

Module 2

Functions of Management

2.1. PLANNING

2.1.1. Meaning and Definition of Planning

Planning is the primary function of management. Management planning may be defined as the process of drawing up a roadmap to achieve certain goals or objectives. A plan can be defined as a 'future course of action'. It is a particular path for achieving the pre-determined goals. Planning helps the managers in systematically, rationally and realistically preparing a plan of action. Planning facilitates optimum utilisation of tangible and non-tangible resources. It helps the managers in – assessing the resources, evaluating strengths, minimising all the threats, considering various possibilities and choosing the most appropriate alternative.

According to Henry Fayol, "Planning is deciding the best alternatives among others to perform different managerial operations in order to achieve the pre-determined goals".

According to Koontz and O' Donnel, "Planning is deciding in advance what to do, how to do it, when to do it, and who is to do it. Planning bridges the gap from where we are to where we want to go. It makes it possible for things to occur which would not otherwise happen".

It is said that 'well plan is half done'. Effective planning forms a foundation for other functions of management. Hence, planning can be defined as a logical process of achieving goals and minimising risks, wastages and uncertainties.

2.1.2. Nature of Planning

Planning has the following features:

- 1) **Planning Assists in Achievement of Goals:** Planning is goal-oriented. The very purpose of planning is to achieve the pre-determined goals. Without a goal in mind, the entire exercise of planning will go to waste. It is through the process of planning that organisations seek to achieve their objectives and goals.

- 2) **Planning is a Basic Function:** Planning is the primary function from which all other organisational functions originate and flow. All the other functions of management (like organising, staffing, directing and controlling) are based on the plans developed through the planning process. Hence, planning precedes all other functions and activities.
- 3) **Planning is All Pervasive:** Planning is needed at all levels of the organisational hierarchy, irrespective of the management levels, departments or divisions. The planning process is not restricted to the top-level management or a particular functional area; its scope is different for different organisational levels and departments. Corporate level managers may draw up long-term plans and executive level managers may prepare plans for day-to-day operations.
- 4) **Planning is Flexible:** Planning process is always based on assumptions and forecasts and hence, plans are modified with the changes in the business environment. These changes in the plan are made for realising the predefined goals. Therefore, planning is always subjected to mid-course modifications.
- 5) **Planning is a Never-Ending Process:** Planning is a continuous process. Plans are prepared for a specific period of time and at the end of the term, new plans have to be chalked out. These new plans are prepared according to the new organisational goals and changing business environment.
- 6) **Planning is Future-Oriented:** Planning is always conducted on the basis of a future course of action. Organisations prepare plans for where they foresee themselves in future. Planning involves anticipating the future changes, evaluating them and predicting their outcomes. Hence, planning is essentially a futuristic endeavour.
- 7) **Planning involves Choice:** Planning process is conducted only if there is more than one alternative for realising a particular goal. Without choice, planning is of no use. In practice, planning assumes that more than one possibility or alternative is available. Planning involves choosing the best and most suitable alternatives.

- 8) **Planning is an Intellectual Exercise:** Planning is essentially a logical and mental exercise that predicts a future course of action. It involves thinking before doing. The prerequisites for sound planning are intelligence, creativity, knowledge, judgement, foresightedness and imagination.

2.1.3. Need of Planning

Need of planning is as follows:

- 1) **To Mitigate the Uncertainty:** By preparing for contingencies and future situations, planning seeks to reduce the element of uncertainty of the future.
- 2) **To Cooperate and Coordinate:** Planning improves coordination amongst various units of an organisation. For this, it takes into account the demands, requirements and aspirations of all the departments. Hence, planning is a holistic exercise that facilitates cooperation and coordination.
- 3) **To Utilise Resources Optimally:** One of the major objectives of planning is to ensure effective utilisation of resources by selecting the best possible alternative. If the resources are efficiently utilised, then the organisation is able to realise its objectives and attain economy in operations.
- 4) **To Prepare for Contingencies:** Unpredictable situations can disrupt the flow of work in the organisation. A major objective of planning is to enable the organisations to deal with these unforeseeable circumstances or contingencies. Planning also involves drawing up contingency plans to deal with accidents, natural disasters, labour unrest, etc.
- 5) **To Achieve Goals:** Planning is all about achieving pre-determined organisational goals and targets. Organisational goals, under a specific period of time, can be achieved only through rational and logical planning.
- 6) **To Reduce Competition:** Planning also aims at developing strategies against existing and potential competitors. Planning helps organisations to face competitions in order to survive and grow.

2.1.4. Importance/Benefits of Planning

The importance of planning may be summarised as under:

- 1) **Provides Direction and Purpose:** Planning seeks to give a sense of purpose and direction to the organisation. It provides the employees with answers regarding the direction of the organisation, role of managers, responsibilities of employees, etc. It provides rationale to all the activities that are to be undertaken by an organisation for realising its pre-determined goals.
- 2) **Helps in Selecting Feasible Alternatives:** Planning helps the management in anticipating and to be prepared for the future business conditions. Managers are able to evaluate options, estimate consequences and therefore exercise better judgement while selecting alternatives and choices with the help of proper plans. It also helps the organisation in selecting the best course for realising the set objectives.
- 3) **Encourages Rational and Logical Decision Making:** Planning provides all the necessary inputs to decision-makers, so as to enable them to take judicious and rational decisions. Planning discourages decisions that have baseless assumptions, luck and chance. Thus, planning minimises the risk of failure and errors, provides necessary flexibility, and above all, infuses a sense of discipline during decision-making and problem-solving.
- 4) **Planning is a King-pin Function:** Planning is a primary function from which all other functions originate. All activities are based on the planning process. Organisational plans form a base for developing organisational structures and delegating authorities. All the elements of direction (which are leadership, motivation, supervision and communication) are exercised to ensure the proper execution of organisational plans. Hence, it can be said that planning is the function around which all other functions of management are carried out.
- 5) **Optimal Allocation and Utilisation of Resources:** Planning also enables organisations to optimally allocate and utilise their human and non-human resources. Scarce and expensive resources can be judiciously allocated and utilised in a planned way.
- 6) **Enhances Efficiency:** Planning as a function of management also helps in enhancing the efficiency of the organisation. It enhances organisational efficiency in the following ways:
 - i) By adopting the best alternative or course of action.
 - ii) By judicious and optimal use of resources while ensuring minimal wastage.
 - iii) By undertaking all activities with due diligence and consideration.
- 7) **Increases Adaptability:** Organisations that emphasise on planning, especially proactive planning, are better equipped to deal with the business changes. They tend to be more flexible and adaptable. An organisation that is able to adapt according to the changes in the business environment, is able to achieve growth and

success. **For example**, a company should be able to adapt to the changes in the technological environment.

- 8) **Increases Ability to Anticipate:** Planning also enables the organisations to anticipate changes, either internal or in the environment and to take necessary preventive measures. Planning helps in scanning the environment so that the organisation is able to predict the future opportunities and threats. These predictions help in attaining an advantage over the competitors and in exploiting the opportunities. Organisations that emphasise on planning are in a better position to control the situations, rather than being controlled by them.

2.1.5. Steps in Planning Process

The process of planning involves the following steps:

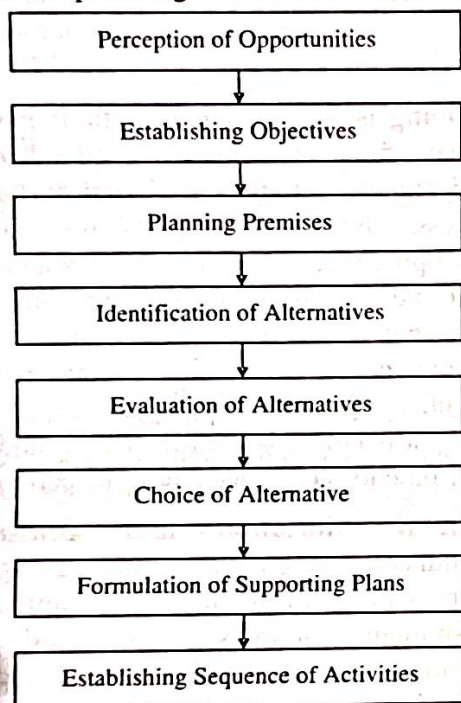


Figure 2.1: Planning Process

- 1) **Perception of Opportunities:** This step is not mandatory in the process of planning. But it is important that the managers are aware about the opportunities and threats related to a specific plan. This step helps the managers in anticipating the possible opportunities while keeping in mind the organisational strengths and weaknesses. The plans can be drawn up only when managers visualise or perceive an opportunity to establish a new unit or to grow and expand. Hence, this stage is a prerequisite for the planning process.
- 2) **Establishing Objectives:** Once an opportunity has been identified, the next step is to establish the organisational or departmental objectives. Objectives provide a sense of direction to the organisation. They help in identifying the areas

that require special attention and also indicate the results that are necessary for the overall success of the organisation.

- 3) **Planning Premises:** Once the goals are set, it is time to make assumptions and lay down parameters or the boundaries, i.e., the planning premises. Premises are the situations under which the planning process has to be implemented. Planning premises include assumptions related to internal and external environmental conditions. Internal premises include organisational resources, capabilities, strengths, structures, policies, etc., whereas external premises are related to factors like employment, price levels, technological changes, government policies, etc.
- 4) **Identification of Alternatives:** The next step is to identify the alternatives for achieving the set goals and objectives. A particular objective can be realised by adopting different alternatives. In this step the manager must identify all those alternatives that may help the organisation in fulfilling its predefined goals. **For example**, if the objective is to go for international business, then a company can establish its position in the international markets by adopting different strategies like – joint venture, merger, management contracting, local manufacturing, exporting, etc.
- 5) **Evaluation of Alternatives:** In this step, the identified alternatives or options are analysed on the bases of their relative feasibilities, depending on the various constraints or assumptions set by the manager. In this particular step, each alternative is evaluated in terms of their contribution towards the achievement of the predefined objectives as well as in terms of the strengths and weaknesses of the organisation.
- 6) **Selection of Alternatives:** This step deals with the selection of an alternative that meets all the requirements for realising the objectives. Often, more than one alternatives are selected to deal with the changes in business environment, e.g., changing land prices, new government policies, natural disasters, etc. These alternatives or stand by plans are kept ready for the unpredictable future changes that can be dealt with.
- 7) **Formation of Supporting or Supplementary Plans:** Once the fundamental plan has been prepared, it is time to draw up supplementary plans for achieving specific targets. These supporting plans can be plan for buying land, for hiring, supply of raw materials, etc. These derivative plans are prepared on the basis of the primary plan and play a significant role in achieving the organisational objectives.

- 8) **Establishing Sequence of Activities:** Once the primary and supplementary plans are developed, it is the responsibility of the manager to set a course of action for implementing the plans. This step involves deciding what will be done by whom and when. Budgeting is also a part of this step so that the plan has a concrete meaning and can be implemented successfully.

2.1.6. Types of Plans

Various types of plans are as follows:

- 1) **Standing or Repeated-Use Plans:** Standing plans are prepared to solve issues related to the day-to-day functioning of the organisation. They are meant for repeated-use and act as a guide manual for the organisation. They are helpful in outlining a predictable response related to recurring problems. They guide the employees at every level of management so that they could anticipate the problems and respond according to the standing plans. Organisations that are closely linked and integrated use these plans to enable the employees to predict the actions of others. Different types of standing plans in an organisation are as follows:

- i) **Mission or Purpose:** Organisational mission, as a standing plan, identifies the primary purpose of the organisation. Mission is the reason for existence of the organisation. Mission highlights the basic tasks or functions of the company. Every organised activity should have a mission or purpose. Without a mission, the organisation may lose its credibility in the market.

- ii) **Objectives or Goals:** Goals are prepared to give direction to the functions of the organisation. The planning process should be based on specific objectives or goals. Managers should follow the concept of 'management by objective' for achieving success and growth.

- iii) **Strategies:** Plans should be strategy-oriented. Strategies are prepared by studying the strategic plans of the competitors. Strategies are prepared according to the changes in the competitive business environment.

- iv) **Policies:** Policies are guidelines against the frequently occurring issues and problems. They help in hassle-free realisation of objectives. They are generally prepared by the top-level managers.

- v) **Procedures and Methods:** Procedures are plans that define the sequence of activities to be performed over a particular course of action. Methods are a part of the procedures and depict the ways in which the tasks should be performed.

- vi) **Rules:** Rules are specific directions for dealing with particular issues. They help the management in ensuring smooth functioning of business activities. These are related to office timings, discipline, leaves, etc. They are the do's and don'ts for a particular situation.

- 2) **Single-Use or Operating Plans:** Standing plans are meant to deal with common recurring situations and cannot be trusted to deal with all possible situations and scenarios. They are mostly used for situations where management decision-making is required. Therefore, to deal with specific unique situations, **operating or single use plans** are required. Once the situation is over or has been dealt with, a new plan is prepared to achieve the next objective. Such plans are an effective way of managing dynamic and unforeseen scenarios within which the organisations are required to operate. All single use plans must incorporate the following features and aspects:

- i) **Programmes:** Programmes aim at specifying a sequence of steps to be followed for realising a goal within a particular time-period. These plans are action-based and are followed as per policies, objectives and procedures of the organisation.

- ii) **Budgeting:** A budget is a plan in numeric terms and is the fundamental tool of a single-use plan. It is prepared for assessing the tangible and non-tangible resources required for proper execution of programmes. Budgets are prepared for a particular time period and after the term is over, a new budget is prepared.

- iii) **Project Plans:** A project can be defined as a particular task related to the overall programme. They are a series of different tasks to be followed in a programme. Projects are implemented with respect to a specific task and are terminated after the task is accomplished. Hence, they can be termed as an operating plan.

- 3) **Contingency Plans:** Contingency plans are used when a company faces an anticipated future risk. These plans include a number of steps that minimise or manage the harmful effects of the risk. A company can face dire consequences in the absence of contingency plans. In their absence, management may be forced to take and accept decisions in haste. These decisions may prove to be hazardous and costly for the company. Contingency plans, equip the company to combat with the emergencies that are likely to have a negative impact on the organisation. Such emergencies could be a fire, a natural disaster, scarcity of raw materials, labour issues, power

failure, break downs, etc. The idea behind such plans is to mitigate the negative impact or damage. They are likely to increase the success rate of the business projects.

2.1.7. Types of Planning

Based on their purpose and scope, organisations use different ways to draw up plans. Some of them are explained below:

1) Coverage of Activities

i) **Corporate Planning:** The scope of corporate planning encompasses the entire organisation. This type of planning involves taking decisions related to the growth of the industry, organisation, society, environment, etc. Corporate planning is generally undertaken by the top-level managers, keeping in mind the factors affecting the external environment. Corporate planning activities are related to the formulation of vision, mission and strategic plans for achieving the organisational objectives.

ii) **Functional Planning:** Functional planning is conducted to satisfy the work related requirements of various organisational departments and to achieve the organisational goals. Functional planning facilitates the managers in maintaining standardised managerial practices so that all departments/ divisions/units work in unison. Functional planning also contributes towards better coordination.

2) Importance of Contents

i) **Strategic Planning:** Strategic planning is conducted for determining the future course of action in order to realise the long-term objectives. Strategic planning focuses on the larger picture and outlines the framework within which the operational plans and decisions are to be taken.

ii) **Tactical Planning:** Tactical planning is generally undertaken for one business year. Largely focused on operations (production and selling), tactical planning is short term in nature and deals with immediate operational issues and matters like product distribution, production decisions (during peak season), etc.

iii) **Operational Planning:** As compared to tactical planning (task or goal specific), operational planning is related to short-term business strategies, annual budgets and implementation of operational plans.

3) Time Period Involved

i) **Long-Term Planning:** Long-term planning is

conducted to achieve the long-term objectives. This type of planning can be for 3, 5 or even 20 years, depending upon the nature of organisational goals. These are comprehensive plans that usually cover all operational departments of the organisation. Long-term planning is affected by the changes in the external business environment.

ii) **Short-Term Planning:** Their tenure is short, generally upto a year. Short-term planning is related to the functional areas (like finance, human resource, marketing, production, etc.) of the organisation. They are undertaken to achieve the short-term objectives.

4) Approach Adopted

i) **Proactive Planning:** Proactive planning helps the organisation in predicting the result of future events and how they are likely to affect the organisation. Such planning is always advisable as it mitigates the elements of uncertainty that usually accompany the unexpected events. These events often have a damaging or adverse impact on the organisation. In other words, proactive planning is all about anticipating risks and taking adequate measures to minimise them.

ii) **Reactive Planning:** Reactive planning is the opposite of proactive planning. Reactive planning is done to deal with the current situation, i.e., reactive plans are prepared to take corrective measures in case of occurrence of unpredictable issues and problems.

