

PRINCIPLES OF MANAGEMENT

**DIPLOMA IN CREDIT MANAGEMENT (DCM)
ACCOUNTING TECHNICIAN DIPLOMA (ATD)**

LEVEL II

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CONTENT

CHAPTER 1

Introduction to management.....3

CHAPTER 2

Approaches to management thought.....24

CHAPTER 3

Planning function.....37

CHAPTER 4

Organizing function.....57

CHAPTER 5

Directing leading function.....91

CHAPTER 6

Staffing function.....136

CHAPTER 7

Control function.....145

CHAPTER 8

Emerging issues and Current trends.....173

CHAPTER 1

INTRODUCTION TO MANAGEMENT

Management is a universal phenomenon. It is a very popular and widely used term. All organizations - business, political, cultural or social are involved in management because it is the management which helps and directs the various efforts towards a definite purpose. According to *Harold Koontz*, "Management is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals". According to *F.W. Taylor*, "Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way".

Management is a purposive activity. It is something that directs group efforts towards the attainment of certain pre - determined goals. It is the process of working with and through others to effectively achieve the goals of the organization, by efficiently using limited resources in the changing world. Of course, these goals may vary from one enterprise to another. E.g.: For one enterprise it may be launching of new products by conducting market surveys and for other it may be profit maximization by minimizing cost.

Management involves creating an internal environment: - It is the management which puts into use the various factors of production. Therefore, it is the responsibility of management to create such conditions which are conducive to maximum efforts so that people are able to perform their task efficiently and effectively. It includes ensuring availability of raw materials, determination of wages and salaries, formulation of rules & regulations etc.

Therefore, we can say that good management includes both being effective and efficient. Being effective means doing the appropriate task i.e, fitting the square pegs in square holes and round pegs in round holes. Being efficient means doing the task correctly, at least possible cost with minimum wastage of resources.

Importance of Management

1. Encourages Initiative

Management encourages initiative. **Initiative** means to do the right thing at the right time without being told or influenced by the superior. The employees should be encouraged to make their own plans and also to implement these plans. Initiative gives satisfaction to employees and success to organisation.

2. Encourages Innovation

Management also encourages innovation in the organisation. Innovation brings new ideas, new technology, new methods, new products, new services, etc. This makes the organisation more competitive and efficient.

3. Facilitates growth and expansion

Management makes optimum utilisation of available resources. It reduces wastage and increase efficiency. It encourages team work and motivates employees. It also reduces absenteeism and labour turnover. All this results in growth, expansion and diversification of the organisation.

4. Improves life of workers

Management shares some of its profits with the workers. It provides the workers with good working environment and conditions. It also gives the workers many financial and non-financial incentives. All this improves the quality of life of the workers.

5. Improves corporate image

If the management is good, then the organisation will produce good quality goods and services. This will improve the goodwill and corporate image of the organisation. A good corporate image brings many added benefits to the organisation.

6. Motivates employees

Management motivates employees by providing financial and non-financial incentives. These incentives increase the willingness and efficiency of the employees. This results in boosting productivity and profitability of the organisation.

7. Optimum use of resources

Management brings together the available resources. It makes optimum (best) use of these resources. This brings best results to the organisation.

8. Reduces wastage

Management reduces the wastage of human, material and financial resources. Wastage is reduced by proper production planning and control. If wastage is reduced then productivity will increase.

9. Increases efficiency

Efficiency is the relationship between returns and cost. Management uses many techniques to increase returns and to reduce costs. Higher efficiency brings many benefits to the organisation.

10. Improves relations

Management improves relations between individuals, groups, departments and between levels of management. Better relations lead to better team work. Better team work brings success to the organisation.

11. Reduces absenteeism and labour turnover

Absenteeism means the employee is absent without permission. Labour Turnover means the employee leaves the organisation.

Labour absenteeism and turnover increases the cost and causes many problems in the smooth functioning of the organisation. Management uses different techniques to reduce absenteeism and labour turnover in the organisation.

12. Encourages Team Work

Management encourages employees to work as a team. It develops a team spirit in the organisation. This unity bring success to the organisation.

Objectives of Management

The main objectives of management are:

1. **Getting Maximum Results with Minimum Efforts** - The main objective of management is to secure maximum outputs with minimum efforts & resources. Management is basically concerned with thinking & utilizing human, material & financial resources in such a manner that would result in best combination. This combination results in reduction of various costs.
2. **Increasing the Efficiency of factors of Production** - Through proper utilization of various factors of production, their efficiency can be increased to a great extent which can be obtained by reducing spoilage, wastages and breakage of all kinds, this in turn leads to saving of time, effort and money which is essential for the growth & prosperity of the enterprise.
3. **Maximum Prosperity for Employer & Employees** - Management ensures smooth and coordinated functioning of the enterprise. This in turn helps in providing maximum benefits to the employee in the shape of good working condition, suitable wage system, incentive plans on the one hand and higher profits to the employer on the other hand.
4. **Human betterment & Social Justice** - Management serves as a tool for the upliftment as well as betterment of the society. Through increased productivity & employment, management ensures better standards of living for the society. It provides justice through its uniform policies.

Principles of Management

A principle refers to a fundamental truth. It establishes cause and effect relationship between two or more variables under given situation. They serve as a guide to thought & actions. Therefore, management principles are the statements of fundamental truth based on logic which provides guidelines for managerial decision making and actions. These principles are derived: -

- a. On the basis of observation and analysis i.e. practical experience of managers.
- b. By conducting experimental studies.

There are 14 Principles of Management described by Henri Fayol.

1. SDivision of Labor

- a. Henri Fayol has stressed on the specialization of jobs.
- b. He recommended that work of all kinds must be divided & subdivided and allotted to various persons according to their expertise in a particular area.

- c. Subdivision of work makes it simpler and results in efficiency.
- d. It also helps the individual in acquiring speed, accuracy in his performance.
- e. Specialization leads to efficiency & economy in spheres of business.

2. SParty of Authority & Responsibility

- a. Authority & responsibility are co-existing.
- b. If authority is given to a person, he should also be made responsible.
- c. In a same way, if anyone is made responsible for any job, he should also have concerned authority.
- d. Authority refers to the right of superiors to get exactness from their sub-ordinates whereas responsibility means obligation for the performance of the job assigned.
- e. There should be a balance between the two i.e. they must go hand in hand.
- f. Authority without responsibility leads to irresponsible behavior whereas responsibility without authority makes the person ineffective.

3. SPrinciple of One Boss

- a. A sub-ordinate should receive orders and be accountable to one and only one boss at a time.
- b. In other words, a sub-ordinate should not receive instructions from more than one person because -
 - It undermines authority
 - Weakens discipline
 - Divides loyalty
 - Creates confusion
 - Delays and chaos
 - Escaping responsibilities
 - Duplication of work
 - Overlapping of efforts
- c. Therefore, dual sub-ordination should be avoided unless and until it is absolutely essential.
- d. Unity of command provides the enterprise a disciplined, stable & orderly existence.
- e. It creates harmonious relationship between superiors and sub-ordinates.

4. SUnity of Direction

- a. Fayol advocates one head one plan which means that there should be one plan for a group of activities having similar objectives.
- b. Related activities should be grouped together. There should be one plan of action for them and they should be under the charge of a particular manager.
- c. According to this principle, efforts of all the members of the organization should be directed towards common goal.
- d. Without unity of direction, unity of action cannot be achieved.
- e. In fact, unity of command is not possible without unity of direction.

