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Department Of BBA

CLASS - FY.BBA **SEM-I**

Subject-Principles of Management

Unit 3 – Major Managerial Functions

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❖ Forecasting

(Meaning,Need,Types,Methods,Advantages,Merits,Disadvantages.)

Meaning

Forecasting means **predicting future events on the basis of past and present information**. It helps managers estimate future business conditions and make plans accordingly.

Definition

According to Neter and Wasserman

"Business forecasting refers to the statistical analysis of the past and current movement in the given time series so as to obtain clues about the future pattern of those movements."

According to Louis A. Allen

"Forecasting is a systematic attempt to probe the future by inference from known facts."

Example: A company estimates how many products it will sell next month by studying its previous sales records

Need of Forecasting



1.Need of Short-Term Forecasting

Short-term forecasting helps a business make plans for the near future.

1. Proper Production Planning

- Forecasting helps the company estimate future demand for its products.
- It helps decide how much to produce.
- It prevents overproduction and shortage of goods.
- It ensures that products are available when customers need them.

Example: A company produces more umbrellas during the rainy season.

2. Reducing Costs of the Firm

- Forecasting helps estimate the future requirement of raw materials.
- It helps maintain the correct level of inventory.
- It reduces unnecessary storage and purchasing costs.
- It helps the company use its resources efficiently.

Example: A company purchases raw materials according to expected demand to avoid excess stock.

3. Determining Appropriate Price Policy

- Forecasting helps the company decide suitable prices for its products.
- It helps estimate changes in market demand.
- The company can plan its pricing according to market conditions and competition.
- It helps maintain sales and profitability.

Example: A shop offers discounts when demand is low to increase sales.

4. Setting Sales Targets and Establishing Controls and Incentives

- Forecasting helps managers set realistic sales targets.
- Targets should not be too high or too low.
- Achievable targets motivate salespeople to perform better.
- Managers can compare actual sales with expected sales and provide incentives.

Example: A sales manager sets a monthly target of 100 products for each salesperson.

5. Forecasting Short-Term Financial Requirements

- Forecasting helps estimate the money needed for daily business activities.
- It helps arrange funds for purchasing raw materials, paying salaries and meeting other expenses.
- Funds can be arranged at the right time.
- It prevents cash shortages and supports smooth business operations.

Example: A company estimates how much money it needs to pay workers and suppliers next month.

2.Need of Long-Term Forecasting

Long-term forecasting helps a business plan for future growth and development.

1. Planning a New Unit or Expansion of an Existing Unit

- Forecasting helps estimate the future demand for products.
- It helps decide whether to start a new factory or expand an existing one.
- It helps identify future market opportunities.
- It supports long-term business growth.

Example: A company plans to open a new factory because demand for its products is expected to increase.

2. Planning Long-Term Production Capacity

- Forecasting helps estimate the production capacity required in the future.
- It helps managers decide how many machines and facilities will be needed.
- It allows sufficient time to purchase machinery and expand production.
- It helps the company meet future demand efficiently.

Example: A car manufacturer purchases additional machines to increase production over the next five years.

3. Planning Long-Term Financial Requirements

- Long-term forecasting helps estimate the funds needed for future business activities.
- It helps arrange money for expansion, machinery and new projects.
- It gives the company enough time to arrange loans or other sources of finance.
- It supports financial stability.

Example: A company estimates the funds required to construct a new factory.

4. Planning Manpower Requirements

- Forecasting helps estimate the number of employees required in the future.
- It helps managers plan recruitment, training and employee development.
- Employees can be trained according to future business needs.
- It prevents shortages or excess availability of workers.

Example: A company recruits and trains additional employees before expanding its production.

5. Implementation of Projects

- Forecasting helps managers plan future projects properly.
- It provides information about expected demand, costs and resource requirements.
- It helps managers make better decisions before starting a project.
- It reduces uncertainty and improves the chances of project success.

Example: A company studies future market demand before launching a new product.

6. Effective Control

- Forecasting helps managers set future performance standards.
- Actual performance can be compared with expected performance.
- Differences and problems can be identified.
- Managers can take corrective action to improve results.

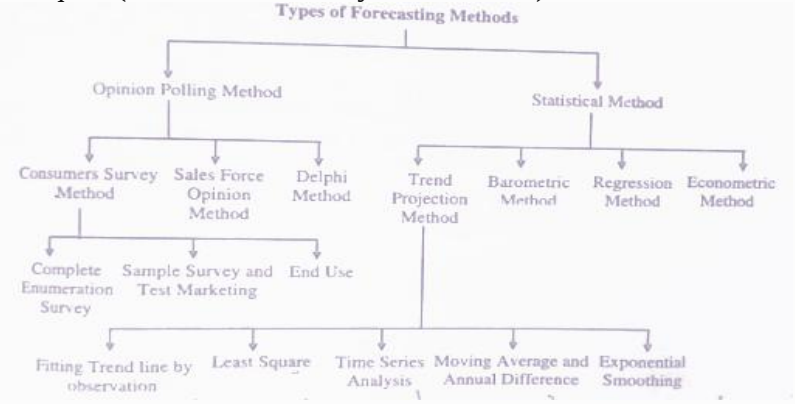
Example: If actual sales are lower than forecast sales, the manager introduces a new marketing strategy.

Types of Forecasting Methods

Forecasting methods are techniques used to predict future demand for goods and services by analysing past data, present information, and the opinions of people.

There are **two main types of forecasting methods**:

1. Qualitative Techniques (Opinion Polling Method)
2. Quantitative Techniques (Statistical or Analytical Method)



1. Qualitative Techniques / Opinion Polling Method

This method is based on the opinions, experience and knowledge of customers, experts, retailers and salespeople. It is useful when numerical data is limited or unavailable.

A. Consumer Survey Method

In this method, consumers are asked about their likes, dislikes, buying habits and future purchasing plans. It includes the following methods.

i) Complete Enumeration Survey

- Every consumer or household in the target group is contacted to collect information.
- The opinions of all consumers are considered while estimating future demand.
- It can provide accurate results if the information is collected properly.

Example: A company surveys every household in a small town to estimate demand for its product.

ii) Sample Survey and Test Marketing

- Instead of contacting all consumers, a small group of consumers is selected.
- Their opinions and buying behaviour are studied to estimate the demand of the entire population.
- In test marketing, a product is introduced to a selected market for a limited period, and customer responses are observed.

Example: A company launches a new cold drink in a few cities before selling it throughout the country.

iii) End-Use Method

- This method is mainly used for forecasting the demand for industrial goods and raw materials.
- It estimates the future demand for a product by studying the industries that use it.
- The expected production and consumption of the final products help estimate the demand for intermediate goods.

Example: A steel company estimates future steel demand by studying the requirements of automobile and construction industries.

B. Sales Force Opinion Method

- In this method, salespeople estimate future sales in their respective areas.
- The individual estimates are collected and combined to prepare the overall sales forecast.
- Salespeople can provide useful information because they regularly interact with customers.

Example: Sales representatives from Pune, Mumbai and Nashik estimate their expected sales, and the company combines these estimates.

C. Delphi Technique

- This method collects opinions from a group of experts through several rounds of questionnaires.
- The responses are summarised and shared with the experts in later rounds.
- Experts reconsider their opinions and gradually work towards a common forecast.
- It is useful when reliable numerical data is not available.

Example: Experts predict the future demand for electric vehicles by considering technology, prices and market trends.

2. Quantitative Techniques / Statistical Methods

These methods use past numerical data, mathematical calculations and statistical tools to forecast future demand. They are useful when sufficient and reliable data is available.

A. Trend Projection Method

- This method uses past sales or demand data to estimate future demand.
- It assumes that the existing trend may continue in the future.
- The trend can be identified through graphs or mathematical calculations.

It includes the following methods:

i) Graphical Method

- Past sales figures are plotted on a graph.
- A trend line is drawn to show whether sales are increasing or decreasing.
- The line helps estimate the future direction of demand.

Example: A company studies a graph of its last five years of sales to understand the sales trend.

ii) Least Square Method

- This method uses mathematical calculations to draw the best-fitting trend line.
- It minimises the sum of squared differences between actual values and estimated values.
- The trend line is used to forecast future sales or demand.

