Chapter III

Theoretical Background

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Chapter – III Therotical Background

3.1 Introducrtion :

Whenever it is beyond the capacity of one individual to carry out the whole work or function himself, he is required to take assistance from other person. Such a function may either be social, reli8gious, political, charitable or economic activity. But whenever & wherever more person work to-gather to achieve common objectives it becomes imperative to have co-operation & coordination will be a mess for orderly working of the group it is necessary to have some body at the head of affairs. He will in the first instance, think of the total work to be done & then will divide the work in to various activities & operations. He will further assign specific work to each individual according his capacity & liking & will direct him as to when, where, with whom & how to carry out the work. this head is known is manager. The element which provides leadership & coordination is known as manager. "The manager (management) is the dynamic life giving element in every origination. Without it, the resources of production remain recourses & never become production".

Management first evolves workable plans. The plans are then put in to action resulting in certain consequences. These results are observed and evaluated & constantly compared with the objectives laid down in the plan. This cycle of actions is described as the management process.

Thus the term "management" here refers to functions of management & not to managerial personnel.

3.2 Definition

Different writers have defined the term management in different ways. A few definitions are given below.

1 John F. Mee.

"Management may be defined as the art of securing maximum results with a minimum of effort so as to secure maximum prosperity and happiness for both employer and employee and give the public the best possible service."

2. William Spriegel

"Management is that function of an enterprise which concerns itself with the direction and control of the various activities to attain the business objectives. Management is essentially an executive functions; it deals particularly with the active direction of the human effort,"

3. Koontz and O' Donnel

"Management involves the creation and maintenance of an internal environment in an enterprise where individuals working together in groups, can perform efficiently and effectively toward the attainment of group goals ."

3.3 Characteristics of Management

The above description of management reveals the following characteristics.

1. Management is a purposeful activity.
2. Management is a functional concept.
3. Management is associated with efforts of a group.
4. Management is universal.
5. Managers are not necessarily owners.
6. Management a system of authority.

3.4 PRINCIPLES OF MANAGEMENT

Mr. Henri Fayol, the father of modern management theory, as a practical businessman, developed certain logically developed principles which are the part and parcel of any modern philosophy of management. He listed Fourteen such Principles based on his experiences and experiment in the dynamic field of business.

1. Principle of Division of Labour

Specialization is a must because; business is not a one man show. Specialisation enhances the efficiency in any field of work which may be technical or non-technical.

2. Principle of Discipline

Discipline is a controlled behavior. It signifies respect for rules and regulations, controls, restrictions. It means obedience and honoring the higher-ups for their thinking and actions.

3. Principle of Unity of Command

Unity of Command means the juniors will have only one boss who is to order them.

4. Principle of Unity of Direction

The organisation is sure to be divided into certain departments based on specialization. Accordingly, each group of activities with same objectives should have only one head and one plan.

5. Principle of Authority and Responsibility

Getting the work done calls for delegation of certain powers along with responsibilities. There should be balance between the authority extended and be responsibility expected.

6. Principle of Centralisation

The principles of centralization does not mean here centralization of authority at top or compete decentralization. It refers to the degree of centralization or decentralization yields the best result that depends on individual cases.

7. Principle of Order

This speaks of justice to the people and work-roles in the organisation according to him, best man for best work or right man for right work. It is the orderly arrangement of material and social order or things and people.

8. Principle of Equality

This is the finest and delicate principle that helps in getting the work done. It says that loyalty and devotion should be extracted from the subordinates by means of justice, kindness and sympathy on the part of superiors.

9. Principle of Remuneration:

The employees join the orgnisation with the high hopes and aspirations of making career. The work for both service and monetary motives. The remuneration monetary and non-monetary. should be adequately, fair. Timely and gratifying to the employees .

10. Principle of General Interest:

This Principle says that individual interest is to be subordinated to general interest. Common interest is above the individual interest and when there is conflict between these two, the common interest must prevail.

11. Principle of Scalar Chain:

Scalar chain represents an arrangement of scalars or lairs for communication of authority from top to bottom. The communication going up or coming down must flow through each position in the line of authority.

