Business organization, an entity formed for the purpose of carrying on commercial enterprise. Such an organization is predicated on systems of law governing contract and exchange, property rights, and incorporation.

An entrepreneur organizes various factors of production like land, labour, capital, machinery, etc. for channelizing them into productive activities. The product finally reaches consumers through various agencies. Business activities are divided into various functions, these functions are assigned to different individuals. Various individual efforts must lead to the achievement of common business goals. Organization is the structural framework of duties and responsibilities required of personnel in performing various functions with a view to achieve business goals through organization. Management tries

## NATURE OF THE BUSNIESS ORGANISATION

There are some common features of organization through which a clear idea about its nature can be obtained. These are indicated below:

**1. PROCESS:**

Organization is a process of defining, arranging and grouping the activities of an enterprise and establishing the authority relationships among the persons performing these activities. It is the framework within which people associate for the attainment of an objective.

The framework provides the means for assigning activities to various parts and identifying the relative authorities and responsibilities of those parts. In simple term, organi-sation is the process by which the chief executive, as a leader, groups his men in order to get the work done.

**2. STRUCTURE:**

The function of organizing is the creation of a structural framework of duties and responsibilities to be performed by a group of people for the attainment of the objectives of the concern. The organisation structure consists of a series of relationships at all levels of authority.

An organisation as a structure contains an "identifiable group of people contributing their efforts towards the attainment of goals." It is an important function of man-agement to organise the enterprise by grouping the activities necessary to carry out the plans into administrative units, and defining the relationships among the executives and workers in such units.

**3. DIVIDING AND GROUPING THE ACTIVITIES:**

Organising means the way in which the parts of an enterprise are put into working order. In doing such, it calls for the determination of parts and integration of one complete whole on the other. In fact, organisation is a process of dividing and combining the activities of an enterprise. Activities of an enterprise are re-quired to be distributed between the departments, units or sections as well as between the persons for securing the benefits of division of labour and specialisation, and are to be inte-grated or combined for giving them a commonness of purpose.

L. Urwick defines organisa-tion as: 'determining what activities are necessary to any purpose and arranging them as groups which may be assigned to individual.

**4. ACCOMPLISHMENT OF GOALS OR OBJECTIVES:**

An organisation structure has no mean-ing or purpose unless it is built around certain clear-cut goals or objectives. In fact, an organi-sation structure is built-up precisely because it is the ideal way of making a rational pursuit of objectives. Haney defines organisation as: “a harmonious adjustment of specialised parts for the accomplishment of some common purpose or purposes”.

**5. AUTHORITY-RESPONSIBILITY RELATIONSHIP:**

An organisation structure consists of vari-ous positions arranged in a hierarchy with a clear definition of the authority and responsibility associated with each of these. An enterprise cannot serve the specific purposes or goals unless some positions are placed above others and given authority to bind them by their decisions. In fact, organisation is quite often defined as a structure of authority-responsibility relationships.

**6. HUMAN AND MATERIAL ASPECTS**:

Organisation deals with the human and material factors in business. Human element is the most important element in an organisation. To accomplish the task of building up a sound organisation, it is essential to prepare an outline of the organisation which is logical and simple. The manager should then try to fit in suitable men. Henry Fayol says in this connection: “see that human and material organisations are suitable” and “ensure material and human order”.

**TYPES AND FORMS OF BUSINESS ORGANISATIONS**

A business is an organization that uses economic resources or inputs to provide goods or services to customers in exchange for money or other goods and services. Business organizations come in different types and forms. There are 4 **TYPES OF BUSINESS,**

1. Service Business

A service type of business provides intangible products (products with no physical form). Service type firms offer professional skills, expertise, advice, and other similar products.

Examples of service businesses are: schools, repair shops, hair salons, banks, accounting firms, and law firms.

2. Merchandising Business

This type of business buys products at wholesale price and sells the same at retail price. They are known as "buy and sell" businesses. They make profit by selling the products at prices higher than their purchase costs. A merchandising business sells a product without changing its form.

Examples are: grocery stores, convenience stores, distributors, and other resellers.

3. Manufacturing Business

Unlike a merchandising business, a manufacturing business buys products with the intention of using them as materials in making a new product. Thus, there is a transformation of the products purchased. A manufacturing business combines raw materials, labor, and factory overhead in its production process. The manufactured goods will then be sold to customers.

4. Hybrid Business

Hybrid businesses are companies that may be classified in more than one type of business. A restaurant, for example, combines ingredients in making a fine meal (manufacturing), sells a cold bottle of wine (merchandising), and fills customer orders (service). Nonetheless, these companies may be classified according to their major business interest. In that case, restaurants are more of the service type – they provide dining services.to combine various business activities to accomplish predetermined goals.

**FORMS OF BUSINESS ORGANIZATION /SCOPE OF BUSNIESS ORGANIZATION**

After the Industry Revolution, the scope of business organizations has largely extended. The role of business organization in various forms of business is discussed in brief:-

These are the basic forms of business ownership:

1. Sole Proprietorship

2. Partnership Firm

3. Limited Liability Partnership (LLP)

4. Joint Stock Company

5. One Person Company (OPC)

6. Private Company

7. Public Limited Company

8. Company Form of Organization

9. Co-Operatives.

1. Sole Proprietorship

- A type of business unit where one person is solely responsible for providing the capital and bearing the risk of the enterprise, and for the management of the business.
- A sole proprietorship is a business owned by only one person. It is easy to set-up and is the least costly among all forms of ownership.
- The owner faces unlimited liability; meaning, the creditors of the business may go after the personal assets of the owner if the business cannot pay them.
- The sole proprietorship form is usually adopted by small business entities.

Characteristics of sole proprietorship form of business organisation

(a) Single Ownership: The sole proprietorship form of business organisation has a single owner who himself/herself starts the business by bringing together all the resources.

(b) No Separation of Ownership and Management: The owner himself/herself manages the business as per his/her own skill and intelligence. There is no separation of ownership and management as is the case with company

form of business organisation. A sole proprietor contributes and organises the resources in a systematic way and controls the activities with the objective of earning profit.

(c) Less Legal Formalities: The formation and operation of a sole proprietorship form of business organisation does not involve any legal formalities. Thus, its formation is quite easy and simple.

(d) No Separate Entity: The business unit does not have an entity separate from the owner. The businessman and the business enterprise are one and the same, and the businessman is responsible for everything that happens in his business unit.

(e) No Sharing of Profit and Loss: The sole proprietor enjoys the profits alone. At the same time, the entire loss is also borne by him. No other person is there to share the profits and losses of the business. He alone bears the risks and reaps the profits.

(f) Unlimited Liability: The liability of the sole proprietor is unlimited. In case of loss, if his business assets are not enough to pay the business liabilities, his personal property can also be utilised to pay off the liabilities of the business.

(g) One-man Control: The controlling power of the sole proprietorship business always remains with the owner. He/she runs the business as per his/her own will.

**MERITS OF SOLE PROPRIETORSHIP**

**Advantages:**

(a) Simplicity – It is very easy to establish and dissolve a sole proprietorship. No documents are required and no legal, formalities are involved. Any person competent to enter into a contract can start it. However, in some cases, i.e., of a chemist shop, a municipal license has to be obtained. You can start business from your own home.

(b) Quick Decisions – The entrepreneur need not consult anybody in deciding his business affairs. Therefore, he can take on the spot decisions to exploit opportunities from time to time. He is his own boss.

(c) High Secrecy – The proprietor has not to publish his accounts and the business secrets are known to him alone. Maintenance of secrets guards him from competitors.

(d) Direct Motivation – There is a direct relationship between efforts and rewards. Nobody shares the profits of business. Therefore, the entrepreneur has sufficient incentive to work hard.

(e) Personal Touch – The proprietor can maintain personal contacts with his employees and clients. Such contacts help in the growth of the enterprise.

(f) Flexibility – In the absence of Government control, there is complete freedom of action. There is no scope for difference of opinion and no problem of co-ordination.

LIMITATIONS OF SOLE PROPRIETORSHIP

Disadvantages:

(a) Limited Funds – A proprietor can raise limited financial resources. As a result the size of business remains small. There is limited scope for growth and expansion. Economies of scale are not available.

(b) Limited Skills – Proprietorship is a one man show and one man cannot be an expert in all areas (production, marketing, financing, personnel etc.) of business. There is no scope for specialisation and the decisions may not be balanced.

(c) Unlimited Liability – The liability of the proprietor is unlimited. In case of loss his private assets can also be used to pay off creditors. This discourages expansion of the enterprise.

(d) Uncertain Life – The life of proprietorship depends upon the life of the owner. The enterprise may die premature death due to the incapacity or death of the proprietor. The proprietor has a low status and can be lonely.

**2. PARTNERSHIP**

As a business enterprise expands beyond the capacity of a single person, a group of persons have to join hands together and supply the necessary capital and skills. Partnership firm thus grew out of the limitations of one man business. Need to arrange more capital, provide better skills and avail of specialisation led to the growth to partnership form of organisation.

According to Section 4 of the Partnership Act, 1932 partnership is "the relation between persons who have agreed to share the profits of a business carried on by all or anyone of them acting for all". In other words, a partnership is an agreement among two or more persons to carry on jointly a lawful business and to share the profits arising there from. Persons who enter into such agreement are known individually as 'partners' and collectively as 'firm'.

**CHARACTERISTICS OF PARTNERSHIP:**

i. Association of two or more persons — maximum 10 in banking business and 20 in non-banking business
ii. Contractual relationship—written or oral agreement among the partners
iii. Existence of a lawful business
iv. Sharing of profits and losses
v. Mutual agency among partners
vi. No separate legal entity of the firm
vii. Unlimited liability
viii. Restriction on transfer of interest
ix. Utmost good faith.

**MERITS OF PARTNERSHIP:**

The partnership form of business ownership enjoys the following advantages:

1. Ease of Formation:

A partnership is easy to form as no cumbersome legal formalities are involved. An agreement is necessary and the procedure for registration is very simple. Similarly, a partnership can be dissolved easily at any time without undergoing legal formalities. Registration of the firm is not essential and the partnership agreement need not essentially be in writing.

2. Larger Financial Resources:

As a number of persons or partners contribute to the capital of the firm, it is possible to collect larger financial resources than is possible in sole proprietorship. Creditworthiness of the firm is also higher because every partner is personally and jointly liable for the debts of the business. There is greater scope for expansion or growth of business.

3. Specialisation and Balanced Approach:

The partnership form enables the pooling of abilities and judgment of several persons. Combined abilities and judgment result in more efficient management of the business. Partners with complementary skills may be chosen to avail of the benefits of specialisation. Judicious choice of partners with diversified skills ensures balanced decisions. Partners meet and discuss the problems of business frequently so that decisions can be taken quickly.

