

CBSE Class 12 Business Studies

Revision Notes

CHAPTER – 2

PRINCIPLES OF MANAGEMENT

Principle

A principle is a fundamental statement of truth that provides guidance to thought and action.

Principles of Management

Principles of management are broad and general guidelines for managerial decision making and behavior (i.e. they guide the practice of management).

Nature of Principles of Management

The nature of principles of management can be described in the following points:

- 1. Universal applicability** i.e. they can be applied in all types of organizations, business as well as non-business, small as well as large enterprises.
- 2. General Guidelines:** They are general guidelines to action and decision making however they do not provide readymade solutions as the business environment is ever changing or dynamic.
- 3. Formed by practice and experimentation:** They are developed after thorough research work on the basis of experiences of managers.
- 4. Flexible:** Which can be adapted and modified by the practicing managers as per the demands of the situations as they are man-made principles.
- 5. Mainly Behavioural:** Since the principles aim at influencing complex human behaviour they are behavioural in nature.
- 6. Cause and Effect relationship:** They intend to establish relationship between cause & effect so that they can be used in similar situations.
- 7. Contingent:** Their applicability depends upon the prevailing situation at a particular point

of time. According to Terry, “Management principles are ‘capsules’ of selected management wisdom to be used carefully and discretely”.

Significance of the Principles of Management

The significance of principles of management can be derived from their utility which can be understood from the following points:

- 1. Providing managers with useful insights into reality:** Management principles guide managers to take right decision at right time by improving their knowledge, ability and understanding of various managerial situations and circumstances.
- 2. Optimum utilization of resources and effective administration:** Management principles facilitate optimum use of resources by coordinating the physical, financial and human resources. They also help in better administration by discouraging personal prejudices and adopting an objective approach.
- 3. Scientific decisions:** Decisions based on management principles tend to be more realistic, balanced and free from personal bias.
- 4. Meeting the changing environmental requirements:** Management principles provide an effective and dynamic leadership and help the organization to implement the changes.
- 5. Fulfilling social responsibility:** Principles of management not only help in achieving organizational goals but also guide managers in performing social responsibilities. Example : “Equity” and “Fair” remuneration.
- 6. Management training, education and research:** Management principles are helpful in identifying the areas in which existing and future managers should be trained. They also provide the basis for future research.

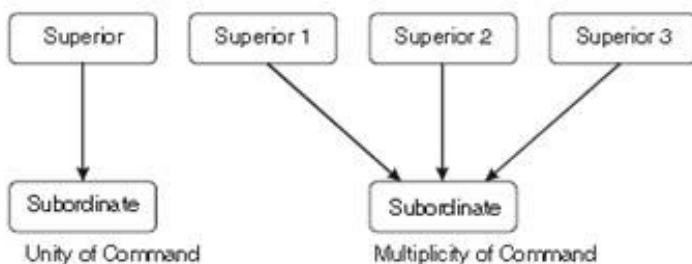
Fayol’s Principles of Management

About Henry Fayol: Henry Fayol (1841-1925) got degree in Mining Engineering and joined French Mining Company in 1860 as an Engineer. He rose to the position of Managing Director in 1888. When the company was on the verge of bankruptcy. He accepted the challenge and by using rich and broad administrative experience, he turned the fortune of

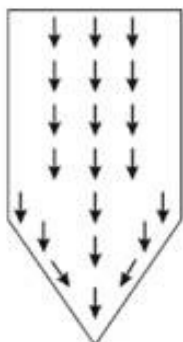
the company. For his contributions, he is well known as the “Father of General Management”.

Principles of Management developed by Fayol

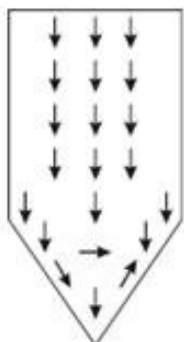
- 1. Division of work:** Work is divided in small tasks/job and each work is done by a trained specialist which leads to greater efficiency, specialization, increased productivity and reduction of unnecessary wastage and movements.
- 2. Authority and Responsibility:** Authority means power to take decisions and responsibility means obligation to complete the job assigned on time. Authority and responsibility should go hand in hand. Mere responsibility without authority, makes an executive less interested in discharging his duties. Similarly giving authority without assigning responsibility makes him arrogant and there is fear of misuse of power.
- 3. Discipline:** It is the obedience to organizational rules by the subordinates. Discipline requires good supervisors at all levels, clear and fair agreements and judicious application of penalties.
- 4. Unity of Command:** It implies that every worker should receive orders and instructions from one superior only, otherwise it will create confusion, conflict, disturbance and overlapping of activities.



- 5. Unity of Direction:** Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination.