Example: A company uses past annual sales figures to calculate its expected sales for the next year.

iii) Time Series Method

- This method analyses data recorded over regular time intervals, such as daily, monthly or yearly.
- It identifies patterns in past data to estimate future demand.
- It considers the following components:
- **Average:** The general average level of data.
- **Trend:** The long-term increase or decrease in demand.
- **Seasonal Variation:** Regular changes due to seasons or specific periods.
- **Cyclical Variation:** Long-term fluctuations associated with business cycles.
- **Random Variation:** Unexpected changes caused by unpredictable events.

Example: An ice cream company studies monthly sales to forecast summer demand.

iv) Exponential Smoothing

- This method uses past demand data and assigns different weights to past observations.
- More weight is generally given to recent data, while older data receives less weight.
- It helps prepare forecasts that respond to recent changes in demand.

Example: A shop uses recent weekly sales figures to forecast sales for the coming week.

B. Barometric Method

- This method is also called the **Leading Indicators Method**.
- It forecasts future business conditions by studying economic indicators related to demand.
- It uses three types of indicators:
- **Leading Indicators:** Change before the overall economic activity changes.
- **Coincident Indicators:** Change at approximately the same time as economic activity.
- **Lagging Indicators:** Change after the overall economic activity changes.

Example: A company studies housing construction trends to estimate future demand for cement.

C. Regression Method

- This method studies the relationship between demand and other factors, such as price, income, advertising and the price of substitute products.
- Demand is treated as the dependent variable, while factors affecting demand are treated as independent variables.
- A mathematical equation is developed to estimate future demand.

Example: A company studies how changes in product prices affect sales.

D. Econometric Method

- This method uses economic theory, mathematical equations and statistical techniques to forecast future demand.
- It uses several related equations to study the relationship between different economic variables.
- It is generally used for complex forecasting problems involving many factors.

Example: An automobile company forecasts future car demand by studying income levels, interest rates, prices and economic growth.

Advantages / Merits of Forecasting

1. Promotion of Business

- Forecasting helps entrepreneurs understand future business conditions before starting a new business.
- It helps estimate future demand, market opportunities and possible risks.
- It helps owners decide whether starting a new business will be profitable.
- Thus, forecasting provides a foundation for starting and developing a business.

Example: An entrepreneur forecasts the demand for a new product before starting production.

2. Facilitates Planning

- Forecasting is an important part of the planning process.
- It helps managers predict future conditions by analysing past and present information.
- It helps in setting objectives and selecting suitable courses of action.
- Without forecasting, effective future planning becomes difficult.

Example: A company forecasts future sales before preparing its production plan.

3. Better Implementation of Projects

- Forecasting helps managers identify future opportunities and possible difficulties.
- It provides useful information about demand, costs and available resources.
- It helps entrepreneurs prepare suitable plans for implementing projects.
- This increases the chances of completing projects successfully.

Example: A company forecasts market demand before launching a new product.

4. Coordination

- Forecasting requires collecting information from different departments of an organisation.
- Departments such as production, finance, marketing and human resources share information.
- This improves communication and cooperation among departments.
- It helps all departments work towards common organisational goals.

Example: The sales department shares its sales forecast with the production department to ensure sufficient stock.

5. Effective Control

- Forecasting provides standards against which actual performance can be compared.
- Managers can identify differences between expected and actual results.
- It helps detect problems and take corrective action.
- Thus, forecasting improves control over business activities.

Example: If actual sales are lower than forecast sales, the manager takes corrective steps to improve sales.

6. Achieving Objectives

- Every organisation establishes objectives that it wants to achieve.
- Forecasting helps managers estimate future conditions and choose suitable actions.
- It helps in setting realistic targets and using resources effectively.

Example: A company forecasts demand and sets a realistic annual sales target to increase profits.

7. Improving the Quality of General Management

- Forecasting encourages managers to analyse past and present business conditions.
- It develops their analytical and decision-making abilities.
- Managers can compare different alternatives and select the most suitable one.
- It helps managers make better decisions and use future business opportunities effectively.

Example: A manager studies future market trends before deciding to expand the business.

Disadvantages / Limitations of Forecasting

1. Basis of Forecasting

- Forecasting is based on assumptions, estimates and average conditions.
- Future situations may be different from the assumptions made.
- Therefore, forecasts may not always give accurate results.

Example: A company forecasts high sales, but unexpected market changes reduce demand.

2. Reliability of Past Data

- Forecasting often depends on past and present data.
- Past information may be incomplete, inaccurate or outdated.
- Changes in customer preferences and market conditions may make past data less useful.

Example: A company uses last year's sales data, but this year's demand changes because of new competitors.

3. Time and Cost Factor

- Collecting, analysing and interpreting data requires time and money.
- Complex forecasting methods may require experts and special software.
- Small businesses may find these costs difficult to afford.

Example: A company spends a large amount on market research to forecast future demand.

❖ Planning

(Meaning,Need,Types,Methods,Advantages,Merits,Disadvantages.)

Meaning

Planning is the first function of management.Planning means **deciding in advance what to do, how to do it, when to do it, and who will do it** to achieve a goal. It helps to achieve goals.It saves time and money.It reduces risks and uncertainty.It helps in the proper use of resources.It helps managers choose the best option.

Definitions of Planning

1. **Henry Fayol:** Planning means deciding the best way to achieve goals.
2. **Koontz and O'Donnell:** Planning means deciding in advance what to do, how to do it, when to do it, and who will do it.

Example

Suppose you want to score 80 marks in your exam.

- **What to do?** – Study.
- **How to do it?** – Study for 3 hours daily.
- **When to do it?** – From 7 AM to 10 AM.
- **Who will do it?** – You will study yourself.

Deciding all these things in advance is called **Planning**.

Need of Planning

Planning is needed for the following reasons:

1. To Mitigate Uncertainty

Planning helps us prepare for future problems and reduce uncertainty.
Example: A company keeps extra stock in case demand increases.

2. To Cooperate and Coordinate

Planning helps all departments work together properly.
Example: The sales and production departments work together to supply products on time.

3. To Utilise Resources Optimally

Planning helps to use money, materials, machines, and employees properly without wasting resources.
Example: A company uses its money and workers carefully to reduce costs.

4. To Prepare for Contingencies

Planning helps a company prepare for unexpected problems or emergencies.
Example: A company prepares a backup plan for fire, power failure, or a shortage of raw materials.

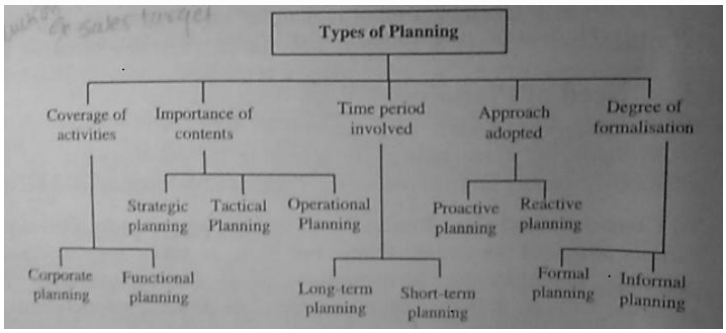
5. To Achieve Goals

Planning helps an organisation achieve its goals within a specific time.
Example: A company plans to increase sales by 20% in one year.

6. To Reduce Competition

Planning helps a company compete with other businesses and grow in the market.
Example: A company offers better quality products at reasonable prices to attract customers.
Easy trick: Uncertainty, Coordination, Resources, Contingencies, Goals, Competition.

Types of Planning



There are five main bases for classifying planning.

A. Based on Coverage of Activities

1. Corporate Planning

- It covers the whole organisation.
- It is generally done by top-level managers.
- It focuses on the company's mission, vision, and overall growth.

Example: A company plans to open branches in five new cities.

2. Functional Planning

- It is prepared for a particular department.
- It helps departments achieve their targets.
- It improves coordination between departments.

Example: The marketing department prepares a plan to increase sales.

