

BUSINESS ORGANISATION AND MANAGEMENT

Comprehensive Study Tutorial
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Unit I	Business Organisation and Business Environment
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UNIT I

Business Organisation and Business Environment

1.1 Meaning, Nature, Scope and Objectives of Business

The word "business" is derived from the word "busy". Business refers to any economic activity carried out regularly and systematically with the primary aim of earning profit. It involves the production, purchase, and sale of goods and services, and includes a wide range of activities — from agriculture and manufacturing to banking, insurance, and e-commerce.

According to **L. H. Haney**, "Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling of goods."

Nature of Business:

- **Economic Activity:** Business is an economic activity — it involves the creation, exchange, and distribution of economic goods and services.
- **Continuity:** Business is not a one-time transaction. It is carried on regularly and continuously over a period of time.
- **Profit Motive:** The primary aim is to earn profit. Without profit, a business cannot survive or grow.
- **Element of Risk and Uncertainty:** Every business activity involves risk — uncertainty about future income, market conditions, government policies, etc.
- **Deals with Goods and Services:** Business activities involve dealing with economic goods (tangible) and services (intangible).
- **Consumer Satisfaction:** Modern business views profit as a consequence of serving customers well.
- **Interdependence:** Businesses are interdependent on each other — a manufacturer depends on raw material suppliers, logistics providers, and retailers.

Objectives of Business:

- **Economic Objectives:** Earning profit, generating employment, creating wealth, producing goods at optimum cost.
- **Social Objectives:** Providing quality goods at fair prices, preventing pollution, contributing to community welfare.
- **Human Objectives:** Employee welfare — fair wages, good working conditions, opportunities for growth.
- **National Objectives:** Contributing to GDP, paying taxes, promoting exports, reducing regional imbalances.

Scope of Business: Business encompasses Industry (production), Commerce (trade and its auxiliaries), and all the supporting services — banking, insurance, transport, warehousing, and communication — that facilitate the flow of goods and services from producers to consumers.

1.2 Classification of Business Activities

Business activities are broadly classified into two categories: **Industry** and **Commerce**.

A. Industry

Industry refers to the production or processing of goods. It converts raw materials into finished products.

- **Primary Industry:** Extraction of natural resources. Includes agriculture, fishing, mining, forestry, and animal husbandry. This is the foundation of all business activity.
- **Secondary Industry:** Processing and manufacturing. Converts raw materials from primary industries into finished or semi-finished goods. E.g., steel plants, textile mills, automobile factories.
- **Tertiary Industry (Services):** Provides services that support industry and commerce. E.g., banking, transport, warehousing, insurance, communication.
- **Genetic Industry:** Reproducing and multiplying plants/animals for sale. E.g., nurseries, fish hatcheries, poultry farms.
- **Extractive Industry:** Extracting resources from land, sea, or air. E.g., coal mining, oil drilling, salt extraction.
- **Construction Industry:** Building infrastructure — roads, bridges, dams, buildings.
- **Manufacturing Industry:** Using machines to produce goods on a large scale. E.g., chemical plants, car manufacturing.

B. Commerce

Commerce refers to all activities that facilitate the exchange of goods and services. It includes **Trade** and **Aids to Trade** (auxiliaries).

- **Internal Trade (Home Trade):** Buying and selling within the boundaries of a country. Includes Wholesale trade (bulk buying/selling) and Retail trade (selling in small quantities to consumers).
- **External Trade (Foreign Trade):** Import (buying from other countries), Export (selling to other countries), Entrepot (re-exporting imported goods).

Aids to Trade (Auxiliaries):

- **Banking:** Provides finance, facilitates payments and money transfers.
- **Insurance:** Covers risks of loss, fire, theft, and accidents.
- **Transport:** Moves goods from place of production to place of consumption — removes place barrier.
- **Warehousing:** Stores goods until they are needed — removes time barrier.
- **Advertising:** Creates awareness and demand for products among consumers.
- **Communication:** Connects buyers, sellers, and intermediaries.

1.3 Forms of Business Organisation

The form of business organisation refers to the legal structure or type of ownership under which a business is established and operated. Each form has unique characteristics, advantages, and limitations.

A. Sole Proprietorship

A sole proprietorship is the simplest and oldest form of business organisation in which a single individual owns, manages, and controls the business. The owner and the business are legally the same entity.

Key Features:

- Owned and controlled by one person

- Unlimited personal liability — owner's personal assets at risk
- Undivided profits — all profits belong to the owner
- Ease of formation and dissolution
- No separate legal entity from the owner
- Suitable for small-scale, local businesses

Illustration: A kirana store, a local tailor, a home tutor, a street food vendor — all are examples of sole proprietorships.

Important: Advantages: Easy to start, complete control, direct motivation, confidentiality, quick decisions. Disadvantages: Limited capital, unlimited liability, lack of continuity, limited managerial ability.

B. Partnership

A partnership is defined by the Indian Partnership Act, 1932 as "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all." A partnership deed (written agreement) governs the relations among partners.

