PRINCIPLES OF MANAGEMENT

Competencies, Processes, and Practices

SECOND EDITION

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Dedicated to

all those management thinkers, teachers, learners, and practitioners
who make a difference to the way organizations
create value for the society at large

Features of

5

Management Control Systems

INTRODUCTION

After taking steps to plan and organize, to achieve the desired goals, an organization needs to put in place a control mechanism to ensure success with a greater degree of certainty. Therefore, apart from planning, organizing, and leading, the fourth key function of management is controlling, which is most crucial. This function ensures that due mechanism has been put in place to monitor the progress vis-à-vis predetermined milestones and take necessary corrective measures for deviations, if any.

Learning Objectives

After studying this chapter, you will be able to:

- Understand the importance of control as a management function
- Understand how control is an essential function for achieving goals
- Learn about important features and characteristics of controlling
- Understand about steps involved

Learning Objectives Each chapter begins with learning objectives that focus learning and the knowledge you should acquire by the end of the chapter.

Exhibits The chapters contain exhibits that help in understanding the application of the theory discussed in the chapter.

Coca-Cola

Coca-Cola's operations in India have come under intense scrutiny as many communities are experiencing extreme water shortage, and contamination in the groundwater and soil as a result of its bottling plant operations. It has also been alleged that due to the amount of water required to produce Coca-Cola, ground water is drying up, forcing farmers to relocate. A public movement is emerging to hold the company accountable for wrong actions. The state of Kerala had imposed a ban on its products and the matter is pending in the Supreme Court. One of the largest Coca-Cola plants located in Plachimada has remained shut for 17 months because the village council refused that the water used to produce Coke may contain unhealthy pesticides and other chemicals beyond permissible limits. In 2003, the Centre for Science and Environment (CSE), a non-governmental organization in New Delhi, claimed that aerated waters produced by soft drink manufacturers in India, including multinational giants PepsiCo and Coca-Cola, contains toxins including lindane, DDT, etc., that can cause cancer and a breakdown of the immune system. The CSE found that PepsiCo's Indian-produced soft drink products had 36 times and Coca-Cola's 30 times the level of pesticide residues permitted under European Union regulations.

Figures and Tables All chapters contain figures and tables to illustrate the topics discussed in the chapter.

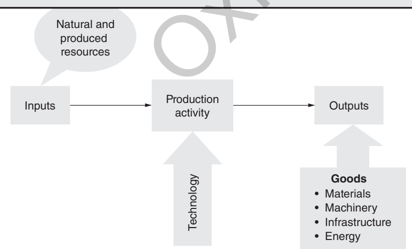

FIGURE 47.1 Transformation process

TABLE 9.2 Output of number of pieces for a single unit of capital employing different levels of labour per day

Capital	Number of labourers	Capital labour ratio	Total product (TP_L) number of job pieces	Average product of labour (AP_L)	Marginal product of labour (MP_L)	Production stages
1	1	1	5	5.00	5	Stage I
1	2	1:2	14	7.00	9	
1	3	1:3	27	9.00	13	
1	4	1:4	36	9.00	9	Stage II
1	5	1:5	41	8.20	5	
1	6	1:6	45	7.50	4	
1	7	1:7	47	6.71	2	

the Book

Summary The summary at the end of each chapter draws together the main concepts discussed within the chapter. This will help you reflect and evaluate important concepts.

SUMMARY

A market is any suitable arrangement in which the buyers and sellers could closely interact (physically or otherwise) to arrive at exchange decisions. Markets are classified broadly depending upon the importance of an individual firm in relation to the entire market and whether products placed in the market are homogenous or not.

Pure competition is a market model in which there are a large number of firms having homogenous or standardized product. They can enter or exit easily and have perfect knowledge about the markets. Pure monopoly exists when a single firm is the sole producer of a product for which there are no close substitutes. In an oligopoly market situation, there are a few sellers and the decision of one affects the other because of their small size. In a pure oligopoly market, firms produce homogeneous products, whereas in a differentiated oligopoly market, firms produce and sell differentiated products. Monopolistic competition is a market situation in which there are many sellers of a particular product that are differentiated in some way or the other. In this market, firms may enjoy economic profits, that is, over and above normal profits. However, in case of free entry (as in pure competition), economic profits will be zero in the long run.

A clear understanding of the market in which a firm operates helps in taking objective decisions to optimize the firm's objectives such as maximization of profit, maximization of output at least cost, and minimization of cost of production for a given level of output. The strategies of pricing and output that need to be adopted vary with market conditions.

Keywords All technical terms have been explained at the end of each chapter as keywords. This will help you retain all the new terms that you have learnt in the chapter.

KEYWORDS

Differentiated oligopoly An oligopoly market situation wherein firms produce and sell differentiated products.
Economic profit Profits over and above normal profit, that is, revenue less the opportunity cost of inputs.
Market Any suitable arrangement in which the buyers and sellers can closely interact to arrive at exchange decisions.
Market price A price where demand and supply curve intersect with each other indicating a match between what consumers and sellers are willing to do.
Market structure It refers to the relationship between buyers and sellers and the special features of a market that affect the demand and supply forces.
Monopolistic competition A market situation having many sellers of a particular product that are differentiated in some way or the other.
Normal profit Profits that are sufficient to sustain and induce a seller in the industry.
Oligopoly A market situation having few sellers and having interdependency as the decision of one affects the other because of their small size.
Price discrimination The act of charging different prices to different buyers for the same product.
Pure competition A market model in which there are a large number of firms having a homogenous product. These firms can enter or exit easily and have perfect knowledge about the markets.
Pure monopoly It exists when a single firm is the sole producer of a product for which there are no close substitutes.
Pure oligopoly In an oligopoly market situation firms produce homogeneous products.

Exercises A series of concept review questions, critical thinking exercises as well as project assignments highlight the major topics covered in the chapter. The questions enhance learning and can be used for review and classroom discussion.