5) Degree of Formalisation

i) **Formal Planning:** Generally large and professionally managed organisations adopt formal planning which is a scientific and logical approach to planning. It is based on empirical data and realistic assessments and assumptions. This kind of planning calls for great sophistication and analysis

ii) **Informal Planning:** Small businesses rely on informal planning which is based on intuition, common sense, and experience of the owner. Such planning is short termed and unstructured.

2.1.8. Planning Tools and Techniques

Following are the major tools and techniques used for planning:

1) **Environmental Scanning:** Environmental Scanning means careful monitoring of internal and external business environment to identify risks and opportunities associated with it. It is a constant process in which the environment is frequently

analysed and diagnosed. This process involves activities like future studies, future research, insight activities, projecting, screening, etc. It is essential for a business firm to adapt environmental scanning to adjust with the changes in the business environment. This helps the business firm to find out its strengths, weaknesses, opportunities and threats. SWOT analysis is one of the major techniques for environment scanning.

- 2) **Forecasting:** Forecasting is to find out future possibilities based upon the past information and present trends. It simply means to estimate the controllable and uncontrollable future events and business opportunities which can foster the growth of the organisation. Forecasting is an essential part for planning, as long-term plans are made on the basis of effective forecasting. It is usually done by systematically analysing the future conditions of external business environment which includes economic climate, political and social issues, future demand for goods and services, changes in the population growth, etc.
- 3) **Benchmarking:** Benchmarking is a method which involves recognising "the best practices" in terms of the products as well as procedures, which are responsible for creation and delivery of the products. The quest to find out "best practices" can occur inside a specific industry or can also occur in other industries. The purpose which lies behind benchmarking is to understand and evaluate the present status of a business or an organisation with respect to "best practices" in the industry and recognising areas and ways to ensure better performance. Through the process of the benchmarking, the firm is able to recognise the best performing firms in the same industry, or those with the similar procedures in the other industries; and can compare their (target firm) results and procedure with that of their own.
- 4) **Budgeting:** Budgeting is a managerial tool and is used for the purpose of short-term planning and control. It denotes the complete cycle of designing, implementing and operating budgets. The main purpose of short-term budgets is to ensure that the plans are provided with adequate resources. Budgeting is the course of preparing, implementing and processing of budgets. It involves formulation of plans in numerical terms for a specified period of time in future. Budgeting attempts to prevent future issues and to resolve them. A business is required to evaluate its position in the current economic environment. It helps in establishing goals and objectives for all the levels in an organisation. Business transactions

are required to be undertaken for the purpose of achieving these goals. Budgets are prepared for summarising the forecasted data. In nutshell, budgeting involves resource allocation. This tool can be used by a variety of business organisations including non-profit concerns.

- 5) **Operational Planning Tools:** These tools are used for resolving day-to-day managerial problems. They involve work scheduling (using critical path method or bar charts), resource allocation and levelling (using break-even analysis or linear programming), cost performance assessment (using earned value method) and risk assessment (using risk management). Managers utilise these tools for planning and also for solving numerous managerial problems.

2.1.9. Levels of Planning

The different types of planning activities performed by the participants of different management level are stated as below:

- 1) **Planning at Top Management Level:** Planning is one of the main functions of top management. A lot of time of top or apex management gets involved in deciding and determining the planning and policies of the organisation. Strategic planning which has a time period of five to six years or even ten years is also handled by the top management. Resource mobilisation is the main concern of strategic planning. Various policies, procedures, strategies, standards, programmes, course of actions are included in strategic planning which has a significant role in deciding the procurement, disposition and utilisation of available organisational resources.
- 2) **Planning at Middle Management Level:** Middle level management is responsible for setting different types of short-term or tactical goals and plans. They do not spend enough time in planning activity; in fact most of their time is spent in communication and coordination activities. In addition, all the activities related with administrative and tactical planning are handled by middle management. Middle management is also responsible for the execution of some specific plans related to different fields of management areas such as production, marketing, human resource and so on.
- 3) **Planning at Lower Management Level:** Lower level management usually deals with operational planning. It is the planning related with daily, weekly and monthly operations, which is generally done by the first line managers, e.g., department and section heads. In brief, this level of management basically deals with short-term

plans. Plans to accelerate research projects which are behind schedule, plans of routing, scheduling and dispatch in productions, plans for finished goods inventories to meet current market demands, cashflow budget are the common examples of operational planning.

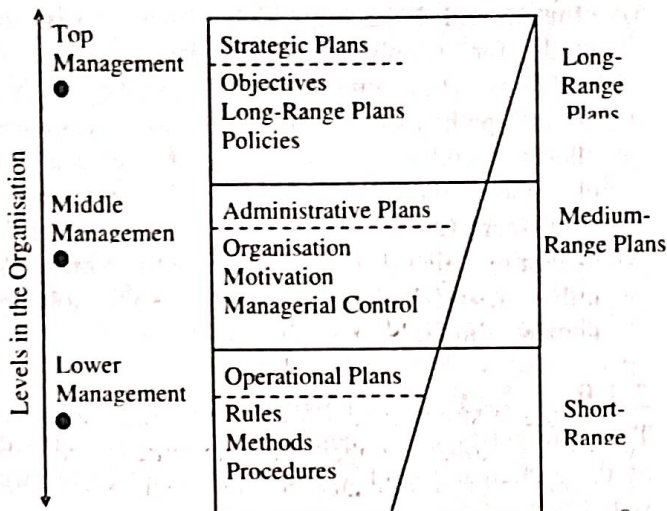


Figure 2.2: Levels of Planning

2.2. ORGANISING

2.2.1. Meaning and Concept of Organisation

For understanding the notion of organisation, it is important to interpret the meaning of "organising". Organising means the process of forming a framework or a structure which helps the employees to work effectively for achieving the objectives, vision or goals laid down by an organisation. Organising comprises of assigning various jobs to the relevant units, departments and sections of the business, so as to attain the organisational objectives. It also requires proper coordination between these business units, departments and sections, in order to obtain an integrated process. The process of organising is relatively simpler in small-scale organisations. It consists of deciding the necessary tasks to be performed and accordingly assigning the same to various employees.

On the other hand, the process of organising is complicated in large business organisations. Here, the organising procedure involves division of work, assigning the jobs to respective business units, departments and sections and delegating the authority to different positions in different departments. In fact, the process does not end at these activities, but it also includes setting-up efficient information and communication systems for ensuring coordination among all departments and activities to achieve the pre-determined objectives of the organisation.

According to Ralph C. Davis, "Organisation is a group of people who cooperate under the direction of leaderships, for the accomplishment of a common end".

According to Gary Johns, "Organisations are social inventions for accomplishing goals through group efforts".

2.2.2. Nature of Organising

The nature of organising can be highlighted through following heads:

- 1) **Group of People:** When many people come together and strive to achieve the common goals, it is called as an organisation. Thus, an organisation consists of a group of people and cannot be formed by the presence of a single person only.
- 2) **Dividing the Work:** Dividing the work into smaller tasks is one of the fundamental activities in any organisation. The prime job of any organisation is to allocate the responsibilities among various departments and divisions. The jobs are then sub-divided into smaller tasks to make the work-flow easier.
- 3) **Coordination:** Organising involves allocation of different works to different employees who are working with the common objective to attain the organisational goals. Each activity is correlated and dependent on each other, even if conducted separately. This ensures coordination among all activities of different departments.
- 4) **Mutual Goals:** There are various departments which consist of number of people. All these employees perform different jobs, but are directed towards the same organisational goal. Therefore, it can be said that an organisation's employees share the common mutual goals.
- 5) **Authority and Responsibility:** In every organisation, a hierarchy is established from top to bottom, connecting every position. Every position is associated with a well-defined authority and responsibility. It implies that every person working in an organisation is assigned some amount of authority for fulfilling the responsibilities efficiently. It also denotes that the same person is considered responsible for the inadequate performance.

2.2.3. Importance of Organising

Organising is important due to following reasons:

- 1) **Increases the Management Efficiency:** Organising improves the efficiency of an organisation's management by optimally utilising the available resources. A good organisation enhances the productive capacity of material resources with the help of human

resource efficiency. This can be achieved by an organisation by refraining from delay, duplication and confusion of work.

- 2) **Optimally Utilises Human Resource:** For an organisation to be effective there should be right people at the right job. Effective organising facilitates coordination among the employees and optimum utilisation of human resource. This in turn, increases the overall productivity of the organisation.
- 3) **Helps in Organisational Growth:** When organising is done efficiently, it provides a great support for expansion, growth, and diversification of the organisation. Most of the large enterprises are the examples of efficient organising.
- 4) **Provides Importance to Every Department:** Organisation divides the major organisational goals into activities and assigns them to different departments. Each department plays its different role towards the achievement of organisational objectives. Importance is given according to the role played by each department, irrespective of the level of activity or contribution made by it.
- 5) **Improves Coordination:** Effective organising enables coordination among different departments. This in turn creates a sense of cooperation among different functional areas instead of competition.

2.3. TYPES OF ORGANISATION STRUCTURE

2.3.1. Traditional Organisational Design

Generally, a traditional organisational design in a business entity is hierarchical, where top level management has the authority and decisions and power flows from top to bottom towards the subordinates. Traditional organisations are inevitably rigid and fixed in nature. In a traditional organisation employees are differentiated on the bases of departments and a chain of command is followed by them. Here a head is appointed for each department and is responsible for monitoring the staff under his/her department. Divisional head is answerable to the manager. An apt example of systematic controlled form of behaviour and hierarchical can be of the military system. Each employee has specific job description and is answerable to his/her senior and each division is expected to follow a set of rules and regulations. Business plan determined for each annual economic year is followed by all the employees. Plans deciding the course of action to accomplish targets are pre-determined and cannot be easily altered.

2.3.1.1. Simple Structure

The first basic form of organisational structure is the simple structure. It is mostly adopted during the initial entrepreneurial phase when the organisation is ready to portray its objectives and personality. The main characteristics of a simple structure include centralised authority, limited rules, horizontal hierarchy and low work specialisation. Under this structure, the top management has a wide span of control and a low level of differentiation between the sub-activities. A centralised authority system is followed in such structures by a single person, who is often the organisation's owner. There is a direct control and supervision over the work with low authorisation. The structure has only 2 or 3 vertical levels having rigid workers who are unable to perform different types of activities.

This type of structure is most suitable for small firms where a less number of activities can be systematically coordinated by few decision-makers. They can effectually and rapidly coordinate activities. Since, the simple organisational structure is less complicated the receptiveness towards upcoming challenges is more and the coordination between the activities becomes simplified. Conversely, it is inappropriate for large organisations where the business environment is highly complex.

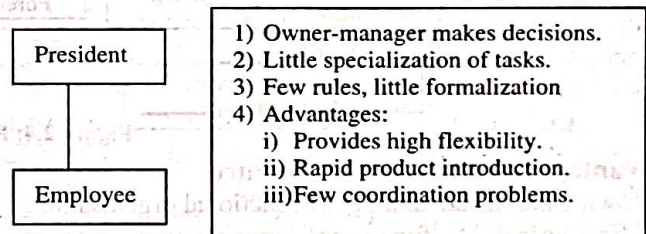


Figure 2.3: Simple Structure

Advantages of Simple Structure

- 1) Simple structure allows experimentation and promotes creativity.
- 2) It encourages proper management of all business operations.
- 3) It is formal in nature.
- 4) It promotes rational decision making.

Disadvantages of Simple Structure

- 1) As the size of organisation grows, it becomes more and more incompetent and limited.
- 2) The owner managing the business affairs finds it quite challenging and taxing.
- 3) Rather than emphasising on strategic aspects, the CEO of the company is involved in routine functions.
- 4) No encouragement for growth and development of managers.

2.3.1.2. Functional Structure

The kind of organisation in which line authority, staff authority and functional authority co-exist is known as “functional organisation”. In this structure, a portion of the authorities of the line managers are given to the functional experts for some special activities. Here, they are directly accountable to the top management. The functional experts are the managers of certain departments where they have the authority to issue orders or command the subordinates. They are not immediately supervised by the line executives. For example, in a line and staff organisation, the personnel manager is the staff specialist who is vested with the authority of staff

advisor. But, his role changes in case of a functional organisation and his line authority gets simply confined to checking the adherence to personnel policies in all divisions of the firm. Here the example cited is of functional authority given to the personnel manager. In case of line and staff, a personnel manager is similar to the line manager. But, in case of functional authority, the same authority is limited to a specific area of activities. Similar to the personnel manager, there are some other financial authorities such as legal advisors, quality control managers, maintenance experts, etc. Functional organisational structure is given in figure 2.4.

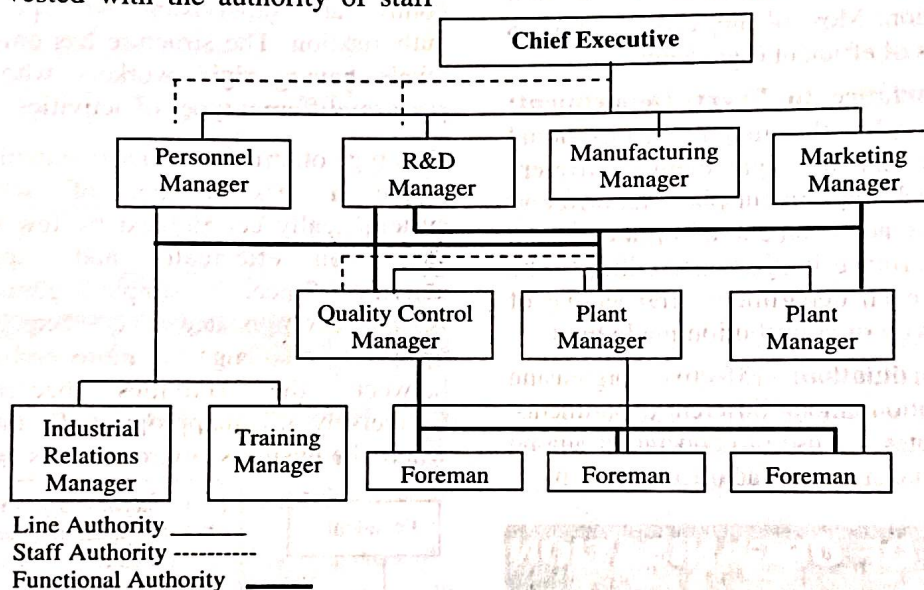


Figure 2.4: Functional Organisation

Advantages of Functional Structure

Following are the advantages of functional organisation:

- 1) **Expertise:** A functional organisation aids in expertise, as all the managers have specialisation in their own areas, which provides benefits to all the employees of the organisation. Every manager is vested with functional authority of his area of functionality over the employees.
- 2) **Effectiveness:** Due to the presence of both the advice and guidance given by the staff specialists, improved and rational decisions are taken. It is possible to apply specialised knowledge in every aspect of work. Better levels of competence are attained on the ground that each of the personnel is focusing solely on the single significant task. Increased productivity springs due to expertise and benchmarking. All the functions are consistently carried-out in the entire enterprise.
- 3) **Easy Process of Recruitment:** The process of recruitment, selection and training becomes easier, as in this structure experts are needed who

- 4) **Great Relaxation for the Officers:** The chief executives are not overloaded with a number of tasks as every official is needed to focus on single specific task. Sole proprietorship is avoided thereby decreasing the centralisation to a great extent. Regulation is carried-out in the firm on a joint basis. In order to keep the organisation in proper environment, various checks and trade-offs are conducted and analysed.
- 5) **Growth and Development:** There is no obstruction in the way of growth and development of the organisation as each employee gets the chance to progress in his own area of specialisation. It offers wider chances of development for the firm as there is no dependence on the abilities of only few managers.

Disadvantages of Functional Structure

The disadvantages of functional organisation are as follows:

- 1) **Confusing and Overlapping Authorities:** The

creates ambiguity and overlapping of authority. It gives rise to issues related to fixing the responsibility for attaining desired objectives.

- 2) **Problems in Maintaining Discipline:** Maintaining discipline in the organisation becomes difficult, due to the presence of more than one supervisor for every employee. A subordinate may get confusing orders, which may divide his attention and loyalty. This situation may lead to double subordination, which in turn decreases the morale of the personnel.
- 3) **Absence of Coordination:** It becomes quite difficult to ensure cooperation and coordination in the firm due to rivalry existing among various staff experts. All the specialists work independently and might adopt a narrow perspective of the firm. Therefore, departmental coordination becomes low and conflicts may arise.