12. Principle of Initiative :

Initiative is thought of as thinking before doing. Anything is to be thought first before execution. In this, Henri Fayol says that the managers are the persons who are to sacrifice personal vanity so as to permit subordinates to exercise it.

13. Principles of Stability of Tenure:

It means that no employee should be removed within short time. There should be Security of job. Security of tenure is a must for employee to adjust to the new work, working conditions and succeeding in doing well.

14. Principle of Esprit De Corps:

This emphasises the fact that united we stand divided we fall It says union is strength.

3.5 Functions of Management

The statement "management is what management does," *though it covers all the functions of management, does not clearly* mention what functions management does.

Broadly speaking the following functions are performed by the management:

1) Planning	**2) Organizing**	**3) Staffing**
4) Directing	**5) Motivating**	**6) Communicating**
7) Leadership	**8) Controlling**	

1) Planning:-

Planning means deciding in advance what is to be done, how, when & where it is to be done, & by whom. Planning is a primary function of management & other function follow planning. The work of a manager starts with the setting of the organisation & chalking out the programmes for their accomplishment. Planning makes possible to compare the actual results & find out whether there is any deviation, if so, the reasons.

2) Organizing:-

Planning done by manager will remain on paper only if steps ate not taken for its execution to achieve the objectives. Hence Organizing becomes one of the most important or basic function of management. For this purpose by bringing various elements such as capital machinery, materials, executive, personnel, workers etc. together. Organisation creates order & system. It determines authority responsibility relationship.

3) Staffing:-

Staffing means recruitment of suitable persons for different positions. While making recruitment & making postings the 'principle proper man at proper place' must be kept in view. Staffing also includes provision of training to personnel to increase their efficiency.

4) Directing:-

In order to get the things done from others, it is necessary to issue order & instructions to subordinate staff members. It also includes guiding, conselling & supervising subordinates in their work. Direction converts plans into performance. Manager acts as a leader of the organisation in issuing orders. But at the same time he must se that the orders are obeyed willingly & there is no resentment from the staff.

5) Motivating:-

It is said "You can command respect & you cannot demand respect." It, in other words, means you cannot your subordinates to obey your orders. Your rotations with the subordinates must be cordial. Authority may be imposed from above but it must be supported, nourished & recognized from below. Motivation implies inspiring & inciting subordinates towards desired action.

6) Communicating:-

Communication is a mutual transfer of information & understanding. Communication involves exchange of ideas & information to create common understanding. Subordinates responsible for doing a job are required to inform to their superiors about what has been done, or what is being done. Communication also leads to sharing of information, ideas & knowledge.

7) Leadership:-

Leadership is a link between the plans and actions. It consists of communicating plans to workers, watching results, appraising responses, motivating individuals in short, moving the Organisation towards achievement of the objectives. Leadership is the ability to secure desirable actions from a group of followers voluntarily, without the use of coercion.

8) Controlling:-

As seen above, plans are prepared in advance. At each stage it is necessary to se the activities are: carried out according to plans. Thus control is ensuring that the actual results are in conformity with the plans or standards laid down. If any deviation is noticed, immediate corrective action is taken. Thus controlling involves seting of standards, comparing actual results with the standards laid down, locating deviations, if any & taking corrective steps.

3.5.1 Control Techniques

We shall examine in some detail seven controlling techniques, these stated as follows

3.5.1.1 Break – Even Analysis

The study of cost-volume profit relationship is frequently referred to as Break-even analysis. In the opening of some, it is a mere mishoner, since break- even analysis is just incidental to the cost volume-profit analysis. Country to this view, others interpret the term break- even analysis in two senses, narrow and board. In its narrow sense, it refers to a system of determining that level of operation where the undertaking neither earns a profit not incurs a loss. Considered in its board sense, break- even analysis denotes a system of analysis that can be used to determine the probable profit of any level of activity.

3.5.1.2. Budgetary Control

Definition

According to G.R. Terry, budgetary control is a process comparing the actual results with the corresponding budget data in order to approve accomplishments or to remedy difference. So budgetary control is process of controlling activities through budgets.

Budgetary control necessarily involves the following aspects:

1. Established a plan or target of performance which co-ordinates all the abilities of the business.
2. Recording actual performance.
3. Comparing actual performance with that planned.
4. Calculating the difference, i.e., detecting the variance and analyzing the reasons for them.
5. Acting immediately, if necessary, to remedy the situations.