Essential Elements:

- Minimum 2 partners; maximum 20 (10 for banking)
- Agreement between partners — oral or written
- Profit and loss sharing in agreed ratio
- Mutual agency — each partner acts as agent of all others
- Unlimited joint and several liability
- No separate legal identity

Types of Partners:

- **Active Partner:** Takes active part in business management
- **Sleeping/Dormant Partner:** Contributes capital but does not participate in management
- **Nominal Partner:** Lends name/reputation; no investment; liable to outsiders
- **Partner by Estoppel:** Not actually a partner but represents himself as one; liable to third parties
- **Minor Partner:** Can be admitted to benefits of partnership but not liable for firm's debts

Illustration: A law firm with three advocates, a CA firm with two partners — classic examples of partnership.

C. Joint Hindu Family Business (HUF)

A business owned and managed by members of a Hindu Undivided Family (HUF) under the Hindu Law. It is unique to India. The head of the family (the **Karta**) manages the business. Other members are called **coparceners**.

- Governed by Hindu Law (not Partnership Act)
- Karta has unlimited liability; coparceners have limited liability
- Membership by birth (not by agreement)
- Business continues despite death of a member
- No maximum limit on members
- Karta has absolute decision-making power

D. Cooperative Society

A cooperative society is a voluntary association of persons who come together to protect and promote their common economic interests. It is governed by the **Cooperative Societies Act, 1912**. The motto is "each for all and all for each."

- Voluntary membership — open to all
- Democratic management — one member, one vote
- Limited liability of members
- Service motive over profit motive
- Surplus distributed as dividend on shares or as bonus based on transactions
- Registered body — separate legal entity

Types of Cooperatives:

- Consumer Cooperatives (Kendriya Bhandar)
- Producer Cooperatives (AMUL)
- Credit Cooperatives (Urban Cooperative Banks)
- Housing Cooperatives
- Marketing Cooperatives (NAFED)

E. Joint Stock Company

A joint stock company is a voluntary association of persons formed to carry on business, having capital divided into transferable shares, with limited liability for its members, and a separate legal existence. Governed by the **Companies Act, 2013**.

- Separate legal entity — can sue and be sued
- Limited liability — shareholders risk only their investment
- Perpetual succession — company's existence not affected by member changes
- Shares are freely transferable (especially in public companies)
- Managed by Board of Directors elected by shareholders
- Large capital can be raised from the public

Types of Companies:

- **Private Limited Company:** 2–200 members, cannot invite public to subscribe shares, name ends with "Pvt. Ltd."
- **Public Limited Company:** Minimum 7 members, can raise capital from public, name ends with "Ltd."
- **One Person Company (OPC):** Single-member company introduced by Companies Act 2013

F. Limited Liability Partnership (LLP)

LLP combines the advantages of a company (limited liability) with the flexibility of a partnership. Governed by the **LLP Act, 2008**. Minimum 2 partners, no maximum limit.

- Separate legal entity
- Partners have limited liability
- No requirement of minimum capital
- Perpetual succession
- Less regulatory compliance than a company
- Ideal for professional services firms (law, CA, consulting)

Feature	Sole Propr.	Partnership	Joint Stock Co.	LLP
Min. Members	1	2	2 (Pvt) / 7 (Pub)	2
Max. Members	1	20 (gen) / 10 (bank)	No limit (Pvt: 200)	No limit
Liability	Unlimited	Unlimited	Limited	Limited
Legal Status	No sep. entity	No sep. entity	Separate entity	Separate entity
Registration	Optional	Optional	Compulsory	Compulsory
Continuity	Uncertain	Uncertain	Perpetual	Perpetual
Capital	Limited	Moderate	Large	Flexible
Governing Law	—	Partnership Act 1932	Companies Act 2013	LLP Act 2008

1.4 Business Environment

The business environment comprises all the forces, factors, and institutions that are outside the control of a business enterprise but that can affect its performance and decisions. It is:

Characteristics of Business Environment: Dynamic (constantly changing) | Complex (multi-dimensional) | Uncertain (future is unpredictable) | Relative (varies by region and industry) | Interrelated (factors influence each other)

Components of Business Environment:

1. Internal Environment:

Factors within the organisation that affect its functioning. These are largely controllable.

- Value system and ethical standards of management
- Mission, vision, and objectives
- Organisational structure and policies
- Human resources — skills, culture, motivation
- Physical and financial resources

2. External Environment — Micro (Task/Immediate Environment):

Factors in the immediate business environment that directly affect operations.

- **Suppliers:** Availability and cost of raw materials affects production
- **Customers:** Changing tastes, buying behaviour, and expectations
- **Competitors:** Their strategies, pricing, and innovations
- **Market Intermediaries:** Wholesalers, retailers, agents, distributors
- **Public:** Media, financial community, general public opinion

3. External Environment — Macro (General Environment) — PESTEL:

F a c t o r	Full Form	Key Examples	Business Impact
P	Political	Government policies, stability, tax laws, trade regulations	Policy changes can open or restrict markets
E	Economic	GDP growth rate, inflation, interest rates, exchange rates, income levels	Determines purchasing power and cost of capital
S	Social	Demographics, cultural values, lifestyle changes, education level	Shapes consumer demand and workforce characteristics
T	Technological	R&D;, automation, digitisation, AI, e-commerce	Disrupts existing industries; creates new opportunities
E	Environmental	Climate change, pollution laws, CSR norms, sustainability	Rising pressure to adopt green practices
L	Legal	Consumer protection laws, labour laws, FEMA, competition law	Non-compliance leads to legal penalties

Illustration: When Reliance Jio launched in 2016, it dramatically changed the technological and competitive environment for all telecom companies — illustrating how macro factors (technology) rapidly alter micro conditions (competition).

