

Organising(balance portion).....

FORMAL AND INFORMAL ORGANISATION

Relationship between individuals in the organization can be classified into formal and informal organization

FORMAL ORGANISATION: Formal organization means the organizational structure designed and established by the management to achieve organizational goals. It is the structure authority, responsibility, line of command, clear definition of jobs will be specified.

"The formal organization is a system of well-defined jobs each bearing a definite measure of authority, responsibility and accountability." Louis Allen

"formal organization is a system of consciously coordinated activities of two or more persons towards a common objective"- Chester Barnard

Features of Formal organization:

1. It is deliberately created by top management to achieve common goals
2. It is based on specialization or division of labour
3. It defines clearly the authority and responsibility of every person
4. It has written rules and procedures
5. It specifies the official lines of communication and official relationship
6. It emphasizes jobs or positions and not individuals
7. It is impersonal

Advantages of Formal organization

1. Organizational work can be done orderly and systematically
2. Avoid duplication of work
- (3). Unity of command is maintained
- (4) It provides stability to the organization
- (5) Coordination is possible

Disadvantages of Formal organization

- (1) It may lead to procedural delays
- (2) Inadequate recognition of creativity
- (3) Social needs of employees are not looked into
- (4) It places more emphasis on structure and work

INFORMAL ORGANISATION:- People working together in the formal organization interact or communicate with each other in the course of work. Gradually they develop friendly relationships and form small social groups. The network of these social groups based on friendship is known as informal organization. Thus informal organization is the system of social relationship among the members of a formal organization. These relations are highly personal in nature. "informal organization is the network of personal and social relationships not established or required by formal organization" -Keith Davis

Characteristics of Informal Organisation

1. It arises spontaneously and not preplanned
2. Its relationship is based on social, emotional and psychological needs
3. It is voluntary organization
- (4) It is based on personal preference and understandings
- (5) It reflects human relationships
- (6) It has no definite structure or form.
- (7) No written rules and regulations
- (8) It is highly flexible.

Advantages of Informal organization

1. Quick Communication is possible
- (2) Give importance to social needs of employees
- (3). It fills the inadequacies of formal structure.

Disadvantages of Informal Organisation

1. Spreads false news
2. May cause for employees work against management
3. Priority given to personal interests than common interest.

The informal organization is a part of the formal organization. It cannot be separated. In other words a single organization has two faces - the formal one and informal one.. They are two aspects of the same organization and linked to each other.

DIFFERENCE BETWEEN FORMAL AND INFORMAL ORGANISATION

BASIS	FORMAL ORGANISATION	INFORMAL ORGANISATION
1. Formation	Deliberately planned and created by the top management	Arises spontaneously as a result of social interaction among the employees
2. Purpose	It is created to achieve predefined organizational objective	It satisfies personal and social needs of employees
3. Authority	Arises by virtue of position in the management	Arises out of personal qualities
4. Behaviour	It is directed by rules	There is no set of behavioural pattern
5. Nature	Rigid	Flexible
6. Communication	Formal communication through official lines	Informal communication based on convenience
7. Organisational chart	It is supported by organizational chart	There is no such chart
8. Relationship	Based on authority and responsibility	No specific relationship
9. Leadership	Managers are leaders by the virtue of their positions	Leaders are chosen voluntarily by members
10. Stability	It is usually stable	It does not last long.

CHAPTER -7

DIRECTING

MEANING AND DEFINITION

Directing is an important managerial function that initiates action. As a function of management, directing is concerned with instructing, guiding, supervising and inspiring the employees to achieve the predetermined objectives. Direction in this way is the heart of management in action. Direction is the function of all managers and is an ongoing activity. Direction is called management in action. Direction serves as link between planning and control.

‘Directing consists of the processes and techniques utilized in issuing instructions and making certain that operations are carried on as planned’ - **Theo Haimann**

‘Directing is telling people what to do and seeing that they do it in the best of their ability’ - **Ernest Dale**

FEATURES/ CHARACTERISTICS OF DIRECTING

1. It is a dynamic function
2. It initiate action. ie. Convert policies and decision to action
3. It is a continuous process
4. It is performed at all levels of management
5. It includes supervision, leadership, motivation and communication
6. Direction initiates at top level and flows downward through organizational hierarchy
7. Direction is concerned with human behavior.

IMPORTANCE OF DIRECTING

The importance of direction can be summarized as follows.

1. **Direction initiate action:-** directing consists of the life spark of an enterprise and set it into action. All activities of an organization initiated through direction. Directing function converts the plan into action.
2. **Direction initiate employee's efforts:-** Directing initiate the efforts of individuals and groups to achieve common objectives. This is possible by supervision, guidance and counseling.
3. **Direction is a means of motivation:-** Motivation is one of the elements of direction. It motivates employees to maximize their productivity.
4. **Stability and balance in the organization:-** It is directing which ensures stability of workforce influential leadership and effective motivation. Direction minimizes the conflicts and maintains balance between individual conflicts and organizational objectives.

5. **Facilitate changes:-** A business operates in changing environment. Every time new situations develop, they need to be tackled. A proper direction will help to make the organization dynamic and responsive to new environments.

PRINCIPLES OF DIRECTING

Effective direction is an art which a manager can learn and perfect through practice. However, managers can follow the following principles while directing their subordinates.

1. **Maximum Individual contribution:-** this principle states that directing techniques should be designed to ensure maximum individual contribution to achieve organizational objectives.
2. **Harmony of objectives:-** Group interest should not clash with individual interest in an organization. Managers should reconcile the personal goals of employees with the organizational goals
3. **Unity of command:-** A subordinate should get orders and instructions from one superior only. If instructions are received from more than one boss, it creates confusion, conflict and disorder in the organization. Therefore every subordinate should be asked to report to only one manager.
4. **Appropriate techniques:-** The manager should be correct direction technique to ensure efficiency of direction. The technique used should be suitable to the supervisor, the subordinates and the situation.
5. **Managerial Communication:-** Two way flow of communication is the most effective means of securing cooperation of the subordinates because it provides them an opportunity to express their feelings
6. **Use of Informal organization:-** Management should try to understand and make use of informal groups to strengthen formal or official relationships. This will improve the effectiveness of direction.
7. **Leadership:-** leadership is essential for effective direction. A manager should act as leaders so that they can influence the activities of their subordinates without dissatisfying them.
8. **Follow through:-** Mere giving an order is not sufficient. Manager should follow it up by reviewing continuously whether the orders being implemented or any problems are being encountered. If necessary, suitable modification should be made in the directions.

ELEMENTS OF DIRECTION

Direction has the following elements

(1) Supervision (2) Motivation (3) leadership (4) Communication

SUPERVISION

The term Supervision is derived from two Latin words 'super' and 'vision'. 'Super' means 'over the above' and vision means 'looking over'. Thus in ordinary sense supervision means 'overseeing the activity'. In management, supervision means overseeing the subordinates at work. The person who supervises the operation is known as supervisor.. Supervisor also known as Foreman, Overseer, superintendent, Section officer etc.

IMPORTANCE OF SUPERVISION

Supervision helps to put plans into action toward the accomplishments of organizational goals. All the levels of management require proper and effective supervision on account of the following reasons.