EXERCISES

Concept Review Questions

1. How does economic activity at national or global level affect a business entity?
2. Define macroeconomics. What are the variables with which macroeconomics deals with?
3. Define gross domestic product (GDP). What are the two approaches by which GDP is measured? What precautions need to be used while measuring GDP?
4. Define investment. Differentiate between gross investment and net investment. In what way does investment contribute to growth in GDP?
5. Define the relationship between gross national product (GNP), net national product (NNP), national income, and disposable income.
6. In what way does inflation affect the working of a business entity?

Critical Thinking Question

Economic growth directly affects business prospects. Comment critically.

Project Assignments

1. The service sector in the Indian economy is growing at an accelerated rate. Collect data on the share of primary, secondary, and service sectors in the total GDP for the last five years. Interpret it and estimate which sector is going to have bright prospects in the coming years and why?
2. Indian economy has been gaining a lot by export earnings through the software industry. What are the strengths of the Indian IT industry? Collect details of foreign exchange earnings by the export of IT products during the last 10 years. Analyse the same to comment on the future prospects of IT industry in India.

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For Students

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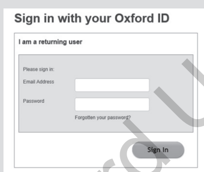

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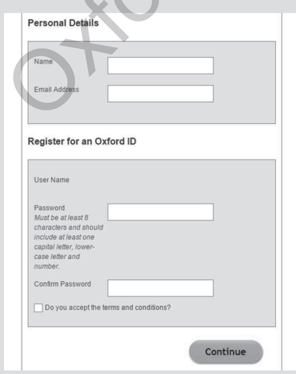

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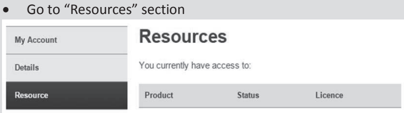

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Preface to the Second Edition

There are many authors who have contributed books that deal with 'principles' of management. Our motivation to write *Principles of Management: Competencies, Processes, and Practices* was to use an approach that emphasized the importance of both managerial and organizational functions in business. The book continues to provide a lucid coverage of the important aspects of management such as planning, organizing, leading, and controlling as well as organizational functions, such as finance, marketing, operations management, management information systems, strategy, and human resources.

The second edition of the book has been updated and enriched with five new chapters. Part I now includes a new chapter on Management Control Systems; Part II has a new chapter on Security Analysis and Portfolio Management; Part IV has a chapter on Organizational Change and Development; and Part VII includes two new chapters on Online Social Media and Project Management, respectively. We have made an effort to keep the same approachable style of writing in these new chapters that characterized writing of the first edition of the book. We hope this edition will help the readers develop critical and evidence-based perspective about various principles, processes, and practices of management.

We received encouraging feedback from students and instructors who appreciated our efforts and confided in us that they consulted this book in their 'hour of need'. The book was also accepted well by engineering students who were interested in having an overview of management.

Key Features

- Describes several managerial and economic analytical tools
- Provides chapter-end exercises to facilitate experiential learning, information gathering, and analysis
- Provides caselets and examples to explain the concepts
- Includes detailed sections on managerial competencies with separate chapters on motivation, team effectiveness, communication, conflict management, leadership, decision-making, emotional intelligence, stress management, and creativity and entrepreneurship
- Contains critical thinking questions to enable students to apply concepts to real-life situations and sharpen their learning

Online Resource Centre

For Instructors

- PowerPoint Slides
- Multiple Choice Questions for Assessment

For Students

- Flashcard Glossary

Coverage and Structure

The first section on *Management Functions and Business Environment* distills management thought from various schools of management and discusses management functions in the context of business environment and society. The concept of planning and controlling as tools for effective management and organizational effectiveness is also elaborated in this section.

The second section focuses on *Economic and Financial Analysis.* These two sections set the tone for the rest of the chapters. The chapters in the second section cover business and economic fundamentals, principles of production, markets, national income accounting, goals and functions of finance, financial statements, financial ratio analysis, and security analysis and portfolio management. The third section, *Excelling through People,* includes chapters on human resource management, job design, recruitment and selection, and training and development.

In the fourth section *Managerial Competencies*, topics such as motivation, team effectiveness, communication, conflict management, leadership, decision-making, emotional intelligence, stress management, and creativity and entrepreneurship have been discussed. This new edition includes a new chapter on organizational change and development.

The fifth section on *Creating and Delivering Customer Value* deals with the marketing function. It starts with a chapter on marketing research and goes on to describe marketing planning, designing marketing-mix, customer relationship management (CRM), advertising management, and brand management.

The sixth section *Quantitative Methods* covers various quantitative tools such as statistical inference, forecasting and time series analysis, regression analysis, index numbers, and statistical quality control.

The seventh section *Operations and Technology Management* is covered through chapters on production and operations management, supply chain management, Kaizen, Six Sigma, Japanese 5S practice, total quality management and technology management, information systems, and international management. This section now includes two new, topical, and therefore, important chapters on social media and project management.

Given our experience in both academic and corporate world, we have emphasized a perspective that balances theory with practice. It is, therefore, hoped that the book will provide students with an inspirational approach to understand and appreciate the basic principles of management while sufficiently exposing them to the actual practices and processes.

We appreciate feedback from instructors and students in order to improvise the contents and structure of the book further. We gratefully acknowledge the constant help and suggestions that our family members, colleagues and students, and publisher Oxford University Press (OUP) provided during the course of getting this book to its second edition.

ANIL BHAT
ARYA KUMAR

Preface to the First Edition

Management deals with getting things done for, with, and through people. It is an applied discipline and is practised like medicine, engineering, law, etc. Management is both an art as well as a science. It is the art of making people more effective than they would have been without a manager. Dealing with people is far from easy; nevertheless, it is the management's responsibility to achieve and maintain an organization's effectiveness. We have to remember that management, like any other skill, can be improved with proper understanding and practice.

Although the term 'management' originated sometime in the sixteenth century, as per the *Oxford English Dictionary*, it is only since the last two centuries that the discipline of management has been progressively enriched by insights of practitioners, engineers, philosophers, and academicians. The recent proliferation of management literature, self-help books, educational courses, and the iconic status of some business leaders in public consciousness indicates the current popularity of this discipline.