- 4) **Costly:** It proves to be a costly affair as there is a lot of clerical work. Additionally, a huge amount of money is wasted on the salaries of staff experts.
- 5) **Delay in Decision-Making:** There might be a delay in decision-making as the managers need to consult many experts. Dullness and absence of ideas might emerge due to over expertise. This possibility is raised in case of presence of a number of specialists.
- 6) **Limited Training:** There are no chances for overall development or growth of the executives as they have to attain specialisation in a single task. It might lead to challenges in their promotions to higher positions.
- 7) **Unsteadiness:** Inconsistency in the firm may arise due to from alteration the role of the employees.

2.3.1.3. Divisional Structure

An organisation adopts a divisional structure when it tries to serve diverse customer segments, or plans to introduce a new product, or tries to enter in diverse markets. It is also known as “profit decentralisation” and is established around different divisions of the business. In this structure, the organisation is divided into independent business divisions, where division has the capability and assets to carry-out independent operations.

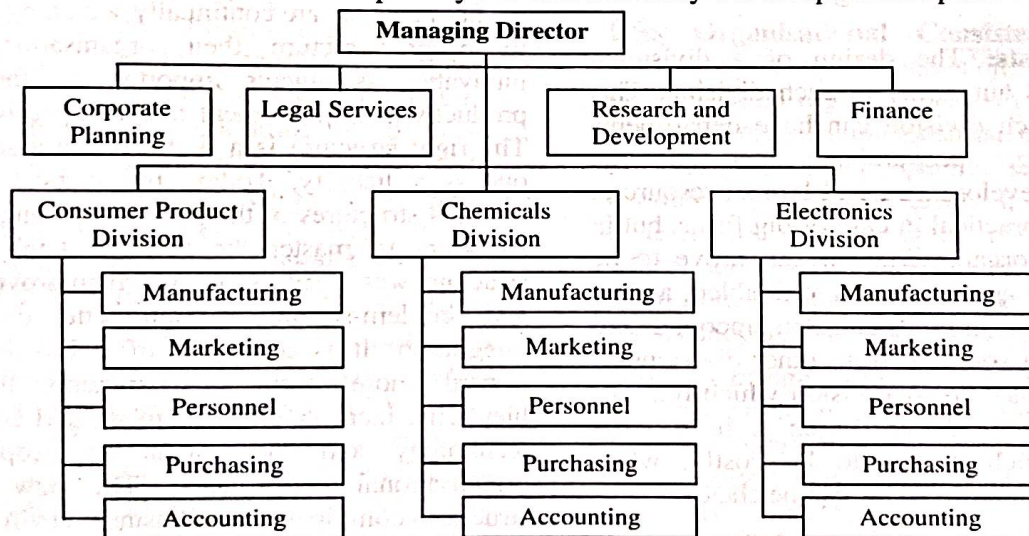


Figure 2.5: Divisional Organisation

The clustering of different divisions in case of a divisional structure is done on the basis of particular demands of markets, products or customers. The prime objective of a divisional organisation is to attain better level of expertise in particular divisions, so that the organisation can adapt the change rapidly, as per the dynamics of business environment. This level of flexibility is attained by a divisional organisation with the help of adequate resources and independence given to each division, through which the organisation is able to meet the requirements. In a divisional structure, every division has a structured

format. Each division has its own sub-divisions or SBUs (Strategic Business Units) focusing on a certain market, segment of customers or products. The divisional structure of an organisation is above in figure 2.5.

Advantages of Divisional Structure

Following are the advantages of divisional structure:

- 1) **Responsibility:** By adopting this structure, it becomes easier for the executives to assign the responsibilities to the personnel. Since, each division has its own independent management system, therefore best interests are taken care of.

- 2) **Sense of Competition:** It results in good functioning in case of the markets having tough competition. By adopting this structure, the local managers can immediately alter the course of their businesses.
- 3) **Conducive Culture:** This type of organisation structure can be used to establish a kind of culture at divisional level which is able to satisfy the needs and demands of the market.
- 4) **Decision-Making at Lower Level:** There is a shift in decision-making towards the lower level of management, which might help to enhance the capabilities of the organisation in order to meet the demands of the market.
- 5) **Diverse Offerings:** This organisational structure is quite suitable for the firms which try to offer diverse products or wish to serve diverse markets.
- 6) **Speedy Responses:** By adopting this structure, the organisation can respond rapidly and adequately to the changing market needs.

Disadvantages of Divisional Structure

Following are the shortcomings of a divisional structure:

- 1) **Increased Costs:** The design of a divisional structure offers autonomy to each division. This implies that each division can have departments for marketing, accounting, manufacturing, research and development, and human resources. This might be practical in case of big firms, but in case of small organisations, it can prove to be quite expensive as the efforts are doubled, and so are the costs. Rise in funds can also emerge due to the difficulty in sourcing from other divisions of the same organisation. A division which requires some resources needs to source it from other companies, which proves to be costly, while sourcing from other divisions can be cheaper.
- 2) **Lack of Communication:** Autonomy of divisions results in lack of proper communication channels between different divisions inside the organisation. In case, complementary products are offered by two different divisions, but they have not coordinated with each other to ensure the compatibility of the products, then it can be quite disconcerting for the organisation.
- 3) **Contradictory Goals:** Those organisations which have contradictory product units are likely to have issues related with office politics. There is a possibility that the units may place their divisional goals prior to that of the organisation. Personnel of the division may not know the goals of the firm as they are concentrating mainly on

the accomplishment of their own divisional goals. This is particularly true when financial gains are attached with the divisional gains.

- 4) **Absence of Technical Expertise:** There are chances that technical expertise is entirely missing in the firm as the employees are mainly concentrating on attaining the goals of their particular division. The duties of personnel are confined to their own unit and they might face difficulty when shifting to other divisions. The number of personnel working on a single project can also be significantly less, due to which organisational processes can get delayed.

2.3.2. Directions in Organisational Structures

The realities of a global economy and the demands of strategies driven by hyper competition are putting increasing pressures on organisation structures. The performance demands are for more speed to market, greater customer orientation, constant productivity improvements, better technology utilization, and more. The environment is unrelenting in such demands. As a result, managers are continually searching for new ways to better structure their organisations. Structural innovation is always important in the search for productivity improvement and competitive advantage. The right structure is a performance asset; the wrong one is a liability. Today, the vertical and control-oriented structures of the past are proving less and less sufficient to master the tasks at hand. The matrix structure was a first step toward improving flexibility and problem-solving through better cross-functional integration. It is now part of a broader movement toward more horizontal structures that decrease hierarchy, increase empowerment, and better mobilize technology and the talents of people to drive organisational performance. The new organisation structures coming up in the business environment are:

- 1) Team Structure
- 2) Virtual/ Network Organisation
- 3) Boundaryless Organisations

2.3.2.1. Team Structures

It is an organisation structure which merely operates in teams or work groups. There is no fixed chain of command or central authority to manage the work and team members have the utmost right to take decisions which automatically affects them. In large organisations, team-based structure has been introduced recently as a new form of organisational structure. The most fundamental component of a team structure is 'the team' which consists of individuals who preferably have compatible skills

and coordinated efforts which work towards a common goal. A huge business organisation can have number of teams and with time they can be changed. The work groups or teams involve individuals from distinct area of specialisation, which are termed as cross-functional teams. Under a team-based organisational structure, different departments can freely communicate with each other. During a decision-making process, a representative from each department is involved in order to work for a common goal. The team-based approach helps the organisation to take quick and smart decisions. Since, employees can express their views on various decisions so they feel more interested to attain their targets more efficiently. In addition, it also lowers the administrative costs of the organisation as it replaces a multi-level management tier with efficient workers.

Advantages of Team-Based Organisation Structure

- 1) **Teamwork:** Instead of only one person responsible for controlling a business domain or decision-making, decisions can be made by reaching a quorum *i.e.*, minimum number of members' present to validate the working. Team based structures help in taking quick decisions as the duties and responsibilities are distributed among team members. Some team members as a result of this distribution can carry on paying attention to the existing conditions or business practices, whereas others can be entrusted to explore areas of demands, execute changes or try to resolve other issues. Decisions made by one person are not always well planned and very efficiently executed than those made by a team.
- 2) **Less Overhead Management:** A traditional lateral structure and team-based organisational structure are based on same principles which involve less overhead management that results in interruption in execution of innovative concepts or ideal practices and also in decision-making. Under this organisation structure it is possible to quickly make required modifications without following the chain of command so as to obtain permission for making alterations in the business model or adopting a new idea.
- 3) **Eliminate Delays:** The conventional scalar chains of command that lead to frustrations and delays due to long communication channels can be eliminated under the team based organisational structure. It is possible for the team to put forward their apprehensions to management as a team without seeming upset or aggrieved for discussing about individual problems. Hence, this can help employees to speak their mind in relation to the issues and inadequacy they face in the workplace.

Disadvantages of Team-Based Organisation Structure

- 1) **Less Contact with Other Functions:** In a team based structure members are selected on the bases of the functions that they perform. Teams that can operate independently pay attention to their individual work restricting communication and exposure to other functions. Each team working in seclusion can come up with innovative concepts and products without taking into consideration its effect on other products, services, employees, or customers. This in turn could result in incurring more costs, less customer satisfaction, decline in sharing best practices, rise in wastes, low collaboration levels, etc.
- 2) **Increased Need for Effective Leadership:** It is imperative for team members to identify the importance of effective allocation of resources; efficient project management and effective communication as team based organisational structures do not follow management structure by design. Well qualified and expert leaders should guide these teams. Also plans and methods describing the implementation of work should be adopted by these teams.
- 3) **Less Organisational Consistency:** Decreased consistency in organisation is one of the drawbacks of team based organisational structure. There is a lacking of organisational consistency as every team is self-contained and operates separately without coordinating with other teams. It is acceptable that a team follows principles of entrepreneurship which aids in developing more creative and innovative solutions but decline in organisational consistency may lead to less cooperation.
- 4) **More Change and Instability:** There is a dynamic environment in the team as team based structure facilitates fast decision-making. The team leader may at times lack in terms of regularly communicating with the team members, stakeholders and sponsors. This lack of communication due to unstable conditions leads to doubt and disorder in the team.

2.3.2.2. Virtual Organisations

A network of connected independent firms where the purpose is the production of a good or service is known as virtual organisation. However, this association is generally not permanent in nature. Virtual leadership, virtual teams, and virtual office are some other terms with which virtual organisation are related. Overall, the prompt offering of high-quality and innovative goods and services to cater to the demands of customers is the prime aim of virtual organisations. The origin of the term 'virtual' in this regard is from the computer

industry. When the storage capacity of a computer appears to be more than actual, then it is known as the virtual memory of the computer. In a similar sense, a virtual organisation appears to possess greater competences and abilities than its actual when the resources from different businesses and firms are assembled together. Therefore, when participants or individuals from varied organisations and geographies team up towards the achievement of a common objective, then it is described as virtual organisations. These organisations achieve the task by making use of a blend of different communication and information technologies.

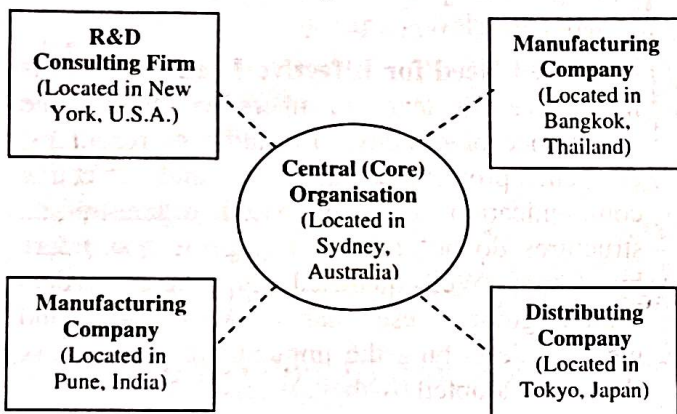


Figure 2.6: Virtual Organisation Structure

Advantages/Benefits of Virtual Organisation

The advantages of virtual organisation are as follows:

- 1) The response time is quick with regards to new products being developed in the local and international markets.
- 2) As per the determined objectives, the organisation gets the opportunity to swap workforce and suppliers.
- 3) The expenses and costs related to the use of workspace like insurances, rent, maintenance, etc., get significantly reduced.
- 4) The office space is efficiently utilised in situations when some workers choose telecommuting system while other employees opt for the traditional way of work.
- 5) The expenses of utilities like water, electricity, gas, etc., are reduced.
- 6) The consumable materials are consumed less.
- 7) The salary expenses get reduced because the payment of the virtual team members is done not on the basis of hours spent at work but on the basis of their jobs and tasks.

Disadvantages/Limitations of Virtual Organisation

There are certain disadvantages of virtual organisations. These are:

- 1) Limited face-to-face communication and varied geographically distributed participants add complexities.

- 2) Since participants are from different geographical locations, the organisational and cultural differences give rise to communication barriers.
- 3) Lack of shared meaning reduces productivity. Moreover, the cohesiveness between the organisation and the members, produced by the shared meaning, also gets reduced.
- 4) Excess of disturbances and interferences in the home and lack of self-discipline results in reduced productivity for those who prefer working from home, i.e., telecommuting.

2.3.2.3. Boundary-Less Organisations

Here, an organisation uses e-mails, telephones and other virtual methods to communicate with other business divisions instead of using a conventional face-to-face communication technique. This helps to eliminate all geographical barriers and ensures high productivity level and scheduled flexibility. An organisation with an indefinite hierarchy can rapidly adapt to satisfy customer requirements and can function effectively, by sorting out skilled and talented employees in groups and delegating them the power of decision-making. Along with this, it also eliminates the vertical and horizontal boundaries in the organisation. As soon as the vertical boundaries are removed by the management, the organisational structure appears to be a silo (tower) than a pyramid.

Types of Boundary-Less Organisation

- 1) **Virtual Organisations:** An association of individual firms that jointly make use of costs, expertise and utilise to each other's marketplaces is known as a virtual organisation. A network of constantly developing individual firms constitutes virtual organisations.
- 2) **Network Organisations:** Organisations where formal authority lines, managers and market mechanisms are used for coordinating different functions are known as network organisations. Instead of focusing on definite relations pronounced by an organisational chart, more attention is paid to individuals and the work they can perform in an efficient and cost-effective manner.
- 3) **Modular Organisation:** In a modular organisation, supplementary tasks are outsourced to vendors or experts and fundamental core tasks are performed within the organisation. Data processing, accounting, production of parts, trucking, and catering are few examples of services that are generally outsourced by such organisations.

Advantages of Boundary-Less Organisation

Boundary-Less Organisations derive have the following advantages:

- 1) This type of organisation facilitates intra-organisational and inter-organisational communication among employees, customers, vendors, suppliers, etc.
- 2) It encourages global competitiveness.
- 3) Emphasising on only one objective helps in adapting to the market changes.
- 4) Encourages intra-organisational teamwork.
- 5) Helps in developing harmonised 'win-win' approaches that are advantageous to team partners, customers and important vendors.
- 6) Make use of skills of employees to maximum advantage of the firm.
- 7) Sharing of crucial information, collaboration and teamwork between external constituencies, SBUs, departments and functionaries can be improved under boundary less organisations.

Disadvantages of Boundary-Less Organisation

- 1) Can face cooperation issues due to absence of powerful leadership and common vision.
- 2) There is lack of trust among the members of the organisation which may lead to low performance levels.
- 3) It is difficult to control authority and political aspects that effect the organisation internally and externally.
- 4) Consists of democratic processes that are unmanageable and takes a lot of time.

2.4. LEADERSHIP/LEADING

2.4.1. Meaning and Definition of Leadership

Leadership can be defined as the capability to inculcate confidence in employees to achieve the objectives of the organisation. It is a technique which outlines the group and organisational goals, assists in describing the groups or organisational culture and then stimulates behaviour towards the realisation of these goals. Effective leadership is based upon worthy character and unselfish service of an individual towards the organisation. In order to be an effective leader, the person must possess the ability to promote changes, motivate the members of the team and lead towards the accomplishment of the common goals. It is a process of forming a surrounding where others can self-actualise, while carrying-out their work. Leadership means the traits of an individual that allows him to motivate others for attaining some specific objectives. It is an interesting social fact that takes place in every group despite of its geography, culture, or citizenship. Effective management cannot take place without

effective leadership. Leaders are the individuals, who not only foresee the changes, but also seek to persuade the employees regarding the need for change. Thus, they assist and guide the employees throughout the process of change.

According to Hollander, "Leadership is a process of influence between a leader and those who are followers".

According to George R. Terry, "Leadership is the activity of influencing people to strive willingly for mutual objectives".

According to Chester Barnard, "Leadership is the ability of a superior to influence the behaviour of his subordinates and persuade them to follow a particular course of action".

