**COURSE GUIDE**

**BUSINESS CONCEPTS**

****

**FIRST DRAFT**

**Chapter 1**

Planning Function of Management

**Planning** means looking ahead and chalking out future courses of action to be followed. It is a preparatory step. It is a systematic activity which determines when, how and who is going to perform a specific job. Planning is a detailed programme regarding future courses of action.

It is rightly said “**Well plan is half done**”. Therefore planning takes into consideration available & prospective human and physical resources of the organization so as to get effective co-ordination, contribution & perfect adjustment. It is the basic management function which includes formulation of one or more detailed plans to achieve optimum balance of needs or demands with the available resources.

According to Urwick, “Planning is a mental predisposition to do things in orderly way, to think before acting and to act in the light of facts rather than guesses”. Planning is deciding best alternative among others to perform different managerial functions in order to achieve predetermined goals.

According to Koontz & O’Donell, “Planning is deciding in advance what to do, how to do and who is to do it. Planning bridges the gap between where we are to, where we want to go. It makes possible things to occur which would not otherwise occur”.

Steps in Planning Function

*Planning function of management* involves following steps:-

1. **Establishment of objectives**
   1. Planning requires a systematic approach.
   2. Planning starts with the setting of goals and objectives to be achieved.
   3. Objectives provide a rationale for undertaking various activities as well as indicate direction of efforts.
   4. Moreover objectives focus the attention of managers on the end results to be achieved.
   5. As a matter of fact, objectives provide nucleus to the planning process. Therefore, objectives should be stated in a clear, precise and unambiguous language. Otherwise the activities undertaken are bound to be ineffective.
   6. As far as possible, objectives should be stated in quantitative terms. For example, Number of men working, wages given, units produced, etc. But such an objective cannot be stated in quantitative terms like performance of quality control manager, effectiveness of personnel manager.
   7. Such goals should be specified in qualitative terms.
   8. Hence objectives should be practical, acceptable, workable and achievable.
2. **Establishment of Planning Premises**
   1. Planning premises are the assumptions about the lively shape of events in future.
   2. They serve as a basis of planning.
   3. Establishment of planning premises is concerned with determining where one tends to deviate from the actual plans and causes of such deviations.
   4. It is to find out what obstacles are there in the way of business during the course of operations.
   5. Establishment of planning premises is concerned to take such steps that avoids these obstacles to a great extent.
   6. Planning premises may be internal or external. Internal includes capital investment policy, management labour relations, philosophy of management, etc. Whereas external includes socio- economic, political and economical changes.
   7. Internal premises are controllable whereas external are non- controllable.
3. **Choice of alternative course of action**
   1. When forecast are available and premises are established, a number of alternative course of actions have to be considered.
   2. For this purpose, each and every alternative will be evaluated by weighing its pros and cons in the light of resources available and requirements of the organization.
   3. The merits, demerits as well as the consequences of each alternative must be examined before the choice is being made.
   4. After objective and scientific evaluation, the best alternative is chosen.
   5. The planners should take help of various quantitative techniques to judge the stability of an alternative.
4. **Formulation of derivative plans**
   1. Derivative plans are the sub plans or secondary plans which help in the achievement of main plan.
   2. Secondary plans will flow from the basic plan. These are meant to support and expediate the achievement of basic plans.
   3. These detail plans include policies, procedures, rules, programmes, budgets, schedules, etc. For example, if profit maximization is the main aim of the enterprise, derivative plans will include sales maximization, production maximization, and cost minimization.
   4. Derivative plans indicate time schedule and sequence of accomplishing various tasks.
5. **Securing Co-operation**
   1. After the plans have been determined, it is necessary rather advisable to take subordinates or those who have to implement these plans into confidence.
   2. The purposes behind taking them into confidence are :-
      1. Subordinates may feel motivated since they are involved in decision making process.
      2. The organization may be able to get valuable suggestions and improvement in formulation as well as implementation of plans.
      3. Also the employees will be more interested in the execution of these plans.
6. **Follow up/Appraisal of plans**
   1. After choosing a particular course of action, it is put into action.
   2. After the selected plan is implemented, it is important to appraise its effectiveness.
   3. This is done on the basis of feedback or information received from departments or persons concerned.
   4. This enables the management to correct deviations or modify the plan.
   5. This step establishes a link between planning and controlling function.
   6. The follow up must go side by side the implementation of plans so that in the light of observations made, future plans can be made more realistic.

Characteristics of Planning

1. **Planning is goal-oriented.**
   1. Planning is made to achieve desired objective of business.
   2. The goals established should general acceptance otherwise individual efforts & energies will go misguided and misdirected.
   3. Planning identifies the action that would lead to desired goals quickly & economically.
   4. It provides sense of direction to various activities. E.g. Maruti Udhyog is trying to capture once again Indian Car Market by launching diesel models.
2. **Planning is looking ahead.**
   1. Planning is done for future.
   2. It requires peeping in future, analyzing it and predicting it.
   3. Thus planning is based on forecasting.
   4. A plan is a synthesis of forecast.
   5. It is a mental predisposition for things to happen in future.
3. **Planning is an intellectual process.**
   1. Planning is a mental exercise involving creative thinking, sound judgement and imagination.
   2. It is not a mere guesswork but a rotational thinking.
   3. A manager can prepare sound plans only if he has sound judgement, foresight and imagination.
   4. Planning is always based on goals, facts and considered estimates.
4. **Planning involves choice & decision making.**
   1. Planning essentially involves choice among various alternatives.
   2. Therefore, if there is only one possible course of action, there is no need planning because there is no choice.
   3. Thus, decision making is an integral part of planning.
   4. A manager is surrounded by no. of alternatives. He has to pick the best depending upon requirements & resources of the enterprises.
5. **Planning is the primary function of management / Primacy of Planning.**
   1. Planning lays foundation for other functions of management.
   2. It serves as a guide for organizing, staffing, directing and controlling.
   3. All the functions of management are performed within the framework of plans laid out.
   4. Therefore planning is the basic or fundamental function of management.
6. **Planning is a Continuous Process.**
   1. Planning is a never ending function due to the dynamic business environment.
   2. Plans are also prepared for specific period f time and at the end of that period, plans are subjected to revaluation and review in the light of new requirements and changing conditions.
   3. Planning never comes into end till the enterprise exists issues, problems may keep cropping up and they have to be tackled by planning effectively.
7. **Planning is all Pervasive.**
   1. It is required at all [levels of management](http://www.managementstudyguide.com/management_levels.htm) and in all departments of enterprise.
   2. Of course, the scope of planning may differ from one level to another.
   3. The top level may be more concerned about planning the organization as a whole whereas the middle level may be more specific in departmental plans and the lower level plans implementation of the same.
8. **Planning is designed for efficiency.**
   1. Planning leads to accompishment of objectives at the minimum possible cost.
   2. It avoids wastage of resources and ensures adequate and optimum utilization of resources.
   3. A plan is worthless or useless if it does not value the cost incurred on it.
   4. Therefore planning must lead to saving of time, effort and money.
   5. Planning leads to proper utilization of men, money, materials, methods and machines.
9. **Planning is Flexible.**
   1. Planning is done for the future.
   2. Since future is unpredictable, planning must provide enough room to cope with the changes in customer’s demand, competition, govt. policies etc.
   3. Under changed circumstances, the original plan of action must be revised and updated to male it more practical.

Advantages of Planning

** Planning facilitates management by objectives.**

1. Planning begins with determination of objectives.
2. It highlights the purposes for which various activities are to be undertaken.
3. In fact, it makes objectives more clear and specific.
4. Planning helps in focusing the attention of employees on the objectives or goals of enterprise.
5. Without planning an organization has no guide.
6. Planning compels manager to prepare a Blue-print of the courses of action to be followed for accomplishment of objectives.
7. Therefore, planning brings order and rationality into the organization.

** Planning minimizes uncertainties.**

1. Business is full of uncertainties.
2. There are risks of various types due to uncertainties.
3. Planning helps in reducing uncertainties of future as it involves anticipation of future events.
4. Although future cannot be predicted with cent percent accuracy but planning helps management to anticipate future and prepare for risks by necessary provisions to meet unexpected turn of events.
5. Therefore with the help of planning, uncertainties can be forecasted which helps in preparing standbys as a result, uncertainties are minimized to a great extent.

** Planning facilitates co-ordination.**

1. Planning revolves around organizational goals.
2. All activities are directed towards common goals.
3. There is an integrated effort throughout the enterprise in various departments and groups.
4. It avoids duplication of efforts. In other words, it leads to better co-ordination.
5. It helps in finding out problems of work performance and aims at rectifying the same.

** Planning improves employee’s moral.**

1. Planning creates an atmosphere of order and discipline in organization.
2. Employees know in advance what is expected of them and therefore conformity can be achieved easily.
3. This encourages employees to show their best and also earn reward for the same.
4. Planning creates a healthy attitude towards work environment which helps in boosting employees moral and efficiency.

** Planning helps in achieving economies.**

1. Effective planning secures economy since it leads to orderly allocation ofresources to various operations.
2. It also facilitates optimum utilization of resources which brings economy in operations.
3. It also avoids wastage of resources by selecting most appropriate use that will contribute to the objective of enterprise. For example, raw materials can be purchased in bulk and transportation cost can be minimized. At the same time it ensures regular supply for the production department, that is, overall efficiency.

** Planning facilitates controlling.**

1. Planning facilitates existence of certain planned goals and standard of performance.
2. It provides basis of controlling.
3. We cannot think of an effective system of controlling without existence of well thought out plans.
4. Planning provides pre-determined goals against which actual performance is compared.
5. In fact, planning and controlling are the two sides of a same coin. If planning is root, controlling is the fruit.

** Planning provides competitive edge.**

1. Planning provides competitive edge to the enterprise over the others which do not have effective planning. This is because of the fact that planning may involve changing in work methods, quality, quantity designs, extension of work, redefining of goals, etc.
2. With the help of forecasting not only the enterprise secures its future but at the same time it is able to estimate the future motives of it’s competitor which helps in facing future challenges.
3. Therefore, planning leads to best utilization of possible resources, improves quality of production and thus the competitive strength of the enterprise is improved.

** Planning encourages innovations.**

1. In the process of planning, managers have the opportunities of suggesting ways and means of improving performance.
2. Planning is basically a decision making function which involves creative thinking and imagination that ultimately leads to innovation of methods and operations for growth and prosperity of the enterprise.

Disadvantages of Planning

Internal Limitations

There are several limitations of planning. Some of them are inherit in the process of planning like rigidity and other arise due to shortcoming of the techniques of planning and in the planners themselves.

1. **Rigidity**
   1. Planning has tendency to make administration inflexible.
   2. Planning implies prior determination of policies, procedures and programmes and a strict adherence to them in all circumstances.
   3. There is no scope for individual freedom.
   4. The development of employees is highly doubted because of which management might have faced lot of difficulties in future.
   5. Planning therefore introduces inelasticity and discourages individual initiative and experimentation.
2. **Misdirected Planning**
   1. Planning may be used to serve individual interests rather than the interest of the enterprise.
   2. Attempts can be made to influence setting of objectives, formulation of plans and programmes to suit ones own requirement rather than that of whole organization.
   3. Machinery of planning can never be freed of bias. Every planner has his own likes, dislikes, preferences, attitudes and interests which is reflected in planning.
3. **Time consuming**
   1. Planning is a time consuming process because it involves collection of information, it’s analysis and interpretation thereof. This entire process takes a lot of time specially where there are a number of alternatives available.
   2. Therefore planning is not suitable during emergency or crisis when quick decisions are required.
4. **Probability in planning**
   1. Planning is based on forecasts which are mere estimates about future.
   2. These estimates may prove to be inexact due to the uncertainty of future.
   3. Any change in the anticipated situation may render plans ineffective.
   4. Plans do not always reflect real situations inspite of the sophisticated techniques of forecasting because future is unpredictable.
   5. Thus, excessive reliance on plans may prove to be fatal.
5. **False sense of security**
   1. Elaborate planning may create a false sense of security to the effect that everything is taken for granted.
   2. Managers assume that as long as they work as per plans, it is satisfactory.
   3. Therefore they fail to take up timely actions and an opportunity is lost.
   4. Employees are more concerned about fulfillment of plan performance rather than any kind of change.
6. **Expensive**
   1. Collection, analysis and evaluation of different information, facts and alternatives involves a lot of expense in terms of time, effort and money
   2. According to Koontz and O’Donell, ’ Expenses on planning should never exceed the estimated benefits from planning. ’

External Limitations of Planning

1. Political Climate- Change of government from Congress to some other political party, etc.
2. Labour Union- Strikes, lockouts, agitations.
3. Technological changes- Modern techniques and equipments, computerization.
4. Policies of competitors- Eg. Policies of Coca Cola and Pepsi.
5. Natural Calamities- Earthquakes and floods.
6. Changes in demand and prices- Change in fashion, change in tastes, change in income level, demand falls, price falls, etc.

**Chapter 2**

Organizing Function of Management

**Organizing** is the function of management which follows planning. It is a function in which the synchronization and combination of human, physical and financial resources takes place. All the three resources are important to get results. Therefore, organizational function helps in achievement of results which in fact is important for the functioning of a concern. According to *Chester Barnard*, “Organizing is a function by which the concern is able to define the role positions, the jobs related and the co-ordination between authority and responsibility. Hence, a manager always has to organize in order to get results.

A manager performs organizing function with the help of following steps:-

1. **Identification of activities -** All the activities which have to be performed in a concern have to be identified first. For example, preparation of accounts, making sales, record keeping, quality control, inventory control, etc. All these activities have to be grouped and classified into units.
2. **Departmentally organizing the activities -** In this step, the manager tries to combine and group similar and related activities into units or departments. This organization of dividing the whole concern into independent units and departments is called departmentation.
3. **Classifying the authority -** Once the departments are made, the manager likes to classify the powers and its extent to the managers. This activity of giving a rank in order to the managerial positions is called hierarchy. The top management is into formulation of policies, the middle level management into departmental supervision and lower level management into supervision of foremen. The clarification of authority help in bringing efficiency in the running of a concern. This helps in achieving efficiency in the running of a concern. This helps in avoiding wastage of time, money, effort, in avoidance of duplication or overlapping of efforts and this helps in bringing smoothness in a concern’s working.
4. **Co-ordination between authority and responsibility -** Relationships are established among various groups to enable smooth interaction toward the achievment of the organizational goal. Each individual is made aware of his authority and he/she knows whom they have to take orders from and to whom they are accountable and to whom they have to report. A clear organizational structure is drawn and all the employees are made aware of it.

