

Business Studies
Class XII
CHAP 2: PRINCIPLES OF
MANAGEMENT

HENRI FAYOL's 14 PRINCIPLES



Henri Fayol's 14 Principles

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- Division of Work
- Authority and Responsibility
- Discipline
- Unity of Command
- Unity of Direction
- Subordination of Individual Interest to General Interest
- Remuneration of Employees
- Centralisation and Decentralization
- Scalar Chain
- Oder
- Equity
- Initiative
- Stability of Personnel/Tenure
- Espirit de Corps

DIVISION OF WORK

Division of Work: Work is divided into small tasks/jobs. A trained specialist who is competent is required to perform each job. Thus, division of work leads to specialisation. According to Fayol, "The intent of division of work is to produce more and better work for the same effort. Specialisation is the most efficient way to use human effort."



DIVISION OF WORK

In business work can be performed more efficiently if it is divided into specialised tasks; each performed by a specialist or trained employee. This results in efficient and effective output. Thus, in a company we have separate departments for finance, marketing, production and human resource development etc. All of them have specialised persons. Collectively they achieve production and sales targets of the company. Fayol applies this principle of division of work to all kinds of work – technical as well as

managerial. You can observe this principle at work in any organisation like hospital or even a government office.



Authority & Responsibility

According to Fayol, "Authority is the right to give orders and obtain obedience, and responsibility is the corollary of authority. The two types of authority are official authority, which is the authority to command, and personal authority which is the authority of the individual manager."

Authority is both formal and informal. Managers require authority commensurate with their responsibility.

There should be a balance between authority and responsibility. An organisation should build safeguards against abuse of managerial power. At the same time a manager should have necessary authority to carry out his responsibility. For example, a sales



Authority & Responsibility

manager has to negotiate a deal with a buyer. She finds that if she can offer credit period of 60 days she is likely to clinch the deal which is supposed to fetch the company net margin of say



Responsibility

Ineffectiveness

₹ 50 crores. Now the company gives power to the manager to offer a credit period of only 40 days. This shows that there is an imbalance in authority and responsibility. In this case the manager should be granted authority of offering credit period of 60 days in the interest of the company. Similarly, in this example this manager should not be given a power to offer a credit period of say 100 days because it is not required. A manager should have the right to punish a subordinate for wilfully not obeying a legitimate order but only after sufficient opportunity has been given to a subordinate for presenting her/his case.

Misuse of Authority



DISCIPLINE

Discipline: Discipline is the obedience to organisational rules and employment agreement which are necessary for the working of the organisation. According to Fayol, discipline requires good superiors at all levels, clear and fair agreements and judicious application of penalties.

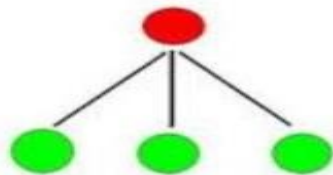


Suppose management and labour union have entered into an agreement whereby workers have agreed to put in extra hours without any additional payment to revive the company out of loss. In return the management has promised to increase wages of the workers when this mission is accomplished. Here discipline when applied would mean that the workers and management both honour their commitments without any prejudice towards one another.

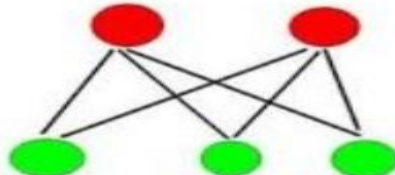
UNITY OF COMMAND

Unity of Command: According to Fayol there should be one and only one boss for every individual employee. If an employee gets orders from two superiors at the same time the principle of unity of command is violated. The principle of unity of command states that each participant in a formal organisation should receive orders from and be responsible to only one superior.

Right Approach



Wrong Approach



Superior



Subordinate



Fayol gave a lot of importance to this principle. He felt that if this principle is violated “authority is undermined, discipline is in jeopardy, order disturbed and stability threatened”. The principle resembles military organisation. Dual subordination should be avoided. This is to prevent confusion regarding tasks to be done. Suppose a sales person is asked to clinch a deal with a buyer and is allowed to give 10% discount by the marketing manager. But finance department tells her/him not to offer more than 5% discount. Now there is no unity of command. This can be avoided if there is coordination between various departments.