B. Based on Importance of Contents

1. Strategic Planning

- It focuses on long-term goals.
- It is generally prepared by top-level management.
- It deals with the overall growth and future of the business.

Example: A company plans to expand its business across India.

2. Tactical Planning

- It focuses on achieving short-term targets.
- It converts strategic plans into departmental actions.
- It deals with immediate business activities.

Example: A company plans a special sale for the next three months.

3. Operational Planning

- It focuses on daily activities.
- It explains how specific tasks should be completed.

- It helps employees perform their work properly.
  Example: A manager prepares a daily work schedule for employees.

C. Based on Time Period

1. Long-Term Planning

- It is prepared for a long period, usually three, five, or more years.
- It focuses on long-term objectives.
  Example: A company plans to build a new factory within five years.

2. Short-Term Planning

- It is generally prepared for up to one year.
- It focuses on immediate objectives.
  Example: A company plans to increase sales during the next six months.

D. Based on Approach Adopted

1. Proactive Planning

- It means planning in advance for future events.
- It helps prevent problems before they occur.
  Example: A company stores extra raw materials before the rainy season.

2. Reactive Planning

- It means preparing a plan after a problem occurs.
- It focuses on corrective action.
  Example: A company finds another supplier after its regular supplier fails to deliver materials.

E. Based on Degree of Formalisation

1. Formal Planning

- It is systematic, written, and structured.
- It is generally used by large organisations.
- It is based on data and proper analysis.
  Example: A large company prepares a written annual business plan.

2. Informal Planning

- It is not written or highly structured.
- It is based on experience, common sense, and intuition.
- It is often used by small businesses.
  Example: A shopkeeper decides how much stock to buy based on experience.

Methods / Types of Plans

There are two main types of plans:

A. Standing Plans (Repeated-Use Plans)

Standing plans are used repeatedly to handle regular activities and recurring problems.

1. Mission or Purpose

It explains why an organisation exists and what it wants to achieve.
Example: A school provides education to students.

2. Objectives or Goals

Objectives are the specific results an organisation wants to achieve.
Example: Increase sales by 10% in one year.

3. Strategies

Strategies are plans made to achieve goals and compete with other businesses.
Example: Offering better quality products to attract more customers.

4. Policies

Policies are general guidelines that help managers make decisions.
Example: A company has a policy of giving employees paid leave according to its rules.

5. Procedures and Methods

- **Procedures:** Steps followed to complete a task in the correct order.
- **Methods:** The specific way of performing a task.

Example: The steps followed to process a customer's order are a procedure.

6. Rules

Rules clearly state what people must or must not do.
Example: Employees must report to work on time.

B. Single-Use Plans (Operating Plans)

Single-use plans are prepared for a specific purpose or situation. They are not normally used repeatedly for the same purpose.

1. Programmes

A programme explains the activities and steps needed to achieve a particular goal within a given time.
Example: A company organises a one-time product launch programme.

2. Budgeting

A budget is a plan expressed in numbers, especially money.
Example: A company prepares a budget of ₹5 lakh for advertising.

3. Project Plans

A project plan is prepared to complete a specific task or project.
Example: A company prepares a plan to construct a new office building.

4. Contingency Plans

These are backup plans prepared to deal with unexpected emergencies or risks.
Example: A company prepares a backup plan for power failure or fire.

Advantages / Merits of Planning

1. Provides Direction and Purpose

Planning gives employees clear direction and tells them what they have to do to achieve the organisation's goals.
Example: A manager tells employees how much work they must complete.

2. Helps in Selecting Feasible Alternatives

Planning helps managers compare different options and select the best one.
Example: A company compares two suppliers and chooses the one offering better quality at a lower price.

3. Encourages Rational and Logical Decision-Making

Planning helps managers make correct decisions based on facts rather than guesswork.
Example: A company studies market demand before launching a new product.

4. Planning is a Key Function

Planning is the first and most important function of management. Other functions depend on planning.
Example: A manager plans the work before assigning duties to employees.

5. Optimal Allocation and Utilisation of Resources

Planning helps use money, materials, machines, and employees properly without wastage.
Example: A company uses its available budget carefully.

6. Enhances Efficiency

Planning saves time, money, and effort by choosing the best way to complete work.
Example: Employees follow a proper schedule to finish work on time.

7. Increases Adaptability

Planning helps an organisation adjust to changes in the business environment.
Example: A shop starts online delivery when customers prefer shopping online.

8. Increases Ability to Anticipate

Planning helps managers predict future opportunities and problems and prepare for them.
Example: A company stocks extra umbrellas before the rainy season.

9. Integration

Planning helps all departments work together towards a common goal.

Example: The production and sales departments work together to deliver products on time.

Disadvantages / Limitations of Planning

1. Inflexibility

Once a plan is prepared, it may be difficult to change it according to new situations.
Example: A company follows its old plan even when market conditions change.

2. Misdirection

Sometimes managers prepare plans to fulfil their personal interests instead of the organisation's goals.
Example: A manager buys from a particular supplier because of personal connections.

3. Time-Consuming Exercise

Planning takes a lot of time because it requires collecting information, analysing data, and preparing plans.
Example: A company spends several weeks preparing an annual business plan.

4. False Sense of Security

Managers may believe that having a plan guarantees success. They may ignore new problems.
Example: A company expects sales to increase because it has a plan but ignores changing customer needs.

5. Inaccurate Information

Planning depends on information and predictions. If the information is wrong, the plan may fail.
Example: A company produces too many products because it incorrectly estimates demand.

6. Uncertainty

Future conditions can change unexpectedly, making existing plans ineffective.
Example: A sudden increase in raw material prices affects the company's plan.

7. Limits Internal Flexibility

Strict rules, policies, and procedures may make it difficult for employees to change their working methods.
Example: Employees cannot try a new method because company rules do not allow it.

8. Capital Investment

Money invested in machinery, buildings, or equipment cannot always be recovered easily when plans change.
Example: A company buys expensive machinery but later finds that the product is no longer in demand.

9. External Constraints

External factors beyond the company's control can affect planning.

The main external constraints are:

- **Political climate:** Changes in government policies, taxes, and laws.
- **Trade unions:** Union rules regarding wages, working hours, and employee rights.
- **Technological changes:** New technology can make existing machinery or methods outdated.
- **Market changes:** Changes in customer preferences and demand can affect business plans.

❖ Organising

(Orgnising:Meaning,Concept/
Delegation of Authority:Meaning,Importance/Decentralization:Concepts,Meaning,Importance)

Meaning

Organising means **dividing work, assigning duties to employees, and arranging resources to achieve organisational goals.** Organising is an important function of management. It involves dividing work, assigning duties, giving authority, and coordinating activities to achieve organisational goals.

In simple words, organising means deciding:

- What work has to be done.
- Who will do the work.
- Who will be responsible.
- How different employees will work together.

Definitions of Organising

1. According to Ralph C. Davis:

"Organisation is a group of people who cooperate under the direction of leadership, for the accomplishment of a common end."

Simple meaning: People work together under a leader to achieve a common goal.

2. According to Gary Johns:

"Organisations are social inventions for accomplishing goals through group efforts."

Simple meaning: People work together to achieve common goals.

Example

Suppose you open a hotel.

- One person handles cooking.
- One person handles billing.
- One person serves customers.
- One manager looks after all the workers.

Dividing the work and assigning duties to different people is called **Organising**.

Delegation of Authority

Meaning

Delegation of authority means **giving work and the necessary authority to subordinates to complete that work.**
In simple words, when a manager gives a task to an employee and provides the power to do that task, it is called **Delegation of Authority**.

Example

Suppose you are a manager in a company.

- You give a task to an employee.
- You give them the authority to complete that task.
- The employee completes the work and reports to you.

This process is called Delegation of Authority.

Definitions of Delegation of Authority

1. According to E. F. L. Brech:
"Delegation means sharing some management duties and responsibilities with other people."
A manager shares some work and responsibilities with subordinates.

2. According to Koontz and O'Donnell:
"Delegation involves deciding the expected results, assigning tasks, giving authority, and ensuring responsibility for completing the work."

Importance of Delegation of Authority

1. Reduces Workload of Managers

Delegation helps managers share their work with subordinates and reduces their workload.
Example: A manager gives daily report preparation to an employee.

2. Saves Time

Delegation helps complete work faster because different employees perform different tasks at the same time.
Example: One employee prepares bills while another handles customers.

3. Develops Employees

Delegation helps employees learn new skills and gain experience.
Example: A manager allows an employee to handle a small project.

4. Motivates Employees

When managers give authority to employees, they feel trusted and motivated to work better.
Example: An employee feels confident when given responsibility for a task.

5. Improves Efficiency

Delegation helps complete work properly and on time by distributing duties among employees.

Example: Different employees handle different departments to complete work efficiently.

6. Helps in Management Development

Delegation prepares employees for future managerial positions by giving them decision-making experience.
Example: A junior employee learns management skills by supervising a small team.

7. Improves Coordination

Delegation clearly defines the duties and responsibilities of employees, helping them work together.
Example: The sales team and delivery team coordinate to deliver products on time.

8. Facilitates Organisational Growth

Delegation allows managers to focus on important decisions and business expansion.
Example: A manager focuses on opening a new branch while employees handle daily activities.

Decentralisation

Meaning

Decentralisation means **sharing decision-making power with lower-level managers and employees.**

In simple English, top-level managers take important decisions, while lower-level managers are given the authority to take other decisions related to their departments.

2. Definitions of Decentralisation
1. According to Henry Fayol:
“Everything that increases the importance of the subordinate's role is decentralisation.”
It Means When employees get more authority to make decisions, it is called decentralisation.

2. According to Louis A. Allen:
“Decentralisation refers to the systematic effort to delegate authority to the lower levels of management.”
It means giving decision-making power to lower-level managers in a systematic way.

Example

Suppose a company has three departments: Sales, Finance, and Production.

- The top manager decides the company's main goals.
- The Sales Manager decides sales activities.
- The Finance Manager manages the department's budget.
- The Production Manager manages daily production activities.

Giving decision-making authority to different department managers is called **Decentralisation**.

Importance of Decentralisation

1. Reduced Workload of Top Management

Decentralisation reduces the workload of top managers because lower-level managers handle routine work. Top managers can focus on important decisions and future plans.
Example: The top manager focuses on business expansion while department managers handle daily work.

2. Development of Personnel

Decentralisation gives employees authority and responsibility. It helps them develop their skills, confidence, and decision-making abilities.
Example: A junior manager learns management skills by handling a department independently.

3. Quick Decision-Making

Lower-level managers can make decisions quickly because they understand their workers' problems and do not always need approval from top management.
Example: A production manager quickly arranges extra workers when production increases.

4. Ease in Performance Appraisal

Decentralisation makes it easier to evaluate employees' performance because each manager and employee has specific targets to achieve.
Example: A sales manager's performance is evaluated by checking whether the sales target was achieved.

❖ Decision-Making

(Decision Making:Types,Process,Techniques/Directions:Nature,Principles)

Meaning

Decision-making means **selecting the best option from two or more alternatives to achieve a goal or solve a problem.**
In simple English, when we have different choices and select the best one, it is called **Decision-Making**.

Definitions of Decision-Making

1. According to George R. Terry:
"Decision-making is the selection based on certain criteria from two or more alternatives."
It means Choosing the best option from two or more choices.

2. According to Mary Cushing Niles:
Decision-making takes place when we choose objectives and methods, and when changing situations require adjustments.
It means We make decisions to achieve goals and to adjust to changes.

3. According to Heinz Weihrich and Harold Koontz:

"Decision-making is defined as the selection of a course of action among alternatives; it is the core of planning."
It means Decision-making means choosing the best course of action and is an important part of planning.

Example

Suppose you want to travel to college.You have three options:

- Bus
- Train
- Auto-rickshaw

You compare the cost and time and choose the bus because it is cheaper.
Choosing the best option is called **Decision-Making**.

Types of Decisions

Decision-making is an important function of management. Decisions are classified into different types according to their purpose, cost, risk, and importance.

1. Programmed and Non-Programmed Decisions

A. Programmed Decisions

- These are routine and repeated decisions.
- They are taken according to existing rules, policies, and procedures.
- They are generally taken by lower-level managers.

Example: Checking students' attendance according to college rules.

B. Non-Programmed Decisions

- These are new and unusual decisions.
- They are taken when there is no standard rule to follow.
- They are generally taken by top-level managers.

Example: Deciding to open a new factory.

2. Major and Minor Decisions

A. Major Decisions

- These decisions involve high cost and high risk.
- They have a major effect on the business.

Example: Opening a new branch in another country.

B. Minor Decisions

- These decisions involve low cost and low risk.
- They have a small effect on the business.

Example: Buying cleaning supplies for an office.

3. Routine and Strategic Decisions

A. Routine Decisions

- These are daily decisions.
- They are simple and require less time.
- They usually involve low risk.

Example: Preparing employees' daily work schedules.

B. Strategic Decisions

- These decisions are related to the long-term success of a business.
- They involve high risk and require careful thinking.

- They are generally taken by top management.

Example: Expanding a business into a new market.

4. Policy and Operative Decisions

A. Policy Decisions

- These decisions are taken by top management.
- They establish rules and guidelines for the organisation.
- They guide future activities.

Example: Deciding the company's leave policy.

B. Operative Decisions

- These decisions are related to daily business activities.
- They are generally taken by middle- or lower-level managers.

Example: Preparing the daily duty schedule of employees.

5. Organisational and Personal Decisions

A. Organisational Decisions

- These decisions are taken to achieve organisational goals.
- They are based on company policies.

Example: Deciding to increase production.

B. Personal Decisions

- These decisions are taken for personal reasons.
- They relate to an individual's own life or choices.

Example: A manager decides to take personal leave.

6. Individual and Group Decisions

A. Individual Decisions

- These decisions are taken by one person.
- They are generally quick and simple.

Example: A manager assigns a task to an employee.

B. Group Decisions

- These decisions are taken by two or more people together.
- They involve discussion and different opinions.

Example: A committee decides the college's annual function budget.

7. Long-Term, Departmental and Non-Economic Decisions

A. Long-Term Decisions

- These decisions affect the business for a long period.
- They generally involve major planning.

Example: Planning to build a factory within five years.

B. Departmental Decisions

- These decisions relate to a particular department.
- They mainly affect that department's activities.

Example: The marketing department decides its advertising budget.

C. Non-Economic Decisions

These decisions are based on moral values, ethics, and fairness rather than only money.

Example: Treating all employees fairly while assigning duties.

8. Crisis and Research Decisions

A. Crisis Decisions

- These decisions are taken during emergencies.
- They require quick action.
- They may involve high risk.

Example: Deciding what to do immediately after a fire in a factory.

B. Research Decisions

- These decisions are taken after collecting information and studying a problem.
- They require research and careful analysis.
- They usually allow more time for decision-making.

Example: Studying customer preferences before launching a new product.

9. Problem and Opportunity Decisions

A. Problem Decisions

- These decisions are taken to solve existing problems.
- Their main purpose is to correct a situation.

Example: Finding a solution when product sales decrease.

B. Opportunity Decisions

- These decisions are taken to make use of new business opportunities.
- Their purpose is to improve growth and profits.

Example: Launching a new product after identifying customer demand.

Process of Decision-Making

Decision-making means choosing the best option from different alternatives. It involves **6 steps**.

Step 1: Definition of the Problem

First, identify the problem or goal that needs to be achieved.
Example: A company's sales are decreasing.

Step 2: Collection of Data

Collect correct and relevant information to understand the problem.
Example: The company checks sales reports and customer feedback.

Step 3: Formulation of a Model

Prepare different possible solutions or alternatives to solve the problem.
Example: The company considers reducing prices, improving quality, or advertising more.

Step 4: Evaluation

Compare all alternatives and check their costs, benefits, and practicality.
Example: The company checks which option is affordable and likely to increase sales.

Step 5: Framing a Decision

Select the best alternative after evaluating all the options.
Example: The company decides to improve product quality.