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CHAPTER 2

APPROACHES TO MANAGEMENT THOUGHT

Importance of Theory

This lesson mainly traces the history behind the development of management theory. The theories and history of management are important to managers for various reasons. History helps managers understand current development and avoid mistakes of the past. History and theory together foster an understanding and appreciation of current situations and developments and facilitate the prediction of future conditions.

Theory helps managers organize information and therefore approach problems systematically. Without theories all managers would have are, intuition, hunches and hopes which may not be useful in todays very complex and dynamic organizations. However there is not yet any verified and generally accepted theory of management that managers can apply in all situations. Therefore managers must familiarise themselves with the major theories that exist.

Ancient Management

As a scientific discipline management is only a few decades old. However indications of management in use go back thousands of years into ancient civilizations. For example one of the earliest recorded uses of management is the Egyptians construction of the pyramids. It is also recorded that the Chinese used management in government from as early as 1500 B.C.

The Greeks also used management in government from as early as 1000 B.C. Babylonians have also been recorded to have used management in government from as early as 2700 B.C.

The management of the Great-Roman empire could not have succeeded without use of management. It is recorded that from about 800 B.C the Romans were practising organizing principles. A lot of bureaucracy for instance was in practice in the ancient Roman Army. The works of people like Socrates (400 B.C) and Plato (350B.C.) all indicate some elements of management. However despite this widespread practice of management there was little interest in management as a scientific discipline until a century ago. It was not until the late nineteenth century that large businesses requiring systematic administration started to emerge. Also before the late 19th century governments and military organizations were not interested in the profits so they paid little attention to efficiency and effectiveness. Our study of the theory of management will focus on the three well established schools of management theory.

- The Classical School
- The Behavioural School
- The Management Science School

THE CLASSICAL SCHOOL

This school of thought emerged around the turn of the twentieth century. It is divided into two sub areas: Scientific management, which historically focused on the work of individuals and classical organization theory (administrative management which was concerned with how organizations should be put together).

SCIENTIFIC MANAGEMENT

The main objective of Scientific Management in the early days was to determine how jobs could be designed in order to maximise output per employee (efficiency). The main contributor to scientific management was Frederick W. Taylor until the Husband Team of Frank and Lillian Gilbreth also added more light to scientific management.

(a) Frederick W. Taylor and Scientific Management

Taylor was an Industrial Engineer who worked in the United States at a time when industries were facing shortage of skilled labour. For factories to expand productivity, ways had to be looked for to increase the efficiency of employees. Management faced questions such as, whether some elements of work could be combined or eliminated, whether sequence of jobs could be improved or whether there was "one best way" of doing a job. In trying to answer these questions Taylor slowly developed a body of principles that constitute the essence of scientific management.

Taylor's first job was at Midvale Steel Company in Philadelphia: While here Taylor analysed and timed steel workers movements on a series of jobs. With time he was able to establish the best way to do a particular job. But he noticed the workers did not appreciate the speed factor because they feared that work would finish and they would be laid off. So Taylor encouraged employers to pay the more productive workers at a higher rate based on the profits that would result. This system is called the differential rate system. Taylor was encouraged by the results of his work and decided to become a private consultant. His most significant work was while he was consulting for two companies: Simonds Rolling Machine Factory and Bethlehem Steel Corporation.

At Simonds he studied and redesigned jobs, introduced rest breaks and adopted a piece rate pay system. In one operation he studied 120 women employed in tedious work with long working hours. The work involved inspecting bicycle ball bearings. Taylor started by studying the movements of the best workers and timed them. Then he trained the others in the methods of their more effective co-workers and either transferred or laid off the inefficient ones. He introduced rest periods and the differential rate system and the results were that accuracy of the work improved by two-thirds, wages rose by eighty to hundred percent, worker morale increased and thirty five inspectors were now able to do work previously done by 120.

At Bethlehem Steel Taylor and a co-worker studied and timed the operations involved in unloading and loading railcars. At the time each worker earned \$1.15

per day unloaded an average of 12 1/2 tons. Taylor introduced rest periods in the day and realised that each man could handle about 48 tons a day. He set a standard of 47 1/2 tons and a rate of \$1.85 for those who met the standard. The results were increased efficiency.

However despite his achievements trade unionists and workers started to resist the ideas of Taylor and in defending his philosophy Taylor outlined that it rested on four major principles.

- The development of a true science of management so that for example the methods for performing each task could be determined.
- The scientific selection of the worker so that each worker would be given responsibility for the task for which he/she was best suited.
- The scientific education and development of the worker, and
- Intimate, friendly cooperation between management and labour.

In conclusion Taylor said that the principles could only succeed if there was a complete mental revolution on the part of both management and labour to the effect that they must take their eyes off the profits and together concentrate on increasing production, so that the profits were so large that they did not have quarrels about sharing them. He strongly believed that the benefits from increased productivity would accrue to both management and labour.

(b) The Gilbreths

Frank (1888-1924) and Lilian (1878-1972) were a husband and wife team who also contributed to scientific management. Lilian focused her studies on ways of promoting the welfare of the individual worker. To her, scientific management has one ultimate aim: to help workers reach their full potential as human beings. Lilian also assisted Frank in the areas of time and motion studies and industrial efficiency and was an earlier contributor to personnel management. Frank who began his work as an apprentice bricklayer, developed a technique that tripled the amount of work a bricklayer could do in a day. He studied motion and fatigue and said that they were intertwined. Every motion that was eliminated also reduced fatigue. Both Gilbreths argued that motion study would raise morale because of its obvious physical benefits. They developed a three position plan of promotion that was intended to serve as an employee development program as well as a morale booster. According to this plan a worker would do his or her present job, prepare for the next one and train his or her successor all at the same time. Thus every worker would always be a doer, a learner and trainer and hence workers would look forward to new opportunities.

(c) Henry L. Gantt (1861-1919)

Henry Gantt who was an associate of Taylor developed the Gantt Chart - a device for scheduling work after a span of time. Gantt also developed the bonus system of paying workers. Both the Gantt Chart and the bonus system of paying workers are in use in today's complex organizations.

Limitations of Scientific Management

- During Taylor's time, the mental revolution he advocated rarely came about and often increased productivity and led to layoffs.
- It assumed people were rational and therefore motivated only by material gains. Taylor and his followers overlooked the social needs of workers.

They assumed that one had only to tell workers what to do to increase their earnings and they would do it. But people have a need for other things other than money e.g. recognition

They also overlooked the human desire for job satisfaction and workers became more willing to go out on strike over job conditions than salary.

So the scientific model of the worker as a rational being interested only in higher wages became increasingly inappropriate as time went on and employer and labourers got increasingly dissatisfied with it.

An evaluation of scientific management indicates that scientific management was developed to achieve two objectives to increase workers' productivity and to improve workers' economic welfare. The first objective was achieved because the methods of scientific management such as time and motion, piece rate incentives, Gantt Chart and production standardization were accepted by industries. The second objective was however not fully achieved. Managers used scientific management to improve workers' productivity but they often did not see the benefits. Productivity often led to layoffs or changes in piece rates, so that workers had to produce more for the same income. The enthusiasm for scientific management ended around 1930.

