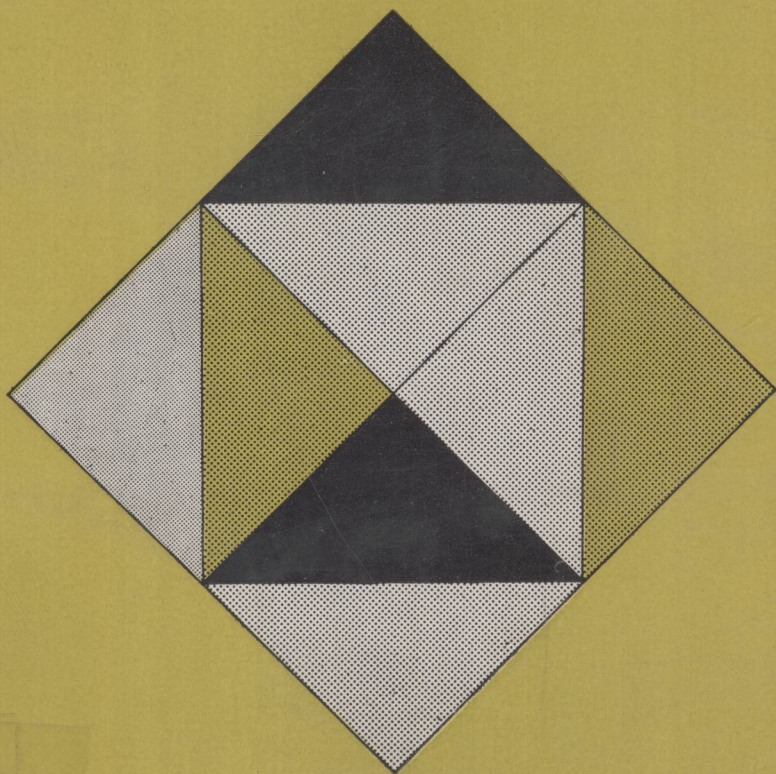


Fundamentals of Modern Management



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FUNDAMENTALS OF MODERN MANAGEMENT

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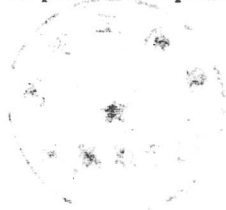
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FUNDAMENTALS OF MODERN MANAGEMENT

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To
*My wonderful and friendly children,
Sunnu and Upi*



ACKNOWLEDGEMENTS

In a vast plethora of management books in theory as well as process, designed specially as teaching instruments, why there is a need for another simpler textbook on fundamentals of management? The primary reason for introducing this book is to make it tailor made for the needs of students of community colleges who are taking an introductory course in principles of management. This is understood that the needs of the students for this basic course do not go beyond a comprehensive familiarity with the management functions and some relevant issues. Hence, a detailed analysis and an exhaustive coverage of all areas of management is neither necessary nor desirable.

Most books in the management area are extensive treatment of issues and policies that are primarily meant to reflect the knowledge and involvement of the author and not what the students ought to know and in a language that the first level college students can understand. Additionally, these books are generally meant to cover 2 semesters' work instead of one, and the individual professors take the liberty of choosing those parts that they find convenient to cover. It is often not possible to cover 700-800 pages of a management text in one or two semesters. Also most of these books are meant to be taught at all levels of student life including the MBA level and Ivy League Universities. This is not fair to the 2-year diploma students and the students of community colleges who do not need such higher level material nor have they been adequately prepared to understand such material in its proper context. Accordingly, a vacuum exists in this area and a textbook is needed to cater for the needs of such students.

Fundamentals of Modern Management has been specially and painstakingly prepared with such specific needs in mind. The book is written and presented in a very simple language without complex diagrams and tables and fully covers all related subjects in a manner and at a level so that the entire book can be covered in one semester outline. The book is separated into major fundamental areas of management and each area is comprehensively covered and treated. The language is clear, unambiguous and self-teaching. The material is covered in a simple manner so as to make an interesting reading.

A lot of effort has gone into this book and my thanks are due to a lot of people, that I have been closely associated with. First, I gracefully acknowledge the continuous inspiration and motivation given to me by Professor A. Dasgupta, Professor Emeritus of University of Delhi, Department of Management, as he guided me to the path of research and writing. Similar thanks are due to my friend and colleague, Dr David Valinsky, Wollman Distinguished Professor of Statistics, at Baruch College, City University of New York, who was always there when I needed him. In addition, I am thankful to my colleagues Professor Charles Davidson, and Dr John Muehlig, who gave me valuable assistance.