UNITY OF DIRECTION

Unity of Direction: All the units of an organisation should be moving towards the same objectives through coordinated and focussed efforts. Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination.

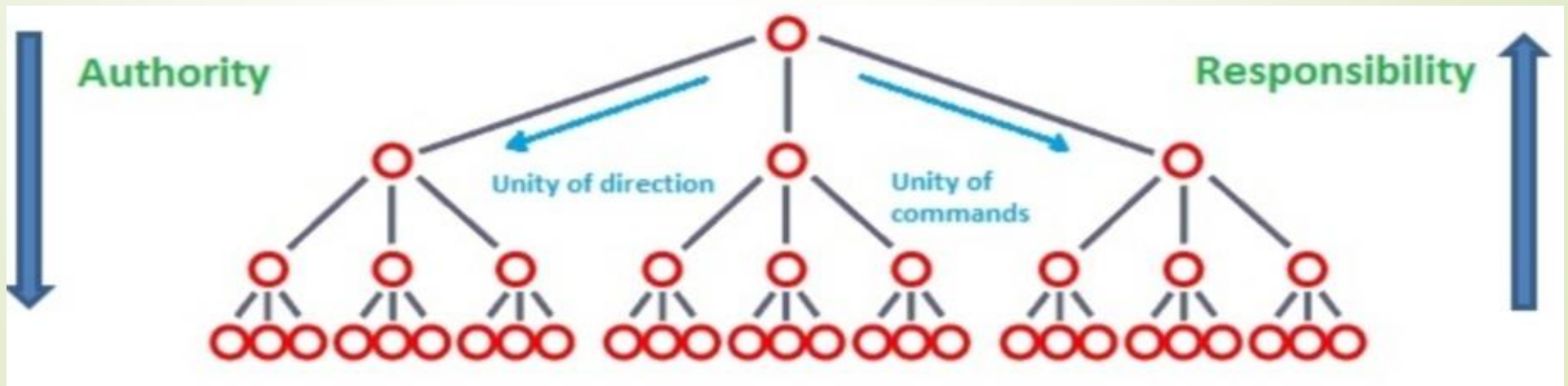


For example, if a company is manufacturing motorcycles as well as cars then it should have two separate divisions for both of them. Each division should have its own incharge, plans and execution resources. On no account should the working of two divisions overlap.

UNITY OF COMMAND V/S UNITY OF DIRECTION

Difference between Unity of Command and Unity of Direction

Basis	Unity of Command	Unity of Direction
1. Meaning	One subordinate should receive orders from and should be responsible to only one superior.	Each group of activities having same objective must have one head and one plan.
2. Aim	It prevents dual subordination.	It prevents overlapping of activities.
3. Implications	It affects an individual employee.	It affects the entire organisation.



SUBORDINATION OF INDIVIDUAL INTEREST TO GENERAL INTEREST

The interests of an organisation should take priority over the interests of any one individual employee according to Fayol. Every worker has some individual interest for working in a company. The company has got its own objectives. For example, the company would want to get maximum output from its employees at a competitive cost (salary). On the other hand, an employee may want to get maximum salary while working the least. In another situation an individual employee may demand some concession, which is not admissible to any other employee like working for less time.

Individual Interest



General Interest



In all the situations the interests of the group/company will supersede the interest of any one individual. This is so because larger interests of the workers and stakeholders are more important than the interest of any one person. For

SUBORDINATION OF INDIVIDUAL INTEREST TO GENERAL INTEREST

example, interests of various stakeholders i.e., owners, shareholders, creditors, debtors, financiers, tax authorities, customers and the society at large cannot be sacrificed for one individual or a small group of individuals who want to exert pressure on the company. A manager can ensure this by her/his exemplary behaviour.



For example, she/he should not fall into temptation of misusing her/his powers for individual/family benefit at the cost of larger general interest of the workers/company. This will raise her/his stature in the eyes of the workers and at the same time ensure same behaviour by them.