1. **Liaison between workers and management:-** Supervisor is the link between workers and Management. It establishes effective and harmonious relationships between workers and management.
2. **Optimum use of resources:-** Supervisor directly controls utilization of resources. He ensures that each resource is utilized effectively and efficiently.
3. **Organisational Discipline:-** it is the supervisor who keep direct contact with the workers in the organization. Therefore he is responsible for maintaining discipline within the organization.
4. **Help in getting feedback:-** supervisor helps to continuously pass information to the workers about their performance. It is also guide them about the action required to taken so as to improve their performance.
5. **Facilitate Motivation:-** The supervisor creates enthusiasm and team spirit among the workers through financial and non-financial incentives such as appreciation and recognition of work.
6. **Overall growth and development:-** organizational growth and development are made possible by the supervisor by creating congenial work environment and ensuring that every worker contributes his best for the organization.

Supervisor maintains day to day contact and maintains friendly relations with workers. A good supervisor acts as a guide, friend and philosopher to the workers.

DIFFERENCES BETWEEN DIRECTION AND SUPERVISION

DIRECTION	SUPERVISION
1. Direction is wider than supervision. It includes supervision, motivation, leadership and communication	1. It is an element of direction.
2. Direction can be done without face to face contact.	2. Supervision involves face to face contact between supervisors and subordinates.
3. It is an important function at all levels of management .ie.from top to operative level	3. It is important at the operative level.
4. Direction is giving instructions, guidance, motivation and leadership to attain objectives	4. Supervision is the function of controlling the subordinates to ensure that the work is done as per the instructions issued.

MOTIVATION

Meaning

The word motivation is derived from the word '*motive*'. Motive means needs, wants, drives or impulses within an individual. Motivation is meant for influencing the human behavior for action. It is an inner feeling to satisfy the needs and wants of human being. In management, Motivation means stimulating people to action to accomplish desired and predetermined goals. It is nothing but an act of inducement.

'Motivation means a process of stimulating people to action to accomplish desired goals'

- William Scott

INTER RELATED TERMS

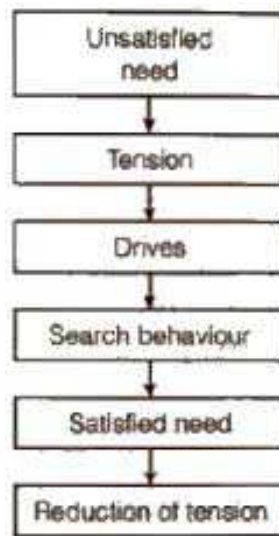
1. **Motive:-** A motive is an inner state, drive or impulse that energizes, activates and directs individuals to achieve certain goals. Eg. The need for food arises because of hunger.
2. **Motivation:-** Motivation is the process of stimulating people to accomplish desired goals. Motivation depends upon satisfying needs of people.
3. **Motivators:-** The technique used to motivate people in the organization is called motivator. eg. pay, bonus, promotion, recognition, praise etc.

FEATURES OF MOTIVATION

1. Motivation is the process of stimulating people to action
2. Motivation is the inner feeling which energizes person to work done
3. Motivation is a psychological phenomenon and has direct influence on human taste and attitudes
4. Motivation is a continuous and complex process as human wants are unlimited and different.
5. Motivation may be negative or positive. Positive motivation provides positive rewards like increase in pay, promotion, recognition etc. Negative motivation provides negative means like punishment, demotion etc which may also induce a person to act in the desired way.

MOTIVATION PROCESS

Motivation process is based on human needs



An unsatisfied need of an individual creates tension which stimulates his drives. These drives create a search behaviour to satisfy such need. If such need is satisfied, the individual is relieved of tension.

For eg. Suppose a worker feels that his wage is low. He experienced a need for additional income. To satisfy this need, the worker decided to work harder to earn more pay and promotion. If his hard work results in pay raise the worker feels satisfied. This reduces his tension. Otherwise he may decide to quit the job.

IMPORTANCE OF MOTIVATION

The success of an organization to a great extent depends upon the motivation of its employees. Motivation is the core of management due to the following reasons

1. **Improves efficiency and performance:-** The performance of an employee largely depends on the ability and willingness to work hard. Motivation bridges the gap between the ability of worker and his willingness to work. Thus it results in increased productivity, reduced cost of production and improved efficiency.
2. **Achievement of organizational goals:-** Motivated employees will try to co-operate voluntarily with the management. This will contribute their maximum towards the organizational goals.
3. **Better Industrial relations:-** Motivation creates an atmosphere of harmony and satisfaction. Motivated employees enjoy satisfaction and so there is a wider chance for healthy and cordial industrial relation.
4. **Reducing employees turnover and absenteeism:-** The rate of employees turnover and absenteeism will come down on account of the attractive motivational schemes.

5. **Organisational changes:-** Effective motivation helps to overcome resistance to change. Motivated employees think of positive side of new changes and will co-operative with the management.

MASLOW'S NEED HIERARCHY THEORY

Abraham .H. Maslow , an American Psychologist has developed a classification of human needs, which is known as hierarchy of needs. According to him, Human needs can be classified into five categories and can be arranged in the order of their priority. They are (1) **Physiological Need** (2) **Safety/ security Need**

(3) **Social need** (4) **Esteem and ego need** (5) **Need for self –realisation/ self actualisation**

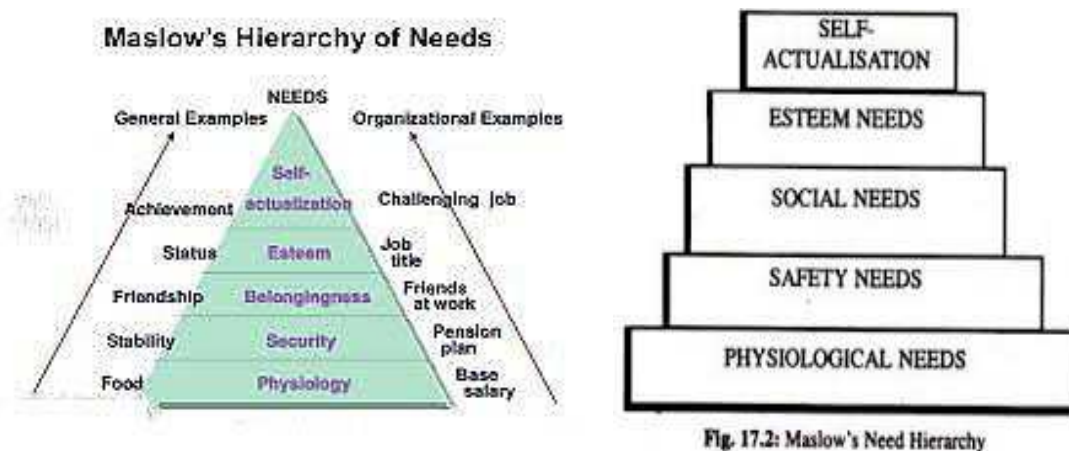


Fig. 17.2: Maslow's Need Hierarchy

1. **Physiological Needs:-** These are the basic need of an individual like need for food, clothing, shelter. In the organizational context, basic salary helps to satisfy these needs.
2. **Safety/ security needs:-** These needs consist of the need for protection from physical danger and for economic security. Eg:- physical security- protection against fire, accident Economic security- job security, stability of income, pension, gratuity, insurance etc.
3. **Social need/ affiliation/Belongingness needs:-** These needs refer to affection, sense of belongingness, acceptance and friendship
4. **Esteem/ Status needs:-** these needs consist of self-respect, desire for personal worth and dignity, autonomy status, reputation, prestige, self-confidence and recognition. Etc.
5. **Self actualisation needs :-** Self actualisation is the need of the higher order. It is found in a person whose first four needs have already been satisfied. These needs include growth, self-fulfillment and achievement of goals.