UNIT II

Organisation Structure and Business Support Systems

2.1 Organisation — Meaning and Importance

Organisation, as a process, refers to the identification and grouping of activities, defining the authority-responsibility relationship, and coordinating efforts so that individuals can work effectively toward common goals.

Koontz and O'Donnell define it as: "Organisation involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate departments and the provision for authority, delegation and co-ordination."

Why Organisation is Important:

- Facilitates administration and coordination of activities
- Promotes specialisation — each person focuses on what they do best
- Defines authority and responsibility — avoids overlapping and confusion
- Enables effective communication by establishing clear channels
- Encourages creativity and initiative by defining freedom within structure
- Facilitates growth and diversification of the enterprise
- Provides for optimal use of resources — human, financial, and physical

Principles of Good Organisation:

Principle	Meaning	Practical Significance
Unity of Objective	All activities must contribute to organisational goals	Avoids wasted effort on non-essential activities
Division of Labour	Work divided into specialised tasks	Increases efficiency and expertise
Unity of Command	Each employee reports to only ONE superior	Prevents confusion and conflicting orders
Span of Control	No. of subordinates one manager can effectively supervise	Determines the shape of the hierarchy (tall vs. flat)
Scalar Principle	Clear hierarchy from top to bottom (chain of command)	Establishes clear authority lines and communication paths
Authority = Responsibility	Authority given must match responsibility assigned	Prevents accountability gaps

Exception Principle	Routine decisions delegated; exceptional matters referred up	Frees senior managers for strategic decisions
Flexibility	Structure must adapt to change	Prevents rigidity; supports organisational agility

2.2 Types of Organisation Structure

Organisation structure defines the formal system of task, authority, reporting, and communication relationships. The choice of structure depends on the size, nature, and complexity of the organisation.

A. Line Organisation

The oldest and simplest form of organisation. Authority flows in a direct vertical line from top to bottom. Each person is directly responsible to their immediate superior.

Illustration: Army organisation follows a pure line structure — each soldier reports to a sergeant, sergeants to a lieutenant, and so on up the chain.

Remember: Best suited for: Small organisations, routine work, emergency situations requiring quick decisions.

B. Functional Organisation (F.W. Taylor's Concept)

Different specialists (functional managers) are given authority over specific functions. Workers receive orders from multiple bosses — each expert in their domain. Taylor introduced this concept.

Important: Violates the principle of Unity of Command — a worker may receive conflicting orders from different functional managers. This is its major weakness.

C. Line and Staff Organisation

A combination of line and functional types. Line managers have command authority; staff specialists provide expert advice and support but have no direct command authority over line workers.

Illustration: In a factory: Production Manager (line) gives orders; Quality Control Expert (staff) advises — but cannot directly instruct production workers.

Remember: Most widely used in modern organisations. Best for: medium to large organisations needing specialist expertise without violating unity of command.

D. Committee Organisation

Work is organised around committees — groups of persons collectively responsible for decision-making or advisory functions. Common in government and large public organisations.

Structure	Authority Flow	Best For	Main Strength	Main Weakness
Line	Top to bottom directly	Small firms, military	Simplicity, fast decisions	No specialisation, manager overloaded

Functional	Each specialist to workers	Small firms needing expertise	Deep specialisation	Confusion — multiple bosses
Line & Staff	Line commands; staff advises	Medium/large firms	Combines expertise with clear authority	Conflict between line & staff
Committee	Collective group decisions	Boards, policy decisions	Democratic; wide expertise	Slow, no individual accountability

2.3 Delegation of Authority

Delegation of Authority means assigning work, granting authority, and creating accountability. It is the process by which a manager assigns a portion of their workload to a subordinate, along with the authority needed to accomplish the task, while remaining ultimately accountable for the outcome.

Elements of Delegation:

- **Authority:** The right or power to give orders, make decisions, and take action. Authority flows downward.
- **Responsibility:** The obligation to perform the assigned task. Cannot be fully delegated — the manager remains responsible.
- **Accountability:** The liability of the subordinate to report back on performance. Accountability flows upward.

Important: Authority can be delegated but responsibility CANNOT be fully delegated. A manager can delegate a task but remains responsible for the outcome. This is the principle of "Absoluteness of Accountability."

Barriers to Effective Delegation:

- Fear of subordinates doing better than the manager
- Lack of confidence in subordinates' ability
- Desire to maintain control over all decisions
- Poorly defined authority limits
- Subordinates avoiding responsibility (fear of failure)

2.4 Centralisation and Decentralisation

Aspect	Centralisation	Decentralisation
Decision-Making	Concentrated at top levels	Dispersed throughout organisation
Speed of Decisions	Slower (approval at top needed)	Faster (lower-level managers decide)
Control	Tighter, uniform control	Looser; varied control at different levels
Initiative	Limited for lower managers	Greater autonomy and initiative

Suitability	Small firms, crisis situations	Large, geographically spread organisations
Risk	Lower (centralised expertise)	Higher (varied decision-making)

Remember: Decentralisation is NOT the same as delegation. Delegation is a management technique (person to person); Decentralisation is an organisational philosophy (systematic dispersal of authority at all levels).

2.5 Departmentation

Departmentation is the process of dividing the organisation into smaller, manageable units called departments, each responsible for a specific range of activities.