REMUNERATION OF EMPLOYEES

Remuneration of Employees: The overall pay and compensation should be fair to both employees and the organisation. The employees should be paid fair wages, which should give them at least a reasonable standard of living. At the same time it should be within the paying capacity of the company. In other words,

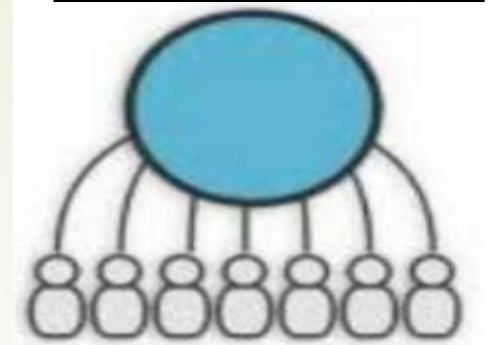


remuneration should be just and equitable. This will ensure congenial atmosphere and good relations between workers and management. Consequently, the working of the company would be smooth.

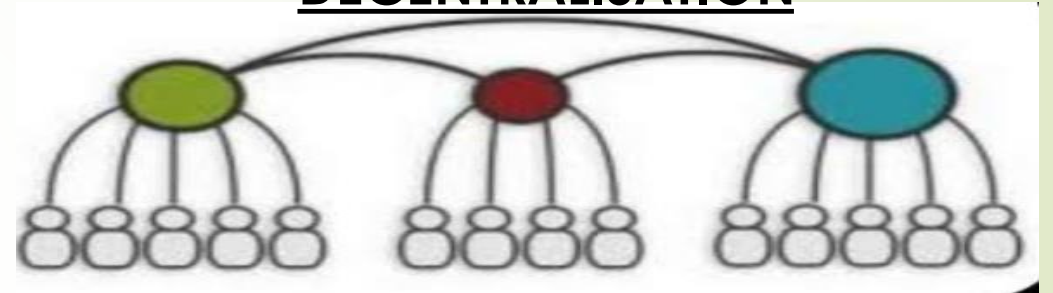
CENTRALISATION & DECENTRALISATION

Centralisation and Decentralisation: The concentration of decision-making authority is called centralisation whereas its dispersal among more than one person is known as decentralisation. According to Fayol, "There is a need to balance subordinate involvement through decentralisation with managers' retention of final authority through centralisation." The degree of centralisation will depend upon the circumstances in which the company is working.

CENTRALISATION



DECENTRALISATION

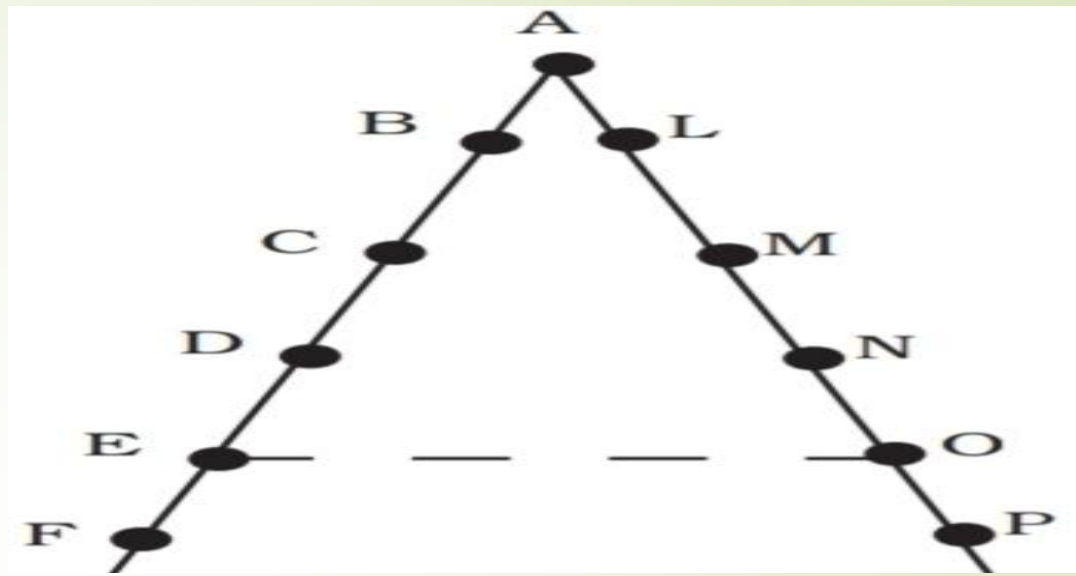


In general large organisations have more decentralisation than small organisations. For example, panchayats in our country have been given more powers to decide and spend funds granted to them by the government for the welfare of villages. This is decentralisation at the national level.

