



International Diploma in Business

Module DB101 Principles of Management

Student Notes

Modification History

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V1.0	April 2003	For issue.
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Module DB101

Principles of Management

Introduction to Module DB101

This module is made up of 14 topics. The information contained in each topic is an overview and should be used in conjunction with the Assessment and Syllabus Guide and required textbook for this module.

The required textbook is:

- Robbins, S.P. and Coulter, M. (2005) *Management with OneKey* 8th ed. Prentice-Hall.

This textbook can be purchased at a specially reduced rate from Galatea at: <http://www.galatea-services.co.uk/>

It can also be purchased from: www.prenhall.com/

A supporting website containing additional student and lecturer resources is available at: www.prenhall.com/robbins/

Learning Outcomes

	Specific Learning Outcomes (LOs)	Demonstrable Knowledge
LO 1	Knowledge and understanding of the basic principles and functions of management in an organisation and issues in their achievement.	Knowledge and understanding
LO 2	Evaluate the types of decisions that managers are required to make, the decision making processes that are undertaken, and the role of planning in establishing organisational goals.	Analysis
LO 3	Knowledge and understanding of the importance of strategic management, the key steps in the strategic management process and the different types of organisational strategies that can be employed.	Knowledge and understanding
LO 4	Evaluate the different types of work groups and how effective leadership can impact upon their development and performance: understand the different approaches to successful team leadership.	Evaluate
LO 5	Explain the elements of a management control system and apply the role of control systems theory to all forms of management control.	Application and problem-solving

Indicative Content

1. Authority, responsibility and the main functions of management.
2. Management decision making and the key elements of the decision-making process.
3. Planning, organising, directing, goal and objective setting and co-ordinating.
4. The key steps in a strategic management process.
5. Leadership traits and developing effective teams.
6. The importance of managerial control and the tools and techniques for controlling organisational performance.

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1.1 Introduction

Business is a major economic activity. All of us are a part of the business system in our country. Our friends or relatives work in business companies. We buy goods from neighbourhood provision shops, supermarkets and department stores. We eat at restaurants. We travel by bus, taxi and underground. We send letters through the post office and talk to our friends on the telephone. The government provides us with electricity, gas and water. All these are examples of business.

The term *business*, in the broadest sense, is a general term that describes all the commercial activities that need to be carried out to provide goods and services to the consumers.

1.2 Factors of Production

A business organisation needs several inputs or resources to carry out its business and provide the goods and services for sale. The important inputs required by all companies include:

- Materials – the land and raw materials needed to produce goods/services.
- Manpower – includes all the workers or employees in an organisation.
- Machines – companies require tools and equipment to carry out all their activities and enhance their operations.
- Money – the capital or funds needed by an organisation. Money is necessary to acquire all the other factors of production.
- Management – all organisations need qualified and efficient managers to run the business.

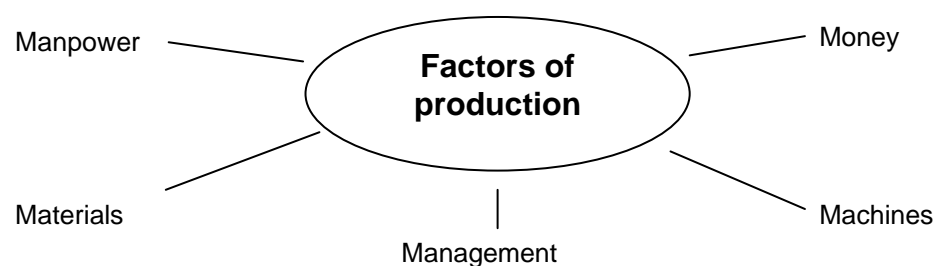


Figure 1.1 Factors of Production

1.3 Business Activities

Detailed below are the main activities which would be carried out by any company.

1.3.1 Production

This activity deals with the making of goods and services. Companies use the factors of production and convert them into finished goods. Production can be sub-divided into the following:

- Purchasing – a critical activity that involves buying all the necessary materials and resources needed.
- Storage and stock control – space and facilities must be allocated for the storage of raw materials and finished products, and stock levels must be carefully monitored.
- Quality control – customers today want value for money and have high expectations. The quality of goods produced must be high in order to satisfy customers.
- Research and development – is important for continuous improvements so that new products can be developed.

1.3.2 Marketing

This activity deals with the marketing and selling of the finished goods. It is important for the company to understand the needs of customers.

- Market research – the company must find out more about customers and competitors.
- Product design – the design and features of the product must be worked out.
- Product pricing – the selling price needs to be determined. The price must cover costs, and remain attractive to customers.
- Advertising and promotions – to provide information to customers and persuade them to buy the product.
- Product distribution – the company must decide how and where it wants to distribute its products.

1.3.3 Human Resources

This is concerned with managing the workers of the company, and includes:

- Recruitment and selection – the number and type of workers needed must be identified.
- Training – employees need to be continuously trained and developed.

- Wages and salaries – the company must determine the right amount of wages and salaries for its staff.
- Welfare – in addition to basic salaries/wages, the company must provide additional welfare schemes.
- Health and safety – the working environment should be clean, hygienic and conducive to safe working.

1.3.4 Finance

Financial activities are concerned with the acquisition and use of capital and include the following:

- Raising capital – management must determine the amount of capital needed and how to raise the money.
- Maintaining accounting records – all financial transactions must be recorded.
- Preparing financial reports – at the end of the accounting period, the financial materials must be prepared so that the performance of the company can be monitored.

1.3.5 Administration

Many organisations have administrative departments that provide the following services for the rest of the company.

- Reception.
- Switchboard.
- Typing.
- Filing of documents.
- Photocopying.
- Secretarial and computer services.

1.4 Objectives of Business

A business would try to achieve the following objectives:

- To maximise profits – the company tries to make as much profit as possible.
- To achieve growth – the company would want to expand its business.
- To satisfy customers and increase sales – satisfied customers will buy again and also recommend to others the product or company.
- To contribute to social causes – here, the objective is to contribute value to society.