Beyond all, I think, my thanks are due to my students in my basic and introductory management courses who were always advising me to write a book for them.

Finally, my gratitude to Ms Clara Clark whose patient typing, retyping and other suggestions brought this book to reality.

J. S. CHANDAN

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Chapter 1

MANAGEMENT

What is management. How do we define it. What is involved in it. Why we hear many times that a company failed due to bad management. How do some people manage their life better than others. Does it mean organizing things better thus causing less confusion. Management can be defined in many ways. One of the more accepted definition is as follows:

Management is that field of human behaviour in which managers plan organize, staff, direct and control human physical and financial resources in an organized group efforts, in order to achieve desired individual and group objectives with optimum efficiency and effectiveness.

This definition contains many aspects but the key parts are resources, objectives and efforts. What are the objectives? There are individual objectives and also there are organizational objectives. Sometimes these objectives conflict with each other. The individual objectives are to make more money, have better recognition for efforts, and have a sense of fulfilment in being associated with an organization. The organizational objectives also, are to make more money for the company, to improve image of the company in quality and service, getting better share of the market etc. The management's efforts are to coordinate in such a manner as to fulfil both individual as well as group objectives. These objectives must be achieved in an optimum manner. This means that there is no waste of time, money or other resources. The utility of the efforts should be maximum and the costs associated with these efforts should be minimum. The resources which the management must efficiently utilize are:

1. **Human resources.** This involves getting the most suited person for a given job, and getting the most out of him. Combined together, all workers will be doing their best, thus utilizing their skills and efforts to the maximum. This would ensure the most efficient use of all human resources.

2. Physical resources. These resources primarily mean the use of plant, machinery, and facilities. This is to make sure that all machines run properly, that these equipments are technologically advanced, and that these are maintained properly. This is to ensure that their total output is the best under a given set of circumstances.

3. Capital resources. This would involve acquiring capital for initial buying of plant and equipment and using the capital for day-to-day operations. It is important to ensure that no money is wasted or put into unprofitable ventures. Good management would make sure that these financial resources are best utilized.

The Job of Management

The management's job is to make sure, that it satisfies the interests of all parties concerned. Now who are the concerned parties who have some degree of claim on management. There are basically five concerned groups towards whom the management has some responsibilities. These groups are: (1) Stockholders, (2) Employees, (3) Customers, (4) Public and Community, and (5) Government.

Let us look at the rights of each of these groups:

1. Responsibility towards stockholders. These are actually the owners of the company who have bought a part of the company by buying their stock share. They have invested money in the company and they want to get the maximum return on their investment. They are interested that the management of the company conduct the business in such a way, that the company continues to grow and remain profitable over a long period of time. This would help the stockholders in two ways. They will share a part of the total profits, in the form of dividends, as well as the value of there shares will appreciate. Accordingly, the management must base their decisions on long range planning and objective forecasting.

2. Responsibility towards employees. The responsibilities towards employees relate to the following areas of employee interest:

(a) *Employment.* This must be understood that the employment is meant to be mutually beneficial for the employee as well as for the employer. Accordingly, the emphasis should be on what contributions can the employee give to the company and what the company can do for the employee. The employee contribution must be fully recognized.

(b) *Working conditions.* This primarily refers to physical facilities, which must be adequate and acceptable. These must meet the

accepted standards of cleanliness, light, heat, airconditioning, ventilation and safety. Whenever the job requires some extra degree of risk or difficulty, additional incentives must be offered. These conditions include night duty, working with chemicals, working underground in coal mines or working with fast heavy machinery. In addition provisions for social activities as well as athletic activities would make the employees more dedicated. The workers would consider this as an additional benefit as well as a boost in their morale, if they are allowed easy access to superiors, provisions for suggestions that would be seriously taken and flexibility in working hours, if possible.

Many large companies provide for psychological counseling, which greatly reduces the stress of work and help solve other personal problems. This reduction in stress and tension and the development of a positive attitude would greatly improve the productivity.

(c) *Economic security.* A sense of job security greatly improves the sense of dedication of the company. A life time employment brings about a shared responsibility which helps to build the loyalty to the company. The system of "tenure" in academic institutions, after five or six years of service is designed to give the professor a sense of economic security, which should bring about dedication and a sense of belonging to the institution. In addition to job security, the remuneration and fringe benefits must be adequate and encouraging. Some of the fringe benefits, in addition to the salary are:

- (i) Life insurance;
- (ii) Medical insurance;
- (iii) Sick leave;
- (iv) Provision for leave for other emergencies;
- (v) Maternity leave;
- (vi) *Stock options:* This is a provision to buy the stock shares of the company at a price lower than the price paid by public;
- (vii) Paid vacation; and
- (viii) Free education for the workers, if necessary, and for their children.