4. Flexibility of Operations:

Though not as versatile as proprietorship, a partnership firm enjoys sufficient flexibility in its day-to-day operations. The nature and place of business can be changed whenever the partners desire. The agreement can be altered and new partners can be admitted whenever necessary. Partnership is free from statutory control by the Government except the general law of the land.

5. Protection of Minority Interest:

No basic changes in the rights and obligations of partners can be made without the unanimous consent of all the partners. In case a partner feels dissatisfied, he can easily retire from or he may apply for the dissolution of partnership.

6. Personal Incentive and Direct Supervision:

There is no divorce between ownership and management. Partners share in the profits and losses of the firm and there is motivation to improve the efficiency of the business. Personal control by the partners increases the possibility of success. Unlimited liability encourages caution and care on the part of partners. Fear of unlimited liability discourages reckless and hasty action and motivates the partners to put in their best efforts.

7. Capacity for Survival:

The survival capacity of the partnership firm is higher than that of sole proprietorship. The partnership firm can continue after the death or insolvency of a partner if the remaining partners so desire. Risk of loss is diffused among two or more persons. In case one line of business is not successful, the firm may undertake another line of business to compensate its losses.

8. Better Human and Public Relations:

Due to number of representatives (partners) of the firm, it is possible to develop personal touch with employees, customers, government and the general public. Healthy relations with the public help to enhance the goodwill of the firm and pave the way for steady progress of the business.

9. Business Secrecy:

It is not compulsory for a partnership firm to publish and file its accounts and reports. Important secrets of business remain confined to the partners and are unknown to the outside world.

Demerits of Partnership:

1. Unlimited Liability:

Every partner is jointly and severally liable for the entire debts of the firm. He has to suffer not only for his own mistakes but also for the lapses and dishonesty of other partners. This may curb entrepreneurial spirit as partners may hesitate to venture into new lines of business for fear of losses. Private property of partners is not safe against the risks of business.

2. Limited Resources:

The amount of financial resources in partnership is limited to the contributions made by the partners. The number of partners cannot exceed 10 in banking business and 20 in other types of business. Therefore, partnership form of ownership is not suited to undertake business involving huge investment of capital.

3. Risk of Implied Agency:

The acts of a partner are binding on the firm as well as on other partners. An incompetent or dishonest partner may bring disaster for all due to his acts of commission or omission. That is why the saying is that choosing a business partner is as important as choosing a partner in life.

4. Lack of Harmony:

The success of partnership depends upon mutual understanding and cooperation among the partners. Continued disagreement and bickering among the partners may paralyse the business or may result in its untimely death. Lack of a central authority may affect the efficiency of the firm. Decisions may get delayed.

5. Lack of Continuity:

A partnership comes to an end with the retirement, incapacity, insolvency and death of a partner. The firm may be carried on by the remaining partners by admitting new partners. But it is not always possible to replace a partner enjoying trust and confidence of all. Therefore, the life of a partnership firm is uncertain, though it has longer life than sole proprietorship.

6. Non-Transferability of Interest:

No partner can transfer his share in the firm to an outsider without the unanimous consent of all the partners. This makes investment in a partnership firm non-liquid and fixed. An individual's capital is blocked.

7. Public Distrust:

A partnership firm lacks the confidence of public because it is not subject to detailed rules and regulations. Lack of publicity of its affairs undermines public confidence in the firm.

The foregoing description reveals that partnership form of organisation is appropriate for medium-sized business that requires limited capital, pooling of skills and judgment and moderate risks, like small scale industries, wholesale and retail trade, and small service concerns like transport agencies, real estate brokers, professional firms like chartered accountants, doctor's clinics or nursing homes, attorneys, etc.

## LIMITED LIABILITY PARTNERSHIP (LLP):

According to the Limited Liability Partnership Act, 2008, an LLP is a body corporate formed and incorporated under this Act. It is a legal entity separate from that of its members.

### Features:

(i) An LLP must be registered under the LLP Act 2008.
(ii) It is a body corporate having a separate entity of its own.
(iii) It has perpetual succession. Any change in its members does not affect its existence, rights and liabilities,
(iv) Any individual or a body corporate can be a partner in an LLP.
(v) Every LLP must have at least two partners.
(vi) There must be at least two designated partners and one of them must be a resident in India.
(vii) An LLP must maintain proper books of accounts as per the double entry system.
(viii) An LLP must file with the Registrar a Statement of Account and solvency along with its annual return in the prescribed form.

### MERITS:

a. An LLP enjoys stability as changes in partners do not affect its existence.
b. The liability of an LLP and its partners in Limited.
c. A body corporate and a foreigner can be partners in an LLP.
d. An LLP can raise, large amount of funds as there is no restriction on the number of members and risk involved is limited.

Demerits:

a. Time and money are involved in the formation and registration of an LLP.
b. There is less flexibility of operations because an LLP has to comply with certain legal formalities.
c. There is lack of business secrecy as an LLP has to file the prescribed documents with the Registrar. Its accounts are open to the public for inspection.
The LLP gives an entrepreneur the twin benefits of limited liability and a flexible internal structure. It is also free from dividend distribution tax and minimum alternate tax.

## JOINT STOCK COMPANY:

With the growing needs of modern business, collection of vast financial and managerial resources became necessary. Proprietorship and partnership forms of ownership failed to meet these needs due to their limitations, e.g., unlimited liability, lack of continuity and limited resources.

The company form of business organization was evolved to overcome these limitations. Joint stock company has become the dominant form of ownership for large scale enterprises because it enables collection of vast financial and managerial resources with provision for limited liability and continuity of operations.

A joint stock company is an incorporated and voluntary association of individuals with a distinctive name, perpetual succession, limited liability and common seal, and usually having a joint capital divided into transferable shares of a fixed value.

Chief Justice John Marshall of U.S.A defined a company in the famous Dartmouth College case as “an artificial being, invisible, intangible and existing only in contemplation of law; being the mere creature of law it possesses

only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence; and the most important of which are immortality and individuality.

"Thus, a company is an artificial legal person having an independent legal entity.

MERITS OF COMPANY ORGANISATION:

The company form of business ownership has become very popular in modern business on account of its several advantages:

1. Limited Liability:

Shareholders of a company are liable only to the extent of the face value of shares held by them. Their private property cannot be attached to pay the debts of the company. Thus, the risk is limited and known. This encourages people to invest their money in corporate securities and, therefore, contributes to the growth of the company form of ownership.

2. Large Financial Resources:

Company form of ownership enables the collection of huge financial resources. The capital of a company is divided into shares of small denominations so that people with small means can also buy them. Benefits of limited liability and transferability of shares attract investors. Different types of securities may be issued to attract various types of investors. There is no limit on the number of members in a public company.

3. Continuity:
A company enjoys uninterrupted business life. As a body corporate, it continues to exist even if all its members die or desert it. On account of its stable nature, a company is best suited for such types of business which require long periods of time to mature and develop.

4. Transferability of Shares:

A member of a public limited company can freely transfer his shares without the consent of other members. Shares of public companies are generally listed on a stock exchange so that people can easily buy and sell them. Facility of transfer of shares makes investment in company liquid and encourages investment of public savings into the corporate sector.

5. Professional Management:

Due to its large financial resources and continuity, a company can avail of the services of expert professional managers. Employment of professional managers having managerial skills and little financial stake results in higher efficiency and more adventurous management. Benefits of specialisation and bold management can be secured.

6. Scope for Growth and Expansion:

There is considerable scope for the expansion of business in a company. On account of its vast financial and managerial resources and limited liability, company form has immense potential for growth. With continuous expansion and growth, a company can reap various economies of large scale operations, which help to improve efficiency and reduce costs.

7. Public Confidence:

A public company enjoys the confidence of public because its activities are regulated by the government under the Companies Act. Its affairs are known to public through publication of accounts and reports. It can always keep itself in tune with the needs and aspirations of people through continuous research and development.

8. Diffused Risk:

The risk of loss in a company is spread over a large number of members. Therefore, the risk of an individual investor is reduced.

9. Social Benefits:

The company organisation helps to mobilise savings of the community and invest them in industry. It facilitates the growth of financial institutions and provides employment to a large number of persons. It provides huge revenues to the Government through direct and indirect taxes.

DEMERITS OF COMPANY:

1. Difficulty of Formation:

It is very difficult and expensive to form a company. A number of documents have to be prepared and filed with the Registrar of Companies. Services of experts are required to prepare these documents. It is very time-consuming and inconvenient to obtain approvals and sanctions from different authorities for the establishment of a company. The time and cost involved in fulfilling legal formalities discourage many people from adopting the company form of ownership. It is also difficult to wind up a company.

2. Excessive Government Control:

A company is subject to elaborate statutory regulations in its day-to-day operations. It has to submit periodical reports. Audit and publication of accounts is obligatory. The objects and capital of the company can be changed only after fulfilling the prescribed legal formalities. These rules and regulations reduce the efficiency and flexibility of operations. A lot of precious time, effort and money have to be spent in complying with the innumerable legal formalities and irksome statutory regulations.

3. Lack of Motivation and Personal Touch:

There is divorce between ownership and management in a large public company. The affairs of the company are managed by the professional and salaried managers who do not have personal involvement and stake in the company. Absentee ownership and impersonal management result in lack of initiative and responsibility. Incentive for hard work and efficiency is low. Personal contact with employees and customers is not possible.

4. Oligarchic Management:

In theory the management of a company is supposed to be democratic but in actual practice company becomes an oligarchy (rule by a few). A company is managed by a small number of people who are able to perpetuate their reign year after year due to lack of interest, information and unity on the part of shareholders. The interests of small and minority shareholders are not well protected. They never get representation on the Board of Directors and feel oppressed.

5. Delay in Decisions:

Too many levels of management in a company result in red-tape and bureaucracy. A lot of time is wasted in calling and holding meetings and in passing resolutions. It becomes difficult to take quick decisions and prompt action with the consequence that business opportunities may be lost.

6. Conflict of Interests:

Company is the only form of business where in a permanent conflict of interests may exist. In proprietorship there is no scope for conflict and in a partnership continuous conflict results in dissolution of the firm. But in a company conflict may continue between shareholders and board of directors or between shareholders and creditors or between management and workers.

7. Frauds in Promotion and Management:

There is a possibility that unscrupulous promoters may float a company to dupe innocent and ignorant investors. They may collect huge sums of money and, later on, misappropriate the money for their personal benefit. The case of South Sea Bubble Company is the leading example of such malpractices by promoters.

Moreover, the directors of a company may manipulate the prices of the company's shares and debentures on the stock exchange on the basis of inside information and accounting manipulations. This may result in reckless speculation in shares and even a sound company may be put into financial difficulties.