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2.1 Introduction

The business environment refers to all the forces or factors that affect the activities of a company. A company does not exist in isolation. It works within the overall environment and must keep up with changes in this environment. Companies that do not change their way of doing business when the environment changes, normally will not survive for long. A company's business environment can be divided into the internal environment and the external environment.

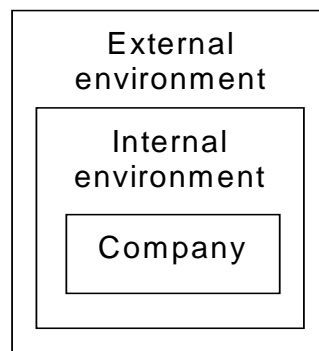


Figure 2.1 Business Environment

2.2 Internal Environment

The internal environment refers to the factors that have a more direct impact on the daily activities of a company. The main factors in the internal environment are highlighted below.

2.2.1 Customers

Customers are the people who buy the goods and services of a company and provide its revenue. Customers today are demanding and their expectations are high.

Main consideration: How can you keep consumers satisfied?

2.2.2 Competitors

Every business organisation faces competition in the market. A company must therefore be aware of its competitors and their strategies. It is advisable to always be ahead of the competition.

Main consideration: How can you stay ahead of competitors?

2.2.3 Suppliers

These are companies that provide other companies with their raw materials, machines, tools and equipment. A company must

maintain a good relationship with its suppliers, to ensure that it is always able to get the materials it needs. The prices that the supplier charges for materials will, in turn, affect the prices at which the company sells its goods.

2.2.4 Shareholders

Shareholders, who are the owners of a company, can influence its policies and procedures. In return for investing their money in the business, shareholders expect good dividends. If the management is unable to satisfy the shareholders, they will withdraw their capital and invest it elsewhere.

2.2.5 Employees

Employees contribute to a company by doing their jobs well. In return, they expect the company to look after their welfare. Companies have to keep their staff happy so that they will be motivated to work hard.

2.2.6 Financial Institutions

Banks and other financial institutions lend money to companies. A company must make sure that all loans are repaid on time. In this way, banks will have trust and confidence in the company and will continue to support it.

2.3 External Environment

The external environment refers to other factors that affect a company in the long term. Such factors will influence the types of strategy and policy a company follows in the future.

2.3.1 Physical Environment

- The natural features of a country, such as its size, location.
- Availability of raw materials and resources.
- Must also consider the infrastructure

Examples:

- Shortage of oil reserves.
- Logging of forests.
- Climatic conditions.

2.3.2 Political-Legal Environment

Government attitudes have a direct impact on the operations of a business. The legal framework within which businesses operate has become increasingly complex. The stability of the government is

also very critical to a business.

Examples:

- Instability in Indonesia, Sri Lanka.
- Employment Act.
- Companies Act.

2.3.3 Economic Environment

The economic environment plays a very important role in business. Governments introduce economic policies and measures to regulate the economy. The state of the economy, inflation and interest rates affect the level of sales and profits of a company.

Examples:

- Recession in Indonesia/Asia in 1997 – 1999.

2.3.4 Social-cultural Environment

The attitudes of society provide a framework within which an organisation operates. Over the years, many changes in the attitudes and beliefs of consumers have taken place. Businesses must monitor the changes and take appropriate action.

Examples:

- Changing lifestyles.
- Western influence on local consumers.

2.3.5 Technological Environment

The past century has seen a rapid growth in the use of technology. The application of scientific methods to industrial problems has resulted in a dramatic increase in the goods/services available. Technological progress has allowed companies to produce new products and improve existing ones.

Examples:

- E-Commerce.
- E-Business.

2.4 Conclusion

It is important for a company to:

- be aware of the factors in the environment;
- keep track of changes in the environment;
- modify its products, services and way of doing business,

so as to remain competitive and ensure the survival and growth of the business.

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3.1 Introduction

There is no one definition of management. Several authors have defined management in various ways. For example, Mary Parker Follet defined management as ‘the art of getting things done through people’. This implies that managers work through their employees to ensure that jobs are properly carried out. Management is the process of setting and accomplishing goals through the use of human, technical and financial resources. In other words, management requires the co-ordination of all the company’s resources so as to meet the goals of the company.

Managers use the inputs or resources and convert them into the output, which are the various objectives of the company. In order to do this, managers need to perform several key functions, namely, planning, organising, leading, controlling and staffing. All managers carry out these functions, to a greater or lesser degree, depending on the specific duties of the manager.

Any organisation, big or small, needs proper management to make its business a success. A business enterprise will fail if its people do not have the ability to use their resources properly. Such resources can only be put to proper use by an effective manager. Management becomes increasingly important as the organisation grows in size and becomes more complex.

3.2 Functions of Managers

The five main functions of managers are highlighted below:

3.2.1 Planning

- Process of setting goals and objectives for a company and its different departments.
- Involves anticipating the future and determining the best course of action to achieve organisational goals.
- Is a continuous process.
- Provides guidance and direction.
- Ensures the success and growth of a company.

3.2.2 Organising

- Involves developing or designing a suitable structure for a company.
- Managers have to allocate work to different departments and individuals.

- Involves assigning work and responsibilities to employees in a company.
- Ensures the co-ordination of all activities.

3.2.3 Leading

- Process of guiding employees to ensure that they carry out their given tasks effectively.
- Motivating employees to achieve greater productivity and efficiency.
- Effective communication is required to motivate and lead successfully.
- Leading is, therefore, the 'people' function of management.

3.2.4 Controlling

- The function of evaluating a company's and an individual's performance to determine whether the goals are being achieved.
- Controlling is closely linked to planning.
- The manager must set the performance standards he expects from his employees.
- The progress of the work should be regularly monitored.
- Problems should be identified and the necessary action taken.

3.2.5 Staffing

- Involves identifying vacancies, recruiting and training staff.
- Essentially the same as personnel management.

It is important to bear in mind that the above functions are not carried out separately or independently. In fact, all the above functions are closely related to each other and are interdependent. This means that there can be no organising and controlling if there is no planning. A manager, therefore, performs all five functions in carrying out his daily responsibilities.