Bases of Departmentation:

Basis	Example	Advantage
By Function	Marketing, Finance, HR, Production, R&D; departments	Most common; promotes specialisation
By Product	Smartphones Division, Laptops Division (e.g., Samsung)	Each division focuses on its product line; clear accountability
By Territory	North India Zone, South India Zone, International	Suitable for geographically spread organisations
By Customer	Retail Banking, Corporate Banking, NRI Banking	Focuses on specific customer needs
By Process	Spinning, Weaving, Dyeing, Finishing (textile factory)	Suitable for manufacturing; follows production flow

2.6 Business Support Institutions

The Government of India has established several institutions to support the growth and development of industries, particularly Micro, Small, and Medium Enterprises (MSMEs).

DICs — District Industries Centres

Set up by State Governments in 1978 to provide centralised assistance to small industries at the district level.

- Assisting in registration of SSI units
- Arranging finance and raw materials
- Providing market intelligence
- Conducting training programmes
- Granting licences and permits

SIDBI — Small Industries Development Bank of India

Established in 1990 as the apex financial institution for MSMEs. Provides credit, financial services, and promotional support.

- Providing direct credit to MSMEs
- Refinancing loans given by banks to MSMEs

- Promoting technology upgradation
- Micro-finance for self-employment

NSIC — National Small Industries Corporation

Set up in 1955, NSIC promotes MSMEs by providing marketing and technology support.

- Raw material procurement assistance
- Marketing support — single point registration scheme
- Technology transfer and modernisation
- Facilitating government tenders for MSMEs

2.7 Business Ethics

Business Ethics refers to the application of ethical principles and moral standards to business activities. It provides guidelines for appropriate conduct in commercial transactions and relationships.

Importance of Business Ethics:

- Builds trust and goodwill with customers and stakeholders
- Prevents legal violations and costly penalties
- Attracts and retains talented employees who value integrity
- Improves corporate image and brand reputation
- Promotes long-term profitability over short-term gains
- Creates a positive, motivated work environment

Common Ethical Issues in Business:

- **Bribery and Corruption:** Offering payments to gain unfair advantage in contracts or decisions
- **Deceptive Advertising:** Making false or misleading claims about products
- **Environmental Violations:** Illegal dumping of waste; exceeding pollution limits
- **Exploitation of Labour:** Child labour, underpayment, poor safety conditions
- **Insider Trading:** Using confidential information for personal stock market gain
- **Privacy Violations:** Misusing customer data for commercial benefit

2.8 Corporate Social Responsibility (CSR)

CSR is the commitment of a business to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life.

Legal Requirement: As per Section 135 of Companies Act, 2013, companies with net worth \geq ₹500 crore, or turnover \geq ₹1,000 crore, or net profit \geq ₹5 crore must spend at least **2% of average net profit** (of preceding 3 years) on CSR activities.

Areas of CSR Activity:

- Eradicating hunger, poverty, and malnutrition

- Promoting education, including special education for differently-abled
- Promoting gender equality and empowering women
- Environmental sustainability — clean energy, afforestation
- Contribution to national heritage and culture
- Rural development projects
- Disaster relief and management

Illustration: TATA Group spends millions annually on CSR through Tata Trusts — healthcare (cancer hospitals), education (scholarships), rural development. Infosys Foundation runs schools, libraries, and healthcare initiatives.

UNIT III

Fundamentals of Management

3.1 Meaning, Nature, Scope and Importance of Management

Management is the process of planning, organising, staffing, directing, and controlling the efforts of organisational members and deploying all organisational resources to achieve stated goals efficiently and effectively.

Peter Drucker said: "Management is a multi-purpose organ that manages a business, manages managers, and manages workers and work."

Nature of Management:

- **Universal:** Management principles apply to all types of organisations — business, government, educational, non-profit.
- **Goal-Oriented:** All managerial activities are directed toward achieving specific objectives.
- **Continuous Process:** Management is an ongoing process — functions overlap and repeat.
- **Integrative Force:** Management integrates all factors of production — men, machines, materials, money, and methods.
- **Art and Science:** Management is a science (systematic body of knowledge) as well as an art (personal skill in applying knowledge).
- **Social Process:** Management deals with and through people; human relations are central.
- **Dynamic:** Management adapts to changing environmental conditions.
- **Intangible:** You cannot see management — you can only see its results.

Importance of Management:

- Helps achieve group goals efficiently
- Optimises the use of resources
- Creates a dynamic organisation capable of adapting to change
- Develops society by creating employment and contributing to economic growth
- Improves the quality of life of individuals and communities
- Integrates human effort with organisational goals

3.2 Levels of Management

Management is practised at three levels, each with distinct roles, responsibilities, and skills required.