Assumptions of Maslow's theory

Maslow's theory based on the following assumptions

1. People's behaviour is based on their needs. Satisfaction of such need influences their behaviour.
2. People's needs are in a hierarchical order starting from basic needs to other higher level needs.

3. A satisfied need can no longer motivate a person. Only next higher level need can motivate him.
4. A person moves next level of hierarchy only when the lower need is satisfied.

FINANCIAL AND NONFINANCIAL INCENTIVES

Management can influence the behaviour of workers by satisfying their needs. The facilities and objects given by the management to satisfy the needs of employees are called incentives. It is a means of motivation. There are the rewards based on performance.

Incentives are of two types.(1). **Financial incentives** and(2). **Non-financial incentives**.

Financial/Monetary/Pecuniary Incentives

Monetary incentive is expressed in terms of money. They involve direct or indirect payment of rewards in terms of money. It is means to satisfy physiological and safety needs. Financial incentives are more powerful motivators for lower level employees. It establishes direct relationship between efforts and reward.

Type of financial incentives

1. **Pay and allowances:** salary is the monetary incentive . It include basic salary, Dearness allowances and other allowances .salary system consists of regular increments in the pay every year and enhance of allowances from time to time.
2. **Productivity linked wage incentives:-** Many organization design a wage incentive plan linked with productivity at individual or group level.
3. **Bonus:-** Bonus is a onetime reward given for high performance.
4. **Profit sharing:** - In this scheme, employees are given a share in the surplus profits of the firm. This motivates the employees to improve their performance for increased profits.
5. **Co-partnership/stock option:-** under these incentive schemes employees are offered company shares at a set price which is lower than market price. They also participate in the management of the company.
6. **Retirement Benefits:** several retirement benefits such as provident fund, pension and gratuity provide financial security to the employees after their retirement. This acts an incentives when they are in service in the organization
7. **Perquisites:-** in many companies, various perquisites and fringe benefits are given to employees as financial incentives. These include housing, medical and vehicle allowance, education to children etc. which are offered over and above the salary. These benefits help to provide motivation to employees/ managers.

NON FINANCIAL/NON MONETARY INCENTIVES

Non-monetary incentives cannot express in terms of money. Such incentives are intangible in nature and intended to increases status, recognition, team spirits, job security etc. It helps in satisfying higher level needs such as esteem needs and self-realization needs.

Type of Non-monetary incentives

1. **Status:-** status means ranking position in the organization. The authority, recognition, pay and perquisites, rewards etc. indicate the status of a person. In the organization. Status fulfills psychological, social and esteem needs of an individual.
2. **Recognition :-** encouragement of an employee in the form of praise in public is recognition. This recognition helps in improving attributes of employees and motivates them perform better.
3. **Job Enrichment:-** job enrichment is a process of making a job more important and challenging.it provides employee for maximum development and helps them to reach up to the point of self-realization.
4. **Career Advancement opportunity:** most of the employees want to grow in their career. An organization can motivate its employees by providing them opportunities for in service training and promotion.
5. **Job security:-** Employee want their job to secure. They want stability about future income and work. By providing job security, an organization can motivate the worker.
6. **Employee participation:-**Participation means physical and mental involvement of subordinates in managerial activities especially decision making. It enhances their willingness to work and thereby increases the overall efficiency of the organization.
7. **Employee empowerment:-** empowerment means giving more autonomy and power to subordinates. Empowerment makes people feels that their jobs are important .this feeling will have a positive effect.

DIFFERENCES BETWEEN MONETARY AND NON MONETARY INCENTIVES

MONETARY INCENTIVES	NON MONETARY INCENTIVES
1. It is pain in terms of money	1. No payment of money
2. It consists of wages, allowances , bonus etc.	2. It consists of promotion, greater authority, recognition etc
3. It is visible and measurable	3. It is not visible and measurable.
4. It helps in satisfying low level needs	4. It helps in satisfying higher level needs
5. It is more effective in motivate low level personnel	5. It is effective in motivating high level personnel.

LEADERSHIP

Leadership is one of the most important elements of direction. Managers at all levels are expected to be leaders of their subordinates. Leadership is the ability of a leader to influence the performance and behavior of his subordinates. It is the ability to build up confidence and zeal among the people. A leader may or may not be a manager. But a manager must be a leader.

MEANING AND DEFINITIONS

‘Leadership is the ability of a manager to induce subordinates to work with confidence and zeal’

- Koontz and O’ Donnell

“A leader is one who guides and directs other people and gives their efforts, direction and purpose’

- Louis .A. Allen

Thus leadership is the process of influencing the activities of individual or group for achieving the goals of the business. An individual possessing the attribute of leadership is known as leader.

FEATURES OF LEADERSHIP

1. Leadership indicates ability of an individual to influence others
2. Leadership tries to bring change in the behavior of others
3. It indicates interpersonal relation between leaders and followers
4. It is exercised to achieve common goals of the organization
5. It is a continuous process
6. Leadership is situational

IMPORTANCE OF LEADERSHIP

Leadership is an important factor for an organization success. History reveals that, many times, difference between success and failure of an organization is leadership. Importance of leadership is as follows:-

1. **It improves motivation and morale:-** a good leader improves the motivation and morale of employees through the exercise of his dynamic leadership.
2. **Creating confidence:-** A good leader creates confidence in his subordinates by giving them sound advice and directing them in good performance.
3. **Unifying efforts of individuals:-** Leadership directs and unifies the efforts of individuals or a group for the accomplishment of organizational goals.
4. **Providing co –operation:-** A good leader can handle the conflict among the workers smoothly. This will promote co-operation.
5. **Provide training to subordinates:-** A good leader can provide training to his subordinates. He always builds up his successor and helps in smooth succession process.

QUALITIES OF A GOOD LEADER.

Effectiveness of leadership very much depends on the qualities of the leader. A leader should possess the following qualities.

1. **Physical features:-**The physical personality of an individual depends his physical features like height, weight, appearance etc. A leader should possess some of these qualities to attract people.

2. **Knowledge**:- A good leader should have required knowledge and competence
3. **Integrity**:- A leader should possess high level of integrity and honesty. He should be a role model to others.
4. **Initiative and creative ability**:- A good leader should have courage and initiative
5. **Communication skills**:- A leader should be able to communicate his ideas with his followers. A leader should be not only a good speaker but a good listener, teacher and counselor.
6. **Motivation skills**:- A leader should be an effective motivator. He should understand the needs of the people and motivate them through satisfying their needs.
7. **Self-confidence**:- A good leader should have confidence in his ability to lead others.
8. **Emotional stability**:- The leader should have a cool temperament and emotional balance.
9. **Objectivity**:- A leader should have an objective outlook free from bias and prejudice.
10. **Social skills**:- A leader should be sociable and friendly with his colleagues and followers.
11. **Empathy**: Empathy means the ability to look at things from others point of view. Empathy will help the leader to understand the preferences and feelings of subordinates.