Step 6: Follow-up Actions

Implement the decision and check whether it is giving the expected results.
Example: The company checks whether sales increase after improving quality.

Techniques of Decision-Making

1. Marginal Analysis

It helps to understand how adding one extra unit of a resource affects output or cost.
Example: A company checks whether hiring one extra worker will increase production enough to justify the cost.

2. Financial Analysis

It helps compare the costs, income, and profits of different alternatives.
Example: A company compares the cost and expected profit of two projects.

3. Break-Even Analysis

It identifies the sales level at which total revenue equals total cost.
At the break-even point, there is **no profit and no loss**.
Example: A company calculates how many products it must sell to cover all its costs.

4. Ratio Analysis

It uses financial ratios to understand the financial position and performance of a business.
Example: A company calculates its profit ratio to check profitability.

5. Operations Research

It uses mathematics, scientific methods, and models to solve business problems and select suitable decisions.
Example: A delivery company finds the shortest and cheapest delivery routes.

6. Pareto Analysis

It helps identify the few important factors that produce the greatest results. It is commonly explained using the **80/20 principle**.
Example: A company finds that 20% of its customers generate about 80% of its sales.

7. Paired Comparison Analysis

It compares two alternatives at a time to identify the better option.
Example: A company compares Machine A with Machine B and then chooses the better one.

8. Grid Analysis / Decision Matrix

It compares different alternatives using several factors, such as cost, quality, and risk.
Example: A company compares three machines based on price, speed, and quality.

9. Force Field Analysis

It identifies and compares the forces supporting a decision with the forces opposing it.
Example: A company considers the benefits and difficulties of introducing a new technology.

10. Brainstorming

It involves generating many ideas freely without immediate criticism.
Example: Employees suggest different ways to increase sales during a meeting.

11. Nominal Group Technique

Members first give ideas individually. Then the ideas are discussed or evaluated, and members vote to select the preferred solution.
Example: Employees individually suggest ways to improve customer service, and the group votes for the best idea.

Directions

Meaning

Directing is the process of **guiding, instructing, motivating, and leading employees** to achieve organisational goals.In simple words, directing means telling employees what to do, how to do it, and motivating them to complete their work properly.
Example: A manager explains the work to employees, guides them, motivates them, and checks their performance.

Definitions of Directing

1. **According to Koontz and O'Donnell:** Direction is a function that encourages subordinates to work efficiently and effectively to achieve organisational goals.
2. **According to S. S. Chatterjee:** Direction means the efforts made by managers to guide and inspire employees to achieve better results in the organisation.

Nature of Directing

The nature of directing explains the main characteristics of directing in management.

1. Part of Management Process

Directing is an important part of management. It comes after planning, organising, and staffing, and helps employees perform their work.
Example: After planning the work, the manager gives instructions to employees.

2. Initiating Function

Directing starts actual work by giving instructions and guidance to employees.
Example: A manager tells workers to start production.

3. Never-Ending Process

Directing is a continuous process. Managers must regularly guide, motivate, and supervise employees.
Example: A manager gives daily instructions and checks employees' progress.

4. Pervasive Function

Directing is required at every level of management, including top, middle, and lower levels.
Example: A general manager guides department managers, and supervisors guide workers.

5. Action-Oriented

Directing converts plans and decisions into actual action.
Example: A company plans to increase production, and the manager instructs employees to produce more goods.

6. Linking Function

Directing connects planning, organising, staffing, and controlling to help achieve organisational goals.
Example: A manager guides employees according to the plan and checks whether the work is progressing properly.

7. Human Behaviour Function

Directing deals with human behaviour and helps managers guide employees towards organisational objectives.
Example: A manager understands employees' problems and motivates them to work better.

8. Creative Function

Directing helps put plans into action by encouraging employees to use their skills, ideas, and abilities.
Example: A manager encourages employees to suggest new ways to improve production.

Principles of Direction

The principles of direction are guidelines that help managers guide, motivate, and instruct employees to achieve organisational goals effectively.
There are **2 main groups** of principles of direction.

A. Principles Relating to the Purpose of Direction

1. Principle of Maximum Individual Contribution

Managers should guide employees in such a way that every employee gives their best performance and contributes to organisational goals.
Example: A manager motivates employees to improve their work and productivity.

2. Principle of Harmony of Objectives

Managers should maintain a balance between organisational goals and employees' personal goals.
Example: Employees want a good salary, and the company wants higher profits. The manager tries to satisfy both.

3. Principle of Efficiency of Direction

Direction should help achieve organisational goals efficiently without ignoring employees' needs and satisfaction.
Example: A manager achieves production targets while providing employees with proper working conditions.

B. Principles Relating to the Directing Process

4. Principle of Unity of Command

An employee should receive orders from only one superior to avoid confusion and conflict.
Example: A worker should receive instructions from one supervisor instead of two different managers.

5. Principle of Appropriateness of Direction Technique

Managers should select the right directing technique according to the situation and the nature of employees.

The three techniques are:

- Authoritarian – the manager makes decisions and gives orders.
- Consultative – the manager takes employees' opinions before deciding.
- Free-rein – employees are given freedom to make decisions.

Example: A manager consults experienced employees before introducing a new work method.

6. Principle of Managerial Communication

There should be proper communication between managers and employees to ensure the smooth flow of information.
Example: A manager clearly explains work instructions, and employees share their problems and feedback.

7. Principle of Comprehension

Employees must clearly understand the instructions given by their managers, including what work to do, how to do it, and when to complete it.
Example: A manager explains a task clearly so that employees can complete it correctly.

8. Principle of Use of Informal Organisation

Managers should understand informal groups and communication among employees because these can help information spread quickly.

Example: A manager uses positive relationships among employees to communicate important workplace information quickly.

9. Principle of Leadership

Managers should use good leadership skills to motivate, guide, and encourage employees without lowering their morale.
Example: A manager encourages employees and supports them when they face difficulties.

10. Principle of Follow-Through

Managers should check whether employees are following instructions properly. If problems arise, managers should take corrective action or modify the instructions.
Example: A manager checks the progress of a project and helps employees solve problems when work is delayed.

Motivation

(Motivation:Meaning,Importance,Nature,Principles,Theories)

Meaning

Motivation means **encouraging and inspiring people to work hard to achieve their goals.** It comes from the word *motive*, which means a person's needs, wants, and desires. Motivation encourages employees to perform their work effectively.
Example: A manager gives a bonus to employees to encourage them to achieve their sales targets.

Definitions of Motivation

1. **According to Dalton E. McFarland:** Motivation is the force that directs and controls human behaviour through needs, desires, and drives.
2. **According to S. P. Robbins:** Motivation is the willingness to make efforts to achieve organisational goals while satisfying individual needs.
3. **According to Likert:** Motivation means making employees feel important, respected, and valued in the workplace.

Nature of Motivation

The nature of motivation explains the main characteristics of motivation.

1. Psychological Phenomenon

Motivation is related to a person's mind, needs, desires, and expectations. Different people are motivated by different things.
Example: One employee wants a higher salary, while another wants promotion.

2. Ongoing Process

Motivation is a continuous process because when one need is satisfied, another need arises.
Example: After getting a salary increase, an employee may want a promotion.

3. Dynamic and Conditional

Motivation changes according to a person's needs, situation, working conditions, and expectations.
Example: An employee may work harder when offered a bonus but may lose motivation if working conditions become poor.

4. Cannot Be Observed Easily

Motivation cannot be seen directly. We can only try to understand it by observing a person's behaviour.
Example: A manager observes an employee's interest and performance to understand their motivation.

5. Goal-Oriented Process

Motivation encourages people to work towards achieving personal and organisational goals.
Example: Employees work harder to achieve sales targets and earn incentives.

6. Affected by Social and Cultural Norms

Motivation is influenced by society, culture, values, respect, and recognition.
Example: An employee feels motivated when society and the organisation respect their profession.

Principles of Motivation

The principles of motivation are guidelines that help managers encourage employees to work willingly and achieve organisational goals.

1. Participation

Employees should be involved in decision-making. This increases their interest, confidence, and responsibility towards their work.
Example: A manager asks employees for suggestions before making a decision.