SCALAR CHAIN

Scalar Chain: An organisation consists of superiors and subordinates. The formal lines of authority from highest to lowest ranks are known as scalar chain.

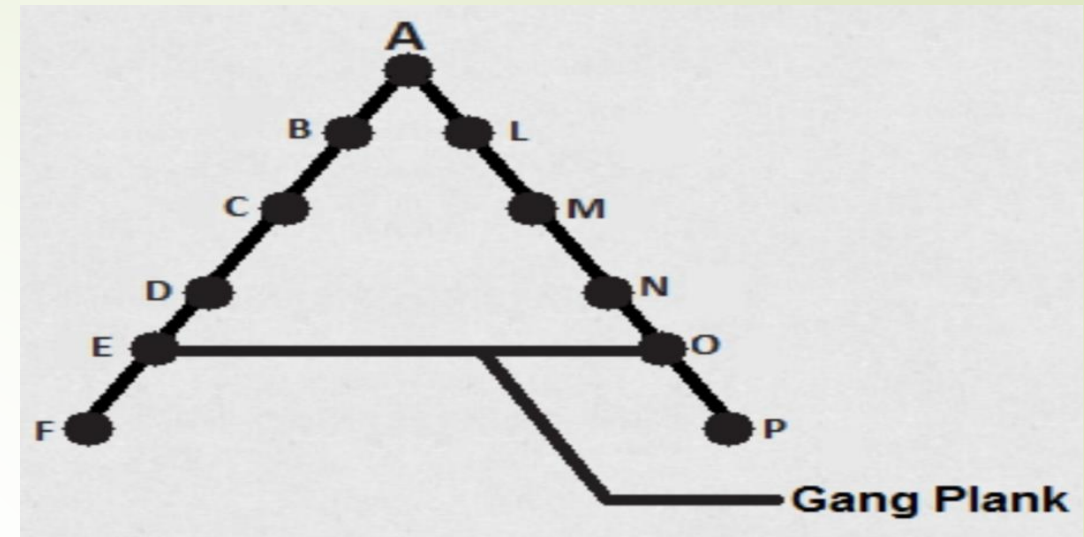
According to Fayol, "Organisations should have a chain of authority and communication that runs from top to bottom and should be followed by managers and the subordinates."



Let us consider a situation where there is one head 'A' who has two lines of authority under her/him. One line consists of B-C-D-E-F. Another line of authority under 'A' is L-M-N-O-P. If 'E' has to communicate with 'O' who is at the same level of authority then she/he has to traverse the route E-D-C-B-A-L-M-N-O. This is due to the principle of scalar

SCALAR CHAIN

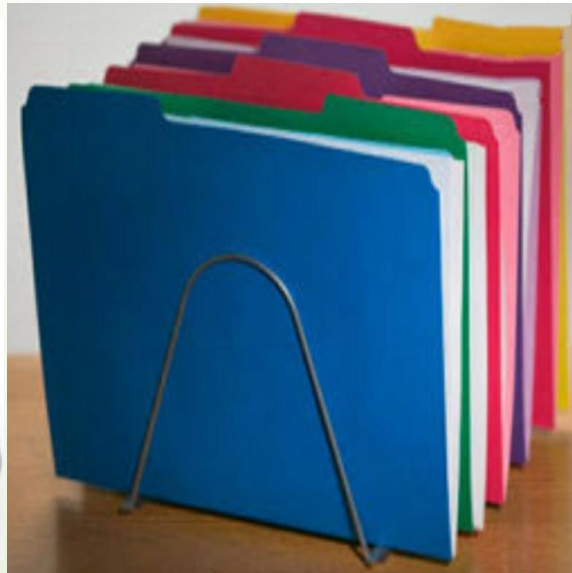
chain being followed in this situation. According to Fayol, this chain should not be violated in the normal course of formal communication. However, if there is an emergency then 'E' can directly contact 'O' through 'Gang Plank' as shown in the diagram. This is a shorter route and has been provided so that communication is not delayed.