In short, budgetary control means laying down in monetary and quantitative terms what exactly has to be done and how exactly it has to be done over the coming period (i.e., planning function) and then to ensure that actual results do not diverge from the planned course more than necessary. Here the phrase "necessary variances" does not include divergence due to inefficiency.

3.5.1.3. Management Audit

Definition of Management Audit

" There his emerged a wide array of names and definition for what is popularly know as Management Audit. It bears various other names like Efficiency Audit, Operations Audit, Audit of Efficiency and Economy, Effectiveness Auditing or Programme Result Auditing and Programme Effectiveness Reviews."

Process of Management Audit

In the process of auditing, the following basic steps are involved :

1. Collection and analysis of relevant statistics and report relied upon by the management.
2. Setting priorities for various function activities under review.
3. Interview and conference with concerned executives and supervisors to gather how the plans are made, and how resources are controlled. It also helps performance evaluation.

3.5.1.4 Inflation Accounting :

"In period of relative stable price, the annual accounts, drawn upon the basis of historical cost method, render a fairly good picture of a company's bunnies trends. However, in time of double-digit inflating, this is no longer valid. Under the historical Cost system, stocks and fixed assets are entered in the Balance sheet and are include in the profit and loss account at cost, the implicit assumption being that, when these assets are taken out of course, a gross under-valuation of reality : indeed, the replacement will entail more funding than that at the time of original purchase. As a consequence of this gap arises between the published result based on historical costs and the inflating adjusted real results.

3.5.1.5 Ratio Analysis

The organization prepares at regular intervals the balance sheet which is a statement of what it owes to other (liabilities) and what it own (assets). Prior to casting the balance sheet, the organization prepares Trading and Profit and Loss Account to know whether it is profit or running in to losses. These statements record monetary transaction and not the qualitative transaction, They are called financial statements. From these statements, we can take different variables as a ratio to answer some of the following types of question :

1. How readily can the current obligation be met or how good is the liquidity position of the company ?

2. Is the profit of the company enough ? Is profit increasing or decreasing over the years ?
3. How good is the productivity of the company ?
4. How well-balanced is the capital structure ? or Is the capital structure appropriate for the business ?
5. Are the funds being effectively used in the business ? or How effective is the use of the assets ?
6. How many times are fixed charges earned ?
7. What is the dividend yield per share ?

For obtaining the required information, we have to analyses and interpret financial statements with the aid of ratio analysis technique. In other words, we have to compute relevant ratio by comparing financial variables. It must be noted that the financial ratio are mere tools of analysis. They are a means to an end and not an end in themselves. Therefore, norms for comparison must be established to enable the interpretation of results. We can make a historical comparison or comparison with similar units in the industry. It should be observed there is need for a proper selection of ratios. Too few rates hinder analysis and too many obscure rather than clarify relationship. The selection has to be done in the light of cost and benefit consideration and the objectives of the person who intends to use the ratios.

3.5.1.6. Zero-Based Budgeting

Zero-based budgeting or Zero-Based Budgeting as is popularly know basically attempts to arrive at a cost benefit analysis of all activities of an organization which then enables decision makers to decide priorities. It starts off by critically examining an organization's existing activities in the context of its overall objectives and priorities. Then assessments are made of the cost of each activity, its contribution to achieving the organization's goals, alternative courses of action and consequences of discontinuing the activity. Decision makes are then better equipped to make optimal use of resource when planning. Against the backup of the current system of incremental budgeting, Zero-Based Budgeting makes sense.

3.5.1.7. Management Information System.

Management Information System (MIS) is a system designed to supply information required for effective management of an organization. The criterion for effective MIS is that should provide accurate, timely and meaningful data for planning, and control to optimize the growth of an organization. Data capture, processing, feedback, analysis, decision and control are the major structural elements in the anatomy of MIS. MIS is defined as a system in which defined data are collected. Tracing the evolution of MIS, Gorden Davis has established four stages.

They are :

1.Managerial Accounting, 2. Management Science,

3. Management Theory and 4. Computer Processing.

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