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Principles of Business Management

Unit 1

Q: What is management? Write about the characteristics and importance of management. (www.prepNext.com)

Ans.:

Definition

Management is an activity which is necessary wherever there is a group of working in an organisation. Management aims at guiding their efforts towards achieving a common objective – a goal.

E.g.– HCL has grown into a big and famous company because of its management.

According to Mary Parker Follett, “Management is the art of getting things done through others.”

According to F.W.Taylor, “Management is the co-operative, group directed actions of others towards common goals.”

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Characteristics or features of management

- **Goal oriented** – Management always aims at achieving the organisational objectives. The functions and activities of manager lead to the achievement of organisational objectives.
- **Pervasive** – Management is a universal phenomenon. The use of management is not restricted to business or non-business organisations. It is used in the whole world whether it is USA, UK or India.
- **Multidimensional** – Management does not mean one single activity but it includes three main activities:
 - (i) Management of work
 - (ii) Management of people
 - (iii) Management of operations
- **Continuous process** – Management is a continuous or never ending function. All the functions of management are performed continuously, for example planning, organising, staffing, directing and controlling are performed by all the managers all the time.
- **Group activity** – Management always refers to a group of people involved in managerial activities. The management functions cannot be performed in isolation. Each individual performs his/her at his/her status and department , then only management function can be executed.
- **Dynamic** – Management has to make changes in goal, objectives and other activities according to changes taking place in the environment. The external environment such as social, economical, technical and political environment has great influence over the management.

Importance of management

- *Helps in achieving group goal:* Management directs the efforts of all the individuals in the common direction of achieving organisational goal.

- *Improves efficiency:* Managers try to reduce the cost and improve productivity with minimum wastage of resources.
- *Creates a dynamic organisation:* Organisations have to survive in dynamic environment, so managers keep making changes in the organisation to match the environmental changes.
- *Helps in achieving personal objectives:* An efficient manager is the one who brings maximum prosperity for employer as well as employees. Managers lead the people in such a manner that along with organisational goal individual goal of employees is also achieved.
- *Helps in development of society:* Efficient management always has multiple objectives, they give importance to social obligations, insists on providing quality goods, creating employment opportunity etc.
- *Brings harmony in work:* In an organisation employees come from different backgrounds, they have different attitudes and different styles of working. This can lead to chaos and confusion in the organisation. By giving directions, managers bring uniformity and harmony in the action of employees.

Q: Write about the classical theory of management.

(www.prepNext.com)

Ans.:

The three important classical theories of management are:

- 1) Bureaucratic Model
- 2) Scientific management
- 3) Fayol's administrative management

BUREAUCRATIC MODEL – MAX WEBBER

Webber's bureaucratic model included the following—

- (i) There is clear separation between superior and subordinate.
- (ii) There is a division of labour based upon competence and functional specialisation.
- (iii) There is a clear divorce between personal and official matters.
- (iv) There is a system of rules, regulations and procedures.
- (v) There is a hierarchy in positions based on legal authority and power.

Characteristics of Bureaucracy

- **Division of Work** - There is a clear cut division of work in the bureaucratic organization. This leads to specialization of work.
- **Hierarchy of Authority** - is a proper hierarchy of authority in the organization. Each subordinate is accountable to his superior for his actions and work.
- **Rules and Regulations** - The rules and regulations and procedures are laid down for smooth working. They act as a guide for taking various decisions.
- **Staffing** - The employees are employed on a contractual basis and salaries are fixed as per the nature of work.
- **Impersonal Conduct** - There is impersonality in relationships and there is scope for nepotism and emotions while dealing with employees.
- **Technical Competence** - The employees are appointed through an impartial selection procedure. Promotions are based on technical competence and performance of employees.

Benefits of Bureaucracy

- 1) **Easy management process** - The rules and procedures are decided for every work, it leads to consistency in employee behaviour. Since employees are bound to follow the rules, the management process becomes easy.

- 2) **No overlapping of duties** -The duties and responsibilities of each job are clearly defined, there is no question of overlapping or conflicting job duties are eliminated.
- 3) **Better utilization of resources** -The selection process and promotion procedures are based on merit and expertise. It helps in putting right persons in right jobs.
- 4) **Division of Labor** - The division of labour helps workers in becoming experts in their jobs. The performance of employees improves considerably.

Disadvantages of Bureaucracy

- 1) **Red tapism and paper work** - This system suffers from too much of red tape and paper work.
- 2) **Lack of sense of belongingness** – The employees do not develop belongingness to the organisation.
- 3) **Inhibited growth** - The excessive reliance on rules and regulations and adherence to these policies inhibit initiative and growth of the employees.
- 4) **Resistance to change** - The employees become so used to the system, they to any change and introduction of new techniques of operations.

Conclusion

Webber's model will be preferred in those organisations where change is not anticipated or where rate of change can be predicted. Large business houses and government departments use this type of organisation.

Webber's model suffers from certain limitations. It has rigidity, impersonality, excessive cost of control, excessive dependence on superiors, tendency to ignore organisational goals. In spite of certain limitations, this model is very useful in large organisations.

SCIENTIFIC MANAGEMENT – F. W. TAYLOR

Taylor was rightly called the father of scientific management. His objective was to provide a scientific basis for designing and performing various jobs. He wanted managers to adopt scientific and systematic approach to managerial problems.

Principles of Scientific Management

- **Replacement of rule of thumb** - Taylor advocated the replacement of rule of thumb with scientific methods. The rule of thumb emphasizes estimation whereas scientific approach brings precision. Every work should be planned properly before it is carried out.
- **Cooperation** - The principle of cooperation was suggested to encourage a combined effort not only among workers but also between workers and management. Taylor suggested the change of thinking of the management and workers. Both should try to create mutual confidence, cooperation and goodwill.
- **Development of workers** - In scientific management workers have an important role to play. All the plans of raising output can be achieved only with the efforts of workers. Taylor emphasize the development of workers so that they are able to cope with the changing methods of work.
- **Maximum output** - The whole philosophy of scientific management advocates increased production and productivity. Taylor wanted to change the old methods of production so that rate of production should be increased.
- **Distribution of work** - The work and responsibility should be distributed between workers and management. The management should design the work, set up and supervise the work and the workers are free to perform the work.

Elements of Scientific Management

1. **Work Study** – Work study is related to analysing the work to be performed by eliminating unnecessary operations, reducing effort and increasing productivity.
2. **Standardisation of Tools and Equipment** – Taylor wanted to use only 'the best way of doing the work'. Proper tools and equipment are essential for increasing the speed of work.
3. **Scientific Selection, Placement and Training** – Taylor wanted a radical change in the methods and procedures of selecting workers. Workers should be selected by considering their education, experience and attitude towards work. The placement of workers should be such that only the most suitable persons are assigned the work. Orientation training should also be imparted to prepare them for new challenges.
4. **Introduction of Functional Foremanship** -Taylor advocated the concept of functional foremanship. Functional foremanship is the extension of the principle of specialisation or division of labour to the sphere of management. According to Taylor the two functions of planning and doing should be separated. By dividing this work in this with Taylor wanted to streamline the working of production department.
5. **Introducing Costing System** - Another important element of scientific management is the introduction of a system of cost accounting. As a tool of scientific management cost accounting helps
 - (a) To present costs for cost reduction and cost control.
 - (b) To enable estimation of costs and preparation of budgets.
 - (c) To increase efficiency and reduce wastages.

- 6. Mental Revolution** - Taylor's basic idea was to bring basic change in the mental attitude of workers and the management towards each other. Feeling that management was exploiting them, whereas management had the misgiving that workers always grumbled about the load of work. Mutual understanding and cooperation between management and workers was an essential aspect advocated by Taylor. Mental revolution was essential to improve the working of an organisation.