Importance of Organizing Function

1. **Specialization -** Organizational structure is a network of relationships in which the work is divided into units and departments. This division of work is helping in bringing specialization in various activities of concern.
2. **Well defined jobs -** Organizational structure helps in putting right men on right job which can be done by selecting people for various departments according to their qualifications, skill and experience. This is helping in defining the jobs properly which clarifies the role of every person.
3. **Clarifies authority -** Organizational structure helps in clarifying the role positions to every manager (status quo). This can be done by clarifying the powers to every manager and the way he has to exercise those powers should be clarified so that misuse of powers do not take place. Well defined jobs and responsibilities attached helps in bringing efficiency into managers working. This helps in increasing productivity.
4. **Co-ordination -** Organization is a means of creating co-ordination among different departments of the enterprise. It creates clear cut relationships among positions and ensure mutual co-operation among individuals. Harmony of work is brought by higher level managers exercising their authority over interconnected activities of lower level manager.

Authority responsibility relationships can be fruitful only when there is a formal relationship between the two. For smooth running of an organization, the co-ordination between authority- responsibility is very important. There should be co-ordination between different relationships. Clarity should be made for having an ultimate responsibility attached to every authority. There is a saying, “Authority without responsibility leads to ineffective behaviour and responsibility without authority makes person ineffective.” Therefore, co-ordination of authority- responsibility is very important.

1. **Effective administration -** The organization structure is helpful in defining the jobs positions. The roles to be performed by different managers are clarified. Specialization is achieved through division of work. This all leads to efficient and effective administration.
2. **Growth and diversification -** A company’s growth is totally dependant on how efficiently and smoothly a concern works. Efficiency can be brought about by clarifying the role positions to the managers, co-ordination between authority and responsibility and concentrating on specialization. In addition to this, a company can diversify if its potential grow. This is possible only when the organization structure is well- defined. This is possible through a set of formal structure.
3. **Sense of security -** Organizational structure clarifies the job positions. The roles assigned to every manager is clear. Co-ordination is possible. Therefore, clarity of powers helps automatically in increasing mental satisfaction and thereby a sense of security in a concern. This is very important for job- satisfaction.
4. **Scope for new changes -** Where the roles and activities to be performed are clear and every person gets independence in his working, this provides enough space to a manager to develop his talents and flourish his knowledge. A manager gets ready for taking independent decisions which can be a road or path to adoption of new techniques of production. This scope for bringing new changes into the running of an enterprise is possible only through a set of organizational structure.

Principles of Organizing

The organizing process can be done efficiently if the managers have certain guidelines so that they can take decisions and can act. To organize in an effective manner, the following principles of organization can be used by a manager.

1. **Principle of Specialization**

According to the principle, the whole work of a concern should be divided amongst the subordinates on the basis of qualifications, abilities and skills. It is through division of work specialization can be achieved which results in effective organization.

1. **Principle of Functional Definition**

According to this principle, all the functions in a concern should be completely and clearly defined to the managers and subordinates. This can be done by clearly defining the duties, responsibilities, authority and relationships of people towards each other. Clarifications in authority-responsibility relationships helps in achieving co-ordination and thereby organization can take place effectively. For example, the primary functions of production, marketing and finance and the authority responsibility relationships in these departments shouldbe clearly defined to every person attached to that department. Clarification in the authority-responsibility relationship helps in efficient organization.

1. **Principles of Span of Control/Supervision**

According to this principle, span of control is a span of supervision which depicts the number of employees that can be handled and controlled effectively by a single manager. According to this principle, a manager should be able to handle what number of employees under him should be decided. This decision can be taken by choosing either froma wide or narrow span. There are two types of span of control:-

* 1. **Wide span of control-** It is one in which a manager can supervise and control effectively a large group of persons at one time. The features of this span are:-
     1. Less overhead cost of supervision
     2. Prompt response from the employees
     3. Better communication
     4. Better supervision
     5. Better co-ordination
     6. Suitable for repetitive jobs

According to this span, one manager can effectively and efficiently handle a large number of subordinates at one time.

* 1. **Narrow span of control-** According to this span, the work and authority is divided amongst many subordinates and a manager doesn't supervises and control a very big group of people under him. The manager according to a narrow span supervises a selected number of employees at one time. The features are:-
     1. Work which requires tight control and supervision, for example, handicrafts, ivory work, etc. which requires craftsmanship, there narrow span is more helpful.
     2. Co-ordination is difficult to be achieved.
     3. Communication gaps can come.
     4. Messages can be distorted.
     5. Specialization work can be achieved.

**Factors influencing Span of Control**

* 1. **Managerial abilities-** In the concerns where managers are capable, qualified and experienced, wide span of control is always helpful.
  2. **Competence of subordinates-** Where the subordinates are capable and competent and their understanding levels are proper, the subordinates tend to very frequently visit the superiors for solving their problems. In such cases, the manager can handle large number of employees. Hence wide span is suitable.
  3. **Nature of work-** If the work is of repetitive nature, wide span of supervision is more helpful. On the other hand, if work requires mental skill or craftsmanship, tight control and supervision is required in which narrow span is more helpful.
  4. **Delegation of authority-** When the work is delegated to lower levels in an efficient and proper way, confusions are less and congeniality of the environment can be maintained. In such cases, wide span of control is suitable and the supervisors can manage and control large number of sub- ordinates at one time.
  5. **Degree of decentralization-** Decentralization is done in order to achieve specialization in which authority is shared by many people and managers at different levels. In such cases, a tall structure is helpful. There are certain concerns where decentralization is done in very effective way which results in direct and personal communication between superiors and sub- ordinates and there the superiors can manage large number of subordinates very easily. In such cases, wide span again helps.

1. **Principle of Scalar Chain**

Scalar chain is a chain of command or authority which flows from top to bottom. With a chain of authority available, wastages of resources are minimized, communication is affected, overlapping of work is avoided and easy organization takes place. A scalar chain of command facilitates work flow in an organization which helps in achievement of effective results. As the authority flows from top to bottom, it clarifies the authority positions to managers at all level and that facilitates effective organization.

1. **Principle of Unity of Command**

It implies one subordinate-one superior relationship. Every subordinate is answerable and accountable to one boss at one time. This helps in avoiding communication gaps and feedback and response is prompt. Unity of command also helps in effective combination of resources, that is, physical, financial resources which helps in easy co-ordination and, therefore, effective organization.

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| --- |
| **Authority Flows from Top to Bottom** |
|  |
| Managing Director |
| **↓** |
| Marketing Manager |
| **↓** |
| Sales/ Media Manager |
| **↓** |
| Salesmen |

According to the above diagram, the Managing Director has got the highest level of authority. This authority is shared by the Marketing Manager who shares his authority with the Sales Manager. From this chain of hierarchy, the official chain of communication becomes clear which is helpful in achievement of results and which provides stability to a concern. This scalar chain of command always flow from top to bottom and it defines the authority positions of different managers at different levels.

Classification of Organizations

Organizations are basically clasified on the basis of relationships. There are two types of organizations formed on the basis of relationships in an organization

1. **Formal Organization -** This is one which refers to a structure of well defined jobs each bearing a measure of authority and responsibility. It is a conscious determination by which people accomplish goals by adhering to the norms laid down by the structure. This kind of organization is an arbitrary set up in which each person is responsible for his performance. Formal organization has a formal set up to achieve pre- determined goals.
2. **Informal Organization -** It refers to a network of personal and social relationships which spontaneously originates within the formal set up. Informal organizations develop relationships which are built on likes, dislikes, feelings and emotions. Therefore, the network of social groups based on friendships can be called as informal organizations. There is no conscious effort made to have informal organization. It emerges from the formal organization and it is not based on any rules and regulations as in case of formal organization.

Relationship between Formal and Informal Organizations

For a concerns working both formal and informal organization are important. Formal organization originates from the set organizational structure and informal organization originates from formal organization. For an efficient organization, both formal and informal organizations are required. They are the two phase of a same concern.

Formal organization can work independently. But informal organization depends totally upon the formal organization.

Formal and informal organization helps in bringing efficient working organization and smoothness in a concern. Within the formal organization, the members undertake the assigned duties in co-operation with each other. They interact and communicate amongst themselves. Therefore, both formal and informal organizations are important. When several people work together for achievement of organizational goals, social tie ups tends to built and therefore informal organization helps to secure co-operation by which goals can be achieved smooth. Therefore, we can say that informal organization emerges from formal organization.

Line Organization

**Line organization** is the most oldest and simplest method of administrative organization. According to this type of organization, the authority flows from top to bottom in a concern. The line of command is carried out from top to bottom. This is the reason for calling this organization as scalar organization which means scalar chain of command is a part and parcel of this type of administrative organization. In this type of organization, the line of command flows on an even basis without any gaps in communication and co-ordination taking place.

**Features of Line Organization**

1. It is the most simplest form of organization.
2. Line of authority flows from top to bottom.
3. Specialized and supportive services do not take place in these organization.
4. Unified control by the line officers can be maintained since they can independently take decisions in their areas and spheres.
5. This kind of organization always helps in bringing efficiency in communication and bringing stability to a concern.

**Merits of Line Organization**

1. **Simplest-** It is the most simple and oldest method of administration.
2. **Unity of Command-** In these organizations, superior-subordinate relationship is maintained and scalar chain of command flows from top to bottom.
3. **Better discipline-** The control is unified and concentrates on one person and therefore, he can independently make decisions of his own. Unified control ensures better discipline.
4. **Fixed responsibility-** In this type of organization, every line executive has got fixed authority, power and fixed responsibility attached to every authority.
5. **Flexibility-** There is a co-ordination between the top most authority and bottom line authority. Since the authority relationships are clear, line officials are independent and can flexibly take the decision. This flexibility gives satisfaction of line executives.
6. **Prompt decision-** Due to the factors of fixed responsibility and unity of command, the officials can take prompt decision.

**Demerits of Line Organization**

1. **Over reliance-** The line executive’s decisions are implemented to the bottom. This results in over-relying on the line officials.
2. **Lack of specialization-** A line organization flows in a scalar chain from top to bottom and there is no scope for specialized functions. For example, expert advices whatever decisions are taken by line managers are implemented in the same way.
3. **Inadequate communication-** The policies and strategies which are framed by the top authority are carried out in the same way. This leaves no scope for communication from the other end. The complaints and suggestions of lower authority are not communicated back to the top authority. So there is one way communication.
4. **Lack of Co-ordination-** Whatever decisions are taken by the line officials, in certain situations wrong decisions, are carried down and implemented in the same way. Therefore, the degree of effective co-ordination is less.
5. **Authority leadership-** The line officials have tendency to misuse their authority positions. This leads to autocratic leadership and monopoly in the concern.

Line and Staff Organization

Line and staff organization is a modification of line organization and it is more complex than line organization. According to this administrative organization, specialized and supportive activities are attached to the line of command by appointing staff supervisors and staff specialists who are attached to the line authority. The power of command always remains with the line executives and staff supervisors guide, advice and council the line executives. Personal Secretary to the Managing Director is a staff official.

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| --- | --- | --- |
| **MANAGING DIRECTOR** | | |
| **↓** | **↓** | **↓** |
| Production Manager | Marketing Manager | Finance Manager |
| **↓** | **↓** | **↓** |
| Plant Supervisor | Market Supervisor | Chief Assisstant |
| **↓** | **↓** | **↓** |
| Foreman | Salesman | Accountant |

**Features of Line and Staff Organization**

|  |  |
| --- | --- |
| 1. There are two types of staff :    1. Staff Assistants- P.A. to Managing Director, Secretary to Marketing Manager.    2. Staff Supervisor- Operation Control Manager, Quality Controller, PRO 2. Line and Staff Organization is a compromise of line organization. It is more complex than line concern. 3. Division of work and specialization takes place in line and staff organization. 4. The whole organization is divided into different functional areas to which staff specialists are attached. 5. Efficiency can be achieved through the features of specialization. 6. There are two lines of authority which flow at one time in a concern :    1. Line Authority    2. Staff Authority 7. Power of command remains with the line executive and staff serves only as counselors. |  |

**Merits of Line and Staff Organization**

1. **Relief to line of executives-** In a line and staff organization, the advice and counseling which is provided to the line executives divides the work between the two. The line executive can concentrate on the execution of plans and they get relieved of dividing their attention to many areas.
2. **Expert advice-** The line and staff organization facilitates expert advice to the line executive at the time of need. The planning and investigation which is related to different matters can be done by the staff specialist and line officers can concentrate on execution of plans.
3. **Benefit of Specialization-** Line and staff through division of whole concern into two types of authority divides the enterprise into parts and functional areas. This way every officer or official can concentrate in its own area.
4. **Better co-ordination-** Line and staff organization through specialization is able to provide better decision making and concentration remains in few hands. This feature helps in bringing co-ordination in work as every official is concentrating in their own area.
5. **Benefits of Research and Development-** Through the advice of specialized staff, the line executives, the line executives get time to execute plans by taking productive decisions which are helpful for a concern. This gives a wide scope to the line executive to bring innovations and go for research work in those areas. This is possible due to the presence of staff specialists.
6. **Training-** Due to the presence of staff specialists and their expert advice serves as ground for training to line officials. Line executives can give due concentration to their decision making. This in itself is a training ground for them.
7. **Balanced decisions-** The factor of specialization which is achieved by line staff helps in bringing co-ordination. This relationship automatically ends up the line official to take better and balanced decision.
8. **Unity of action-** Unity of action is a result of unified control. Control and its effectivity take place when co-ordination is present in the concern. In the line and staff authority all the officials have got independence to make decisions. This serves as effective control in the whole enterprise.