Presence of Unity of Direction



Lack of Unity of Direction

Difference between Unity of Command and Unity of Direction

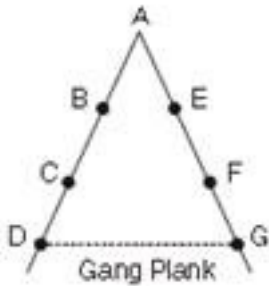
Basis	Unity of Command	Unity of Direction
1. Meaning	It means that a subordinate should receive orders and instructions from one boss only.	It advocates 'one head, and one plan' for a group of activities having the same objectives. The activities should be directed towards the common goals.
2. Scope	This principle is related to the functioning of personnel	This principle is related to the functioning of a department or the organization as a whole
3. Purpose	The main purpose of unity of command is to avoid confusion and fix up the responsibility of the employee.	The purpose of unity of direction is to direct the efforts of employees of one department in achieving the main objective of that department.
4. Results in	Systematic working and improved efficiency by removing confusion and chaotic conditions	Co-ordination within a particular department and overall; by preventing overlapping of various activities.

7. Remuneration of Employees: The overall pay and compensation should be, fair to both employees and the organization. The wages should encourage the workers to work more and better.
6. Subordination of Individual Interest to General Interest: The interest of an organization should take priority over the interest of any one individual employee.

8. Centralization and Decentralization: Centralization means concentration of decisions making authority in few hands at top level. Decentralization means evenly distribution of power at every level of management. Both should be balanced as no organization can be

completely centralized or completely decentralized.

9. Scalar Chain: The formal lines of authority between superiors and subordinates from the highest to the lowest ranks is known as scalar chain. This chain should not be violated but in emergency employees at same level can contact through Gang Plank by informing their immediate superiors.



10. Order: A place for everything and everyone and everything and everyone should be in its designated place. People & material must be in suitable places at appropriate time for maximum efficiency.

11. Equity: The working environment of any organization should be free from all forms of discrimination (religion, language, caste, sex, belief or Basis Unity of Command Unity of Direction nationality) and principles of justice and fair play should be followed. No worker should be unduly favoured or punished.

12. Stability of Personnel: After being selected and appointed by rigorous procedure, the selected person should be kept at the post for a minimum period decided to show results.

13. Initiative: Workers should be encouraged to develop and carry out their plan for improvements. Initiative means taking the first step with self-motivation. It is thinking out and executing the plan.

14. Espirit De Corps: Management should promote team spirit, unity and harmony among employees. Management should promote a team work.

Taylor's Scientific Management

Fredrick Winslow Taylor (1856-1915) was a person who within a very short duration (1878-1884) rose from ranks of an ordinary apprentice to chief engineer in Midvale Steel Company, U.S.A. Taylor conducted a number of experiments and came to conclusion that workers were producing much less than the targeted standard task. Also, both the parties - Management

and workers are hostile towards each other. He gave a number of suggestions to solve this problem and correctly propounded the theory of scientific management to emphasize the use of scientific approach in managing an enterprise instead of hit and trial method. For his contributions, he is well known as the “Father of the Scientific Management”. Scientific Management attempts to eliminate wastes to ensure maximum production at minimum cost.

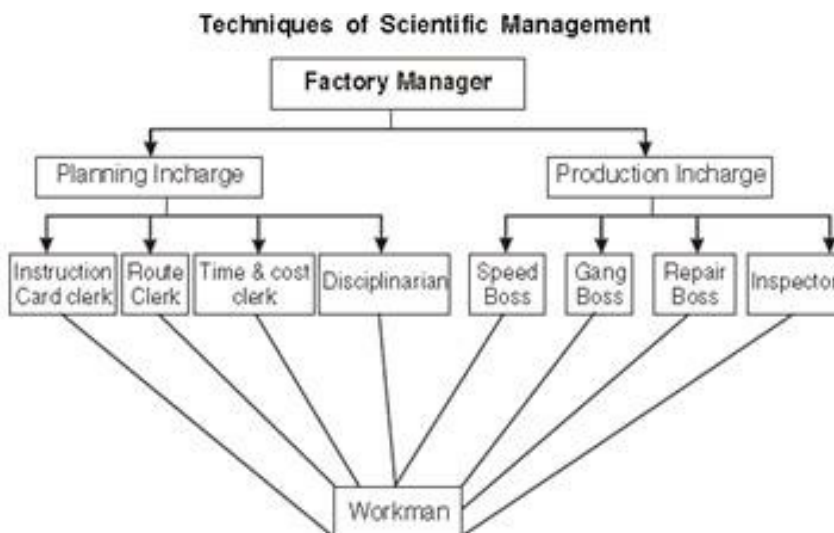
Principles of Scientific Management

(1) Science, not rule of Thumb: There should be scientific study and analysis of each element of a job in order to replace the old rule of thumb approach or hit and miss method. We should be constantly experimenting to develop new techniques which make the work much simpler, easier and quicker.