Level	Positions	Key Responsibilities	Skills Emphasis
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Top-Level Management	Board of Directors, CEO, MD, President	Setting organisational vision, mission, long-term strategy, and overall policy; liaising with external stakeholders	Conceptual skills (highest)
Middle-Level Management	Departmental Managers, Divisional Heads, Regional Managers	Interpreting and implementing top management plans; coordinating between top and lower management; departmental budgets	Balanced (all three)
Lower-Level / Supervisory Management	Supervisors, Foremen, Section Officers, Team Leaders	Directing and supervising workers; assigning tasks; ensuring quality; day-to-day operational control; grievance handling	Technical skills (highest)

3.3 Managerial Roles and Skills

Henry Mintzberg (1973) identified ten managerial roles grouped into three categories:

Category	Role	Description
Interpersonal	Figurehead	Performing ceremonial duties — signing documents, attending functions
	Leader	Motivating subordinates; hiring and training staff
	Liaison	Maintaining networks outside the vertical chain of command
Informational	Monitor	Scanning environment for information; tracking internal performance
	Disseminator	Transmitting information from external sources to organisational members
	Spokesperson	Representing the organisation to outsiders — press, government, shareholders
Decisional	Entrepreneur	Initiating change and innovation; seeking business opportunities
	Disturbance Handler	Responding to crises, conflicts, and unexpected problems
	Resource Allocator	Deciding how to distribute time, money, equipment, and staff
	Negotiator	Representing the organisation in major negotiations

Managerial Skills (Robert L. Katz Framework):

- **Technical Skills:** Specific knowledge, methods, and techniques required for a particular type of work. Critical at lower management levels. E.g., accounting knowledge for a finance manager.

- **Human/Interpersonal Skills:** Ability to work effectively with people — motivating, leading, communicating, resolving conflicts. Equally important at all levels.
- **Conceptual Skills:** Ability to see the organisation as a whole, understand how parts interact, and devise strategic responses to complex problems. Most critical at top management level.

3.4 Evolution of Management Thought

Management thought has evolved over centuries. The major schools of management are:

A. Scientific Management — F.W. Taylor (1856–1915)

Frederick Winslow Taylor is called the "**Father of Scientific Management.**" He applied scientific methods to study work and improve efficiency.

Principles of Scientific Management:

- **Science, Not Rule of Thumb:** Replace guesswork with scientific study of each task
- **Scientific Selection and Training:** Match workers to tasks scientifically; train them systematically
- **Cooperation, Not Discord:** Replace conflict between management and workers with harmony
- **Division of Work and Responsibility:** Management plans and organises; workers execute

Taylor's Techniques:

- **Time Study:** Determine the standard time to complete a task
- **Motion Study:** Eliminate unnecessary motions; find the one best way
- **Differential Piece-Rate System:** High rate for output above standard; low rate below
- **Functional Foremanship:** Eight specialists supervise different aspects of work
- **Standardisation:** Standardise tools, equipment, and working conditions

B. Administrative Management — Henri Fayol (1841–1925)

Henri Fayol, a French industrialist, is called the "**Father of Modern Management**" or "**Father of General Management.**" He identified management as a universal function and described it through 5 functions and 14 principles.

Fayol's 14 Principles of Management:

1. Division of Work	Specialisation increases efficiency — each person focuses on a limited range of tasks
2. Authority & Responsibility	Authority = right to give orders; Responsibility = obligation to perform. Must be balanced.
3. Discipline	Obedience to rules and agreements; necessary for smooth functioning
4. Unity of Command	Each employee should receive orders from only ONE superior
5. Unity of Direction	One plan and one head for each group of activities with the same objective
6. Sub. of Individual Interest	Organisational goals take priority over individual interests
7. Remuneration	Fair and reasonable pay — satisfies both employee and employer
8. Centralisation	Degree of concentration of authority — depends on situation and organisation size

9. Scalar Chain	Unbroken chain of authority from top to bottom; communication should follow this chain
10. Order	Everything and everyone in its proper place — material and social order
11. Equity	Kind, fair, and just treatment of all employees
12. Stability of Tenure	Reducing unnecessary employee turnover — employees need time to settle into their roles
13. Initiative	Encouraging employees to develop and execute plans; boosts morale and creativity
14. Esprit de Corps	Team spirit and unity among employees; "In union there is strength"

C. Human Relations School — Elton Mayo (1880–1949)

Elton Mayo and his associates conducted the famous **Hawthorne Experiments** (1924–1932) at Western Electric Company in Chicago. The findings revolutionised understanding of worker behaviour.

Key Findings of Hawthorne Studies:

- Social and psychological factors are MORE important than physical conditions in determining worker productivity
- Informal group norms significantly influence worker behaviour and output
- Workers seek recognition, security, and sense of belonging — not just money
- Supervision style (sympathetic and participative) matters more than rules
- The "Hawthorne Effect" — workers increase output when they know they are being observed

3.5 Functions of Management

Management is often described by its functions. The most widely accepted list includes six functions:

A. Planning

Planning is the primary function of management. It involves deciding in advance what to do, when to do it, how to do it, and who will do it. It bridges the gap between where we are and where we want to be.

- **Mission:** The fundamental purpose of the organisation's existence — "why we exist"
- **Vision:** What the organisation aspires to become in the long run
- **Objectives:** Specific, measurable targets to be achieved within a time frame
- **Strategies:** Broad plans indicating how objectives will be achieved
- **Policies:** General guidelines for decision-making
- **Procedures:** Step-by-step instructions for routine activities
- **Rules:** Specific dos and don'ts with no room for discretion
- **Programmes:** Combination of objectives, policies, procedures, budgets for a specific course of action
- **Budget:** Financial plan expressed in numerical terms

B. Organising

Organising involves arranging and structuring resources and tasks to achieve the organisation's goals. It follows planning and creates the structure within which people work.