For most students, a postgraduate degree in management has become an aspiration after graduation. It is estimated that both in India as well as in the United States the number of annually graduating MBA students is in hundreds of thousands. This is not just a reflection of a passing infatuation with management, but the ground reality that modern societies cannot do without organizations and modern organizations cannot do without effective and efficient management.

The first management education programme was started at Harvard in 1908 and was followed by one at Massachusetts Institute of Technology (MIT) in 1925. These pioneering institutes used different pedagogies predominantly consisting of case methodology and quantitative analysis respectively. The American Assembly of Collegiate Schools of Business (AACSB) and the European Foundation for Management Development (EFMD) conducted a comprehensive review of management education and published a report titled *Managers for the XXI Century*. This report advocated the need for a more integrated management education incorporating a number of functional, quantitative, non-quantitative, and analytical fields including humanities and sciences. As per Mintzberg (2004), a foremost thought leader of management education, synthesis and not analysis is the essence of management.

Most of the popular textbooks on management essentials have been using an approach that emphasized managerial functions without relating these to organizational functions in sufficient detail. The combination of managerial, organizational, and interpersonal skills is extremely essential for a manager. It is our firm belief that the first course on management should not only excite students towards this discipline, the practice of which is going to play such an important role in their career, but it should also make them reflect and internalize certain skills and competencies by relating the concepts and techniques to their contemporary environment. Also, the first course should act both as a guide map for other core courses in a management programme, or even if it is to be a stand-alone course in an engineering programme, it should provide sufficient coverage to different functional areas of management.

The All India Council for Technical Education's (AICTE) management education review committee in the year 2003 suggested that there was a need to emphasize context specificity in the management curriculum in India. Thus, keeping in view the AICTE's recommendations and the various aspects of management education discussed earlier, we have designed the textbook to break new ground by doing away with the singular approach that characterized many popular textbooks on the first course on management. We think as the textbook gives equal importance to rigour and relevance, it will meet the exacting requirements of management teachers and will be useful to practising managers as well.

About the Book

The structure, content, and the multi-perspective approach of *Management—Principles, Processes, and Practices* makes it distinctly unique. The content is balanced with a due focus on concepts and theory, and tools and applications. The contents are subordinated to the purpose of the book, which is to balance the treatment of the subject between its breadth and depth. An integrated approach that is comprehensive and jargon free has been adopted in the book.

The book discusses managerial functions, such as planning, organizing, leading, and controlling as well as organizational functions, such as finance, marketing, operations management, MIS, strategy, and human resources in detail. The whole exposition is divided into seven sections as under:

- Management functions and business environment
- Economic and financial analysis
- Excelling through people
- Managerial competencies
- Creating and delivering customer value
- Quantitative methods
- Operations and technology management

Such a classification will help students to integrate and assimilate various areas as they relate to each other. Even a student undergoing a single, short-term course on management will be able to learn and appreciate various aspects of managerial functions in different organizational areas. The book has a section dealing with managerial competencies that includes chapters on motivation, team effectiveness, communication, conflict management, leadership, decision making, emotional intelligence, stress management, and creativity and entrepreneurship.

The coverage of different management theories includes not only contemporary approaches, such as TQM, learning organization, and chaos theory, but also Indian and Japanese management approaches. The first section titled 'Management Functions and Business Environment' is written with a view to give students an excellent exposition of managerial functions in the context of an organization's internal environment as well as the external business environment. It focuses on the generic nature of managerial functions and the universal appeal of management as a discipline. This section has chapters on planning and organizational effectiveness as well because of their added importance.

Pedagogical Features

The various pedagogical features of the text are:

- Learning objectives before each chapter highlight major learning insights.
- End-chapter exercises such as critical review questions will enable the students to reflect on various issues.

- Special care has been taken to streamline the flow of the content.
- Caselets and examples provided in the chapters have an Indian context to make the subject matter interesting and relevant.
- Each chapter has a project assignment for the student that will facilitate experiential learning, information gathering, and analysis.
- The book gives a description of many managerial and economic analytical tools.
- The key terms introduced in a chapter are provided after the summary section of each chapter.
- References are provided in each chapter for an advanced learner.

Given our experience in both the academic as well as corporate world, we have emphasized a perspective that balances theory with practice. It is, therefore, hoped that the book will provide students with a refreshing approach to the basic principles of management while sufficiently exposing them to the actual practices and processes.

Acknowledgements

It is not possible to acknowledge by name all the individuals who have contributed to this book directly or indirectly. Our foremost debt goes to writings of eminent management thinkers, and, in particular, to Henri Fayol, Peter Drucker, and Sumantra Ghosal whose approach towards management has been a source of inspiration and guidance in this endeavour.

We are grateful to the Birla Institute of Technology and Science (BITS), Pilani where a culture of excellence and intellectual freedom breeds a spirit of enquiry. Our colleagues have been a source of many memorable interactions on different aspects of management. One of the unique features of BITS programmes of studies is that all students across the institute, irrespective of their disciplines, have to take a course titled ‘Principles of Management’. The administration of this course as a multi-section second year course for around 800 students is itself an exercise in management. We are thankful for being given an opportunity to teach this course and have enjoyed many insightful interactions with students both inside and outside the class.

Our interactions with fellow academicians reinforced our belief about the need for adopting a holistic approach in management teaching that has both rigour and relevance for which we are immensely grateful. We would also like to put on record our appreciation for the passion and commitment of academically inclined and entrepreneurially accomplished BITS alumni who spent countless hours in sharing with us many complexities of the business world. Many of the insights in the book about management practice are a result of these interactions.

Our involvement with the Center for Entrepreneurial Leadership (CEL) at BITS, Pilani and with National Entrepreneurship Network (NEN), founded by Wadhawani Foundation, gave us an opportunity to experience first-hand challenges and problems faced by start-up companies. This motivated us to reflect deeper into the complexity of management issues as well as relevance of management principles for their effectiveness and organizational growth. We would like to thank both CEL and NEN team members.

The entire editorial team from Oxford University Press deserves our thanks for their professionalism and for bearing with our constantly overshooting deadlines. We also owe our gratitude to the anonymous peer reviewers whose valuable feedback enabled us to improve the text. We would gratefully acknowledge any suggestions regarding the contents, presentation of the text, or any mistakes that might have crept in.