In practice you find that a worker cannot directly contact the CEO of the company. If at all she/he has to, then all the formal levels i.e., foreman, superintendent, manager, director etc have to know about the matter. However, in an emergency it can be possible that a worker can contact CEO directly.

ORDER

Order: According to Fayol, "People and materials must be in suitable places at appropriate time for maximum efficiency." The principle of order states that 'A place for everything (everyone) and everything (everyone) in its (her/his) place'. Essentially it



means orderliness. If there is a fixed place for everything and it is present there, then there will be no hindrance in the activities of business/ factory. This will lead to increased productivity and efficiency.

EQUITY

Equity: Good sense and experience are needed to ensure fairness to all employees, who should be treated as fairly as possible," according to Fayol. This principle emphasises kindness and justice in the behaviour of managers towards workers. This will ensure loyalty and devotion. Fayol does not rule out use of force sometimes. Rather he says that lazy personnel should be dealt with sternly to send the message that everyone is equal in the eyes of the management. There



should be no discrimination against anyone on account of sex, religion, language, caste, belief or nationality etc. In practice we can observe that now a days in multinational corporations people of various nationalities work together in a discrimination free environment. Equal opportunities are available for everyone in such companies to rise.

INITIATIVE

Initiative: Workers should be encouraged to develop and carry out their plans for improvements according to Fayol. Initiative means taking the first step with self-motivation. It is thinking out and executing the plan. It is one of the traits of an intelligent person.



Employee suggestion system: Encourage initiative among trainee managers



Initiative should be encouraged. But it does not mean going against the established practices of the company for the sake of being different. A good company should have an employee suggestion system whereby initiative/suggestions which result in substantial cost/time reduction should be rewarded.

STABILITY OF PERSONNEL

Stability of Personnel: “Employee turnover should be minimised to maintain organisational efficiency”, according to Fayol. Personnel should be selected and appointed after due and rigorous procedure. But once selected they should be kept at their post/position for a minimum fixed tenure. They should have stability of tenure. They should be given reasonable time to show results.



Any adhocism in this regard will create instability/insecurity among employees. They would tend to leave the organisation. Recruitment, selection and training cost will be high. So stability in tenure of personnel is good for the business.

ESPIRIT DE CORPS

Espirit De Corps: Management should promote a team spirit of unity and harmony among employees, according to Fayol. Management should promote teamwork especially in large organisations because otherwise objectives would be difficult to realise. It will also result in a loss of coordination. A manager



should replace 'I' with 'We' in all his conversations with workers to foster team spirit. This will give rise to a spirit of mutual trust and belongingness among team members. It will also minimise the need for using penalties.

Question 1:

Rajeev is a middle lever manager. He keeps all his subordinates under a lot of discipline. His employees however complain of wastage of time and efforts as they feel that nothing is being assigned in a proper way and a proper place, also no proper schedule is made for working. Which principle of management is violated here?

Answer:

The principle of management which is violated here is the Fayol's principle of 'order'. Fayol's principle of order says that everything has a place and everything should be at its place.

Question 2:

Rajesh wants to become an ideal manager. For this he reads many management books. After reading various broad and general guidelines he prepares f to apply them and make his work more meaningful. The necessary outcome will be his improved output.

Which concept of management has been highlighted here? 1

Answer:

The concept of management which is highlighted here is 'principles of management'. Management principles are the broad and general guidelines which help employees in behavior and decision making. .

Question 3:

Pakka employment is a company which takes care of the fact that the confidence of the employees should always be at its peak. For this reason they give surety to their employees for employment for a minimum fixed tenure of time. Which principle of management is followed here?

Answer:

The principle of management which is followed here is 'stability of personnel'.

Question 4:

A floor manager of a Mall is very capable as he utilises all the functions of management. He lays stress on developing mutual trust and spirit of cooperation amongst the employees. Under his guidance the employees admit that they learn a lot and are able to meet their targets. This has led to increase in their salaries.

Identify the principle of Fayol followed by the floor manager in the above case.