2. Understanding Subordinates

Managers should understand employees' needs, expectations, and problems to motivate them effectively.
Example: A manager talks to an employee to understand why their performance has decreased.

3. Inspiring Employees

Managers should provide freedom, proper facilities, training, and opportunities to employees to improve their performance.
Example: A manager provides training and rewards employees for good work.

4. Creating Team Spirit

Managers should encourage employees to work together and cooperate with one another to achieve common goals.

Example: Employees work together to complete a project on time.

5. Communication

Managers should provide correct and timely information to employees. Good communication helps employees understand their work and feel involved in the organisation.
Example: A manager informs employees about new targets and changes in company policies.

6. Recognition

Managers should appreciate and recognise employees for their good performance. Recognition increases confidence and job satisfaction.
Example: A company gives an award to its best-performing employee.

7. Delegation of Authority

Managers should give employees sufficient authority to perform their duties and make necessary decisions. This develops confidence and responsibility.
Example: A manager allows a team leader to make decisions about daily work.

8. Motivating Superiors

Managers should also encourage and cooperate with their seniors and fellow managers. Mutual respect and support improve teamwork.
Example: A manager appreciates a senior manager's good ideas and supports their implementation.

9. Job Enrichment

Job enrichment means adding meaningful responsibilities and opportunities to a job to make it more interesting and satisfying.

Its five dimensions are:

- Task significance
- Task identity
- Job variety
- Freedom
- Feedback

Example: An employee is given responsibility for managing an entire project instead of performing only one small task.

10. Organisational Climate

Organisational climate means the overall working environment of an organisation. A positive environment makes employees feel safe, respected, and motivated.
Example: A company provides a friendly workplace where employees can share ideas freely.

Importance of Motivation

Motivation is important because it encourages employees to work efficiently and helps an organisation achieve its goals.

1. Sets the Action of Individuals in Motion

Motivation encourages employees to start working willingly and use the available resources properly.
Example: Employees start working with interest when they receive incentives.

2. Improves Performance Efficiency

Motivation improves employees' performance, increases productivity, and reduces unnecessary costs.
Example: Motivated workers produce more goods in less time.

3. Ensures Accomplishment of Organisational Goals

Motivation encourages employees to work hard and complete their tasks to achieve organisational objectives.
Example: Employees work together to achieve the company's sales target.

4. Creates Pleasant and Supportive Relationships

Motivation improves relationships between employers and employees. It increases morale and reduces conflicts.
Example: A manager appreciates employees' work and maintains a friendly workplace.

5. Helps in Employee Retention

Motivation increases employee satisfaction, loyalty, and commitment. It reduces employee turnover and absenteeism.
Example: Employees stay with a company that provides good salaries and promotion opportunities.

6. Helps in Acceptance of Organisational Changes

Motivation encourages employees to accept changes in technology, policies, and working methods.
Example: Motivated employees willingly learn new software introduced by the company.

Theories of Motivation

Motivation theories explain **what motivates employees to work, how motivation develops, and how managers can encourage employees to perform better.**

There are two main types of motivation theories:

1. **Content Theories:** Explain *what motivates people* by focusing on their needs.
2. **Process Theories:** Explain *how motivation works* and how people decide to put in effort.

1. Maslow's Need Hierarchy Theory

Proposed by **Abraham Maslow**

Maslow explained that human beings have **five levels of needs**. People generally try to satisfy their basic needs first and then move towards higher-level needs.



Five levels of needs

1. Physiological Needs (Basic Needs)

These are the basic needs required for survival, such as food, water, clothing and shelter.

Example: An employee works to earn a salary to buy food and pay rent.

2. Safety and Security Needs

After satisfying basic needs, people want safety, job security, stable income and protection from risks.

Example: An employee prefers a company that provides job security, insurance and a pension.

3. Social Needs

People want friendship, love, belongingness and good relationships with others.

Example: Employees feel motivated when colleagues cooperate and treat them as part of the team.

4. Esteem Needs

These needs include respect, recognition, status, confidence and appreciation.

Example: A manager praises an employee for excellent work and gives them an Employee of the Month award.

5. Self-Actualisation Needs

These refer to achieving one's full potential, developing talents and doing challenging or creative work.

Example: An employee gets the opportunity to lead an important project and develop new skills.

Main idea: When a lower-level need is reasonably satisfied, a higher-level need may become more important as a source of motivation.

Importance: Managers can understand employees' needs and provide suitable rewards, security, recognition and growth opportunities.

2.Herzberg's Motivation-Hygiene Theory

Also known as the Two-Factor Theory. Proposed by **Frederick Herzberg.**Herzberg explained that two different sets of factors affect employees' job satisfaction and dissatisfaction. This theory helps managers understand why good salaries alone may not be enough to keep employees motivated.

A. Hygiene factors

These factors help prevent dissatisfaction. However, providing them alone may not create strong, lasting motivation.

Examples:

- Salary and wages
- Job security
- Company policies
- Working conditions
- Relationship with colleagues and superiors
- Fringe benefits

Example: If employees receive very low salaries or work in an unsafe office, they may become dissatisfied. Fair salaries and safe conditions help prevent this dissatisfaction.

B. Motivational factors

These factors create greater job satisfaction and encourage employees to perform better.

Examples:

- Recognition and appreciation
- Achievement
- Promotion opportunities
- Responsibility
- Personal growth
- Meaningful and challenging work

Example: A company gives an employee responsibility for an important project and recognises their achievement. The employee feels proud and motivated to perform better.

Hygiene factors	Motivational factors
Prevent dissatisfaction	Increase job satisfaction
Salary, policies, security	Achievement, recognition, growth
Mainly related to job conditions	Mainly related to the work itself
Example: Safe workplace	Example: Promotion for good performance

3. McGregor's Theory X and Theory Y

Proposed by **Douglas McGregor in 1960**.McGregor explained two different ways managers think about employees. These assumptions influence how managers supervise and motivate their workers.

Theory X – Negative assumptions

According to Theory X, managers assume that:

1. Employees generally dislike work.
2. Employees avoid responsibility.
3. Employees need close supervision and control.
4. Employees may need pressure or punishment to achieve targets.
5. Employees mainly prefer job security.

Example: A manager checks employees constantly, gives strict orders and uses threats to make them complete their work.

Theory Y – Positive assumptions

According to Theory Y, managers assume that:

1. Employees can enjoy work when conditions are suitable.
2. Employees can accept responsibility.
3. Employees can motivate and control themselves.
4. Employees can be creative and innovative.
5. Employees can work towards organisational goals when they are committed.

Example: A manager trusts employees, allows them to suggest ideas and gives them freedom to complete their work.

Theory X	Theory Y
Work is considered unpleasant by many employees	Work can be enjoyable
Employees avoid responsibility	Employees can accept responsibility
Strict supervision	Trust and self-control
Autocratic management	Participative management
Limited employee involvement	Greater employee involvement

Theory X uses strict control, while Theory Y emphasises trust, participation and responsibility.Managers can choose a management style that suits the employees and the work situation. These are managerial assumptions, not fixed descriptions of every employee.

4. Alderfer's ERG Theory

Proposed by **Clayton Alderfer.**Alderfer simplified Maslow's five levels of needs into three categories: **Existence, Relatedness and Growth (ERG).**

1. Existence Needs (E)
These are needs related to physical survival and material security.
Examples: Salary, food, shelter, safe working conditions and job security.
Example: An employee wants a fair salary and a secure job.

2. Relatedness Needs (R)
These are needs related to relationships, communication, friendship and belongingness.

Example: An employee wants supportive colleagues and a good relationship with the manager.

3. Growth Needs (G)
These are needs related to personal development, creativity, achievement and career advancement.
Example: An employee wants to learn new skills, receive a promotion and handle challenging work.

Important feature of ERG theory

Unlike Maslow's theory, Alderfer did not say that people must satisfy needs in a strict order.

- More than one category of need can motivate a person at the same time.
- If a higher-level need cannot be satisfied, a person may focus more on lower-level needs. This is called **frustration-regression**.