(2) Harmony, Not discord: It implies that there should be mental revolution on part of managers and workers in order to respect each other’s role and eliminate any class conflict to realize organizational objectives.

(3) Cooperation not individualism: It is an extension of the Principle of Harmony not discord whereby constructive suggestions of workers should be adopted and they should not go on strike as both management and workers share responsibility and perform together.

(4) Development of each and every person to his or her greatest Efficiency and Prosperity: It implies development of competencies of all persons of an organization after their scientific selection and assigning work suited to their temperament and abilities. This will increase the productivity by utilizing the skills of the workers to the fullest possible extent.



1. Functional Foreman-ship: Functional foreman-ship is a technique in which planning and execution are separated. There are eight types of specialized, professionals, four each under planning and execution who keep a watch on all workers to extract optimum performance.

Planning Incharges:

1. **Route Clerk** to specify the exact sequence and route of production.
2. **Instruction card clerk** is responsible for drafting instructions for the workers.
3. **Time and cost clerk** to prepare time and cost sheet for the job.
4. **Shop Disciplinarian** to ensure discipline and enforcement of rules and regulations among the workers.

Production Incharges:

1. **Gang boss** is responsible for keeping tools and machines ready for operation.
2. **Speed boss** is responsible for timely and accurate completion of job.
3. **Repair boss** to ensure proper working conditions of tools and machines.
4. **Inspector** to check quality of work.

2. Standardization and Simplification of work: Standardization refers to developing standards for every business activity whereas Simplification refers to eliminating superfluous varieties of product or service. It results in savings of cost of labour, machines and tools. It leads to fuller utilization of equipment and increase in turnover.

3. Method Study: The objective of method study is to find out one best way of doing the job to maximize efficiency in the use of materials, machinery, manpower and capital.

(1) Which technique of scientific management is being violated here?

(Hint: Functional Foreman ship.)

(2) Write one consequence of this violation.

4. Motion Study: It is the science of eliminating wastefulness resulting from using unnecessary, ill-directed and inefficient motions by workers and machines to identify best method of work.

5 Time study: It determines the standard time taken to perform a well-defined job. The objective of time study is to determine the number of workers to be employed, frame suitable incentive schemes & determine labour costs.

6. Fatigue study: Fatigue study seeks to determine time and frequency of rest intervals in completing a task. The rest interval will enable workers to regain their lost stamina thereby avoiding accidents, rejections and industrial sickness.

7. Differential piece wage system: This system links wages and productivity. The standard output per day is established and two piece rates are used: higher for those who achieve upto and more than standard output i.e. efficient workers and lower for inefficient and slow workers. Thus, efficient workers will be rewarded & inefficient will be motivated to improve their performance.

For example: Standard task is 10 units. Rates are: Rs 50 per unit for producing 10 units or more and Rs 40 per unit for producing less than 10 units

Worker A produces 11 Units; he gets Rs 550 (11 units x 50 per unit)

Worker B produces 09 units; he gets Rs 360 (9 units x 40 per unit)

This difference of Rs 190 will motivate B to perform better.

Basis	Fayol	Taylor
1. Nature of Research	He developed the theory of Functional management or Management process.	He developed the concept of Scientific management.
2. Concern	His principles are concerned with management efficiency.	His principle and techniques are concerned with workers efficiency.
3. Level	He designed principles for top level of management.	He designed principles for lower level of management.
4. Focus	Improving overall administration by observing certain principles was his main focus.	For him increasing productivity through work simplification was main focus.
5.	He developed the personality of a	He developed the personality of

Personality	researcher and practioner and was called as ‘father of general management.	scientist and was called as ‘father of scientific management
6. Major contribution	Hid main contribution was to produce a systematic theory of management with the help of fourteen principles of general management.	He provided a basis on accomplishment on production line with the help of scientific techniques and management.
7. Human element	He gave due emphasis to human elements by suggesting principles like equality, initiative, fair remuneration etc.	He ignored the human element and emphasized more on increasing productivity.
8. Rigidity and flexibility	His principles were flexible.	He was rigid in his approach and he felt that there should be no deviation from fixed standards.
9. Applicability	His principles are applicable to business as well as non-business organizations i.e. are applicable universally.	His principles are applicable to production and manufacturing i.e. are applicable to specific situations.
10. Unity of command	He strictly follow this principles i.e. one boss for one employee.	He did not follow this principle instead he insisted on minimum eight bosses.

8. Mental Revolution: It involves a complete change in mental outlook and attitude of workers and management towards one another from competition to cooperation. The management should create pleasant working conditions & workers should work with devotion and loyalty. Instead of fighting over distribution of profits, they must focus attention on increasing it