**Demerits of Line and Staff Organization**

1. **Lack of understanding-** In a line and staff organization, there are two authority flowing at one time. This results in the confusion between the two. As a result, the workers are not able to understand as to who is their commanding authority. Hence the problem of understanding can be a hurdle in effective running.
2. **Lack of sound advice-** The line official get used to the expertise advice of the staff. At times the staff specialist also provide wrong decisions which the line executive have to consider. This can affect the efficient running of the enterprise.
3. **Line and staff conflicts-** Line and staff are two authorities which are flowing at the same time. The factors of designations, status influence sentiments which are related to their relation, can pose a distress on the minds of the employees. This leads to minimizing of co-ordination which hampers a concern’s working.
4. **Costly-** In line and staff concern, the concerns have to maintain the high remuneration of staff specialist. This proves to be costly for a concern with limited finance.
5. **Assumption of authority-** The power of concern is with the line official but the staff dislikes it as they are the one more in mental work.
6. **Staff steals the show-** In a line and staff concern, the higher returns are considered to be a product of staff advice and counseling. The line officials feel dissatisfied and a feeling of distress enters a concern. The satisfaction of line officials is very important for effective results.

Functional Organization

**Functional organization** has been divided to put the specialists in the top position throughout the enterprise. This is an organization in which we can define as a system in which functional department are created to deal with the problems of business at various levels. Functional authority remains confined to functional guidance to different departments. This helps in maintaining quality and uniformity of performance of different functions throughout the enterprise.

The concept of Functional organization was suggested by F.W. Taylor who recommended the appointment of specialists at important positions. For example, the functional head and Marketing Director directs the subordinates throughout the organization in his particular area. This means that subordinates receives orders from several specialists, managers working above them.

**Features of Functional Organization**

1. The entire organizational activities are divided into specific functions such as operations, finance, marketing and personal relations.
2. Complex form of administrative organization compared to the other two.
3. Three authorities exist- Line, staff and function.
4. Each functional area is put under the charge of functional specialists and he has got the authority to give all decisions regarding the function whenever the function is performed throughout the enterprise.
5. Principle of unity of command does not apply to such organization as it is present in line organization.

**Merits of Functional Organization**

1. **Specialization-** Better division of labour takes place which results in specialization of function and it’s consequent benefit.
2. **Effective Control-** Management control is simplified as the mental functions are separated from manual functions. Checks and balances keep the authority within certain limits. Specialists may be asked to judge the performance of various sections.
3. **Efficiency-** Greater efficiency is achieved because of every function performing a limited number of functions.
4. **Economy-** Specialization compiled with standardization facilitates maximum production and economical costs.
5. **Expansion-** Expert knowledge of functional manager facilitates better control and supervision.

**Demerits of Functional Organization**

1. **Confusion-** The functional system is quite complicated to put into operation, especially when it is carried out at low levels. Therefore, co-ordination becomes difficult.
2. **Lack of Co-ordination-** Disciplinary control becomes weak as a worker is commanded not by one person but a large number of people. Thus, there is no unity of command.
3. **Difficulty in fixing responsibility-** Because of multiple authority, it is difficult to fix responsibility.
4. **Conflicts-** There may be conflicts among the supervisory staff of equal ranks. They may not agree on certain issues.
5. **Costly-** Maintainance of specialist’s staff of the highest order is expensive for a concern.

Delegation of Authority - Meaning, Importance and its Principles

A manager alone cannot perform all the tasks assigned to him. In order to meet the targets, the manager should delegate authority. Delegation of Authority means division of authority and powers downwards to the subordinate. Delegation is about entrusting someone else to do parts of your job. Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

**Elements of Delegation**

1. **Authority** - in context of a business organization, authority can be defined as the power and right of a person to use and allocate the resources efficiently, to take decisions and to give orders so as to achieve the organizational objectives. Authority must be well- defined. All people who have the authority should know what is the scope of their authority is and they shouldn’t misutilize it. Authority is the right to give commands, orders and get the things done. The top level management has greatest authority.

Authority always flows from top to bottom. It explains how a superior gets work done from his subordinate by clearly explaining what is expected of him and how he should go about it. Authority should be accompanied with an equal amount of responsibility. Delegating the authority to someone else doesn’t imply escaping from accountability. Accountability still rest with the person having the utmost authority.

1. **Responsibility** - is the duty of the person to complete the task assigned to him. A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. If the tasks for which he was held responsible are not completed, then he should not give explanations or excuses. Responsibility without adequate authority leads to discontent and dissatisfaction among the person. Responsibility flows from bottom to top. The middle level and lower level management holds more responsibility. The person held responsible for a job is answerable for it. If he performs the tasks assigned as expected, he is bound for praises. While if he doesn’t accomplish tasks assigned as expected, then also he is answerable for that.
2. **Accountability** - means giving explanations for any variance in the actual performance from the expectations set. Accountability can not be delegated. For example, if ’A’ is given a task with sufficient authority, and ’A’ delegates this task to B and asks him to ensure that task is done well, responsibility rest with ’B’, but accountability still rest with ’A’. The top level management is most accountable. Being accountable means being innovative as the person will think beyond his scope of job. Accountability, in short, means being answerable for the end result. Accountability can’t be escaped. It arises from responsibility.

For achieving delegation, a manager has to work in a system and has to perform following steps : -

1. Assignment of tasks and duties
2. Granting of authority
3. Creating responsibility and accountability

**Delegation of authority** is the base of superior-subordinate relationship, it involves following steps:-

1. **Assignment of Duties -** The delegator first tries to define the task and duties to the subordinate. He also has to define the result expected from the subordinates. Clarity of duty as well as result expected has to be the first step in delegation.
2. **Granting of authority -** Subdivision of authority takes place when a superior divides and shares his authority with the subordinate. It is for this reason, every subordinate should be given enough independence to carry the task given to him by his superiors. The managers at all levels delegate authority and power which is attached to their job positions. The subdivision of powers is very important to get effective results.
3. **Creating Responsibility and Accountability -** The delegation process does not end once powers are granted to the subordinates. They at the same time have to be obligatory towards the duties assigned to them. Responsibility is said to be the factor or obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is very important. Therefore, it is that which gives effectiveness to authority. At the same time, responsibility is absolute and cannot be shifted. Accountability, on the others hand, is the obligation of the individual to carry out his duties as per the standards of performance. Therefore, it is said that authority is delegated, responsibility is created and accountability is imposed. Accountability arises out of responsibility and responsibility arises out of authority. Therefore, it becomes important that with every authority position an equal and opposite responsibility should be attached.

Therefore every manager,i.e.,the delegator has to follow a system to finish up the delegation process. Equally important is the delegatee’s role which means his responsibility and accountability is attached with the authority over to here.

**Relationship between Authority and Responsibility**

Authority is the legal right of person or superior to command his subordinates while accountability is the obligation of individual to carry out his duties as per standards of performance Authority flows from the superiors to subordinates,in which orders and instructions are given to subordinates to complete the task. It is only through authority, a manager exercises control. In a way through exercising the control the superior is demanding accountability from subordinates. If the marketing manager directs the sales supervisor for 50 units of sale to be undertaken in a month. If the above standards are not accomplished, it is the marketing manager who will be accountable to the chief executive officer. Therefore, we can say that authority flows from top to bottom and responsibility flows from bottom to top. Accountability is a result of responsibility and responsibility is result of authority. Therefore, for every authority an equal accountability is attached.

**Differences between Authority and Responsibility**

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| **Authority** | **Responsibility** |
| It is the legal right of a person or a superior to command his subordinates. | It is the obligation of subordinate to perform the work assigned to him. |
| Authority is attached to the position of a superior in concern. | Responsibility arises out of superior-subordinate relationship in which subordinate agrees to carry out duty given to him. |
| Authority can be delegated by a superior to a subordinate | Responsibility cannot be shifted and is absolute |
| It flows from top to bottom. | It flows from bottom to top. |

Importance of Delegation

Delegation of authority is a process in which the authority and powers are divided and shared amongst the subordinates. When the work of a manager gets beyond his capacity, there should be some system of sharing the work. This is how delegation of authority becomes an important tool in organization function. Through delegation, a manager, in fact, is multiplying himself by dividing/multiplying his work with the subordinates. The importance of delegation can be justified by -

1. Through delegation, a manager is able to divide the work and allocate it to the subordinates. This helps in reducing his work load so that he can work on important areas such as - planning, business analysis etc.
2. With the reduction of load on superior, he can concentrate his energy on important and critical issues of concern. This way he is able to bring effectiveness in his work as well in the work unit. This effectivity helps a manager to prove his ability and skills in the best manner.
3. Delegation of authority is the ground on which the superior-subordinate relationship stands. An organization functions as the authority flows from top level to bottom. This in fact shows that through delegation, the superior-subordinate relationship become meaningful. The flow of authority is from top to bottom which is a way of achieving results.
4. Delegation of authority in a way gives enough room and space to the subordinates to flourish their abilities and skill. Through delegating powers, the subordinates get a feeling of importance. They get motivated to work and this motivation provides appropriate results to a concern. Job satisfaction is an important criterion to bring stability and soundness in the relationship between superior and subordinates. Delegation also helps in breaking the monotony of the subordinates so that they can be more creative and efficient. Delegation of authority is not only helpful to the subordinates but it also helps the managers to develop their talents and skills. Since the manager get enough time through delegation to concentrate on important issues, their decision-making gets strong and in a way they can flourish the talents which are required in a manager. Through granting powers and getting the work done, helps the manager to attain communication skills, supervision and guidance, effective motivation and the leadership traits are flourished. Therefore it is only through delegation, a manager can be tested on his traits.
5. Delegation of authority is help to both superior and subordinates. This, in a way, gives stability to a concern’s working. With effective results, a concern can think of creating more departments and divisions flow working. This will require creation of more managers which can be fulfilled by shifting the experienced, skilled managers to these positions. This helps in both virtual as well as horizontal growth which is very important for a concern’s stability.

Therefore, from the above points, we can justify that delegation is not just a process but it is a way by which manager multiples himself and is able to bring stability, ability and soundness to a concern.

Principles of Delegation

There are a few guidelines in form of principles which can be a help to the manager to process of delegation. The **principles of delegation** are as follows: -

1. **Principle of result excepted-** suggests that every manager before delegating the powers to the subordinate should be able to clearly define the goals as well as results expected from them. The goals and targets should be completely and clearly defined and the standards of performance should also be notified clearly. For example, a marketing manager explains the salesmen regarding the units of sale to take place in a particular day, say ten units a day have to be the target sales. While a marketing manger provides these guidelines of sales, mentioning the target sales is very important so that the salesman can perform his duty efficiently with a clear set of mind.
2. **Principle of Parity of Authority and Responsibility-** According to this principle, the manager should keep a balance between authority and responsibility. Both of them should go hand in hand.

According to this principle, if a subordinate is given a responsibility to perform a task, then at the same time he should be given enough independence and power to carry out that task effectively. This principle also does not provide excessive authority to the subordinate which at times can be misused by him. The authority should be given in such a way which matches the task given to him. Therefore, there should be no degree of disparity between the two.

1. **Principle of absolute responsibility-** This says that the authority can be delegated but responsibility cannot be delegated by managers to his subordinates which means responsibility is fixed. The manager at every level, no matter what is his authority, is always responsible to his superior for carrying out his task by delegating the powers. It does not means that he can escape from his responsibility. He will always remain responsible till the completion of task.

Every superior is responsible for the acts of their subordinates and are accountable to their superior therefore the superiors cannot pass the blame to the subordinates even if he has delegated certain powers to subordinates example if the production manager has been given a work and the machine breaks down. If repairmen is not able to get repair work done, production manager will be responsible to CEO if their production is not completed.

1. **Principle of Authority level-** This principle suggests that a manager should exercise his authority within the jurisdiction/framework given. The manager should be forced to consult their superiors with those matters of which the authority is not given that means before a manager takes any important decision, he should make sure that he has the authority to do that on the other hand, subordinate should also not frequently go with regards to their complaints as well as suggestions to their superior if they are not asked to do. This principle emphasizes on the degree of authority and the level upto which it has to be maintained.

Centralization and Decentralization

**Centralization** is said to be a process where the concentration of decision making is in a few hands. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management. According to Allen, “Centralization” is the systematic and consistent reservation of authority at central points in the organization. The implication of centralization can be :-

1. Reservation of decision making power at top level.
2. Reservation of operating authority with the middle level managers.
3. Reservation of operation at lower level at the directions of the top level.

Under centralization, the important and key decisions are taken by the top management and the other levels are into implementations as per the directions of top level. For example, in a business concern, the father & son being the owners decide about the important matters and all the rest of functions like product, finance, marketing, personnel, are carried out by the department heads and they have to act as per instruction and orders of the two people. Therefore in this case, decision making power remain in the hands of father & son.

On the other hand, **Decentralization** is a systematic delegation of authority at all [levels of management](http://www.managementstudyguide.com/management_levels.htm) and in all of the organization. In a decentralization concern, authority in retained by the top management for taking major decisions and framing policies concerning the whole concern. Rest of the authority may be delegated to the middle level and lower level of management.

The degree of **centralization and decentralization** will depend upon the amount of authority delegated to the lowest level. According to Allen, “Decentralization refers to the systematic effort to delegate to the lowest level of authority except that which can be controlled and exercised at central points.

Decentralization is not the same as delegation. In fact, decentralization is all extension of delegation. Decentralization pattern is wider is scope and the authorities are diffused to the lowest most level of management. Delegation of authority is a complete process and takes place from one person to another. While decentralization is complete only when fullest possible delegation has taken place. For example, the general manager of a company is responsible for receiving the leave application for the whole of the concern. The general manager delegates this work to the personnel manager who is now responsible for receiving the leave applicants. In this situation delegation of authority has taken place. On the other hand, on the request of the personnel manager, if the general manager delegates this power to all the departmental heads at all level, in this situation decentralization has taken place. There is a saying that “Everything that increasing the role of subordinates is decentralization and that decreases the role is centralization”. Decentralization is wider in scope and the subordinate’s responsibility increase in this case. On the other hand, in delegation the managers remain answerable even for the acts of subordinates to their superiors.

