control: Profit of any business depends upon the cost incurred to run the business. Profits are increased by reducing costs. Hence, much importance is given for cost accounting and cost control.
 - iv. Break-Even analysis: The point at which sales is equal to the total cost is known as Break-Even Point (BEP). At this point there will be no loss or no profit. The total cost is the sum of fixed cost+ variable cost. Fixed cost is fixed irrespective of production but variable cost changes according to the volume of production. This analysis helps in determining the volume of production or sales and the total cost which is equal to the revenue. The excess of revenue over total cost is profit.
 - v. Standard costing: Standard costing is used to control the cost. The objective of standard costing is the same as budgetary control. The system compares the actual with standards and variance is noted. The following are the steps involved in standard costing.
 - Setting the cost standards for various components like labour, material, machine, hour rate etc.
 - Measurement of actual performance and comparing with standard cost.
 - Find the variance of actual cost compared to standard cost.
 - Taking corrective measures to avoid such variances to occur in future
6. Return on investment (ROI): Ratio of net profit to the total investment or capital employed in the business is termed as return on investment, generally expressed in percentage.

$$\text{ROI} = \frac{\text{Profit}}{\text{Total Investment}}$$

Using this the percentage of profit is identified. The amount of profit earned by a company is different from the rate of profitability.

7. Responsibility accounting: It is defined as the system of accounts under which each department head is made responsible performance of his department. Under this system, each department is made a profit centre. The individual department is responsible for its own operation.

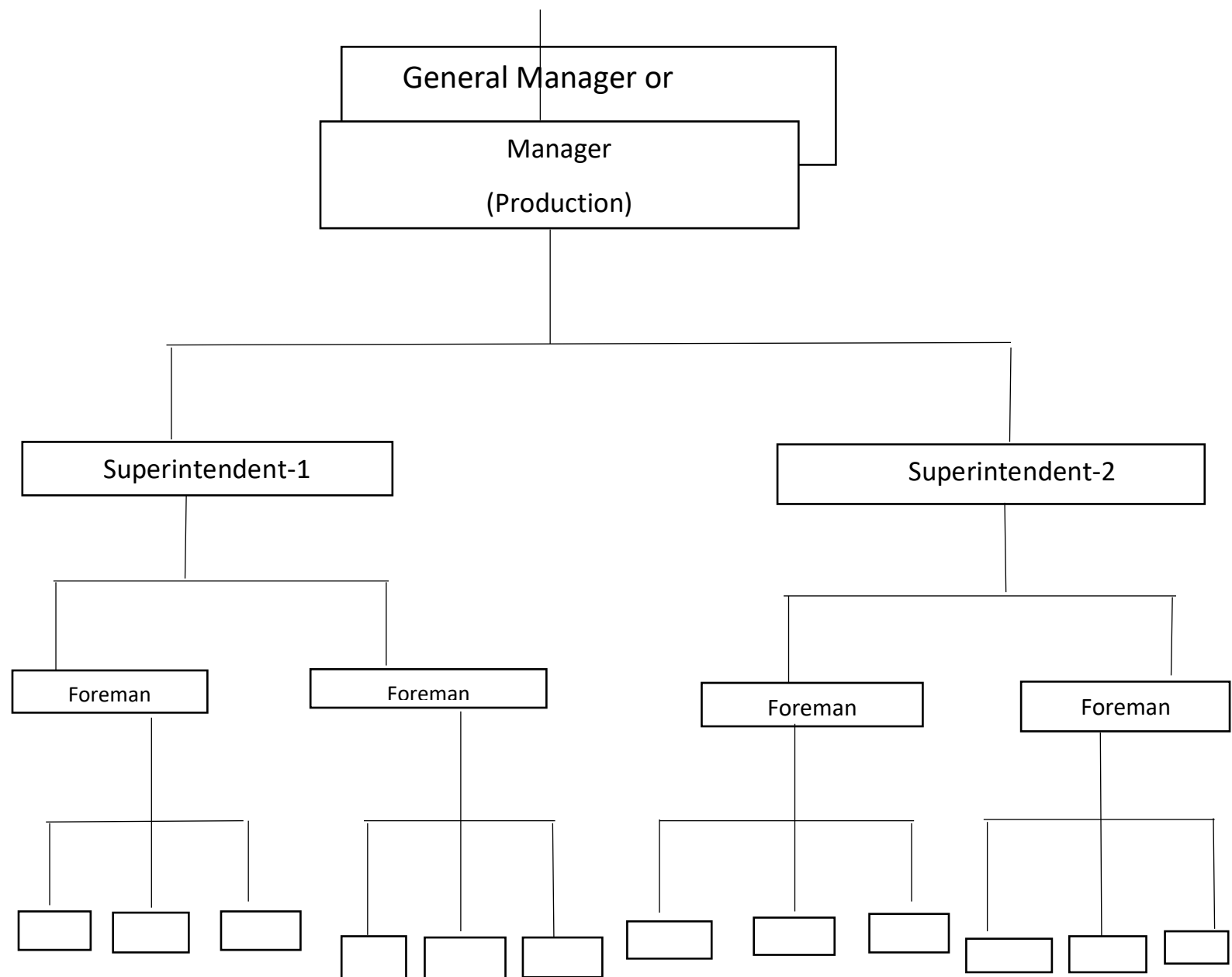
LINE ORGANISATION

It is also called as military or scalar organization. It is the simplest form of organization structure. Under this system, authority flows from man at the top to the lowest man vertically. In other words, directions issued by the man in charge of the execution of work. This makes

the line of authority “straight and vertical”. It is authority which channels and directs the response of the others and require them to conform to decisions, plans, policies, and procedure and goals.

Line authority is thus that relationship in which a superior exercises direct supervision over a subordinates. There are three important principles in this system they are

- i. Command should be given to subordinates through the immediate superior. There should be no skipping of levels in the chain of command.
- ii. There should be only one chain command should be received from only one immediate superior.
- iii. The number of subordinates whose work is directly commanded by the superior should be limited
- iv. Enterprise that starts small organization, probably starts with a line type organization



ADVANTAGES

- Simple and easy to understand
- Flexible, easy to expand and contract
- Makes clear division of authority
- Clear channel of communication with no confusion
- Encourages speedy action
- Strong in discipline as it fixes responsibility on an individual.
- Capable of developing the all-round executive at the higher levels of authority.

DISADVANTAGES

- Neglects specialists.
- Overloads a few key executives.
- Requires high type of supervisory personnel to meet the challenges imposed in the absence of specialists as advisors.
- Limited to very small concerns.
- Encourages dictatorial way of working.
- Provisions are seldom made to train, develop and replace top executives.
- Due to task of specialisation, perhaps there is more wastage of material and man hours.
- Rigid and inflexible.