We would like to express our special indebtedness to respected Mr Shambhu Dassji for cheerfully ensuring that our thoughts get expressed in a clear and unambiguous language. We thank him for his contribution in the first editing of the text, which was done by him as a special labour of love. Whatever ambiguity may have remained is solely due to us. His suggestions have enabled us to bring in qualitative improvement in the whole text. The first author also wishes to convey his gratitude to his guru, late Pt J.N. Fotedar, for his immense *gurukripa*.

We would like to thank our parents—Mrs Sheila Fotedar Bhat and Dr J.N. Bhat, and Mrs Dhanwanti Devi and Mr Shambhu Dass respectively—for inculcating and nurturing the spirit of enquiry in us and teaching us the importance of values in life. Our special thanks to our spouses and children for their encouragement and support. We also extend our gratitude to our brothers and sisters, and their families for their support.

ANIL BHAT
ARYA KUMAR

Brief Contents

Detailed Contents

Part III Excelling through People

Part IV Managerial Competencies

Part V Creating and Delivering Customer Value

Part VI Quantitative Methods

Part VII Operations and Technology Management

1

Essentials of Management

INTRODUCTION

Learning Objectives

After studying this chapter, you will be able to:

- Appreciate role of organizations for quality of life in modern societies
- Comprehend the generic functions of management
- Understand what is meant by policies, procedures, methods, and strategies
- Understand different dimensions of organizational structure
- Understand the function of leading
- Understand controlling function
- Understand managerial roles and competencies

Modern human is an organization's person. He expects organizations to fulfil his needs, provide employment, and even looks towards them for personal fulfilment, status, and achievement. The socio-economic landscape of modern societies is dominated by various types of organizations—both business enterprises and non-profit institutions. Herbert Simon (1991), the famous Nobel laureate, once questioned the use of the term 'market economy' and suggested that ubiquity of organizations demanded that term to be more appropriately replaced by 'organizational economy'. Ghoshal and Moran (2005) gave an empirical support for the positive association between prosperity of an economy and the role of companies operating in that economy by plotting the number of *Fortune 500* companies per 100 million working population and gross domestic product (GDP) per capita for different countries. According to him, companies are able to engender resource combination and exchange, that is, *value creation* in a manner that markets alone cannot. In addition, companies have some distinct advantage over markets in terms of their capacity for creating value through sharing, transferring, synthesizing, and creating knowledge, the most valuable of all resources.

It follows then that organizations are specific organs of our modern society whose purpose is to create value and thus enrich the quality of life of people. From this perspective, they are almost indispensable. Various kinds of organizations are engaged in delivering goods and services to billions of people around the world. They work in different sectors such as education, health, transport, communication, and consumer goods. These organizations have become very large with a few generating revenues larger than the GDP of certain countries. In this era of globalization many of these organizations are actually transnational corporations. They have also grown very complex in terms of their tasks and processes as well as number of employees with different skills, expertise, and diverse cultural backgrounds. These conglomerates not only have varied employees, but their other stakeholders such as customers, shareholders, communities, suppliers, and strategic partners too are spread across the globe. Such a scale demands compliance with different regulatory regimes in different countries. Hence, these organizations need a greater level of coordination to attain their organizational goals in an effective and efficient manner. As the famous management guru Peter Drucker (1974) puts it, *efficiency* refers to 'doing things right' and *effectiveness* refers to 'doing the right thing'. Effectiveness is the key to an organization's success and this is achieved by setting right organizational goals. No amount of efficiency can make up for lack of effectiveness. Efficiency is concerned with getting the most output out of least input of scarce resources of the organization, whether it is capital, human resource, plant and machinery, or information resources.

ESSENCE OF MANAGEMENT

What is that process that drives an organization towards its performance? What is that specific organ of an organization that has the responsibility for delivering the results consistently? Who has the authority to plan, organize, lead, and control different organizational activities so that the organization attains it goals? And lastly, what is that discipline, that body of organized knowledge, which deals with getting things done for, with and through people? It is *management*. Unfortunately, the word management is used interchangeably for all the aforementioned purposes. Additionally, as management is an applied discipline and is practised like other disciplines such as medicine, engineering, and law, it is also a profession or a career.

The term management is of sixteenth century vintage as per the *Oxford English Dictionary*, but mankind has been using the knowledge of getting projects (wars, irrigation projects, roads and buildings, etc.) accomplished since historical times. It is only for the last two centuries that the discipline of management has been progressively enriched by insights of practitioners, engineers, philosophers, and academicians. The recent deluge of advertising in public media, proliferation of management literature, self-help books, educational courses, and pop books on management as well as iconic status of some of the business leaders in public consciousness indicates its current popularity. For most students, a post graduate degree in management has become an aspirational degree after graduation. It is estimated that both in India as well as in the United States the number of annually graduating MBA students is more than the combined strength of students who finish their engineering, medicine, and law degrees. This does not reflect just a passing infatuation with management but the ground reality that modern societies cannot do without organizations and modern organizations cannot do without effective and efficient management. It also hints at the universality of management. The next section seeks to explore and capture the generic functions of management.

What is management? What do managers do? The American Management Association defines management as 'the process of getting work done through people'. L.F. Urwick (1970) writes that knowledge about managing must break down into two categories—knowledge about work; and knowledge about employees.

He further states that knowledge about work breaks down into essentially—(1) knowledge about the tasks that individuals are asked to perform; and (2) knowledge about the relationships between the tasks that members of a group perform. Similarly, knowledge about people can be divided into—(1) knowledge about the behaviour of individuals; and (2) knowledge about the behaviour of individual persons as influenced by their membership of groups of all kinds and the degree of impact of that membership on individuals.