According to Rosenbach and Taylor, "Leadership is all about getting people to work together to make things happen that might not otherwise occur or prevent things from happening that would ordinarily take place".

2.4.2. Nature of Leadership

Nature of leadership is as follows:

- 1) **Procedure of Influence:** Leadership means a phenomenon which focuses on influencing the attitude and behaviour of the employees in a positive manner. Successful leaders are those who are able to persuade their followers to change their beliefs, attitudes and behaviour.
- 2) **Ongoing Activity:** Leadership is an ongoing activity that goes a long way to bring about the continuous change in the followers towards a positive direction. This ultimately brings efficiency in overall operations of the enterprise.
- 3) **Comprehensive Blend of Art and Science:** Concept of leadership is a combination of art and science. It is a science as it is based on the observations and principles that identify and elaborates the causes and characteristics of a successful leader. It is an art because it can be sharpened by practice only and involves application of principles.
- 4) **Linked with Circumstances:** Leadership is generally associated with a definite situation at a specific point of time and within definite set of conditions. Hence, different styles of leadership can be applied to different conditions.
- 5) **Tool for Motivation:** Leadership serves as a tool to motivate the employees to achieve the objectives of the organisation by performing their best. Leadership will be considered effective only when leader will encourage and

convince the employees to give priority to organisational objectives and thereby achieve their individual objectives.

- 6) **Sensible and Passionate:** Leadership has an equal impact upon the rationality as well as upon the emotions of the followers. Leader should influence both the factors to motivate subordinates for the achievement of the organisational objectives.
- 7) **Collective Objectives:** Leader of the organisation should reconcile the objectives of the employees with that of the aims of the

management. Objectives of the organisation can never be achieved if the leader and his followers proceed in opposite directions. Only an effective leader can motivate the employees to work together to pursue organisational objectives.

- 8) **Mutual Relationship:** There should be a mutual relationship between the leader and his followers. Leader should not only explore the capabilities of the employees but should also develop them. On the contrary, followers should also contribute their best performances for the achievement of the organisational objectives.

2.4.3. Leadership Styles

Different types of leaders and their leadership styles are shown in figure 2.7:

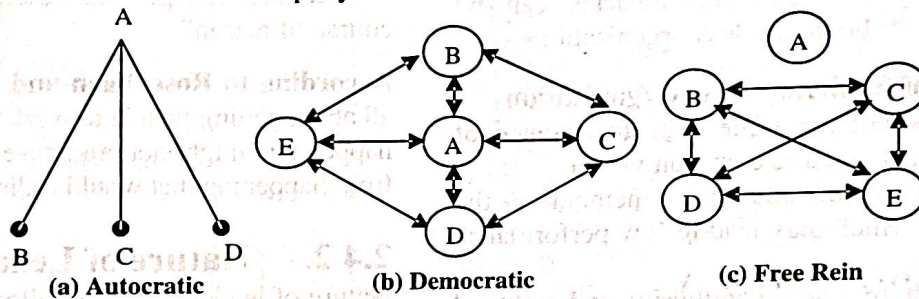


Figure 2.7: Leadership Styles (A is the Leader)

- 1) **Autocratic Leadership Style:** Autocratic leader is also known as dictator. It could also be considered as one-man show. The role of the leader is restricted merely to dictating the instructions to his subordinates. In this leadership style, leader does not get involved with the members of the team. He decides the policies and procedures without discussing with his subordinates. He does not provide any information about future strategies but simply gives instructions regarding the steps that are to be followed. In this style of leadership, all decisions are taken by the leader only. Autocratic leadership may have a negative impact because followers are unaware, insecure and afraid of leader's power. Such a leader is known as a **strict autocrat**, who focuses on negative influences and gives instructions, which are supposed to be accepted by the subordinates. These leaders are also termed as **benevolent autocrat** when they use motivational and positive leadership style and some are known as **manipulative autocrats**, who make the subordinates feel participative towards the decision-making process even if they have already taken the decision. This autocratic type of leadership style is quite common and often gives good results. However, it is subjected to the various limitations as well.
- 2) **Participative Leadership Style:** In this style of leadership, the authority rested with leader is decentralised. Leader takes every decision in coordination with the team members. This style of leadership is people-oriented and direct supervision of the staff is not required. This type of leadership style keeps the employees well informed about the policies of the organisations and work is delegated to achieve better results. Instead of acting as a leader, he considers himself to be a member of the group. Leader clarifies his followers that praise or blame is merely part of the group. Unlike autocratic leader, who uses his authority to control others, participative leader controls others through internal forces present within the group. The **democratic leadership**, another name for participative leadership style results into various positive outcomes in terms of productivity, reliability, zeal, flexibility, individual development and freedom of speech. However, the participative leader conforms that he holds to take the decision if the staff is unable to do so.
- 3) **Free Rein Leadership Style:** Free rein or *laissez faire* leadership style refers to a condition where leader does not lead but leaves the major decisions on the group itself. Such a leader is represented by the chairperson who is dependent on his subordinates. All the goals are decided by the

group. The group members have to solve problems and motivate themselves. Leader's job is to keep contact with outsiders and give information to his team. It can be said that free rein leadership is the inverse of autocratic leadership style. In this scenario, the manager does not enjoy the power of control as he shares the powers along with his work and responsibilities. It is also called **permissive style** of leadership as there is least interference by the leader and group works and takes decisions on its own. This type of leadership can produce wonderful results if the subordinates are highly skilled and dedicated employees. This style can be adopted successfully only when the employees are capable and competent enough to handle the situations and take corrective and positive decisions in favour of the company.

2.4.4. Leadership Traits/ Qualities

Essentials qualities of leadership are stated as below:

- 1) **Inspiring:** The ability to inspire others may be considered as an inherent personality trait which is inborn and may not be learnt.
- 2) **Problem-Solving Ability:** An efficient leader has a skill of analysing the problems from different dimensions and composure and tries to find the root causes of problem rather than simply resolving the problem indicators.
- 3) **Emotional Stability:** Emotional stability and sophistication is a vital element of an effective leader. It relates to calmness, patience, and calculated response to an unfavourable situation. It also includes accepting both success and failure in life.
- 4) **Understanding Human Behaviour:** It is very important for a leader to have a good knowledge of needs, wants, and behaviour of his followers and have respect for those needs. A leader should neglect ego affecting behaviour and support others emotionally. He must praise his subordinates for their success.
- 5) **Risk-Taking Ability:** A leader does not emerge from ordinary and routine work even if the work is well done. A successful leader is always ready for unknown events. They are ready to take on new challenges. However, the risk must be analysed well and the results of the actions must be estimated. If due to any reason these risks result in any kind of failure, the leader should take full responsibility rather than making others accountable for it. Leaders must be having the temperament to deal with the resentments and failure and learn a lesson from their mistakes.
- 6) **Commitment towards Organisational Objectives:** A leader must exhibit motivation and dedication towards the achievement of organisational goals, mission, and objectives through his self-sacrifice and hard work. He must ensure that the organisational goals are communicated to his followers clearly and all followers are also dedicated, motivated, and work hard to achieve these goals.
- 7) **Intelligence:** Intelligence and knowledge are two important elements of a leader. In order to deal with a trivial problem in correct manner, a leader must possess a mental ability to analyse accurately, interpret clearly, and think precisely.
- 8) **Good Physique:** It is very important for a leader to have a healthy body and mind to go through the physical and mental burden. Good physique is made up of nervous energy, physical stamina, mental strength, and vital leadership abilities.
- 9) **Prudence and Vision:** A leader should be having the skill to predict the events and a futuristic approach. He should also possess high level of morale, broad thinking, determination, and imagination.
- 10) **Responsibility:** A leader should be having a sense of responsibility and should be ready to take the responsibility of an outcome.
- 11) **Trustworthy:** Trustworthiness is one of the important traits of a leader. A leader should be honest and full of good virtues and trusted by others. A leader follows what he says and gains the responsibility for others. A leader can earn a real authority only through the respect for his good repute and dependability.
- 12) **Enthusiastic:** An effective leader has a feeling of enthusiasm for his responsibilities, roles, and objectives. Having a great deal of motivation and zeal will make the leader more acceptable among the followers. A leader should act as a source of motivation and dedication for his followers for achieving the goals and objectives. Despite having different types of roles and responsibilities, a leader must be an active member of group involved in the achievement of objectives of the group. These types of leaders participate equally in all the activities of a group and do not hold themselves back.
- 13) **Confident:** Confidence is essential for a leader. A leader should be having a confident appearance as an individual as well as in leadership role for leading others and directing others. These types of leaders create the feeling of confidence among the followers and bring out the best performance and

trust of team members for achieving the goals. A leader who is confident to achieve the goals also motivates the team members towards accomplishment of team goals.

- 14) **Systematic in Doing Things:** During crisis and uncertain situations, a leader should act in a procedural and orderly way. Followers watch the leader during unfavourable situations and gain a sense of security and confidence when the leader depicts a calm attitude and confidence.
- 15) **Tolerance:** A leader has a high degree of tolerance towards vagueness and shows a composed, calm, and persistent stance towards the main objectives. Crisis and turmoil are temporary but a good leader treats all these as a part of his responsibility with a composed attitude.

2.4.5. Leadership Behaviour

The leadership behaviour is the behaviour associated with the exercise of authority. Effective leadership behaviour is characterised by the ability of the leader to influence the activities of a group, by initiating structures (such as goal setting), which enable the group to successfully overcome mutual problems and to achieve their group goals. The leadership behaviour exhibited by leaders may or may not reflect their personalities. Two basic types of leadership behaviours which emerge in most groups are:

- 1) **Task Leadership Behaviour:** Task leadership behaviour directs the activity of the group towards a specified goal. Various task leadership behaviours are as follows:
 - i) **Adaptability to the Situation:** Effective leaders adapt to the situation. Adaptability reflects the contingency viewpoint a tactic is chosen based on the unique circumstances at hand. A leader who is responsible for psychologically immature group members will find it necessary to supervise them closely. If the group members are mature and self-reliant, the leader will use less supervision. The adaptive leader also selects an organisation structure that is best suited to the demands of the situation, such as choosing between a brainstorming group and a committee.
 - ii) **Direction Setting:** A major responsibility of leadership is to produce change; the leader must set the direction of that change. Direction setting is part of creating a vision and a component of strategy. The strategy describes a feasible way of achieving the vision.
 - iii) **High Performance Standards:** Effective leaders consistently hold group members to high standards of performance. When

performance is measured against these high standards, productivity is likely to increase, since people tend to live up to the expectations of their superiors. This is called the Pygmalion effect, and it works in a subtle, almost unconscious way.

- iv) **Risk-Taking and a Bias for Action:** A bias for action rather than contemplation has been identified as a characteristic of a successful organisation. Combined with sensible risk-taking, it is also important leadership behaviour. To bring about constructive change, the leader must take risks and be willing to implement those risky decisions. A bias for action is a desire to execute a plan, rather than a tendency to create visions without following through on them.
 - v) **Hands-On Guidance and Feedback:** Technical competence and knowledge of the business enable the leader to provide group members with hands-on guidance about how to accomplish important work. The leader who provides such guidance helps the group accomplish important tasks; at the same time, group members learn important skills. Closely related to guidance is giving frequent feedback on performance. The leader can rarely influence the actions of group members without appropriate performance feedback.
 - vi) **Stability of Performance:** Effective leaders are steady performers, even under heavy workloads and uncertain conditions. Remaining steady under conditions of uncertainty contributes to effectiveness because it helps team members cope with the situation. When the leader remains calm, group members are reassured that things will work-out. Stability also helps the managerial leader appear professional and cool under pressure.
 - vii) **Ability to Ask Tough Questions:** There are many times when leaders can be effective by asking tough questions rather than providing answers. A tough question is one that makes a person or group stop and think about why they are doing or not doing something. In this way, group members are forced to think about the effectiveness of their activities.
- 2) **Relationship-Oriented Leadership Behaviour:** Relationship-oriented leadership behaviour helps to build and maintain positive relationships among group members. Various relationship-oriented leadership behaviours are as follows:
 - i) **Aligning People:** Getting people pulling in the same direction and working together smoothly

is a major interpersonal challenge. To get people pulling together, it is necessary to speak to many people. The target population can involve many different stakeholders. Among them are managers and team leaders, higher-ups, peers, and workers in other parts of the organisation, as well as suppliers, government officials, and customers. Anyone who can implement the vision and strategies or who can block implementation must be aligned.

- ii) **Concert Building and Collaboration:** The leader's role of concert building involves both aligning and mobilising. The concert builder's goal is to produce a system that is self-evaluating, self-correcting, self-renewing, and ongoing. Concert building is a specific case of attaining collaboration to make leadership possible. Leadership is based on collaboration.
- iii) **Creating Inspiration and Visibility:** Inspiring people usually involves appealing to their emotions and values, such as when the head of a snowmobile business unit encourages workers to believe that they are making winters more enjoyable for people who live in regions that accumulate snow.
- iv) **Satisfying Higher-Level Needs:** To inspire people, effective leaders motivate people by satisfying higher-level needs, such as needs for achievement, a sense of belonging, recognition, self-esteem, and a feeling of control over one's life. Many leaders in organisations express an awareness of the importance of need satisfaction for building good relationships with workers.
- v) **Giving Emotional Support and Encouragement:** Supportive behaviour toward team members usually increases leadership effectiveness. A supportive leader gives frequent encouragement and praise. One of the many work-related ways of encouraging people is to allow them to participate in decision-making. Emotional support generally improves morale and sometimes improves productivity. Being emotionally supportive comes naturally to the leader who has empathy for people and who is a warm person.
- vi) **Promoting Principles and Values:** A major part of a top leader's role is to help promote

values and principles that contribute to the welfare of individuals and organisations. This promotion can be classified as relationship-oriented because it deals directly with the emotions and attitudes of people, and indirectly with the task. Leaders who believe in these good causes will then espouse principles and values that lead people toward good deeds in the workplace.

2.4.6. Importance of Leadership

Importance of leadership is as follows:

- 1) **Boosting Employee's Confidence:** Good leadership is very important for the growth of the organisation as well as of the employees. Only a good leader can boost confidence and passion in the employees and make them work with their full potential.
- 2) **Establishment and Integration of Goals:** It is the responsibility of a leader to establish goals for the group and integrate them with the organisation. He also provides guidance to his followers so that goals and policies can be correctly understood.
- 3) **Inculcating Values within the Organisation:** It has been seen that employees of value-based organisations show more loyalty and faith towards the organisation and work more efficiently. It is the leader, who is responsible for incorporating such values in the organisation.
- 4) **Increasing the Efficiency of Employees:** A good leader not only motivates the employees to perform better but he also pushes them to set a benchmark for themselves. This leads to higher productivity, which in turn leads to higher profitability.
- 5) **Helping the Highest Authority:** Authority itself cannot bring the disciplined approach and punctuality in the team members. A good leader is required to provide the support to the authority to bring out the best talent and utilise it to maximum extent, in order to lead the organisation towards a more sustainable position in the market.
- 6) **Building Cordial Organisational Relations:** An effective leadership is also essential to build cordial inter-personal and intra-personal relations in the organisation. It could also be used by an intelligent leader to achieve standard goals of the organisation.

2.4.7. Leadership versus Management

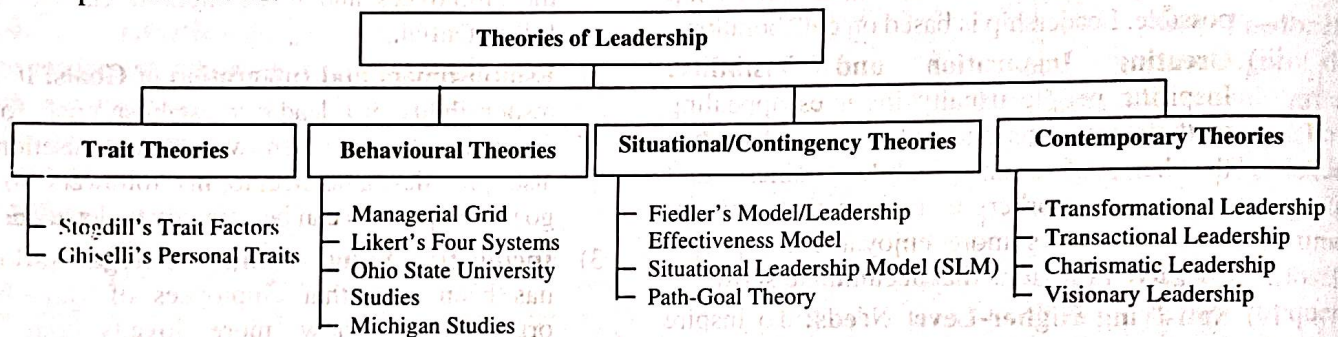
Table 2.1: Differences between Leadership and Management

Basis of Difference	Leadership	Management
1) Scope	It is only a part of management.	It is a broader term which covers different jobs of a leader.
2) Meaning	It is an act of persuading behaviour of people, irrespective of reasons.	It is a process of managing people for a definite reason.