3.3 Types/Levels of Managers

Managers in organisations can be classified in two main ways, based either on their level in the company or on the tasks for which they are responsible. In most organisations, it is possible to define loosely three levels of manager. Each level has different roles and responsibilities.

3.3.1 Top Managers

Senior executives of the company, elected by the shareholders or the directors.

3.3.2 Middle Managers

They are normally the department managers who act as the link between the top managers and supervisors.

3.3.3 First-line Managers

These are supervisors, who are in charge of the workers.

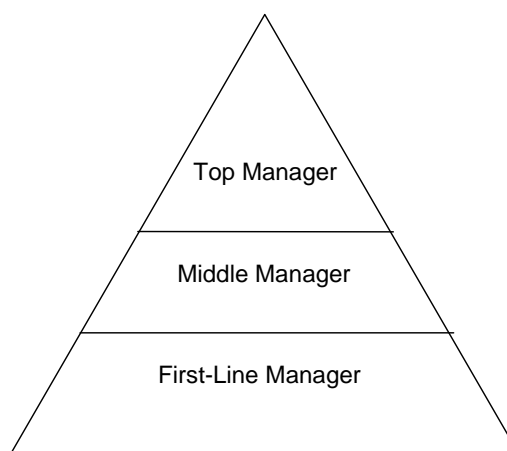


Figure 3.1 Levels of Managers

Managers can also be classified according to their functions. Such functional managers are responsible for specific areas of the company. For example: the production manager, personnel manager, finance manager, sales manager.

3.4 Management Skills

What makes a good manager? In order to perform the above functions effectively, managers should have three important skills.

3.4.1 Conceptual Skills

This refers to the mental ability of managers to analyse and solve problems. This is very important for planning.

3.4.2 Human Skills

This is the ability of the manager to communicate and interact with others.

3.4.3 Technical Skills

This refers to the manager's ability to use the tools and procedures to get the job done.

3.5 Summary

In conclusion, we can see that many activities are involved in managing an organisation and managers need to have a wide variety of skills and knowledge to be good at their job.

We also see that management functions are essentially the same, regardless of the type of organisation or the level of the manager. A manager can, therefore, transfer his skills and knowledge from one industry to another. A person moves from one job to another, bringing with him/her the managerial skills he/she has developed. Managerial skills can also be taught and transferred from one person to another. To be effective, a manager requires knowledge, skills and experience.

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4.1 Introduction

Planning can be considered as the most important function of managers in an organisation. Planning addresses the future of the company and everything else stems from planning. Planning is not a single event, with a clear beginning and end. It is an ongoing process that adapts to the changing environment.

4.2 Importance of Planning

Planning is an essential activity for all organisations. The importance of planning can be summarised as follows:

- Prepares the organisation for the future.
- Provides direction for all workers.
- Forces managers to think ahead.
- Ensures proper use of resources.
- Plans provide guidelines for further action.

4.3 Types of Planning

Planning is carried out by all managers in an organisation. The only difference is that managers at the top levels spend much more time planning than managers at the lower levels. The types of planning done at different levels are highlighted below.

4.3.1 Strategic Planning

This is the type of planning that is done by the top managers. It is the process of charting out the long term, future course of action for the organisation as a whole. Strategic planning requires managers to think about where they want the organisation to be at some point in the future. The time horizon for strategic planning is usually about three to five years.

4.3.2 Tactical Planning

Such planning is carried out by middle level managers and covers a time horizon of one to two years. Tactical planning is concerned with developing action plans for different departments so as to achieve the overall goals of the company. In the process, managers have to plan carefully *how* they are going to use the resources efficiently.

4.3.3 Operational Planning

Operational planning is the process through which managers design specific activities and the steps needed to accomplish objectives. It is detailed in nature, and has a very short time frame, usually a few months to a year.

The three levels of planning are related to each other although there is a closer relationship between tactical and operational planning. However, there must be proper interaction between all three in order to ensure the success and survival of the company.

4.4 Process of Planning

For planning to be effective, managers should ensure it is done systematically. A model of the planning process used by managers is explained below.

4.4.1 Establish Organisation's Mission

A company must decide on its overall purpose or goal for the future. For example, the overall mission for a university is to provide quality, tertiary education. The goals of the departments will be based on the overall mission.

4.4.2 Analyse External Environment

Environmental factors can directly affect the types of goals a company sets for itself. Such changes must be monitored and threats and opportunities identified. For example, the shortage of oil may pose a threat to oil companies.

4.4.3 Assess Internal Situation

Managers must simultaneously assess the strengths and weaknesses of a company. They must study the resources they have and make plans which are within the company's capabilities. For instance, managers may wish to enter a new business area but may have to put off such a plan if there are problems getting the necessary resources.

4.4.4 Develop Strategic Plans

At this stage, managers introduce different plans to achieve the overall mission. For instance, if the overall mission is to increase the profits of the company, then it could be done by developing new products, entering new markets, or diversifying into other business operations. The company will choose which strategy it wishes to follow.

4.4.5 Implement Strategic Plans

The strategic plan is broken down into action plans for the various departments and sections of the company and put into action. The organisation may have to acquire all the required resources and train its staff.

4.4.6 Monitor and Modify

Once the plans have been implemented, managers need to monitor the progress and, if necessary, modify and change the overall plans again.

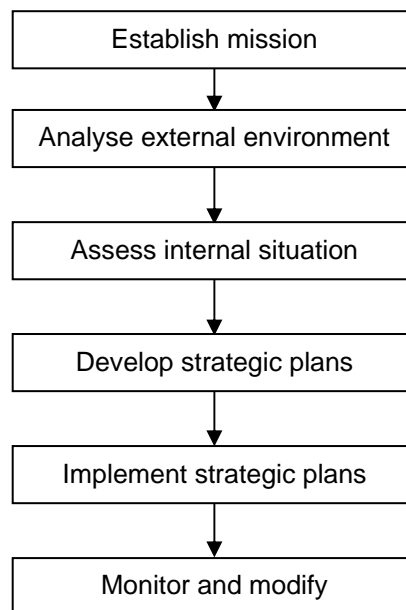


Figure 4.1 The Process of Planning

4.5 Difficulties of Planning

Although companies realise the importance of planning, it does not happen on its own. Planning is difficult because it deals with complex environments and must look toward an uncertain future. Some of the problems related to planning are:

- Difficulty in predicting the future.
- Time consuming.
- Lack of information.
- Lack of top management support.
- Barriers to change.