**Implications of Decentralization**

1. There is less burden on the Chief Executive as in the case of centralization.
2. In decentralization, the subordinates get a chance to decide and act independently which develops skills and capabilities. This way the organization is able to process reserve of talents in it.
3. In decentralization, diversification and horizontal can be easily implanted.
4. In decentralization, concern diversification of activities can place effectively since there is more scope for creating new departments. Therefore, diversification growth is of a degree.
5. In decentralization structure, operations can be coordinated at divisional level which is not possible in the centralization set up.
6. In the case of decentralization structure, there is greater motivation and morale of the employees since they get more independence to act and decide.
7. In a decentralization structure, co-ordination to some extent is difficult to maintain as there are lot many department divisions and authority is delegated to maximum possible extent, i.e., to the bottom most level delegation reaches. Centralization and decentralization are the categories by which the pattern of authority relationships became clear. The degree of centralization and de-centralization can be affected by many factors like nature of operation, volume of profits, number of departments, size of a concern, etc. The larger the size of a concern, a decentralization set up is suitable in it.

Delegation and Decentralization

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| **Basis** | **Delegation** | **Decentralization** |
| Meaning | Managers delegate some of their function and authority to their subordinates. | Right to take decisions is shared by top management and other level of management. |
| Scope | Scope of delegation is limited as superior delegates the powers to the subordinates on individual bases. | Scope is wide as the decision making is shared by the subordinates also. |
| Responsibility | Responsibility remains of the managers and cannot be delegated | Responsibility is also delegated to subordinates. |
| Freedom of Work | Freedom is not given to the subordinates as they have to work as per the instructions of their superiors. | Freedom to work can be maintained by subordinates as they are free to take decision and to implement it. |
| Nature | It is a routine function | It is an important decision of an enterprise. |
| Need on purpose | Delegation is important in all concerns whether big or small. No enterprises can work without delegation. | Decentralization becomes more important in large concerns and it depends upon the decision made by the enterprise, it is not compulsory. |
| Grant of Authority | The authority is granted by one individual to another. | It is a systematic act which takes place at all levels and at all functions in a concern. |
| Grant of Responsibility | Responsibility cannot be delegated | Authority with responsibility is delegated to subordinates. |
| Degree | Degree of delegation varies from concern to concern and department to department. | Decentralization is total by nature. It spreads throughout the organization i.e. at all levels and all functions |
| Process | Delegation is a process which explains superior subordinates relationship | It is an outcome which explains relationship between top management and all other departments. |
| Essentiality | Delegation is essential of all kinds of concerns | Decentralization is a decisions function by nature. |
| Significance | Delegation is essential for creating the organization | Decentralization is an optional policy at the discretion of top management. |
| Withdrawal | Delegated authority can be taken back. | It is considered as a general policy of top management and is applicable to all departments. |
| Freedom of Action | Very little freedom to the subordinates | Considerable freedom |

Decentralization can be called as extension of delegation. When delegation of authority is done to the fullest possible extent, it gives use to decentralization.

**Chapter 3**

Staffing Function of Management

The managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal and development of the personnels to fill the roles assigned to the employers/workforce.

According to Theo Haimann, “Staffing pertains to recruitment, selection, development and compensation of subordinates.”

Nature of Staffing Function

1. **Staffing is an important managerial function-** Staffing function is the most important mangerial act along with planning, organizing, directing and controlling. The operations of these four functions depend upon the manpower which is available through staffing function.
2. **Staffing is a pervasive activity-** As staffing function is carried out by all mangers and in all types of concerns where business activities are carried out.
3. **Staffing is a continuous activity-** This is because staffing function continues throughout the life of an organization due to the transfers and promotions that take place.
4. **The basis of staffing function is efficient management of personnels-** Human resources can be efficiently managed by a system or proper procedure, that is, recruitment, selection, placement, training and development, providing remuneration, etc.
5. **Staffing helps in placing right men at the right job.** It can be done effectively through proper recruitment procedures and then finally selecting the most suitable candidate as per the job requirements.
6. **Staffing is performed by all managers** depending upon the nature of business, size of the company, qualifications and skills of managers,etc. In small companies, the top management generally performs this function. In medium and small scale enterprise, it is performed especially by the personnel department of that concern.

Staffing Process - Steps involved in Staffing

1. **Manpower requirements-** The very first step in staffing is to plan the manpower inventory required by a concern in order to match them with the job requirements and demands. Therefore, it involves forecasting and determining the future manpower needs of the concern.
2. **Recruitment-** Once the requirements are notified, the concern invites and solicits applications according to the invitations made to the desirable candidates.
3. **Selection-** This is the screening step of staffing in which the solicited applications are screened out and suitable candidates are appointed as per the requirements.
4. **Orientation and Placement-** Once screening takes place, the appointed candidates are made familiar to the work units and work environment through the orientation programmes. placement takes place by putting right man on the right job.
5. **Training and Development-** Training is a part of incentives given to the workers in order to develop and grow them within the concern. Training is generally given according to the nature of activities and scope of expansion in it. Along with it, the workers are developed by providing them extra benefits of indepth knowledge of their functional areas. Development also includes giving them key and important jobsas a test or examination in order to analyse their performances.
6. **Remuneration-** It is a kind of compensation provided monetarily to the employees for their work performances. This is given according to the nature of job- skilled or unskilled, physical or mental, etc. Remuneration forms an important monetary incentive for the employees.
7. **Performance Evaluation-** In order to keep a track or record of the behaviour, attitudes as well as opinions of the workers towards their jobs. For this regular assessment is done to evaluate and supervise different work units in a concern. It is basically concerning to know the development cycle and growth patterns of the employeesin a concern.
8. **Promotion and transfer-** Promotion is said to be a non- monetary incentive in which the worker is shifted from a higher job demanding bigger responsibilities as well as shifting the workers and transferring them to different work units and branches of the same organization.

Manpower Planning

Manpower Planning which is also called as Human Resource Planning consists of putting right number of people, right kind of people at the right place, right time, doing the right things for which they are suited for the achievement of goals of the organization. Human Resource Planning has got an important place in the arena of industrialization. Human Resource Planning has to be a systems approach and is carried out in a set procedure. The procedure is as follows:

1. Analysing the current manpower inventory
2. Making future manpower forecasts
3. Developing employment programmes
4. Design training programmes

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| **Steps in Manpower Planning**   1. **Analysing the current manpower inventory-** Before a manager makes forecast of future manpower, the current manpower status has to be analysed. For this the following things have to be noted-    * Type of organization    * Number of departments    * Number and quantity of such departments    * Employees in these work units   Once these factors are registered by a manager, he goes for the future forecasting. | Manpower Planning |

1. **Making future manpower forecasts-** Once the factors affecting the future manpower forecasts are known, planning can be done for the future manpower requirements in several work units.

The Manpower forecasting techniques commonly employed by the organizations are as follows:

* 1. **Expert Forecasts:** This includes informal decisions, formal expert surveys and Delphi technique.
  2. **Trend Analysis:** Manpower needs can be projected through extrapolation (projecting past trends), indexation (using base year as basis), and statistical analysis (central tendency measure).
  3. **Work Load Analysis:** It is dependent upon the nature of work load in a department, in a branch or in a division.
  4. **Work Force Analysis:** Whenever production and time period has to be analysed, due allowances have to be made for getting net manpower requirements.
  5. **Other methods:** Several Mathematical models, with the aid of computers are used to forecast manpower needs, like budget and planning analysis, regression, new venture analysis.

1. **Developing employment programmes-** Once the current inventory is compared with future forecasts, the employment programmes can be framed and developed accordingly, which will include recruitment, selection procedures and placement plans.
2. **Design training programmes-** These will be based upon extent of diversification, expansion plans, development programmes,etc. Training programmes depend upon the extent of improvement in technology and advancement to take place. It is also done to improve upon the skills, capabilities, knowledge of the workers.

Importance of Manpower Planning

1. **Key to managerial functions-** The four managerial functions, i.e., planning, organizing, directing and controlling are based upon the manpower. Human resources help in the implementation of all these managerial activities. Therefore, staffing becomes a key to all managerial functions.
2. **Efficient utilization-** Efficient management of personnels becomes an important function in the industrialization world of today. Seting of large scale enterprises require management of large scale manpower. It can be effectively done through staffing function.
3. **Motivation-** Staffing function not only includes putting right men on right job, but it also comprises of motivational programmes, i.e., incentive plans to be framed for further participation and employment of employees in a concern. Therefore, all types of incentive plans becomes an integral part of staffing function.
4. **Better human relations-** A concern can stabilize itself if human relations develop and are strong. Human relations become strong trough effective control, clear communication, effective supervision and leadership in a concern. Staffing function also looks after training and development of the work force which leads to co-operation and better human relations.
5. **Higher productivity-** Productivity level increases when resources are utilized in best possible manner. higher productivity is a result of minimum wastage of time, money, efforts and energies. This is possible through the staffing and it's related activities ( Performance appraisal, training and development, remuneration)

Need of Manpower Planning

Manpower Planning is a two-phased process because manpower planning not only analyses the current human resources but also makes manpower forecasts and thereby draw employment programmes. Manpower Planning is advantageous to firm in following manner:

1. Shortages and surpluses can be identified so that quick action can be taken wherever required.
2. All the recruitment and selection programmes are based on manpower planning.
3. It also helps to reduce the labour cost as excess staff can be identified and thereby overstaffing can be avoided.
4. It also helps to identify the available talents in a concern and accordingly training programmes can be chalked out to develop those talents.
5. It helps in growth and diversification of business. Through manpower planning, human resources can be readily available and they can be utilized in best manner.
6. It helps the organization to realize the importance of manpower management which ultimately helps in the stability of a concern.

Obstacles in Manpower Planning

Following are the main obstacles that organizations face in the process of manpower planning:

1. **Under Utilization of Manpower:** The biggest obstacle in case of manpower planning is the fact that the industries in general are not making optimum use of their manpower and once manpower planning begins, it encounters heavy odds in stepping up the utilization.
2. **Degree of Absenteeism:** Absenteeism is quite high and has been increasing since last few years.
3. **Lack of Education and Skilled Labour:** The extent of illetracy and the slow pace of development of the skilled categories account for low productivity in employees. Low productivity has implications for manpower planning.
4. **Manpower Control and Review:**
   1. Any increase in manpower is considered at the top level of management
   2. On the basis of manpower plans, personnel budgets are prepared. These act as control mechanisms to keep the manpower under certain broadly defined limits.
   3. The productivity of any organization is usually calculated using the formula:

**Productivity = Output / Input**

. But a rough index of employee productivity is calculated as follows:

**Employee Productivity = Total Production / Total no. of employees**

* 1. Exit Interviews, the rate of turnover and rate of absenteesim are source of vital information on the satisfaction level of manpower. For conservation of Human Resources and better utilization of men studying these condition, manpower control would have to take into account the data to make meaningful analysis.
  2. Extent of Overtime: The amount of overtime paid may be due to real shortage of men, ineffective management or improper utilization of manpower. Manpower control would require a careful study of overtime statistics.

Few Organizations do not have sufficient records and information on manpower. Several of those who have them do not have a proper retrieval system. There are complications in resolving the issues in design, definition and creation of computerized personnel information system for effective manpower planning and utilization. Even the existing technologies in this respect is not optimally used. This is a strategic disadvantage.

Types of Recruitment

Recruitment is of 2 types

1. **Internal Recruitment -** is a recruitment which takes place within the concern or organization. Internal sources of recruitment are readily available to an organization. Internal sources are primarily three - Transfers, promotions and Re-employment of ex-employees. Re-employment of ex-employees is one of the internal sources of recruitment in which employees can be invited and appointed to fill vacancies in the concern. There are situations when ex-employees provide unsolicited applications also.

Internal recruitment may lead to increase in employee’s productivity as their motivation level increases. It also saves time, money and efforts. But a drawback of internal recruitment is that it refrains the organization from new blood. Also, not all the manpower requirements can be met through internal recruitment. Hiring from outside has to be done.

Internal sources are primarily 3

* 1. **Transfers**
  2. **Promotions (through Internal Job Postings)** and
  3. **Re-employment of ex-employees -** Re-employment of ex-employees is one of the internal sources of recruitment in which employees can be invited and appointed to fill vacancies in the concern. There are situations when ex-employees provide unsolicited applications also.

1. **External Recruitment -** External sources of recruitment have to be solicited from outside the organization. External sources are external to a concern. But it involves lot of time and money. The external sources of recruitment include - Employment at factory gate, advertisements, employment exchanges, employment agencies, educational institutes, labour contractors, recommendations etc.
   1. **Employment at Factory Level -** This a source of external recruitment in which the applications for vacancies are presented on bulletin boards outside the Factory or at the Gate. This kind of recruitment is applicable generally where factory workers are to be appointed. There are people who keep on soliciting jobs from one place to another. These applicants are called as unsolicited applicants. These types of workers apply on their own for their job. For this kind of recruitment workers have a tendency to shift from one factory to another and therefore they are called as “badli” workers.
   2. **Advertisement -** It is an external source which has got an important place in recruitment procedure. The biggest advantage of advertisement is that it covers a wide area of market and scattered applicants can get information from advertisements. Medium used is Newspapers and Television.
   3. **Employment Exchanges -** There are certain Employment exchanges which are run by government. Most of the government undertakings and concerns employ people through such exchanges. Now-a-days recruitment in government agencies has become compulsory through employment exchange.
   4. **Employment Agencies -** There are certain professional organizations which look towards recruitment and employment of people, i.e. these private agencies run by private individuals supply required manpower to needy concerns.
   5. **Educational Institutions -** There are certain professional Institutions which serves as an external source for recruiting fresh graduates from these institutes. This kind of recruitment done through such educational institutions, is called as Campus Recruitment. They have special recruitment cells which helps in providing jobs to fresh candidates.
   6. **Recommendations -** There are certain people who have experience in a particular area. They enjoy goodwill and a stand in the company. There are certain vacancies which are filled by recommendations of such people. The biggest drawback of this source is that the company has to rely totally on such people which can later on prove to be inefficient.
   7. **Labour Contractors -** These are the specialist people who supply manpower to the Factory or Manufacturing plants. Through these contractors, workers are appointed on contract basis, i.e. for a particular time period. Under conditions when these contractors leave the organization, such people who are appointed have to also leave the concern.