LEADERSHIP STYLE

Leadership style is the behaviour pattern of a leader as perceived by people around him. Depending on the use of authority, there are three basic styles of leadership

1. Autocratic 2. Democratic 3. Laissez Faire

1. **Autocratic or Authoritarian leader**:- A autocratic leader gives orders and expects his subordinates to obey those orders. Such leaders are dictators. This type of leader holds complete powers and responsibilities with him and takes all decisions as his own. They do not entertain any suggestions or initiatives from subordinates. This is “ I ” style and communication is ‘one way’. Quick decision is also facilitated.
2. **Democratic or participative Leader**:- Here the leader participates with subordinates in decision making. Participation and Decentralization can be seen here with sufficient two way communication. This type of leader can win the cooperation of the group and motivate them effectively and positively.
3. **Laissez Faire or Free rein leader**:- Here the leader delegates complete authority to subordinates. Subordinates are free to decide plan and control their own actions. Leader does not interfere into the activities of subordinates and acts as umpire or consultant of the group. It is the “ You ” style. Leadership.

COMMUNICATION

The communication has derived from the Latin word ‘communis’ which means common. Hence communication means sharing of ideas in common. Communication plays the same role in an organization as the nervous system of the human body. Communication is the wheels or vehicles of the organization. Good managers are good communication and poor managers are poor communication.

DEFINITION

‘Communication is an exchange of facts, ideas, opinions or emotions by two or more persons’

- William Newmann & Summer

‘Communication is the process of passing information and understanding from one person to another’

- Keith Davis

‘Communication is the process by which people create and share information with one another in order to reach common understanding’

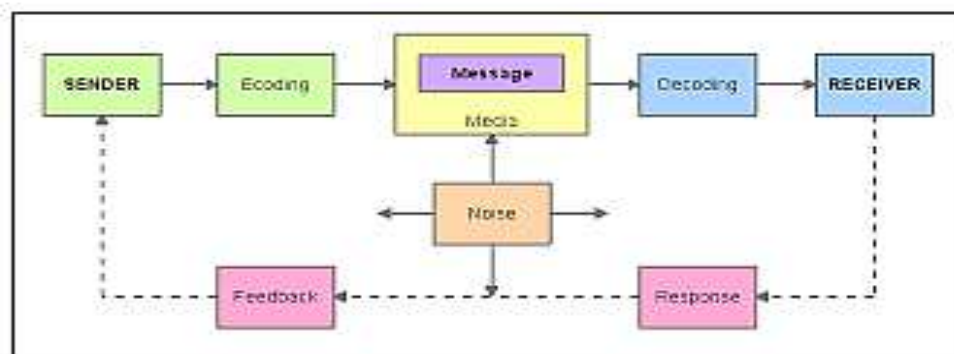
- Rogers

CHARACTERISTICS OF COMMUNICATION

1. It involves at least two persons, a sender and a receiver.
2. A message is a must in communication. It is the subject matter of communication.
3. Communication is a two way process .ie. A information and understanding.
4. It may be formal or informal
5. It flows up and down and from side to side.

PROCESS / ELEMENTS OF COMMUNICATION

Communication has been defined as a process. This process involves elements like source, encoding, media/channel, decoding, noise and feedback.



1. **Sender:-** Communicator or sender is the person who conveys the message. The sender represents source of communication.
2. **Message or Idea:-** The subject matter of communication is known as the message. It may be an opinion, order, appeal, views, suggestions etc.
3. **Encoding:-** It is the processing of converting the message into communication symbols.
4. **Media/ channel:-** It is the path through encoded messages is transmitted to receiver. The channel may be written form, face to face, phone call, internet etc.

5. **Recording:-** It is the process of converting encoded symbols of the sender.
6. **Receiver:-** the person who receives communication of the sender.
7. **Feedback:-** The receiver sends his response to the sender of the message. This response is known as feedback. When feedback is received by the sender the communication process is complete.
8. **Noise:-** It includes some obstruction or hindrances to communication.
eg : Ambiguous symbols that leads to faulty encoding , Poor telephone connection, An Inattentive receiver, faulty decoding etc.

IMPORTANCE OF COMMUNICATION:-

Communication is one of the important functions of management. No organization can survive and grow without an effective system of communication. Most of the managers spend 90 percent of their working time in communicating with others. Communication is the foundation of group activity. Communication is the cement that makes organization. The importance of communication can be judged from the following

1. **Basis for decision making and planning:-** Communication is necessary for decision making and planning. The quality of managerial decisions depends on the quality of communication.
2. **Possibility of smooth working:-** An effective communication system serves as a lubricant, forecasting the smooth and efficient functioning of the enterprise.
3. **Facilitate co ordination:-**Effective communication system facilitate coordination of activities at various levels of the enterprise.
4. **Increased managerial efficiency:-** Communication helps the managers in performing their duties quickly and systematically and also facilities in increasing their effectiveness.
5. **Promote industrial peace:-** Communication helps to develop understanding between the superiors and the subordinates. .It promotes industrial peace.
6. **Establish effective leadership:-** Communication is the basis of leadership. Effective communication helps to influence subordinates.
7. **Boosts morale and provide motivation:-** Motivation and morale of employees largely depends upon the effectiveness of communication system. Communication helps to motivate the workers for accomplishing the organizational goals.
8. **Facilitate control:-** Communication helps to control by transmitting information about the performance of the subordinates to the manager.

FORMAL AND INFORMAL COMMUNICATION

Formal communication is one which takes place in the formal organization structure. It travels through official channels and strictly follows the principle of scalar chain. Formal communication is generally in the form of letters, notes, memos, circulars, reports etc. Formal communication may be oral or written.

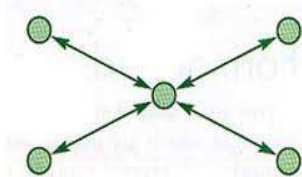
Formal communication may be further classified into two (1). Vertical (2). Horizontal

- I. **VERTICAL COMMUNICATION:-** Vertical communication flows vertically. ie. Upwards or downwards through formal channels.
- A. **Upward communication:-** upward communication refers to flow of communication from a lower level to higher level in the organization. Upward communication provides valuable feedback to managers. eg:- Application for grant of leave, submission of progress report, request for grant etc.
- B. **Downward communication:-** Down ward communication refers to flow of communication from higher level to lower level. It involves transmission of messages from superiors to subordinates at different levels of the organization.
Eg:- sending notice to employees to attend a meeting, ordering subordinates to complete an assigned works.
- II. **HORIZONDAL /LATERAL COMMUNICATION:-** It is the communication between persons in the same level or positions. It is also known as parallel communication or sideward communication or lateral communication. Eg: communication between production manager and finance manager
- Finance Manager $\longleftrightarrow$ Production Manager $\longleftrightarrow$ Personnel manager

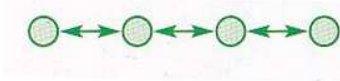
COMMUNICATION NETWORK:

Communication network is the pattern of contact by the members in the organization. The speed, smoothness and accuracy of communication are depending upon the network followed in the organization. Generally five levels of networks are seen in organization. They are

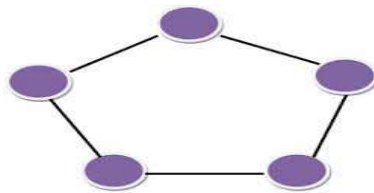
- A. **Wheel Pattern:-** In the wheel pattern , communication flows from one central person who generally the group leader. It is the most centralized pattern of communication network.