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5.1 Introduction

It has been stated before that one of the important aspects of planning is setting objectives for a company and its various departments. Such objectives state the end results the company is trying to achieve. The overall objective of the company must be supported by objectives at the lower levels.

5.2 Characteristics of Effective Objectives

To be effective, the objectives set by managers should have the characteristics detailed below.

5.2.1 Specific

- Clearly defined and precise (if vague, will not be understood).
- Cover specific areas of the business.

5.2.2 Measurable

- Should be expressed in quantitative terms. For example, instead of stating 'The objective is to improve product quality', it should be stated as 'The objective is to reduce the number of rejected items by 10 per cent'.

5.2.3 Realistic

- Objectives set must be achievable.
 - within the workers' and company's resources and means;
 - should not be aimed too high or too low.

5.2.4 Time Frame

- Deadlines must be set.
- Ensure that tasks are completed on time.

5.3 Nature of Objectives

Objectives are equally important for profit as well as non-profit making organisations. However, the nature of their objectives will be different.

In the case of profit making companies, the objectives usually cover the following areas:

- Sales.
- Profits.
- Market share.
- Customer satisfaction.
- Business costs.

As for non-profit making organisations, the objectives are usually related to:

- Raising funds.
- Providing benefits and welfare to the users.

5.4 Examples of Objectives

Different departments in a company need to set their own goals based on the overall objective of the company, which is to make profits. Examples of goals that could be set for the various departments are indicated below.

5.4.1 Marketing/Sales Department

- To increase the sales of Product A by 10 per cent for the next year.

5.4.2 Finance Department

- To achieve a rate of return of 10 per cent on all investments made during the year.

5.4.3 Production Department

- To reduce the number of rejected items by 10 per cent by the end of the year.

5.4.4 Personnel Department

- To fill all existing vacancies within the next 6 months.

5.5 Management by Objectives

Management By Objectives (MBO) is a method whereby managers and employees define objectives for every department and person, and use these objectives to control subsequent performance. Today, MBO is used in many organisations to ensure that goals are effectively set and achieved.

5.5.1 Setting Objectives

Overall goals for a company are set, after which specific goals for different departments are decided. Subsequently, objectives are set for individual workers. At all level, objectives are decided jointly by the superior and subordinate.

5.5.2 Reviewing Progress

At regular intervals, objectives are reviewed to assess their progress. Problems are detected and corrected.

5.5.3 Appraising Overall Performance

At the end of the period, performance is assessed again. Objectives are then set for the next period.

The MBO process is repeated annually.

5.6 Benefits/Limitations

The MBO process provides many benefits for a company, and yet it is difficult to implement. This is highlighted below.

5.6.1 Benefits of MBO

- Realistic goals are set.
- Fairer evaluation of performance.
- Allows participation.
- Greater employee commitment.
- Staff can work independently.
- Improved communication flow.

5.6.2 Limitations of MBO

- Emphasis on short term goals.
- Time consuming.
- More administrative paperwork.
- Managers pursue goals at any cost.
- Difficulty of setting high, yet realistic goals.

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6.1 Introduction

Each of us is involved in making decisions. Daily, we have to decide what to wear, what to eat, how to use our time. Making decisions is also part of the daily activities of a manager. A decision is a choice made from possible alternatives. Decision-making is therefore defined as the process of identifying and selecting a course of action to deal with a specific problem or take advantage of an opportunity. Decision-making is essential to determine the future direction of a company.

6.2 Nature of Decision Making

In a perfect world, managers would have all the information that they need to make good decisions. In reality, however, some things are not known and this will affect the quality of the decision. Factors such as uncertainty or risk will affect whether the decision made is good or bad.

6.3 Types of Decision

Managers are required to make many types of decisions as part of their job. Such decisions can range from being very simple to being extremely complicated. Decisions can be classified into the following categories.

6.3.1 Programmed Decisions

Decisions made on a routine basis:

- Ordering of supplies.
- Servicing of machines.

6.3.2 Non-Programmed Decisions

Decisions that are difficult to make and are made very irregularly.

- Complex decisions.
- Opening a factory overseas.

6.4 Decision Making Process

Decision-making is therefore a complex yet important responsibility of managers. To ensure that effective decisions are made, managers make use of the rational model of decision-making. This involves the following steps.

6.4.1 Investigate The Situation

Analysis of the problem is very important so that the causes and effects can be identified.

- What is the problem?
- Where does it occur?

6.4.2 Develop Alternative Solutions

The decision maker must bear in mind the organisation's objectives. Each alternative solution carries some risk.

6.4.3 Evaluate and Choose the Best Alternative

The decision maker must study each alternative and measure it against a list of criteria. The resources and constraints must be carefully considered.

- Advantages and limitations of each decision must be assessed.

6.4.4 Implement and Monitor the Decision

Decision-making does not end when the most appropriate alternative has been selected. Implementing the decision is equally important. Explanation to the staff is necessary. When plans are implemented, it is necessary to monitor and review their progress and rectify any problems.

- Modify and change the decision if necessary.