Answer:

Esprit De Corps

Question 5:

The plant superintendent of a company is very sad. When he was on leave he was expecting his subordinates to take the remaining work to the finish. However he finds a new way of dealing with this problem. He develops a system of suggestion building from the side of workers. For this a suggestion/complain box is to be kept where the workers can drop their advice and hence take steps from their side.

Which principle of management has been implemented here off late by the plant superintendent?

Answer:

The principle of Fayol—'**initiative**' was initially not followed and the establishment of suggestion/complaint box is a step in following it.

Question 6:

Suresh works in a bulb manufacturing company. Each bulb which is manufactured is of standard size and quality. Further if there is any unrequired type of bulb manufactured then its production is stopped. Last month when the company came to know that 10 watt bulbs were no more liked by customers, their production was stopped. He works in the purchase department. His job is to purchase the filaments required to make bulbs. This time when he purchases the filament he gets the instruction from the seller that some special care needs to be taken in the first hour of fixing the filaments inside the bulb. Suresh knows this information should be given immediately to the production department before the assembling process starts. However he finds that his company's policies only allow him to give the message to his immediate boss who will further pass this message to his boss. The passing of this message will continue till it reaches the desired person in the production department.

Which technique of management is followed here? Also name the principle of management followed here by the company? Which option is now available to Suresh since the company is not allowing him to interact with the concerned worker in the production department? 4

Answer:

The technique of management which is followed here is **Standardisation** (Each bulb which is manufactured is of standard size and quality) and **Simplification** (Further if there is any unrequired type of bulb manufactured then its production is stopped).

The principle of management which is followed here is **Scalar Chain**. However he finds that his company's policies only allow him to give the message to his immediate boss who will further pass this message to his boss.

The option which is now available to Suresh is the use of **Gang Plank** as this is an emergency situation. Suresh knows that this information should be given immediately to the production department.

Question 7:

Every year a meeting is organized in the lawns of the owner of a company. In this meeting the owner of the company grants some funds for the benefit of the families of the employees. The employees on the other hand never resist any change or put excessive demands. The general environment in the company is very supportive to the employees. The employee turnover ratio is very low.

Which concept of management is discussed here? Which principle of management will be easily followed here?

Answer:

The concept of management discussed here is **Mental Revolution**. The owner of the company grants some funds for the benefit of the families of the employees. The employees on the other hand never resist any change or put excessive demands.

Since the employee turnover ratio is low the principle of management which must have been followed is '**stability of personnel**'. Whenever there is violation of this principle of Fayol the employee turnover ratio increases. The increased employee turnover ratio is not good for an organisation and should be minimised.

Question 8:

Bhatkaav Enterprises is facing huge losses. The owner of the company is an MBA pass out. Even then many things in the organisation are happening which are indicative of lack of proper management in the company. First of all there is no specific sharing of work and any time any employee is asked to do anything. This has led to wastage of efforts. Further due to negligence in proper work sharing there has been no specialisation development in the nature of the jobs done by the employees.

There are no clear and fair agreements between the workers and the management. This has led to a lot of frustration in the workers. Management has quite often been found to be ignorant of not fulfilling promises done by it. There are also no strict rules and regulations binding on the conduct of the workers.

The departmental heads who are the middle level managers in the company and hold key positions always favour their relatives. They quite often don't turn up for job on time. They are always looking for special relaxations from the top management. This has led to feeling of resentment among the employees who are also demanding special favours and threatening strike in the coming days.

Identify the three principles of Fayol violated in the above case.

Answer:

In the first paragraph of the case the principle of Fayol which is violated is '**Division of Work**'.

In the second paragraph of the case the principle of Fayol which is violated is '**Discipline**'.

In the third paragraph of the case the principle of Fayol which is violated is '**Subordination of individual interests to general interests**'.

Question 9:

Ramesh is the owner of a printing press. The size of his organisation has y/increased during the recent past. There are many employees who work in his organisation. The organisation is considered good and has earned a lot of reputation in the market. However when it comes to making key decisions in the organisation related to many things he never considers the opinions of his subordinates. Even though the size of the organisation has increased yet he tries to take all the key decisions on his own. Which principle of Fayol has been violated by him?