3) Power	The power to influence followers is informal.	The power is formally delegated by the managers to manage the subordinate.
4) Structure	Leaders are present in both formal and informal organisations. Both formal and informal leaders may exist in an organisation.	Managers exist only in a formal setup of organisations. There is no existence of informal manager.
5) Function	It comes under the purview of directing, which aims to direct the behaviour of employees to exploit their potential to the fullest.	It covers five salient functions, i.e., planning, organising, staffing, directing and controlling.
6) Focus	It focuses on changing conditions, empowering and building the organisation.	It focuses more on the technique of empowering the organisation.

2.5. THEORIES OF LEADERSHIP

Leadership is generally considered as one of the complex concepts. With the passage of time, several theories have been developed which explained the leadership components and behaviour related to leadership. These leadership theories complement each other. Thus, in order to understand the concept of leadership, one needs to have a clear knowledge about these theories and their inter-relation with each other. Various theories of leadership are as follows:



2.5.1. Trait Theories

The most common and traditional theory that helps an individual in understanding the concept of leadership is **trait theory of leadership**. According to trait theories, good leaders follow both their mind and heart. They possess certain special qualities of intelligence which not only make them mentally strong but also boost up their morale. These trait theories believe that, "Leaders are born and not made" because these special traits are in-built in an individual and cannot be acquired through any training. Trait theory also believes that the people tend to become good and effective leaders only if they possess certain inherited traits that are most appropriate to become a leader. Generally, it is observed that there is always some similarity in the personality and characteristics of effective and great leaders.

Thus, these trait theories were developed to recognise traits and characteristics possessed by the leaders. However, in order to identify these special qualities, several studies were made on successful leaders and it was thought that people having similar traits can also become successful leaders. Some of the most popular trait theories are as follows:

- 1) Stogdill's trait factors, and
- 2) Ghiselli's personal traits.

2.5.1.1. Stogdill's Trait Factors

According to various studies made by **Ralph Stogdill**, leaders have various traits like scholarship, intelligence, consistency, activeness, social involvement and socio-economic position. Some other traits observed by him are cooperation, perseverance, inventiveness, ability to find solutions, self-assurance, insight, attentiveness, attractiveness, verbal facility and flexibility. Thus, leaders are those people who have better judgement power and are involved in social events. Various important traits possessed by an effective leader are as follows:

- 1) **Intelligence:** It is believed that good leaders possess better intelligence as compared to others. They consider various aspects and outlook of the problems. They try to understand the problems clearly, analyse them accurately and then use their scientific ability to solve these problems. That is why, it is said that intelligence is one of the most important traits.
- 2) **Physical Features:** Appropriate physical characteristics such as height, weight, appearance, health, etc., alongwith high maturation level are the major components of the individual's personality. These personality factors play a very important role in making a leader effective and successful.

- 3) **Inner Motivation Drive:** Effective leaders generally have passionate inner motivational drives. They give priorities to these inner drives and always have an inner desire to achieve everything. They are well aware of the best suitable time, when they can initiate their activities effectively and satisfy their inner drive. They are not influenced by external materialistic rewards.
- 4) **Maturity:** Since leaders deal with number of issues and perform number of activities, they have a high tolerance level. They are not only psychologically strong but also have the capability to handle the situation using their balanced temperament. They try to avoid the situation of frustration as it may adversely affect their position as well as their working.
- 5) **Vision and Foresight:** A good leader should have a good vision and foresight to view the future challenges and problems and the way in which they can be dealt. A good leader pre-plans the policies and strategies that he will use in order to handle the situations as well as his followers. Thus, vision and foresight of a leader proves out to be very beneficial in making his leadership effective.
- 6) **Acceptance of Responsibility:** An effective leader is always ready to take the responsibility of his actions as well as the future consequences of those actions. This depicts the reliability of the leader. A good leader is always clear about his role and his duties towards the people.
- 7) **Open-Mind and Adaptability:** Giving importance to other's viewpoints is also a major quality of an effective leader. A good leader is open-minded and adapts himself according to the changing situations. Depending upon the situation, a leader is always ready to adopt the new ideas of his followers without being egoistic. He does not criticise others and is flexible in nature. In fact, he listens to them and makes changes in his decisions, if required.
- 8) **Self-Confidence:** Self-confidence of a leader not only motivates his followers but also boosts up their morale. The conceptual clarity of a leader increases his self-confidence and helps him to start off his actions effortlessly.
- 9) **Human Relations Attitude:** Success of a leader is greatly influenced by his followers. He actively participates in those activities that can enhance the cooperation of the people. That is why; a good leader always understands the problems of his followers and prioritises them in order to gain their support. A leader tries to

develop a healthy attitude towards human relations and gives preference to human-related issues rather than technical issues.

- 10) **Fairness of Objectivity:** A good leader is always unbiased and fair while making decisions regarding his group or subordinates. He is honest, loyal and lawful by nature. Even after being emotionally attached, he follows equity among his followers. Good leader always plays a fair game, has self-respect and is always true to his character.

2.5.1.2. Ghiselli's Personal Traits

According to the research made by Edwin Ghiselli, there exists a strong relation between the personal traits and leadership. The personality and motivational traits of an individual have a great impact in making the leadership effective. Ghiselli discovered six traits that play a crucial role in making the leadership effective, which are as follows:

- 1) **Supervisory Ability:** It is the ability by which a leader can get his work done by others or juniors.
- 2) **Need for Occupational Achievement:** A leader should be responsible and hardworking. He should be self-motivated to achieve the desired goals successfully.
- 3) **Intelligence:** A leader should have high level of intelligence in order to analyse the situations clearly and make good and fair decisions.
- 4) **Decisiveness:** A good leader is always determined to make sound decisions so as to achieve the organisational objectives. He overcomes the barriers with his creativity in a proficient manner.
- 5) **Self-Assurance:** The ability of a leader to face the challenges strongly and solve various issues effectively exhibits the 'self-assurance' quality of a leader.
- 6) **Initiative:** Good leaders always take initiative. They start their work and finish it off without letting others know about their actions.

Ghiselli's personal trait theory has a limitation that all the six traits are mutually dependent on each other and do not clarify the amount or degree of a particular trait, an individual must possess to become an effective leader.

2.5.2. Behavioural Theories

Various limitations of trait theories made the researchers to focus on the behaviour of the leaders and their way of interacting with their followers. This study of leader's behaviour led to the development of behavioural theories. Behavioural theories are considered as an expansion of trait theories. These theories are much more superior to trait theories as

the trait theories were unable to clarify the cause of effective leadership. On the other hand, the behavioural theories are realistic and are based on the real behaviour of the leader. The main emphasis of these theories is on 'what the leaders do when they are leading others' rather than 'at what position they are', i.e., the behaviour of the leaders is given more importance than their status. Unlike trait theories, behavioural theories neglect the belief that 'the leaders are born and not made'. In fact, according to these theories, traits do not play an important role in the growth of leadership. These theories believe that with the passage of time and experience, leaders develop new traits and that is why it is said that leaders are not born but they become leaders with their actions, increasing experience and maturation.

These are as follows:

- 1) Managerial grid,
- 2) Likert's four systems of leadership,
- 3) Ohio state university studies, and
- 4) Michigan studies.

2.5.2.1. Managerial Grid

R.R. Blake and Jane S. Mouton of USA developed the notion of managerial grid. According to them, leadership style of an individual is greatly influenced by the task-oriented and relation-oriented behaviour of that individual. This influence varies depending

upon the degree of behavioural change. They have explained two phrases that lead to an effective leadership, which are as follows:

- 1) **Concern for Production:** According to managerial grid, an individual is considered as good leader if he is concerned about the various factors that affect the production of the organisation. These factors include quality and quantity of the product, methods adopted for increasing production, effectiveness of the employees, etc.
- 2) **Concern for People:** An individual, who shows concern for the people, is also considered as a high-quality leader. Leaders not only develop self-confidence and trust within their employees but also make them responsible without suppressing them. They try to maintain a healthy relation with their employees in order to achieve the established goal. **Figure 2.8** shows the degree of concern for production and for people and possible interactions (combinations) between them. The horizontal axis demonstrates concern for production and the vertical axis exhibits concern for people. Each axis is depicted as a nine point scale of concern. No.1 in each case represents the minimum concern and No.9 represents the maximum concern in ascending order.

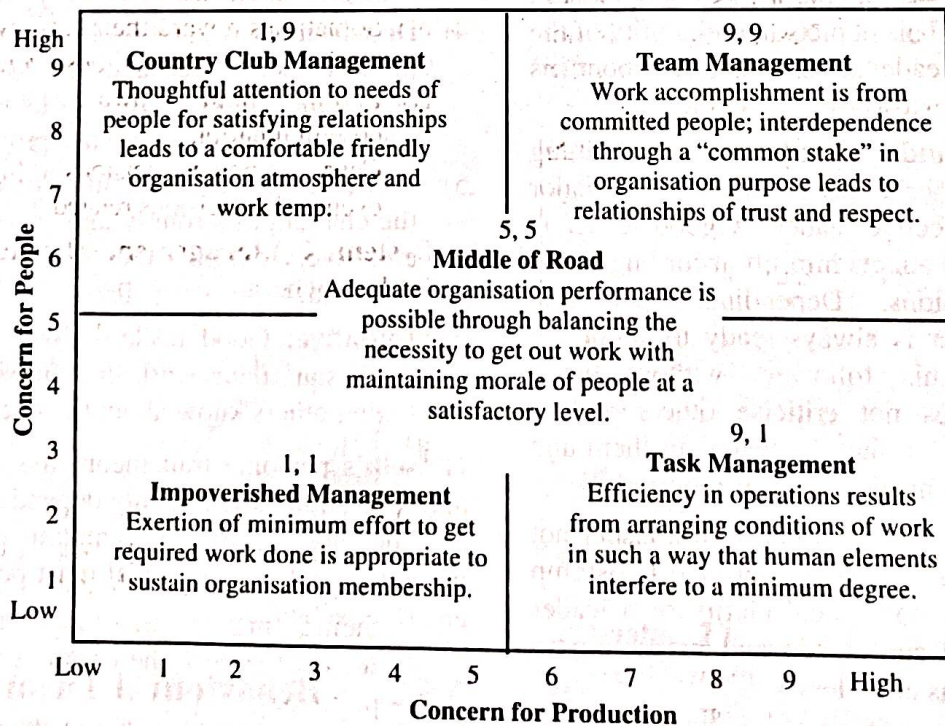


Figure 2.8: Managerial Grid

Various elements of grid are:

- 1) **9, 1 Managerial Style (Task):** According to this scale point, proper organisation of work leads to efficiency. According to leader, role of human elements is negligible.
- 2) **1, 9 Managerial Style (Country Club):** This scale point suggests that to develop a healthy and comfortable working environment, superiors need to understand the desires of their employees and try to satisfy them to maximum limit.

- 3) **1, 1 Managerial Style (Impoverished):** According to this scale point, in order to maintain healthy organisational relationship, managers should apply minimum efforts to get their work accomplished.
- 4) **5, 5 Managerial Style (Middle Road):** This scale states that satisfactory performance results from boosting the morale of the employees and maintaining a balance among job requirements.
- 5) **9, 9 Managerial Style (Team):** This scale suggests that the relationship of the employees and the organisation becomes more trustworthy and respectful if mutual dependence exists between them and employees are committed towards achievement of organisational goals.

Though, there are 8, 1 leadership style positions in the managerial grid, but the most important five are discussed above. The leaders belonging to 9, 1 position prioritises production rather than people and try to achieve the established goal anyhow. Whereas, leaders belonging to 1, 9 position styles are less concerned with the production and give more importance to the people. By the use of managerial grid, managers can easily identify their leadership style. This grid also helps them to modify their behaviour as per the situation and people accordingly. Though, this approach is innovative and based on common sense, but the drawback of this approach is that it ignores various factors like environmental factors, behaviour of employees and nature of job. Besides this, it is not possible to estimate 81 combinations to search out for best suitable leadership style.

	Style of Leader	Effectiveness
1,1 Little concern for either production or people	The impoverished type	Worst leadership style
1,9 Lowest concern for production highest for people	The country-club type	People-oriented style
9,1 Highest concern for production lowest for people	The autocrat type	Production-oriented style
5,5 Comfortable concern for both production and people	The middle-of-the-road type	Maintain present balance style
9, 9 Highest concern for both production and people	The team type	Peak of leadership style

2.5.2.2. Likert's Four Systems of Leadership

Rensis Likert believed that there are two types of leadership styles, i.e., autocratic and democratic. On this belief, he classified leadership styles into four systems that were used by the various organisations. These four managerial systems explaining the leadership style are as follows:

- 1) **System 1 Management (Exploitative Authoritative):** The leaders, who are

exploitatively authoritative:

- Are generally very strict and dominating by nature.
- Do not trust their subordinates easily and show less confidence in them.
- Believe that employees can be motivated to perform well by threatening and punishing them.
- Follow downward communication.
- Perform decision-making at the top level of the organisation.

- 2) **System 2 Management (Benevolent Authoritative):** When leaders are benevolent in their authority, they:

- Trust their employees and have faith in them.
- Believe in motivating the employees and reward them for their performance.
- Are always busy in upward communication.
- Give importance to the viewpoints and new ideas of their subordinates.
- Allow decision-making process at lower levels with proper supervision.

- 3) **System 3 Management (Consultative):** The leaders, who are consultative in their leadership style:

- Have confidence and trust in their employees to a great extent, but not completely.
- Provide opportunity to their employees to express their ideas and suggestions.
- Sometimes reward their employees in order to motivate them, sometimes even punish them.
- Follow both upward and downward communication.
- Carry-out policy decisions at higher levels and even make decisions related to low-level issues.

- 4) **System 4 Management (Participative):** The leaders, who are participative in their leadership style:

- Completely trust their employees regarding all the issues.
- Utilise the ideas and viewpoints of the subordinates in a creative way.
- Always support their employees in their development by improvising their method of working, setting such goals that can motivate them to improve their performance and even reward them for their better performance and participation.
- Communicate with fellow workers both upwardly and downwardly.
- Promote decision-making in the entire organisation.
- Treat their subordinates and themselves as a group rather than as separate identities.

2.5.2.3. Ohio State University Studies

In late 1940s, several studies were conducted by the researchers of Ohio State University. The main purpose of this research work was to determine dimension and scope of leadership behaviour. For this purpose, Leader Behaviour Description Questionnaire (LBDQ) was used as an assessment tool to identify the way in which leaders carry-out their tasks. Finally, they concluded that "consideration" and "initiating structure" are two independent dimensions of leadership behaviour. According to Ohio studies, "consideration" means the concern of leader towards his followers. This concern is in the form of friendship, trust, respect and worth. A leader having consideration in his leadership behaviour is supportive and friendly towards his subordinates. Such leaders give importance to the viewpoint of their followers and believe in a two-way communication. They even help their subordinates in their personal issues. Since their leadership style is employee-oriented, they are recognised and respected by their followers.

On the other hand, initiating structure is followed by those managers who are task-oriented. They give less preference to consideration. Besides this, researchers of Ohio University were also able to discover that both these dimensions are autonomous which means a leader can either be considerate or he can score more on initiating structure. A leader cannot have both the leadership styles simultaneously. In simple terms, one dimension cannot influence the other dimension by any means. Thus, several studies found that both the dimensions, i.e., concern for subordinates and initiating structure are reliable dimensions.

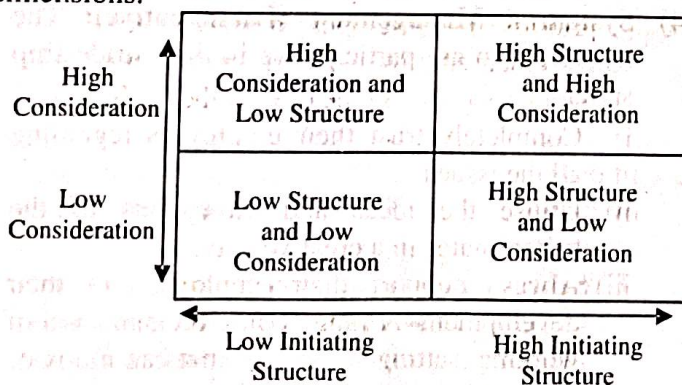


Figure 2.9: Ohio State Studies

Consideration for employees is human-oriented. It is also known as relationship behaviour as it focuses on needs and relationship requirements of an individual. Initiating structure is task-oriented or goal-oriented. These findings are very beneficial, not only in studying various organisational and leadership behaviours, but also in proving that both these

dimensions were not mutually dependent. Besides this, a matrix was also designed which explained combination of both the dimensions in different degrees (see figure 2.9). Leaders having both the dimensions in higher degree can effectively handle their followers and improvise their performance to an acceptable level. However, Ohio studies had a drawback as it ignored the situational factors. Even after developing various dimensional combinations, the application of these combinations in appropriate situation was not searched out. Some situations require consideration and some require initiating structure. Thus, the requirement of every situation is different which depicts the importance of situational factors. For example, highly skilled and self-motivated healthcare professionals have no need of initiating structure from their superiors.