PRINCIPLES OF WORK MANAGEMENT FROM THE SCIENTIFIC MANAGEMENT SCHOOL OF THOUGHT

THE CLASSICAL ORGANIZATION THEORY

This is the other branch of classical management. Classical organization theory grew out of the need to find guidelines for managing complex organizations such as factories. Henry Fayol is recognised as the father of classical organization theory because he was the first man to systematize managerial behaviour. Another contributor to classical organization theory was Max Weber.

(a) Henry Fayol (1841-1925) and the Classical Organization Theory

Fayol believed that sound managerial practice falls into certain patterns that can be identified and analyzed. Fayol who was trained as a mining engineer worked his way from a junior executive to director of the French Coal and Iron Combine Company. Fayol often confessed that he did not attribute his success to his personal abilities but rather to the methods that he practised. He strongly believed that management was not a personal talent but a skill like any other and therefore it

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CHAPTER 3

THE PLANNING FUNCTION

DEFINITIONS AND IMPORTANCE OF PLANNING

Whatever individuals or organizations do, they need to plan. Planning is the basic process by which we select our goals and determine how to achieve them.

If order for managers to design an enabling climate for the effective performance of individuals working together as groups in the organization, they must see to it that purposes and objectives and procedures of attaining them are clearly understood. If group effort is to be effective people must know what they are expected to accomplish. This is the essence of planning.

Planning is the most basic of all managerial functions. In defining it Koontz says that planning involves selection from among alternatives future courses of action for the firm as a whole and for every department or section within it.

So when planning managers select organizational objectives and departmental goals and determine ways of achieving them. It thus provides a rational approach to pre-selected objectives.

It will therefore involve:

- selecting what objectives are to be achieved
- deciding the actions to be taken assigned these activities
- deciding who will be responsible for the action to achieve them

Deciding the organizational position to planning can be looked at, therefore, as the process of developing plans. A plan is a blue print or framework used to describe how the organization expects to achieve its goals. Planning then is simply the process of determining which path among several the organization wishes to follow. When you plan you map out a course of action in advance.

Any goal might be approached in several different ways. Planning is the process of determining which is the best way to approach a particular goal.

Importance of Planning

- a) The purpose of every plan and of all derivative plans is to facilitate the accomplishment of enterprise purpose and objectives.
- b) Planning therefore gives direction to the activities of the organization. Without plans people would not know what is to be expected of them.
- c) Planning also facilitates control. The plans act as standards against

which performance can be measured and evaluated. Deviations from plans help to point out weaknesses in the organizational process.

- d) Since managerial operations in organizing, leading and controlling are designed to support the accomplishment of enterprise objectives, planning logically precedes the execution of all other management functions. Without planning other management functions would be impossible.

Given the importance of planning then it is essential to identify planning responsibilities. That is who in the organization does planning? By its very nature it is obvious that the responsibility for planning rests with the management. All managers are involved in the planning process.

Planning starts with top management. These top managers working in consultation with the Board of Directors establish the broad goals and strategies of the firm. Middle managers work together to assist with strategic planning and they work individually to develop and implement planning activities within their respective divisions/or units.

First line managers also plan for their units and develop operational plans to actualise the planning done at middle level.

Types of Plans

Given the variety of the areas that organizations plan for, it is obvious that plans fall into different categories. Plans can either be described in terms of different levels of scope or different time frames. Described by different levels of scope we have:

a)S Strategic Plans

Which are the broad plans developed by top managers to guide the general direction of the firm. They follow from the major goals of the firm and indicate what business the firm is in or what business it intends to be. Strategic plans therefore indicate how or where the firm will position itself within its environment (They are of large scope and extended time frame).

b)S Tactical Plans

These have a moderate scope and intermediate time frame. They are concerned with how to implement the strategic plans that are already developed. They deal with specific resources and time constraints. They mainly focus on people and action. Tactical planning is mainly associated with middle management.

c)S Operational Plans

They have the narrowest focus and shortest time frame. They fall into many types that include:

Standing Plans:

Plans developed to handle recurring and relatively routine situations. They include policies which are general guidelines governing relatively important actions within the organization. Standard operating procedures which are more specific guidelines for handling a series of recurring activities. Finally rules and regulations which are statements of how specific activities are to be performed.

Single Use Plans

This is the second category of operational plans. These are plans set up to handle events that happen only once. The two types are programs and projects. A program is a single use plan for a large set of activities while a project usually has a narrower scope than a programme otherwise they are similar.

Time frame for planning

Regardless of the kind of plan a manager is developing recognition of the importance of time is essential. Plans either fall under long range, intermediate or short range plans.

Long range planning: Covers several time periods, from five years to as long as several decades. Long range plans are mainly associated with activities such as major expansion of products or facilities, development of top managers, large issues of stocks or change of manufacturing systems. Top managers are responsible for long range planning in most organizations.

Intermediate planning: range in time from one year to five years. Because of the uncertainties associated with long range plans, intermediate plans are the primary concern of most organizations. They are usually developed by both top and middle management. They are the building blocks in the pursuit of long range plans.

Short range planning: covers time periods of one year or less. They focus on day to day activities and provide a concrete base for evaluating progress towards the achievement of intermediate and long range plans.

EFFECTIVE MAKING PLANNING

Introduction

The plans used/made in an organization are not random but rather they are arranged in a hierarchy that corresponds to the organizations structure. At each level plans have two purposes:

- i. They provide the means for achieving the objectives set in the plans of the next higher level.
- ii. They provide the objectives to be met by the plans in the next lower level.

As already discussed plans are of two major types:

- i. Strategic plans which are designed to meet the broad objectives of the organization
- ii. Operational plans which provide the details of how the strategic plans will be accomplished.

The operational plans are divided into two main types i.e. standing plans which are standardized approaches for dealing with recurrent and unpredictable situations and single use plans which are developed to achieve specific purposes and dissolved when these purposes have been achieved. Standing plans include policies, standard procedures, rules and regulations. Once established standing plans allow managers to conserve time used for planning and decision making as similar situations are handled in a predetermined and consistent manner.

Single use plans include programs, projects and budgets. These are detailed courses of action that are unlikely to be repeated

Planning being a rational approach to accomplishing objectives should be a flexible process which takes into account the various changes taking place in and outside the organization.

Objectives must be set in the light of the economic, social, cultural, political, technological, legal and ethical elements of the organizations environment.

The interactions of plans with every element of the environment are many and complex and they affect the efficiency and effectiveness of plans. But since planning is a vital part of all managerial jobs managers should strive to make it more effective by:

- i. Understanding and following the steps in planning
- ii. Understanding the barriers to effective planning

Overcoming the barriers to effective planning

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CHAPTER 4

ORGANISING FUNCTION

MEANING OF ORGANIZING FUNCTION

The word organization has two common meanings. The first meaning signifies an institution, for example we refer to a school as an organization. The second deals with organization as a process i.e. the process of organizing which is the second basic managerial function and which mainly refers to the way work is divided and allocated among members of the organization with the aim of goal attainment.

The process of organizing involves balancing a company's needs for both stability and change. It is the structure of an organization that gives stability to the actions of its members. Change is adapted by altering an organizations structure. This lesson is going to focus on the process of organizing with particular attention to the basic elements of the process of organizing which include:

Division of work, departmentation, co-ordination, span of management, authority and power, line and staff relations and organizational design.