This categorization explains as to why management is both an art as well as a science. It is the art of making people more effective than they would have been without a manager. The science is in how a manager does this. Use of statistically validated theories and techniques already available constitutes the scientific aspect of management. However, humans are very complex and situations and contexts change. Science has not figured it all out, nor will it ever be able to. Wise managers combine the best previously developed theories or techniques with their own moment-to-moment study of the specifics of the personalities that they actually have to deal with in their management situations. That is the art aspect of management. Management, like medicine, is an applied art and its successful practice depends on applying to specific cases the knowledge derived from a whole series of underlying disciplines, ranging from operations research to psychology to cultural anthropology. As the underlying disciplines are at varying degree of sophistication in their development as sciences, management can never aspire to be completely a science. Dealing with people is far from easy. Nevertheless, it is the management's responsibility to achieve and maintain a business organization's effectiveness. However, if done successfully, it can be a very rewarding experience. We have to remember that management, like any other skill, is something that one can improve at with study and practice.

GENERIC FUNCTIONS OF MANAGEMENT

Traditionally, management includes the following generic functions—planning, organizing, leading, and controlling. These classical management functions were first stated by a French industrialist Henri Fayol (1967) at the beginning of the last century and were later elaborated by British management consultant Lyndall Urwick (1970). However, there has been a controversy about this universalistic approach, the best known critic being Henri Mintzberg (1975), a professor at McGill University, who has described the functions of Fayol and others as ‘folklore’ as these formulations are not supported by the evidence of research. He has proposed a role theory of managerial work as an alternative to the work of the classical writers. Mintzberg’s theory was largely developed from his study of five chief executive officers and, as some researchers contend, was developed on the basis of the questionable practice of not going beyond the observable activities themselves.

Harold Koontz (1980) from University of California, whose textbook first popularized the managerial functions approach, thinks that the question of what managers do day-by-day is secondary to what will be more useful for classification of management knowledge. He states that functional approach permits us to look at the basic aspects of management, which have a high degree of universality across different contexts. Typically, managerial jobs are characterized by variety, fragmentation, and brevity, and oral communication with a wide variety of people both inside and outside the organization. Managerial work is largely cerebral and may not be directly observable. As will be clear from the matrix in Fig. 1.1, these managerial functions are differentiated from the different organizational functions or organizational areas, namely marketing, finance, operations, human resource, strategy, management information systems, etc. This matrix provides the framework of management fabric whose pigeon holes can be used to categorize managerial knowledge about managerial concepts, theories, levels, roles, tasks, activities, techniques, methodologies, skills, and competencies.

We will now discuss generic managerial functions of planning, organizing, leading, and controlling in some detail before turning our attention to the description of managerial roles as described by Mintzberg. Further, to carry out these roles productively, managers must possess certain skills, traits, and competencies. A detailed exploration of these concepts will be carried out in the later chapters.

Organization functions → Management functions ↓	Operations	Marketing	Finance	Human resources	Strategy	Management information systems (MIS)
Planning						
Organizing						
Leading						
Controlling						

FIGURE 1.1 Managerial functions’ matrix

Planning

It has become a cliché that good management starts with good planning. The process of planning includes identification of organizational objectives and selection of policies, procedures, and methods designed to lead to the attainment of these objectives. Essentially it is about selecting goals and objectives and also the means of accomplishing them. A manager will never succeed without a plan. If a manager happens to make it to the goal, it will have been by luck or chance and the results will not be replicable. Such managers will never have a track record of accomplishments.

The first step in planning is setting organizational objectives. This process has been studied by both economists and management theorists in some detail in terms of a firm as a whole as well as from the perspective of groups of people interested in the performance of the firm. It stands to reason that people associate themselves with an organization to satisfy their own objectives. These groups can be categorized as internal groups comprising owners, managers, and employees and external groups comprising suppliers, customers, and the government. If only the economic objectives of the inside groups are considered, then the objectives of the owners, managers, and employees would be profits, salaries, and wages, respectively. Similarly suppliers are interested in the organization's sales revenue, customers look to the firm as a source of value-laden quality goods and services, and the government is interested in tax revenue and employment generation.

All of these groups though have to contribute to the firm in return of the benefits received from the firm. Owners contribute capital, employees their services, and suppliers raw material. Further, each of these groups may view itself competing with other groups for the economic gains generated by the firm's activities. Therefore, employees may feel that owners gain more profits at the cost of their wages or suppliers may feel that their bills are cleared after much delay though the firm may be cash-rich. Hence, one of the most important tasks of the management is to allocate resources in such a way that the competing interests of these stakeholders are properly taken care of. Otherwise, the effectiveness of the firm may be jeopardized. Apart from considering the interests of these competing stakeholders, there should be an organizational objective that would provide an overall direction for the firm's activities in the long run. Considering profit as the universal objective of organizations, though convenient, has two principal disadvantages—one that we may be confusing the primary goal of all organizations with the goals of a specific group that of owners; and the second that the profit objective cannot be readily applied to non-profit institutions. Certain management thinkers have instead focused on organizational survival and growth as the primary objective of organizations.

This perspective, that all organizations have the common objective of survival and growth, may not be applicable to a firm functioning as a sole proprietorship or partnership as the firm legally ceases to exist with the death of the owner or co-owner. Management guru Peter Drucker (1955) has suggested that every firm or organization exists to create something of economic value. This value is created from the perspective of the customer as he is the one who provides the funds used to finance the activities of the organization as well as to pay all the stakeholders. Hence, the ultimate objective of a firm may be considered as the production of goods and/or services.

Flowing from this perspective of ultimate objective of a firm, management by objectives (MBO) a management system first put forth by Peter Drucker (1974) envisages the need to create a hierarchy of compatible objectives within an organization. These objectives then identify the economic contribution of each part of the organization in measurable terms. The divisions, units, or departments of a firm do not produce completed products or services in isolation; instead, all of them contribute towards producing economic value. The philosophy of MBO requires that for several organizational levels, a hierarchy of objectives be identified and these objectives be specified in the form of measurable goals.