8. Lack of Secrecy:

Under the Companies Act, a company is required to disclose and publish a variety of information on its working. Widespread publicity of affairs makes it almost impossible for the company to retain its business secrets. The accounts of a public company are open for inspection to public.

9. Social Evils:

Giant companies may give rise to monopolies, concentration of economic power in a few hands, interference in the political system, lack of industrial peace, etc.

PRIVATE COMPANY:

Section 2 (68) of Companies Amendment Act, 2013 defines a Private Company as follows:

"private company" means a company having a minimum paid-up share capital of one lakh rupees or such higher paid-up share capital as may be prescribed, and which by its articles—

i. Restricts the right to transfer its shares;
ii. Except in case of One Person Company, limits the number of its members to two hundred-Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member-Provided further that:

a. Persons who are in the employment of the company; and

b. Persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members; and

c. Prohibits any invitation to the public to subscribe for any securities of the company.

## BENEFITS OF A PRIVATE COMPANY:

A private company offers the following benefits:

i. Stability – being a separate legal entity, the existence of a private company is independent of the existence of its members.
ii. Limited liability – the liability of members is limited only to the extent of the unpaid capital on the shares held by them.
iii. Comparative flexibility of operations – a private company enjoys lesser compliance and more privileges as compared with a public company, making it a suitable choice for entrepreneurs.
iv. Improved credibility – due to incorporation, a private company enjoys an improved credibility in doing transactions with various stakeholders.
v. Team building – private company offers stock ownership and ESOP schemes to attract talented pool of workforce for the company.
vi. Expansion – In private companies, scope of expansion is large as fund raising can easily be done by receiving funds from its members, directors. Bank also give high value to private companies and sanction loans accordingly.

## Limitation of Private Company:

1. Process and Formalities:
   As the registration of the company requires many formalities, one needs assistance from professionals like C.As or C.S, w.r.t. registration and other compliances with the relevant laws.
2. Limited Availability of Funds:
   Due to restrictions on seeking public funding, the prospects of growth and expansion are limited to the personal financing capacities of members of a private company
3. Exit Strategy: Though it is easy for a shareholder to exit from a company, the procedures to wind up a private limited company is complicated and involves cumbersome procedures and substantial liquidation cost.

## PUBLIC LIMITED COMPANY:

Public company is a separate legal entity incorporated under companies act, allowing the members to transfer their shares, while having a larger number of shareholder base.

Definition of Public Company: u/s2 (71) of Companies Act Amendment 2013, public company means a company which:

i. Is not a private company;

ii. Has a minimum paid-up share capital of five lakh rupees or such higher paid-up capital, as may be prescribed –

Provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles. Public companies are able to attract large funding through issue of equity, debt and other forms of financing domestically as well as internationally. Due to too much legal constraints and

compliances, a public company is not a very suitable form of business especially for small scale businesses and small entrepreneurs.

However once a business is well established in the industry, then riding on the prestige and credibility of the business, at a later stage, a business can unravel the option of being formed as a public company.

Advantages of a Public Limited Company (PLC):

Following are the prominent advantages of having a public limited company:

i. Limited Liability of shareholders – The business is viewed as a separate legal entity. This means that even if a shareholder leaves the PLC or dies, the business can continue.

ii. Ability to raise large amount of capital – Public limited companies are able to raise large sums of money because there is no limit on the maximum number of members.

iii. Transferability of shares – the shares of a PLC can be freely transferable. This provides liquidity for shareholders.

iv. Exit strategy – due to transferability of shares and being widely recognizable in the public domain, a public company magnifies its chances of easily seeking future suitors for the company.

v. Limited liability of shareholders – The liability of shareholders is limited to the extent of unpaid capital on the shares held by them.

vi. Separate legal entity – The public company due to incorporation is distinct legal person different from its shareholders.

CO-OPERATIVES -

Co-operatives provide a structure for starting up business in which all the members of the cooperative jointly own, control, and work for the business. They share responsibility equally, make collective decisions on the basis of one person one vote and, in most co-operatives receive equal pay.

The concept of a co-operative enterprise is not a political concept but the idea of co-operative working is supported by the Government. Co-operative or common ownership enterprise can be divided basically into a society or a company.

Cooperative

Cooperative Society is defined as “a society, which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles.”

- A cooperative is a business organization owned by a group of individuals and is operated for their mutual benefit. The persons making up the group are called members. Cooperatives may be incorporated or unincorporated.
- Some examples of cooperatives are: water and electricity (utility) cooperatives, cooperative banking, credit unions, and housing cooperatives.

CHARACTERISTICS OF COOPERATIVE SOCIETY

Based on the above definition we can identify the following characteristics of cooperative society form of business organisation:

(a) Voluntary Association: Members join the cooperative society voluntarily i.e., by their own choice. Persons having common economic objective can join the society as and when they like, continue as long as they like and leave the society and when they want.

(b) Open Membership: The membership is open to all those having a common economic interest. Any person can become a member irrespective of his/her caste, creed, religion, colour, sex etc.

(c) Number of Members: A minimum of 10 members are required to form a cooperative society. In case of multi-state cooperative societies the minimum number of members should be 50 from each state in case the members are individuals. The Cooperative Society Act does not specify the maximum number of members for any cooperative society. However, after the formation of the society, the member may specify the maximum member of members.

(d) Registration of the Society: In India, cooperative societies are registered under the Cooperative Societies Act 1912 or under the State Cooperative Societies Act. The Multi-state Cooperative Societies are registered under the Multi-state Cooperative Societies Act 2002. Once registered, the society becomes a separate legal entity and attains certain characteristics. These are as follows.

(i) The society enjoys perpetual succession

(ii) It has its own common seal

(iii) It can enter into agreements with others

(iv) It can sue others in a court of law

(v) It can own properties in its name

(e) State Control: Since registration of cooperative societies is compulsory, every cooperative society comes under the control and supervision of the government. The cooperative department keeps a watch on the functioning of the societies. Every society has to get its accounts audited from the cooperative department of the government.

(f) Capital: The capital of the cooperative society is contributed by its members. Since, the member's contribution is very limited, it often depends on the loan from government and apex cooperative institutions or by way of grants and assistance from state and Central Government.

(g) Democratic Set Up: The cooperative societies are managed in a democratic manner. Every member has a right to take part in the management of the society. However, the society elects a managing committee for its effective bmanagement. The members of the managing committee are elected on the basis of one-man one-vote irrespective of the number of shares held by any member. It is the general body of the society which lays down the broad framework within which the managing committee functions.

(h) Service Motive: The primary objective of all cooperative societies is to provide services to its members.

(i) Return on Capital Investment: The members get return on their capital investment in the form of dividend.

(j) Distribution of Surplus: After giving a limited dividend to the members of the society, the surplus profit is distributed in the form of bonus, keeping aside a certain percentage as reserve and for general welfare of the society.

## Types of cooperative societies

Some of the important types are given below.

(a) Consumers' Cooperative Societies: These societies are formed to protect the interest of consumers by making available consumer goods of high quality at reasonable price.

(b) Producer's Cooperative Societies: These societies are formed to protect the interest of small producers and artisans by making available items of their need for production, like raw materials, tools and equipments etc.

(c) Marketing Cooperative Societies: To solve the problem of marketing the products, small producers join hand to form marketing cooperative societies.

(d) Housing Cooperative Societies: To provide residential houses to the members, housing cooperative societies are formed generally in urban areas.

(e) Farming Cooperative Societies: These societies are formed by the small farmers to get the benefit of large-scale farming.

(f) Credit Cooperative Societies: These societies are started by persons who are in need of credit. They accept deposits from the members and grant them loans at reasonable rate of interest.

Merits

- Easy to form
- Limited liability
- Open Membership
- State Assistance
- Stable life
- Tax concessions
- Democratic Management

Limitations

- Limited Capital
- Lack of Managerial Expertise
- Less Motivation
- Lack of Interest
- Dependence on Govt.

## ORGANIZATIONAL STRUCTURE

An organizational structure is a system that outlines how certain activities are directed in order to achieve the goals of an organization. These activities can include rules, roles, and responsibilities. The organizational

structure also determines how information flows between levels within the company. For example, in a centralized structure, decisions flow from the top down, while in a decentralized structure, decision-making power is distributed among various levels of the organization.

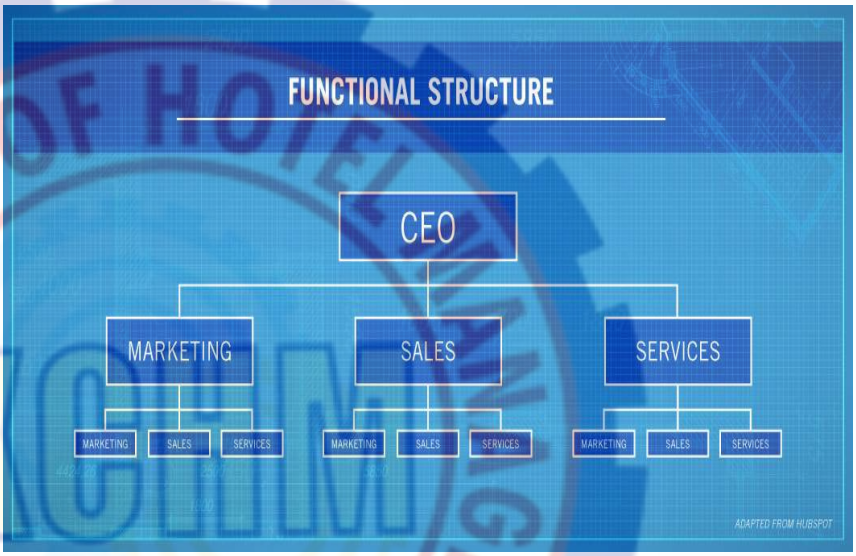
Having an organizational structure in place allows companies to remain efficient and focused.