Opposition to Scientific Management

- 1. Unrealistic** - Taylor's emphasis of extreme specialisation is unrealistic. His expectation of efficiency was not possible in an average worker.
- 2. Human element ignored** - Taylor ignored human element in his approach. His emphasis on efficiency at all costs turned workers into mere machines.
- 3. Monotonous work** - Specialisation makes the work repetitive and monotonous. There is no room for initiative and fresh thinking.
- 4. General management ignored** - Taylor concentrated more on problems of factory management and did not touch upon the general management like planning, coordinating, controlling etc.

ADMINISTRATIVE MANAGEMENT –HENRY FAYOL

Henry Fayol observed that management was an activity common to all human undertakings. He indicated that managerial activity was the most important and deserved the most attention.

General Principles of Management

Fayol has suggested 14 principles of management. He named those principles which he himself used on most occasions. The management principal is fundamental truth and establishes cause-effect relationship while management element gives the functions performed by a manager.

- 1. Division of work (Specialisation)** – Division of work implies division of the total task in order to lighten the total burden and promote specialization in such a way that one person does only one thing rather than doing everything himself. This helps to avoid the waste of time and effort.
- 2. Parity between Authority and Responsibility** – This principle states that authority and responsibility should go side by side. A person can be accountable for certain activities only if he has been given authority for getting the work done.
- 3. Discipline** – Discipline means obedience, respect of authority and observance of the established rules. Discipline is essential for the smooth running of business, good supervision at all levels, clarity of rules and built in system of reward and punishment help to maintain discipline.
- 4. Unity of Command** – This principal states that one person should receive orders from only one superior. If one person is under more than one boss then there can be contradictory orders and the subordinate fails to understand whose orders to be followed.
- 5. Unity of Direction** - The principal of unity of direction implies that there should be "one head and one plan for a group of activities having the same objective." An organisation all group having different plants and more than one head cannot achieve the desired results.

- 6. Subordination of Individual Interest to General Interest** - This principle implies harmony of personal interest and common interest. Fayol was of the opinion that the interest of one employee or a group of employees should not prevail the interest of the enterprise as a whole.
- 7. Fair Remuneration to Workers** - Fayol was of the view that the remuneration paid to the workers should always be just and fair and should a Ford maximum satisfaction to both employees and employers.
- 8. Effective Centralisation** - Everything which goes to increase the importance of subordinate's role is decentralization and everything which goes to reduce it is centralisation. A balance must be maintained between centralisation and decentralisation of authority to attain the best possible results.
- 9. Scalar chain** - Scalar chain refers to the chain of superiors ranging from the ultimate authority to the lowest ranks. Fayol felt that a hierarchic channel called the scalar chain is necessary to ensure unity of command and effective communication.
- 10. Order** - The principle of order implies right man in the right job and right material in the right place. There must be material and social order in an enterprise.
- 11. Equity** - Fayol to encourage workers to fulfill their duties with devotion and loyalty, management should deal with employees with equity- based on kindness and justice.
- 12. Stability in the Tenure of Personnel** - Stability in the tenure of personnel is very essential because it takes time to get used to a job. Instability of tenure of personnel is both the cause and effect bad management. A very high rate of labour turnover or change of personnel increases costs of selection and training and creates a bad name for the organisation.

- 13. Initiative** - Initiative implies the power of thinking out a plan and ensuring its successful implementation. The manager should encourage or inspire the confidence of his subordinates so that they show initiative.
- 14. Esprit de corps** - This principle that there should be cooperation and teamwork among the members of an organisation. The manager must always make a constant effort to ensure harmony, cohesiveness and esprit de corps among his subordinates to ensure unity and high morale which is very essential for the success of an enterprise.

Criticism

Fayol's critics say that his theory is based on his personal experiences in an enterprise. Like any other scientific study, facts and observations have not been presented. Administrative theory has not been supported by empirical studies. Some principles given by Fayol are also contradictory in nature; the principle of unity of command is incompatible with division of work. This theory also does not pay adequate attention to workers. Despite of this criticism, Fayol's contribution has been unique and original.