Employee Selection Process

Employee Selection is the process of putting right men on right job. It is a procedure of matching organizational requirements with the skills and qualifications of people. Effective selection can be done only when there is effective matching. By selecting best candidate for the required job, the organization will get quality performance of employees. Moreover, organization will face less of absenteeism and employee turnover problems. By selecting right candidate for the required job, organization will also save time and money. Proper screening of candidates takes place during selection procedure. All the potential candidates who apply for the given job are tested.

But selection must be differentiated from recruitment, though these are two phases of employment process. Recruitment is considered to be a positive process as it motivates more of candidates to apply for the job. It creates a pool of applicants. It is just sourcing of data. While selection is a negative process as the inappropriate candidates are rejected here. Recruitment precedes selection in staffing process. Selection involves choosing the best candidate with best abilities, skills and knowledge for the required job.

The **Employee selection Process** takes place in following order-

1. **Preliminary Interviews-** It is used to eliminate those candidates who do not meet the minimum eligiblity criteria laid down by the organization. The skills, academic and family background, competencies and interests of the candidate are examined during preliminary interview. Preliminary interviews are less formalized and planned than the final interviews. The candidates are given a brief up about the company and the job profile; and it is also examined how much the candidate knows about the company. Preliminary interviews are also called screening interviews.
2. **Application blanks-** The candidates who clear the preliminary interview are required to fill application blank. It contains data record of the candidates such as details about age, qualifications, reason for leaving previous job, experience, etc.
3. **Written Tests-** Various written tests conducted during selection procedure are aptitude test, intelligence test, reasoning test, personality test, etc. These tests are used to objectively assess the potential candidate. They should not be biased.
4. **Employment Interviews-** It is a one to one interaction between the interviewer and the potential candidate. It is used to find whether the candidate is best suited for the required job or not. But such interviews consume time and money both. Moreover the competencies of the candidate cannot be judged. Such interviews may be biased at times. Such interviews should be conducted properly. No distractions should be there in room. There should be an honest communication between candidate and interviewer.
5. **Medical examination-** Medical tests are conducted to ensure physical fitness of the potential employee. It will decrease chances of employee absenteeism.
6. **Appointment Letter-** A reference check is made about the candidate selected and then finally he is appointed by giving a formal appointment letter.

Difference between Recruitment and Selection

|  |  |  |
| --- | --- | --- |
| **Basis** | **Recruitment** | **Selection** |
| Meaning | It is an activity of establishing contact between employers and applicants. | It is a process of picking up more competent and suitable employees. |
| Objective | It encourages large number of Candidates for a job. | It attempts at rejecting unsuitable candidates. |
| Process | It is a simple process. | It is a complicated process. |
| Hurdles | The candidates have not to cross over many hurdles. | Many hurdles have to be crossed. |
| Approach | It is a positive approach. | It is a negative approach. |
| Sequence | It proceeds selection. | It follows recruitment. |
| Economy | It is an economical method. | It is an expensive method. |
| Time Consuming | Less time is required. | More time is required. |

Orientation and Placement

Once the candidates are selected for the required job, they have to be fitted as per the qualifications. Placement is said to be the process of fitting the selected person at the right job or place, i.e. fitting square pegs in square holes and round pegs in round holes. Once he is fitted into the job, he is given the activities he has to perform and also told about his duties. The freshly appointed candidates are then given orientation in order to familiarize and introduce the company to him. Generally the information given during the orientation programme includes-

* Employee’s layout
* Type of organizational structure
* Departmental goals
* Organizational layout
* General rules and regulations
* Standing Orders
* Grievance system or procedure

In short, during Orientation employees are made aware about the mission and vision of the organization, the nature of operation of the organization, policies and programmes of the organization.

The main aim of conducting Orientation is to build up confidence, morale and trust of the employee in the new organization, so that he becomes a productive and an efficient employee of the organization and contributes to the organizational success.

The nature of Orientation program varies with the organizational size, i.e., smaller the organization the more informal is the Orientation and larger the organization more formalized is the Orientation programme.

Proper Placement of employees will lower the chances of employee’s absenteeism. The employees will be more satisfied and contended with their work.

Training of Employees - Need and Importance of Training

Training of employees takes place after orientation takes place. Training is the process of enhancing the skills, capabilities and knowledge of employees for doing a particular job. Training process moulds the thinking of employees and leads to quality performance of employees. It is continuous and never ending in nature.

Importance of Training

Training is crucial for organizational development and success. It is fruitful to both employers and employees of an organization. An employee will become more efficient and productive if he is trained well.

Training is given on four basic grounds:

1. New candidates who join an organization are given training. This training familiarize them with the organizational mission, vision, rules and regulations and the working conditions.
2. The existing employees are trained to refresh and enhance their knowledge.
3. If any updations and amendments take place in technology, training is given to cope up with those changes. For instance, purchasing a new equipment, changes in technique of production, computer implantment. The employees are trained about use of new equipments and work methods.
4. When promotion and career growth becomes important. Training is given so that employees are prepared to share the responsibilities of the higher level job.

The benefits of training can be summed up as:

1. **Improves morale of employees-** Training helps the employee to get job security and job satisfaction. The more satisfied the employee is and the greater is his morale, the more he will contribute to organizational success and the lesser will be employee absenteeism and turnover.
2. **Less supervision-** A well trained employee will be well acquainted with the job and will need less of supervision. Thus, there will be less wastage of time and efforts.
3. **Fewer accidents-** Errors are likely to occur if the employees lack knowledge and skills required for doing a particular job. The more trained an employee is, the less are the chances of committing accidents in job and the more proficient the employee becomes.
4. **Chances of promotion-** Employees acquire skills and efficiency during training. They become more eligible for promotion. They become an asset for the organization.
5. **Increased productivity-** Training improves efficiency and productivity of employees. Well trained employees show both quantity and quality performance. There is less wastage of time, money and resources if employees are properly trained.

Ways/Methods of Training

Training is generally imparted in two ways:

1. **On the job training-** On the job training methods are those which are given to the employees within the everyday working of a concern. It is a simple and cost-effective training method. The inproficient as well as semi- proficient employees can be well trained by using such training method. The employees are trained in actual working scenario. The motto of such training is “learning by doing.” Instances of such on-job training methods are job-rotation, coaching, temporary promotions, etc.
2. **Off the job training-** Off the job training methods are those in which training is provided away from the actual working condition. It is generally used in case of new employees. Instances of off the job training methods are workshops, seminars, conferences, etc. Such method is costly and is effective if and only if large number of employees have to be trained within a short time period. Off the job training is also called as vestibule training,i.e., the employees are trained in a separate area( may be a hall, entrance, reception area,etc. known as a vestibule) where the actual working conditions are duplicated.

Employee Remuneration

Employee Remuneration refers to the reward or compensation given to the employees for their work performances. Remuneration provides basic attraction to a employee to perform job efficiently and effectively. Remuneration leads to employee motivation. Salaries constitutes an important source of income for employees and determine their standard of living. Salaries effect the employees productivity and work performance. Thus the amount and method of remuneration are very important for both management and employees.

There are mainly two types of Employee Remuneration

1. **Time Rate Method**
2. **Piece Rate Method**

These methods of employee remuneration are explained below in detail

**Methods of Employee Remuneration**

1. **Time Rate Method:** Under time rate system, remuneration is directly linked with the time spent or devoted by an employee on the job. The employees are paid a fixed pre-decided amount hourly, daily, weekly or monthly irrespective of their output. It is a very simple method of remuneration. It leads to minimum wastage of resources and lesser chances of accidents. Time Rate method leads to quality output and this method is very beneficial to new employees as they can learn their work without any reduction in their salaries. This method encourages employees unity as employees of a particular group/cadre get equal salaries.

There are some drawbacks of Time Rate Method, such as, it leads to tight supervision, indefinite employee cost, lesser efficiency of employees as there is no distinction made between efficient and inefficient employees, and lesser morale of employees.

Time rate system is more suitable where the work is non-repetitive in nature and emphasis is more on quality output rather than quantity output.

1. **Piece Rate Method:** It is a method of compensation in which remuneration is paid on the basis of units or pieces produced by an employee. In this system emphasis is more on quantity output rather than quality output. Under this system the determination of employee cost per unit is not difficult because salaries differ with output. There is less supervision required under this method and hence the per unit cost of production is low. This system improves the morale of the employees as the salaries are directly related with their work efforts. There is greater work-efficiency in this method.

There are some drawbacks of this method, such as, it is not easily computable, leads to deterioration in work quality, wastage of resources, lesser unity of employees, higher cost of production and insecurity among the employees.

Piece rate system is more suitable where the nature of work is repetitive and quantity is emphasized more than quality.

**Chapter 4**

Directing Function of Management

**DIRECTING** is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals. Directing is said to be the heart of management process. [Planning](http://www.managementstudyguide.com/planning_function.htm), [organizing](http://www.managementstudyguide.com/organizing_function.htm), staffing have got no importance if direction function does not take place.

Directing initiates action and it is from here actual work starts. Direction is said to be consisting of human factors. In simple words, it can be described as providing guidance to workers is doing work. In field of management, direction is said to be all those activities which are designed to encourage the subordinates to work effectively and efficiently. According to Human, “Directing consists of process or technique by which instruction can be issued and operations can be carried out as originally planned” Therefore, Directing is the function of guiding, inspiring, overseeing and instructing people towards accomplishment of organizational goals.

Direction has got following characteristics:

1. **Pervasive Function -** Directing is required at all levels of organization. Every manager provides guidance and inspiration to his subordinates.
2. **Continuous Activity -** Direction is a continuous activity as it continuous throughout the life of organization.
3. **Human Factor -** Directing function is related to subordinates and therefore it is related to human factor. Since human factor is complex and behaviour is unpredictable, direction function becomes important.
4. **Creative Activity -** Direction function helps in converting plans into performance. Without this function, people become inactive and physical resources are meaningless.
5. **Executive Function -** Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise, a subordinate receives instructions from his superior only.
6. **Delegate Function -** Direction is supposed to be a function dealing with human beings. Human behaviour is unpredictable by nature and conditioning the people’s behaviour towards the goals of the enterprise is what the executive does in this function. Therefore, it is termed as having delicacy in it to tackle human behaviour.

Importance of Directing Function

Directing or Direction function is said to be the heart of management of process and therefore, is the central point around which accomplishment of goals take place. A few philosophers call Direction as “*Life spark of an enterprise*”. It is also called as on actuating function of management because it is through direction that the operation of an enterprise actually starts. Being the central character of enterprise, it provides many benefits to a concern which are as follows:-

1. **It Initiates Actions -** Directions is the function which is the starting point of the work performance of subordinates. It is from this function the action takes place, subordinates understand their jobs and do according to the instructions laid. Whatever are plans laid, can be implemented only once the actual work starts. It is there that direction becomes beneficial.
2. **It Ingrates Efforts -** Through direction, the superiors are able to guide, inspire and instruct the subordinates to work. For this, efforts of every individual towards accomplishment of goals are required. It is through direction the efforts of every department can be related and integrated with others. This can be done through persuasive leadership and effective communication. Integration of efforts bring effectiveness and stability in a concern.
3. **Means of Motivation -** Direction function helps in achievement of goals. A manager makes use of the element of motivation here to improve the performances of subordinates. This can be done by providing incentives or compensation, whether monetary or non - monetary, which serves as a “Morale booster” to the subordinates Motivation is also helpful for the subordinates to give the best of their abilities which ultimately helps in growth.
4. **It Provides Stability -** Stability and balance in concern becomes very important for long term sun survival in the market. This can be brought upon by the managers with the help of four tools or elements of direction function - judicious blend of persuasive leadership, effective communication, strict supervision and efficient motivation. Stability is very important since that is an index of growth of an enterprise. Therefore a manager can use of all the four traits in him so that performance standards can be maintained.
5. **Coping up with the changes -** It is a human behaviour that human beings show resistance to change. Adaptability with changing environment helps in sustaining planned growth and becoming a market leader. It is directing function which is of use to meet with changes in environment, both internal as external. Effective communication helps in coping up with the changes. It is the role of manager here to communicate the nature and contents of changes very clearly to the subordinates. This helps in clarifications, easy adaptions and smooth running of an enterprise. For example, if a concern shifts from handlooms to powerlooms, an important change in technique of production takes place. The resulting factors are less of manpower and more of machinery. This can be resisted by the subordinates. The manager here can explain that the change was in the benefit of the subordinates. Through more mechanization, production increases and thereby the profits. Indirectly, the subordinates are benefited out of that in form of higher remuneration.
6. **Efficient Utilization of Resources -** Direction finance helps in clarifying the role of every subordinate towards his work. The resources can be utilized properly only when less of wastages, duplication of efforts, overlapping of performances, etc. doesn’t take place. Through direction, the role of subordinates become clear as manager makes use of his supervisory, the guidance, the instructions and motivation skill to inspire the subordinates. This helps in maximum possible utilization of resources of men, machine, materials and money which helps in reducing costs and increasing profits.

From the above discussion, one can justify that direction, surely, is the heart of management process. Heart plays an important role in a human body as it serves the function pumping blood to all parts of body which makes the parts function. In the similar manner, direction helps the subordinates to perform in best of their abilities and that too in a healthy environment. The manager makes use of the four elements of direction here so that work can be accomplished in a proper and right manner. According to Earnest Dale, “Directing is what has to be done and in what manner through dictating the procedures and policies for accomplishing performance standards”. Therefore, it is rightly said that direction is essence of management process.

Role of a Supervisor

Supervisor has got an important role to play in factory management. Supervision means overseeing the subordinates at work at the factory level. The supervisor is a part of the management team and he holds the designation of first line managers. He is a person who has to perform many functions which helps in achieving productivity. Therefore, supervisor can be called as the only manager who has an important role at execution level. There are certain philosophers who call supervisors as workers. There are yet some more philosophers who call them as managers. But actually he should be called as a manager or operative manager. His primary job is to manage the workers at operative level of management.