Answer:

The principle of Fayol which has been violated here is '**Centralisation and Decentralisation**'. This principle explains the need of balance between Centralisation and Decentralisation. He is making all the decisions on his own and he is not giving any decision making authority to his subordinates so he is not following this principle.

Question 10:

Mohan works on the floor of a mall as a manager. He is very hard working but is unable to produce results for his organisation. His target for last month was a sale of 10 lakh

rupees from his floor. However by the end of the month the sale was only 8 lakh rupees. He is very regular and takes all the necessary steps to complete the target. However his staff is not as competent as he himself is. When he tries to take action against disobedient employees the top management doesn't allow him to do so. They haven't given him the power to fire employees or take any strict action against them.

Which principle of Fayol is violated here by the Organisation? 1

Answer:

The principle of Fayol which is violated here is '**Authority and Responsibility**'. The amount of responsibility put on the shoulders of the floor manager is not in proportion to the amount of authority given to him. He can't take any strict action against his subordinates.

Question 11:

Enlightened Souls Pvt. Ltd. is a tube light manufacturing company. Before the start of the year they had promised their employees for bonus for extra production. It was also decided that those who will put extra time will be paid extra according to the number of hours. However people in the HR department who worked very hard later complained that they were not compensated for the extra number of hours that they used to stay in the office.

Which principle of Fayol is violated here?

Answer:

The principle of Fayol which is violated 'Discipline'.

Question 12:

Rohan and Amit are working in the purchase department of a company. Rohan is the brother-in-law of the managing director of the company whereas Amit has been recruited from an external source. They both have been performing below average for the last couple of months. Many people in the organisation talk about their lack of responsibility. When the managing director of the company came to know about their irresponsible behaviour he immediately suspended Amit but did not take any action against Rohan.

Identify the principle of Fayol which has not been followed by the managing director in the above case. 1

Answer:

Equity

Question 13:

Aditi who is heading the campus recruitment program of the firm that she is working in, gets an immediate order from the marketing head of the organisation. Mr. Rupesh asks her to hire only those candidates who have two years experience in the field of marketing and offer them a higher package. Moments later when she is about to enter the campus she gets another call from the HR head who asks her to hire candidates with zero experience. He gives her the logic that such candidates would be expecting lower packages in comparison to the candidates having experience in the industry.

Which principle of Fayol stands violated here? What is the immediate outcome of the violation of this principle? State the principle. 3

Answer:

The principle of Fayol which is violated here is '**Unity of command**'.

The Unity of command states that an employee should take orders only from one boss.

The immediate outcome of the violation of this principle is **dual subordination**.

Question 14:

Aapka Apna Vehicles is a vehicle manufacturing company. The company has the same unit producing both scooters and cars. This leads to confusion among the employees regarding the reporting as well as differentiation of work.

Which principle of Fayol is violated here? Why? State the principle. Give an immediate outcome of the violation of this principle. 4

Answer:

The principle of Fayol which is violated here is '**Unity of Direction**'.

Unity of Direction is violated here as there should have been separate departments for the two types of vehicles.

This principle says that there should be one boss and one plan. The related activities should be placed in one department. So there should be separate departments for the production of cars and the scooters.

The immediate outcome of the violation of this principle is overlapping of activities which will affect the whole organisation.

Question 15:

. Twenty new employees have started their career in XYZ Ltd. The employees are new to the environment of the organisation and have no idea about the demanding jobs. The management has decided to give them three months of time to show their results.

Which principle of Fayol is followed here? How does this principle help the organisation?

Answer:

The principle of Fayol which is followed here is '**Stability of Personnel**'.

This principle helps the organisation by **reducing Employee Turnover**. Thus the efficiency of the organisation is increased.

Question 16:

Enigma Coolers are the leading manufacturers in their area. They have decided to increase the productivity of their workers. For this they have chalked out a plan. They will be hiring operational managers who to work at the lower level of management. They have decided to keep eight managers over a single worker. Thus every worker will have to report to all these eight managers.

Which technique of scientific management is followed here? What will be the benefit?

Also tell which principle of Fayol will be violated here?

Answer:

The technique of Scientific Management which is used here is **Functional Foremanship**.