(d) *Job satisfaction.* Job satisfaction refers to employees self fulfilment and happiness at the job. The work environment should be such as to encourage a sense of belonging. This satisfaction would be enhanced if the employee contribution is properly recognized. This would enhance the feeling of togetherness.

Other management policies should include provisions for advancement, promotions, increased responsibility and decision making privileges.

3. Responsibility towards customers. The customers expect a quality product at a reasonable price with guaranteed satisfaction. The quality can be guaranteed by offering facilities for returning the defective product either for the purchased price or for a new unit. Also by providing free service to the product for a specified period of time, the customer's confidence in the quality of the product can be strengthened. The product should be simple to operate and be made easily available through proper distribution channels and the customer satisfaction should be the first rule of sales. "Customer is always right," has proven to be good policy for initiating sale and keeping the customer.

4. Responsibility towards public and community. The management must respect community interests. Some of these community interests may be protected by law. Other interests may be outcome of social environments. These community interests include air pollution, water pollution and noise pollution. All efforts must be made to eliminate or reduce these pollutions. Other community interests include providing jobs within the community, assisting in church and school activities, hiring the handicaps, raising funds for public activities and taking active interests in community affairs.

5. Responsibilities towards government. The management must operate within the legal system and adhering to all laws. These include but are not limited to:

- (a) Paying proper taxes.
- (b) Respecting laws pertaining to social environment.
- (c) Affirmative action.
- (d) Equal opportunities for all.
- (e) Respect for anti-trust laws.
- (f) Truth in advertising, etc., etc.

Characteristics of Good Manager

The important personality traits of a successful manager are:

1. Knowledge. The problems we deal with are generally complex and many faceted, and hence a reasonable degree of knowledge is required so as to be able to differentiate between facts, inferences and hypothesis and process the information for practical decisions. To have the knowledge about competitive market, about techno-

logical advancements and about social changes is very important for taking actions.

2. **Decisiveness.** Quick and right decisions are very important in the success and growth of any company. While it is important to know the facts, it is equally important to act fast. Many opportunities have been missed because of indecisiveness and taking time in checking all the facts. A good manager should be able to make decisions even when only partial data is available, so that his decision may be based on analytical and intuitional judgement. A manager should possess conceptual logical ability, intuitive and courageous judgement and ability to analyze the problem by breaking it into parts and identifying the nature and effect of each part.

3. **Ability to handle conflict.** A good manager is calm, able to listen, is positively responsive to criticism and is able to handle conflicts and differences in a constructive manner. In order to handle conflicts well, a manager must be confident, self assertive, fair and dominant. He should be highly tolerant of stress, for conflicts generally lead to stress and tension. This would require a sound mind in a sound body. A good physical health generally introduces drive, energy and stability leading to more balanced outlook.

4. **Emotional stability.** Emotional stability is the major ingredient for effective leadership and an effective manager is always an effective leader. It pertains to good adjustment to life, calm and cool and calculated reaction to undesirable situations and obstacles, and normal acceptance of success as well as failure. Emotional instability often leads to wrong and impulsive decisions with dire consequences. Accordingly, a manager must be able to look and assess a problem with detachment and objectively.

According to Katz¹ a good manager has three fundamental skills:

- (a) **Technical skills.** The technical skills does not refer as much to operational skills as it does to be well familiar with the job. The technical skills are more important at the lower level management. The top executives have developed the skills of planning, organizational structures and forecasting. The technical skills would require the the ability to use methods and techniques to solve problems in the area that the managers are dealing with. A manager in the division of quality control, for example, would know what methods are to be used in keeping the quality of the product to a prescribed level.
- (b) **Human skills.** Human skills involve the ability to work with

others amicably. This would require expertise in interpersonal relationship, and a respect for opposing opinions. A good manager would have the capacity to understand others, with a spirit of trust and respect. This is a difficult area to learn, specially with subordinates, but knowing when and how to criticize for mistakes and when to reward for achievements is a unique trait of all successful managers. It involves genuine involvement, enthusiastic respect for togetherness and a true desire to move forward together.

- (c) *Conceptual skills.* The conceptual skill primarily involves the ability to perceive the system as a total sum of sub-systems, interconnected to make a whole. A good manager must be able to identify the parts and sub-systems, as well as see the organization as a whole. He must see individual matters as they relate to the total picture. The conceptual skills become very important as the managers move up the ladder.