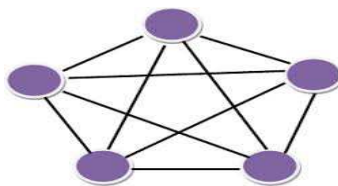
- B. **Chain Pattern:-** Chain pattern strictly follows scalar chain of authority. Here the persons at the end of chain can communicate with only one person but others can communicate with two each.



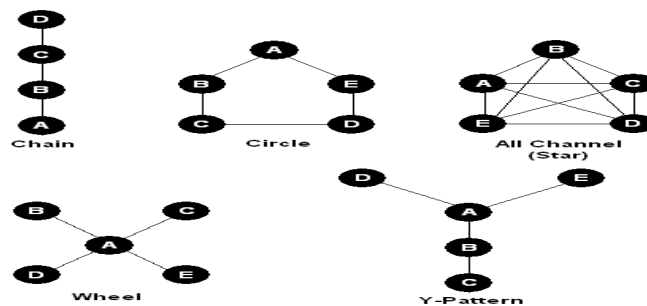
- C. **Circle pattern:-** This pattern permits each person in the group to communicate with two in the group.



- D. **Free Flow/ All Channel group:-** In this network, each person communicate with others freely. The flow of communication is fast in this network. Every member participate equally.



- E. **Inverted V** :In this network, a subordinate is allowed to communicate with his immediate superior as well as his superiors superior.



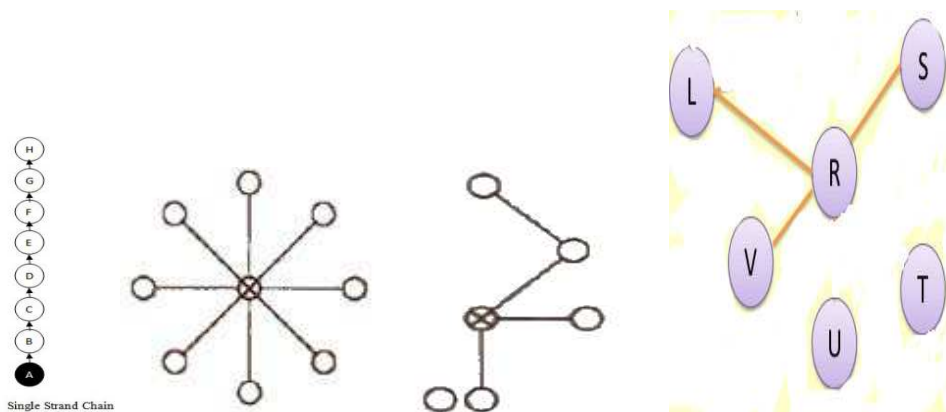
INFORMAL COMMUNICATION

Informal communication refers to that communication which takes place outside the official channels of communication. It does not follow any line of authority or scalar chain. This communication is based on personal relationship.

The network of informal communication is known as 'grapevine'. It is so called because the origin and direction of communication cannot be easily traced out. Grape vine is structure less and it grows towards all directions.

GRAPEVINE NETWORK

Grapevine communication may follow different types of network. Some of these networks are



Single strand

Gossip

probability network

cluster

In Single strand network each person communicates to the other by keeping strict sequence. In gossip style, each person communicates with all others on selective basis. When individual communicates with other individual on a random basis, it is called probability network. In the cluster method, the individual passes the information to only those persons in whom he was trust. Of all these the cluster network is the most popular one in the organization.

BARRIERS OF COMMUNICATION

It is very essential for the management to maintain an efficient flow of communication in all directions. But in practice perfect communication is rarely achieved. There are certain factors which may disrupt the flow of communication. Such factors are barriers of communication

The barriers of communication in the organization can be broadly grouped as: semantic barriers, Psychological barriers, Organisational barriers and personal barriers. They are briefly discussed below.

1. **Semantic Barriers:-** In semantic barriers, we mean the problems and obstructions in the process of encoding and decoding a message into words or impressions. Words and symbols used to communicate may mean different things to different persons. People interpret the same messages in different ways depending upon their attitude, experience and education etc.. Normally such barriers results on account of use of wrong words, badly expressed messages, faulty

transactions, different interpretations, symbols with different meanings, technical jargon unclarified assumptions etc.

2. **Psychological Barriers:-** Emotional or psychological; factors acts as barriers to communicators. For eg. A worried person cannot communicate properly and on angry receiver cannot understand the real meaning of message. The state of mind of both sender and receiver of communication reflects in the effective communication. some of the psychological barriers are:-
 - a. **Premature Evaluation:-** Some people have the tendency to form a judgment before listening to entire message. This leads to misunderstanding and acts as a barrier to communication.
 - b. **Lack of attention;-** When the receiver does not pay complete attention to the message the communication become ineffective. Inattention may takes place due to tension, depression etc.
 - c. **Lack of transmission and poor retention:-** When oral communication passes through various levels successive transmissions of the message results in loss of information or inaccurate information. More over people cannot retain the information for long time due to inattention.
 - d. **Destruct:-** Destruct between communicator and receiver acts as a barrier. If the parties does not believe each other, they cannot understand each other's message in its original sense.
3. **Organisational barriers:-** The factors related to organization structure, authority relationships, rules and regulations may sometimes act as barriers to effective communication. Some of these barriers are:-
 - a. **Organisational policy;-** If the policy is not supportive to free flow of communication hamper effectiveness of communication.
 - b. **Rules and regulations:-** Strict rules and regulations may be hurdle to effective communication.
 - c. **Status:-** A status conscious manager may not allow his subordinates to express their feelings freely.
 - d. **Complexity in Organisation structure:-** In an organization, where there are a number of managerial levels, communication get delayed and distorted.
 - e. **Organisational Facilities:-** Facilities like frequent meetings , suggestion box, complaint box, social and cultural gathering, transparency in operations etc. will encourage free flow of communication. Lack of these facilities may create communication problems.
4. **Personal Barriers:-** Personal aspects of both the sender and the receiver may hinder effective communication. Some of the personal barriers are:-
 - a. **Fear of challenges to authority:-** if the superior realizes that a particular communication may adversely affect his authority , he may not convey that communication
 - b. **Lack of confidence of superior on his subordinates:-** Some superiors will never take into confidence the subordinates. They are reluctant to seek their advice or opinion.
 - c. **Unwillingness to communicate:-** People at lower level do not feel free to talk to superiors. They may feel that it may adversely affect their interest.