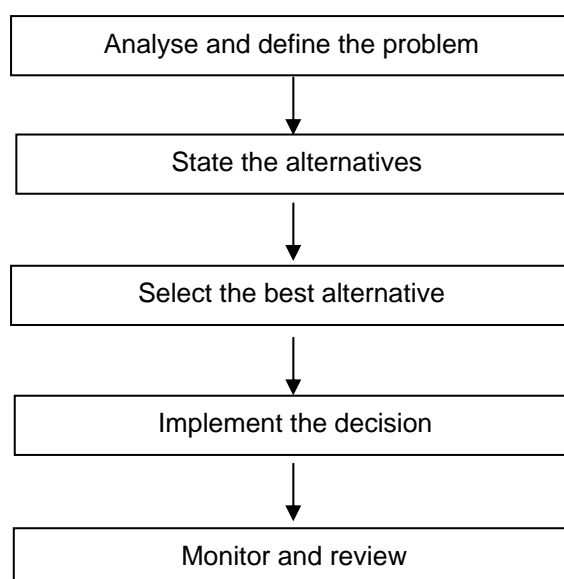


Figure 6.1 Decision Making Process

6.5 Group Decision Making

Managers can face problems in arriving at good decisions by themselves. Many companies allow employees to participate in decision-making.

6.5.1 Advantages of Group Decision Making

- More ideas/suggestions.
- Commitment and loyalty.
- Increased motivation.
- Communication and co-ordination.

6.5.2 Limitations of Group Decision Making

- Time consuming and costly.
- Possibility of dominance by one member.
- Compromise of decision.
- Conflicts and disagreements.

Topic 7 – Authority and Delegation

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7.1 Introduction

This lesson will focus on delegation of authority and centralisation of authority.

7.2 Authority Relationships

Two important concepts related to authority relationships in an organisation are line and staff concepts. These can be understood in terms of functions and authority.

7.2.1 Line Activities and Staff Activities

- Line activities are the key functions that are directly related to the goals of a company. In order to succeed, a company must perform these activities very well. Line activities are undertaken by line managers.
- Staff functions are those that are designed to indirectly support the line functions. Staff activities are undertaken by staff managers.

7.2.2 Line and Staff Authority

- Line authority is direct and absolute authority, given to a manager. Line authority allows a manager to make decisions and issue instructions to subordinates.
- Staff authority is usually given to staff managers. Staff authority only allows a manager to advise, guide and counsel.

In large companies, activities are often classified into line and staff and therefore both types of authority relationships exist between managers.

7.3 Delegation of Authority

7.3.1 Definition

Delegation is defined as the transfer of authority from the superior to the subordinate. In this way, the subordinate is allowed to make decisions relating to his work. However, although authority is delegated, the ultimate responsibility still lies with the superior.

7.3.2 Reasons for Delegation

- Insufficient time for managers to do everything by themselves.
- Complicated procedures and techniques.
- Size of organisation.

7.3.3 Advantages of Delegation

- Frees managers of routine tasks.
- Develops skills of subordinates.
- Greater involvement by staff.
- Improves morale and increases motivation.
- Better and faster decisions.

7.3.4 Barriers to Delegation

- Company atmosphere – whether the organisation is traditionally democratic or not.
- Managers' unwillingness to delegate.
- Employees' unwillingness to accept:
 - fear of criticism or dismissal;
 - lack of confidence in themselves;
 - not interested in expanding their jobs.
- Lack of incentives:
 - rewards must be adequate.

7.4 Centralisation/Decentralisation

Centralisation is the degree to which authority is retained at the top levels of the company. Decentralisation means that more authority is delegated to lower levels. There is no complete centralisation/decentralisation but rather a degree of each.

7.4.1 Advantages of Centralisation

- Consistency and standardisation of policies.
- Allows tight control.

7.4.2 Disadvantages of Centralisation

- Slow decision making.
- Inflexibility.
- Top management time is not well-utilised.

7.4.3 Factors Affecting Centralisation/Decentralisation

- Organisational environment.
- Size of organisation.
- Geographical location of business.
- Ability of lower level managers.
- Managers' preference.

Topic 8 – Co-ordination

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8.1 Introduction

After tasks have been divided into categories and departments created, the activities of each of the units must be co-ordinated. After all, the company is a system where all parts are interdependent. Co-ordination is the process of integrating the activities of the different departments in order to pursue organisational goals effectively.

Without co-ordination, people lose sight of their roles within the company. Communication is the key to effective co-ordination. Co-ordination is directly dependent on the transmission of information.

There are many ways in which organisations can try to achieve effective co-ordination.

8.1.1 Co-ordination Techniques

- Rules and procedures – standard procedures help to ensure everybody works in the same way.
- Chain of command – allows instructions and feedback to be communicated.
- Committees and task forces – members from different departments are able to exchange and share information.
- Liaison officers – each department appoints one person to be the contact point.
- Integrating managers – special managers are appointed to carry out co-ordination.
- Information systems – good communication systems allow rapid and easy transmission of information.

8.1.2 Consequence of Poor Co-ordination

Lack of co-ordination is extremely harmful to an organisation, creating chaos and inefficiencies. The productivity of the company suffers as jobs get delayed or are left undone. At the same time, it leads to frustration, dissatisfaction and lowers the morale of the workers.

8.1.3 Reasons for Lack of Co-ordination

- Size of company – the number of employees and size of the company's operations can create co-ordination problems.
- Management hierarchy – companies that have many levels in the organisation structure experience difficulties in co-ordinating.

- Differing objectives – often, people in an organisation have different views and opinions and this leads to problems.
- Human conflicts – individuals in an organisation may not be able to get along well with each other and may not co-operate in their specific job area.
- Lack of direction – lack of co-ordination could result if there are no proper goals/objectives set by top management to guide the lower levels.

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9.1 Introduction

The question of how to motivate employees in an organisation has always occupied the minds of managers. Despite a lot of research, there is no foolproof method that works in all cases. Nevertheless, it is the duty of managers to achieve the goals of the company and this can only be done with the help of the workforce.

Every action of managers provokes a reaction from the workers. Thus, it is not a choice of whether or not a manager motivates his staff, only of how it is done.

- Positive motivation includes pay, praise, and incentives.
- Negative motivation includes reprimand, demotion, and retrenchment.

Motivation is a human psychological characteristic that contributes to a person's degree of commitment. It includes the factors that cause, channel, and sustain an individual's behaviour. A basic model of how motivation works is shown below.