Types of Organizational Structure

There are four general types of organizational structure that are widely used by businesses all around the world:

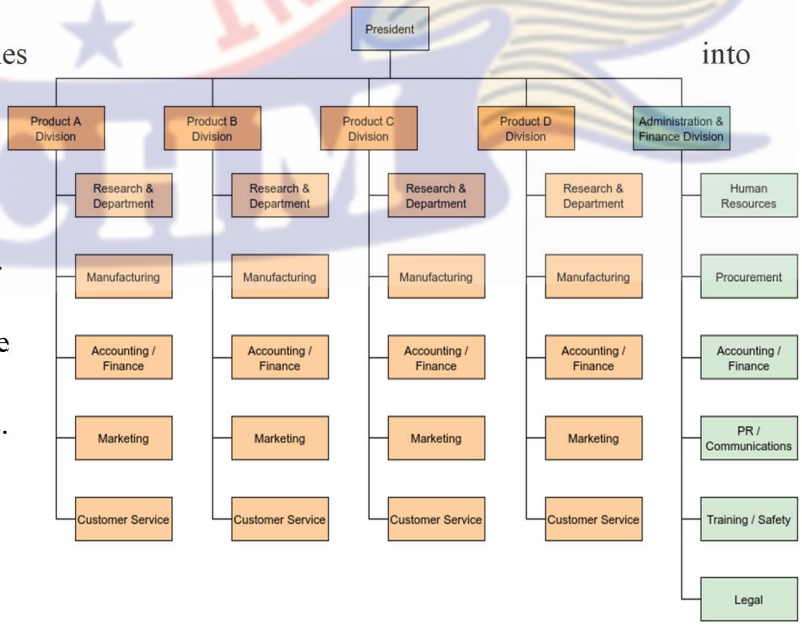
1. Functional Structure

Under this structure, employees are grouped into the same departments based on similarity in their skill sets, tasks, and accountabilities. This allows for effective communications between people within a department and thus leads to an efficient decision-making process. Companies with departments such as IT and Accounting are good examples of a functional structure.



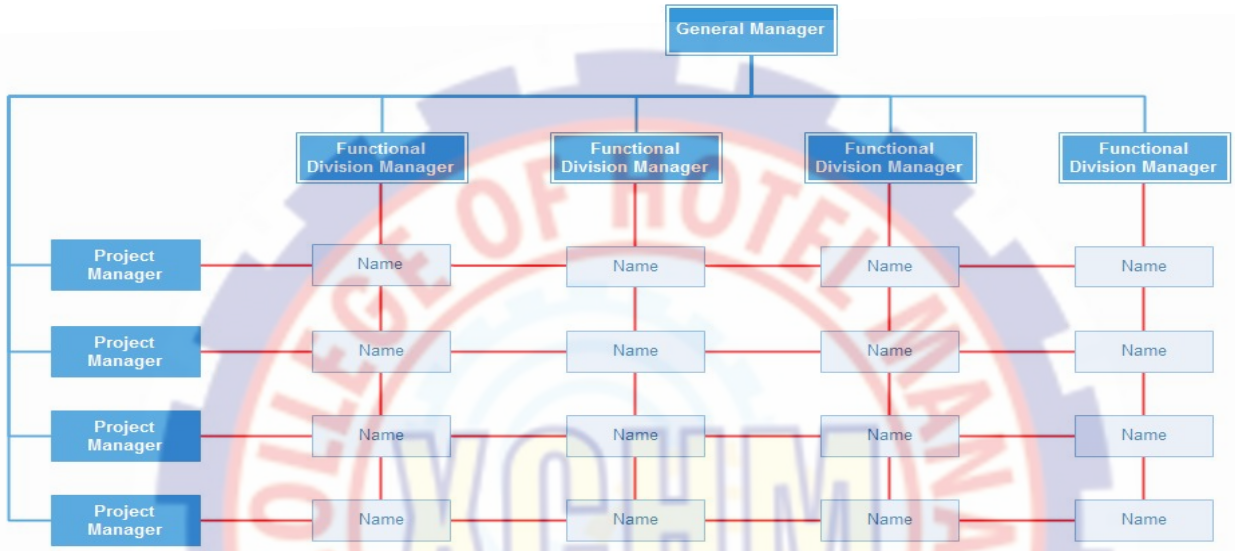

2. Divisional Structure

This structure organizes business activities into specific market, product, service, or customer groups. The purpose of the divisional structure is to create work teams that can produce similar products matching the needs of individual groups. A common example of the divisional structure is geographical structure, where regional divisions are built to provide products or services to specific locations.



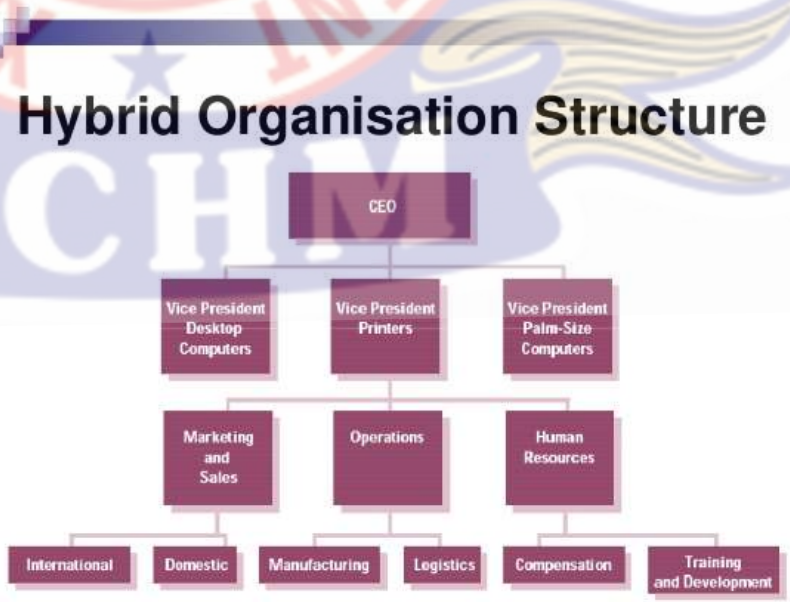

3. Matrix Structure

Matrix Structure is a combination of functional and divisional structures. This structure allows decentralized decision making, greater autonomy, more inter-departmental interactions, and thus greater productivity and innovation. Despite all the advantages, this structure incurs higher costs and may lead to conflicts between the vertical functions and horizontal product lines.




Hybrid Structure

Like the Matrix Structure, the Hybrid Structure combines both functional and divisional structure. Instead of grid organization, Hybrid Structure divides its activities into departments that can be either functional or divisional. This structure allows the utilization of resources and knowledge in each function, while maintaining product specialization in different divisions. Hybrid Structure is widely adopted by many large organizations.




MOST IMPORTANT FUNCTIONS OF BUSINESS

A business has to perform a number of functions in order to achieve its objectives. One of the major functions of business produces goods from raw materials. Similarly transporting goods from place of production to the market is also another function of the business.

The various functions of business can be grouped into the following broad categories:

1. Production Function
2. Marketing Function
3. Finance Function
4. Human Resource Function
5. Management Information Function
6. Innovation (Research & Development)

**.PRODUCTION FUNCTION:**

The production function is another important function of the business. Converting raw materials into finished products to satisfy human wants by creating utility is known as production. Under this function, raw materials and semi-finished products are processed and assembled to create utility. Hence the next important function of business is to create utility for the satisfaction of the consumers by the production of goods.

Production is the creation of goods and services with the help of certain processes. The production of goods depends essentially on the organisation of men, money, materials, and facilities into a smoothly operating business. In modern organisations, production is highly organised, mechanized, and specialised mass production, and, therefore, its overall charge is entrusted to the Production Manager.
A production manager has four basic responsibilities in this regard :

(i) to ensure the production of goods and services in specified quantities

(ii) to meet the specified time schedule or delivery dates

(iii) to fulfill the quantity requirements, and

(iv) to perform all production operations at the minimum cost.

In order to fulfill these responsibilities, the production manager has to perform a number of functions, such as production planning, production engineering (concerned with design of tools, jigs, and installation or equipment), plant layout, plant building, materials handling, purchasing, inventory management, work improvement and work measurement, production control, and the maintenance of physical environment of production.

**2. Marketing function:**

The function of business is not complete with the production of goods and services only. The main goal of production is to satisfy human wants through the consumption of goods and services. Therefore, marketing function helps to transfer goods and services from the producer to the ultimate consumer. Marketing functions can be divided into concentrating and dispersing which include buying, selling, transportation, storage, risk taking, market information, etc.

Marketing is the process of getting goods and services into the hands of the consumer with a view to satisfying the needs and desires of consumers and producers. In other words, the marketing function creates a process

through which producers and consumers are brought together in an exchange relationship and transfer of ownership takes place.
For this, the marketing manager must make judicious decisions regarding 4 P's:

(i) Product (Decisions About New Product Development, Packaging, Branding, Etc.);
(ii) Physical Distribution (Decisions About Marketing Channels, And Policies And Procedures Relating To Warehousing, Transportation, Etc.)
(iii) Promotion (Involving Advertising, Salesmanship, Sales Promotion, And Publicity)
(iv) Pricing (Policies And Procedures Relating To The Setting Up Of Profitable Prices).

**Finance function:**

Finance function of business is basically responsible for three decisions and their proper implementation, viz., (i) investment decisions (financial planning, capital budgeting, etc.) (ii) Financial decisions (capital structure—fixed and working; short and long-term and (iii) dividend decisions.

Business maintains relationship with financial markets including institutions and major shareholders and also takes care of other concerns such as share buybacks, capital raising sources of borrowings and risk management.

**4. Human Resource (HR) function:**

The HR function deals with the human side of business. It is concerned with increasing the effectiveness of human performance in any organisation. Specifically stated, the HR function aims at obtaining arid maintaining a capable and effective workforce, motivating the employees individually and in groups to contribute their maximum to the fulfilment of organisational goals.

In order to accomplish the goals of dynamic HR management, the HR manager has to undertake the following functions :

(i) selection—determination of manpower requirements, job analysis, nature and sources of recruitment, employee selection, and induction and follow-up
(ii) training—human resource development
(iii) promotions and transfers,
(iv) employee compensation—wage and salary administration
(v) employee involvement and welfare activities; and
(vi) industrial relations—industrial discipline, industrial unrest, trade unionism, and workers' participation in management. For the accomplishment of these functions, the personnel department renders specialised services.

**5. INFORMATION FUNCTION:**

Like production, marketing, finance, and human resource, the information function is equally important in a modern business. It is being increasingly recognised that the modern business cannot be managed without the assistance of efficient information function. The information function is basically concerned with records.

The net result of the preparation of records is the generation of a mass of "information", and therefore, the purpose of information function is to collect, generate, and communicate, in clearly and easily intelligible form the information to all those who need it, especially to executives for purposes of decision making and policy formulation.

Thus, information cell acts as a storehouse of valuable information and real brain behind every activity of a business concern. The responsibility of performing this function should be entrusted to the information manager in the organisation because information function is a specialist function requiring an expert knowledge and technical skill in this area of the operation. The scope of information function in a modern business is very wide.

The information manager is generally burdened with the following three broad functions: (i) information function (receiving and collecting, recording and preserving, arranging and analysing, and providing information); (ii) operational function (such as systems and procedures, records management, etc.); and (iii) public relations function.

6. INNOVATION:

"An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisation method in business practice, workplace organisation or external relations." Thus, innovation, which means creativity as well, is more of a philosophy and the entire business function needs to adopt it.

Here in terms of new product development we are talking about Research and Development. In this age of increasing rivalry among competing firms, the importance of innovation is hardly exaggerating. Normally businesses innovate through product or process.