A supervisor plays multiplinary role at one time like -

1. **As a Planner -** A supervisor has to plan the daily work schedules in the factory. At the same time he has to divide the work to various workers according to their abilities.
2. **As a Manager -** It is righty said that a supervisor is a part of the management team of an enterprise. He is, in fact, an operative manager.
3. **As a Guide and Leader -** A factory supervisor leads the workers by guiding them the way of perform their daily tasks. In fact, he plays a role of an inspirer by telling them.
4. **As a Mediator -** A Supervisor is called a linking pin between management and workers. He is the spokesperson of management as well as worker.
5. **As an Inspector -** An important role of supervisor is to enforce discipline in the factory. For this, the work includes checking progress of work against the time schedule, recording the work performances at regular intervals and reporting the deviations if any from those. He can also frame rules and regulations which have to be followed by workers during their work.
6. **As a Counselor -** A supervisor plays the role of a counselor to the worker’s problem. He has to perform this role in order to build good relations and co-operation from workers. This can be done not only by listening to the grievances but also handling the grievances and satisfying the workers.

Therefore, we can say that effective and efficient supervision helps in serving better work performance, building good human relations, creating a congenial and co-operative environment. This all helps in increasing productivity.

Functions of a Supervisor

Supervisor, being the manager in a direct contact with the operatives, has got multifarious function to perform. The objective behind performance of these functions is to bring stability and soundness in the organization which can be secured through increase in profits which is an end result of higher productivity. Therefore, a supervisor should be concerned with performing the following functions -

1. **Planning and Organizing -** Supervisor’s basic role is to plan the daily work schedule of the workers by guiding them the nature of their work and also dividing the work amongst the workers according to their interests, aptitudes, skills and interests.
2. **Provision of working conditions -** A supervisor plays an important role in the physical setting of the factory and in arranging the physical resources at right place. This involves providing proper sitting place, ventilation, lighting, water facilities etc. to workers. His main responsibility is here to provide healthy and hygienic condition to the workers.
3. **Leadership and Guidance -** A supervisor is the leader of workers under him. He leads the workers and influences them to work their best. He also guides the workers by fixing production targets and by providing them instruction and guidelines to achieve those targets.
4. **Motivation -** A supervisor plays an important role by providing different incentives to workers to perform better. There are different monetary and non-monetary incentives which can inspire the workers to work better.
5. **Controlling -** Controlling is an important function performed by supervisor. This will involve
   1. Recording the actual performance against the time schedule.
   2. Checking of progress of work.
   3. Finding out deviations if any and making solutions
   4. If not independently solved, reporting it to top management.
6. **Linking Pin -** A supervisor proves to be a linking pin between management and workers. He communicates the policies of management to workers also passes instructions to them on behalf of management. On the other hand, he has a close contact with the workers and therefore can interact the problems, complaints, suggestions, etc to the management. In this way, he communicates workers problems and brings it to the notice of management.
7. **Grievance Handling -** The supervisor can handle the grievances of the workers effectively for this he has to do the following things :-
   1. He can be in direct touch with workers.
   2. By winning the confidence of the workers by solving their problems.
   3. By taking worker problems on humanitarian grounds.
   4. If he cannot tackle it independently, he can take the help and advice of management to solve it.
8. **Reporting -** A supervisor has got an important role to report about the cost, quality and any such output which can be responsible for increasing productivity. Factors like cost, output, performance, quality, etc can be reported continually to the management.
9. **Introducing new work methods -** The supervisor here has to be conscious about the environment of market and competition present. Therefore he can innovate the techniques of production. He can shift the workers into fresh schedules whenever possible. He can also try this best to keep on changing and improving to the physical environment around the workers. This will result in
   1. Higher productivity,
   2. High Morale of Workers,
   3. Satisfying working condition,
   4. Improving human relations,
   5. Higher Profits, and
   6. High Stability
10. **Enforcing Discipline -** A supervisor can undertake many steps to maintain discipline in the concern by regulating checks and measures, strictness in orders and instructions, keeping an account of general discipline of factory, implementing penalties and punishments for the indiscipline workers. All these above steps help in improving the overall discipline of the factory.

**Chapter 5**

Controlling Function of Management

**What is Controlling?**

Controlling consists of verifying whether everything occurs in confirmities with the plans adopted, instructions issued and principles established. Controlling ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals. Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions

According to Brech, “Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs.”

According to Donnell, “Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course.”

Controlling has got two basic purposes

1. It facilitates co-ordination
2. It helps in planning

**Features of Controlling Function**

Following are the characteristics of controlling function of management-

1. **Controlling is an end function-** A function which comes once the performances are made in confirmities with plans.
2. **Controlling is a pervasive function-** which means it is performed by managers at all levels and in all type of concerns.
3. **Controlling is forward looking-** because effective control is not possible without past being controlled. Controlling always look to future so that follow-up can be made whenever required.
4. **Controlling is a dynamic process-** since controlling requires taking reviewal methods, changes have to be made wherever possible.
5. **Controlling is related with planning-** Planning and Controlling are two inseperable functions of management. Without planning, controlling is a meaningless exercise and without controlling, planning is useless. *Planning presupposes controlling and controlling succeeds planning*.

Process of Controlling

Controlling as a management function involves following steps:

1. **Establishment of standards-** Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance. Standards generally are classified into two-
   1. Measurable or tangible - Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
   2. Non-measurable or intangible- There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.

Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.

1. **Measurement of performance-** The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured. Performance of a manager cannot be measured in quantities. It can be measured only by-
   1. Attitude of the workers,
   2. Their morale to work,
   3. The development in the attitudes regarding the physical environment, and
   4. Their communication with the superiors.

It is also sometimes done through various reports like weekly, monthly, quarterly, yearly reports.

1. **Comparison of actual and standard performance-** Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business. Minor deviations have to be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon consciously. Therefore it is said, “ If a manager controls everything, he ends up controlling nothing.” For example, if stationery charges increase by a minor 5 to 10%, it can be called as a minor deviation. On the other hand, if monthly production decreases continuously, it is called as major deviation.

Once the deviation is identified, a manager has to think about various cause which has led to deviation. The causes can be-

* 1. Erroneous planning,
  2. Co-ordination loosens,
  3. Implementation of plans is defective, and
  4. Supervision and communication is ineffective, etc.

1. **Taking remedial actions-** Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here-
   1. Taking corrective measures for deviations which have occurred; and
   2. After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.

Relationship between planning and controlling

Planning and controlling are two separate fuctions of management, yet they are closely related. The scope of activities if both are overlapping to each other. Without the basis of planning, controlling activities becomes baseless and without controlling, planning becomes a meaningless exercise. In absense of controlling, no purpose can be served by. Therefore, planning and controlling reinforce each other. According to Billy Goetz, " Relationship between the two can be summarized in the following points

1. Planning preceeds controlling and controlling succeeds planning.
2. Planning and controlling are inseperable functions of management.
3. Activities are put on rails by planning and they are kept at right place through controlling.
4. The process of planning and controlling works on Systems Approach which is as follows :

**Planning    →    Results    →    Corrective Action**

1. Planning and controlling are integral parts of an organization as both are important for smooth running of an enterprise.
2. Planning and controlling reinforce each other. Each drives the other function of management.

In the present dynamic environment which affects the organization, the strong relationship between the two is very critical and important. In the present day environment, it is quite likely that planning fails due to some unforeseen events. There controlling comes to the rescue. Once controlling is done effectively, it give us stimulus to make better plans. Therfore, planning and controlling are inseperate functions of a business enterprise.

**Chapter 6**

**Business Plans: A Step-by-Step Guide**

A business plan is a written description of your business's future, a document that tells what you plan to do and how you plan to do it. If you jot down a paragraph on the back of an envelope describing your business strategy, you've written a plan, or at least the germ of a plan.

Business plans are inherently strategic. You start here, today, with certain resources and abilities. You want to get to a there, a point in the future (usually three to five years out) at which time your business will have a different set of resources and abilities as well as greater profitability and increased assets. Your plan shows how you will get from here to there.

**Before Writing Your Plan**

**A Simple Business Plan**

It's a biz plan, not a doctoral thesis! Find out why an elaborate plan can weigh you down -- and how to keep it simple.

When I first started working with business plans back in the late 1970s, the average plan was much longer and more complex than what I see today. That might be because business plans are more common than they used to be--they're used more and more often and by more people. It might also be a matter of trends among bankers and investors who read business plans. Or it could be because people have less time to waste wading through documents!

For whatever reason, the trend in business plans these days is to go back to the fundamentals, with good projections and solid analysis. An "easy to read quickly" format is more important than ever. If you want people to read the [business plan](http://www.entrepreneur.com/businessplan/) you develop--and most people do--then my best advice to you is keep it simple. Don't confuse your business plan with a doctoral thesis or a lifetime task. Keep the wording and formatting straightforward, and keep the plan short.

But don't confuse simple wording and formats with simple thinking. The reason you're keeping it simple isn't because you haven't developed your idea fully. You're keeping it simple so you can get your point across quickly and easily to whoever's reading it.

With that in mind, let's get down to some specifics when it comes to simplifying your plan.

**Rein in your prose.** Effective business writing is easy to read. People will skim your plan-they'll try to read it while talking on the phone or going through their e-mail. Save the deep prose for the great American novel you'll write later. When you're crafting your plan, remember these tips:

* Don't use long complicated sentences, unless you have to for meaning. Short sentences are fine, and they're easier to read.
* Avoid buzzwords, jargon and acronyms. You may know that NIH means "not invented here" and KISS stands for "keep it simple, stupid," but don't assume anybody else does.
* Use simple, straightforward language, like "use" instead of "utilize" and "then" instead of "at that point in time."
* Bullet points are good for lists. They help readers digest information more easily.
* Avoid "naked" bullet points. Flesh them out with brief explanations where explanations are needed. Unexplained bullet points can be frustrating.

**Keep it short.** The average length of most business plans is shorter now than it used to be. You can probably cover everything you need to convey in 20 to 30 pages of text plus another 10 pages of appendices for monthly projections, management resumes and other details. If you've got a plan that's more than 40 pages long, you're probably not summarizing very well.

Of course, there are exceptions to the rule. I recently saw a plan for a chain of coffee shops, for example, that included photos of the proposed location, mock-ups of menus and maps of other proposed locations. The graphics made the plan longer, but they added real value. Product shots, location shots, menus, blueprints, floor plans, logos and signage photos are useful.

**Use business charts.** Make your important numbers easy to find and easy to understand. Use summary tables and simple business charts to highlight the main numbers. Make the related details easy to find in the appendices. Also...

* Use bar charts to show, at a minimum, sales, gross margin, net profits, cash flow and net worth by year.
* Three-dimensional bars look slicker, but two-dimensional bars are usually easier to read. Make sure the numbers are obvious.
* Stacked bars make totals easier to visualize. If your sales divide into segments, stack the bars to show the total.
* Use pie charts for market share and market segments.
* Show tasks and milestones as horizontal bars with labels on the left and dates along the top or bottom. Most people call this a Gantt chart. Show only the major tasks and milestones, because too many details make these charts hard to read.
* Always put the source numbers close to the charts in a summary table so readers can reference them quickly and recognize the numbers in the charts. And never leave a business plan reader unable to find the source numbers of a chart. That's frustrating.
* Don't use a chart without referencing it in the text. If source numbers aren't completely obvious in the summary tables, make sure you specify which appendices contain the detailed numbers.

**Polish the overall look and feel.** Aside from the wording, you also want the physical look of your text to be simple and inviting. So take my advice:

* Stick to two fonts for your text. The font you use for headings should be a simple sans-serif font, such as Arial, Tahoma or Verdana. For the body text, you should probably use a standard text font, like Century, Times Roman or Book Antigua.
* Avoid small fonts. Only a few of the more readable fonts are fine at 10 points; most of them are better at an 11 or 12 point size.
* Use page breaks to separate sections and to separate charts from text and to highlight tables. When in doubt, go to the next page. Nobody worries about having to turn to the next page.
* Use white space liberally. Words crammed together into small spaces are uncomfortable to read.
* Always use your spell-checker. Then proofread your text carefully to be sure you're not using a properly spelled incorrect word! Double check that your text numbers match those in your tables.

# By Tim Berry

Entrepreneur, Business Planner and Angel Investor

Source: <http://www.entrepreneur.com/author/tim-berry>

**Why You Must Have a Business Plan**

It's more than a tool for getting funding. Think of it as the road map to your business's future.

# By Stever Robbins

Stever Robbins is a venture coach, helping entrepreneurs and early-stage companies develop the attitudes, skills and capabilities needed to succeed. He brings to bear skills as an entrepreneur, teacher and technologist in helping others create successful ventures.

Recently someone asked me why they needed a business plan if they were getting all the funding they needed from friends and relatives. It sounded to me as if they were thinking of a business plan as just a fund-raising tool. In fact, a business plan is much more than that: It's a tool for understanding how your business is put together. You can use it to monitor progress, hold yourself accountable and control the business's fate. And of course, it's a sales and recruiting tool for courting key employees or future investors.

Writing out your business plan forces you to review everything at once: your value proposition, marketing assumptions, operations plan, financial plan and staffing plan. You'll end up spotting connections you otherwise would have missed. For example, if your marketing plan projects 10,000 customers by year two and your staffing plan provides for two salespeople, that forces you to ask: How can two salespeople generate 10,000 customers? The answer might lead you to conclude that forming partnerships, targeting distributors and concentrating on bulk sales to large companies would be your best tactics.

As part of your operational plan, you'll lay out major marketing and operational milestones. When you're the founder, the only person holding you accountable to those results on a daily basis is you. So your plan becomes a baseline for monitoring your progress. If your prototype was to be complete by February 1, and it gets done early-on January 10, for example-you can ask yourself why. Was there an unexpected breakthrough? Did someone put in a heroic effort? Or did you just overestimate? What you learn will help you do an even better job next time.

But even more than a tool for after-the-fact learning, a plan is how you drive the future. When you write, "We expect 100 customers by the end of year one," it's not a passive prediction-you don't just wait for the customers to show up. It becomes your sales force's goal. The plan lays out targets in all major areas: sales, expense items, hiring positions and financing goals. Once laid out, the targets become performance goals.

And of course, a well-written plan is great for attracting talent. When a prospect asks to understand your business, you can hand them a plan that gives them an entire overview. Their reactions tell you something about how quickly and thoroughly they can think through your business's key issues. Plus, the written record of your goals coupled with a track record of delivering against those goals sends a message loud and clear: You understand your business and can deliver the results you promise. Great employees will respond to that message-as will banks and investors the next time you need to raise money.

So viewing your plan as a fund-raising tool is just the beginning of the story. You'll use the plan for so much more-for managing yourself, for operating the business and for recruiting. Before deciding to skip your planning phase, consider *all* the implications and what they mean for your future success.