9.2 Theories of Motivation

Understanding workers and knowing how to motivate them is one of the most difficult tasks of managers. Many theories of motivation have been put forward over the years to help managers.

9.2.1 Maslow's Hierarchy of Needs

One of the earliest exponents of motivation theories was Abraham Maslow who interviewed many people and identified the types of needs they have. He believed that people act in certain ways to satisfy those needs.

Maslow's theory is based on the following suppositions about human behaviour.

- Human beings constantly experience wants. However, what they want depends on what they already have. As soon as one need is satisfied, another appears in its place.
- A satisfied need is no longer a motivator. Only unsatisfied needs motivate behaviour.
- Human needs are arranged on a series of levels, creating a hierarchy of importance. Needs at all levels are recurring in nature.

Maslow identified five levels of human need and people act in specific ways to satisfy these needs. These needs are shown in the following diagram.

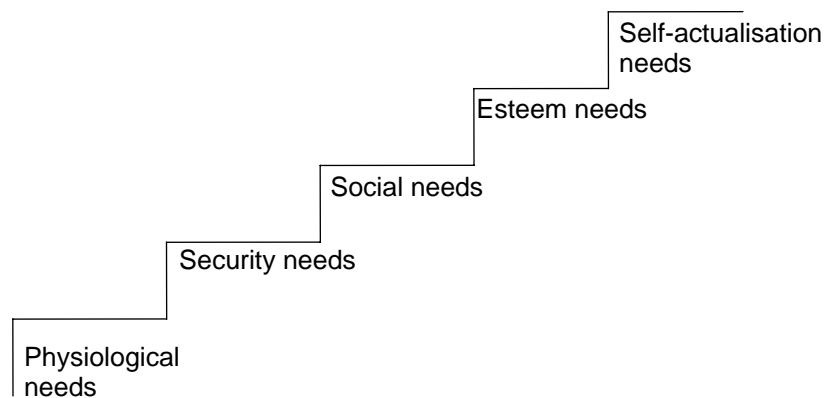


Figure 9.1 Maslow's Hierarchy of Needs

- Physiological needs – refer to the basic needs of all individuals and include the need for food, water, clothing and shelter.
- Security needs – refer to needs concerning both physical and emotional security. Individuals have a desire to be safe and free from harm.
- Social needs – humans are social beings and have a desire to belong to groups and be liked and accepted by others.
- Esteem needs – include needs for self-confidence, achievement, self respect and respect of others.
- Self-actualisation needs – represent the highest order of needs and refer to the desire to realise one's full potential.

9.2.2 Herzberg's Two Factor Theory

Herzberg studied different factors that motivate people and grouped them into two categories:

- Dissatisfiers or hygiene factors – these factors often contribute to employee dissatisfaction. They include:
 - pay;
 - company policies;
 - working environment;
 - relations with workers/supervisors/subordinates.
- Satisfiers or motivators – these factors are necessary in providing incentives and thus motivating employees to perform well. These include:
 - achievement;
 - recognition;
 - the nature of the work itself;
 - responsibility;
 - advancement.

Topic 10 – Leadership I

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10.1 Introduction

Leadership is the process of directing and influencing the task related activities of group members. Firstly, leadership involves other people. Secondly, leadership involves an unequal distribution of power between leaders and group members. The manager's ability to influence the organisation's members through leadership will determine the extent to which employees and their organisation realise their goals.

10.2 Sources of Power

Leadership results because managers possess power over their group members. Power is the ability to influence the behaviour of others. Within organisations, managers typically have five sources of power, as described below.

10.2.1 Legitimate Power

This is power vested in the manager due to the position he occupies in the organisation. Hence, the President has the greatest amount of legitimate power in an organisation.

10.2.2 Reward Power

This is the authority that a manager has, to decide on who should be rewarded and what types of rewards they should get.

10.2.3 Coercive Power

This type of power determines the manager's authority to punish individuals who do not perform as required.

10.2.4 Expert Power

This type of power is determined by the knowledge and skills of the manager.

10.2.5 Referent Power

This type of power is usually associated with the manager's personality and strength of character.

10.3 Approaches to Leadership

Research has focused on identifying the qualities of good leaders and the styles of leadership managers should use.

10.3.1 Traits Theory

The earliest efforts to understand leadership success focused on the leader's personal characteristics or traits. Traits are personal qualities (that distinguish the leader), such as intelligence and appearance. Traits are classified as follows:

- Physical characteristics – refer to looks, appearance and grooming.
- Social characteristics – these traits are related to the inclination to be sociable, have good communication skills and the ability to get along with others.
- Personality – personality traits are associated with the individual's unique character. Effective leaders usually exhibit an out-going, aggressive personality.
- Intellectual qualities – refer to the ability of the individual to use his intelligence to assess issues, make decisions and solve problems.
- Work related characteristics – these refer to the individual's attitude towards work, such as whether he/she is ambitious, achievement-oriented and sets high goals/targets to achieve.

10.3.2 Leadership Styles

This approach focuses on determining the styles of effective leaders. A leadership style is the way a leader behaves towards his followers. Three styles have been identified.

- Autocratic leadership style – autocratic managers centralise authority and retain all the power of making decisions themselves. They might not have the trust and confidence in their subordinates.

Leads to quick decisions and work done on time. However, demotivates employees.

- Democratic leadership style – democratic leaders believe in encouraging their subordinates to be involved in decision making. They welcome suggestions and feedback and are open to new ideas.

Encourages staff participation and improves staff morale, but is time-consuming.

- 'Laissez-faire' leadership style – this type of leader allows his subordinates almost total freedom. He leaves subordinates to freely set objectives and work procedures.

The manager is trying to develop the skills and talents of workers.

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11.1 Introduction

The last session explained some of the concepts related to leadership. In this lecture, we continue to explore further ideas in the study and application of leadership tools and techniques. First we consider another approach to leadership and then look at the choice of leadership styles.

11.2 McGregor's Theory X and Theory Y

Douglas McGregor concluded that how managers motivate and supervise their workers depends on their assumptions about their employees. He called them Theory X assumptions and Theory Y assumptions. Both of these represent the extreme boundaries within which any number of possible combinations may exist.