Example: If an employee cannot get a promotion, they may focus more on salary increases or building stronger workplace relationships.
Employees have existence, relationship and growth needs, and these needs can operate together.

5. Vroom's Expectancy Theory

Proposed by **Victor Vroom.**Vroom explained that employees are motivated when they believe their effort will lead to good performance, good performance will lead to rewards, and those rewards are valuable to them. Managers should provide training, link performance with rewards fairly and offer rewards employees actually value.

This theory has three important elements.
1. Expectancy (Effort → Performance)
It means believing that putting in more effort will improve performance.
Example: An employee believes that studying and practising will help them achieve a high score.
2. Instrumentality (Performance → Reward)
It means believing that good performance will result in a reward.
Example: An employee believes that meeting sales targets will lead to a bonus.
3. Valence (Value of Reward)
It means how much an individual values the reward.
Example: An employee who wants a promotion will value a promotion more than a reward they do not want.

Formula
Motivation=E×I×VMotivation=$E \times I \times V$

Where:

- EE = Expectancy
- II = Instrumentality
- VV = Valence

If any one factor is zero, the motivational force in this model becomes zero.
Example: An employee works hard because they believe that their effort will improve performance, better performance will earn a bonus, and the bonus is important to them.

6. Equity Theory

Proposed by **J. Stacy Adams.**Equity theory explains that employees compare their contributions and rewards with those of other employees. They want fair treatment at work. When employees perceive unfairness, they may reduce their effort, ask for a raise, change how they view their situation or leave the organisation.
Employees are motivated by fairness in the relationship between their contributions and rewards.
Managers should maintain fair pay, transparent promotion policies and consistent treatment.

Four important elements

1. **Person:** The employee who evaluates fairness.
2. **Comparison other:** The person with whom the employee compares themselves.
3. **Inputs:** What the employee contributes, such as time, effort, education, experience and skills.
4. **Outcomes:** What the employee receives, such as salary, promotion, recognition and benefits.

Three possible situations

1. Equity (Fairness)
An employee believes their rewards are fair compared with their contributions and those of others.
Example: Two employees doing similar work with similar experience receive similar salaries.
2. Negative Inequity (Under-reward)
An employee believes they receive less than a comparable colleague despite making similar contributions.
Example: Two employees have similar duties, but one receives a much lower salary without a clear reason.
3. Positive Inequity (Over-reward)
An employee believes they receive more rewards than a comparable colleague for similar contributions.
Example: An employee receives a higher bonus than a colleague doing similar work.

7. Porter and Lawler Model

This model was developed by Lyman W. Porter and Edward E. Lawler. It extends the ideas of expectancy theory.The model explains that **effort does not automatically guarantee good performance or job satisfaction.** Performance also depends on ability, skills, understanding of the role and the rewards received.

Main components

1. **Value of rewards:** Employees work harder when the rewards are valuable to them.
2. **Effort-reward probability:** Employees consider whether their efforts are likely to result in rewards.
3. **Effort:** The amount of energy and work an employee puts into a task.
4. **Abilities and characteristics:** Employees need the appropriate skills, knowledge and capabilities to perform well.
5. **Role perception:** Employees must understand what work they are expected to do and how to do it.
6. **Performance:** The actual results achieved depend on effort, ability and role clarity.
7. **Rewards:** These may be intrinsic, such as a feeling of achievement, or extrinsic, such as salary, bonuses and promotions.

8. **Perceived fairness and satisfaction:** Employees feel satisfied when they believe the rewards they receive are appropriate and fair.

Example

A company asks an employee to achieve a sales target and promises a bonus.

- The employee values the bonus.
- They believe extra effort can improve sales.
- They have the required product knowledge and communication skills.
- They understand the sales target clearly.
- They work hard and achieve the target.
- They receive the promised bonus and feel satisfied if the reward is fair.

However, if the employee works hard but lacks training or does not understand the task, performance may remain poor.

❖ Controlling

(Controling:Meaning,Needs,Process,Techniques)

Meaning

Controlling is an important function of management. It ensures that all organisational activities are performed according to the plans, rules and standards established by management.In simple words, **controlling means checking actual performance, comparing it with planned performance, identifying mistakes and taking corrective action.**The main purpose of controlling is to ensure that organisational goals are achieved efficiently and effectively.

Definitions of Controlling

1. Henry Fayol: Control means checking whether everything is being done according to the plan, orders and principles, identifying mistakes and preventing them from happening again.
2. E. F. L. Brech: Control means checking current performance against predetermined standards to ensure satisfactory progress and performance.
3. Robert N. Anthony: Management control is the process through which managers ensure that resources are obtained and used effectively and efficiently to achieve organisational objectives.
4. Koontz and O'Donnell: Controlling means measuring and correcting the activities of subordinates to ensure that actual activities follow the plans.

Example

Suppose a company plans to produce 1,000 units in one week, but it produces only 800 units.

The manager will:

1. Check the actual production.
2. Compare it with the target of 1,000 units.
3. Identify the reasons for the shortfall, such as machine problems or a shortage of workers.
4. Take corrective action, such as repairing machines or providing additional workers.
5. Check whether production improves.

This entire process is called **controlling**.

Need for Control / Need for Control System

Meaning

A control system is necessary to ensure that the actual performance of employees and the organisation matches the planned performance. It helps managers identify mistakes, measure progress, use resources properly and achieve organisational objectives.
In simple words, **control is needed to check whether work is going according to plan and to correct it whenever necessary.**

15 Reasons for the Need for Control

1. For Effective Planning

Controlling helps managers check whether plans are being implemented properly. It provides feedback about progress and helps managers make changes when required.
Example: A company plans to sell 5,000 products in a month. Control helps the manager check whether the sales target is being achieved.

2. For Ensuring Consistency in Organisational Activities

Control ensures that rules, policies and procedures are followed consistently throughout the organisation. It reduces confusion, unfair treatment and differences in working methods.
Example: A company follows the same attendance rules for all employees.

3. For Making Organisations Effective

Control helps the organisation achieve its objectives by checking whether employees are performing their duties correctly.
Example: A manager regularly checks whether employees are completing customer orders on time.

4. For Achieving Organisational Efficiency

Control helps reduce unnecessary expenses, wastage of resources and delays. It ensures that the organisation achieves maximum output with minimum waste.
Example: A factory monitors electricity consumption to reduce production costs.

5. For Providing Feedback on Project Status

Control provides regular information about the progress of work. Managers can understand what is going well and what needs improvement.
Example: A project manager reviews a weekly progress report to check whether the project will be completed on time.

6. For Assisting in Decision-Making

Control provides accurate information about performance and problems. Managers use this information to make better decisions.
Example: If sales decrease, the manager studies the sales reports before deciding to change the marketing strategy.

7. For Applying Corrective Measures

Control identifies differences between actual performance and planned standards. Managers can then take corrective action to solve problems and prevent repeated mistakes.
Example: If machines produce defective products, the manager arranges repairs and improves quality checks.

8. For Gaining Maximum Cooperation from Human Resources

Employees are important for achieving organisational goals. Control helps managers monitor their work, identify difficulties and provide guidance to improve performance.
Example: A supervisor checks employees' work and provides training when they face difficulties.

9. For Maximising the Utilisation of Materials and Machines

Control prevents the misuse and wastage of materials, machinery and other resources. It helps ensure that resources are used efficiently.
Example: A factory monitors raw materials to prevent unnecessary wastage during production.

10. For Fixing Responsibility

Control helps managers identify who is responsible for good or poor performance. It makes employees accountable for their assigned duties.
Example: If a delivery is delayed, the manager checks the delivery records to identify where the problem occurred.

11. For Motivating Employees

When employees know that their performance will be evaluated fairly, they may become more focused on achieving targets. Appreciation and rewards for good performance can increase motivation.
Example: A company rewards employees who consistently achieve their sales targets.

12. For Encouraging Decentralisation

Decentralisation means distributing decision-making authority to lower levels of management. Control allows senior managers to monitor the performance of employees and departments even when authority is delegated.
Example: A branch manager is allowed to make local business decisions, while the head office reviews the branch's performance reports.