- **Identifying activities:** List all tasks required to achieve the plan
- **Grouping activities:** Group similar tasks into departments (departmentation)
- **Assigning duties:** Allocate specific tasks to specific individuals
- **Delegating authority:** Grant necessary authority to perform the tasks
- **Coordinating:** Establish reporting relationships and coordination mechanisms

C. Staffing

Staffing is the managerial function of filling and keeping filled the positions in the organisation structure. It ensures the right people are in the right jobs at the right time.

- **Manpower Planning:** Assessing future HR needs
- **Recruitment:** Attracting qualified candidates
- **Selection:** Choosing the best candidate from the pool
- **Placement and Induction:** Placing new employees and orienting them
- **Training and Development:** Enhancing skills and knowledge
- **Performance Appraisal:** Evaluating employee performance
- **Promotion and Transfer:** Career growth and workforce flexibility
- **Compensation:** Fair pay, benefits, and incentives

D. Directing

Directing is the managerial function of activating group efforts to achieve the desired objectives. It involves instructing, guiding, motivating, and leading subordinates.

- **Leadership:** Influencing people to work willingly toward goals
- **Motivation:** Creating internal drive in employees to perform
- **Communication:** Transferring information, ideas, and instructions
- **Supervision:** Overseeing work to ensure it is done as planned

E. Coordinating

Coordination involves synchronising and integrating the activities of different departments and individuals to ensure unified action toward common goals. Mary Parker Follett called it "the essence of management."

- **Voluntary Coordination:** Willingness of all units to work harmoniously
- **Through Committees:** Joint meetings for discussing common issues
- **Liaison Officers:** Dedicated persons linking departments
- **Standing Plans:** Standard policies and procedures that ensure consistent behaviour

F. Controlling

Controlling is the process of comparing actual performance with standards, identifying deviations, and taking corrective action to ensure organisational goals are achieved.

- **Set Standards:** Establish measurable performance benchmarks
- **Measure Actual Performance:** Collect data on what is actually happening
- **Compare with Standards:** Identify variances (positive or negative)
- **Analyse Deviations:** Identify causes of significant variances
- **Take Corrective Action:** Fix problems — revise plans, retrain people, or adjust standards

UNIT IV

Contemporary Management Practices

4.1 Decision-Making

Decision-Making is the process of identifying and selecting a course of action from several alternatives to solve a specific problem. It is the core of all management functions — every managerial action involves a decision.

Types of Decisions:

- **Programmed (Routine) Decisions:** Structured, repetitive decisions with established rules. E.g., reordering stock when it falls below minimum level.
- **Non-Programmed (Non-Routine) Decisions:** Unstructured, unique, and complex decisions. E.g., whether to enter a new market, launch a new product.
- **Strategic Decisions:** Long-term decisions made by top management affecting the entire organisation.
- **Tactical Decisions:** Medium-term decisions made by middle management to implement strategy.
- **Operational Decisions:** Day-to-day decisions made by lower management to run operations.

Decision-Making Process (7 Steps):

1. Identify and define the problem clearly — what exactly is wrong or needs to change?
2. Gather relevant data and information from reliable internal and external sources
3. Develop all feasible alternative solutions — brainstorm without judging
4. Evaluate each alternative — assess costs, benefits, risks, and feasibility
5. Select the best alternative — the one that best achieves the objective with acceptable risk
6. Implement the selected decision — allocate resources and assign responsibilities
7. Monitor and evaluate the outcome — did it solve the problem? Take corrective action if needed

Decision-Making Techniques:

- **Marginal Analysis:** Comparing marginal costs and benefits of alternatives
- **Ratio Analysis:** Financial ratios to evaluate investment and operational decisions
- **Brainstorming:** Group creative session to generate many alternatives without criticism
- **Delphi Method:** Expert panel reaches consensus through multiple rounds of questionnaires (no face-to-face)
- **Decision Tree:** Graphic diagram showing decisions, uncertainties, and outcomes in a tree structure
- **Operations Research (OR):** Mathematical techniques (linear programming, simulation) for optimal resource allocation
- **Cost-Benefit Analysis:** Comparing total expected costs vs. total expected benefits of alternatives

4.2 Leadership

Leadership is the ability to influence, inspire, and guide others toward the achievement of organisational goals. A leader creates a vision, communicates it, and motivates people to work toward it willingly.

Stogdill defined leadership as: "The process of influencing the activities of an organized group in its efforts towards goal setting and goal achievement."

Qualities of an Effective Leader:

- Physical vitality and stamina — energy and persistence
- Intelligence and judgment
- Willingness to take responsibility and accept consequences
- Technical competence in the field
- Ability to understand followers — empathy
- Motivational ability — inspiring action in others
- Courage and resolution — making unpopular decisions when necessary
- Trustworthiness — honesty and integrity in all dealings
- Decisiveness — making timely decisions
- Adaptability — adjusting style to situation

Leadership Styles:

Style	Description	Communication	Best When	Limitation
Autocratic	Leader decides alone; dictates to subordinates	One-way (top-down)	Crisis; unskilled workers; military	No creativity; low morale long-term
Democratic / Participative	Leader involves group in decisions	Two-way; open discussion	Skilled teams; creative work; complex problems	Slow; not suitable in emergencies
Laissez-Faire	Leader delegates fully; minimal guidance	Rare; subordinates decide	Highly expert, autonomous professionals	Ineffective with low-skilled or unmotivated teams
Transformational	Inspires major change; appeals to values	Visionary, inspirational	Organisational change; long-term development	Difficult to sustain; high demands on leader
Transactional	Rewards compliance; punishes failure	Contractual; clear expectations	Routine, stable environments	Doesn't inspire innovation or growth

4.3 Motivation

Motivation is the process of stimulating people to act in a desired manner. It is the inner drive that causes individuals to take action toward their goals. Motivated employees are more productive, creative, and committed.