- d. **Lack of proper incentives:-** If there is no motivation or incentive for communications, subordinates may not take initiative to communicate

IMPROVING COMMUNICATION EFFECTIVENESS.

We cannot expect barrier free communication in all organisations. Its degree may vary from organization to organization. We should adopt certain measures to overcome the barriers and to improve the communication process. Some of the measures are indicated below.

1. **Clarity:-** Clarity of thoughts is the first essential of good communication. The message must be perfectly clear and free from all ambiguity. The language used should be simple and precise.
2. **Communicate according to the needs of receiver:-** Manager should adjust his communication according to the education and understanding levels of subordinates.
3. **Consults others before communicating:-** Before sending a message, it is better to consult others in developing a plan for communication. Subordinate participation and involvement is good in this direction.
4. **Be aware of languages, tones and contents of message:-** Languages, tone and content of the message are important aspects of effective communication. The language used should be clear and understandable to the receiver.
5. **Convey things of help and value to listeners :-** The interest and needs of the receiver should be given prime importance through the message.. In such a case, it certainly evokes response from the receiver.
6. **Ensure proper feedback:-** The receiver of communication must be encouraged to respond to communication.
7. **Communicate for present as well as future:-** Communication should not only serve the purpose of present aspects but also aim at future goals of the enterprise.
8. **Follow up communication:-** There should be regular follow up and review on the instructions given to subordinates.
9. **Be a good Listener:-** Manager should be a good listener. Patient and attentive listening solves half of the problems

CHAPTER -8

CONTROLLING

Managerial functions commence with planning and end at controlling. Planning involves setting up objectives while controlling seeks to ensure performance as per plan.

MEANING AND DEFINITION OF CONTROLLING

Controlling is the process of ensuring that actual activities conform to planned activities. It is one of the important functions of management .it is the evaluation and correction of the performance of subordinates.

‘Controlling is the measuring and correcting of activities of subordinates to assume that events conform to plans’
-Koontz and O ‘Donnel

“control is the process of taking steps to bring actual results and desired results closing together’
– Philip Kotler

“Management control seeks to compel events to confirm to plans’ - Billy E . Goetz

“Management control is the process by which managers assume that resources are obtained and used effectively in accomplishment of organisation’s objectives”

- Robert Antony

Controlling at a glance:

- Controlling is a regulatory function
- It is the end function of management
- It is a dynamic and continuous function
- It is done by all managers at all levels(pervasive)
- It is the evaluation and correction of activities
- Controlling is forward liking

IMPORTANCE OF CONTROLLING

Control is an indispensable function of management .without effective system of control , planned activities cannot be properly implemented . The following are the major advantages of controlling

1. **Accomplishing organizational goals:-** It is through controlling that managers ensure the execution of plans and accomplishment of goals. Controlling is regarded as key to the success of an organization.
2. **Correction of deviation:-** Evaluating performance and correcting deviations are the basic functions of controlling. Thus it prevents mistakes being repeated in future.
3. **Optimum utilization of resources:-** Controlling is essential for securing the best possible use of human, physical and financial resources. A good system of control helps to prevent misuse and wastage of resources. It helps to minimize the cost of operation and to improve quality.
4. **Improve employee motivation and morale:-** A good control system discovers efficient and inefficient employees. Inefficient employees are provided necessary training. Thereby their weakness may be removed and they can contribute their best to the organization.
5. **Ensuring order and discipline:-** Controlling creates an atmosphere of order and discipline in the organization. It helps to minimize dishonest behaviour on the part of employees by keeping close check on their activities
6. **Facilitate Coordination:-** Controlling helps in integration of activities through unity of action. it provides unity of direction
7. **Better Planning:-** A good control system will reveal the shortcomings of a plan. This will facilitate future planning.

LIMITATIONS OF CONTROLLING

The following are the major limitations of control system

1. **Difficulty in setting quantitative standards:-** Control loses its effectiveness when standards of performance cannot be fixed in quantitative term. For eg. It is very difficult to measure human behavior and employee morale.
2. **Little control on external factors:-** An organization cannot control the external factors. These factors may be government policy, technical changes, changes in fashion etc.
3. **Resistance from employees:-** Employees may resist this function of management. They see it as a restriction of their freedom. For eg. Placing of CCTV may resist by employees.
4. **Costly affair (Expensive):-** The exercise of control requires a lot of time and efforts. So it is time consuming and expensive function. A small enterprise cannot afford to install an expensive control system.

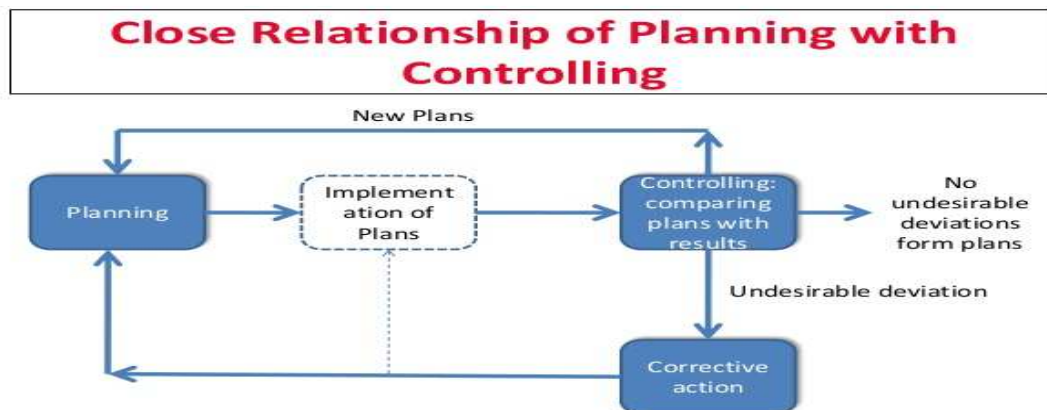
RELATION BETWEEN PLANNING AND CONTROLLING

Planning and controlling are inseparable twins of management (Siamese of Management).They are considered the two aspect of the same function. The performance of one function without the other will go in vain.

Without planning, there is no basis for controlling activities and without effective system of control, planned activities cannot be properly implemented. Planning without control is meaningless and control without planning is blind. Therefore it is often said planning leads to controlling, controlling leads to planning.

Planning decides what is to be done in future and controlling makes sure that it is being done as planned. Planning without controlling is ineffective. On the other side , if there is no plan nothing to be controlled. Both planning and controlling are the two sides of the same coin

The mutual relationship can be depicted as



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- Planning without control is ineffective and control without planning is meaningless
- Planning is the first function while controlling is the end function
- Planning is theoretical but controlling is practical
- Planning determines the objectives and strategies while controlling ensures accomplishment of these.
- Planning is prescriptive where as controlling is evaluative.

PLANNING AND CONTROLLING ARE FORWARD LOOKING

It is often said that 'planning is looking forward while controlling is looking back'. However this statement is only partially correct. Plans are prepared for future and based on forecasts about future conditions. Therefore, Planning involves looking ahead and is called forward looking function. On the contrary controlling is like a postmortem of past activities to find out deviations from the standards. In that sense controlling is a backward looking function. However controlling helps in the adaptation of new plans, revision of existing plans based on actual performance against standards. Controlling ensures optimum utilization of resources in future by rectifying earlier mistakes. Therefore both planning and controlling are forward looking.