Innovation often is stimulated by creative thinking on the part of people who are willing to think 'outside the box'..

DELEGATION OF AUTHORITY

Definition:

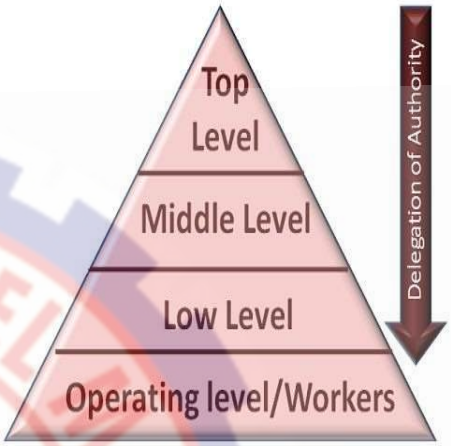
The Delegation of Authority is an organizational process wherein, the manager divides his work among the subordinates and give them the responsibility to accomplish the respective tasks. Along with the responsibility, he also shares the authority, i.e. the power to take decisions with the subordinates, such that responsibilities can be completed efficiently.

other words, a delegation of authority involves the sharing of authority downwards to the subordinates and checking their efficiency by making them accountable for their doings. In an organization, the manager has several

responsibilities and work to do. So, in order to reduce his burden, certain responsibility and authority are delegated to the lower level, i.e. to the subordinates, to get the work done on the manager's behalf.

Under the delegation of authority, the manager does not surrender his authority completely, but only shares certain responsibility with the subordinate and delegates that much authority which is necessary to complete that responsibility.

## FEATURES OF DELEGATION OF AUTHORITY




- Delegation means giving power to the subordinate to act independently but within the limits prescribed by the superior. Also, he must comply with the provisions of the organizational policy, rules, and regulations.
- Delegation does not mean that manager give up his authority, but certainly he shares some authority with the subordinate essential to complete the responsibility entrusted to him.
- Authority once delegated can be further expanded, or withdrawn by the superior depending on the situation.
- The manager cannot delegate the authority which he himself does not possess. Also, he can not delegate his full authority to a subordinate.
- The delegation of authority may be oral or written, and may be specific or general.
- The delegation is an art and must comply with all the fundamental rules of an organization.

## ELEMENTS OF DELEGATION OF AUTHORITY

There are three major elements of delegation of authority:

(i) Responsibility: The responsibility means, assigning the work to an individual. The managers assign certain responsibility to the subordinates for the completion of certain tasks on his behalf. An individual has to apply all his physical and mental ability to get the task completed efficiently.Here it is to be noted, that manager can only assign the responsibility, and in the case of the subordinate fouls, the manager will be answerable to his seniors. Thus, the responsibility flows upwards.

(ii) Authority: To fulfill the responsibility, certain authority is delegated to the subordinate. Authority means the power to take decisions. Hence, the manager along with the responsibility also delegates authority to enable the subordinate to take decisions independently and accomplish the task efficiently. The authority must be equal to the responsibility, this means, a certain level of authority is delegated which is sufficient to complete the responsibility. The authority also flows upward, as we go up in the scalar chain, the authority increases.

(iii) Accountability: Accountability means, to check whether the subordinates are performing their responsibilities in an expected manner or not. The Accountability cannot be delegated which means, in the case of non-completion of the task, the manager will only be held responsible for it, not the subordinates. The accountability also flows upward, i.e. subordinates will be accountable to the manager and the manager to his superior.

## PRINCIPLES OF DELEGATION OF AUTHORITY

Following are the guidelines that can be followed by the managers to practice an efficient delegation:

Principle of Functional Definition: An organization is comprised of different functional departments, each contributing to the organizational goals and, in turn, have their specific objectives.Thus, clearly defined objectives of each department, the expected results, the specific activities to be performed and intradepartmental relationships help the manager to determine the requirements of that specific position.

Principle of Result Expected: Before actually delegating the authority to the subordinate, the manager must know the purpose of such delegation and the results expected from it. The goals, targets and the standard of performance must be clearly defined to direct the actions of the subordinate towards the accomplishment of a given task in a required manner. This principle helps in determining the authority to be delegated which is sufficient for completing the responsibility.

Principle of Partity of Authority and Responsibility: This principle states that the responsibility and the authority co-exists. This means, if the subordinate is assigned certain responsibility, he must be given some level of authority i.e. power to perform his responsibility.Thus, both the responsibility and the authority shall be clearly defined to the subordinate, so that he knows what he is required to do within the powers delegated to him.

Principle of Unity of Command: According to this principle, every subordinate should have a single supervisor from whom he gets the authority and to whom he is solely accountable. This means the subordinate should get the instructions from a single superior and perform those responsibilities as assigned by him. In case, if the subordinate is required to report to more than one boss, then there may be a conflict and delay in the managerial operations.

Principle of Absoluteness of Responsibility: This principle asserts that responsibility cannot be delegated. This means even after delegating the authority to the subordinate to perform certain tasks on the manager's behalf; the manager will be solely responsible for the doings of the subordinate. In other words, whatever actions being taken by the subordinate, the manager will be accountable to his senior. Thus, the responsibility is absolute and remains with the superior.

The Scalar Principle: There are clear lines of authority in the organization, i.e. who is under whom. This helps the subordinate to know, who delegates the authority to him and to whom he shall be accountable. Also to whom he shall contact in case things are beyond his control. Thus, this principle asserts, that there should be a proper hierarchy in the organization.

Principle of Exception: According to this principle, the subordinate shall be given complete freedom to perform his responsibilities under the purview of his authority. The manager should not interfere in between his work and must allow him to do even if he commits mistakes. But in some exceptional cases, the managers can interfere and even withdraw the authority delegated to the subordinate.

## Process of Delegation of Authority

The process of delegation of authority comprises of four steps which are as follows:

- Assignment of Duties to Subordinates: Before the actual delegation of authority, the delegator must decide on the duties which he wants the subordinate or the group of subordinates to perform. Here, the manager lists the activities to be performed along with the targets to be achieved, and the same is spelled out to the subordinates. Thus, in the first stage, the duties are assigned to the subordinates as per their job roles.
- Transfer of Authority to perform the duty: At this stage, an adequate authority is delegated to the subordinate which is essential to perform the duty assigned to him. A manager must make sure; that authority is strictly delegated just to perform the responsibility, as more authority may lead to its misuse by the subordinate.

- Acceptance of the Assignment: At this stage, the subordinate either accepts or rejects the tasks assigned to him by his superior. If the subordinate or the delegate, refuses to accept the duty and the authority to perform it, then the manager looks for the other person who is capable of and is willing to undertake the assignment. Once the assignment gets accepted by the subordinate, the delegation process reaches its last stage.
- Accountability: The process of delegation of authority ends at the creation of an obligation on the part of the subordinate to perform his responsibility within the powers assigned to him. Once the assignment is accepted by the subordinate, then he becomes responsible for the completion of the duty and is accountable to the superior for his performance.

**DECENTRALISATION OF AUTHORITY**

'Decentralization Of Authority' Refers To The Dispersal Of Authority For Decision-Mak-Ing In Various Levels Of Organizational Operations Throughout The Organization. Decentralization is actually an extension of the concept of delegation. Delegation can take place from one superior to one subordinate and is a complete process, but decentralization takes place only when the fullest possible delegation or distribution of authority is made to all—or most of the people in the organization—in respect of the specific function, activity or responsibility.

It is, however, to be remembered that decentralization does not necessarily mean distribution of authority in respect of all activities.

CASE STUDY : - One function may be decentralized and another stay centralized.

in an automobile manufacturing concern, the sales function may be distributed or decentralized to product division, while labor relations may remain centralized. The extent to which decentralization exists in any organization depends on the extent to which clear-cut decision-making authority is vested in levels below the top man-agement level. Therefore, when delegation is widespread and authority is delegated to lower levels of management, to all, or most of the people who are entrusted with responsibilities, decentralization of authority takes place.

On the other hand, when delegation is restricted to the top level of management, and the subordinates are simply to implement the decisions taken at the top level, the authority is said to be centralized to that extent. However, there cannot be any absolute centralisation or absolute decentralisation in an organisation. Absolute centralisation is possible if there is one person with absolute authority and there is no other subordinate manager under him that means there is no structured organi-sation.

Similarly, there is no absolute decentralisation. Actually centralisation and decentrali-sation are inclinations, tendencies or bents towards reservation of authority in varied degrees. In an organisation, authority may be centralised, but some amount of decentralisation also becomes necessary.

## Importance of Decentralisation of Authority:

**1. Relief to the Top Executives:**

Diminishing the work-load of the senior executives who are already over-burdened, decentralisation helps to reduce the volume of their routine affairs. They can devote greater time and attention to important policy matters by decentralizing authority for routine operational decisions.

**2. Motivation of the Subordinates:**
Decentralisation motivates the lower level managers by increasing their chances of recognition, improving their status and offering them a feeling of accomplishment. The facility to make decision and function independently activates strong drives among the individuals and, thus, results in increased productivity.

**3. Improvement of Work Performance:**
The operating decisions in a decentralised setting tend to be of higher quality. Decisions will be more appropriate, timely and quick because they are made nearest to the points of the problem, information and actions. Decisions will also be democratic and acceptable as these are made by the people who are responsible for implementing them.

**4. Promotion of the Subordinate's Morale:**
Decentralisation tends to promote the subordinate's morale due to relative equalisation of power and authority at all levels of the organisation, scope for participating in problem identification, decision-making and implementation, increased job satisfaction, and reduced gap between problems and decisions, and also between decisions and actions.

**5. Increasing Flexibility:**
Decentralisation is a structural strategy to manage organisational growth and diversification and to cope with the complexity, uncertainty and volatility of the external environment.

## *Advantages of Decentralization:*

**The advantages of decentralization may be listed as follows:**

**1. Increasing Efficiency of Management:**
Decentralisation reduces the burden of the top executives, relieves them of the anxiety of details, allows them to concentrate on other important tasks of planning, co-ordination and controlling etc. and increases overall efficiency of the management.

**2. Facilitating Diversification of Activities:**
Decentralisation facilitates the growth and diversification of product lines. As one single product or a group of related products is made the basis for creating divisions, all important features like present position, future prospects and comparative efficiency of each product can be readily ascertained.

3.**Minimisation of Risk:**

Decentralisation not only spreads over decision-making authority among various executives of middle and lower level management but also facilitates the availability of the benefits of expert advice of the specialists and thus helps the business in minimising possibilities of loss.

**4. Ensuring Quick Performance:**

The close contact and consequent greater understanding between the managers and the managed can cope successfully with constant business changes. Thus, it provides a dynamic character to the business and ensures quick decision and prompt action.