Koontz defined it as: "The general term applying to the entire class of drives, desires, needs, wishes and similar forces."

Theories of Motivation:

A. Maslow's Hierarchy of Needs (1943)

Abraham Maslow proposed that human needs are arranged in a five-level hierarchy. Once a lower-level need is satisfied, it no longer motivates — people are motivated by the next unsatisfied need.

Level	Need Type	Description	Organisational Provision
5 (Highest)	Self-Actualisation	Realising full potential; growth, creativity	Challenging work, creative freedom, advancement
4	Esteem Needs	Status, recognition, achievement, self-respect	Awards, promotions, job titles, praise
3	Social/Love Needs	Belonging, friendship, group acceptance	Teamwork, company social events, supportive culture
2	Safety Needs	Security from physical and financial harm	Job security, safe workplace, insurance, pension
1 (Lowest)	Physiological Needs	Food, shelter, clothing, rest	Adequate salary, working conditions, rest periods

B. Herzberg's Two-Factor Theory

Frederick Herzberg identified two sets of factors affecting job satisfaction and motivation:

Hygiene Factors (Prevent Dissatisfaction)	Motivators (Create Satisfaction)
Salary and fringe benefits	Achievement and recognition
Job security	Responsibility and autonomy
Working conditions (physical)	Advancement and growth
Company policies and administration	The work itself (intrinsic interest)
Quality of supervision	Possibility of personal development
Interpersonal relationships at work	Sense of accomplishment

Remember: Hygiene factors alone do NOT motivate — they only prevent dissatisfaction. Real motivation comes from the Motivators (achievement, recognition, growth). A well-paid employee in a boring job may not be dissatisfied but won't be motivated either.

C. McGregor's Theory X and Theory Y

Theory X (Pessimistic View)	Theory Y (Optimistic View)
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People inherently dislike work and avoid it	Work is as natural as play or rest for people
Must be coerced, controlled, directed, threatened	People will self-direct if committed to goals
Prefer to be directed; avoid responsibility	People seek and accept responsibility
Have little ambition; desire security above all	Creativity and imagination are widely distributed
Requires authoritarian management style	Requires participative, democratic management style

4.4 Communication

Communication is the process of transmitting information, ideas, facts, opinions, and feelings from one person or group to another to create mutual understanding and enable coordinated action.

Keith Davis defined it as: "Communication is the process of passing information and understanding from one person to another."

Communication Process:

Sender → Encoding → Message → Channel/Medium → Decoding → Receiver → Feedback (with Noise at every stage)

- **Sender:** The person who initiates and transmits the message
- **Encoding:** Converting thoughts/ideas into symbols, words, or gestures that can be transmitted
- **Message:** The actual content (idea, information, feeling) to be transmitted
- **Channel/Medium:** The path through which the message travels (email, phone, face-to-face, memo)
- **Decoding:** The receiver interprets/translates the message into understandable form
- **Receiver:** The person for whom the message is intended
- **Feedback:** The receiver's response — confirms whether the message was correctly understood
- **Noise:** Any distortion or barrier that interferes with the message at any stage

Types of Communication:

Type	Basis	Description	Examples
Formal	Official channel	Follows the chain of command; documented	Official memos, circulars, performance reports
Informal (Grapevine)	Social channel	Unofficial, unplanned; spreads quickly	Rumours, gossip, water-cooler conversations
Downward	Direction	Top management to subordinates	Instructions, policies, task assignments

Upward	Direction	Subordinates to management	Reports, feedback, grievances, suggestions
Horizontal/Lateral	Direction	Between peers at same level	Inter-departmental coordination meetings
Diagonal/Cross	Direction	Between different levels across departments	Project team communications across departments
Verbal	Form	Spoken communication	Meetings, presentations, phone calls, interviews
Non-Verbal	Form	Body language, gestures, appearance	Facial expressions, eye contact, posture, dress

Barriers to Communication and How to Overcome Them:

Barrier	Description	How to Overcome
Physical / Noise	Environmental distractions; poor technology	Use proper channels; reduce noise; improve infrastructure
Semantic	Different interpretations of words/symbols	Use simple, clear language; define technical terms
Psychological	Emotions, biases, perceptions distort meaning	Create positive climate; empathy; active listening
Organisational	Too many levels; information overload; status barriers	Reduce hierarchy; use multiple channels; open-door policy
Cultural	Different norms, values, language across cultures	Cultural sensitivity training; use neutral language
Information Overload	Too much information causes filtering and distortion	Prioritise information; use summaries and highlights

4.5 Coordination and Control

Coordination is the process of integrating activities of different units to ensure harmonious action. It is NOT a separate management function — it pervades all functions.

Control is the process of measuring actual performance against planned standards, identifying deviations, and taking corrective action.