Definition of Organizing

Koontz defines organizing as "the grouping of activities necessary to attain objectives, the assignment of each grouping of activities to a manager with authority necessary to supervise it, the provision for coordination vertically and horizontally in the enterprise structure."

Another definition refers to organizing as the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of ensuring people to work together effectively.

Specifically organizing is the process of grouping activities and resources in a logical and appropriate fashion.

Most organizations start in one form and then evolve into other forms as they grow, shrink or otherwise change. Organization process involves shaping the organization as it grows, shrinks or changes.

Any step or activity that is undertaken and which leads to changes in the organization e.g creating new jobs is part of the process of organizing. One can never truly finish the process of organizing. New opportunities, threats and challenges keep arising and these cause the manager to modify or adjust his organization.

THE PROCESS OF ORGANIZATION

The Key Organizing Components and Concepts

The process of organizing involves certain key components and concepts which actually constitute various aspects of an organizational structure. These include:

- (a) Job design
- (b) Grouping of jobs
- (c) Authority and responsibility
- (d) Coordination
- (e) Span of management
- (f) Line and staff relations

(a) Designing Jobs

Job design is the process of determining what procedures and operations are to be performed by the employees in each position.

The basis for all design job activities is job specialization which involves a definition of the tasks that distinguish one job from others. Jobs are broken into small simple and separate operations in which each work can specialize. Because no one person is physically able to perform all the operations in most complex tasks, and no one person is able to acquire all the needed skills for a job, there is need to specialize and divide work according to the areas of specialization. Job specialization therefore has certain advantages: People are able to become experts in their areas of function, simplified tasks can be learned in a relatively short time and can be completed quickly, the availability of a variety of jobs makes it possible to choose. Managers are able to exercise greater control over workers, as they can easily observe and monitor employees doing simple jobs. However it is possible to overspecialise and this has various disadvantages: It can lead to boredom and dissatisfaction, and staff may look for more exciting work elsewhere, too much time may be spent passing the work from one person to another so that efficiency is actually reduced.

The limitations of job specialization can however be overcome by using other alternatives to specialization. These include:

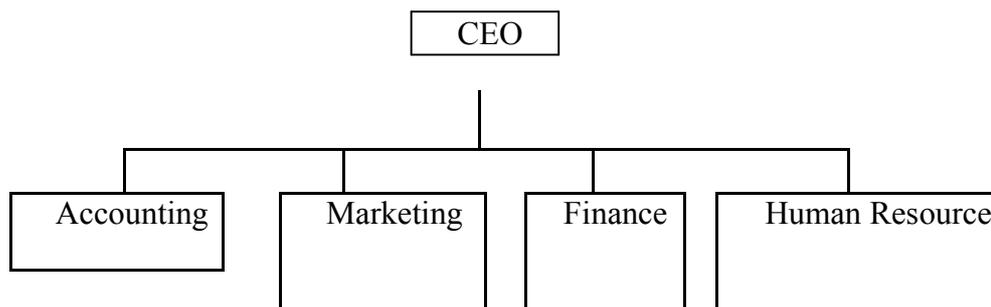
- Job rotation: where employees are rotated across several narrowly defined and standardized jobs.
- Job enrichment: where there is more discretion or freedom how jobs may be completed.
- Job enlargement: where the job is changed to include more activities.

(b) Grouping jobs (departmentalization)

After jobs have been designed the next step in organizing process is to group them into logical sets. The step is important because properly grouped jobs make coordination and integration of activities much easier. This process of grouping jobs is known as departmentalization.

Departmentation usually groups jobs according to one of these three bases: function, product and location.

Departmentation by function—in this form of departmentation employees who are involved in the same or very similar functions are grouped together. Most organizations using this form of departmentalization end up with the four basic functional departments: marketing, production, finance and human resource.



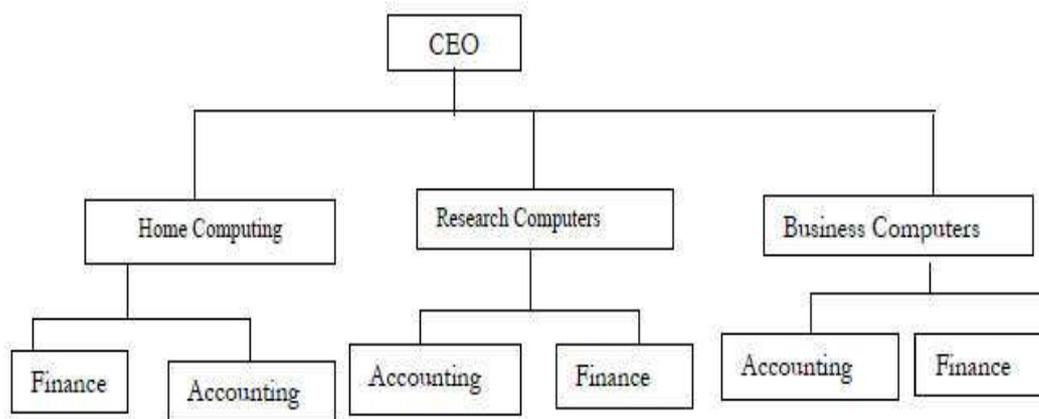
Departmentalisation by function has certain advantages:

- It is logical because it groups like or similar activities together. This facilitates specialization which could lead to increased productivity.
- Coordination is improved since work is not duplicated.
- It also contributes to organizational simplicity.
- Each department is staffed by experts in that particular function and therefore managers in charge of each function can keep close control of the activities.

Departmentalisation of functional areas also has certain limitations. It is ideal for small organizations but as the organization grows some weaknesses become apparent and complex.

- The chain of command becomes excessively long as new levels are added. This may slow down communication.
- It does not allow departmental managers to develop much understanding of the activities in other departments—so it becomes difficult to develop well rounded executives.
- It tends to slow decision making. Employees might concentrate so much on their functional specialities that they lose sight of the total organization.

(b) Departmentalisation by product



Here the activities associated with individual products or closely related product lines are grouped together. It is extensively used in many retailing and manufacturing organizations. This form of departmentalization has certain advantages:

- All activities associated with unique products are kept together;
- It facilitates use of specialised capital, facilitates a certain type of coordination and permits maximum use of personal skills and specialized knowledge.
- Internal competition is promoted—one product line competes with another. The performance of the manager of a product is measured in part by comparing his results against those of the manager of another product. A good example in Kenya would be EAI and its brand managers.
- Profitability of various products is more easily evaluated. It is possible to determine which products or product lines are making losses.

This form of departmentalization also has certain disadvantages:

- additional management personnel may be required to handle different product lines.
- some duplication of efforts may result. Each product line may require its own accountant, engineer, marketing and production staff. Personnel costs may as a result outweigh the benefits of product departmentation.
- Coordination may be difficult. This is especially true for firms with many product lines i.e. complex organizations.

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CHAPTER 5

DIRECTING LEADING FUNCTION

INTRODUCTION

This lesson on directing sets out to convey three aspects of management which when put together constitute directing. These include motivation, leadership and communication, a short review of corporate culture and Japanese management is also included.

Directing is an interesting and challenging managerial function because basically, there is no one best way to lead, motivate or communicate. Directing is also of critical importance to management because unless people are motivated, lead and effectively communicated to, not much in the way of results can be achieved even with very good plans and organization structures.