**5. Developing Future Executives:**
When authority is decentralised, the subordinates get the opportunity of exercising their own judgement. They learn how to decide and develop managerial skills. Thus, decentralisation provides a better means of developing future managers and executives.

This is probably the most important benefit, particularly in our country where shortage of competent managers is the major limiting factor of the rapid growth of our economy and principal industries.

**6. Motivating the Subordinates for Better Performance:**
By consistent and adequate delegation of managerial work, the organisation structure promotes individual initiative and mutual understanding and motivates the subordinates for higher performance.

**7. Improvement of Morale:**
Decentralisation stimulates the formation of small cohesive groups. Since local managers are given a large degree of authority, they weld their people into well-knit groups. With high degree of participation, constant effort to communicate, and continuous interest in the welfare of the members of the group, they are able to secure a high degree of morale among the subordinates.

## *Disadvantages of Decentralisation:*

Decentralisation offers marked benefits and no large organisation can hope to sustain without it. In spite of that, there are many disadvantages or limitations in decentralization process.

**1.Problem of Co-ordination:**
Decentralisation calls for a high degree of differentiation of functions and tasks. The top management authority may find it difficult to co-ordinate the diverse goals, functions and activities of different autonomous decision-making units or divisions.
The executives may develop narrow outlook and sectional interests may overshadow the organisational goals. Therefore, maintaining co-ordination among the departments becomes more difficult.

**2. Lack of Uniformity:**
Decentralisation may lead to inconsistencies in the organisation when uniform procedures are not followed by various departments. Each department may formulate its own policies and procedures.

**3.Costly and Uneconomical:**
Decentralisation tends to increase the cost of operation of the enterprise. It involves duplication of procedure, equipment and services as there are autonomous and self-sufficient units or departments in terms of physical facilities and trained personnel.

**4. Delay in Decision-making:**
Decentralisation becomes an important handicap in case of quick emergency decisions. Some executives do not like to share the responsibility of decision-making.

**5. Limitation of Scale:**
To bring about decentralisation it is necessary to create departments and divisions. This is possible only when an enterprise is large enough and tends itself to departmentation and divisionalisation. Thus, small organisations do not have much scope for decentralisation.

## ***Basic Principles of Decentralisation:***

The basic principles of decentralisation may be stated as follows:

1. Proximity of Decision-making Points:

All schemes of decentralisation must aim at providing for the proximity of the decision-making points nearer to the place of action.

2. Real Delegation of Authority:

Successful and proper decentralisation demands full and real delegation of authority. Reporting or checking of details before arriving at decisions by the subordinates will make decentralization ineffective.

3. Confidence in the Subordinates:

The superiors must place full confidence in the abilities of the subordinates in taking correct decisions at the right time without interfering in their day-to-day functioning.

4. Conciliation between Line and Staff Personnel:

Staff Personnel, with their expe-rience and talent, must advise and encourage the inexperienced Line Operators so that correct decisions may be taken by them.

5. Parity of Responsibility and Authority:

In order to make decentralisation effective and successful, the subordinate must shoulder responsibility commensurate with the authority which is exercised by him.

6. Conviction about the Superiority of Decentralised Decision:

The top managers must be convinced that the aggregate of many individuals' decision will always be better and superior in the general interest than the centrally planned and controlled decisions.

7. Result-oriented Personnel Policies:

Result of personnel policies must be capable of being measured and compared with the standards already laid down. There should be ar-rangements for offering reward or inflicting penalty, respectively, in respect of the success or failure of these personnel policies.

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FACTORS INFLUENCING DECENTRALIZATION OF AUTHORITY

1. Philosophy of Top Management: The leadership style, attitudes, values and beliefs of the top management team have a bearing on the degree of decentralization. Some firms are highly centralized, whereas others are highly decentralized because of the character and philosophy of the top management. For instance, if Tata Group Companies have registered a phenomenal growth over the years, it is partly because of the operational freedom and autonomy the variousunits in the group enjoy. TATAs provide only the direction and spell out the major policies.

2. Attitude of Subordinate Managers: The Attitude of subordinate managers is another important factor that influences decentralization because they can both encourage or discourage decentralization. If subordinates want decentralization, top management can not hold every thing in their hands for too long a period. The desireby subordinates for independence and the willingness to assume increased responsibilities may make them think of decentralization. As against this, shortage of lower level managers who are willing to assume responsibility may encourage top management to maintain a centralized structure.

Now-a-days, in most large-scale organization, the trend is towards decentralization. This is in line with greater employee empowerment. Pushing authority down the line to lower levels in an organization results in an environment of freedom and experimentation. Employee empowerment helps in fostering an entrepreneurial spirit in the organization, by encouraging employees at lower levels to accept responsibility, to unleash their full potential, and most important, to think and innovate. The benefits of decentralization are clear. However, the extent of decentralization depends on the unique requirements of an organization. It normally varies from organization to organization.

3. The cost and Impact of the Decisions: Managers may not be willingfor decentralization where the commitment involved in the decisionsis very high. As a rule of thumb, the greater the cost involved, themore likely it is that the decision will be made at the upper levels.We often find situation in organizations where managers seek theapproval of superiors when the expenditure involved exceeds acertain limit.

4. Company Size and Rate of Growth: It is very difficult to manage a large organization efficiently with decision-making authority concentrated in one or few people/levels at the top. Further ,as an organization grows in size and complexity, the need for decentralization is obviously felt. Top management cannot continue to hold a tight grip over the several aspects of the growing organization. This is the principal reason why organizations often engage in reorganizing their units and operations as they grow in size. The necessary autonomy is given to the units or departments so that top management can concentrate itself with more important tasks such as strategic planning and policy formulation.

## WHAT IS THE SPAN OF CONTROL?

Span of Control can be defined as the total number of direct subordinates that a manager can control or manage. The number of subordinates managed by a manager varies depending on the complexity of the work.

For example, a manager can manage 4-6 subordinates when the nature of work is complex, whereas, the number can go up to 15-20 subordinates for repetitive or fixed work.

one manager was capable of managing 1-4 subordinates. Because of that, there were many levels of management in one organization. In 1980, with the introduction of information technology in business, many organizations flattened their management by reducing the number of managers in an organization. After that, the span of one manager increased from 1-4 to 1-10 subordinates.

This was possible because of inexpensive information technology. Technology helped in easing out several middle managers' tasks such as collection and manipulation of operation information. Because of this, a manager became capable of managing more subordinates at one time.

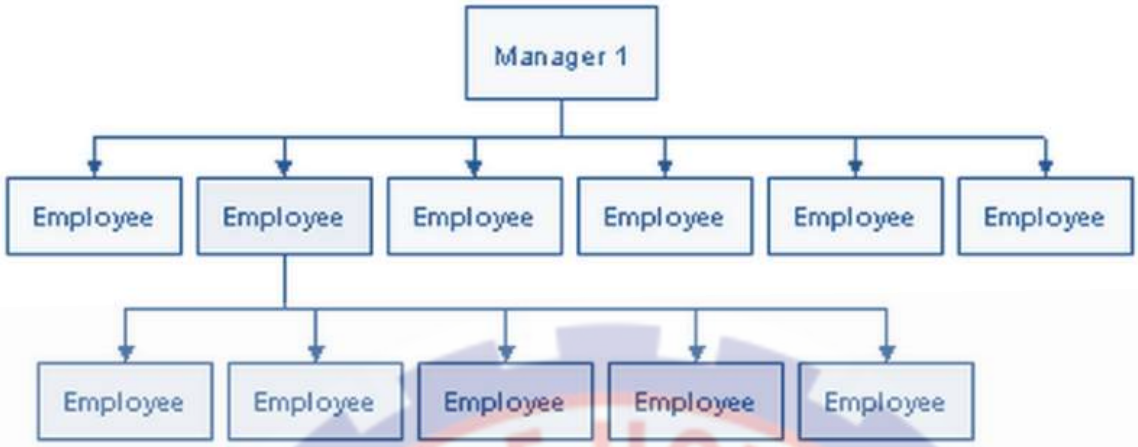
Several factors affect the span of control of a manager, such as the nature of work, capabilities of the manager, capabilities of employees to be managed, and the responsibilities of a manager. It can be of two types, such as a narrow and a wide span of control. It is considered to be narrow when a manager manages 2 to 4 subordinates.

## TYPE OF SPAN OF CONTROL

Span of control is the number of subordinates under one manager. There is no limitation to the numbers of the span of control. It may be a larger number of employees in one span of control and also the small number of employees in a single span of control.

Two types of a span of control

- Wide-Span of Control
- Narrow-Span of Control




IMPORTANCE OF SPAN OF CONTROL

The span of control is the need of today's business. It matters nothing either its small scale business or large enterprise. The owner of the business can't manage several tasks single-handedly. This limitation of the Head of any organization forces to have a span of control. In which every division have their supervisors who are responsible for all subordinates activities. They have to manage their tasks and also have to coordinate with the subordinate.

There are many other reasons why business organizations need a span of control. Most Important are given below

Limitation of time: Head of business organization has not enough time in a day to supervise all divisional employees. For this, every business enterprise needs a span of control to have the head of the subordinate in every division.

Limitation of Capacity: Human energy is also the reason why managers can't deal with a large number of employees all himself. To handle employees, one needs to be very energetic, passionate, and cooperative, But all of this has some limit in humans.

The span of attention: In humans, naturally, we pay attention and concentration to specific people and work to a certain level. It's not possible to deal with full concentration and time for all divisions.

Communication: It is very effective that you have good communication skills and make others understand your point.

Psychological Factors: Different employees have different personalities, attributes, and abilities. The Head of the division should understand every employee's personality so that they can take work from them properly. This needs to have a span of control in an organization because if one person deals with every division. They can't focus on a single employee.

Growth Chances: Span of control helps in managing things properly as every division has its own roles and specific reporting to specific person. This way, more plans can be made and more improvement will be there.

## Factors Affecting Span of Management:

1. COMPETENCE OF MANAGERS:

If managers are competent in their jobs, they can have a wide span of management. Competence of managers is judged by their ability to make decisions related to motivational plans, leadership styles, communication channels and chains, techniques of control etc. Managers who rank high on these parameters can effectively supervise larger number of subordinates.

2. NATURE OF WORK:

If employees perform similar and repetitive work, managers can supervise large number of subordinates and, thus, have a wide span of control. Non-repetitive and challenging work requires narrow span of control. Changes in the nature of work also affects the span of management.

Frequent changes as a result of dynamic environment support a narrow span as superiors frequently have to direct the activities of subordinates. Stability in the nature of work supports a wide span of management as superiors' directions are not frequently required to carry out the work processes.

3. ASSISTANCE TO MANAGERS:

If managers have access to technical or secretarial assistance, a larger group of subordinates can be managed. Span of control can, therefore, be wide. Staff assistance can be useful for collecting and processing information related to various decisions and issuing orders to the subordinates. Managers save time in communicating with subordinates, direct the activities of larger number of subordinates and focus on other strategic organisational matters.