It should be borne in mind that the ultimate objective of an organization as an entity is the creation of economic value in the form of products and services and the MBO perspective is a structured and coordinated way of achieving the same. The MBO rests on four elements—goal specificity, participative decision-making, an explicit time period, and performance feedback. The empirical evidence available suggests that this system helps increase productivity but only in times of stability and it runs into rough weather when the environment is dynamic. In addition, if MBO is viewed as a casual annual exercise of paperwork then obviously it is not worth the effort because the spirit of this management system is missed. As personal commitment to the goals of an operating unit makes it more likely that goals of the unit will be accomplished, participation of employees in defining these goals is typically encouraged. The employees are rewarded to the extent these objectives have been objectively accomplished than on some other subjective criterion such as traits or personality types.

After the organizational objectives have been identified, planning is concerned with the appropriate policies, procedures, and methods necessary to achieve overall organizational objectives. *Policies* are general statements that serve as guidelines by which these objectives are to be attained. These may be basic or general or these may govern any specific organizational functional area such as human resource, and marketing. *Procedures* are more specific and structured as these enumerate the chronological sequence of steps to be taken in order to accomplish an objective while a *method* specifies how one step of the procedure is to be performed. For example, a broad recruitment policy may specify an annual recruitment of students from top management institutions to replenish managerial assets of a company while a recruitment procedure will specify the steps for such a process—from applying to interviewing to selection. The method of interviewing the potential management trainee may also be specified.

Decision-making is a part of the planning process and is concerned with selecting a course of action from a set of alternatives, obviously using some criterion. Some authors consider decision-making as the essence of management. Generating alternatives or courses of action is a creative and non-linear process while evaluating these alternatives is relatively straightforward, given that a criterion exists.

Environmental factors

Planning is done under the constraints of environmental factors, namely politico-legal, economic, sociocultural, and technological (PEST). A *strategy* is a plan or a specific course of action that can be taken to achieve an organization's goal in the context of competitive environment. It usually signifies a long-term plan as the allocation of resources cannot be reversed easily during short-term planning. Strategic plans provide a wider scope to retain flexibility while the operational plans are often stated in finer detail. Chandler (1962) defines strategy as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Strategic plans are distinguished whether these are made at corporate-level, business-unit level, or at functional level. Michael Porter (1980), a highly respected author and professor of corporate strategy at Harvard business school, thinks that organizations may pursue one of the three generic strategies at business level—(1) differentiation strategy that seeks to differentiate organization's goods and services from competitors; (2) leadership strategy that attempts to reduce costs of the organization below the costs of the competing firms; and (3) focus strategy that tries to concentrate the organization's focus on a specific target segment or specific market. At the corporate level integration, diversification and merger/acquisition strategies are possible for a growth oriented firm. SWOT analysis explains how through an analysis, strategies may be crafted to exploit an organization's *strengths* (internal core competencies) and avoiding *weaknesses* (internal) vis-à-vis *opportunities* and *threats* (in the environment).

In a nutshell, managers need to figure out their goals. Next, they should figure out the best way to get there. What resources does one have? What can one get? They need to compare strengths and weaknesses of individuals and other resources. Will putting five workers on a task that takes fifteen hours cost less than renting a machine that can do the same task with one worker in six hours? If the manager changes the early shift by an hour, can they handle the early evening rush and eliminate the need to hire an extra person for the second shift? All the probable scenarios should be evaluated and planned for. The worst possible scenario should also be figured out and planned for. After evaluating different plans managers should use their best judgement to select a plan that will work. One of the management planning tools, which is most often overlooked but is very effective, is employee feedback.

Organizing

The relatively abstract exercise of planning must next be translated into reality by specifying tasks and jobs, by grouping people into units or departments, by deciding where decisions will be made, and by specifying the reporting structure. This is the managerial function known as organizing. Organizing as per Koontz (1972) is about designing an intentional structure of roles for people to fill. An organizational role should incorporate major responsibility and tasks as well as necessary authority for achieving the objectives.

Like the term management, there is some ambivalence in using the term organization. A search for its definition on the Internet turns up some interesting semantic variations, namely an arrangement, a group, well-organized systems, administration, result of distributing persons, consisting of an act of forming something, and the act of organizing a business. This ambiguity has been seen to cause considerable confusion in the development of management theory as per Koontz (1961) in his now famous classic article, 'The Management Theory Jungle'. Urwick (1970) thinks that the term organization is used to mean the structure of positions or posts into which the total activities necessary to any human system of collaboration are subdivided as well as, when preceded by an article (an, or, the), it is used to mean a system of human collaboration regarded as a whole. March and Simon (1958) even refused to define the exact term organization and instead took it as an empirical phenomenon, which like many phenomena of the world defy neat categorization. Some organization theorists have defined organizations as the patterned activities of individual members. Katz and Kahn (1966) contend that these activities are the organization, for in their absence, the organization ceases to exist. This sounds like a very abstract concept of an organization.

A formal organization structure is important from the perspective of effecting a change, as changing attitudes, motives, or goals of people is relatively difficult. *Organizational structure* is the pattern of relationships that exists between various positions. A description of relationship between and among different levels in an organization is referred to as the *scalar process.* The most frequent structure is the hierarchical structure, which consists of a vertical dimension of differentiated levels of authority and responsibility and a horizontal dimension of differentiated units (termed as departmentation). An *organigram* is the pictorial representation of this hierarchy.

Departmentation It can be defined as grouping of activities at any level. Several different bases for grouping of activities can be used. Departmentation based on numbers is useful for undifferentiated manpower but the complexity of organizations in modern times necessitates the use of specialized manpower. Hence, departmentation on the basis of function is more appropriate (whether finance, marketing, production, etc.). Departmentation can be also on the basis of product line, territory, customer type, or process depending upon the appropriateness to achieve results productively. Grouping of activities into different groups makes intra-group coordination possible, though at the expense of inter-group coordination.

Peter Drucker (1974) states that in designing the building blocks of an organization the following four questions have to be answered by the organizer:

1. What should the units of the organization be?
2. What components should join together, and what components should be kept apart?

3. What size and shape pertain to different components?
4. What is the appropriate placement and relationship of different units?