13. For Establishing Coordination Between Objectives, Resources and Efforts

Control helps maintain a balance between organisational goals, available resources and employees' efforts. It ensures that everyone works towards common objectives.
Example: A company coordinates its sales targets, production capacity and workforce so that customer demand can be met.

14. For Dealing with a Changing Environment

Business conditions change due to technology, customer preferences, competition and economic factors. Control helps managers identify these changes and modify plans accordingly.
Example: If customers begin preferring online shopping, a company may improve its online sales system.

15. For Keeping a Check on Undesirable Activities

Control helps prevent activities such as fraud, misuse of resources, unnecessary expenses and violations of company policies. It promotes discipline and ethical behaviour.
Example: A company checks financial records regularly to detect unauthorised expenses.

Control Techniques

Control techniques are methods used by management to check performance and achieve organisational goals.

They are divided into two types:

- Traditional Techniques
- Modern Techniques

A. Traditional Techniques

1) Personal Observation

In this technique, the manager personally observes employees and their work.
Example: A supervisor visits a factory and checks whether workers are following safety rules.
Advantages: Direct information and quick identification of problems.

2) Statistical Reports and Analysis

Managers use figures, percentages, averages and ratios to compare performance.
Example: A manager compares monthly sales and finds that sales have decreased by 15%.

This helps identify trends and take corrective action.

3) Control Through Costing

It means controlling costs by comparing actual costs with predetermined or standard costs.
Example: The planned production cost is ₹20,000, but the actual cost is ₹25,000. The manager investigates the extra ₹5,000 expense.
Purpose: To reduce wastage and unnecessary expenses.

4) Budgeting and Budgetary Control

A **budget** is a financial plan prepared for a specific period.
Budgetary control means comparing actual results with the budget and correcting deviations.

Example: A company budgets ₹10,000 for advertising but spends ₹15,000. Management investigates why the expenditure exceeded the budget.

Remember: Budget is the plan; budgetary control is the process of checking the plan against actual results.

5) Production Planning and Control

Production planning decides what to produce, how much to produce, and when to produce it.

Production control checks whether production is taking place according to the plan.
Example: A factory plans to produce 500 chairs in a week and monitors production to ensure that the target is achieved on time.

6) Operational Audit or Internal Audit

Internal audit means checking the organisation's accounts, activities and procedures by its internal auditing staff.
Example: An internal auditor checks whether the company's expenses are properly recorded and company rules are followed.
Purpose: To identify mistakes, prevent fraud and improve efficiency.

7) Profit and Loss Control

This technique examines the revenue, expenses and profit or loss of a business or department.
Example: Department A earns a profit of ₹2 lakh, while Department B suffers a loss of ₹50,000. Management investigates the reason for the loss.

8) External Audit Control

An external audit is an independent examination of a company's financial statements by an external auditor.
Example: An independent chartered accountant checks whether a company's financial statements present a fair picture of its financial position.
Purpose: To improve the reliability of financial information.

9) Break-Even Analysis

Break-even analysis determines the level of sales at which total revenue equals total cost.
At the break-even point, there is **no profit and no loss**.
Example: If a company earns ₹1,00,000 in revenue and incurs ₹1,00,000 in total costs, it reaches the break-even point.

It helps management:

- Determine the minimum sales required.
- Plan profits.
- Make pricing decisions.
- Compare actual and planned performance.

10) Financial Statement Analysis

It means analysing financial statements such as the balance sheet and profit and loss statement to understand the financial position of the business.
Example: A manager compares this year's profit with last year's profit to check whether the business is improving.

B. Modern Techniques

1) Return on Investment (ROI)

ROI measures the profit earned in relation to the investment made.

Formula:
ROI=Net IncomeTotal Investment×100ROI=Total InvestmentNet Income×100

Example: A company invests ₹1,00,000 and earns a net income of ₹20,000.
ROI=20,0001,00,000×100=20%ROI=1,00,00020,000×100=20%

This means the return on investment is 20%.

2) PERT and CPM

PERT stands for Programme Evaluation and Review Technique.

CPM stands for Critical Path Method.

Both are network techniques used for planning, scheduling and controlling projects.

- **PERT:** Useful when activity times are uncertain.
- **CPM:** Useful for identifying the critical path and activities that determine the minimum project completion time.
  Example: A construction company uses PERT or CPM to plan the sequence of activities involved in building a house.

3) Management Information System (MIS)

MIS collects, processes and presents information to managers to help them make decisions.
Example: A supermarket uses a computerised system to provide daily sales, inventory and profit reports.
Purpose: To provide timely and useful information for decision-making and control.

4) Management Audit

Management audit examines the overall performance and effectiveness of management.

It evaluates functions such as planning, organising, staffing, directing and controlling.
Example: Experts examine whether the company's management policies and procedures are helping it achieve its objectives.

5) Responsibility Accounting

Responsibility accounting measures the performance of different departments or responsibility centres.

Each centre has a manager who is accountable for its performance.

The centres may include:

- **Cost centre:** Responsible for controlling costs.
- **Profit centre:** Responsible for revenue and profit.
- **Investment centre:** Responsible for investment, revenue and profit.

Example: The production manager is responsible for controlling production costs, while the sales manager is responsible for achieving sales targets.

6) Human Resource Accounting (HRA)

HRA refers to identifying and measuring the costs and economic value of employees as organisational resources.

It considers costs such as recruitment, selection, training and employee development.
Example: A company calculates how much it spends on recruiting and training employees to understand its investment in human resources.

7) Quality Control

Quality control ensures that products or services meet predetermined quality standards.

It helps reduce defects, wastage and costs while improving customer satisfaction.
Example: A mobile phone manufacturer checks phones for defects before selling them to customers.

Quality can be checked during production and by inspecting raw materials, work-in-progress and finished products.

8) Total Quality Management (TQM)

TQM is an organisation-wide approach in which all employees continuously work to improve the quality of products, services and processes.
Example: A hotel regularly collects customer feedback and trains employees to improve service quality.

Basic Control Process

The **Basic Control Process** means checking whether the actual work is being done according to the plan and correcting mistakes if necessary.
Example: A company decides to produce 1,000 units in one month. At the end of the month, the manager checks actual production, compares it with the target and takes action if production is low.
There are **4 main steps** in the basic control process.

1. Setting Performance Standards

Performance standards are the targets or goals fixed by management. These standards help employees understand how much work they have to complete and what level of performance

is expected.standards can be set for sales, production, quality, cost, time and customer satisfaction.The four important factors are:

- **Quantity:** How much work should be completed?
- **Quality:** What quality should be maintained?
- **Time:** Within how much time should the work be completed?
- **Cost:** How much money should be spent?

Example: A company sets a target to produce 1,000 products in one month, maintain good quality and spend only ₹50,000.

2. Measuring Actual Performance

In this step, the manager checks the actual work completed by employees and measures the results.Performance can be measured through three sources:
- **Written Reports:** Information collected through written or computerised reports. *Example:* A production report shows that 800 units were manufactured.
- **Oral Reports:** Information provided verbally by employees or managers. *Example:* A salesperson tells the manager about daily sales and customer complaints.
- **Personal Observation:** The manager personally observes employees while they work. *Example:* A supervisor visits the factory and checks whether workers are following safety rules.

Example: The target was 1,000 units, but the company actually produced only 800 units.

3. Comparing Actual Performance with Standards

In this step, the manager compares actual performance with the predetermined standards to identify the difference.This difference is called a **deviation**.

- If actual performance meets the target, the work continues.
- If actual performance exceeds the target, the manager checks whether the improvement is beneficial and sustainable.

Example:

- Target production = 1,000 units
- Actual production = 800 units
- Deviation = 200 units below the target

The manager investigates why 200 fewer units were produced.

4. Taking Corrective Action

This is the final step of the control process. When a significant deviation is found, the manager takes necessary steps to correct the problem and achieve the desired results.

Corrective actions may include:

- Providing training to employees.
- Repairing faulty machines.
- Changing marketing strategies.
- Improving the production process.
- Introducing new rules or inspection methods.

Example: The company produced only 800 units because its machines were frequently breaking down. The manager repairs the machines and improves maintenance to increase production.