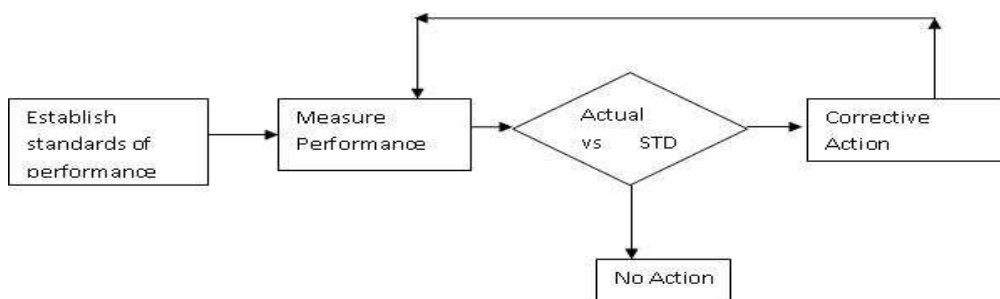
Thus planning and controlling are interrelated. In fact , reinforce each other in the sense that

1. Planning based on facts making controlling easier and effective and
2. Controlling improves future planning by providing information derived from past experience.

CONTROLLING PROCESS

Controlling is a systematic process involving the following steps

1. Establishing standards of performance
2. Measurement of actual performance
3. Comparison of actual performance with standards
4. Analysing deviation
5. Taking corrective action



1. **Establishing standard of performance:-** The first step in the process of control is to set a standard for performance. Standards are determined on the basis of objectives to be attained. Standards serve as benchmarks towards which an organization strives to work. It is the criterion against which actual performance can be compared. Generally standard is expressed in terms of quality, quantity, cost and Time.

The standards should be simple, attainable, definite, reasonable, quantitative, and flexible and determined in consultation with people who are achieve it.

Standards used in Functional areas to Gauge Performance

<i>Production</i>	<i>Marketing</i>	<i>HRM</i>	<i>Finance & Accounting</i>
<i>Quantity</i>	<i>Sales volume</i>	<i>Labour Relations</i>	<i>Capital Expenditure</i>
<i>Quality</i>	<i>Sales Expense</i>	<i>Labour Turnover</i>	<i>Inventories</i>
<i>Cost</i>	<i>Advt. Expenditures</i>	<i>Labour absenteeism</i>	<i>Flow of capital</i>

2. **Measurement of actual performance:-** Once performance standards are set , the next step is measurement of actual performance. It is the assessment of output both quantitatively and qualitatively. There are several techniques for measurement of performance. These include personal observation. Sample checking, performance report etc. As far as possible performance should be measured in the same units in which standards are set as this would make their comparison easier?

Usually measurement should be done after the task is completed. However whenever possible measurement of work should be done during the performance. Measurement of company's performance is possible through Gross profit ratio, Net profit ratio, ROI etc.

3. **Compare actual performance with standard:** The third step in control process is the comparison of actual performance with the standard. It reveals the deviations from the standards. If the performance matches the standard, it may assume that everything is under control. When performance is not up to the standard, it becomes necessary to find out the deviation s and its causes.
4. **Analysing Deviations:-** The manger who responsible for control has to determine the reason for deviations. The deviation may be due to error in planning, defective implementation, careless operative performance etc. Deviations in key areas of business need to be attained more urgently as compared to deviations in certain insignificant areas. Critical control point and Management by Exception should be used by a manger in this regard.

CRITICAL POINT CONTROL: It is neither economical nor easy to keep a check on each and every activity in an organization. Control should, therefore focus a key result areas(KRA) which are critical to the success of an organization. These are set as critical points. If anything get wrong at the critical points the entire organization suffers.

MANAGEMENT / CONTROL BY EXCEPTION:It is based on the belief that an attempt to control everything results in controlling nothing. All deviations need not to be brought to the attention of management. Usually only those deviations which seems exceptionally high and which cannot be solved by lower level management alone, should be reported to top management. This is what is called management by exception.

Advantages of Critical point control and management by exception

- a. It saves time and efforts of Top level management as they deal with only significant deviations
 - b. It focusManagerial attention on important areas.
 - c. It facilitates delegation of authority and increase morale of the employees
 - d. It identifies critical problems which need timely action to keep organization in right track.
5. **Taking Corrective action:** The last but most important step in the control process is of taking corrective action. Corrective action consists of curative as well as preventive control measures.

Eg

<u>Causes of deviation</u>		<u>Corrective action to be taken</u>
1. Defective Material	-	Change the quality specification for material used
2. Defective Machinery	-	Repair the existing machine/ replace the machine
3. Defective process	-	Modify the existing proc

TECHNIQUES OF MANGERIAL CONTROL:

Managerial control techniques may broadly be classified into two

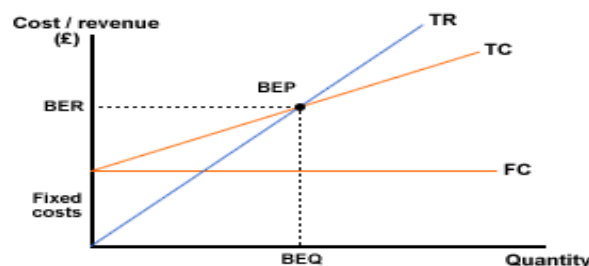
1. Traditional Techniques
2. Modern Techniques
- 3.

TRADITIONAL TECHNIQUES:-

These are techniques used by companies for long time these techniques haven't become obsolete and still being used. These include

- a. Personal Observation b. Statistical Reports c. breakeven analyses d. Budgetary control

- a. **PERSONAL OBSERVATION:-** This is the most traditional method of control. Personal observation enables the manager to collect firsthand information about the employees. It creates a psychological pressure on employees to perform well as they are personally observed. But it is time consuming and cannot be employed in all situations.
- b. **STATISTICAL REPORTS:** Statistical analysis in the form of averages, ratios, correlations etc. present useful information to the managers regarding the performance at various areas of the organization. It provides the information for inter firm comparison and future decision making.
- c. **BREAK EVEN ANALYSIS:-** Break even analysis is a technique used by managers to study the relationship between costs volume and profit (CVP). It determines the probable profits and losses at different levels of activity. The sales volume at which there is no profit or loss is known as break-even point. ie. Total Revenue = Total cost.



$$\text{Break even point} = \frac{\text{fixed cost}}{\text{selling price per unit} - \text{variable cost per unit}} = \frac{\text{fixed cost}}{\text{contribution per unit}}$$

Break-even point analysis enables the management to have a check on the variable cost and also determine the levels of activity at which firm can make its targeted profit.

- d. **BUDGETARY CONTROL:** A budget is a numerical or quantitative statement for a definite period of time for the purpose of obtaining a given objectives. Budgeting means the process of preparing budgets. Budgetary control is a technique of controlling the activities of an organization with the help of budgets. It involves the comparison of actual performance with the budgetary standards. Comparison reveals the reasons for variance to take corrective action to achieve the organizational objective.