2.5.2.4. Michigan Studies

In order to identify the behaviour of leaders and the influence of their behaviour on employee's performance, the researchers of Michigan University conducted several studies. Finally, they were able to recognise following types of behaviour:

- 1) **Employee-Centred Behaviour:** It is similar to Ohio behavioural studies as it deals with the connection of the leaders with their employees. Leaders or managers having employee-centred behaviour support their employees by guiding them in the right direction, taking personal interest in their job and frequently informing them about their performance and avoid punishing them for their mistakes. They prefer performing supervisory tasks. However, they avoid close supervision and supervise their employees in a general way.
- 2) **Production-Centred Behaviour:** This behaviour is similar to initiating structure behaviour of Ohio studies as it emphasises on the tasks performed by the supervisors. Supervisors prioritise carrying out activities which are similar to that of their employees rather than carrying out supervision and planning procedures. They adopt close supervision and even punish the employees for their mistakes.

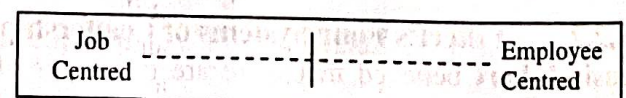


Figure 2.10

Though, the behaviours of the leaders observed by the Michigan studies is similar to that of Ohio's studies but according to Michigan researchers, employee-centred behaviours and production-centred behaviours are two faces of a same coin. According

to this observation, both the behaviours cannot be developed by the leaders simultaneously. However, after conducting several studies, Michigan researchers concluded that both the behaviours are independent of each other. In 1950s, they discovered three most effective leadership characteristics, which are as follows:

- 1) **Task-Oriented Behaviour:** Managers having task-oriented behaviour are considered as effective leaders as they perform different kinds of activities that are dissimilar to their subordinates. Some of these activities are planning, scheduling, managing the activities performed, making arrangement of resources, motivating the employees to perform better and achieve the goals and objectives set by the organisation.
- 2) **Relationship-Oriented Behaviour:** Only task-oriented behaviour is not sufficient for becoming an effective leader. Effective managers also exhibit relationship-oriented behaviour under which they try to establish cordial relations with their employees. They try to support their subordinates not only professionally but also personally. They motivate their employees for good performance and reward them for their efforts, both monetarily as well as non-monetarily.
- 3) **Participative Leadership:** Participative leadership style is another characteristic of an effective leader. The main motive of this leadership style is to develop team-oriented behaviour and create strong and inter-related team that works together as a group, not as an individual. For this, leaders ask their employees to express their ideas in the team meetings, group decisions and other problem-solving matters. The managers are not commanding but facilitative as they guide their employees on how to resolve their differences. Managers are solely responsible for the results. Before making any final decision, they consider the suggestions of group members.

2.5.3. Situational/Contingency

Approach to Leadership

In late 1960s, various researchers such as Blanchard, Fiedler and Chemers, House and Filley, and Vroom recognised that trait and behavioural theories cannot be applied to every situation. They proposed that situational characteristics of an individual also play an important role in identifying the leadership qualities. According to **situational or contingency theory**, the circumstances responsible for the emergence of a leader and the situations in which he performs his job have a great influence in making the leadership effective. A good leader always tries to

understand the requirement of the situation and then takes steps accordingly. This theory also believes that people follow only those leaders, who interact with their group frequently, fulfill their desires and help in accomplishment of established goals and objectives. Some of the most popular situational theories are as follows:

- 1) Fiedler's model/Leadership effectiveness model,
- 2) Situational Leadership Theory (SLT), and
- 3) Path-goal theory.

2.5.3.1. Fiedler's Model/Leadership Effectiveness Model

Fred Fiedler was the one who discovered the first contingency theory of leadership. According to this theory, an adequate balance between the leader's style and the extent of authority exercised by the leader in a particular situation results in effective group performance. **Fiedler contingency theory** is based on the assumption that the leader's ability to act according to the situation results in effective leadership. Besides this, Fiedler's model also believes that a single leadership style cannot be exercised in all situations and for all the employees. There are three key components of Fiedler's contingency theory, which are given below:

- 1) **Leadership Style:** According to Fiedler, there are two types of leadership styles:
 - i) **Task-Directed Style/Hard-Nosed Style:** Leaders possessing this leadership style are always directed towards improving the work performance and are satisfied only after the accomplishment of the task.
 - ii) **Human Relations Style/Lenient Style:** Leaders possessing this leadership style prioritise on developing healthy relationships with their employees. Their main motive is to gain importance in the eyes of their followers.

In order to measure the leadership style adopted by the individual, **Fiedler** established two types of ratings which are as follows:

- i) **Scores on Least Preferred Co-worker (LPC):** This rating consists of sixteen factors such as comfortable-non comfortable, pleasant-unpleasant, friendly-unfriendly, etc., upon which leadership style of an individual is estimated. In simple terms, scores given on LPC basis emphasise on the liking and disliking of an individual with his group members.
- ii) **Scores on Assumed Similarity (AS) between Opposites:** Assumed similarity rating is used to measure the degree of

similarity between the leader and his group members. However, scores of both the ratings are strongly and positively correlated to each other.

2) **Situational Variables:** Fiedler believes that leadership style is also affected by certain dimensions of situations, which are mentioned below:

i) **Leader's Position Power:** Power and influence associated with the job is known as position power. The position power of a leader affects his leadership style as high position power leads to greater influence on the followers. Greater the position power, more effective is the leadership. **For example,** managers having high position power can freely take the decisions regarding the hire and fire of the employees as well as maintenance of the discipline. Position power is also equivalent to coercive, reward and legitimate power.

ii) **Task Structure:** The extent to which job tasks are planned is known as task structure. This factor also influences the behaviour of a leader towards his followers. **For example,** leaders of assembly line jobs are more effective in their job as compared to managers because the duties of assembly line jobs are more organised than the managerial jobs.

iii) **Leader-Member Relations:** The degree of likelihood, trust, respect, reliability, friendliness, comfort of the group members towards their leader is included in the leader-member relation.

3) **Relation between Leadership Style and Situational Variable:** According to Fiedler, situation determines the effectiveness of a leadership style. Thus, appropriateness of leadership style for different situations is mentioned below:

- Task-oriented leadership is beneficial when the group is either in the complete favour of the leader or completely against the leader.
- Human relations-oriented leadership style is beneficial when the group exhibits intermediary kind of favourableness towards the leader.

Fiedler's theory suggests that the favourableness of the situation and leadership style has a direct and positive association with each other. Thus, it can be said that fulfilment of all the three situational dimensions makes the situations favourable for the

leader, i.e., leaders with high power position alongwith planned task and strong leader-member relationship results in suitable situations for the leader to prove his effective and efficient performance. Non-fulfilment of these situational dimensions develop unfavourable situation for the leaders. Fiedler identifies the relationship between leadership style and favourableness of situations as shown in figure 2.11:

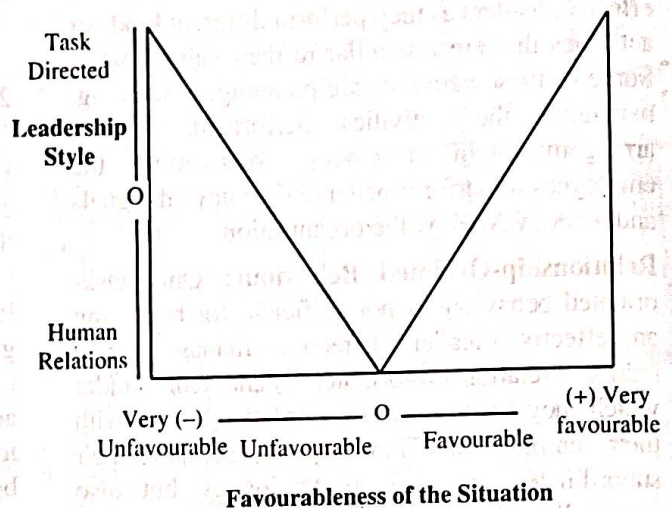


Figure 2.11: Fiedler's Model of Leadership

2.5.3.2. Situational Leadership Theory (SLT)
Paul Hersey and Kenneth Blanchard also developed a theory called Situational Leadership Theory, which proposed that the leadership style of any leader should be according to the maturational needs of his followers.

These maturational needs consist of various stages which move in a cyclic order and that is why this theory is also known as **life-cycle theory of leadership**. Many organisations have admired this theory and are also providing several training programmes based on this theory.

SLT consists of two major components which are as follows:

- Leadership Behaviour/Styles:** There are four types of leadership styles which are further based on combination of following considerations:
 - Relationship Behaviour:** The social and emotional support of leader towards his followers determines the relationship behaviour.
 - Task Behaviour:** Task behaviour is determined by the assistance or guidance given by the leader to his followers.

Combination of these two dimensions results into four leadership styles as shown figure 2.12:

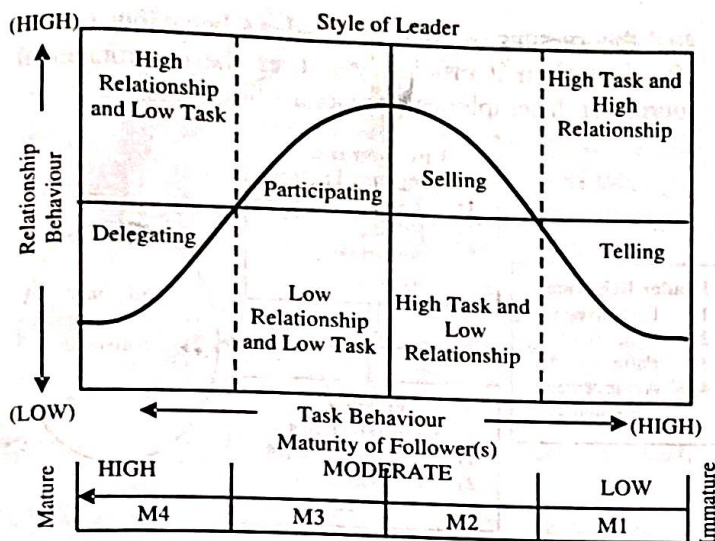


Figure 2.12: Situational Leader Model

Combining Leadership Styles and Maturity

Combination of appropriate leadership styles according to the level of maturity not only depicts the relationship between them but also results in effective leadership. The most appropriate four leadership styles, as per the specific maturity level, are as follows:

- i) **Telling or Directing (High Task – Low Relationship):** When the tasks are complex in nature and the leader-members relations are not smooth, leaders follow directive behaviour. They direct their followers about their role as well as how, when and where, the task should be carried out.
 - ii) **Selling or Coaching (High Task – High Relationship):** When the tasks are challenging and the relation of the leader with his followers is healthy, leaders adopt both directive as well as supportive behaviour.
 - iii) **Participating or Supporting (Low Task – High Relationship):** In the situations, when the tasks are low and the relationship is high, the decision-making process is carried out by both the leader as well as the followers. The leaders in such situations adopt facilitative and communicative behaviour.
 - iv) **Delegating (Low Task – Low Relationship):** In such situations, leaders delegate or handover their responsibilities to others. Though leaders follow directive and supportive behaviour, the degree of direction and support is very less.
- 2) **Follower Readiness/Subordinate's Maturity:** According to this model, maturity is defined as the 'ability' and 'willingness' of an individual to apply his own behaviour in right direction. This theory is absolutely different from Argyris's theory in terms

of maturity and immaturity. Here, **ability** is defined as amount of knowledge and skill possessed by an individual regarding his job. It is also known as **job maturity**. **Willingness** means the amount of psychological maturation possessed by an individual to perform the task more confidently and promisingly. Since, different people have different maturation levels according to different task, therefore, these maturation variables should be taken into consideration by the leader only when a specific task is to be carried out by the employees. Before evaluating the maturity level and performance of his subordinates separately, he should assess the maturity level of the entire group, especially when all the group members are interacting with each other very frequently. When ability and willingness are combined together, following maturity combinations can be obtained:

- i) **M₁: Low Ability and Low Willingness – Low Maturity:** People with low ability and willingness always have low maturity level. Such individuals are never ready to face the competition and always avoid taking responsibilities due to lack of confidence in themselves.
- ii) **M₂: Low Ability and High Willingness – Low to Moderate Maturity:** Such people do not have adequate knowledge and skills regarding their job but are always self-motivated to perform better.
- iii) **M₃: High Ability and Low Willingness – Moderate to High Maturity:** Such individuals are capable but are reluctant and hesitant to meet the desires of the leaders.
- iv) **M₄: High Ability and High Willingness – High Maturity:** These people are both capable and willing to do everything for the accomplishment of established group goals.

2.5.3.3. Path-Goal Theory

Path-goal theory was introduced by **Robert House** and consists of various elements of 'Ohio State leadership' study and 'expectancy motivational theory'. As the name recommends, path-goal theory believes that the effective leaders guide their followers about the right path and help them to achieve the desired goal by removing their obstacles. According to this theory, a good leader always support his followers by making accurate and adequate information and resources available for them, so that they can easily achieve their goals.

Robert House believed that there are four types of leadership behaviours, which are as follows:

- 1) **Supportive Leadership:** Supportive leadership is most suitable for stressful, tedious and risky situations. Leaders having this leadership style try to make the working environment comfortable and interesting. They show concern for their followers and motivate them to cope up with any sort of challenging situation.
- 2) **Directive Leadership:** This leadership is appropriate for the situations when the followers are not so experienced and the nature of task is complex and non-organised. Leaders having directive leadership style, guide their followers about what is to be done, how it is to be done, in what time the task should be accomplished, etc. Under this leadership, since different roles are given to different members of the group, the chances of chaos are decreased and the sense of work ownership is increased. Rewards are given on the basis of the performance of the members.
- 3) **Participative Leadership:** Participative leaders give importance to the ideas and viewpoints of the followers and utilise them in various decision-making processes. This approach is successful if the followers are expert from whom the suggestions are to be taken and their advice proves out to be beneficial for the entire group.
- 4) **Achievement-Oriented Leadership:** This leadership is best applied when the task is challenging and complex by nature. By using this leadership style, leaders show their confidence and trust in their follower's capabilities. They set-up challenging and high standardised goals, so that the followers apply their full potential and succeed in achieving their goals. It also leads to self-improvement of the followers.

As shown in figure 2.13, Robert House also discovered that there are two types of variables that help in moderating the behaviour of a leader and the outcome of that behaviour. These variables are as follows:

- 1) 'Environmental variables' such as nature of task, nature of higher authorities and the fellow workgroup, etc., cannot be modified or altered by the employees.
- 2) 'Individual's personal characteristics' such as proficiency, experience and degree of control allotted to an individual.

Environmental factors emphasise on what behaviour should be adopted by the leaders to maximise the outcome of his followers, whereas, individual characteristics identify how the environmental factors and leader's behaviour are understood. Thus, the path-

goal theory suggests that the leader's behaviour can be effective when it efficiently utilises the environmental sources or the employee's personal characteristics.

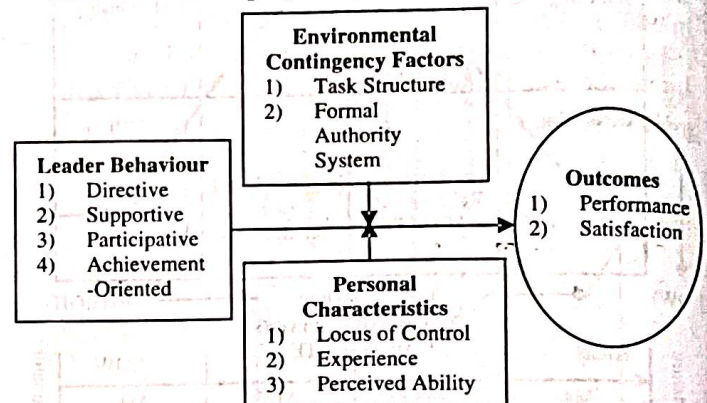


Figure 2.13: Path-Goal Theory

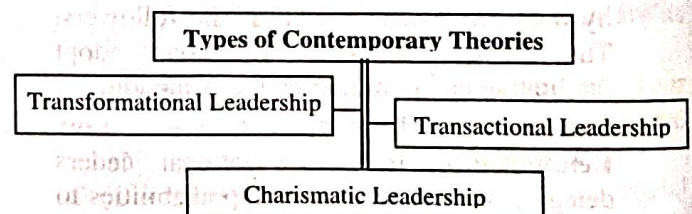
2.5.4. Contemporary Theories

Contemporary theories believe that rather than observing each traditional leadership theory individually, it is better to consider all the theories together so that the holistic view of these leadership theories can be understood. Contemporary theories follow various aspects of trait as well as behavioural and contingency theories. These theories believe that there are certain inherent traits within a leader that make his leadership effective.