**4. COMPETENCE OF SUBORDINATES:**

If subordinates are competent to manage their jobs without much assistance from the superiors, span of control can be wide. Competent subordinates do not require frequent directions from the superiors with respect to various organisational activities. Superiors can thus, manage a larger group of subordinates.

**5. PLANS AND POLICIES:**

If plans clearly define the organisational/individual goals and policies, superiors can supervise a larger group of subordinates and have a wide span of control. Clearly defined plans include well-formulated policies procedures, methods etc. Particularly, if standing plans are well defined, subordinates know the broad guidelines within which they have to make decisions in similar and repetitive situations. They do not approach the superiors every time they face a similar problem-solving situations. Superiors can, thus, manage a larger group of subordinates. However, if most of the decisions are made by resorting to single use plans (programmes, budgets, projects etc.), managers have to be frequently approached and the span can, thus, be narrow.

**6. ORGANISATIONAL LEVEL:**

The top executives look after important and specialised activities and, therefore, the span is narrow at the top level but at lower levels the span can be wide, since supervisors are mainly concerned with routine jobs. According to J.C. Worthy, a manager can supervise as many as 20 subordinates at the lower levels.\

**7. AUTHORITY-RESPONSIBILITY STRUCTURE:**

If authority-responsibility structure is well-defined and understood, superiors can supervise larger number of subordinates. People work within the confines of their responsibility and take directions from superiors only when required. Lack of clarity in authority-responsibility structure will create confusion

in the organisation. Jobs and who will perform which job, who is accountable to whom will not be clear. In such a situation, managers cannot supervise a large group of subordinates. The span of management will, thus, be narrow.

**8. SYSTEM OF CONTROL:**

Effective techniques of control can enable the manager to supervise larger number of subordinates. Effective system of control promotes decentralisation. Superiors do not actively involve in the decision-making processes as decisions are taken at the levels where they are required. There is extensive delegation, clarity of jobs, authority-responsibility relationships and freedom to take decisions. The span of control can, thus, be wide.

**9. FINANCIAL FACTORS:**

Both narrow and wide structures have financial constraints. A narrow span requires more managers and is, thus, a costly form of structure. Wide span, on the other hand, may result into organisational inefficiencies. Proper balance has to be maintained between the costs and benefits of the span that a manager can effectively supervise.

## Organizational effectiveness

Organizational effectiveness is defined as a concept to measure the efficiency of an organization in meeting its objectives with the help of given resources without putting undue strain on its employees. It is about how the company can produce the target quota of products, how efficient its process is, and how much waste is produced. It is a fact that performance automatically improves when the leadership system is at its best. The function of leadership includes defining the future, setting direction, becoming organized, creating strategies, implementing them effectively, clarity in directions, clear communication, alignment of goals, developing talent, building accountability, allocating resources and delivering results.

An organization needs to have a clear mission and vision that can deal with the ever-changing industry and side-by-side to meet its goals. Remember it is human resources that prove advantageous, and it should be the priority of a business entity to retain, motivate and develop them to achieve organizational effectiveness.

**THE VARIOUS APPROACHES TO ORGANIZATIONAL EFFECTIVENESS**

**Goal approach –**
The goal approach refers to optimal profit by offering the best service that will lead to high productivity. The limitation of the goal approach is that it is a bit difficult to identify the real goal and not the ideal goal

**System-resource approach** – The system resource approach puts its onus on the interdependency of processes that align the organization with its environment. It takes the form of input-output transactions and includes human, economic and physical resources. The limitation of this approach is that acquisition of resources from

the environment becomes aligned with the goal of the organization and thus it becomes quite similar to the goal-oriented approach

**Functional Approach** – The functional approach assumes that the organization has already identified its goals, and now the focus should be upon attainment of these goals and how to serve society. The limitation of this approach is that the organization has the autonomy to take independent action for attaining its goals and so why will it accept serving society as its ultimate goal

# FACTORS AFFECTING ORGANIZATIONAL EFFECTIVENESS

- **Casual variables –** These are independent variables that can be altered by the organization and its management, for instance, its policies, skills and behavior and leadership and business strategies. The casual variables can determine the course of development within an organization
- **Intervening variables –** These are motivation, performance goals, attitude, loyalty and perception of the employees and their capacity for efficient decision-making, communication, and interaction. The intervening variables show the health of an organization.
- **End-result variables –** These are loss, costs, earnings, and productivity. The end-result variables reflect the achievements of an organization.

## FACTORS FOR IMPROVING ORGANISATIONAL EFFECTIVENESS

The six systems set up conditions necessary to create a high-performing organization, It includes

### 1. Leadership

One of the critical steps in organization effectiveness is developing leadership within the company. It is leaders who create a vision for their company, define, refine and execute critical processes, translate values into strategies, take action and be accountable. A leader has to answer three things designed alignment of processes, practices, strategy, structure culture, etc and will they be able

- Value – What is the value he is offering to the customers to gain a competitive advantage in the market
- Approach – How is he fulfilling the unique needs of his stakeholders and which strategy is going to support the vision for achieving competitive advantage
- Alignment – What is the designed alignment of processes, practices, strategy, structure culture, etc and will they be able to create maximum conditions for achieving company vision

### 2. Communication

Every organization needs an effective communication system so that the flow of information is smooth. Leaders can be successful when they can communicate their message to other people in a precise manner. Everything happens in a company because of the exchange of information, and this is why strategic communication is considered a critical element in the success chain.

It makes sure that the impact of the message is in alignment with the intention so that it will lead to a better and complete understanding. What, where, when, how everything matters hence keep track of your words and communicate effectually. An essential way for organizational effectiveness is by making sure that the leader is aligning with the people around him and teaching regularly. This transparent communication strategy will keep the focus on a common cause, minimize uncertainty, prevent excuses and give weight to the decisions of the leadership to shape the behavior and belief of the employees

3. Accountability Organizational effectiveness is to a great extent dependent on the concept of accountability. A company should build an environment where every individual, as well as a group, is accountable for the tasks he participates in. It is the accountability that determines how effectively the people perform the given functions. The organizations must make sure that there are performance accountability systems in place to clarify the expectations of the company and align the rewards as well as consequences with actual accomplishments.

4. Delivery Efficiency Strategy

The next step in the six systems of organizational effectiveness is the delivery of products and services. It is a fact that consumers and markets are ever-changing, and this means that a company should be prepared to shift and make adjustments to accommodate these changes as well as changes caused by advancements in technology. A straightforward delivery process will ensure the delivery to the right customers and their engagement in full.

This is why business entities try to create simple procedures that are adaptable, responsive. There is no scope for complexity because the onus is on satisfying customer experience. When organizations align initiative and operations with strategy using the best technique, they can pursue breakthroughs in critical areas and build future capability.

5. Performance

Human resources are the most valuable asset of a company, and this is why the proper emphasis is given on hiring and retaining the best of the best. It is essential to find the right fit for the job and develop their skills and know-how through training and other learning methods to increase organizational effectiveness. Business entities are particular about rewarding knowledge, talent, and expertise to boost employee performances so that they can ultimately have a positive impact on organizational effectiveness.

7. Measurement

It is imperative to measure organizational effectiveness. A business entity must set a standard set of metrics and develop a system of reviews and parameters to analyze and measure tasks, projects, productivity, behavior, processes, and results. It is leaders who establish and maintain the measurement system to track progress and review status regularly.

## THE IMPORTANCE OF ORGANIZATIONAL EFFECTIVENESS

Ultimately, factors such as the above have significant impacts on many business functions. The benefits of effectiveness in an organization can include improved:

- Employee engagement and performance
  . Employee productivity is directly tied to the outcomes and performance of individual business units. This, in turn, affects the organization's performance.

- Better management.
  Improved management can mean better manager training, increased communication between managers and frontline employees, updated managerial policies and procedures, among other things.
- Decreased costs.
  Efficiency in any business unit can decrease costs. Those savings can come from any area that is causing waste – outdated processes, obsolete technology, ineffective workflows, and so forth.
- Improved customer engagement and value
  . A main goal of any business is to maximize customer value. By improving the effectiveness of customer-related departments – such as customer care or the customer experience – businesses can enhance relationships and boost customer value.
- More efficient use of technology
  . Today, all organizations use digital technology. But they don't always use it well. Effective digital adoption efforts can improve digital workflows, data insights, business processes, employee training, and many other business areas.
- Better organizational outcomes.
  It should be apparent that a more effective organization will be better at achieving its goals and strategic priorities. And the better it can achieve its goals and meet its aims, the more profitable it will be.

## CONCEPT OF JOB EVALUATION:

In simple words, job evaluation is the rating of jobs in an organisation. This is the process of establishing the value or worth of jobs in a job hierarchy. It attempts to compare the relative intrinsic value or worth of jobs within an organisation. Thus, job evaluation is a comparative process.

**SOME IMPORTANT DEFINITIONS OF JOB EVALUATION:**

According to the International Labour Office (ILO) "Job evaluation is an attempt to determine and compare the demands which the normal performance of a particular job makes on normal workers, without taking into account the individual abilities or performance of the workers concerned".

The British Institute of Management defines job evaluation as "the process of analysis and assessment of jobs to ascertain reliably their negative worth using the assessment as the basis for a balanced wage structure". In the words of Kimball and Kimball "Job evaluation is an effort to determine the relative value of every job in a plant to determine what the fair basic wage for such a job should be".

Wendell French defines job evaluation as "a process of determining the relative worth of the various jobs within the organisation, so that differential wages may be paid to jobs of different worth. The relative worth of a job means relative value produced. The variables which are assumed to be related to value produced are such factors as responsibility, skill, effort and working conditions".

Now, we may define job evaluation as a process used to establish the relative worth of jobs in a job hierarchy. This is important to note that job evaluation is ranking of job, not job holder. Job holders are rated through performance appraisal. Job evaluation assumes normal performance of the job by a worker. Thus, the process ignores individual abilities of the job holder.

Job evaluation provides basis for developing job hierarchy and fixing a pay structure. It must be remembered that job evaluation is about relationships and not absolutes. That is why job evaluation cannot be the sole determining factor for deciding pay structures.

## objectives of job evaluation

1. Provide a standard procedure for determining the relative worth of each job in a plant.
2. Determine equitable wage differentials between different jobs in the organisation.
3. Eliminate wage inequalities.
4. Ensure that like wages are paid to all qualified employees for like work.
5. Form a basis for fixing incentives and different bonus plans.
6. Serve as a useful reference for setting individual grievances regarding wage rates.
7. Provide information for work organisation, employees' selection, placement, training and numerous other similar problems.
8. Provide a benchmark for making career planning for the employees in the organisation.