Q: Compare Taylor and Fayol's contributions to the science of management. *(www.prepNext.com)*

Ans.

Both F. W. Taylor and Henry Fayol contributed to the science of Management. There are points of similarity and dissimilarity in the works of both these pioneers.

Similarity

1. Both of them realised the universality of management.
2. Both applied scientific methods to the problems of management.
3. Both realised the importance of personal and its management at all levels.
4. Both wanted to improve the management practice.
5. Both of them developed their ideas through practical experience.
6. Both of them emphasized mutual cooperation between employers and employees.

Dissimilarity

1. Taylor focused his attention on the problems of shop floor while Fayol concentrated on the functions of managers at top level.
2. The main aim of Taylor was to improve productivity of labour and eliminate wastages. Fayol attempted to develop a universal theory of management.
3. Taylor call his philosophy of work as 'Scientific Management' whereas Fayol described his work as ' General Theory of Administration'.
4. Taylor is known as Father of Scientific Management and Fayol as the Father of Principles of Management.
5. Fayol looksto the management in the wider perspective as compared to Taylor.

Q: Write in detail about the Neo – classical theory of management.
(www.prepNext.com)

Ans.:

Neo-classical theory deals with the human factor. Elton Mayo pioneered human relations to improve levels of productivity and satisfaction. Which was first highlighted by the improvements known as 'Hawthorne Experiments'. Elton Mayo and Mary Parker Follett are the main contributors of human relations approach. Neo-classical approach also causes 'Behavioral Science Management' which is a further refinement of human relations approach.

HUMAN RELATIONS MOVEMENT

Human relations movement deals with factors which encourage higher performance on the part of workers. The improvement of working conditions, lowering of hours of work, improvement of social relations of workers, besides monetary gains help in increasing productivity.

Elton Mayo

Elton Mayo and his associates greatly contributed to the human relations approach and Mayo is rightly called the father of Human Relations Movement.

Mayo's Contribution

Mayo wanted the management to understand the problems of workers and make efforts to redress them. His main contributions are described as follows:

1. Human relations approach - Mayo is rightly called the father of human relations movement. His ideas were a milestone and a turning point in human relations approach of the management. He recognised the importance of human factor in management. He said that human beings are complex and influential input into organisational performance. The social and psychological needs of human beings cannot be ignored.

2. Non economic awards- The traditional assumption was that workers will work more if they are offered more monetary incentives. Elton Mayo said that the techniques of economic incentives were not only inadequate but also unrealistic. He was able to show that humane and respectful treatment, sense of participation and belongingness, recognition, morale, human pride and social interaction are sometimes more important than pure monetary rewards.
3. Social man - Mayo developed a concept of 'social man'. He said that man is basically motivated by social needs and obtained his sense of identity through relationships with others. He is more responsive to the social forces of the poor group rather than managerial incentives and controls.
4. Organisation as a social system - Mayo was of the opinion that informal relationships in the organisation are more effective than formal relationships. People form informal groups to give a vent to their feelings and seek guidance for action from such groups. He thought that besides logic and facts people are also guided by sentiments and feelings.

Mary Parker Follett

Another thinker associated with human relations movement is Follett. Follett interpreted classical management principles in terms of human factor.

BEHAVIOURAL SCIENCES MOVEMENT

Behavioural science movement is regarded as a further refinement of human relations movement. It covered wider aspects in interpersonal roles and responsibilities. It laid emphasis on the application of the methods and findings of general and social psychology and sociology for understanding the organisational behaviour. The important aspects of behavioural approach were:

- (i) Motivation of employees for improving productivity,
- (ii) Organisation as a social system,
- (iii) Leadership-study of managerial behaviour,
- (iv) Communication for better understanding in the organisation,
- (v) Employee development- upgrading of employee and managerial skills.