MOTIVATION

Understanding Motivation

Motivation is a key part of the managers job because through it the manager is able to make people want to perform activities so that goals can be achieved.

Motivation has been defined as the set of processes that determine behavioural choices. That is the processes which influence people to behave the way they do. Motivation is therefore concerned with the reasons for human behaviour, it explains why people behave in a certain manner.

Motivation is derived from motive which is an inner force that moves a person to behave in a certain way. Motives may stem from both physiological and psychological needs. Motivation is greatly affected by the environment in which the employee is operating, and therefore management of the environmental factors that affect workers is one way to lighten the function of motivation.

The concepts of reward and punishment are basic to motivation. For example most modern theories of motivation stress rewards as motivational factors. While punishments can also serve to motivate, it is difficult to draw reliable evidence that punishments help produce more effective or desirable behaviour. For example few prisoners get rehabilitated by prison conditions. How rewards and punishment are used in management depends on each individual manager. Management thinking on motivation has progressed through three distinct stages:

(a) Traditional view

This view of motivation was held during the era of Frederick W. Taylor and scientific

management. This was a simplistic way of looking at employees. The opinion was that employees worked only for economic reasons and presumably the more they were paid, the harder they worked. It is also known as the rational or economic concept of motivation.

(b) Human related view

This approach was advocated by the behavioural school of management thought. It argued that social forces were the primary determinants of motivation. The opinion was that the more satisfied people were with their jobs the harder they worked. Also known as the social concept of motivation.

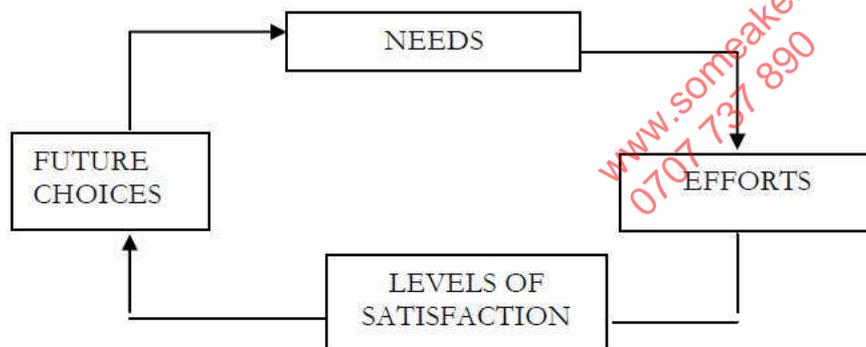
(c) Human resources review

this view takes the most positive attitude towards employees' motivation. It argues that people are actually resources that can benefit the organization. It also argues that people want to help and managers should look upon them as assets.

The Motivational Process

Human motivation is a complex process that begins with human needs. (Needs are drives or forces that initiate behaviour).

When needs become very strong people engage in efforts to fulfil these needs. As a result of such efforts people experience various levels of need satisfaction. The extent to which people find their needs satisfied serves to influence the future choices to satisfy the same or similar needs. The diagram illustrates:



The motivational process is a dynamic one. An individual has at any one time several needs to satisfy and one can be at different positions in the cycle for each need. Satisfaction of the needs also takes different time frames but at any rate the starting point is always needs.

Motivation is a complex problem in organizations because the needs, wants and desires of each employee differ. Each employee is unique in his biological and psychological make up.

Motivation is further complicated by the fact that it is not exactly clear who is responsible for employee motivation i.e. whether the manager or the employee himself (is the individual expected to provide his own motivation or is motivation a function of management?).

Motivation can either be external or internal.

External motivation emanates from management, and employees react either positively or negatively to what their managers do. Managers must therefore use external motivation that generates positive responses from employees.

Internal motivation originates from within the individual as he tries to satisfy his various needs. It may be caused by factors within the individual e.g. personality or factors that are under the control of management e.g. job context (salaries, policies, working conditions) and job content (recognition, advancement, status and responsibility).

Persons find that organizations allow them to achieve goals that they cannot achieve alone. This may imply a large degree of self-motivation or internal motivation on the part of each individual. Many people however do not realize that by working toward the organizational goals they are also achieving their own individual goals. Such people are rarely self motivated enough to share in organizational goals and usually want jobs with salaries that can pay bills. For such people management must provide external motivation in order to encourage them to work towards organizational goals.

Theories of Motivation

Motivation theories are divided into two main categories:

- i. Content Theories
- ii. Process Theories

Content Theories attempt to explain the specific things that actually motivate an individual at work. They are concerned mainly with identifying people's needs, their relative strengths and the goals people pursue in order to satisfy these needs. Their main focus is on what motivates. Included here are Abraham Maslow's Hierarchy of Needs, Herzberg's Two Factor Theory, Alderfer's Modified Need Hierarchy and McClelland's achievement motivation. Process Theories concern themselves with identification of the dynamic variables that make up motivation. Mainly process theories focus on how behaviour is initiated, directed and sustained. They include, expectancy-based models of Vroom and Porter, and Lawler and Adam's equity theory.

CONTENT THEORIES I. Herzberg's Two Factor Theory

The two factor theory was developed by Fredrick Herzberg from his study of 200 accountants and engineers. It is also known as the hygiene theory. It is a theory of external motivation because the manager controls the factors that produce job satisfaction or dissatisfaction.

Prior to Herzberg's study it was generally believed that employee satisfaction and dissatisfaction and hence motivation or lack of it were two opposite ends of the same continuum (scale) i.e. people either satisfied with their jobs or they were dissatisfied or something in between. Herzberg's study however showed that this was not the case. He found out that satisfaction was influenced by one set of factors while dissatisfaction was influenced by another set (hence the two factor theory). Factors which influenced dissatisfaction he called dissatisfiers (hygiene or maintenance factors). These included company policy, administration, supervision, working conditions, salary, status, job security and interpersonal relations. If these factors are present in high quality and quantity, people are simply not dissatisfied and not necessarily satisfied. So presence of these factors does not motivate in the sense of yielding satisfaction. When these factors were absent or deficient, people were dissatisfied yet when they were present people were not necessarily satisfied— instead they were simply not dissatisfied.

Factors which affected satisfaction, he called them satisfiers or motivators. Included here were achievement, recognition, responsibility, growth and advancement. When these factors fell below an acceptable level, they contributed very little to job dissatisfaction but they did prevent satisfaction i.e. when they were present employees tended to be satisfied, but when they were deficient employees were merely not satisfied, but were not necessarily dissatisfied. If a job does not offer an employee advancement, challenging work, responsibility and recognition he will not necessarily be dissatisfied with it but neither will he derive any satisfaction from it.

This theory has a clear message for managers in trying to motivate employees, the first step should be to eliminate dissatisfaction by ensuring that pay, working conditions, company policies are reasonable. But pay and those other improvements will not lead to motivation, so the next step would be for managers to enhance motivation by improving factors that cause satisfaction. So managers should ensure there are opportunities for advancement, achievement, authority, status and recognition. From the theory it can be concluded that:

- (a) The factors that cause job satisfaction are separate and distinct from the factors that cause job dissatisfaction.
- (b) The opposite of job satisfaction is no job satisfaction and not dissatisfaction.
- (c) The opposite of job dissatisfaction is no dissatisfaction and not satisfaction.

The applicability of this theory has been questioned and it must be approached with caution and not treated as a solution to motivational problems.