Following are the important types of budgets.

Sales Budget: a statement of what an organization expects to sell in terms of quality as well as value.

Production Budget:- a statement of what an organization plans to produce in the budgeted period.

Material budget: A statement of estimated quality and cost of materials required for production.

Cash Budget:- Anticipated Cash inflows and outflows for the budgeted period.

Capital Budget: Estimated spending on major long term assets like new factory or major equipment.

Research and Development Budget: Estimated spending for the development or refinement of products and processes.

Advantages of Budgetary Control:

1. Budgetary Control guides the management in planning and policy formation
2. It facilitates 'management by exception' by identifying areas which require special attention
3. It results the coordinated efforts of all individuals and departments of the organization.
4. It aims maximization of profit through cost control and proper utilization of resources.
5. It is a good guide to the management for making future plan.
6. It minimizes wastages and losses and hence increases productivity.

MODERN TECHNIQUES:-

Modern techniques are of recent origin and new to management literature. It include the following

- (a) Return on Investment (ROI). (b.) Ratio Analysis (c.) Responsibility Accounting

d.. Management Audit (e) PERT and CPM (f) Management Information system (MIS)

- a. **RETURN ON INVESTMENT (ROI):-** Return on investment is a yardstick for measuring the efficiency of the business to earn reasonable amount of return on capital investment. ROI can be used for measuring overall profitability or performance of the organization or its departments.

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

Net income may be either the profit before tax or after tax. Total investment includes both working as well as fixed capital invested in the business. A high ratio implies better performance of the business. ROI can be increased either by increasing sales volume proportionally more than total investment or by reducing total investment without having any reduction in sales volume.

- b. **RATIO ANALYSIS:-** a ratio is an arithmetic expression of relationship between two figures. Ratio analysis refers to analysis of financial statements through computation of ratios. Commonly used accounting ratios are

1. **Liquidity Ratios:** Liquidity ratios are calculated to determine short term solvency of business. I.e. Ability to meet short term obligation. Eg:- current ratio, quick ratio.
2. **Solvency ratios:-** Ratios which are calculated to determine the long term solvency of business are known as solvency ratios. Thus these ratios determine the ability of a business to service its indebtedness.
Eg. Debt- equity ratio, proprietary ratio, Interest coverage ratio.
3. **Profitability Ratios:-** These ratios are calculated to analyse the profitability in relation to sales or capital investment in business.
Eg: Gross profit ratio, Net profit ratio, Return on capital employed.
4. **Turn over Ratios/ Activity Ratios:-** It is calculated to determine the efficiency of operation based on effective utilization of resources. Higher turnover means better utilization of resources.
Eg: Inventory Turnover Ratios, Stock Turnover ratio, Debtors Turnover Ratios

- c. **RESPONSIBILITY ACCOUNTING:-** It is a system of accounting in which different sections/ departments/divisions in an organization are taken as 'Responsibility Centre's'. The person in charge of a Centre is responsible for achieving the target fixed.

Responsibility Centres are of the following types:

1. **Cost Centre/Expense Centre:-** Cost Centre is a segment of an organization in which managers are held responsible for the cost incurred. In the Centre but not for the revenues. Eg. In a manufacturing organization, production department is classified as cost Centre.
2. **Revenue Centre:-** A revenue Centre is a segment of organization which is primarily responsible for generating revenue. Eg:- Marketing department of an organization may be classified as a revenue Centre.

3. **Profit Centre:-** A profit Centre is a segment of an organization whose manager is responsible for both revenues and costs. Eg. Repairs and maintenance department may be treated as a profit Centre provided it bills other departments in the organization for the services rendered to them.
 4. **Investment Centre:-** This Centre is not only responsible for profit but for investment made in it in the terms of assets. The investment is separately calculated and return on investment is taken as the basis for judging the performance of the Centre
- d. **MANAGEMENT AUDIT:-** Management Audit refers to systematic appraisal of the overall performance of the management of an organization. The purpose is to review the efficiency and effectiveness of management and to improve its performance in future periods. It helps in identifying the deficiencies in the performance of the management function. Thus management audit may be defined as evaluation of the functioning, performance and effectiveness of management of an organization.

Advantages of Management Audit:

1. It helps to locate present and potential deficiencies in the performance of management function
2. It suggests the ways and means of increasing managerial efficiency.
3. It improves the coordination in the functioning of various department so that they work together effectively towards the achievement of organizational objectives.
4. It ensures updating of existing managerial policies and strategies in the light of environmental changes..

Conducting this kind of audit may create problem as there is no standards for it. Also management audit is not compulsory under the law.

e. **NETWORK TECHNIQUES (PERT & CPM)**

PERT (Programme Evaluation and Review Technique) and CPM (Critical Path method) are important network techniques useful in planning and controlling. These techniques are especially useful for planning; scheduling and implementing time bound projects involving performance of a variety of complex, diverse and interrelated activities. Both are decision making tools assisting in project completion. These techniques concentrate on time scheduling and resource allocation and aim at effective project execution within the time frame and costs.

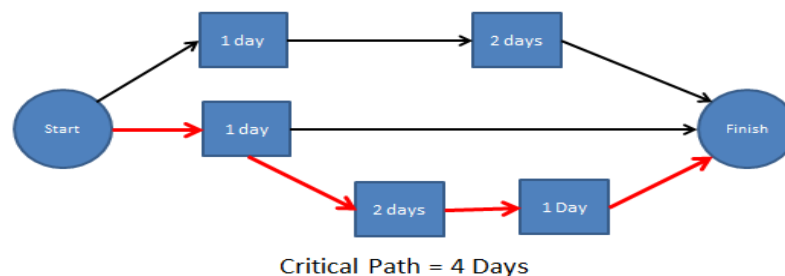
Steps involved in using PERT/CPM

1. Arrange all activities in a logical sequence
2. A network diagram is prepared to show the sequences of activities, the starting point and termination point of the projects.
3. Time estimates are prepared for each activity-PERT requires the preparation of three time estimates –Optimistic (Shortest Time), Pessimistic (Longest

Time), and Most Likely Time. In CPM only one time estimates is required. But CPM insists on having cost estimates for completion of project.

4. The Longest path in the network is identified **the critical path**. All activities lying in the critical path are called Critical activities. Critical path represents the sequences of those activities which are important for timely completion of the project. Any delay in completion of them will delay the project completion.
5. Plan may be modified for prompt execution and timely completion of the project.

PERT and CPM are used extensively in areas like ship building, construction projects, aircraft manufacture. Etc.



- f. **MANGEMENT INFORMATION SYSTEM (MIS)**:- Management Information System is a computer based information system that provides information and support for effective managerial decision making. MIS is an important communication tool for mangers. MIS is also serving as an important control technique. MIS provides the required information to the mangers at the right time so that appropriate corrective action may take in case of deviation from standards.

Advantages of MIS

1. It helps in planning , decision making and controlling in all levels
2. It improves the quality of information with which a manger works
3. It ensures cost effectiveness in managing information.
4. Mangers are free from information overload.
5. It facilitates collection and distribution of information among different levels of management.