Further he states that organizing is not just assembling of activities and functions, as that would be just a mechanical exercise, which is contrary to the required attribute of that of adaptation (i.e., organic nature). While organizing, the desired results should always be kept in mind. Drucker feels that key activities and values should play a major role in the design of an organization's structure. He concurs with Chandler (1962) that strategy should determine structure and not vice-versa, and thinks that a business should always review its organization structure when its strategy changes. The management guru then gives a prescription that while designing the structure of an organization, it should be kept in mind that key activities should not be subordinated to non-key activities, revenue-producing activities should never be subordinated to non-revenue producing activities, and finally, support activities should not be mixed with revenue-producing and result-contributory activities.

Span of control After departmentation, the concept of 'span of control' is important for understanding organizational structure. Span of control refers to the number of subordinates a manager supervises. The number of subordinates that a manager can effectively supervise is not a constant but varies as per their abilities, complexity of tasks, and the kind of interaction required. Larger span of control generally reduces the number of hierarchical levels in an organization thus, producing a flatter organization.

Line and staff relationships Another element of organization structure is line and staff relationships. Line refers to chain of command or line of authority that extends from top to bottom of an organization. As modern organizations are complex entities, the line is augmented by advisory or staff departments. In a manufacturing concern, production, marketing, and finance are typically considered to be line activities, whereas design, purchase, or personnel are examples of staff activities. Line activities in an organization are directly concerned with attaining the goals of the organization, whereas the function of staff activities is to facilitate and help attain objectives through improved productivity of line activities.

Authority flows down the vertical hierarchy and is not actually vested in people but in organizational positions. As per Bernard (1962), a manager has authority only if subordinates chose to follow his commands. The other side of authority is responsibility and in fact, managers are given authority in consonance with their responsibility. Many managers confuse authority with power. Managers may sometimes delegate their authority to subordinates for carrying out their responsibilities effectively. The greatest barrier to delegation is the fear that the subordinate will not do the job properly.

Centralization is the concentration of authority at the top, whereas *decentralization* is delegation of authority to the lower level. What prompts an organization to centralize or decentralize its structure? Centralized organizations encourage close supervision of subordinates at every level in order to ensure compliance of established policies, procedures, and methods, whereas in decentralized organizations operating decisions are pushed down to the lowest level possible in order to empower employees, train and motivate them, and increase the span of control. Increase in the span of control leads to a flatter organization. Delegation of decision-making power down the chain of command is termed as vertical decentralization, whereas shift of power from line managers to staff managers is termed as horizontal decentralization. Centralization and decentralization should not be treated as absolutes but rather as two ends of a continuum.

Contingency view Another view, the contingency view of organization design, considers an optimal organization design to be an outcome of four situational factors, namely technology, size, environment, and organizational life cycle. Virtual organizations, learning organizations, transnational organizations, and team organizations are some of the emerging organizational forms that have attracted attention in modern times. In a nutshell, after finalizing the plan, the next stage is the implementation of that plan.

Leading

After the management has made plans, organized work, created a structure, and hired the right people, the role of leading becomes important. Leading is motivating the members of an organization towards attaining organizational goals. It is like conducting an orchestra. Although all players (workers) in the orchestra have the music sheet (the plan) in front of them and they know which section (department) is playing which piece and when, it is the conductor (manager–leader) who indicates cues for each section to make the music happen. Undeniably, leadership is a very critical part of the overall managerial process. Effective leadership is about influencing an individual, group, or team so that organizational objectives are met successfully. Managers lead in an attempt to persuade others to join them in pursuit of organizational goals that emerge from planning and organizing steps. Leading involves mastery over various skills, namely motivation, leadership, teamwork, communication, negotiation, and conflict resolution.

Motivation It is a driver of human behaviour. The managerial process of motivating uses knowledge from different motivation theories in an attempt to influence employees. Motivation theories differ in what they emphasize (in substance or content). Need theory and equity theory deal with people's various needs and whether they are satisfied or dissatisfied in terms of the fulfilment of these needs in organizational context. Reinforcement theory deals with how the consequences of a specific behaviour affect its repetitive occurrence. Expectancy theory details the process by which people choose from among alternative actions based on their expectation of what do they gain from each of their behaviours. Goal-setting theory focuses on the process of setting goals and how the goals themselves affect motivation.

Leadership approaches Leadership has been studied extensively under three approaches. The *trait theory* of leadership examined leaders and identified few common traits of empathy, intelligence, self-confidence, and a vast domain of traits that are not universal. The *behavioural approach* focused on leadership styles and their efficacy, the styles being task-oriented or person-oriented. The *contingency approach* sought to identify appropriate leadership styles on the basis of the situation. Basically all the approaches to leadership described earlier are transactional theories of leadership, that is, about leaders who motivate their followers in the direction of established goals by clarifying role and task requirements. However, there is another type of leader who inspires followers to transcend their own self-interest for the good of the organization—the transformational leader. The latest approaches have focused on these transformational, visionary, and charismatic leaders.

Work teams are groups whose members possess complementary skills and work synergistically towards a specific common goal. The group behaviour is influenced by factors such as roles, norms, conformity, size, and cohesiveness. The teams could be problem-solving, self-managing, cross-functional, or even virtual. Effective leaders need to lead the teams while they go through forming, storming, norming, performing, and adjourning stages through their communication, negotiation, and conflict resolution skills.

During norming stage there will be conflict about who will control the group, but at the completion of this stage the leadership hierarchy will be clear within the group. From the norming stage the group moves to the performing stage when it gets down to perform the task at hand. In the adjourning stage the group prepares for its disbandment by wrapping up the activities after having completed its mandate.

Controlling

Controlling is the last of the managerial functions that helps managers to keep track of the progress and monitor the effectiveness of planning, organizing, and leading. A manager needs to supervise whether everything is going according to the plan. When it is not going according to the plan, the manager needs to step in and adjust the plan, just as the orchestra conductor will adjust the tempo. This is an iterative process. When something is out of sync, a manager needs to plan a fix, organize the resources to make it work, lead the people who will make it happen, and continue to monitor the effect of the change. A properly designed control system can help managers anticipate, monitor, and respond to the changing environment.