II. Abraham Maslow's Need Hierarchy

Maslow developed the hierarchy of needs theory of motivation based on the idea that human needs can be arranged in order of importance from the most basic. Once a need is fairly well satisfied it no longer motivates behaviour and man is then motivated by the next higher level of needs. Maslow divided human needs into five levels:

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CHAPTER 6

STAFFING FUNCTION

STAFFING

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

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

Nature of Staffing Function

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

Steps involved in Staffing

1. **Manpower requirements-** The very first step in staffing is to plan the manpower inventory required by a concern in order to match them with the job requirements and demands. Therefore, it involves forecasting and determining the future manpower needs of the concern.
2. **Recruitment-** Once the requirements are notified, the concern invites and solicits applications according to the invitations made to the desirable candidates.
3. **Selection-** This is the screening step of staffing in which the solicited applications are screened out and suitable candidates are appointed as per the requirements.
4. **Orientation and Placement-** Once screening takes place, the appointed candidates are made familiar to the work units and work environment through the orientation programmes. Placement takes place by putting right man on the right job.
5. **Training and Development-** Training is a part of incentives given to the workers in order to develop and grow them within the concern. Training is generally given according to the nature of activities and scope of expansion in it. Along with it, the workers are developed by providing them extra benefits of indepth knowledge of their functional areas. Development also includes giving them key and important jobs as a test or examination in order to analyse their performances.
6. **Remuneration-** It is a kind of compensation provided monetarily to the employees for their

work performances. This is given according to the nature of job- skilled or unskilled, physical or mental, etc. Remuneration forms an important monetary incentive for the employees.

7. **Performance Evaluation-** In order to keep a track or record of the behaviour, attitudes as well as opinions of the workers towards their jobs. For this regular assessment is done to evaluate and supervise different work units in a concern. It is basically concerning to know the development cycle and growth patterns of the employees in a concern.
8. **Promotion and transfer-** Promotion is said to be a non- monetary incentive in which the worker is shifted from a higher job demanding bigger responsibilities as well as shifting the workers and transferring them to different work units and branches of the same organization.

Manpower Planning

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

The procedure is as follows:

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

Steps in Manpower Planning

1. **Analysing the current manpower inventory-** Before a manager makes forecast of future manpower, the current manpower status has to be analysed. For this the following things have to be noted-
 - Type of organization
 - Number of departments
 - Number and quantity of such departments
 - Employees in these work units

Once these factors are registered by a manager, he goes for the future forecasting.

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

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

- i. **Expert Forecasts:** This includes informal decisions, formal expert surveys and Delphi technique.
 - ii. **Trend Analysis:** Manpower needs can be projected through extrapolation (projecting past trends), indexation (using base year as basis), and statistical analysis (central tendency measure).
 - iii. **Work Load Analysis:** It is dependent upon the nature of work load in a department, in a branch or in a division.
 - iv. **Work Force Analysis:** Whenever production and time period has to be analysed, due allowances have to be made for getting net manpower requirements.
 - v. **Other methods:** Several Mathematical models, with the aid of computers are used to forecast manpower needs, like budget and planning analysis, regression, new venture analysis.
3. **Developing employment programmes-** Once the current inventory is compared with future forecasts, the employment programmes can be framed and developed accordingly, which will include recruitment, selection procedures and placement plans.
 4. **Design training programmes-** These will be based upon extent of diversification, expansion

plans, development programmes, etc. Training programmes depend upon the extent of improvement in technology and advancement to take place. It is also done to improve upon the skills, capabilities, knowledge of the workers.

Importance of Manpower Planning

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

Need of Manpower Planning

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

Manpower Planning is advantageous to firm in following manner:

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

Obstacles in Manpower Planning

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

1. **Under Utilization of Manpower:** The biggest obstacle in case of manpower planning is the fact that the industries in general are not making optimum use of their manpower and once manpower planning begins, it encounters heavy odds in stepping up the utilization.
2. **Degree of Absenteeism:** Absenteeism is quite high and has been increasing since last few years.
3. **Lack of Education and Skilled Labour:** The extent of illiteracy and the slow pace of development of the skilled categories account for low productivity in employees. Low productivity has implications for manpower planning.

4. **Manpower Control and Review:**

- a. Any increase in manpower is considered at the top level of management
- b. On the basis of manpower plans, personnel budgets are prepared. These act as control mechanisms to keep the manpower under certain broadly defined limits.
- c. The productivity of any organization is usually calculated using the formula:

Productivity = Output / Input

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

Employee Productivity = Total Production / Total no. of employees

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

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

Types of Recruitment

Recruitment is of 2 types

1. **Internal Recruitment** - is a recruitment which takes place within the concern or organization. Internal sources of recruitment are readily available to an organization. Internal sources are primarily three - Transfers, promotions and Re-employment of ex-employees. Re-employment of ex-employees is one of the internal sources of recruitment in which employees can be invited and appointed to fill vacancies in the concern. There are situations when ex-employees provide unsolicited applications also Internal recruitment may lead to increase in employee's productivity as their motivation level increases. It also saves time, money and efforts. But a drawback of internal recruitment is that it refrains the organization from new blood. Also, not all the manpower requirements can be met through internal recruitment. Hiring from outside has to be done.

Internal sources are primarily 3

- a. **Transfers**
 - b. **Promotions (through Internal Job Postings)** and
 - c. **Re-employment of ex-employees** - Re-employment of ex-employees is one of the internal sources of recruitment in which employees can be invited and appointed to fill vacancies in the concern. There are situations when ex-employees provide unsolicited applications also.
2. **External Recruitment** - External sources of recruitment have to be solicited from outside the organization. External sources are external to a concern. But it involves lot of time and money. The external sources of recruitment include - Employment at factory gate, advertisements, employment exchanges, employment agencies, educational institutes, labour contractors, recommendations etc.
 - a. **Employment at Factory Level** - This a source of external recruitment in which the applications for vacancies are presented on bulletin boards outside the Factory or at the Gate. This kind of recruitment is applicable generally where factory workers are to be appointed. There are people who keep on soliciting jobs from one place to another. These applicants are called as unsolicited

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CHAPTER 7

CONTROL FUNCTION

Introduction

Controlling is the fourth function of managing and it involves the measurement and correction of the performance of employees, and of other organizational resources in order to ensure that everything is going according to plan. Any manager charged with putting plans into action must carry out control. Controls help to point deviations from plans so that corrective action can be taken. Controlling therefore assists the realization of plans. Before controlling can be done management must ensure the two prerequisites of the control system:

i. Controls require plans

Controls must be based on plans. One cannot know whether something is wrong unless what needs to be done is clearly spelt out. Managers cannot determine whether their units are achieving what is expected unless they know what is expected in the first place. Managers must first set plans and these plans become standards against which performance is measured. This implies that any good control techniques are in effect planning techniques. It is useless to try to design controls without taking into account plans and how well they are formulated.

ii. Controls require a clear organizational structure

The essence of control is to take corrective action and to be able to do this we must know where in the organization the responsibility for deviation from plans is situated. Organizational responsibilities must be clear and definite so that when something goes wrong one can tell at which position it did. Lack of a good structure means that managers may know something is going wrong but they cannot tell exactly where the responsibility for the problem lies. Without clear knowledge of exactly where things are going wrong, corrective action is impossible.