But, besides this, behavioural factors of the leader cannot be ignored as traits are not visible but behaviour can be observed. An effective leader must also have the capability to adapt himself according to the changing situations, without hampering his leadership effectiveness. Thus, the combination of different elements of three different theories is crucial to make the leadership effective.

Types of Contemporary Theories

According to various researchers, the most current approaches to leadership in organisations are as follows:



2.5.4.1. Transformational Leadership

Transformational leaders have a deep and unique effect on their subordinates as they guide their followers to give priority to the organisational interest rather than their own interest. Such leaders have a charismatic personality and give importance to their employees and motivate their intellectual

skills. For example, Leslie Wexner of the Limited Retail Chain and Jack Welch at General Electric gave due consideration to the needs of their employees. They guided them about how to solve old problems using new methods and motivated them to achieve the established group goals by putting extra efforts and thereby improving their performance.

Characteristics of Transformational Leader

Transformational leaders have following characteristics:

- 1) **Charisma:** Transformational leaders make the followers understand the vision of the job. This inculcates pride in followers and in turn followers respect and trust the leader.
- 2) **Inspiration:** Such leaders inspire their followers by discussing their expectations with them. They make use of various symbols to give direction to the efforts of followers and use simple techniques to make them understand the main purpose of the task.
- 3) **Intellectual Stimulation:** Transformational leaders stimulate intellectual skills such as intelligence, accurate reasoning and vigilant problem-solving ability within their subordinates.
- 4) **Individualised Consideration:** Such leaders have a great concern for their subordinates. They not only give individual attention to each employee but are always ready to give guidance and support to their employees.

2.5.4.2. Transactional Leadership

Transactional leadership is based on the relationship of the leaders with their subordinates. All the conventional theories of leadership which are given by Ohio researchers, Fiedler, Robert House, etc., are based on this transactional leadership. Leaders having transactional leadership style are directive and motivating by nature. They not only clarify their subordinates about the role to be performed by them but also guide them the appropriate path which should be adopted in order to accomplish the established goal.

Characteristics of Transactional Leader

Various characteristics of transactional leaders are as follows:

- 1) **Contingent Reward:** Transactional leaders recognise the efforts made by their subordinates and reward them for their efforts and better performance.
- 2) **Management by Exception (Active):** Such leaders are responsible for rectifying the mistakes made by their employees. When the subordinates move away from the established rules and standards, transactional leaders take remedial measures to handle the situation.

- 3) **Management by Exception (Passive):** Transactional leaders interfere and take action against their subordinates, only when they are unable to accomplish the set standards and goals.
- 4) **Laissez Faire:** Transactional leaders avoid taking responsibilities and making decisions.

Transactional v/s Transformational Leadership

Basis of Difference	Transactional Leadership	Transformational Leadership
1) Leadership Strategy	Development of strong inter-relationship between the leader and his follower is adopted as the leadership strategy.	In order to improve the performance, the main strategy is to increase the motivational level.
2) Leadership Goal	The main focus is on compliance of standards by the follower.	The main focus is on commitment of followers and enhancement of their morale.
3) Underlying Psychological Motivator	Social exchange of important sources among the leader and the followers turns out to be psychological motivator.	Psychological motivators are in the form of increased self-efficiency and commitment towards the shared values.
4) Power Base	Leaders generally adopt coercive, legitimate and reward power.	Leaders generally adopt expert and referent power.
5) Relationship of Leader to Follower	<i>Quid pro quo</i> relationships are maintained.	Morally challenging relationship is maintained.
6) Operational Impacts	It leads to short-term impact.	It leads to long-term impact.

2.5.4.3. Charismatic Leadership

The theory of charismatic leadership is considered as an expansion of attribution theory. According to this theory, followers first observe certain behaviours of the leader and then start acknowledging the leader and his abilities. Several studies have been conducted to identify the behaviours of charismatic leaders and determine the differences between the charismatic leaders and non-charismatic leaders.

Characteristics of Charismatic Leaders

Charismatic leaders bear the following characteristics:

- 1) **Self-Confidence:** They are very confident about their decisions and capabilities.
- 2) **Vision:** Vision of charismatic leader is exceptional; still it can be recognised by his

followers. His vision is innovative and energising. Charismatic leaders show the target to be achieved by the organisation in future and also give the right direction to followers about how to achieve that target.

- 3) **Ability to Clear the Vision:** Such leaders not only understand the needs of the followers but also motivate them to achieve the created vision. For accomplishing this, these leaders inform the followers about the vision in such a way that it becomes clearly understood by the followers.
- 4) **Strong Convictions about the Vision:** Charismatic leaders can do anything in order to achieve their visualisation. Since, they are determined towards their vision, they are ready to take high risks and spend higher expenditure to accomplish them. Such leaders are non-selfish by nature and are committed towards the company.
- 5) **Extraordinary Behaviour:** Charismatic leaders are exceptional in many ways. They are innovative and bring new ideas and sometimes even contradict the customs. That is why, such leaders are appreciated by their followers.
- 6) **Change Agent:** Charismatic leaders are responsible for bringing changes in the organisation. Hence, they are termed as change agents.
- 7) **Environmental Sensitivity:** Charismatic leaders are environmentally sensitive by nature. They are well aware about the environmental restrictions and make proper evaluation of the resources required to meet the possible changes.

2.6. CONTROLLING

2.6.1. Meaning and Definition of Controlling

Controlling is considered to be an indispensable function of management in an organisation. The process of management remains incomplete without proper controlling. It seeks to make sure that all other processes likewise planning, organising, staffing, and directing are properly executed and conducted to achieve the same organisational goal. Controlling is a function of management that strives to measure the performances and take the remedial actions when needed. Thus, it can be concluded that controlling is a process which facilitates measuring the actual performance against set standards.

According to Henry Fayol, "Control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which

has been adopted, the orders which have been given, and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from recurring".

According to EFL Breach, "Control is checking current performance against pre-determined standards contained in the plans, with a view to ensure adequate progress and satisfactory performance".

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

2.6.2. Characteristics of Controlling

The principal characteristics of controlling are as follows:

- 1) **Pervasive Function:** Controlling is a pervasive function in the overall management process. It is carried-out as a follow-up activity for other functions of management. Managers at all the levels of management perform controlling functions to keep a control over activities in their respective areas.
- 2) **Unveils the Mistakes:** Controlling evaluates the activities already undertaken. Therefore, it is a process which looks back in the past. By appraising the past activities, controlling unveils the mistakes and errors in various processes. This activity of unveiling the errors is known as "feedback information". It uncovers the reasons due to which the mistakes occurred, on the basis of which remedial measures are adopted.
- 3) **Continuous Process:** Controlling is not a short-term process, but is rather a continuous analysis of actual performance and measuring the deviation against the set standards. It also modifies the plans, policies, objectives, procedures, etc., to handle the negative implications of such deviations.
- 4) **Positive Purpose of Control:** As stated by, George Terry, "The function of controlling is positive – it is to make things happen, i.e., to achieve the goal within stated constraints or by means of the planned activities". Controlling should not be considered as a hurdle in the way of achieving the objectives. It is an essential requirement and acts as an assistance and not as a barrier.
- 5) **Exercised at All Levels:** Controlling is not only carried-out by the top-level managers, but takes place at all levels of management, i.e., from the top-level to the lowest-level in the hierarchy. However, the purpose and scope of controlling may vary as per the levels of management.

- 6) **Evaluates Performance:** The basic motive behind controlling is to evaluate the actual performance and compare the outcomes against the planned results. This allows the managers to establish the necessary principles so that action can be taken smoothly in future.

2.6.3. Importance of Controlling

Controlling helps in following ways:

- 1) **Aids in Achieving Organisational Goals:** Controlling allows the management to ensure that the difference between the outcomes and the benchmark is minimum. This in turn, aids in achieving the intended organisational goals.
- 2) **Enables Optimum Utilisation of Resources:** Implementation of plans involves utilisation of resources, i.e., men, material, and money. Resources are always limited and scarce and hence have to be judiciously utilised, without wastage or under-utilisation. This is ensured by effective control mechanisms.
- 3) **Ensures Discipline and Order:** Controlling introduces a sense of attentiveness amongst employees that they are under control and evaluation. This ensures that all are performing as per expectation and working as per the plan.
- 4) **Improves Coordination:** Controlling also involves integration of all the activities in the organisation. It seeks to ensure that all the units work in coordination, for the achievement of common goals according to plans and procedures.
- 5) **Helps in Better Planning:** Planning and controlling are two sides of the same coin, each complementing the other. Controlling provides real-time feedback about the implementation of plans, which in turn helps managers to plan in a better way, so that the observed pitfalls and identified errors could be avoided in future.
- 6) **Makes Employees Accountable:** Control function enables the management to monitor and observe the performance of employees regarding the roles and duties assigned to them. This helps in fixing accountability and holding them responsible for their performance of success or failure.

2.6.4. Steps in Control Process

There are four basic elements of control process in an organization. These four elements are shown in figure 2.14:

- 1) **Setting Performance Standards:** All the firms chase certain targets in terms of revenues, creativity, customer satisfaction, personnel, etc.

A standard helps in maintaining the expectancy level of performance for the targets.

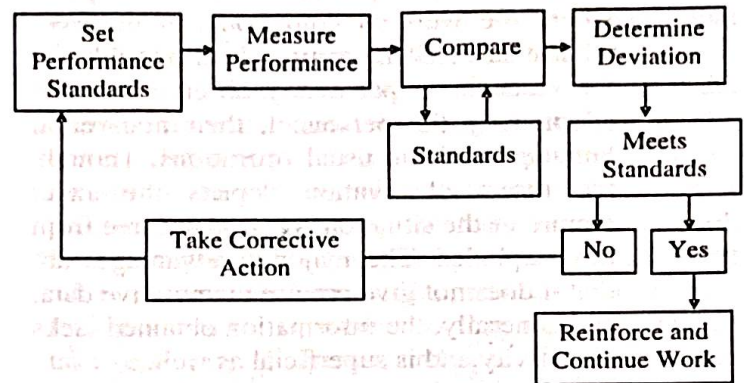


Figure 2.14: Basic Control Process

The standards are the targets which help in reaching the required levels of performance, encourage for better performance, and provide benchmarks for measuring the actual performance levels. A standard can be fixed for any activity such as finance, operational, legal, charitable, etc. It is important to note here, that the performance is not solely measured on the basis of employees, but the measurement is taken as a combined output of man and machine. Thus, four important factors are highlighted below against which the performance is measured are:

- i) Quantity,
 - ii) Quality,
 - iii) Required Time, and
 - iv) Cost Incurred.
- 2) **Measuring Performance:** The next stage is to evaluate the level of performance. **For example,** a manager can calculate the number of units produced, total time taken, the days of absenteeism, amount of money earned. Following are the three sources from where the performance data are attained:
- i) **Written Reports:** Computerised reports and on-screen reports are the types of written report. With the help of computer and its abilities, data can be gathered and analysed easily. This technology can provide enormous benefits to the managers in presenting written reports.
 - ii) **Oral Reports:** Oral reports are the presentations or summary provided by the managers to their superiors. **For example,** a sales person provides a daily summary to his superior regarding the targets achieved, number of calls made in a day, challenges faced by him, and the reaction of customers regarding a product or service.

iii) **Personal Observation:** In direct observation, the person goes to the place where the work is going on and observes what exactly is happening. It is possible for the manager to personally observe methods adopted by the personnel, their non-verbal language and the usual operations. Though, the direct observation depicts the exact picture of the situation, yet it is not free from the loopholes. The major disadvantages are that it does not give precise quantitative data, and generally, the information obtained lacks objectivity and is superficial as well.

3) Comparing Performance with the Standards:

The third stage is a comparison of performance against the standard. This process involves assessment of performance by the manager. In some cases, small variations from the benchmark are tolerable while in a few cases, even minor variation can cause disaster. **For example**, in case of most of the production procedures, a major variation going in the either direction (e.g., a hole which is drilled is either too small or too big) is undesirable. In some other activities, a variation going in one direction (like falling sales or the lack of customers' satisfaction) is considered to be a major issue, while, variations in the other direction (such as rising sales above the target level, or production beyond the expectations of the customers) reveal a good sign. Thus, it is important for the managers playing the role of a supervisor, to carefully analyse and assess the outcomes.

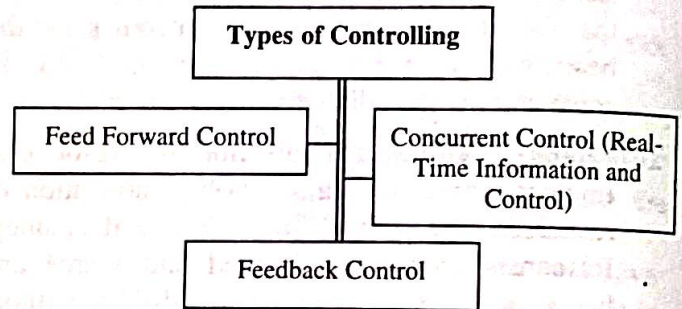
As per the management principle of exception, it is possible to have better control if the exceptions to the standard performance or deviations from the expected performance can be identified and determined. Therefore, it is important for the management to direct their attention towards handling the exceptions. **For example**, the sales manager may investigate the reasons behind unexpectedly declining sales of a product in one region, while increasing sales for the same product in other region.

4) **Taking Corrective Actions:** The final stage of the control process is taking corrective actions when major variations are found in the outcomes. This stage ascertains adjustment of operations for achievement of the desired outcomes or continuing further if possible. If any major variation is found, the manager takes strong and immediate actions to deal with the challenges. The choice of the remedial measures relies on the

nature of the issue. The remedial measures can be anything such as changes in the marketing strategy (in case sales are below the desired levels), introducing rules and principles, a new technique to inspect the manufactured items, or altering a process.

2.6.5. Types of Controlling

In order to manage the organisation effectively, three basic types of controls are exercised:



2.6.5.1. Feed Forward Control

Feed forward control is a type of controlling where the inputs of a process are evaluated and corrective actions are taken before the execution of activities so that the errors can be prevented. In this way, this method maintains the time gap in taking the remedial measures. Feed forward control verifies that whether the inputs to the activities are planned or not, if not, then it adjusts the variables in such a manner that desired results can be achieved. In order for the feed forward control to be effective, following factors are required:

- 1) The controlling mechanism should properly investigate and analyse the planning and controlling systems. Moreover, it should also identify more input variables.
- 2) A comprehensive model should be developed for the overall system.
- 3) The reassessment of the model should be done from time to time for the purpose of checking if the recognised input variables and the relationships existing among them still represent the reality.
- 4) The collection of the data related to the input variables should be done on a regular basis. The collected information should be kept in the system.
- 5) The evaluation of deviation between actual and planned input data should be performed recurrently and the assessment of their effects on the desired results should be done.
- 6) Steps should be taken to reveal the difficulties faced by people and the needed methodologies should be adopted for solving them.

2.6.5.2. Concurrent Control (Real-Time Information and Control)

All those activities that aid during the execution of processes are called “concurrent controls” or “steering controls”. Concurrent control is the activity which takes place during the execution of processes. All the activities and processes revolve around concurrent control. **For example**, the feature of spelling checker in Microsoft Office Word. Concurrent control consists of monitoring and regulating the activities that are in execution phase, so that desired outcomes can be achieved. It is structured in such a way that all the operations are accurately executed and provide correct outputs. An important concept in concurrent controlling is that since it analyses and evaluates ongoing operations, hence, it needs an in-depth understanding of particular tasks and their interrelationships with desired outcome.

2.6.5.3. Feedback Control

Feedback control evaluates the results and matches them with the pre-defined standards. This type of control is exercised after the execution of a process. Hence, it is also called “post-action control” or “output control”. A diagram depicting feedback control is shown in figure 2.15.