The benefit will be that every worker cannot have all the qualities like intelligence, special knowledge, energy, honesty, etc. Individually each of the functional foremen like gang boss, speed boss, etc. will look after all these qualities.

The principle of Fayol which will be violated here will be principle of '**Unity of Command**' as a single worker will have to report to eight different people.

Question 17:

ABCDEF Ltd. has decided to become the market leader in selling water bottles. The company decides to take care of all the departments. The top management decides to set standards for all the business activities right from the purchase of raw material to manufacturing and packaging of the water bottles.

Which scientific technique of management is used here? Name three advantages of this technique. 4

Answer:

The scientific technique used is '**Standardization**'.

The three advantages of standardization are:

1. Standards of performance of men and machine can be established.
2. Standards of excellence and quality in materials can be established.
3. Machines and their components of standard size can be interchanged over different areas and conditions.

Question 18:

'Work is Worship' is a leading construction company. The organisation has grown from strength to strength because of its innovative ideas and scientific approach of working. Ten years back the organisation went through a revolution. All the operations and activities were properly noticed and the standard time taken to perform them was noted. This took a few months and now the company could find out the amount of workers required and the number of days to be involved in the various manufacturing processes. A year later they moved to another level by considering the stress involved in the lives of the workers. The amount and frequency of rest intervals in finishing a particular task were noted. This helped the company in optimizing the rest intervals for the workers so that their outputs could be increased. After six more months the company decided to reward the efficient workers. A different rate of wage payment was decided for those workers who performed above the standard. The standard was decided. This led to a revolutionary change in the perspective of the workers who now started giving their full efforts in order to increase their wages.

Which concept of management has been discussed in the above case? Name the three types of this management concept highlighted above. Also identify the lines where these types have been indicated. 4

Answer:

The concept of management which is discussed above in the whole case is **Techniques of Scientific Management**.

The various types of techniques used are:

1. **Time Study.** All the operations and activities were properly noticed and the standard time taken to perform them was noted.
2. **Fatigue Study.** The amount and frequency of rest intervals in finishing a particular task were noted.
3. **Differential Piece Wage System.** A different rate of wage payment was decided for those workers who performed above the standard.

Question 19:

Sanchit, after completing his entrepreneurship course from Sweden returned to India and started a coffee shop 'Aroma Coffee Can' in a famous mall in elhi. The speciality of the coffee shop was the special aroma of coffee and a wide variety of flavours to choose from. Somehow, the business was neither profitable nor popular. Sanchit was keen to find out the reason. He appointed Sandhya, an MBA from a reputed college, as a Manager to find out the causes for the same.

Sandhya took feedback from the clients and found out that though they loved the special unique aroma of coffee but were not happy with the long waiting time being taken to process the order. She analysed and found out that there were many unnecessary obstructions in between which could be eliminated. She fixed a standard time for processing the order.

She also realised that there were some flavours whose demand was not enough. So, she also decided to stop the sale of such flavours. As a result within a short period Sandhya was able to attract the customers.

Identify and explain any two techniques of scientific management used by Sandhya to solve the problem.

Answer:

Sandhya has used the following two techniques of scientific management:

1. **Time Study.** Time study aims at determining the standard time taken by a worker of reasonable skill to perform a well defined job. For this purpose time measuring devices are used and standard time is fixed for the task after taking several readings. The main idea behind this is to determine the number of workers to be employed, frame appropriate incentive schemes and determine labour cost.
2. **Simplification of Work.** Simplification of work aims at eliminating superfluous varieties, sizes and dimensions. The main idea behind is to eliminate unnecessary diversity of products. It saves cost of labour, machines and tools. It leads to reduction in stock and helps in fuller utilisation of equipment. Moreover, it leads to an increase in turnover.

Question 20:

A scientist working in a factory for the betterment of the operational aspect studied all the steps involved in the manufacturing of the product. He very attentively noticed all sorts of movements to arrive at a simpler way of doing all the activities possible. With his hard work he was able to bring down the number of activities for the manufacturing of the final product from 34 to 22. This work was able to bring down the labour charges and decrease the total time of production. Thus he gave the organisation an added advantage.

Which type of scientific technique is discussed here?

Answer:

The type of scientific technique discussed here is **Motion Study**.