The Steps in the Control Process

The methods used for control of the various resources, techniques and procedures are basically the same regardless of where it is being done or what is being controlled. The process has three major steps:

Step One: Establishment of Standards

The first step in the control process is to establish plans which serve as the standards against which performance is measured. In establishing the standards for control purposes, critical points must be selected. These are the points at which if anything went wrong, there would be devastating effects on the organization. It is difficult to control every aspect of the firm. Standards is the measure by which performance is judged as "good" or "bad", "acceptable" or "unacceptable". The standards set may be of many kinds and among the best are the verifiable goals and objectives, which stipulate the desired results. These goals and objectives may be in physical terms e.g units to be produced, sales volume, products rejected, profits earned, customer complaints etc.

Step Two: Measurement of Performance

This step involves measurement of actual performance in the light of the standards set. The objective of this step is to answer the question of "how well are we doing in meeting the standards set for our activities?" Where possible standards should be such that they can detect deviations before they actually occur so that appropriate corrective action can be effected.

Step Three: Correction of Deviations

Taking the necessary corrective action is actually what completes the control process. Deviations from standards can either be positive or negative. When positive, then performance is better than expected and even if this is good, it is necessary to evaluate the standards and check for their accuracy and adequacy. Correction of negative performance is the point at which control is seen as part of the whole system. Corrective action is the step at which all other managerial functions are integrated into the process of control. The overlap of control with other functions of management demonstrates the systems unity of the managers job and the integrated nature of the managerial process.

Note

The three steps interrelate. For example corrective action cannot be taken unless the measurement of performance dictates so. Measurement cannot take place unless there is a yardstick against which to measure.

Controlling is the activity that makes right what is wrong and is therefore one of the most challenging activities that managers perform.

Controls therefore help managers to answer a very important question, "how well are we doing?" It also helps them decide on ways to improve performance that is below standard.

The Steps Elaborated

(A)S SETTING STANDARDS

Many managers fail to set standards. More often than not, what constitutes "an honest day's work" or "good service" is not clear. The failure in clearly defining performance standards make effective control impossible. Performance standards are needed for all activities performed by a firm. Standards are performance targets. Managers attempt to at least meet them and perhaps, exceed them. They may be either quantitative or qualitative.

Quantitative Standards

Quantitative standards are criteria for judging performance that can be expressed in money time exposed, proportions and percentages, weights, distance or some other numerical style. Quantitative standards have two major advantages; they are reasonably precise. That is required level of performance is stated in terms managers understand, they are relatively easy to measure. This is simply because quantitative standards mean about the same thing to all supervisors. Some of the most common quantitative standards are discussed below:

Time Standards

They indicate how much time is needed for a specific result. Each employee will work 40 hours per week; interview time per employee is 30 minutes; and each semester should take 17 weeks are examples of time standards.

Cost Standards

Cost standards indicate how much money should be spent to perform a particular task. Material cost per unit should be Kshs.100; labour cost per unit should be Kshs.250.50 are examples of cost standards.

Revenue Standards

Revenue standards show how much income should be earned from specific activities. For example, revenue per sales person per month should be Ksh.500,000.

Historical Data

Organizations often use past performance as a basis for estimating future satisfactory performance. A farmer may know from past records that average maize production per hectare is 50 bags. He may then use 50 bags as the standard for future years. Although historical standards are easy to establish, they do not take into consideration changes that may occur in future

Market Share

This standard concerns the percentage of the total market that a firm would want to acquire and maintain. A toilet soap company like EAI may seek to attain a market share of 30 per cent of all units sold. The problem with using the market share is that it does not by itself indicate profitability. To acquire or maintain a certain market share may require an organization to spend so much on promotional campaigns such that the action may greatly reduce profits.

Productivity

Productivity standards are needed in all activities in an organization. Productivity is a key standard, since it indicates the efficiency with which activities are conducted.

Standards for measuring sales productivity may be expressed as sales per sales person per day week or other time period like sales per distribution outlet. On the other hand, productivity standards might be stated as units produced per machine per shift, units produced per man-hour worked etc.

Return on Investment (ROI)

Is the ratio of net income to invested capital. Firms with several divisions often use ROI as a measuring device for different divisions as well as for the company as a whole. It helps to show managers of divisions how well they have employed the capital assets assigned to them.

Profitability (Return on Sales)

Can be expressed as a ratio of net profits to sales. If a firm falls below what management considers a fair return on sales, corrective action is indicated. Profitability standards may be based on past experience, performance of other similar firms, and judgement.

Quantitative Personnel Standards

Personnel standards can be set for such items as employee turnover, accidents, absenteeism, and suggestions received from employees. Setting personnel standards is not easy. However, personnel factors should be set for them even if such standards are based only on "good judgement". Without standards, there is no basis for measurement.

Qualitative Standards

A basic drawback of qualitative standards is that it is difficult to apply them to all operations in a firm. Not all standards can be expressed in time, weights, percentages, money, or other measures. For examples the goal of an organization may be "to maintain a good relationship with the trade union". Does the absence of a strike or showdown necessarily indicate existence of a good relationship with the union? Because of this basic drawback, qualitative standards are also needed.

Qualitative standards are subjective standards used to evaluate situations that cannot be expressed numerically. For example, "employees are expected to be neatly dressed". Because they are subjective, qualitative standards are difficult to use in performance evaluation.

Guidelines for setting standards

These guidelines can help in choosing appropriate standards and winning support for them:

(a) Set standards at appropriate levels

Standards should be set at a reasonably attainable level under the prevailing conditions. If work standards are set too low, resources (human and non-human) are wasted; if they are set too high, mistakes, frustration and a host of other problems will result. Managers should carry out time-and-motion studies of production activities in order to develop realistic standards.

(b) Keep standards to a reasonable number

In many cases an excessive number of standards are set. This wastes managers time and creates resentment. Some jobs are "over-engineered". So many standards are set that it becomes too time-consuming. This interferes with managers "real" or important activities.

(c) Have people expected to meet standards, help set them.

Many people do not like standards that are imposed on them without their having any say in the matter. Participation in setting standards goes a long way in making them acceptable.

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CHAPTER 8

EMERGING ISSUES AND CURRENT TRENDS

SOCIAL AND ETHICAL RESPONSIBILITIES OF MANGEMENT

Definition of Ethics

As noted in lesson one managers carry out different functions and play different roles in the organisation. By implication managers pursue multiple objectives and multiple sets of priorities. Often managers must juggle goals and priorities and make choices between these goals. The choices they make affect the ability of employees, customers, suppliers, stockholders and anyone with interests in the organisation. Managers must often decide —who has the right to what and when. No matter what they do, the actions of managers allocate benefits and detriments to people.

- Ethics as applied to management refers to the concept of interactive responsibility: who is? Who should be? Benefited or harmed by an action. It is also a study of —who has a or should have rights of any kind in the organization
- Ethics is the discipline dealing with what is good or bad, or what is right or wrong or specifically with moral duty and obligation.
- Ethics could also be described as the study of how our decisions affect other people or as the study of people's rights and duties and the rules that people apply in making decisions. In business we cannot avoid ethical issues just like in other areas of our lives.