11.2.1 Theory X Assumptions

Managers who have such assumptions take a negative view of their employees. They believe that employees:

- hate work and will avoid work if possible;
- are interested only in money and job security;
- do not like responsibility;
- prefer to be directed.

11.2.2 Theory Y Assumptions

Theory Y managers have a generally positive perception of workers. They believe that workers:

- like to work and see work as natural as play;
- are committed, independent;
- are creative, exercise imagination and ingenuity.

11.3 Choice of Leadership Style

Modern approaches to leadership encourage managers to be flexible and adopt the appropriate leadership style, depending on circumstances. Some of the factors that influence the style of leadership are indicated below.

- Nature of task.
- Organisational climate.
- Expectations of superiors.
- Manager's past experience.
- Subordinates' characteristics

11.4 Leadership Activities

The following are common leadership activities.

- An effective leader resolves disagreements amongst members by arbitrating.
- Leaders often make suggestions rather than giving orders.
- Effective leaders provide objectives that are common and acceptable to the group.
- Leaders provide security by maintaining a positive and optimistic attitude, even in the face of problems.
- A leader represents followers on various issues common to followers. He/she acts as a symbol of unity for the followers.
- A leader inspires followers through attitude, behaviour and objectives.
- A leader acknowledges support of his/her followers and praises their effort and contribution.

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12.1 Introduction

In this lecture we explore the role that strategic management plays in organisational performance. First we consider the importance of strategic management and then we take a closer look at the strategic management process and the different types of organisational strategies that can be put in place.

12.2 Importance of Strategic Management

Strategic management is the set of managerial decisions and actions which determine the long-term performance of an organisation. It incorporates all of the basic management functions that we cover in this module.

Studies of factors that contribute to organisational performance have shown that there is a significant link between strategic planning and performance – in other words, organisations that use strategic management generally tend to perform better.

Strategic management is also important because organisations are typically made up of a variety of different divisions, departments, units and functions and it is vital that they are co-ordinated and focused on achieving an agreed set of objectives and goals. The strategic management process helps to ensure that this is the case.

Furthermore, strategic management is involved in many of the decisions that managers make. This includes managers in all industry sectors, including both the public and private sectors.

12.3 The Strategic Management Process

The strategic management process is a six step process that incorporates strategic planning, implementation and evaluation.

12.3.1 Identify Current Goals and Strategies

Managers need to identify the organisational goals currently in place in order to assess whether these goals need to be changed. Similarly, it is important to know the strategies currently being pursued.

12.3.2 External Analysis

The next step is to undertake an external analysis to take account of factors such as competitor activities and pending legislation that may impact upon the organisation. This should help to identify opportunities that the organisation can exploit, and threats that it may need to counter.

12.3.3 Internal Analysis

This step examines the organisation's resources and capabilities. Any activities that the organisation does well are referred to as strengths, whilst those that it does not do well (or any resources that it does not possess) are known as weaknesses. The internal analysis should also highlight the organisation's major value-creating skills, capabilities and resources – known as its core competencies. The combined external and internal analyses are called the SWOT analysis.

12.3.4 Formulating Strategies

Following on from the SWOT analysis, the manager needs to develop and evaluate strategic alternatives and then select the strategy (or strategies) that capitalise on the organisation's strengths and/or correct its weaknesses.

12.3.5 Implementing Strategies

No matter how effectively an organisation has planned its strategies, it cannot succeed unless they are implemented effectively. Top management leadership is an essential element of successful implementation.

12.3.6 Evaluating Results

The final step in the strategic management process is evaluating the results. This should include identifying any adjustments that may be necessary.

12.4 Types of Organisational Strategies

Organisational strategies include strategies at the corporate level, business level and functional level. Managers at the top level of the organisation are responsible for corporate-level strategies, mid-level managers are responsible for business-level strategies, and lower-level managers are responsible for functional-level strategies.

12.4.1 Corporate-Level Strategy

This is an organisational strategy that seeks to determine what businesses a company should be in, or wants to be in. There are three main types of corporate strategy:

- Growth strategy;
- Stability strategy;
- Renewal strategy (two main types – retrenchment and turnaround strategies).

12.4.2 Business-Level Strategy

This is an organisational strategy that seeks to determine how an organisation should compete in each of its businesses. Developing an effective business-level strategy requires a clear understanding of competitive advantage – what sets the organisation apart and gives it a distinct edge.

12.4.3 Functional-Level Strategy

This is an organisational level strategy that supports the business-level strategy. Traditional functional departments such as manufacturing, marketing, research and development and finance might all have their own individual strategies, but each of these must support the business-level strategy.

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13.1 Introduction

Communication touches every aspect of management. A manager has to communicate with others in order to carry out his tasks of planning, organising, leading and controlling. A manager also uses the information passed to him, to receive feedback and reach decisions.

Communication can be defined as the process by which information is exchanged and understood by two or more people.

13.2 Process of Communication

Communication is usually a complex process, and the risks of miscommunication are many. The process involves the following.

- Sender – the person who wants to communicate certain information to another party.
- Message – is encoded by the sender into symbols and gestures that the receiver can understand.
- Medium – is the mode of transmission; this could be written or oral, such as reports or interviews.
- Receiver – the receiver has to decode the message and translate it into information that is meaningful to him.
- Noise – any factor that disturbs, confuses or interferes with communication is noise.
- Feedback – the sender needs to receive feedback to ensure that the message has been received and understood.

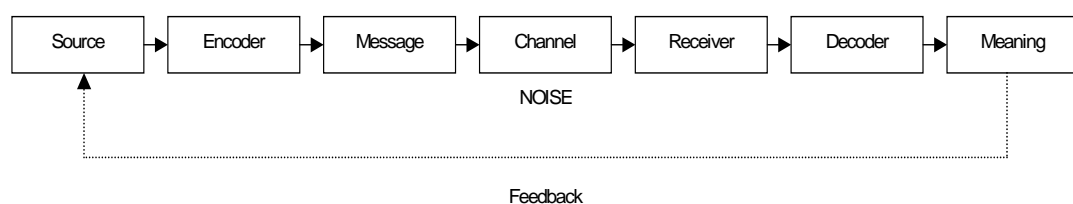


Figure 13.1 Communication Process

13.3 Communication Media

There are a few common channels of communication that people use when conveying information to each other. Details of these follow.