Controlling provides the critical link back to planning and is an ongoing process, which has three steps—(1) measurement of actual performance; (2) comparing actual performance against the standard; and (3) taking managerial action to correct any deviations. What is sought to be controlled is the performance of people, processes, or organization. This is accomplished through feed-forward, concurrent, or feed-back controls depending upon whether the managers implement the controls before, during, or after the activity has been completed, respectively. Traditional financial controls are based on liquidity, leverage, activity, and profitability ratios. Managers are now increasingly using economic value added (EVA) and market value added (MVA) methods that are based on economic value created. A new approach by the nomenclature of 'balance scorecard' methodology has been developed that measures customer, internal process, and people/innovation/growth assets along with financial performance. Organizations are also using benchmarks (i.e., best practices of superior performing companies) as standards of excellence against which to measure and compare. Sometimes the standard itself may require to be changed.

MANAGEMENT ROLES

To meet the many demands placed on managers as they carry out managerial functions described earlier and interact with workers and the external environment, managers take on numerous roles, that is, an organized set of behaviours belonging to an organizational position. The manager's universe includes pleasing customers by meeting or exceeding customers' needs and expectations, providing leadership, acting ethically, valuing diversity in his employees, and coping with global challenges. Henri Mintzberg (1975) categorized all the activities of managers after these were empirically captured, into three basic behaviours—interpersonal contact, information processing, and decision-making. Ten roles in all were chosen to describe all the activities observed by him during the study. In handling interpersonal relationships, managers adopt the three interpersonal roles of figurehead, leader, and liaison. In handling information, managers assume the three informational roles of monitor,

Exhibit 1.1 Managerial roles and skills

Interpersonal Roles
- Figurehead role means acting as a symbolic head at ceremonies as well as receiving visitors.
- Leader role indicates all those activities that are directed at subordinates to influence them and motivate them.
- Liaison role means establishing a network of contacts both within and with outsiders.

Informational Roles
- Monitor role is about collecting inside and outside information.
- Disseminator role is about transmitting the relevant information to subordinates.
- Spokesperson role is transmitting information to outsiders.

Decisional Roles
- Entrepreneur role is about initiating new projects.
- Disturbance handler role is the role of making short-term and long-term adjustments to maintain organizational equilibrium.
- Resource allocator role is controlling allocation of resources.
- Negotiator role is negotiating with outsiders.

Management Skills
To perform management functions and assume multiple roles, managers must master three kinds of skills:

Technical skills: Managers must be able to use the processes, practices, techniques, and tools of a specialty area.

Conceptual skills: Managers must possess the capacity to develop ideas, understand abstract relationships, and solve problems.

Human skills: Managers must display the ability to interact and communicate with people to gain cooperation.

disseminator, and spokesperson. In handling decisions, managers take on the four decisional roles of entrepreneur, disturbance handler, resource allocator, and negotiator. A few studies such as by McCall and Segrist (1980) attempted to test validity of Mintzberg's classification of roles in actual operating situations and found that activities in certain roles overlapped too much to be considered separate (for example, figurehead, disseminator, disturbance handler, and negotiator roles). We have to also bear in mind that managerial work is cerebral and is not, to a large extent, directly observable. Managers rarely reflect on the demands of their jobs as a neatly organized set of roles but more so as a chaotic, fragmented, and time-pressed flow of activities. Exhibit 1.1 illustrates managerial roles and skills.

LEVELS OF MANAGEMENT

Managers can be described by the functional areas in which they perform and the level at which they perform. Although all managers perform the same basic functions, the extent to which they perform these universal activities varies with levels in the management hierarchy. Top management, consisting of the chief executive officer and the vice-presidents, is responsible for the overall management of the organization and directs its relations with the external environment. These managers need conceptual skills the most. Top managers spend most of their day (over 75 per cent) planning and leading. Middle management consists of all managers below vice-presidents but above supervisors. Middle managers are responsible for setting objectives that are in line with top management's goals and further translate them into plans for first-line managers to implement. These managers need a blend of all three skill sets. First line management consists of supervisors, team leaders, team facilitators, supervisors, and directs the actual work of the organization at the operating level. These managers need technical skills the most. Functional managers can also be identified by the areas or functions of the organization for which they are responsible, such as marketing, finance, operations, and human resources.

SUMMARY

Managers allocate and monitor the use of organizational resources in the form of information, material, money, and people. Managers collectively constitute an organization's management team that sets and achieves goals through the management functions of planning, staffing, leading, and controlling.

Managers have two main jobs—running a business and building an organization. Managers have different roles to perform and require a mix of conceptual skills, technical skills, and human skills for different level positions.

Organizations are created by managers to meet stated goals. Managers make sure that everyone shares and delivers a common set of values. Organizations exist everywhere as a means for individuals, groups, and societies to meet their needs. Managers transform organizations into viable entities through leadership.

All managers perform the same basic management functions—planning, organizing, leading, and controlling.

KEYWORDS

Controlling It is the process of checking results against plans and taking corrective action as needed to reduce deviations from previously set guidelines.
Effectiveness It means 'doing the right thing' and is measured in terms of goal attainment.
Efficiency It means 'doing things right' and is measured as a ratio of output to input.
Generic managerial functions These are the universal functions of planning, organizing, leading, and controlling.
Leading The process of guiding and stimulating individuals and groups to achieve organizational goals within a supportive environment.
Managerial roles The roles assumed by managers to perform management functions.
Managerial skills The skills managers must master to perform different managerial functions. These can be categorized as technical, human, and conceptual skills.
Organizational functions The specialized functions that are grouped in organizations such as finance, production, and marketing.
Organizing It is the process of creating structure, establishing relationships, and allocating resources to accomplish goals.
Planning The process of identifying goals and ways of achieving them in order to prepare the organization for the future.

EXERCISES

Concept Review Questions

1. What is meant by managerial functions? Contrast these with organizational functions.
2. What are the criticisms levelled against Mintzberg's managerial roles theory?
3. What is the essence of managerial work?

Critical Thinking Questions

1. What is the major difference between authority and power? Can a manager delegate his responsibilities?
2. Are good leaders born or made? Do you subscribe to the contingency theory of leadership? Why and why not?

Project Assignment

Keep a log of your activities throughout a week and categorize the activities into the generic managerial functions of planning, organizing, leading, and controlling. Does this evidence support the universality of management?

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