Levels of Ethics

In business most of the ethical issues will fall into one of the following four levels.

i. Social Level

This level deals with the basic institutions in society eg. Issues on the role of the government in the market place, merits or demerits of political parties or ideologies. Managers of organisations have an obligation to shape debates on social welfare.

ii. Stakeholders Level

Employees, suppliers, customers shareholders, etc. Certain ethical considerations affect this group of people. A company must deal with the issue of how its decisions affect all those groups of people eg. What obligations does a company have to its suppliers, to its customers, or even to its owners?

iii. Internal Policy Level

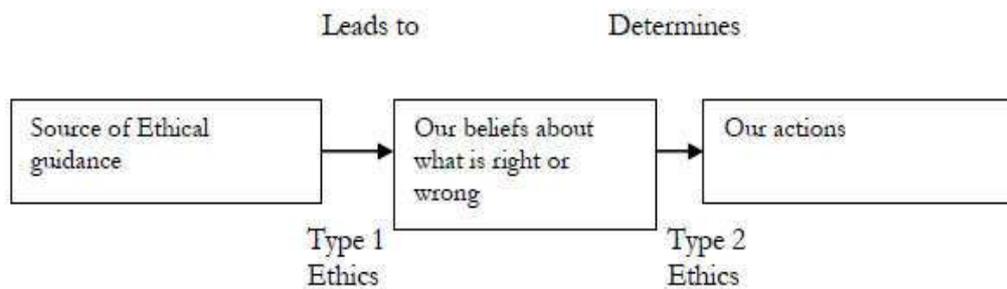
At this level the question of interest is the nature of a company's relationship with its employees and managers. —What kind of contract is fair? What rights should employees have?||

iv. Personal Level

How do people treat one another within a corporation? Should they be honest with one another? What obligations do employees have to their bosses, to subordinates or to peers. These questions deal with the day-to-day issues of life in any organisation. Ethical questions are everywhere, at all levels of business activity. Ethical issues concern the ground rules of individuals, companies and social behaviour. Being ethical calls for people to examine their actions and be critical of the ground rules

they apply in their activities. A seller for example should ask such questions as —should I tell the customer the product is harmful? A buyer should ask —should I tell the clerk he gave me too much change?

Below is a model of Ethics



It can be seen that ethics consist of two relationships, indicated by arrows in the figure. A person or organization is ethical if these relationships are strong and positive. There are a number of sources that one might use to determine what is right or wrong, good or bad, immoral or moral behaviour. These include the Bible, the Koran and a number of other holy books. They also include that —still small voice referred to as the conscience. Another source of guidance is the behaviour of what psychologists call the —significant others – our parents, friends, role models, associates, peers etc. The laws of the country prohibit any acts that are sufficiently hurtful to others and therefore laws offer guides to ethical behaviour. But distinction must be made between what is illegal and what is unethical. Not everything that is unethical is illegal. For example the law has limits regarding honesty. If one picks a lost item and keeps it, he probably has not done anything illegal but his act is unethical. If a clerk steals from his company in order to feed the poor, he has done an illegal thing but for ethical reasons. Decisions of ethics are quite difficult but all managers need to know is that ethics goes beyond the minimum requirements by law and by market economy. There are so many unethical things that can be done in business, yet there is no law against them!

Simply having strong beliefs about what is right and wrong and basing them on the proper sources does not make one ethical. Behaviour should conform with what we believe about right and wrong. Type II ethics is the strength of the relationship between what one believes and how one behaves. To do what one believes is wrong is unethical. But to be ethical one must have both types of ethics. Type I ethics refers to the strength of the relationship between what an individual or organization believes and what the sources of guidance suggest is morally correct.

Business Ethics (Managerial)

Business ethics also called managerial ethics is the application of ethical principles to business relationships and activities. Managers who run business are human beings who despite the laws set cannot behave the same regardless of the circumstances. Managers face many ethical dilemmas (two or more situations) where both seem right but which are conflicting.

Managerial ethics could apply in these areas.

- a) relationships of the firm to the employees:

- how they are to be treated
- what are fair wages, fair dismissals etc.

- relationship of the employee to the firm
 - how should they behave vis a vis the firm e.g. issues of competing loyalties, accepting incentives from suppliers, cases of moonlighting, secrecy or espionage and honesty in small items; pens, paper, telephone etc

- Relationship of the firm to the environment
 - Ethical issues arise in how the firm relates to the various elements of the environment eg. customers competitors, stockholders dealers and the community.

Many industries and organizations companies have formal, written codes of ethics that provide specific guideline for managers and other employees. But the question is whether when individuals violate the code of conduct, the organization enforces it.

Many companies in an attempt to manage ethics have developed specific codes of ethics. These establish guidelines for ethical decision making in business. Areas covered may be truthfulness in advertising, improper use of company assets political contributions, payments in connection with business transactions, conflict of interest, trade secrets etc. There are advantages for organizations to form industry associations to develop and promote improved codes of ethics. It is difficult for a single firm to pioneer ethical practices if its competitors undercut them by taking advantage of unethical shortcuts. If ethics are to be improved, it is very important for top executives to support and emphasize ethical behaviour by adhering to ethic themselves and also train their staff in ethics.

The Tools of Ethics Ethical Language

The key terms of the ethical language are values, rights, duties and rules.

Values are permanent desires that seem to be good in themselves like peace. Values are the answers of questions of —why—why for example should managers behave ethically?!

Rights and duties; a right is a claim that entitles a person to something . A duty is an obligation to take specific steps; eg to pay taxes.

Moral rules are the rules that guide us through situations where competing interests collide.

Common Morality

Which is the body of rules covering ordinary ethical problems i.e. rules that we live by most of the time. Examples include:

- promise keeping
- non malevolence
- mutual aid

- respect for persons and
- respect for property

Below is a list of twelve questions for examining the ethics of a business decision.

- Have you defined the problem accurately?
- How would you define the problem if you stood on the other side of the fence?
- How did this situation arise in the first place?
- To who/what do you give your loyalty as an individual member of the organization?
- What is your intention in making this decision?
- How does this intention compare with the probable results?
- Whom could your decision harm?
- Can you discuss the problem with the affected party before you make your decision?
- Will the decision remain valid for a long time?
- Could you disclose your decision without fear to your superiors, family, board of Directors and society?
- What is the symbolic potential of your action if understood or misunderstood?
- Under what conditions would you allow exceptions to your stand?

Source: James A.F, Stoner, R. Edward Freeman

Management Fourth Edition

Companies should try their utmost to institutionalize the process of ethical decision making, so that each decision builds upon the decision that preceded it. There are several ways of doing this,

- Having codes of conduct
- Forming ethical committees.
- Using ombudsmen
- Using ethics training or judicial boards and using social audits.

Social Responsibility and Management Introduction

During this century there has been much change in what society expects of its institutions and in what managers regard as the proper roles in organization. This change has gradually developed into a new concept of corporate social responsibility. Increasingly many managers are adopting the view that besides the obligations they have to their organizations, they have a personal responsibility to the society. Managers are increasingly being held accountable for the social effects of their actions. The questions however remain of where such social responsibility begins and where it ends. For example:

- should managers place the interest of stockholders before those of society or environment?
- should a company be responsible for the social consequences of its operations e.g. When drunken husbands assault their wives should Kenya Breweries be held accountable?
- what does the company owe to its employees, suppliers, customers and the community?
- should a company contribute to the welfare of society? E.g. pay fees for destitute children or repair roads?

Such are the questions that arise when corporate social responsibility is considered.

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