### PROCEDURE OF JOB EVALUATION:

The procedure of job evaluation involves the comparison of job factors and their relative effectiveness. Job factors are of premier importance's that are taken into consideration as to what degrees of them are present in each job to make comparison meaningful. Skill, efforts, responsibility and working conditions are the factors that are considered for determining the relative worth of job. These factors decide the compensation to be paid for each job.

1. Analyze and prepare job description,
2. Select and prepare a job evaluation plan,
3. Classify jobs,
4. Install the programme,
5. Maintain the programme.
6. 

The procedure followed for job evaluation varies from organisation to organisation. There is no single procedure adopted in each organisation. There is however a close relationship between job analysis which is a systematic enquiry of jobs and identification of their features, job description which is written account of basic task to be performed each job and job evaluation which is a procedure that determines the relative worth of jobs within the organisation. The main object of job evaluation is to meet the needs of the organisation. Looking at these facts a brief outline of the procedure of job evaluation is as below.

### *1. Job Analysis and Job Description:*

Job evaluation cannot be done without the necessary information in respect of job. This information can be had through job analysis. Job analysis provides the information such as job requirements i.e. machines tools and materials to be used and time for its performance and the activities involved, time for its completion, skill required for its performance etc.

Job description is a by-product of job analysis. The information collected through job analysis is presented in a statement as how it is to be done, what job holder has to do, why it is to be done. This

information in the statement form is job description. This is the vital information required for initiation of job evaluation.

**2. JOB CLASSIFICATION:**

Job classification or gradation of jobs is determining the relative levels of different jobs in the organisation. Jobs can be classified into various grades or classes. Technical, non technical, clerical, accounting, supervisory etc. or class I, class II, class III, Class IV etc. according to responsibilities and abilities for performance.

***3. Job Pricing:***

Pricing the job is the very purpose of job evaluation. The different compensable factors are taken into consideration, factors divided into degrees and money values are assigned. There are four methods of job evaluation. Any method that suits to the need of the organisation can be adopted.

A care is taken to remove inconsistencies from the wage and salary structure. There are two types of inconsistencies, internal and external. Internal inconsistency exists in the wage, structure of the organisation, e.g. a supervisor getting the salary less than his subordinate speaks for internal inconsistency.

External inconsistency refers to the wage differentials between two organisations of the same cadre or between two industries or between two states or regions. As far as possible these inconsistencies should be removed.

## Advantages of job evaluation:

- Job evaluation being a logical process and objective technique helps in developing an equi-table and consistent wage and salary structure based on the relative worth of jobs in an organisation.
- By eliminating wage differentials within the organisation, job evaluation helps in minimizing conflict between labour unions and management and, in turn, helps in promoting harmoni-ous relations between them.
- Job evaluation simplifies wage administration by establishing uniformity in wage rates.
- It provides a logical basis for wage negotiations and collective bargaining.
- In the case of new jobs, job evaluation facilitates spotting them into the existing wage and salary structure.
- In the modem times of mechanisation, performance depends much on the machines than on the worker himself/herself. In such cases, job evaluation provides the realistic basis for determination of wages.
- The information generated by job evaluation may also be used for improvement of selection, transfer and promotion procedures on the basis of comparative job requirements.
- Job evaluation rates the job, not the workers. Organisations have large number of jobs with specialisations. It is job evaluation here again which helps in rating all these jobs and determining the wages and salary and also removing ambiguity in them.

## Drawbacks of job evaluation:

- Job evaluation is susceptible because of human error and subjective judgment. While there is no standard list of factors to be considered for job evaluation, there are some factors that cannot be measured accurately.
- There is a variation between wages fixed through job evaluation and market forces. Say Kerr and Fisher, the jobs which tend to rate high as compared with the market are those of junior, nurse and typist, while

craft rates are relatively low. Weaker groups are better served by an evaluation plan than by the market, the former places the emphasis not on force but on equity".

- When job evaluation is applied for the first time in an organisation, it creates doubts in the minds of workers whose jobs are evaluated and trade unions that it may do away with collective bargaining for fixing wage rates.
- Job evaluation methods being lacking in scientific basis are often looked upon as suspicious about the efficacy of methods of job evaluation.
- Job evaluation is a time-consuming process requiring specialised technical personnel to undertake it and, thus, is likely to be costly also.
- Job evaluation is not found suitable for establishing the relative worth of the managerial jobs which are skill-oriented. But, these skills cannot be measured in quantitative terms.
- Given the changes in job contents and work conditions, frequent evaluation of jobs is essential. This is not always so easy and simple.
- Job evaluation leads to frequent and substantial changes in wage and salary structures. This, in turn, creates financial burden on organization.

# PERFORMANCE APPRAISAL

Performance Appraisal is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development. Performance appraisal is generally done in systematic ways which are as follows:

1. The supervisors measure the pay of employees and compare it with targets and plans.
2. The supervisor analyses the factors behind work performances of employees.
3. The employers are in position to guide the employees for a better performance.

## Objectives of Performance Appraisal

Performance Appraisal can be done with following objectives in mind:

1. To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
2. To identify the strengths and weaknesses of employees to place right men on right job.
3. To maintain and assess the potential present in a person for further growth and development.
4. To provide a feedback to employees regarding their performance and related status.
5. To provide a feedback to employees regarding their performance and related status.
6. It serves as a basis for influencing working habits of the employees.
7. To review and retain the promotional and other training programmes.

## Advantages of Performance Appraisal

It is said that performance appraisal is an investment for the company which can be justified by following advantages:

1. **Promotion:** Performance Appraisal helps the supervisors to chalk out the promotion programmes for efficient employees. In this regards, inefficient workers can be dismissed or demoted in case.
2. **Compensation:** Performance Appraisal helps in chalking out compensation packages for employees. Merit rating is possible through performance appraisal. Performance Appraisal tries to give worth to a performance. Compensation packages which includes bonus, high salary rates, extra benefits, allowances and pre-requisites are dependent on performance appraisal. The criteria should be merit rather than seniority.
3. **Employees Development:** The systematic procedure of performance appraisal helps the supervisors to frame training policies and programmes. It helps to analyse strengths and weaknesses of employees so that new jobs can be designed for efficient employees. It also helps in framing future development programmes.
4. **Selection Validation:** Performance Appraisal helps the supervisors to understand the validity and importance of the selection procedure. The supervisors come to know the validity and thereby the strengths and weaknesses of selection procedure. Future changes in selection methods can be made in this regard.
5. **Communication:** For an organization, effective communication between employees and employers is very important. Through performance appraisal, communication can be sought for in the following ways:
    a. Through performance appraisal, the employers can understand and accept skills of subordinates.

b. The subordinates can also understand and create a trust and confidence in superiors.
c. It also helps in maintaining cordial and congenial labour management relationship.
d. It develops the spirit of work and boosts the morale of employees.

All the above factors ensure effective communication.

6. **Motivation:** Performance appraisal serves as a motivation tool. Through evaluating performance of employees, a person's efficiency can be determined if the targets are achieved. This very well motivates a person for better job and helps him to improve his performance in the future.

## THE PURPOSE OF PERFORMANCE APPRAISAL

The purpose of a performance appraisal is two-fold: It helps the organization to determine the value and productivity that employees contribute, and it also helps employees to develop in their own roles.

### *Benefit for organization*

Employee assessments can make a difference in the performance of an organization. They provide insight into how employees are contributing and enable organizations to:

- Identify where management can improve working conditions in order to increase productivity and work quality.
- Address behavioral issues before they impact departmental productivity.
- Encourage employees to contribute more by recognizing their talents and skills
- Support employees in skill and career development
- Improve strategic decision-making in situations that require layoffs, succession planning, or filling open roles internally

### Benefit for employee

Performance appraisals are meant to provide a positive outcome for employees. The insights gained from assessing and discussing an employee's performance can help:

- Recognize and acknowledge the achievements and contributions made by an employee.
- Recognize the opportunity for promotion or bonus.
- Identify and support the need for additional training or education to continue career development.
- Determine the specific areas where skills can be improved.
- Motivate an employee and help them feel involved and invested in their career development.
- Open discussion to an employee's long-term goals.

#### STEPS INVOLVED IN PROCESS OF PERFORMANCE APPRAISAL

The six steps involved in process of performance appraisal are as follows:

- Establish Performance Standards
- Communicate Performance Expectation to Employee
- Measure Actual Performance
- Compare Actual Performance with Standards
- Discuss the Appraisal with the Employee
- Initiate Corrective Actions.

### 1. Establish Performance Standards:

The appraisal process begins with the establishment of per-formance standards. The managers must determine what outputs, accomplishments and skills will be evaluated. These standards should have evolved out of job analysis and job descriptions.

These performance standards should also be clear and objective to be understood and measured. Standards should not be expressed in an articulated or vague manner such as “a good job” or “a full day’s work” as these vague phrases tells nothing.

## 2. Communicate Performance Expectations to Employees:

Once the performance standards are established, this need to be communicated to the respective employees so that they come to know what is expected of them. Past experience indicates that not communicating standards to the employ-ees compounds the appraisal problem.

Here, it must be noted that mere transference of information (relating to performance standards, for example) from the manager to the employees is not communi-cation It becomes communication only when the transference of information has taken place and has been received and understood by the employees’.

The feedback from the employees on the standards communicated to them must be obtained. If required, the standards may be modified or revised in the light of feedback obtained from the employees. It is important to note that communica-tion is a two-way street.

### 3. Measure Actual Performance:

This is the third step involved in the appraisal process. In this stage, the actual performance of the employee is measured on the basis of information available from various sources such as personal observation, statistical reports, oral reports, and written reports.

Needless to mention, the evaluator’s feelings should not influence the performance measurement of the employee. Measurement must be objective based on facts and findings. This is because what we measure is more critical and important to the evaluation process than how we measure.

### 4. Compare Actual Performance with Standards:

In this stage, the actual performance is compared with the predetermined standards. Such a comparison may reveal the deviation between standard performance and actual performance and will enable the evaluator to proceed to the fifth step in the process, i.e., the discussion of the appraisal with the concerned employees.

### 5. Discuss the Appraisal with the Employee:

The fifth step in the appraisal process is to communi-cate to and discuss with the employees the results of the appraisal. This is, in fact, one of the most challenging tasks the manager’s face to present an accurate appraisal to the employees and then make them accept the appraisal in a constructive manner.

A discussion on appraisal enables employees to know their strengths and weaknesses. This has, in turn, impact on their future performance. Yes, the impact may be positive or negative depending upon how the appraisal is presented and discussed with the employees.

## 6.Initiate Corrective Action:

The final step in the appraisal process is the initiation of corrective action when it is necessary. The areas needing improvement are identified and then, the measures to correct or improve the performance are identified and initiated.