**Chapter 7**

**An Introduction to Business Plans**

Why is a business plan so vital to the health of your business? Read the first section of our tutorial on How to Build a Business Plan to find out.

A business plan is a written description of your business's future. That's all there is to it--a document that desribes what you plan to do and how you plan to do it. If you jot down a paragraph on the back of an envelope describing your business strategy, you've written a plan, or at least the germ of a plan.

[Business plans](http://www.entrepreneur.com/businessplan/) can help perform a number of tasks for those who write and read them. They're used by investment-seeking entrepreneurs to convey their vision to potential investors. They may also be used by firms that are trying to attract key employees, prospect for new business, deal with suppliers or simply to understand how to manage their companies better.

So what's included in a business plan, and how do you put one together? Simply stated, a business plan conveys your business goals, the strategies you'll use to meet them, potential problems that may confront your business and ways to solve them, the organizational structure of your business (including titles and responsibilities), and finally, the amount of capital required to finance your venture and keep it going until it breaks even.

Sound impressive? It can be, if put together properly. A good business plan follows generally accepted guidelines for both form and content. There are three primary parts to a business plan:

* **The first is the *business concept***, where you discuss the industry, your business structure, your particular product or service, and how you plan to make your business a success.
* **The second is the *marketplace section***, in which you describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, you also describe the competition and how you'll position yourself to beat it.
* **Finally, the *financial section*** contains your income and cash flow statement, balance sheet and other financial ratios, such as break-even analyses. This part may require help from your accountant and a good spreadsheet software program.

Breaking these three major sections down even further, a business plan consists of seven key components:

1. Executive summary
2. Business description
3. Market strategies
4. Competitive analysis
5. Design and development plan
6. Operations and management plan
7. Financial factors

In addition to these sections, a business plan should also have a cover, title page and table of contents.

**How Long Should Your Business Plan Be?**  
Depending on what you're using it for, a useful business plan can be any length, from a scrawl on the back of an envelope to, in the case of an especially detailed plan describing a complex enterprise, more than 100 pages. A typical business plan runs 15 to 20 pages, but there's room for wide variation from that norm.  
  
Much will depend on the nature of your business. If you have a simple concept, you may be able to express it in very few words. On the other hand, if you're proposing a new kind of business or even a new industry, it may require quite a bit of explanation to get the message across.

The purpose of your plan also determines its length. If you want to use your plan to seek millions of dollars in seed capital to start a risky venture, you may have to do a lot of explaining and convincing. If you're just going to use your plan for internal purposes to manage an ongoing business, a much more abbreviated version should be fine.

**Who Needs a Business Plan?**

About the only person who doesn't need a [business plan](http://www.entrepreneur.com/businessplan/index.html) is one who's not going into business. You don't need a plan to start a hobby or to moonlight from your regular job. But anybody beginning or extending a venture that will consume significant resources of money, energy or time, and that is expected to return a profit, should take the time to draft some kind of plan.

***Startups.*** The classic business plan writer is an entrepreneur seeking funds to help start a new venture. Many, many great companies had their starts on paper, in the form of a plan that was used to convince investors to put up the capital necessary to get them under way.

Most books on business planning seem to be aimed at these startup business owners. There's one good reason for that: As the least experienced of the potential plan writers, they're probably most appreciative of the guidance. However, it's a mistake to think that only cash-starved startups need business plans. Business owners find plans useful at all stages of their companies' existence, whether they're seeking financing or trying to figure out how to invest a surplus.

***Established firms seeking help.*** Not all business plans are written by starry-eyed entrepreneurs. Many are written by and for companies that are long past the startup stage. WalkerGroup/Designs, for instance, was already well-established as a designer of stores for major retailers when founder Ken Walker got the idea of trademarking and licensing to apparel makers and others the symbols 01-01-00 as a sort of numeric shorthand for the approaching millennium. Before beginning the arduous and costly task of trademarking it worldwide, Walker used a business plan complete with sales forecasts to convince big retailers it would be a good idea to promise to carry the 01-01-00 goods. It helped make the new venture a winner long before the big day arrived. "As a result of the retail support up front," Walker says, "we had over 45 licensees running the gamut of product lines almost from the beginning."

These middle-stage enterprises may draft plans to help them find funding for growth just as the startups do, although the amounts they seek may be larger and the investors more willing. They may feel the need for a written plan to help manage an already rapidly growing business. Or a plan may be seen as a valuable tool to be used to convey the mission and prospects of the business to customers, suppliers or others.

**Plan an Updating Checklist**  
Here are seven reasons to think about updating your business plan. If even just one applies to you, it's time for an update.

1. A new financial period is about to begin. You may update your plan annually, quarterly or even monthly if your industry is a fast-changing one.
2. You need [financing](http://www.entrepreneur.com/money/finance/index.html), or additional financing. Lenders and other financiers need an updated plan to help them make financing decisions.
3. There's been a significant [market change](http://www.entrepreneur.com/marketing/index.html). Shifting client tastes, consolidation trends among customers and altered regulatory climates can trigger a need for plan updates.
4. Your firm develops or is about to [develop a new product](http://www.entrepreneur.com/inventing/productdevelopment/archive116290.html),[technology](http://www.entrepreneur.com/tech/index.html), service or skill. If your business has changed a lot since you wrote your plan the first time around, it's time for an update.
5. You have had a change in [management](http://www.entrepreneur.com/management/index.html). New managers should get fresh information about your business and your goals.
6. Your company has crossed a threshold, such as moving out of your home office, crossing the $1 million sales mark or[employing your 100th employee](http://www.entrepreneur.com/hiringcenter/index.html).
7. Your old plan doesn't seem to reflect reality any more. Maybe you did a poor job last time; maybe things have just changed faster than you expected. But if your plan seems irrelevant, redo it.

**Finding the Right Plan for You**

Business plans tend to have a lot of elements in common, like cash flow projections and marketing plans. And many of them share certain objectives as well, such as raising money or persuading a partner to join the firm. But business plans are not all the same any more than all businesses are.

Depending on your business and what you intend to use your plan for, you may need a very different type of business plan from another entrepreneur. Plans differ widely in their length, their appearance, the detail of their contents, and the varying emphases they place on different aspects of the business.

The reason that plan selection is so important is that it has a powerful effect on the overall impact of your plan. You want your plan to present you and your business in the best, most accurate light. That's true no matter what you intend to use your plan for, whether it's destined for presentation at a venture capital conference, or will never leave your own office or be seen outside internal strategy sessions.

When you select clothing for an important occasion, odds are you try to pick items that will play up your best features. Think about your plan the same way. You want to reveal any positives that your business may have and make sure they receive due consideration.

**Types of Plans**  
Business plans can be divided roughly into four separate types. There are very short plans, or miniplans. There are working plans, presentation plans and even electronic plans. They require very different amounts of labor and not always with proportionately different results. That is to say, a more elaborate plan is not guaranteed to be superior to an abbreviated one, depending on what you want to use it for.

* ***The Miniplan.*** A miniplan may consist of one to 10 pages and should include at least cursory attention to such key matters as business concept, financing needs, marketing plan and financial statements, especially cash flow, income projection and balance sheet. It's a great way to quickly test a business concept or measure the interest of a potential partner or minor investor. It can also serve as a valuable prelude to a full-length plan later on.

Be careful about misusing a miniplan. It's not intended to substitute for a full-length plan. If you send a miniplan to an investor who's looking for a comprehensive one, you're only going to look foolish.

* ***The Working Plan.*** A working plan is a tool to be used to operate your business. It has to be long on detail but may be short on presentation. As with a miniplan, you can probably afford a somewhat higher degree of candor and informality when preparing a working plan.

A plan intended strictly for internal use may also omit some elements that would be important in one aimed at someone outside the firm. You probably don't need to include an appendix with resumes of key executives, for example. Nor would a working plan especially benefit from, say, product photos.

Fit and finish are liable to be quite different in a working plan. It's not essential that a working plan be printed on high-quality paper and enclosed in a fancy binder. An old three-ring binder with "Plan" scrawled across it with a felt-tip marker will serve quite well.

Internal consistency of facts and figures is just as crucial with a working plan as with one aimed at outsiders. You don't have to be as careful, however, about such things as typos in the text, perfectly conforming to business style, being consistent with date formats and so on. This document is like an old pair of khakis you wear into the office on Saturdays or that one ancient delivery truck that never seems to break down. It's there to be used, not admired.

* ***The Presentation Plan.*** If you take a working plan, with its low stress on cosmetics and impression, and twist the knob to boost the amount of attention paid to its looks, you'll wind up with a presentation plan. This plan is suitable for showing to bankers, investors and others outside the company.

Almost all the information in a presentation plan is going to be the same as your working plan, although it may be styled somewhat differently. For instance, you should use standard business vocabulary, omitting the informal jargon, slang and shorthand that's so useful in the workplace and is appropriate in a working plan. Remember, these readers won't be familiar with your operation. Unlike the working plan, this plan isn't being used as a reminder but as an introduction.

You'll also have to include some added elements. Among investors' requirements for due diligence is information on all competitive threats and risks. Even if you consider some of only peripheral significance, you need to address these concerns by providing the information.

The big difference between the presentation and working plans is in the details of appearance and polish. A working plan may be run off on the office printer and stapled together at one corner. A presentation plan should be printed by a high-quality printer, probably using color. It must be bound expertly into a booklet that is durable and easy to read. It should include graphics such as charts, graphs, tables and illustrations.

It's essential that a presentation plan be accurate and internally consistent. A mistake here could be construed as a misrepresentation by an unsympathetic outsider. At best, it will make you look less than careful. If the plan's summary describes a need for $40,000 in financing, but the cash flow projection shows $50,000 in financing coming in during the first year, you might think, "Oops! Forgot to update that summary to show the new numbers." The investor you're asking to pony up the cash, however, is unlikely to be so charitable.

* ***The Electronic Plan.***The majority of business plans are composed on a computer of some kind, then printed out and presented in hard copy. But more and more business information that once was transferred between parties only on paper is now sent electronically. So you may find it appropriate to have an electronic version of your plan available. An electronic plan can be handy for presentations to a group using a computer-driven overhead projector, for example, or for satisfying the demands of a discriminating investor who wants to be able to delve deeply into the underpinnings of complex spreadsheets.

***Source:*** *The Small Business Encyclopedia*, *Business Plans Made Easy*

**Do You Really Need a Business Plan?**

The experts aren't so sure--but entrepreneurs like the founders of Roaring lion energy drink say it's a must. here's how to know if writing a business plan is for you.

# By Mark Henricks

Starting a business was the last thing on Sean Hackney's mind when he sat down to write a [business plan](http://www.entrepreneur.com/businessplan/). Hoping to persuade a soft drink company to hire him, Hackney scripted a plan for taking on his former employer, Red Bull North America Inc. But when he showed it to his corporate attorney father and former Red Bull managing director, "they said, 'Don't send this to Coke or Pepsi. Start the business, and we'll start it with you,'" he recalls.

That was in 2000. Today, the 40-year-old is co-founder and co-owner of Roaring Lion Energy Drink, a $6.2 million company in Sun Valley, California. "We've grown the business from a $62,000 investment to the No. 2 energy drink in bars and nightclubs," Hackney says. The company has 32 employees, and Hackney's erstwhile sounding boards are now his investors and co-managers. The business plan he wrote has been through numerous revisions, and today, a regularly updated marketing plan guides the company. Writing the plan, Hackney says, was "absolutely" worthwhile. "I had a lot of stuff in my head that needed [to be] put on paper."

Clemson University entrepreneurship professor William B. Gartner believes business plans are essential. And the SBA notes on its website: "The importance of a comprehensive, thoughtful business plan cannot be over-emphasized." But lately, questions have arisen.

In 2006, William Bygrave, a professor emeritus at Babson College and longtime entrepreneurship researcher, studied several years' worth of Babson graduates to find out how much better those who started businesses with a formal, written plan did than those who didn't. "We can't find any difference,"?he admits. In other words, Bygrave and his team found that entrepreneurs who began with formal plans had no greater success than those who started without them.

**For or Against**

That's hardly the final word, however. Gartner also set out to study the idea. "Going into the study, I was very skeptical about the value of business plans," Gartner says. But after he and his colleagues looked at data from the Panal Study of Entrepreneurial Dynamics, a national generalizable survey of more than 800 people in the process of starting businesses, he found that writing a plan greatly increased the chances that a person would actually go into business. "You're two and a half times more likely to get into business," he points out. "That's powerful."

Gartner's earlier concerns about the necessity of business plans, he says, were that they were "all talk. Our research shows that business plans are all about walking the walk. People who write business plans also do more stuff." And doing more stuff, such as researching markets and preparing projections, increases the chances an entrepreneur will follow through.

For his part, Bygrave doesn't think his research says business plans are a waste of time. "We're saying that writing a business plan ahead of time, before you open your doors for business, does not appear to help the performance of the business subsequently," he explains.

So what would Bygrave like to see instead of a business plan? Attempts to sell the product to actual customers, even if it doesn't exist yet. "Have you talked to a customer?" he asks. "If not, I don't want to talk to you about the business."

Bygrave still thinks plans help, however. Forty percent of Babson students who have taken the college's business plan writing course go on to start businesses after graduation, twice the rate of those who didn't study plan writing. "Even if they don't write a plan," Bygrave says, "they've had to think about how opportunity recognition fits with marketing, building the right team, making financial projections and so on."

And a wide gulf separates having a formal written plan and having no plan at all. "Every business has to start with a plan," says Bygrave, whether it's a mental construction never committed to paper or a more advanced description jotted down on the back of an envelope.

**The Money Factor**

Skeptics and fans of business plans agree on one point: Securing funding almost always requires a formal plan. Companies funded by friends and family may not need a plan, Bygrave says, but if you go to venture capitalists, commercial banks, government-backed lenders and most angel investors, you will need a business plan.

That viewpoint gets no traction from Daniel Stewart, co-founder of Port Richey, Florida-based Envala. Stewart and his partner funded the small-business software provider, yet Stew-art still put together a business plan complete with financial projections. "We didn't need to because we're our own invest-ors," says Stewart, 38,"but to be a responsible entrepreneur, you have to see things as they are."