Steps in the Control Process:

- 1. Establishing Standards:** Setting benchmarks (financial, quality, time, quantity)
- 2. Measuring Actual Performance:** Collecting data — reports, audits, observation
- 3. Comparing Performance with Standards:** Identifying variances

4. **Analysing Deviations:** Finding root causes of significant variances
5. **Taking Corrective Action:** Fix the problem — revise plans, retrain, restructure

Techniques of Control:

- **Budgetary Control:** Plans expressed in financial terms; actual vs. budgeted expenditure monitored
- **Break-Even Analysis:** Determines the level of sales at which total costs equal total revenue
- **Statistical Reports and Charts:** Graphs, averages, and trend analyses for operational control
- **Management Audit:** Systematic review of management systems, policies, and procedures
- **Management Information System (MIS):** Provides timely, accurate information for decision-making and control
- **PERT/CPM:** Project scheduling tools for time and resource control

4.6 Corporate Governance

Corporate Governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It provides the framework for attaining a company's objectives, encompassing every sphere — from action plans to internal controls, performance measurement, and corporate disclosure.

Principles of Corporate Governance:

- **Transparency:** Open, accurate, and timely disclosure of all material information to all stakeholders
- **Accountability:** Board and management are accountable for their decisions and performance to shareholders
- **Fairness:** Equal and equitable treatment of all shareholders, including minority shareholders
- **Responsibility:** Corporate decisions must comply with laws, ethical norms, and social responsibility
- **Independence:** Independent directors ensure decisions are free from vested interests and conflicts

Key Governance Mechanisms:

Board of Directors: Oversees management; sets strategy; includes independent directors who provide unbiased oversight.

Audit Committee: Monitors financial reporting, internal controls, and external audit.

Disclosure and Transparency: SEBI (LODR) Regulations require listed companies to disclose quarterly financial results, related party transactions, and material events.

Illustration: After major corporate scandals — Enron (USA, 2001), Satyam (India, 2009) — governments tightened corporate governance laws. India's Companies Act 2013 mandated independent directors, whistleblower mechanisms, and CSR spending.

4.7 Digital Transformation in Business Management

Digital transformation refers to the fundamental change in how organisations deliver value to customers by integrating digital technology across all business areas — not just IT. It changes the culture, processes, and

customer experience.

- **Cloud Computing:** Delivery of computing services (servers, storage, software) over the internet. Reduces IT capital costs; provides scalability. E.g., Microsoft Azure, Google Cloud, AWS.
- **Big Data and Analytics:** Processing massive datasets to extract actionable insights. Enables data-driven decision-making in marketing, supply chain, and risk management.
- **Artificial Intelligence (AI) & Machine Learning:** AI powers automation, predictive analytics, natural language processing, and intelligent decision support systems. E.g., chatbots, fraud detection.
- **E-Commerce and Digital Platforms:** Online marketplaces (Amazon, Flipkart) have transformed retail. B2B, B2C, C2C, and D2C models driven by digital infrastructure.
- **Enterprise Resource Planning (ERP):** Integrated software (SAP, Oracle) that connects all business functions — finance, HR, production, supply chain — in real time.
- **Social Media and Digital Marketing:** SEO, content marketing, influencer marketing, and social media advertising enable targeted, measurable customer acquisition at low cost.
- **FinTech and Digital Payments:** UPI, digital wallets (Paytm, PhonePe), net banking have transformed financial transactions for businesses and consumers alike.

QUICK REVISION

Complete Summary — Key Terms, Concepts & Comparisons

Master Comparison: Forms of Business Organisation

Feature	Sole Prop.	Partnership	HUF	Coop. Society	Company (Pvt/Pub)	LLP
Formation	No formality	Agreement	By birth	Registration	Registration	Registration
Min Members	1	2	2 coparceners	10	2/7	2
Max Members	1	20	No limit	No limit	200/No limit	No limit
Liability	Unlimited	Unlimited	Karta: unlimited, others: limited	Limited	Limited	Limited
Legal Status	No	No	No	Yes	Yes	Yes
Capital	Own funds	Partners' funds	Joint family prop.	Shares (members)	Shares	Partners' funds
Continuity	Death dissolves	Death may dissolve	Death may dissolve	Perpetual	Perpetual	Perpetual
Tax	PGBP (personal)	PGBP (firm)	HUF tax status	Cooperative tax	Corporate tax	Corporate tax

Key Theorists and Their Contributions

Theorist	School/Era	Key Contribution
F.W. Taylor	Scientific Mgmt (1900s)	Time & motion study; differential piece rate; functional foremanship; "Science not rule of thumb"
Henri Fayol	Administrative Mgmt (1916)	14 Principles; 5 Functions (POCCC); "Father of Modern Management"
Elton Mayo	Human Relations (1930s)	Hawthorne experiments; social factors matter most; group norms and leadership style affect output
Abraham Maslow	Motivation (1943)	Hierarchy of Needs — 5-level pyramid; lower needs first

Frederick Herzberg	Motivation (1959)	Two-Factor Theory — Hygiene factors vs. Motivators
Douglas McGregor	Motivation/Leadership (1960)	Theory X (authoritarian) vs. Theory Y (participative)
Henry Mintzberg	Managerial Roles (1973)	10 managerial roles in 3 categories: Interpersonal, Informational, Decisional
Robert L. Katz	Managerial Skills	Technical, Human, and Conceptual skills framework

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All the best for your examinations!

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