The contributors of this thinking of Management included Abraham Maslow, Douglas McGregor, Rensi Linkert, Chester Bernard. Their contributions are discussed as follows:

Abraham Maslow

Abraham Maslow gave a general theory of motivation known as Need Hierarchy Theory. According to him:

- (i) People have a wide range of needs which motivate them to work,
- (ii) Human needs can be classified into different categories,
- (iii) Human needs can be arranged into hierarchy,
- (iv) Human beings start satisfying their needs step by step,
- (v) A satisfied need does not motivate human behaviour.

He classified the needs as follows:

1. **Physiological needs.** These needs are related to the survival and maintenance of life. These include food, shelter, clothing etc.
2. **Safety needs.** These consist of physical safety against murder, fire, accident, security against unemployment, etc.
3. **Social needs.** These are also called affiliation needs and includes need for love, affection, belonging or association with family, friends and other social groups.
4. **Ego or Esteem needs.** These are the needs derived from recognition, status, achievement, power, prestige etc.

5. **Self fulfillment or self-actuation.** It is the need to fulfill what a person considers to be his real mission in life. It helps an individual to realise one's potentialities to the maximum.

Maslow is of the opinion that these needs have a hierarchy and are satisfied one by one. When first needs are satisfied then the person moves to the second and when this is satisfied, he moved onto the third and so on.

Maslow's need priority is simple and logical. The theory contains some fundamental truths. His critics say that it is another simplification of human needs and motivation. The hierarchy of needs is not always fixed.

Douglas McGregor

McGregor is known for the development of a theory on Motivation. He named it is Theory X and Theory Y. Theory X represents the traditional and narrow view of human nature. Theory X assumes that the average worker is lazy and dislikes work. He is unambitious, avoids responsibility and prefers to be led. He does not bother about the organisational objectives so he should be directed to achieve these goals. There were instances where productivity increased in the absence of control and coercion. McGregor gave Theory Y as an answer to such situations. As per people are not lazy by nature as theory X supposes them to be but the treatment in the organisation makes them so. The work to people is as normal as play and rest. They will exercise Self control and self direction. People are ready to accept responsibility under proper conditions. This represents modern nature of workers.

Rensis Likert

He was of the view that traditional job oriented supervision was the cause of low productivity and low morale. He suggested participative management in the field of decision making. He classified management styles into following categories:

- (i) **Exploitative autocratic.** There is no participation of workers because these leaders have no confidence in them.
 - (ii) **Benevolent autocratic.** There is no proper confidence in subordinates and the relationship is that of a master and servant.
 - (iii) **Participative.** The subordinates are allowed to participate in decisions involving their lives. Leader does not have full confidence in them.
 - (iv) **Democratic.** In this style the confidence in subordinates is full and they meaningfully participate in decision making.
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Q: Compare Human Relations and Behavioral Sciences Approach of Management. (www.prepNext.com)

Ans.:

HUMAN RELATIONS APPROACH	BEHAVIOURAL SCIENCES APPROACH
1. This approach is focused on interpersonal relationships.	It is focused on group relations.
2. It lays emphasis on individual needs and behaviour	It emphasises group behaviour.
3. Conflict in organisation is taken as negatively and efforts are made to avoid it.	Conflict is considered to be a part of modern organisation and it may have positive effect also.
4. It was based on Hawthorne experiments so its scope is limited.	It refined human relations approach and has a wide scope.
5. Elton Mayo and his associates were the pioneers of this approach.	Maslow, McGregor, Likert were the authors of this approach.

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Q: Write in brief about the Systems Approach of Modern Management Theory. (www.prepNext.com)

Ans.:

The systems theory looks at the organisation as a whole examining all relevant organisation variables simultaneously. The main thrust of this approach is on the interdependence and interrelatedness of the various subsystems from the point of view of the effectiveness of a larger system.

According to *Cleland and King*, "A system is composed of related and dependent elements which, when in interaction, form a unitary whole."

In a business, the departments of production, marketing, personnel are sub-systems and the whole business is one system. Thus, each system may comprise several subsystems and, in turn, each subsystem maybe further composed of subsystems. Chester Bernard was the first to see management in the context of a system.