A primary purpose of the plan was to evaluate the feasibility of their proposal to sell online automation software to small businesses. So they created three sets of financial forecasts: a rosy picture, a more reasonable one and a disaster scenario. They also placed extra emphasis on describing the corporate culture mission. "We exist to increase satisfaction, productivity and profitability of small businesses," Stewart says. "It was important for us to establish that [early on] when everything is uncertain."

**Planning Trends**

Plans today no longer need the 20 to 40 pages prescribed by classic planners. "The shorter [it is], the better chance [it has] of being read," says Bygrave, who recommends devoting no more than five pages to income, cash flow and balance sheets. "And don't have any numbers in [there] you can't explain instantaneously."

As tools such as spreadsheets and plan writing software have grown in importance, some critics say business plans have become overstuffed with complex financials that are often backed up by little more than guesswork. "[These tools have] made it easier to produce a business plan," says Bygrave. "But they've produced page after page of financials that basically came out of thin air." As a result, investors today want fewer and better-documented financials.

"No one's impressed by spreadsheets," agrees Gartner. "[It's] the action behind the spreadsheets." By that, he means investors want to see that an entrepreneur has actually examined the market for a product or service, identified potential customers, assembled a capable team, devised a business model and more.

While investors want to see action, they don't want to work for it. A plan today is more likely to be a modest deck of slick, colorful presentation slides than a thick stack of white paper. Digital slides are easier to distribute to a dispersed audience via e-mail and to present to large groups on an overhead projector.

But limit your presentation to no more slides than you would in a paper plan, meaning 20 or fewer. And don't cram a lot of information on a single slide. "Just put highlights," says Bygrave. "[No] more than six or eight lines on a slide."

**Planning for the Future**

Whether plans today are long, short, elaborate or simple, they still contain the same basic elements they always have. Typically, most have an executive summary, a marketing plan, a management team description and financials (income, cash-flow and balance sheet projections).

The recent studies are hard to ignore because they're based on reasonable samples and were performed by reputable researchers. But business plans show no sign of going extinct. Business plan competitions and college-level business plan courses are more abundant than ever. "Why do people write business plans?" Bygrave asks. "They've been trained to write business plans, so they do. Another cause is that investors or strategic partners insist on it."

Hackney's experience writing the plan for Roaring Lion convinced him of both the benefits and limitations of business planning. Simply writing a plan helped push him to start a business when he had no intention of doing so. But the plan wasn't nearly as effective when it came to identifying and quantifying the risks and opportunities his company would face.

One problem arose when it became apparent he had overestimated the business's revenue potential by about 500 percent. His company's annual sales are nothing to sneeze at, but they are far less than Hackney expected in his plan.

Among other missteps, he underestimated the actual selling price of the company's products. The economic appeal to customers is still strong, but it's not as strong as he'd hoped. Perhaps most important, his plan didn't recognize the amount of financial capital it would require to grow the company, which has made it difficult for him to reach those early sales forecasts.

Like many entrepreneurs, Hackney learned to write a business plan from a book. That, plus feedback and many hashing-out sessions with his soon-to-be investors and partners, produced a plan that was accurate in its basic aim: to describe a business model that would allow him to build a successful enterprise.

Today, Hackney says he'd definitely write a business plan if he started another business. But he'd be much more conservative with his financial projections and de-emphasize the use of them. "I'd make it much shorter," he adds. "I'd deliver the core principles of what the business is founded on in such a way that the purpose would be finding money."

*Mark Henricks writes on business and technology for leading publications and is author of Not Just a Living.*

**Plan Your Business Plan**

You've decided to write a business plan, and you're ready to get started. Congratulations. You've just greatly increased the chances that your business venture will succeed. But before you start drafting your plan, you need to--you guessed it--plan your draft.

One of the most important reasons to plan your plan is that you may be held accountable for the projections and proposals it contains. That's especially true if you use your plan to raise money to finance your company. Let's say you forecast opening four new locations in the second year of your retail operation. An investor may have a beef if, due to circumstances you could have foreseen, you only open two. A[business plan](http://www.entrepreneur.com/businessplan/) can take on a life of its own, so thinking a little about what you want to include in your plan is no more than common prudence.

Second, as you'll soon learn if you haven't already, business plans can be complicated documents. As you draft your plan, you'll be making lots of decisions on serious matters, such as what strategy you'll pursue, as well as less important ones, like what color paper to print it on. Thinking about these decisions in advance is an important way to minimize the time you spend planning your business and maximize the time you spend generating income.

To sum up, planning your plan will help control your degree of accountability and reduce time-wasting indecision. To plan your plan, you'll first need to decide what your goals and objectives in business are. As part of that, you'll assess the business you've chosen to start, or are already running, to see what the chances are that it will actually achieve those ends. Finally, you'll take a look at common elements of most plans to get an idea of which ones you want to include and how each will be treated.

**Determine Your Objectives**  
Close your eyes. Imagine that the date is five years from now. Where do you want to be? Will you be running a business that hasn't increased significantly in size? Will you command a rapidly growing empire? Will you have already cashed out and be relaxing on a beach somewhere, enjoying your hard-won gains?

Answering these questions is an important part of building a successful business plan. In fact, without knowing where you're going, it's not really possible to plan at all.

Now is a good time to free-associate a little bit--to let your mind roam, exploring every avenue that you'd like your business to go down. Try writing a personal essay on your business goals. It could take the form of a letter to yourself, written from five years in the future, describing all you have accomplished and how it came about.

As you read such a document, you may make a surprising discovery, such as that you don't really want to own a large, fast-growing enterprise but would be content with a stable small business. Even if you don't learn anything new, though, getting a firm handle on your goals and objectives is a big help in deciding how you'll plan your business.

**Goals and Objectives Checklist**  
If you're having trouble deciding what your goals and objectives are, here are some questions to ask yourself:

1. How determined am I to see this succeed?
2. Am I willing to invest my own money and work long hours for no pay, sacrificing personal time and lifestyle, maybe for years?
3. What's going to happen to me if this venture doesn't work out?
4. If it does succeed, how many employees will this company eventually have?
5. What will be its annual revenues in a year? Five years?
6. What will be its market share in that time frame?
7. Will it be a niche marketer, or will it sell a broad spectrum of good and services?
8. What are my plans for geographic expansion? Local? National? Global?
9. Am I going to be a hands-on manager, or will I delegate a large proportion of tasks to others?
10. If I delegate, what sorts of tasks will I share? Sales? Technical? Others?
11. How comfortable am I taking direction from others? Could I work with partners or investors who demand input into the company's management?
12. Is it going to remain independent and privately owned, or will it eventually be acquired or go public?

**Your Financing Goals**

It doesn't necessarily take a lot of money to make a lot of money, but it does take some. That's especially true if, as part of examining your goals and objectives, you envision very rapid growth.

Energetic, optimistic entrepreneurs often tend to believe that sales growth will take care of everything, that they'll be able to fund their own growth by generating profits. However, this is rarely the case, for one simple reason: You usually have to pay your own suppliers before your customers pay you. This [cash flow](http://www.entrepreneur.com/money/moneymanagement/index143938.html) conundrum is the reason so many fast-growing companies have to seek bank financing or equity sales to finance their growth. They are literally growing faster than they can afford.

Start by asking yourself what kinds of financing you're likely to need--and what you'd be willing to accept. It's easy when you're short of cash, or expect to be short of cash, to take the attitude that almost any source of funding is just fine. But each kind of financing has different characteristics that you should take into consideration when planning your plan. These characteristics take three primary forms:

* First, there's the amount of control you'll have to surrender. An equal partner may, quite naturally, demand approximately equal control. Venture capitalists often demand significant input into management decisions by, for instance, placing one or more people on your board of directors. Angel investors may be very involved or not involved at all, depending on their personal style. Bankers, at the other end of the scale, are likely to offer no advice whatsoever as long as you make payments of principal and interest on time and are not in violation of any other terms of your loan.
* You should also consider the amount of money you're likely to need. Any amount less than several million dollars is too small to be considered for a standard initial public offering of stock, for example. Venture capital investors are most likely to invest amounts of $250,000 to $3 million. On the other hand, only the richest angel investor will be able to provide more than a few hundred thousand dollars, if that.

Almost any source of funds, from a bank to a factor, has some guidelines about the size of financing it prefers. Anticipating the size of your needs now will guide you in preparing your plan.

* The third consideration is cost. This can be measured in terms of interest rates and shares of ownership as well as in time, paperwork and plain old hassle.

**How Will You Use Your Plan**

Believe it or not, part of planning your plan is planning what you'll do with it. No, we haven't gone crazy--at least not yet. A business plan can be used for several things, from monitoring your company's progress toward goals to enticing key employees to join your firm. Deciding how you intend to use yours is an important part of preparing to write it.

*Do you intend to use your plan to help you raise money?* In that case, you'll have to focus very carefully on the executive summary, the management, and marketing and financial aspects. You'll need to have a clearly focused vision of how your company is going to make money. If you're looking for a bank loan, you'll need to stress your ability to generate sufficient cash flow to service loans. Equity investors, especially venture capitalists, must be shown how they can cash out of your company and generate a rate of return they'll find acceptable.

*Do you intend to use your plan to attract talented employees?* Then you'll want to emphasize such things as stock options and other aspects of compensation as well as location, work environment, corporate culture and opportunities for growth and advancement.

*Do you anticipate showing your plan to suppliers to demonstrate that you're a worthy customer?* A solid business plan may convince a supplier of some precious commodity to favor you over your rivals. It may also help you arrange supplier credit. You may want to stress your blue-ribbon customer list and spotless record of repaying trade debts in this plan.

**Assessing Your Company's Potential**

For most of us, unfortunately, our desires about where we would like to go aren't as important as our businesses' ability to take us there. Put another way, if you choose the wrong business, you're going nowhere.

Luckily, one of the most valuable uses of a business plan is to help you decide whether the venture you have your heart set on is really likely to fulfill your dreams. Many, many business ideas never make it past the planning stage because their would-be founders, as part of a logical and coherent planning process, test their assumptions and find them wanting.

Test your idea against at least two variables. First, financial, to make sure this business makes economic sense. Second, lifestyle, because who wants a successful business that they hate?

Answer the following questions to help you outline your company's potential. There are no wrong answers. The objective is simply to help you decide how well your proposed venture is likely to match up with your goals and objectives.

***Financial:***

1. What initial investment will the business require?
2. How much control are you willing to relinquish to investors?
3. When will the business turn a profit?
4. When can investors, including you, expect a return on their money?
5. What are the projected profits of the business over time?
6. Will you be able to devote yourself full time to the business, financially?
7. What kind of salary or profit distribution can you expect to take home?
8. What are the chances the business will fail?
9. What will happen if it does?

***Lifestyle:***

1. Where are you going to live?
2. What kind of work are you going to be doing?
3. How many hours will you be working?
4. Will you be able to take vacations?
5. What happens if you get sick?
6. Will you earn enough to maintain your lifestyle?
7. Does your family understand and agree with the sacrifices you envision?

***Sources:*** *The Small Business Encyclopedia*, *Business Plans Made Easy*

**Chapter 8**

**Updating Your Business Plan**

Our coach explains why constantly updating your business plan is the key to growing successfully.

"When should I update my business plan?" The answer to that question is *always*. You should be updating your business plan every month, every week and every day; whenever things change, you update your plan. And things always change. You should update your [business plan](http://www.entrepreneur.com/businessplan/)when you're alone in the shower, when you're caught in traffic on the way to work, and when you're walking alone. Update your business plan when listening to customers and other managers.

While this might seem like chaos, it's actually the opposite; the constantly-updated business plan is what makes order out of chaos. It becomes a long-term planning process that sets up your strategy, objectives and the steps you need to take by constantly being aware of the results of these steps.

**Managing the Planning Process**

**The Annual Update**

Update your plan thoroughly at least once a year. You can start with an old plan and revise, but make sure you're taking a fresh look--distance yourself from the trees and look at the forest.

* **Talk to your customers and potential customers.**  
  Review your value proposition. What are your customers buying? What problems do you solve? What other solutions can they choose?
* **Try to come up with a new market segmentation.**  
  Segmentation is the grouping or divisions you see in the market. For example, if you normally view your market by type of product, look at it by channel or buyer. If you divide by region, divide by size of buyer company. Think up a new segmentation to give you a fresh view.
* **Look at the larger potential market for the problems that need solutions.**  
  Look at contiguous businesses. Look at changing trends and technologies.

**The Monthly Update**

Accounting and financial analysis normally works in months since the books close after every month. Make sure you have a monthly review of the difference between planned results and actual results for your sales, profits, balance and cash.

* For each of the standard pro-forma projections, always maintain a table with the plan, another with actual results, and a third with the difference between plan and actual, which is called variance.
* As an annual plan marches through the months, you can use the table reserved for actual results to include changes in budget that affect the near future. For example, if the annual plan starts in January, then by the end of May you have an actual Sales Forecast that includes actual results for January through May and the latest revised forecast for June through December.
* You must also review the activities, deadlines and planned results that don't fall into the financials. A good plan is full of milestones, assumptions and tasks, all of which should be measurable. Make sure you review and update these measured results every month.

**Managing the Major Revisions**

The business planning process involves an important paradox. Strategy works only when consistently applied over a long period, which means that you can't implement strategy without following a long-term plan. However, blindly following a long-term plan can also kill a company that stubbornly insists on following a plan that isn't working.

Resolution of the paradox is called *management*. It involves judgment. The owners, operators and managers of the business have the responsibility of distinguishing between consistently applying long-term strategy and blindly following a failing plan. There are no easy rules for this, but the first place to look for clues is in false assumptions. Has the real world proven wrong the assumptions on which your strategy is based? This kind of subjective judgment is what makes business management so important. The planning process, with its regular review, is critical.

**Every Business Plan is Wrong**

You have to realize your business plan is wrong. All business plans are wrong. Plans are about the future--and nobody gets the future right very often, so keep the plan fresh and watch closely as reality moves forward. A planning process constantly watches the difference between the plan and actual results. Reality swallows our assumptions and we need to keep track of where, why and how we were wrong. This kind of tracking becomes the key to management.

A Good Business Plan is Never Done

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