13.3.1 Written Communication

This includes all written forms of communication such as letters, reports, memos, diagrams, charts and graphs.

13.3.2 Verbal Communication

This includes all forms of oral communication, usually face to face, or via the telephone.

13.3.3 Non-Verbal Communication

This is also referred to as 'body language' and includes all gestures and expressions.

13.4 Organisational Communication

In organisations, information flows in three main ways, described below.

13.4.1 Vertical Communication Flow

This includes both downward and upward communication. Managers pass instructions and orders to subordinates (downward) and receive feedback on tasks, complaints and grievances from the employees (upward).

13.4.2 Lateral Communication Flow

This type of communication takes place when employees at the same level in a company interact with each other and share information and ideas.

13.4.3 Informal Communication Flow

This is the type of communication that does not follow the official channels of communication. It is also commonly referred to as 'the grapevine'.

13.5 Barriers to Communication

Effective communication is not easy to achieve due to the following problems:

- Use of wrong language or words – some people may have a poor command of language; others may use jargon or slang words that not everybody understands.
- Differing perceptions – words or pictures may carry different meanings for different people.

- Use of wrong media – the choice of media may cause disruption or distortion to messages.
- Filtering of messages – this means that parts of messages are left out, which may alter the meaning (or understanding of the meaning).
- Noise – this causes interference and disruption as well.
- Status – people evaluate where or from whom the message is coming; their level of attention is therefore influenced.
- Information overload – this is when individuals are given too much information and they cannot absorb all of it.

13.6 Overcoming Barriers to Communication

The obstacles to effective communication mentioned above can be reduced by using the following principles of communication.

- Select words carefully – the sender must be careful of the words used to communicate information. Ambiguous words should be avoided.
- Use of feedback – obtaining feedback from the receiver allows the sender to know if the information has been correctly transmitted and understood.
- Plan carefully – the sender must organise his/her thoughts and ideas. The right medium of communication must be chosen.
- Create atmosphere of trust – in an organisation, managers must encourage open and frank communication.
- Use multiple channels – sometimes more than one channel or medium is necessary. For example, a verbal instruction can be followed up with a written note.

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14.1 Introduction

It is important for managers to ensure that all activities in a company are progressing properly. Control is defined as the process of monitoring the performance of subordinates and the entire company, and taking corrective action if needed.

14.2 Control Process

There are three main steps in the control process.

14.2.1 Set Performance Standards

Managers must set goals for each department and the individual workers in the department. These goals are then used as the standard for comparison.

Examples of standards: the number of units sold; the length of steel pipes; the weight of a sack of rice.

14.2.2 Measure and Evaluate Performance

Here, the manager must regularly receive feedback on the performance of his workers and assess whether the job is proceeding according to plan.

14.2.3 Take Corrective Action

Once the progress has been evaluated, any problems should be noted and immediate action taken to rectify them.

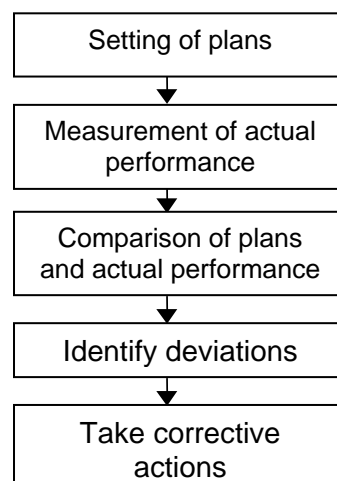


Figure 14.1 Control Process

14.3 Need for Control

An organisation tries to achieve its goals through group members whose effort must be co-ordinated and directed towards common objectives. Without some form of control, a group will disintegrate and chaos may result. Therefore, a mechanism is required to keep the efforts of group members directed towards the achievement of common goals.

14.4 Control Tools

Many types of control techniques or tools have been devised to assist managers in maintaining effective control over their companies. The most important of these tools are the financial controls that many companies use. These include the use of financial statements to chart the progress of a company. Examples of financial statements are the Balance Sheet and the Profit and Loss Statement. The other important financial control tool is budgetary control, which is discussed below.

The budgeting process uses budgets to monitor the progress of departments. A budget is a quantitative statement of the resources set aside for carrying out specific activities in a given period of time.

Budgets are popular tools for planning and controlling the company's operations. Examples of budgets normally prepared in a company are cash budget, sales budget, and production budget. Budgeting is, therefore, the process by which managers check on the progress of the company. Some examples of common types of budgets prepared by companies are:

- the *sales* budget, which shows the expected total sales;
- the *production* budget, which shows the units to be produced;
- the *labour* budget, which shows the number of labour hours required;
- the *cash* budget, which shows the expected cash inflow and outflow.

14.4.1 Advantages of Budgeting

- Forces people to think ahead.
- Serves as an instrument for co-ordination.
- Forces managers to quantify their plans.
- Ensures proper usage of resources.
- Provides a means of detecting problems.
- Evaluation can be done easily.

14.4.2 Limitations of Budgeting

- Difficulty in forecasting the future.
- Introduces rigidity.
- Time consuming and complex.
- Disagreement on standards.

14.5 Characteristics of Effective Controls

Control systems that are developed and implemented by companies should have the following features so that they are effective in helping the company monitor its activities.

- Standards must be high but achievable – targets that are too high mean that there will always be a shortfall.
- Number of controls must be limited – controls should focus on key areas.
- Deviations must be reported promptly – feedback must reach the manager concerned quickly.
- Controls should be cost effective – if the cost of implementing is more than the benefits gained, the company must reconsider the need for the controls.
- Controls must be simple – standards should be clear, well defined and easily understood.
- Controls must be flexible – the system allows for changes, if needed.