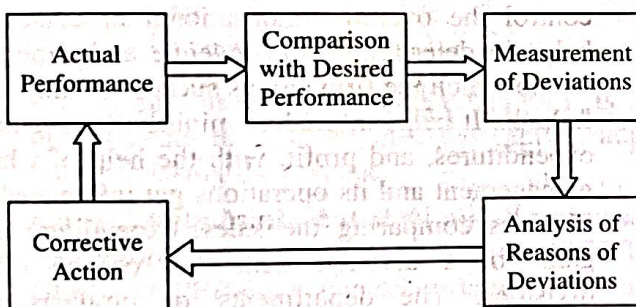
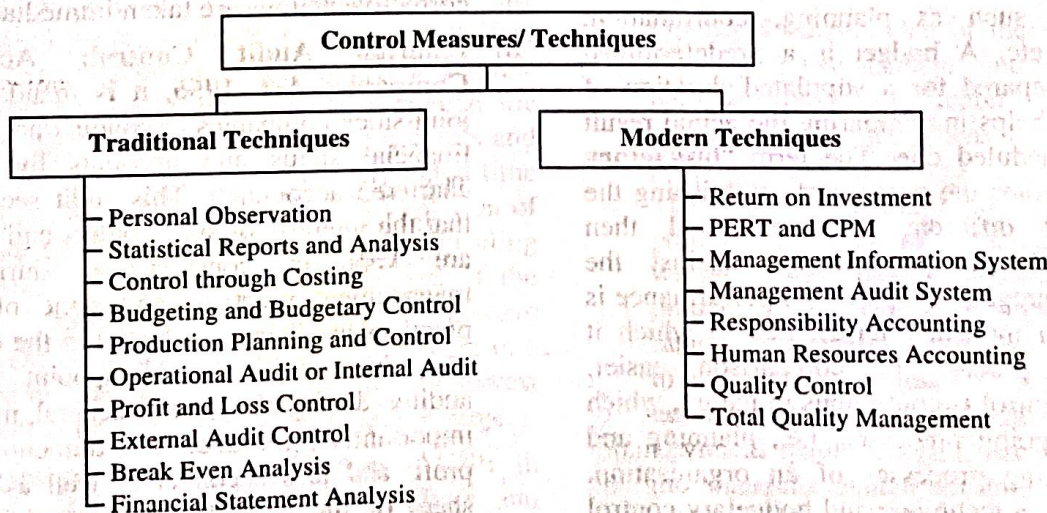


Figure 2.15: Feedback Control

Although, there are numerous techniques of controlling, some of the major techniques are described below:



An efficient controlling system is backed by proper feedback. An adequate quantity of feedback information uncovers various errors and mistakes that have been occurred during the execution of process. Therefore, feedback is also referred to as “after the event” information and is essential for taking the corrective actions. There are situations when measuring the input variables before the execution of process is not possible by the feed forward control. **For example**, value brought by an employee to the job is a factor which cannot be predetermined. Hence, feedback control is needed so that management can take effective decisions and can exercise better control. Feedback information obtained by the management can be either **formal** or **informal**. While the former one includes all kinds of written information related to actual performance such as reports, financial statements, etc., on the other hand, the later one encompasses personal observations, informal discussions, personal contacts, etc

2.6.6. Control Measures/ Techniques

The optimum utilisation of limited resources is desirable by all the organisations. In order to achieve this objective, every management formulates a device, which informs the management regarding plans and policies to be implemented. If these policies and plans are not properly implemented, then any kind of deviation in the performance should come up to the notice, so that remedial measures can be taken within time. In order to inspect every division of an organisation, a proper controlling system should be designed.

2.6.6.1. Traditional Techniques

Some of the traditional techniques for controlling are as follows:

- 1) **Personal Observation:** One of the most efficient and conventional techniques for controlling is personal observation, where the supervisor monitors the performance of employees as well as inspects the proper execution of operations by observing the situation. Being present physically and getting involved in the work process, the supervisor improves the performance and develops a sense of culture among the employees.
- 2) **Statistical Reports and Analysis:** Analysing the statistical reports plays a significant role in controlling activities in an organisation. In this technique, the managers compare and analyse various ratios, percentages, averages, etc., over different periods of time, on the basis of which various trends and their causes are identified. This technique is widely used in inventory control, production control, and quality control. The range of deviation is prefixed, i.e., the minimum and maximum levels of deviation are pre-decided. If the deviation is within this range, then it is allowed, while if the deviations go beyond the range, then remedial steps are taken.
- 3) **Control through Costing:** Controlling cost is another method of controlling. It strives to minimise the wastages and establishes predetermined costs. Costs of an organisation can be controlled through setting up the standards and targets and comparing the actual performance against them. After comparison, if deviations are significant, then necessary corrective measures are taken.
- 4) **Budgeting and Budgetary Control:** "Budgeting" refers to preparation of budgets and procedures for various activities of an organisation such as planning, coordination, controlling, etc. A budget is a predetermined statement prepared for a stipulated duration of time, which helps in comparing the actual result with the scheduled one. The term "budgetary control" denotes the process of establishing the budgets for different operations and then comparing the actual outcome against the budgets. In budgets, the expected performance is mentioned in monetary terms, due to which it makes the process of comparison easier. Budgetary control is continuous in nature, which helps in on-going processes, i.e., planning and decision-making processes of an organisation. The budget is a technique and budgetary control is the outcome.
- 5) **Production Planning and Control:** The purpose of planning the production is to look into the future in order to foresee the upcoming challenges and the probable corrective measures which can be taken in order to eliminate them. It gives guidance and direction for the course of manufacturing, in order to ensure that the goods are manufactured in the best possible manner and are in accordance with the intended objectives and established standards. Production control helps in the production operations and ensures that the entire procedure is being executed in a right direction.
- 6) **Operational Audit or Internal Audit:** Internal audit refers to the on-going process of evaluating the accounts and operations of a firm by its own internal experts. It provides feedbacks regarding the organisation-wide performance, as it includes all the processes and operations of a business. Internal authority follows a definite purpose, which is to inspect and analyse whether the set standards are met by the organisational staffs. This in turn, helps in keeping the employees cautious as well as motivated.
- 7) **Profit and Loss Control:** This is one of the simplest and most widely used techniques to control the overall organisational processes. It helps in determining the revenue and expenses due to which the firm enjoys success or may face failures. It helps in predetermining the revenues, expenditures, and profit, with the help of which management and its operations get influenced. It involves comparing the sales, expenditure and gains of a division with that of the other divisions. The departments or products are considered as the cost centres. The managers of various departments are held responsible for their performances. If any deviation is found, the corrective actions are taken immediately.
- 8) **External Audit Control:** According to Companies Act, 1956, it is mandatory for the joint-stock companies to conduct an audit of their financial status and accounts by an external chartered accountant. This audit seeks to ensure that the interests of stakeholders and other parties are kept in consideration during various management practices and none of the illegal practices are being conducted in the organisation. The shareholders jointly appoint the external auditor during the yearly general meeting. It is important for the auditor to authenticate that the profit and loss accounts as well as the balance sheet of the firm depict the real and accurate picture of the actual financial situation of the firm.

- 9) **Break-Even Analysis:** Another important technique for controlling is break-even analysis, which aids in decision-making and control. It helps in making important managerial decisions.
- 10) **Financial Statement Analysis:** Financial statements play an important role in controlling the business operations. Some of the important financial statements are profit and loss statement, balance sheet, income statement, etc. These statements are used in comparing the performance of an organisation with other over different periods of time. These statements also help in analysing the ratios that highlight the financial status of an organisation.

2.6.6.2. Modern Techniques

Modern techniques of controlling are as follows:

- 1) **Return on Investment (ROI):** ROI evaluates the relationship between net profit earned and the investments made. It is one of the major techniques for measuring the financial stability of a firm that determines whether adequate returns have been achieved from the investments or not. ROI can be calculated on organisational level as well as departmental level. The formula for calculating it is as follows:

$$\text{ROI} = \frac{\text{Net Income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total Investment}}$$

The prime motive of calculating ROI is to optimise the revenue on invested capital rather than increasing the revenue.

- 2) **Critical Path Method (CPM) and Programme Evaluation and Review Technique (PERT):** CPM and PERT are the networking techniques which are employed for attaining the aspects of precise planning and control. These techniques are specifically beneficial for the purpose of planning, scheduling and implementation of the time bound projects which include a number of complicated, varied and interconnected actions. The purpose of these techniques is to allocate the time and funds for the action of the projects and to accomplish the task within the stipulated time frame and fixed budget. The basic orientation of CPM and PERT is in the direction of controlling the use of time in the accomplishment of the project. Both these techniques involve integration of all the activities of the project in a coherent manner in order to determine the lowest amount of time needed to accomplish the project.
- 3) **Management Information System (MIS):** In MIS, raw data are collected from direct and indirect sources, after that data are classified, on

which various analyses are performed to get information regarding the positive and negative positions of the business.

- 4) **Management Audit System:** Management audit is a technique which assesses the entire management system of an organisation. It inspects every step of management which includes planning, organising, staffing, directing, and controlling. It helps to determine the efficiency, plans, procedures, objectives, policies, personnel relations, etc., related to the management of an organisation. The complete process of management auditing is performed by a group of experts, hired by the organisation which collects the past and present data related to the management, clients, employees, stakeholders, etc., and determines the effectiveness of management.

- 5) **Responsibility Accounting:** Responsibility accounting encompasses developing various responsibility centres by the managers, which is also called as "profit centre", "cost centre", and "investment centre". All units or divisions are assigned a manager to look after the units or divisions. This technique is used to measure both inputs and outputs of an organisation. This technique involves preparing budgets and recording the costs and presenting it into a format of report.

- 6) **Human Resources Accounting (HRA):** HRA refers to the procedure of identification and measurement of manpower and informing about it to all the people concerned. According to **Prof. Flamholtz**, "Accounting for people as an organisational resource. It involves measuring the costs incurred by an organisation to recruit, select, hire, train and develop human assets and also involves measuring the economic value of people in the organisation. It is concerned with measurement of cost and value of people in the organisation".

- 7) **Quality Control:** One of the vital and enduring elements of management control is quality control, because it leads to reduction of wastage, lowering of expenditure, strengthens the reputation of the product, and helps in raising sales and marketing. The notions of quality with respect to service or product are in relation to price that the customer is willing to pay. This implies that the quality of a product is referred to as its capability to satisfy its objectives related to price. Quality control is done at two distinct stages, i.e., **first**, controlling the operation during the procedure is carried-out by statistical quality control, **second**, examining the raw materials, work-in-progress, and final products, is carried-out by inspection control.

- 8) **Total Quality Management (TQM):** TQM is a concept which is based on the notion of responsibility towards quality maintenance throughout the firm. The primary objective of TQM is the active participation of the production staff to quest for quality and to inculcate the attitude of constant improvement in them.

2.6.7. Limitations of Controlling

The limitations of controlling are as follows:

- 1) **External Factors:** Control is exercised on factors, which are internal to the organisation. It cannot be exercised on external factors which cause poor performance but which are beyond the control of management. For example, Government action, Market changes, etc.
- 2) **Difficulty in Setting Standards:** Control requires determination of standards. There are many things like production, process, etc. which can be standardised either in physical terms or financial terms. But there are some activities involving intangible performance, which do not admit to any scientific or accurate measurement also.
- 3) **Fixing of Responsibility:** In case of external factors control proceeds on the assumption that personal responsibility can be fixed and the person responsible will take corrective action. But even within the organisation, there are a number of deviations for which nobody in particular can be held responsible. It is here that control becomes ineffective.
- 4) **Variation and its Causes:** All reasons for deviations cannot be ascertained because of cost and time involved in investigation. Sometimes within the organisation, minor deviations are bypassed on the ground of practical expediency. Lack of authorities and absence of timely information may also make the corrective actions irrelevant.
- 5) **Time Rate of Change:** Time lags in feedback can cause severe problems. Such time lags tend to slow down the adaptive process, i.e., they increase the length of time it takes for the control system to respond. It is easy to see how time lags can develop in a control system. Organisational control systems, particularly at higher levels in the organisation, often depend on written reports for their sensed information and on written memos or directives as the corrective feedback. But it obviously takes time to write and transmit such information. If the activity is changing rapidly, the problem will be entirely different by the time the corrective feedback reaches the activity.
- 6) **Information Overload:** It is another problem in a control system. If managers at all levels receive

identical details about any event they may be overburdened and may neglect their immediate responsibilities. They may also suggest remedies before their subordinates are given an opportunity to take action. Thus, in planning a control system, one must keep in mind the quantity and type of information that should reach every manager.

- 7) **Workers' Resistance:** Human behaviour is complicated, and it is not easy to impose controls without leading to conflicts. Employees regard and control system as a tool to exert pressure on them. Thus, a control system must first be "sold" before it is introduced.

2.7. SPAN OF CONTROL

2.7.1. Meaning and Definition of Span of Control

The number of subordinates or juniors, placed under the direct supervision and control of a manager or senior executive, is known as the span of management or span of control. This principle states that a limited number of subordinates can be placed under the control of a manager, which varies according to the changing business situations. Usually, a manager's span is decided by analysing his managerial abilities such as ability to manage, nature of work, ability of subordinates, potential of the manager, past performances, etc.

According to Dimock, "Span of control is the number or range of direct, habitual communication contacts between the Chief Executive of an enterprise and his principal fellow officers".

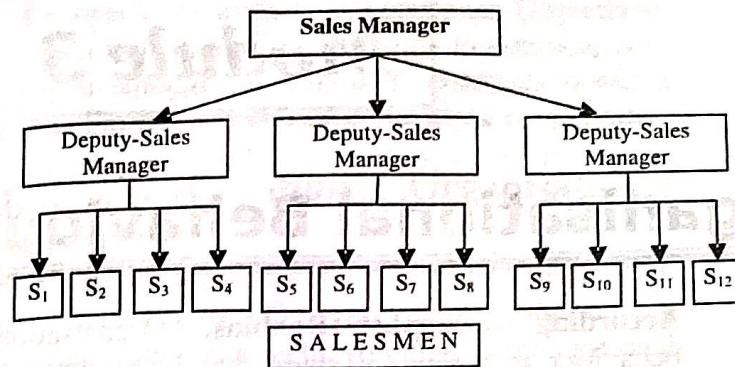
According to McFarland, "A span of control is the number of subordinates that an executive supervises".

In simple terms, span of management represents the number of individuals to be managed by a manager. It is also responsible for determining the members of managerial levels of the organisation. If there are more individuals to be managed, then there will be less management levels and vice versa.

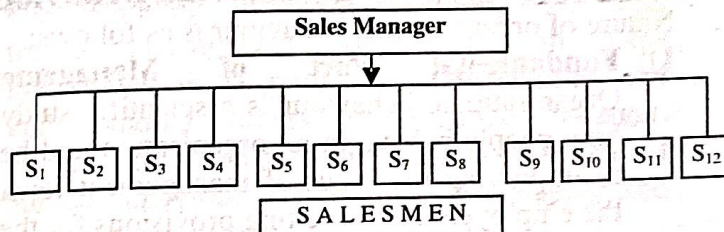
2.7.2. Types of Span of Control

There are two types of span of control:

- 1) **Narrow Span of Management:** Under narrow span of control, less number of subordinates report to a single manager. When a limited number of subordinates are managed under a single span, it leads to a tall organisation structure with many hierarchical levels. Narrow spans are implemented usually at higher management levels.



- 2) **Wide Span of Control:** Under a wide span of control, comparatively large number of subordinates report to a single manager. These spans usually have flat organisational structures, with few hierarchical levels, as compared to tall structures under narrow span of management.



2.7.3. Factors Affecting Span of Control

Factors affecting span of Control are as follows:

- 1) **Capacity of Superior:** Span of control is greatly affected by the capacity of the superiors. Every superior has his own capacity to manage subordinates. Different managers have different qualities of leadership, decision-making, supervision, etc. Hence, a span of management largely depends upon the abilities of the manager.
- 2) **Capacity of Subordinates:** Span of control does not solely depend upon the capacity of the superior, but is also influenced by the capacity of subordinates. Inefficient and unskilled subordinates may not be able to perform their functions effectively, without the involvement of the superior. Such subordinates require proper directions and trainings, which require more time and guidance from a superior. On the other hand, competent and skilled subordinates only need the basic guidelines to perform managerial tasks. Thus, span of management is also affected by the capacity of subordinates.
- 3) **Nature of Work:** Span of control is also affected by the nature of work, as different managerial functions require different management approach. Every management approach and technique requires different degree of time and efforts from superiors and subordinates. As nature of work defines the role and responsibilities of the involved persons, hence, it affects the span of management up to a great extent.