Features of Systems Approach

1. **Open system** - The traditional theory treated organisation as a closed system. But modern theory treats it as open system which has continuous interaction with the environment.
2. **Adaptive System** - Since organisation is related to environment, it has to adjust to the changing environment. In order to meet the challenges of environment, management has to bring changes in the subsystems of the organisation.
3. **Organisation as a Whole** - The organisation is looked as a whole which means that it is bigger than the sub-systems combined. In order to ensure effectiveness, the emphasis is laid on integration of various sub-systems.
4. **Sub-Systems** – The organization consists of various sub systems. The sub systems are interacting and interdependent. They are tied together through goals, authority flows, resources flows etc.

5. **Boundaries** – The organization provides a boundary which separates it from other systems. It determines which parts are internal and which parts are external. For example, employees in the organisation are within the boundary and customers are outside it.
6. **Multi-disciplinary Approach** - The modern theory of Management is enriched by contribution from various disciplines like psychology, sociology, economics, anthropology, mathematics, operations research and so on.

Uses

1. The systems approach helps in studying the functions of complex organisations.
2. It has been utilised as the base for the new kind of organisation like proper management organisation.
3. It is possible to bring out the interrelations in the various functions like planning, organising, directing and controlling.
4. This approach is better than others because it is close to reality.

Limitations

1. This approach is often called abstract and vague.
 2. It cannot be easily applied to practical problems.
 3. It does not provide any Tools and techniques for executives.
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Q: What is contingency or situational approach? Write in detail including the features, utility and limitations. (www.prepNext.com)

Ans.:

The contingency or situational approach emphasizes the fact that what managers practice depends upon a given set of circumstances (a contingency and situation). As per this approach, managers should develop variable methods, tools or action as per the specific situation or contingencies as they develop. The type of motivation, communication system, type of leadership in an organisation will depend upon the circumstances prevailing in different enterprises at different times.

Features

1. **Situational** – Management is entirely situational. The conditions of the situation will determine which technique and control systems should be designed to fit a particular situation.
2. **Policies and procedures as per environmental conditions** – Management policies and procedures should respond to environmental conditions. Various techniques and control systems should be designed to fit a particular situation.
3. **No one best way of managing** -Managers should understand that there is no one best way of managing. They should not treat management principles and techniques as universal. It will be the situation which will determine the techniques and methods of Management.

Practical utility of contingency approach

1. **Does not accept the universality of management theory** – This approach does not accept the universality of management theory. Management should deal with different situations differently. The conditions and complexities of the situation determine which approach should be adopted to deal with it.
2. **Policies adjusted changes in environment** –Managerial policies, strategies should be adjusted as per the changes in the environment. The external factors influence the working of the organisation.
3. **Anticipate and identify contingency** –There is a need to anticipate and identify the contingency by improving the diagnostic skills and acumen of the manager. There should be alternative and contingent plans to deal with the emerging situation.
4. **Action oriented** -This approach is action oriented and directed towards the application of systems concepts and the knowledge gained from other approaches.

Limitations

- (i) This approach lacks theoretical base.

- (ii) A manager is expected to know all the alternative courses of action before taking action in the situation, it is not always possible.
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Q: Differentiate between systems and contingency approach.

(www.prepNext.com)

Ans:

BASIS	SYSTEMS APPROACH	CONTINGENCY APPROACH
1. Emphasis	The emphasis is on interdependence and interaction among subsystems.	It emphasizes the impact of environment on organisational design and managerial style
2. Focus	The focus is on the internal environment and subsystems of the organisation.	The focus is on external environment of the organisation.
3. Situation	It treats all organisations alike and the background of the organisation is not taken into account.	Each organisation is taken as unique entity. Different organisations have different nature and face different situations.
4. Environment	The organisation interacts with the environment and adjust as per the changes.	The impact of the environment on organisation structure and managerial style is the major concern of contingency approach.
5. Model	It provides a theoretical model of understanding the organisation and its subsystems.	It suggests practical solution to organisational problems.
6. Classical principles	It is silent on the validity of classical principles of management.	It rejects the blind application of classical principles of management.