Even though all these skills are highly important, a good manager is open-minded and flexible. Since all situations may not be similar, strict adherence to certain methods and techniques may not be desirable or effective. An important skill for manager is the ability to be flexible, in facing different-kinds of demands and situations. A manager's work is highly diversified and he must handle many activities, some of these going on at the same time and he may change his activities as new issues arise. Knowing when to be flexible and when to be stern, is an art which can spell the difference between success and failure.

Manager's Work Roles²

1. **Managers operate as figureheads.** Their role as ceremonial figureheads. This may be evident on some award giving ceremonies, some ceremonies honouring the retiring employees or even at same weddings of subordinates or at anniversary parties of workers.
2. **Managers operate as leaders.** They must have leadership qualities so that they can motivate employees, handle their conflicts, and in general give them guidance and advice.
3. **Managers operate as liaison officers.** In addition to spending time with peers, subordinates and people at their own level, they also spend time outside their organizations gathering information that might affect their own units or situations.
4. **Managers operate as monitors.** They are constantly monitoring the situation around them both within the organization and out-

side, constantly collecting information and sorting it out and disseminating this relevant information to superiors and subordinates.

5. **Managers operate as spokesmen.** They have to present their division and speak for their needs and suggestions.

6. **Managers operate as entrepreneurs.** They are consistantly looking for ideas that would improve their product, profitability, company image etc. They pursue these ideas and assist in adaptability to change.

7. **Manager operate as negotiators.** They handle conflicts, handle grievances, negotiate contracts, and solve day to day crisis, be it within the company or as a result of outside forces like suppliers raising their prices, strikes etc.

8. **Managers operate as resource allocators.** The managers allocate budgets to different divisions. They also allocate their time to different functions depending upon priority of certain operations. They allocate extra money for promotions raises etc.

Historical Perspective of Management

Management has evolved and changed considerably over a period of time. Even though the formal, scientific management began and established itself in the 20th century, the recorded use of organized management goes back to 5000 B.C. when the agricultural revolution had taken shape. According to Peter Drucker³ "these irrigation civilizations represented the greatest and most productive age of social and political innovation." Some of the examples of early management skills are the highly sophisticated city of *Mohen-jo-daro* in India, the palaces of Assur and Babylon, and the great pyramids of Egypt. One pyramid built in 2900 B.C. required 100,000 men for twenty years, covering 13 acres, using 2.3 million blocks, each weighing an average of two and half tons. To produce such a monument required proper planning, work allocation, organizing, directing, and decision making.

Medieval Italy, in 1400's used the double entry book keeping system and assembly line techniques. The Roman Empire, even much earlier, showed an outstanding expertise in general administration, political, military and judicial judgemental issues, using communications and centralized control.

Industrial Revolution

The Industrial Revolution, beginning in the late 18th century, changed the entire behaviour of the civilized world. Adam Smith is known to have established the management principles in the area

of division of labour and specialization. These principles were highly utilized by Henry Ford in mass production of automobiles.

There are a number of characteristics associated with the Industrial Revolution. Some of these are:

1. **Specialization.** This comes with the division of labour where each worker is assigned to a small unit of job in which he becomes a specialist. This gives rise to assembly line production.

2. **Standardization.** It means producing identical goods in millions of units. This means simplification in quality control, making the specialization less complicated. It also helps the consumer in trusting the quality of the product and being able to acquire the product anywhere and from any competitor.

3. **Synchronization.** It means coordination and blending of all elements at one place. It helps in assembly line fitting and operations.

4. **Concentration.** The concentration of people and products was associated with Industrial Revolution in that people were taken from farms and isolated places and concentrated at the location of factories. The location of auxiliary support systems to these factories gave rise to urban inhabitation resulting in industrial complexes and cities.

5. **Maximization.** This characteristic of Industrial Revolution has emphasized efficiency and optimum return on investment of capital and time. This resulted in "survival of the fittest", giving rise to mergers and acquisitions resulting in huge industrial complexes.

6. **Centralization.** Centralization requires that control and decision be made at the top while operational decisions are made in a decentralized form at the operational level. However as the conglomerates become more diversified and divisional, some of the central decision making powers are passed on to the divisions.

Various Schools of Management

There are various schools and approaches to management, developed during this century. Some of these are explored as follows:

1. **Scientific management approach.** Fredrick W. Taylor is considered to be the father of scientific approach to Management. His published work, *The Principles of Scientific Management*⁴ in 1911, became the basis of scientific approach to management. He was interested in developing the most scientific and rational principles for handling people, machines, materials and money, to secure maximum benefits for the employers as well as employees.

The scientific school advocates the following: