CHAPTER 1

NATURE AND SIGNIFICANCE OF MANAGENMENT

MANAGEMENT CONCEPT

No organization can work smoothly and efficiently without management. In simple meaning, management means managing men. But in business, it means managing human and non human factors. These factors are called inputs or resources. These inputs consist of Men, material, machines, methods and money. They are popularly known as five M's of management.

DEFINITION

- Management is the art of getting things done through others.
- It is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims.

CHARACTERISTICS OF MANAGEMENT

i. **Management is a goal oriented process.**
Every organization has a set of basic goals for its existence.

ii. **Management is all pervasive**
Management is a universal phenomenon and it can be used everywhere.

iii. **Management is multidimensional**
Generally management is a three dimensional activity that are management of work, management of people and management of operations.

iv. **Management is a continuous process**
It is a never ending process, starts from planning and followed by organizing, staffing, directing and controlling.

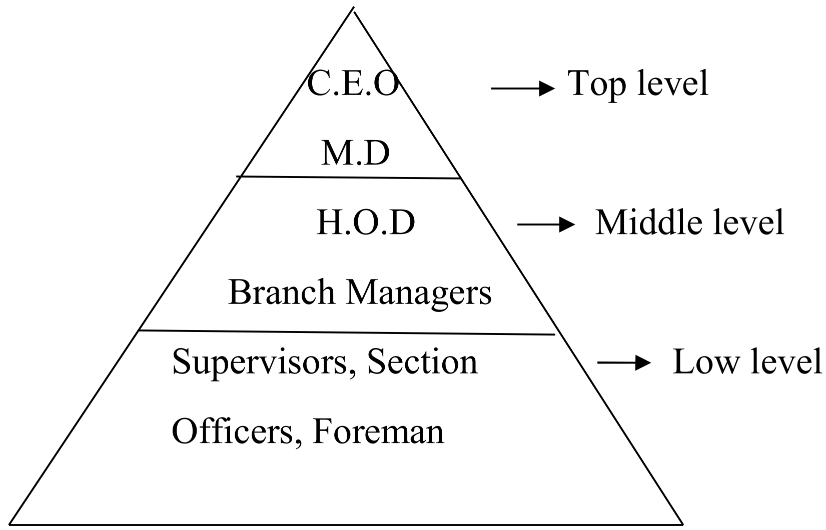
v. **Management is a group activity**
All organization consists of group of people with different needs. But as a member of the organization, they work together for the attainment of common goal.

vi. **It is a dynamic function**
Management principles and techniques are dynamic. Management has to make changes in their goals and objectives according to the changes in the environment.

vii. **Management is an intangible force**
Sometime management is referred to as intangible /unseen force. But its presence can be felt by the result.

Levels of Management

The **hierarchy** of different management position from top to bottom is called as levels of management.



1. **Top Level Management**

It consists of board of directors, chief executive officers, managing directors, chairman etc.

Functions

a) Formulates policies and plans
b) Organize the business into different departments and appoint department heads.
c) Provide direction and leadership to the organization as a whole.
d) Coordinates and controls the activities of different departments.
e) Maintain relation with government, workers, organizations and other outside groups.

2. **Middle Level Management**

This level consist of branch managers, heads of the departments etc.

Functions

a) Implements the policy decision taken by the top management.
b) Transmit orders and instructions to lower level.
c) Communicate suggestions and problems of lower level upwards.
d) Act as a link between top management and lower management.
e) Take department decisions.
f) Guide and inspire lower level managers to attain overall objectives of the organization.

3. **Lower Level Management/Supervisory Level Management**

This level includes foremen, supervisors, Accounts officers, sales officers etc.

Functions

a) Planning day to day work.
b) Issuing orders and instructions to employees.
c) Arranging materials, machinery, tools etc.
d) Explaining work procedures and supervising the workers.
e) Evaluation of performance.
f) Taking corrective action if necessary.
g) Sending reports to higher authorities .
h) Communicating the grievances and suggestions to higher authorities.

Nature of Management

Management experts have different views on the nature of management. Some say it is an art and others say it is a profession.

1 .Management as a science

Some management experts say that management has some unique features in common with science.

Features of Science are :-

1. Systematic body of knowledge

Science is a systematized body of knowledge developed after long years of scientific methods of observations. Management also satisfies these features as it has a systematized body of knowledge.

2. Principles based on Experimentation

Scientific principles are formulated on the basis of continuous observations and experiments. Management satisfies this feature but the outcome cannot be predicted, because management deals with human beings.

3. Principles are Universally Applicable

Scientific principles can be applied in all situations and all times as management principles are not as exact as principles of science, they cannot be considered universal in character.

4. Cause-effect Relationship

Principles of science establish a cause effect relationship between various factors. In management principles it also establishes cause effect relationship, but not completely.

Some principles of science are not seen in management. Therefore it is not possible to say that management is an exact science like physics or chemistry. As management is related to man we can say management is a social science.

II .Management is an art

Art is the application of knowledge and personal skills to achieve desired result with efficiency.

Features of Art are

1. Personal Skill

Each artist has his own style and approach. Same is true in case of managers also.

2. Practical Knowledge

A person cannot become a successful manager by simply having good theoretical knowledge. He must have practical knowledge also. So this feature of art is present in management.

3. Concrete Result

Like an artist, every manager applies his skill and knowledge to attain the desired result.

4. Perfection through practice

Every artist becomes more efficient through constant practice. Similarly a manager gains experience and improves through regular practice of management.

Some principles of the art are not seen in management. As management has matched with other features of art in common , we can say that management is an art.

III. Management is a profession

Profession is an occupation supported by specialized knowledge, training and skill. Its features are:-

1. Well defined body of knowledge

Like profession, management has a systematic body of knowledge built up by management practitioners and thinkers over a period of time.

2. Formal Training

Profession needs formal training and experience. Several educational institutions all over the world offer facilities for training in management.

3. Restricted Entry

Entry to a profession is restricted through an examination. However in practice no qualification is prescribed to become a manager.

4. Professional Association

In every profession there is a representative body. But it is not compulsory for managers to be members of a management association.

5. Code of Conduct

Members of a particular profession have to follow the rules and regulation prescribed by the association. But in management, there is no uniform code of conduct.

6. Service Motive

Profession involves the application of expert knowledge for the benefit of the society. Management is expected to function efficiently at the lowest cost so as to serve the interest of employers, employees, consumers, suppliers, society etc.

Co-ordination

Co-ordination is the process of integrating the activities of different units of an organization to achieve the organizational goals. Co-ordination is considered as the essence of management and it is needed at all levels of management.

Elements of Co-ordination

1. Integration Integrating or unification of unrelated activities to a common direction

2. Balancing

Balancing the activities of different departments to achieve common goal.

3. Timing

Examining whether the activities of the organization as completed as per the time schedule or note.

Co-ordination and Co-operation

Co-ordination and co- operation are different.

Co-operation is voluntary attitude on the part of the members, while co-ordination is a deliberate effort on the part of the manager.

Co-operation is the base on which co-ordination can be achieved.

Co-operation originates from informal relationship. Co-ordination is accomplished through formal relationship.

Features or Nature of Co-ordination

1. Essence of Management

Co-ordination is present in each function of management and required at all levels and in all departments.

2. Continuous Process

It is a continuous process carried on by all the levels of management.

3. Group Effort

Co-ordination applies to a group and not an individual effort.

4. Unity of Effort

It brings unity of action among various departments and inter departments activities of an organization.

5Common purpose

Co-ordination has a common purpose of getting organizational goals achieved.

6. Deliberate Effort

Co-ordination is not voluntary. A manager has to co-ordinate the efforts of different people in a conscious and deliberate manner.

CHAPTER - II

PRINCIPLES OF MANAGEMENT

A principle is a basic statement that provides understanding and guidance to thinking and action. Management principles are statements of fundamental truths that provide guidelines for managerial decision making and action. Management principles are defined as the guiding rules or laws for managerial action. These are fundamental truth of general validity.

Principles of Management by Henry Fayol (1841-1925)

Henry Fayol is considered as father of general management. He was a French industrialist. According to him, principles of management are flexible and not absolute.

1. Division of Work

Work is divided into small tasks and is assigned to each individual worker according to his ability and qualification. Division of work makes task simpler and leads to specialization.

2. Authority and Responsibility

According to this principle, authority and responsibility should go hand in hand ie there should be a balance between authority and responsibility. Authority is the right to give orders and instruction and the power to get them executed. Responsibility means the obligation to complete the job assigned as desired by the authority.

3. Discipline

Discipline means obedience to the rules and regulations of the organization and respect to authority. It must be followed by the employees and personnel at all levels of management.

4. Unity of Command (One man one boss)

According to this principle, an employee should get the orders and instructions from only one superior at a time. It helps to avoid confusion and delay and to maintain discipline in the organization.

5. Unity of Direction (One unit, one plan, one head)

Each group having the same objective must have one head and one plan. This ensures unity of action and co-ordination.

6. Subordination of Individual Interest to the General Interest

Interest of an organization should take priority over the interest of any individual employee. The interest of the organization should never be sacrificed to satisfy the individual interest.

7. Remuneration of Employees

Remuneration should be just fair and equitable. It should act as a source of satisfaction and means of motivation. It should be within the paying capacity of the company.

8. Centralization and Decentralization

The concentration of decision making authority is called centralization where as its dispersal among various levels are known as decentralization. Fayol advised that there should be a balance between centralization and decentralization.

9. Scalar Chain – (Chain of Command and Chain Communication)

The formal lines of authority from highest to lowest ranks are known as scalar chain. The chain shows its relation between the superiors and the lower ranked employees.

Fayol insists that the communication should always be through this chain.

Scalar chain has the following drawbacks

1. Time consuming (delay)

2. Distortion of messages

To overcome these drawbacks Fayol suggest **'gang plank'** which permits two officers of the same level to communicate with each other.

10. Order

The principle of order states that a place for everything (everyone) and everything (everyone) in its (his/her) place. This will lead to increased productivity and efficiency.

11. Equity

The management should treat all the employees of the institution without any discrimination. This will ensure loyalty and devotion.

12. Stability of Personnel

Employees should not be shifted from their position frequently. This helps them to work with self confidence. It will reduce employee turnover.

13. Initiatives

Initiative means taking the first step with self-motivation.

It means eagerness to start action without asking to do so. This can be achieved by giving a chance to the employees in the decision making process of the organization.

14. Espirit De corps (Team Spirit) - Union is Strength

This is based on the general truth that 'union is strength'. This will give rise to a spirit of mutual trust and belongingness among team members (extension of unity of direction).

Difference between Unity of Command and Unity of Direction

Unity of Command	Unity of Direction
One subordinate should receive orders from and be responsible to one superior	Each group of activities having same objective must have one head and one plan
Its aim is to prevent dual subordination.	Its aim is to prevent overlapping of activities.
It affects an individual employee	It affects the entire organization

Principle	Positive Effect	Negative Effect
Division of works	Leads to specialization Improve efficiency	Lack of Efficiency No specialization
Authority and Responsibility	No misused of authorities Meeting responsibility on time	Delay in work completion Misuse of authority
Discipline	Improve efficiency Systematic working in the organization	Disorder, confusion and chaos (complete disorder) Wastage of resources Delay in work
Unity of Command	No confusion in the mind of subordinate no clashes Improve efficiency	Confusion in the mind of employees Ego clash among superiors Difficulty in achieving organizational goals

Centralization v/s Decentralization	Fast decision at department level and strict control Benefit of both	Complete centralization result in delay, over load, dissatisfaction etc. Complete decentralization leads to anarchy
Remuneration	Employees get motivated Initiative and commitment among employees	Increase in employee turnover Dissatisfaction among employee
Scalar chain	Systematic flow of information Maintain discipline and Unity of command	Communication gap No clarity in authority responsibility relationship
Order	No wastage of time Smooth and systematic working	Wastage of time in search of men and material May lead to indiscipline
Equity	Employees get satisfied Motivate the employees and	Dissatisfaction in employees Increase in labour turnover

	boost up their morale	Unhealthy relations
Stability of Tenure	Improve efficiency level Employee satisfaction	Wastage of resources in learning new job Dissatisfaction among employees
Initiative	Develop feeling of belongingness in employees Healthy relation Satisfaction and completion of job on time	Employees work below their capacity De motivation among employees
Espirit De corps	Development of team spirit Achievement of group goal	Team goal may not be achieved No team spirit Stress on individualism

** Scientific Management ** (F. W. TAYLOR)

Scientific management means applying scientific tools, method and trained personnel in order to increase the output.

Principles of scientific management

1. **Scientific methods not Rule of Thumb**

Taylor advocated that traditional rule of thumb method should be replaced with scientific methods. At every stage of work scientific methods should be adopted. This is the basic principle of scientific management

2. **Harmony, not discord**

This principle emphasized that there should be complete harmony between management and workers. To achieve this state, there should be a revolutionary change in the attitude of both workers and managers. Taylor called it as 'mental revolution'.

3. **Co-operation, not individualism**

This principle is an extension of principle of harmony, not discord. There should be complete cooperation between labour and management instead of individualism. Both should realize that they need each other.

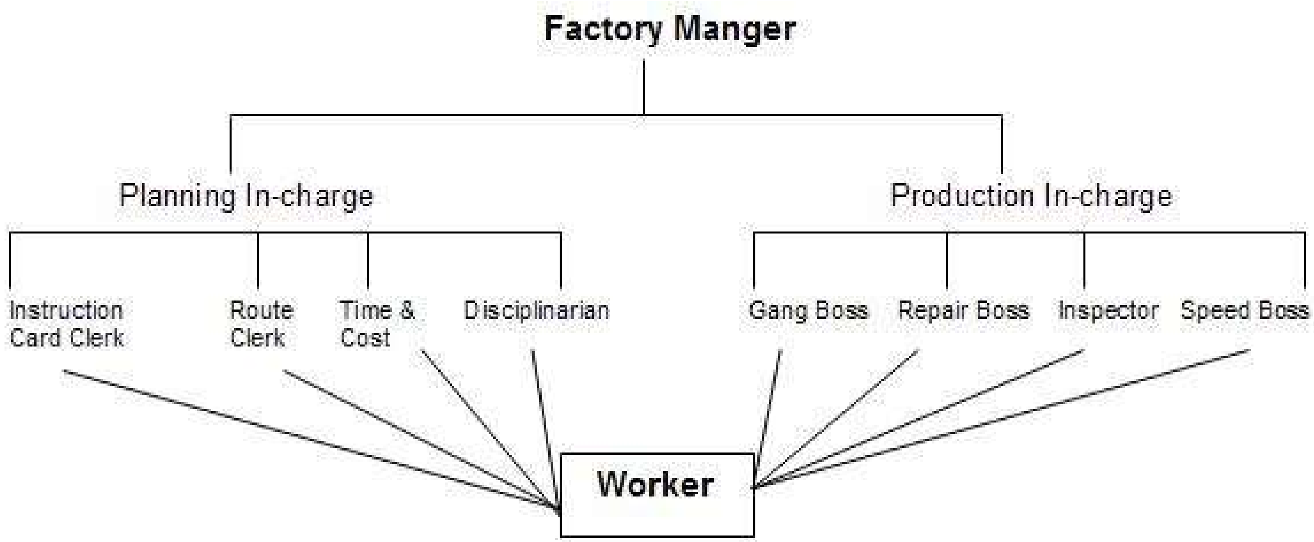
4. **Development of each and every person to his/her greatest efficiency and prosperity**

Industrial efficiency depends upon the efficiency of workers. Employees should be scientifically selected. Work should be assigned to each to suit his physical, mental and intellectual capabilities. Employees should be sent for training from time to time to update their knowledge. This will ensure greatest efficiency and prosperity for both workers and management.

Techniques of Scientific Management

1. Functional Foremanship

To improve the quality of supervision and control of work, Taylor Suggested the technique of functional foremanship. Under this scheme task of supervision is divided into several specialized functions and each function is entrusted to a specialist foreman. Taylor believed that a single supervisor cannot be competent to supervise all functional matters. Under functional foremanship – planning and execution are separated. Each worker will have to take orders from these eight foremen.



Route Clerk

Lay down the sequence of operation.

Instruction Clerk

Prepare detailed instruction regarding different aspects of work such as machines and tools used, techniques etc.

Time and Cost Clerk

Sends all information relating to the pay of the workers and to secure proper return of work from them.

Disciplinarian

Deal with cases of breach of discipline and absenteeism .

Gang Boss

Assembles and setup tools and machines and teach the workers to make all their work motions in the best way.

Repair Boss

ensures that each worker keeps his in good order.

Speed Boss

Ensures that machines and run at their best speed and job completion on time.

Inspector

Ensure the work of right quality of right standard.

2. Standardisation and simplification of work

Standardization refers to the setting standards for every business activity. It can be standardization of raw material, machinery, method, process, product etc. These standards are the benchmarks which must be adhered to during production.

Simplification aims at eliminating unnecessary diversity of products. It results in saving of cost of labour, machines and tools.

3. Method Study

The main objective of method study is to find out ***one best way*** of doing the job. Its aim is to minimize the cost of production, maximize the quality and satisfaction of the consumer.

4. Motion Study

Motion study refers to the ***study of movements*** (men, materials, machines) while doing a typical job. Its aim is to eliminate unnecessary movements.

5. Time Study

It determines ***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 incentives schemes and determine labour cost.

6. Fatigue Study

Fatigue study seeks to determine the amount and frequency of rest internal in completing a task. This will result in increased productivity.

7. Differential Piece Wage System

Differential piece rate system is a method of wage payment in which efficient and inefficient workers are paid at different rates. This system rewards an efficient worker by paying him a higher wage rate and penalises the slower worker by paying him a lower wage rate.

CHAPTER III

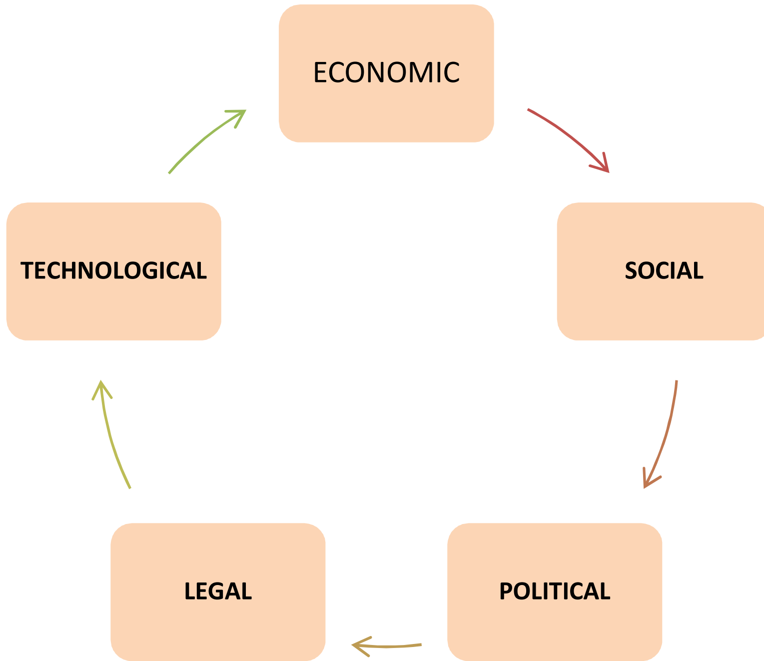
BUSINESS ENVIRONMENT

Meaning

Business environment means external factors and forces that affect the operations of a business enterprise. It includes economic and non economic factors.

It is the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise. But they may affect its performance.

Dimensions/Components of Business Environment



1. Economic Environment

Economic Environment consists of -

GDP, Inflation Rate, Interest Rate, Value of rupee, Stock market indices, Tax rate, Change in disposable income of people etc..

The businessmen should carefully scrutinize the various aspects of economic environment and take most appropriate measures to deal with these elements.

2. Social Environment

The social environment of business includes the social force like-

Customs and Traditions, Values, Social Trends, Fashion, Society's expectation from business etc..

3.Technological Environment

It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

Eg:- Type writer – Computer

Ordinary Camera – Digital Camera

Fountain Pen – Ball point pen.

4. Political Environment

It includes political conditions such as general stability and peace in the country and government attitude towards business.

5. Legal Environment

It consists of various laws and administrative orders of the government, decision of various commissions and government agencies and judicial system of the country.

Importance of Business Environment

1.It enables the firm to identify opportunities and getting the first mover advantage.

Environmental understanding enables an enterprise to identify business opportunities. Early to identification of opportunities helps the enterprise to be the first to exploit them.

Eg. Wonderla, Amazon, Maruthi

2.It helps the firm to identify threats and early warning signals.

Environmental awareness can help managers to identify various threats and to take steps in time to face them.

Eg.: Chinese product , Entry of MNC

3.It helps in tapping useful resources

Environment scanning helps the producers to collect in advance the required raw materials to meet the changes in demand.

4. It helps in coping with rapid changes.

All types of enterprises are facing rapid changes in their environment. Inorder to effectively cope with these changes; managers must understand the environment and develop suitable courses of action.

Eg BSNL -- JIO

5.It helps in assisting in planning and policy formulation

Understanding and analysis of environment serves as the basis for deciding the future course of action (planning) and in framing guidelines for decision making (policy).

6.It helps in improving performance

The business enterprise that continuously monitor their environment and adopt suitable business practices can improve their present and future performance.

Economic reforms

As a part of economic reforms, the government of India announced a new industrial policy in 1991.

Features of Industrial Policy

Reduce the number of industries to six which require compulsory licensing.

De-reserved many industries which where earlier reserved for the public sector.

Disinvestment of many public sector companies.

100% foreign direct investment in many activities.

Setup foreign investment promotion board.

Liberalisation, Privatisation and Globalisation (LPG) are the guiding principles of the new economic policy.

1. Liberalisation

It means liberating the economy from the legislations and restrictions on economic growth.

Liberalisation puts an end to the license-permit-quota raj.

Its features are –

Abolition of licensing requirement in most of the industries except a short list.

Freedom in deciding the scale of business activities

Removal of restrictions on the movement of goods and services.

Freedom in the fixation of prices of goods and services.

Reduction of tax rates.

Simplification of procedures for imports and exports.

2. Privatisation

Privatization is the opposite of nationalization. It aims at providing greater role to the private sector in the nation building process and reducing the role of public sector. It involves disinvestment of a part of shares held by the government and dereservation of areas, earlier reserved for public sector.

3.Globalisation

It means integrating various economies of the world into global economy. It means free movements of goods capital and labour across the global economy. Globalization is not a policy it is a fact or phenomenon.

Liberalization and privatization are policies. Globalization involves increased level of interaction and inter dependence among the various nations. Political boundaries no longer act as a barrier for business to serve a distant customer.

Impact of changes in government policy on business and industry

(New Industrial Policy)

1. Increasing competition

Liberal licensing and entry of foreign firms made competition for Indian firms.

2. More demanding customers

Customers have wider choice and they are well informed. Hence they have become more demanding.

1. **Rapidly changing technological environment**

Increased competition forced firms to develop new ways to survive in the market.

4.Necessity for Change

The market forces have become not stable as a result of which the business enterprise have to continuously modify their operations.

5.Need for developing human resources

The new market conditions require people with higher competence and greater commitment.

6.Market Orientation

There is shift in market orientation, as the firm has to study and analysis the market first and produce goods accordingly. (Customized production)

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The process by which an organization monitors its environment is called *environment scanning.*

Foreign trade balance- economic environment

Composition of family- social environment

Money supply in the economy – economic

Level of literacy – social

Disinvestment policy – economic

Labour law – legal

Growing consumerism – social

RBI reduced CRR – economic

RBI is a key regulator of the country’s economic environment

CHAPTER – IV

PLANNING

Meaning

Planning is a basic managerial function. It is an arrangement for doing something, considered in advance. Planning means deciding in advance what is to be done in future. It is an intellectual process of thinking before doing. Planning involves setting objectives and developing appropriate courses of action to achieve these objectives. It bridges the gap between where we are and where we want to go.

Definition

According to Henry Fayol, ”Planning is deciding the best alternative among others to perform different management operations in order to achieve pre-determined goals”

Features of Planning

The main features of Planning are as follows

1. Planning focuses on achieving objectives

All plans are formulated to achieve certain objectives. The purpose of every plan is to facilitate the accomplishment of organization’s purpose and objectives.

2. Planning is a primary function

Planning lays down the base for other functions of management. All other management functions are performed with the framework of the plans drawn. Thus planning precedes other functions. This is also referred to as the primacy of planning.

3. Planning is pervasive

Planning is required at all levels of management as well as in all departments of the organization.

4. Planning is continuous

Planning is an ongoing process. Plans are prepared for a specific period, and at the end of which new plans are to be drawn. Similarly changes in business environment requires revision of old plans. Thus a plan is framed, implemented, modified and is followed by another plan and so on. Hence it is a continuous process.

5. Planning is futuristic

Planning involves looking ahead and preparing for the future. The purpose of planning is meet future events effectively to the best advantage of an organization.

6. Planning involves decision making

Planning involves careful evaluation of various alternatives available and choosing the most appropriate one. Thus it is concerned with decision making.

7. Planning is a mental exercise

Planning is a mental exercise as it requires creativity, imagination, foresight and sound judgment. It is an intellectual activity of thinking rather than doing.

Planning Process[Steps]

1. **Setting objectives**

The first and foremost step in the planning process is setting organizational objectives or goals. It specify what the organization wants to achieve. Objectives should be stated clearly for all departments, units and employees.

2. **Developing Premises**

Planning is concerned with the future, which is uncertain. Therefore, the managers is required to make certain assumptions about the future. These assumptions are called premises.

3. **Identifying alternative courses of action**

Once objectives are set and assumptions are made, then the next step is to identify all possible alternative course of action.

4. **Evaluating alternative courses**

The positive and negative aspects of each proposal need to be evaluated in the light of the objective to be achieved, its feasibility and consequences.

5. **Selecting the best possible alternative**

This is the real point of decision making. The best alternative has to be adopted, which must be the most feasible, profitable and with least negative consequences.

6. **Implementing the plan**

This step is concerned with putting the plan into action. The managers start communicating the plans to employees and initiate them to carry on the activities according to specifications of plans.

7. **Following action**

The manager monitor the plan carefully to ensures that the activities are performed as per the schedule. Continuous monitoring also aims to make modification in time to cope with environment.

Types of Plans

❖ **Single use Plan**

Single use plan is one time plan specifically designed to achieve a particular goal. The are for non-recurring situations .These plans include budgets, programmes, projects.etc.

❖ **Standing Plan**

A standing plan is used for activities that occur regularly over a period of time. It is designed to ensure that internal operations of an organization run smoothly. Standing plans included policies, procedures, methods and rules.

Objectives

Objectives is the destination which an organization wants to achieve .Objective are the ends towards which activities are directed. Eg: Increase in sales by 10% in 2016-17.

-Objectives are determined by the top management

-It may be short term or long term.

-They are end points of planning.

Strategy

Strategy is a comprehensive plan to achieve the organizational objectives. It includes three dimensions.

a) Determining long term objectives.
b) Adopting a particular course of action.
c) Allocating resources necessary to achieve the objectives.

Eg*:* *Sales Promotion Programme*

Policy

Policies are general statements that guide thinking or channelize energies towards a particular directions. It defines the boundaries within which decisions are to be made. Eg: “*No credit sale*”. “ Promotion is based on merit only”.

-They are formulated by the managers of all levels.

-Policies may not have a time dimension.

-They determine how the work is to be done.

Procedure

A procedure is a chronological sequence of routine steps on how to carryout activities. They are designed to execute policies and achieve objectives. **Eg**: *Purchase Procedure*, *Selection Procedure*.

-It is flexible as compared to rules

-Its objective is to bring uniformity in performing activities in organization.

-There is no penalty for the violation of procedure.

Rules

Rules are specific statements that inform what is to be done. They must be followed strictly and one cannot make any changes in them.

Eg: *Smoking is prohibited inside the factory premises.*

-It is rigid and no scope for deviation.

-The guilty has to face penalty in case of violation.

-It act as a guide to behavior.

Method

Methods are standardized ways or manner in which a task has to performed considering the objectives.

Eg: *Training method*

Programme

These are the detailed statements about a project which outline the objectives, policies, procedures, budgets which are to be implemented in the project.

Eg: *Construction of a shopping mall*, *Development of a new product*

Budget

A budget is a statement of expected results expressed in numerical terms, for a definite period of time in the future.

Eg: *Sales budget*, *Cash budget*

Differences between standing plans and single use plans

	Basis	Standing plans	Single use plans
	Nature	Relatively stable and used again and again	Less suitability and they are discarded when goal is achieved
	Objective	They are developed for activities which are recurring in nature.	They are developed for activities which are not likely to be repeated in future.
	Scope	They have wide scope	Generally have narrow scope as they are used for a specific situation.
	Period	Formulated for a long period	Generally formulated for a short period.

CHAPTER – V

ORGANISING

Meaning

The word organizing is used both in the sense of a process and a structure. Organizing as a process refers to ***identifying and grouping various activities and bringing together physical, financial and human resources and establishing productive relations among them for the achievement of specific goals.*** The organizing function leads to the creation of the organizational structure, which includes the designing of roles (jobs) and defining inter relationship between these roles. It enables the people to work collectively and effectively for common purpose.

Definition

"Organizing is the process of identifying and grouping the work to be performed, defining and delegating responsibilities and authority and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing objectives"[Louis.A.Allen].

Importance of Organising

1. Benefits of specialization

    Organizing facilitate systematic allocation of work. Repetitive performance of a particular task allows a worker to gain experience in that area and leads to specialization. Such specialization helps to reduce workload and to enhance productivity.

2. Clarity in working relationship

The establishment of working relationships clarifies lines of communication and specifies who is accountable to whom. It helps in fixing responsibility and specifying the extent of authority of each job position.

3. Optimum utilization of resources

The proper assignment of jobs avoids overlapping of work and also makes possible the best use of resources. This help to prevent confusion and to minimize wastage of efforts and resources.

4. Adaptation to change

The process of organizing allows a business enterprise to accommodate changes in the business environment.

5. Effective administration

Organizing provides a clear description of jobs and related duties. Clarity in working relationship enables proper execution of work. The authority and responsibility of each job position are clearly defined. All these leads to effective administration.

6. Development of personnel

Organizing stimulates creativity amongst the managers. Effective delegation of authority allows managers to reduce their work load. It provides them an opportunity to innovate .Delegation also develops in the subordinate the ability to deal with challenges and enables them to realize their full potential.

7. Expansion and Growth

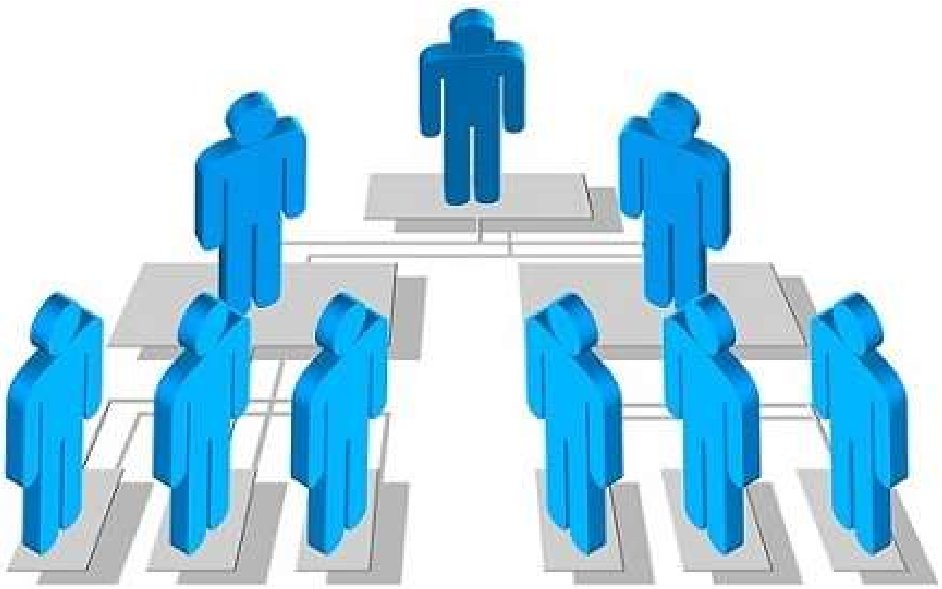
Organizing helps in the growth and diversification of an enterprise. It allows a business enterprise to add more job positions ,departments, diversification of product lines etc.

Organization Structure

Organisation structure is the established pattern of relationship among various job positions of an enterprise. It can be defined as the frame work within which managerial and operating tasks are performed. It specifies the relationship between people, work and resources.

Span of Management (Span of control)

Span of management refers to the number of subordinates that can be effectively managed by a superior. This determines the levels of management in the structure.



Types of organization structures

1. Functional Structure

A functional structure is an organizational design that groups similar or related jobs together. There is a separate department for each major function.

Suitability

Functional structure is most suitable, when:

a) Size to the organization is large

b) Organization has diversified activities
c) Operations require a high degree of specialization.

Advantages

1. Specialization

A functional structure leads to occupational specialization. This promotes efficiency in ultilisation of manpower.

2. Better control and co-ordination

It promotes control and co-ordinates within a department because of similarity in tasks being performed.

3. Minimum duplication

Duplication of works is avoided and there by leading to reduction in costs.

4. Easier Training

Training of employees become easier because , every employee requires limited skills.

5. Due attention

Functional structure ensures that different functions get due attention.

Disadvantages

1. Narrow Perspective

Functional heads may focus more on functional interests than on overall objectives.

2. Problems in co-ordination

There may be lack of co-operation and co ordination between departments.

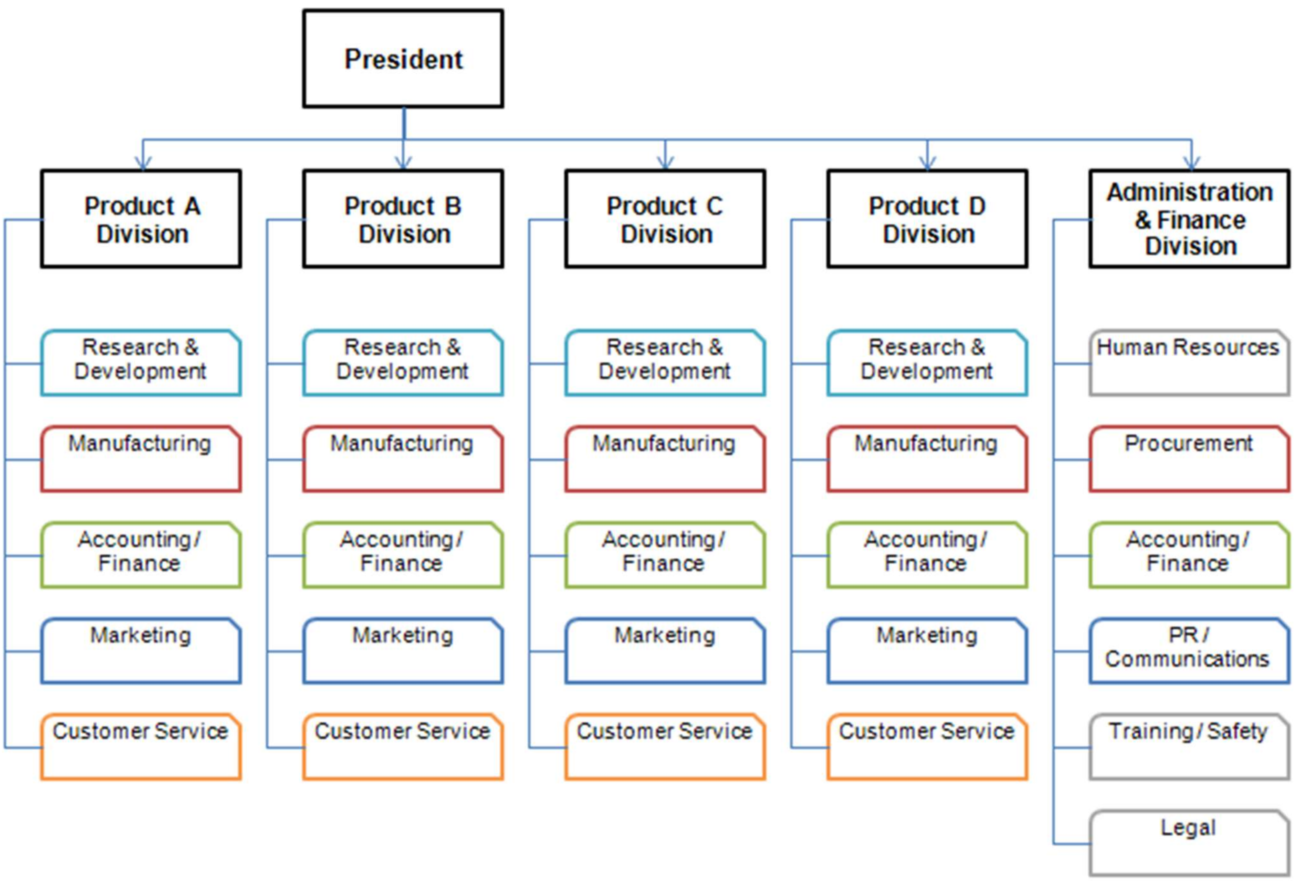
3. Conflict of interests

A conflict may arise when the interests of two or more departments are not compatible.

2. Divisional Structure

Divisional structure is an organizational design in which there is a separate division for each line of products or area of operation. In each division, functions like production, marketing, finance etc. are performed.

Sample Divisional Organizational Structure



__Suitability__

1. When the organization produces a large variety of products.

2. When the organization requires high degree of product specialization

3. When an organization grows

4. When the activities are geographically spread.

Advantages

1. **1.** Product Specialization:

    It brings integration and co-ordination of various activities related to a particular product line.

2. **2.** Executive development

    A divisional head gain experience in all functions related to a particular product.

3. **3.** Greater accountability

    Fixation of responsibility and accountability is easy

4. **4.** Flexibility and more initiative

    Each division functions as an autonomous unit. This promotes quick decision, flexibility and initiative.

5. **5.** Expansion and growth

    Divisional structure facilitates expansion and growth.

Disadvantages

1. **1.** Conflicts

    Conflicts may arise between divisions on allocation of funds.

2. **2.** Costly

    It may lead to increase in costs since there may be duplication of activities.

3. **3.** Misuse of autonomy

    High degree of autonomy may results in giving priority to divisional interest rather than organisational interest.

Formal Organisation

Formal organization refers to the organization structure which is designed by the management to accomplish a particular objective. In this structure, authority, responsibility, accountability, line of communication etc will be clearly specified.

Features

1. It is deliberately designed by top management

2. It specifies the relationship among various job positions

3. It is a means to achieve organizational objective

4. It gives importance to position than persons

5. It specifies the official line of communication

6. Behavior of members is directed by formal rules and procedures

Advantages

1. Fixation of responsibility is easier

2. Clarity of jobs to be performed by each person

3. Helps in avoiding duplication of work

4. Unity of command is maintained through an established chain of command

5. It leads to effective accomplishment of goals.

6. It provides stability to the organization

Limitations

1. Communication through scalar chain may lead to delay in decision making

2. It may create rigidity

3. The focus is on structure and work rather than on human relationship

Informal Organisation

Informal organization is a network of personal and social relations, not established by the management, but arising spontaneously on the basis of friendship and common interest. It originates from within the formal organization to meet the cultural and social needs of members of the organization.

Features

1. It emerges spontaneously and is not created by management

2. It has no definite structure

3. The membership is voluntary

4. It originates from within the formal organization

5. It has no written rules and regulations.

6. It does not have fixed line of communication.

7. Its purpose is to satisfy social and cultural needs of the members

Advantages

1. Speed

There is no prescribed line of communication. It helps in faster spread of information and feedback.

2. Fulfillment of social needs

It helps to fulfill the social needs of its members. This enhances their job satisfaction since it gives them a sense of belongingness in the organization.

3. Contribute towards achievements of organizational objectives

It helps to achieve organizations objectives by compensating for inadequacies in the formal organization.

Disadvantages

1. Resistance to change

The management may not be successful in implementing changes, if the informal organization opposes them.

2. Priority to group interests

Informal organization may focus on needs and interest of their members rather than organizational objectives.

3. Disruptive Force

Informal organization may become a disruptive force when it spreads rumour

Differences between formal organisation and informal organization.

No	Basis	Formal Organization	Informal Organization
1	Formation	Deliberately planned and created by top management	Arises spontaneously as a result of social interaction
2	Purpose	To achieve pre determined organizational objectives	To satisfy social and cultural needs
3	Structure	Well defined structure	Does not have a clear structure
4	Flexibility	Highly rigid	More flexible
5	Communication	Official line of communication	Based on convenience
6	Relationship	Based on authority and responsibility	No specific relationship
7	Behavior of members	Prescribed and enforced by management	Evolved by mutual consent of members
8	Leadership	Managers are leaders	Chosen voluntarily by members

9	Stability	Usually stable	Does not last long
10	Human relations	Less human and more technological	Reflects human aspect

Delegation of Authority

Definition

According to Theo Haimman, "Delegation of authority means the granting of authority to subordinate to operate within prescribed limits".

Delegation of authority is a process by which a superior assigns a part of his work to subordinates and gives them authority to perform the work so assigned. It enables the manager to distribute his work load so that he can concentrate more on important functions.

Elements of Delegation

1. **Authority**

It means the right to issue orders and the power to get them executed. It implies the right of an individual to take decisions and to command on his subordinates.

2. **Responsibility**

Responsibility is the obligation of subordinates to properly perform the assigned duty.

3. **Accountability**

Accountability implies being answerable for the final outcome.

Comparison

Basis	Authority	Responsibility	Accountability
Meaning	Right to command	Obligation to perform assigned duty	Obligation to report the outcome
Delegation	Can be delegated	Cannot be delegated	Cannot be delegated
Comes from	Formal position	Delegated authority	responsibility
flow	Flows downward	Moves upward	Moves upward

Importance of Delegation

1. Effective Management.

By delegating routine work to subordinates, a manager can concentrate on important matters and explore new opportunities for business.

2. Employee development

Delegation provides an opportunity to subordinates to utilize their abilities and to improve career prospects. They gain experience and knowledge for higher positions.

3. Motivation of employees

Delegation provides a feeling of status and recognition to subordinates. It motivates them for higher performance.

4. Facilitates organizational growth

Delegation helps in the expansion of an organization by providing a ready work force to take up leading positions in new ventures.

5. Basis of management hierarchy

Delegation of authority creates superior-subordinate relationships, which are the basis of management hierarchy.

6. Better coordination

The elements of delegation helps to define the powers, duties and responsibility related to various positions in an organization. This results in better co ordination.

Decentralization

Decentralization refers to systematic delegation of authority through all the levels of management and all departments of the organization.

Definition

Decentralization refers to systematic efforts to delegate to the lowest level, all authority except that which can be exercised at central points."

Importance of Decentralisation

1. Develops initiative among subordinates.

Decentralization helps to promote self-reliance and confidence among the subordinates.

2. Develops managerial talent for the future.

Decentralization gives lower level managers the chance to gain knowledge and experience in decision making and leadership.

3. Quick decision making

In a decentralized organization, decision are taken at levels which are nearest to the point of action. Therefore, decision can be taken quickly.

4. Relief to top management

Decentralisation helps to reduce the work load of top executives .They can devote their time and attention to important policy matters.

5. Facilitates Growth

The organization can expand and grow more easily as the burden of management is shared

6. Better control

Decentralisation facilities evaluation of performance at every level. Departments can be individually held accountable for their results.

Differences between Delegation and Decentralisation

No.	Delegation	Decentralization
1	Downward transfer of authority from a superior to a subordinate	Delegation of authority throughout all the levels of the organization
2	Its objective is to reduce the workload of a superior or manager	Its objective is to reduce the burden of top level management.
3	It is a compulsory act. No manager can perform all tasks on his own.	It is an optional policy decision of the top level management.
4	Narrow scope, Limited to superior and his subordinate.	Wider scope, it is the extension of delegation to the lowest level of management.
5	Here more control by superiors and subordinates have less freedom to take own decision.	Here less control over subordinates and greater freedom of action.

CHAPTER –VI

STAFFING

Meaning

In simple sense, staffing is *putting people to jobs*. The term staffing refers to **hiring and developing the required personnel to fill various positions in the organization**. It is concerned with placing the right person on the right job.

Definition

According to Moekler" Staffing is the process of determining the manpower needed to meet the company objectives, appraising and selecting candidates to fill these requirements and orienting, training and developing new and existing staff."

Steps in Staffing Process

1. Estimating manpower requirements

It involves forecasting and determining the number and kind of manpower required by the organization. This is done on the basis of workload and work force analysis

(Workload analysis –Number and types of human resources needed)

(Work force analysis – Number and types of human resources available)

2. Recruitment

Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization.

3. Selection

In this step, right candidate is chosen for the right job in an organization. This process ensures that the organization get best among available and it enhances the self- esteem and prestige of those who are selected.

4. Placement and orientation

Placement refers to the employee occupying the post for which he has been selected. Orientation is the process of introducing the selected employee to other employees and familiarizing him with the policies and rules of the organization.

5. Training and development

Training is the process of upgrading the knowledge ,skills and attitude of employees so that they can perform their jobs better. Development is the process of overall growth of employees.

6. Performance appraisal

It means evaluating an employee’s current or past performance against the pre-determined standards. In this step the capability of the employee is judged.

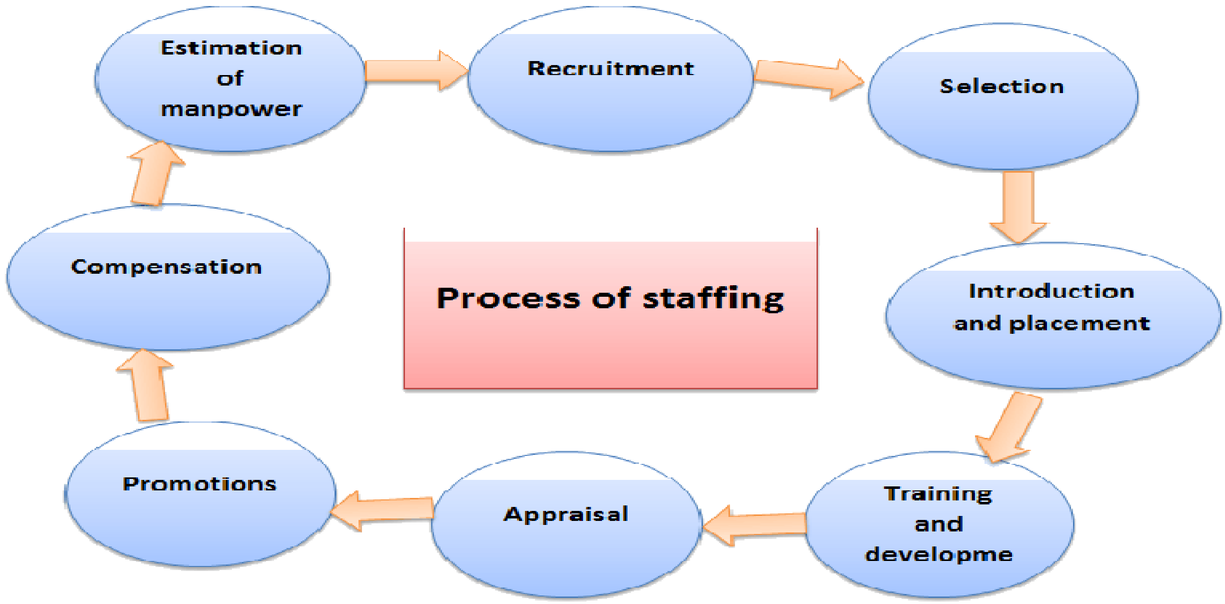
7. Promotion and career planning

Career planning includes promotion, transfer and demotion of personnel based on their performance appraisal.

8. Compensation (Remuneration)

Compensation refers to all forms of pay or rewards given to the employees. It includes.

I. Direct financial payment (Salary, wage, incentives, bonus etc.)
II. Indirect payment (Insurance, PF etc)



Recruitment -

Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization.

Sources of recruitment

There are two sources of recruitment-Internal and External.

A. Internal Sources

These refer to employ persons from within the organization. There are two important sources of internal recruitment-Transfer and Promotion.

1.Transfer

It means shifting an employee from one job to another with no change in salary, status and responsibility.

2.Promotion

It means shifting an employee to a higher post carrying higher salary, status and responsibility.

Merits of Internal Sources

1. Motivation to employees

Internal recruitment helps to improve the motivation and morale of employees. They work with loyalty and commitment and remain satisfied with their jobs.

2. Simplifies selection process

Internal recruitment simplifies the process of selection. It is economical and more reliable way of recruitment.

3. Tool of Training

Transfer is a tool of training and prepare them for higher jobs.

4. Benefit of shifting work force

Transfer has the benefit of shifting work force from the surplus departments to those where there is shortage of staff.

5.Less Costly

It is a cheaper source of recruitment.

Limitations of internal Sources

1. Internal source has only a limited choice.

2. The scope for induction of fresh talent is reduced.

3. Not suitable for new enterprises .

4. The spirit of competition among employees may be loosened.

5. Frequent transfer may reduce the productivity of the organization.

External source of Recruitment

It refers to the recruitment of candidates from outside the organization. The commonly used external sources of recruitment are described below.

1. Direct Recruitment

A notice is placed on the notice board of the enterprise specifying the details of the jobs available. Job seekers will assemble on the specified date and selection is done on the spot.

Suitability

This method is suitable for filling casual vacancies of unskilled or semi skilled jobs.

Advantage- Inexpensive, speedy

2. Casual callers

In this method employees are selected from the database of unsolicited applicants.

Advantage- Low cost source

3. Advertisement

Here, Job vacancies are advertised in news papers, journals, website etc.

Advantage- Provide a wide range of candidates

More information about organization and job can be given through advertisement.

4. Employment Exchange

Job seekers register their name in employment exchanges. At the request of the employer they give the list of candidates having requisite qualification.

Advantage- Less expensive

Speedy

Wide range of candidates.

5. Placement agencies and management consultants

These firms help the organization to recruit technical, professional and managerial personnel. These agencies compile bio data of a large number of candidates and recommend suitable names to their clients.

Advantage- ready availability

Relief from complex recruitment procedure.

6. Campus recruitment

Colleges and institutes of management and technology have become a popular source of recruitment.

Advantage- Scope for new blood and fresh talents.

Wide choices are available

7. Recommendations of employees

Applicants introduced by present employees is another source of recruitment.

Advantage- Preliminary screening is easy.

Motivation to existing staff

8. Labour contractors

They provide required number of workers at short notice.

Advantage - Suitable for casual vacancies of unskilled labour

Give flexibility in work space

9. Internet (Web publishing)

There are certain websites specifically designed for the purpose of providing information about job seekers and employers.

Eg: www.naukri.com, www.jobstreet.com

Merits of external sources

1. Qualified personnel

By using external sources, the management can attract qualified and trained people to apply for vacant jobs in the organization.

2. Wider choice

External source brings a large number of candidates. The enterprise has a wider choice while selecting employees.

3. Fresh Talent

External recruitment brings new blood and fresh talent in to the organization.

4. Competitive spirit

It helps to create a competitive spirit among existing employees and as a result they will work hard to show better performance.

Limitations of external Sources

1. **Dissatisfaction among existing staff.**

External recruitment may create frustration and dissatisfaction among existing employees.

2. **Lengthy Process(Time consuming)**

Recruitment from external sources takes a long time.

3. **Costly Process(Expensive).**

It is very expensive to recruit people from external source.

Differences between internal and external recruitment

Internal Sources	External Sources
This involves search of candidates from within the organization and is a quick process.	This involves recruiting candidates from outside and is a lengthy process.
It is less expensive	This is costly.
Existing staff is motivated and encouraged to improve their performance.	The existing workers feel dissatisfied.
Choice of candidates is limited and the scope of fresh talent is rather decreased	Talented candidates can be recruited from outside and new blood and new ideas are infused in to the enterprise.

SELECTION

Selection is the process of carefully screening the candidates ,so as to identify and choose the most suitable persons for the job.

Selection Process [Steps]

1. **Preliminary Screening**

This step helps in eliminating unqualified and unfit candidates on the basis of information from application forms.

2. **Selection Tests**

A Selection test seeks to measure aptitudes, intelligence, personality etc of a candidate.

a)Intelligence Test (IQ Test).

It is used to measure the level of intelligence.

Assessing the ability to make decisions and judgment

b)Aptitude Test

It is a measure of individuals potential for learning new skills.

Its result Indicate the persons capacity to develop.

c)Personality Test

Provide clues to a person's emotions reactions, maturity, value system etc.

d)Trade test

These tests measure the existing skills of the candidate in the area of profession.

e)Interest Test

These are used to know the pattern of interest of a person or involvement.

3. **Employment Interview**

It is a formal ,in-depth conversation conducted to evaluate the applicants suitability for the job.

4. **Reference and background checks**

In this step organization collect information and opinion from referees. Eg Previous employees, teachers, known persons.

5. **Selection Decision**

The final decision has to be made from among the candidates who pass the tests, interview and reference checks.

6. **<u>Medical Examination</u>**

The selected candidates are required to undergo a medical fitness test.

7. **<u>Job Offer</u>**

The candidates who have been declared medically fit are issued letter of appointment.

8. **<u>Contract of Employment</u>**

Once the candidate accepts the job offer, a contract of employment is signed with him

Difference between Recruitment and Selection

Basis	Recruitment	Selection
Meaning	Process of searching for prospective candidates and stimulating them to apply for job.	Concerned with choosing from those who have applied for jobs.
Feature	Positive process	Negative process
Purpose	Its aim to create a large pool of applicants for jobs	Its aim to ensure the most competent people for jobs.
Nature	It's a simple process	It is a complex process

Training and Development

Definition

Training is the act of increasing the knowledge and technical skills of an employee for doing a particular job efficiently" (Edwin B Flippo).

Methods of Training

Training methods are broadly classified into two groups-on –the-job and off- the-job methods.

I. On-the-job methods refer to the methods that are applied to the work place, while the employee is actually working. It means "learning while doing"
II. Off the job methods are used away from the work place it means" learning before doing".

1. On the job Method

1. <u>Apprenticeship Programmes</u>

In this method the trainee is put under the guidance of a master worker for a prescribed period. This method is used in skilled trades like electronics, plumbers etc.

2. <u>Coaching</u>

In this method ,the superior guide and instruct the trainee as a coach. The coach suggests how to achieve goals, periodically reviews the trainees progress and suggest changes required in behavior and performance. Eg. marketing executives, insurance agents etc.

3. Internship training

This is a joint programme in which educational institutions and business firm co operate. The trainee carry on regular studies for the prescribed period. They also work in some factory or office to acquire practical knowledge and skills. Eg: Nursing, Bed , hotel management, CA etc.

4. Job Rotation

In this method, the trainee is shifted from one job to another to broaden his knowledge and understanding.

2. Off the job methods

1. **Classroom lectures(conferences)**

Class room lectures are used to convey specific information, rules and procedures. Eg: Election Rehearsal class.

2. **Films**

Films help to provide information and demonstrate skills that cannot be easily presented in lectures.

Eg: *Education film of functioning of heart.*

3. **Case study**

A case is an attempt to describe a real life problem that managers face. Trainees study the cases, identify and analyze problems and develop alternative solutions.

4. **Computer modeling**

Under this method, real working atmosphere is created by programming on a computer to initiate some of the realities of job. This facilitates learning without cost and risk.

5. **Vestibule Training**

In this method actual work environment is created in a class room. It is an attempt to acquaint the employees with the methods, materials equipments in the same way as in real workplace.

6. **Programmed Instruction**

In this method, information is broken in to meaningful units. These units are arranged properly to form a logical and sequential learning package.

Development

Development refers to the learning opportunities designed to help the employees to grow. It denotes the process by which the employees acquire skills and competence to do their present jobs and increase their capabilities for handling higher jobs in future. It involves growth of an individual in all respects.

CHAPTER - VII

DIRECTING

Meaning

Directing is the process of instructing, guiding, counseling, motivating and leading people in the organization to achieve its objectives.

Definition

Directing is telling people what to do and seeing that they do it the best of their ability. (Ernest Dale)

Elements of directing

Direction includes the following elements.

- Supervision
- Motivation
- Leadership
- Communication

I. Supervision

Supervision means overseeing the subordinates at work so as to ensure the desired results. It primarily consists of instructing, guiding and inspiring the people towards the better performance of job.

Importance of supervision

1. **Maintain friendly relations**

Supervisor maintains friendly relations with workers .A good supervisor act as a guide, friend and philosopher to the workers.

2. **Link between workers and management**

Supervisor conveys management ideas to the workers and brings workers problems to the notice to management. This helps to avoid misunderstanding and conflicts between these two.

3. **Maintains group unity/harmony**

A good supervisor sort out (solve) internal differences and maintains unity and harmony among his workers.

4. **Ensures performance of work**

Supervisor takes responsibility for task achievement and motivates his workers effectively .He ensures performance of work according to set targets.

5. **Training**

Supervisor provides on the job training to workers to build an efficient work force.

6. **Improves motivation/morale**

A supervisor with good leadership qualities can build up high morale among workers.

7. **Feedback**

A supervisor analysis the work performed and suggest ways and means to develop and acquire new skills to the workers. He also give feedback to top level about plans and policies .It will improve quality to management decisions and revision of plans and policies.

II.Motivation

“ Motivation means a process of stimulating people to action to accomplish desired goals”(**William G**)

It involves arising needs and desires in people to initiate action and stimulating them to give maximum from them. It bridges the gap between ability to work and willingness to work.

Motive

A Motive is an inner state that energizes, activates and directs behavior towards goals.

Eg: Hunger, recognition, security, affiliation, comfort etc.

Motivator

Motivator is the technique used to motivate people in an organization.

Features of motivation

1. Motivation is an internal feeling.

2. Motivation produces goal directed behavior.

3. Motivation can be either positive or negative.

4. Motivation is a complex process.

Motivation Process

Motivation is a psychological phenomenon which arise from the needs and wants of individuals.

Unsatisfied Need	Tension	Driver	Search Behavior	Satisfied need	Reduction of tension

Importance of motivation[Need/Advantages]

It is through motivation that managers can inspire their subordinates to give their best to the organization. The following points highlights its importance.

1. **Improves efficiency and performance level**

Motivation helps to improve performance of employees and the organization. When needs are satisfied, they devote all their energies to achieve higher performance. It bridges the gap between ability work and willingness to work.

Performance = Ability * Willingness

2. **Development of positive attitude**

Motivation helps to change negative or indifferent attitudes of employee to positive attitudes so as to achieve organizational goals.

3. **Reduces employee turnover**.

By identifying and satisfying needs of employees, managers can reduce labour turnover.

4. **Reduces employee absenteeism**.

A Proper system of motivation brings satisfaction to employees. It creates confidence in subordinates and secures their loyalty to the organization.

5. **Facilitates changes**

An effective system of motivation helps to overcome resistance to change. Motivated employees think of positive side of new changes and will co operate with the management.

6. **Ensures achievement of organizational goals.**

Management can accomplish goals effectively by motivating employees to contribute their maximum towards the fulfillment of the assigned tasks.

Maslow's Need Hierarchy Theory of Motivation

Abraham H Maslow, an eminent U.S psychologist developed a theory of motivation

Basic assumptions

1. Peoples behavior is based on their needs.
2. Peoples needs are in hierarchical order
3. A satisfied need can no longer motivate a person, only next higher level need can motivate him
4. A person moves to the next higher level of the hierarchy only when the lower need is satisfied.

Maslow's theory suggest that there exists a hierarchy of five human needs.

1. **<u>Physiological needs(Basic needs)</u>**

   These needs are most basic in the hierarchy and corresponds to primary needs. Basic salary can satist they needs.

   Eg: *Hunger, shelter, sleep etc. need for food*

2. **<u>Safety/security Needs</u>**

These include need for protection from physical and emotional harm. Job security and pension plan may satisfy these needs.

3. **<u>Affiliation/Belonging Needs(Social Needs)</u>**

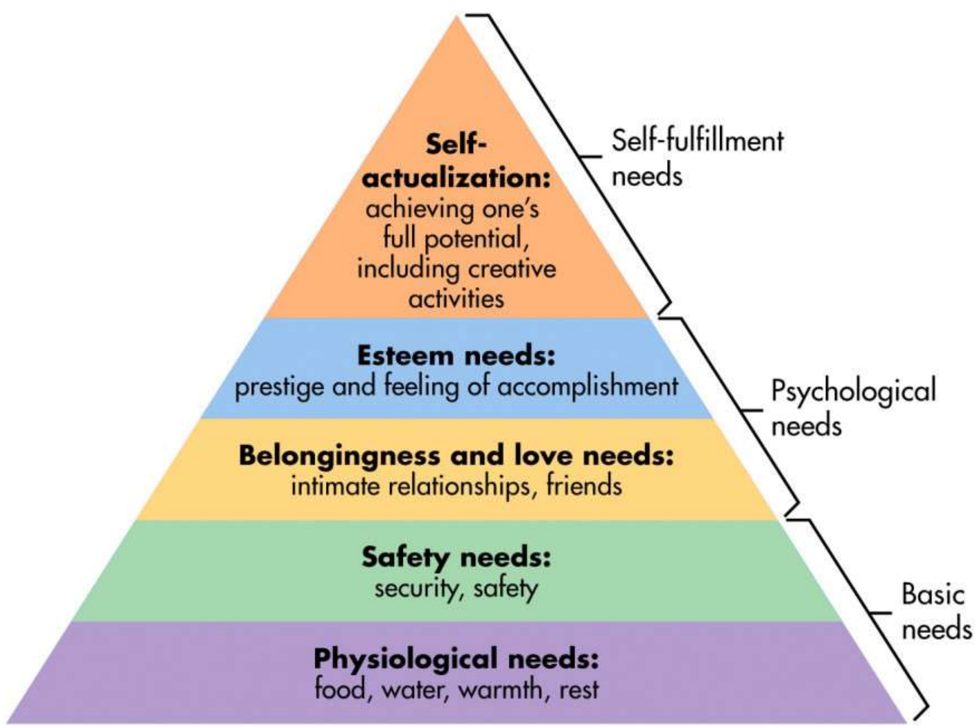
These refer to need for affection sense of belonging ,acceptance and friendship. Cordial relations with colleagues can satisfy these needs.

4. **<u>Esteem Needs</u>**

These include self-respect, recognition, status and autonomy. Job title may satisfy these needs.

5. **<u>Self Actualization Needs</u>**

It means the desire to become what one is capable of becoming. These are highest level needs .Growth and achievement of goals can satisfy these needs.



Maslow's theory tells managers to identify the need level of an employee to provide effective utilization.

III. Leadership

Leadership is the art or process of influencing people so that they will strive willingly and enthusiastically towards the achievement of group goals.

Features.

1. Leadership indicates the ability of an individual to influence others.

2. Leadership involves changing the behavior of others.

3. Leadership represents inter-personal relations between a leader and his followers.

4. Leadership aims to achieve organizational goals.

5. Leadership is a continuous process

Qualities of a Good Leader

1. **Physical features**

Physical features like height, weight, health, appearance etc. determine the physical personality of an individual. Health and endurance help a leader to work hard which inspire others to work with same tempo.

2. **Knowledge**

A good leader must have required knowledge and intelligence

3. **Integrity**

A leader should have high level of integrity and honesty. In matters of ethics and values he should be a role model to others.

4. **Initiative**

A good leader must have initiative and courage

5. **Communication skills**

A leader should be a good communicator. He should have the capacity to explain his ideas and make others understand them. He should be a good speaker as well as a good listener.

6. **Motivation skills**

A leader should understand the needs of people and motivate them through satisfying their needs.

7. **Self Confidence**

A leader should have high level of self confidence .He should not loose his confidence even in most difficult items.

8. **Decisiveness**

Leader should be decisive in managing the work. he should not change opinions frequently.

9. **Social Skills**

A leader should be sociable and friendly with others.

Leadership Style

Depending on the use of authority, there are three basis styles of leadership

1. **Autocratic/authoritarian leader**

An autocratic leader gives orders and expects his subordinates to obey those orders

Merits- Quick decision, increase in productivity etc.

2. **Democratic/participate leader**

He develop action plans and makes decisions in consultation with his subordinates.

Merits- Motivation to followers, initiative etc.

3. **Laissez faire/free rein leader**

In this style all the rights and power to make decisions is full given to the workers it also known as delegative leadership.

Merits- Autonomy to group members, training to future leaders

IV. Communication[Latin word communis – common]

Communication is the process of exchange of information between two or more persons to reach common understanding.

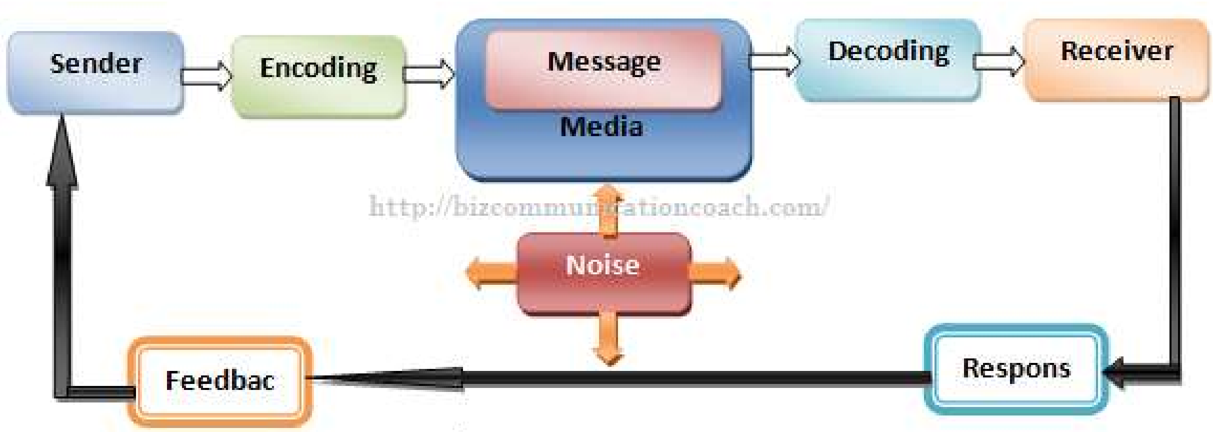


Figure: The Business Communication Process

Elements of communication process-

1.Sender- Sender means person who conveys his thoughts or ideas to the receive .He represents the source of communication and initiates the process of communication.

2. Message- Message is the subject matter of communication. It consists of facts, ideas, feeling, opinion, orders etc.

3. Encoding- It is the process of converting the message into words, pictures, gestures and other communication symbols.

4. Media-It is the path/ channel through which encoded message is transmitted to receiver.

Eg: Letter, phone call, tv etc..

5. Decoding- It is the process of converting encoded symbols by the receiver for the purpose of understanding.

6. Receiver- The person who receives the message

7. Feedback- It means the reaction or response which indicates that the receiver has understood the message.

8.Noise- It means an obstruction or hindrance in communication process

Barriers to communication

A. Semantic barriers

These are concerned with the meaning of words and symbols. Semantic barriers arise in the process of encoding and decoding of message. These barrier are as follows.

1. Badly Expressed Message

Use of wrong words, omission of necessary words, poor vocabulary etc. makes the message bad. As a result the intended may not be conveyed.

2. Symbols with different meanings

Communications becomes ineffective when the sender and the receiver perceive the same word in different meanings.

3. Faculty Translations

If the translator is not proficient in both the languages, there may be mistakes.

4.Unclarified assumptions

When the sender does not make his assumptions clear, the receiver may misunderstand the message.

5.Technical Jargon

Specialists often use words which are peculiar to their fields. A common man may not understand such technical words.

6.Body language and gesture decoding

When the body movements and gesture are not match with the message communication may be ineffective.

B. Psychological Barriers [State of mind of receiver and sender]

1. Premature Evaluation

Communication is likely to fail, If the receiver evaluates the meaning of message before the sender completes his message.

2. Lack of attention (Pre occupied mind)

In adequate attention to the message makes communication less effective.

3. Loss by transmission and poor retention.

Successive transmission of message may result in loss of information. Poor retention of information affects the effectiveness of communication process.

4.Distrust

If the parties do not believe each other the message may not be understood in its original sense.

C. Organizational Barriers(Bankers related to structure authority relation etc.)

1.Organisational Policy

If the organizational policy is not supportive to free flow of communications, it may hamper effectiveness of communications.(Eg: absolute centralization).

2.Rules and Regulations

Rigid rules and regulations may be a hurdle to communication.

3.Status

A status conscious manager may not allow his subordinates to express their feelings freely.

4.Complex Organization Structure

When there are several managerial levels communication gets delayed and distorted.

5.<u>Organisational Facilities</u>

Communication cannot be effective without adequate facilities like suggestion box, complaint box, frequent meeting, social gathering etc.

<u>D. Personal Barriers (personal characteristics of sender or receiver)</u>

1.<u>Fear of challenge to authority</u>

A superior is likely to without a message if he perceives that it will adversely affect his authority.

2.<u>Lack of Confidence of Superior on his subordinates</u>

If superior do not have confidence on the competency of their subordinates, they may not seek their advice or opinion.

3.<u>Unwillingness to communicate</u>

A subordinate may not communicate with his superiors, if the perceives that it will affect his interest.

4.<u>Lack of proper incentives</u>

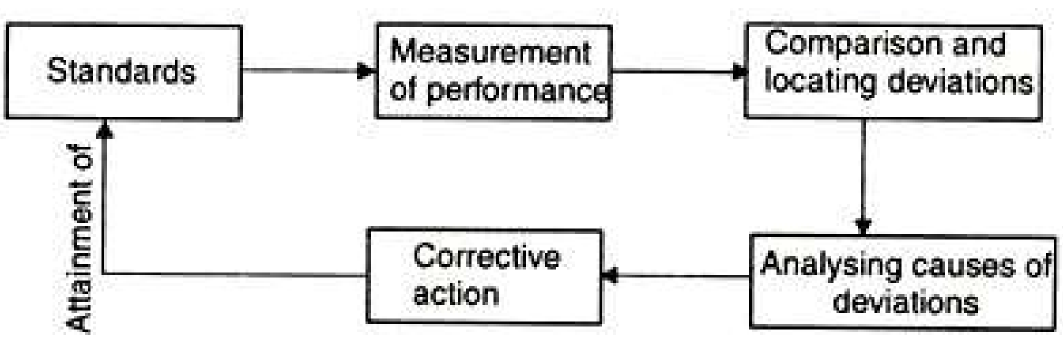
If there is no motivation or incentive for communications, subordinates may not take initiative to communicate.

CONTROLLING

<u>Meaning and Definition</u>

Controlling function aims to ensure whether everything is being done according to predetermined goals. Controlling refers to the process of ensuring that actual activities conform to planned activities. According to Koontz and O Donnel, "controlling is the measuring and correcting of activities of subordinates to ensure that enterprise objectives and plans devised to attain them are accomplished."

<u>Steps in the Controlling Process</u>



Controlling is a systematic process involving the following steps.

1. **Setting performance standards**

The first step in controlling process is setting up of performance standards. These are the criteria against which actual performance would be measures.

(Eg: sales volume Rs.10 lakhs/month, Reduce labour turnover to below 1%)

2. **Measurement of actual performance**

   This step involves measuring actual performance of various individuals and groups for comparing it with standards. There are several methods for the measurement of performance. – personal observation, sample checking, performance reports etc

3. **Comparing actual performance with standards**

   Here the actual performance is compared with pre-set standards. Such comparison will reveal the deviations between actual and desired results.

4. **Analyzing deviations**

   The deviations from the standards are assessed and analyzed to identify the causes of deviations . Following points should keep in mind while analyzing deviations.

   a) **Critical point control**
      According to this principle control system should first focus on Key Result Area (KRA) which are critical to the success of the organization. If anything goes wrong at the critical points, the entire organization suffers.

   b) **Management by Exception (control by exception)**
      According to this principle, only significant (exceptional) deviations which go beyond the permissible limit should be brought to the notice of management. An attempt to control everything may end up in controlling nothing.

Advantages of Critical point control and Management by Exception (control by exception)

- It saves the time and efforts of managers as they deal with only significant deviations.
- It focuses managerial attention on important areas. Thus there is better utilization of managerial talent.
- The routine problems are left to the subordinates. MBE facilitates delegation of authority and increases morale of employees.

_It identifies critical problems which need timely action to keep the organization in right track.

5. **Taking corrective action**

The final step in the controlling process is taking corrective action. This may involve training to employees, modification of plans, technological up gradation, and transfer of responsibilities.

Techniques of Managerial Control

Traditional	Modern
1.Personal Observation	1.ROI
2.Statistical reports	2.Ratio Analysis
3.Breakeven analysis	3. Responsibility Accounting
4.Budgetary Control	4. Management Audit
	5.PERT&CPM
	6.MIS

1. **Personal Observation**

It enables the manager to collect first hand information. Employees are observed personally on their job.

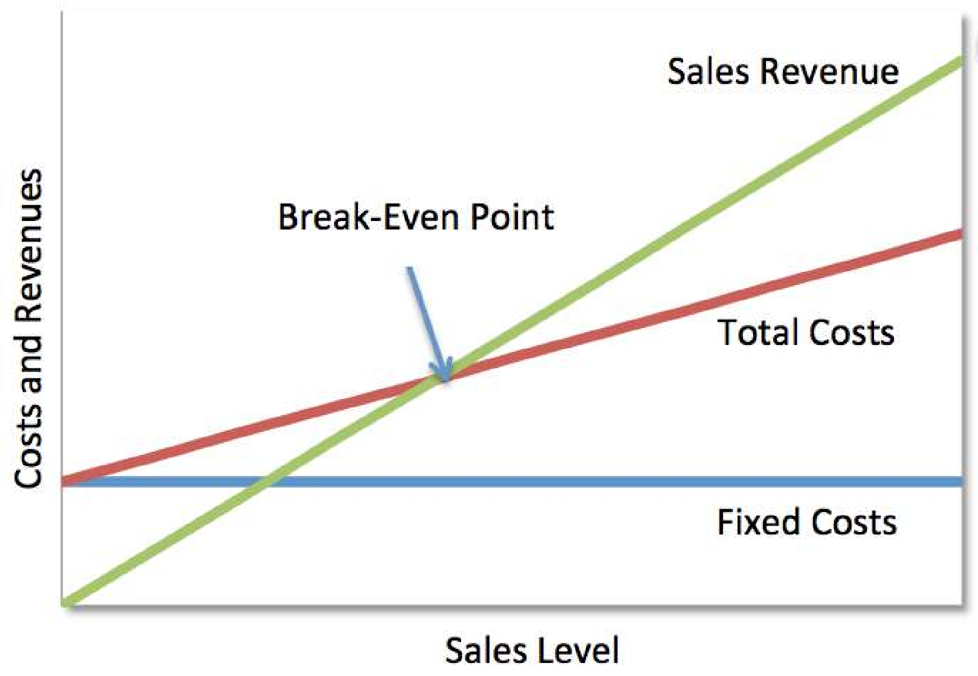
2.Statistical Reports

Statistical analysis in the form of averages, percentages, ratios etc. (Eg. Bar Diagram, Pie chart etc)

3.Breakeven analysis

It is an analysis of inter –relationship between cost of production, volume of production and profit. It determines the probable profit and loss at different levels of activity. Breakeven point is the point at which total revenue is equal to total cost. There is no profit and no loss at this point.

Breakeven chart



4.Budgetary Control

Budgetary control is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards.

Types of Budgets

a. **Sales budget** : A statement of what an organization expects to sell in terms of quantity and value.

b. **Production budget** : A statement of what an organization plans to produce in the budgeted period.

c. **Material budget**: A statement of estimated quantity and cost of materials required for production.

d. **Cash budget**: Anticipated cash inflows and outflows for the budgeted period.

e. **Capital budget**: Estimated spending on major long term assets like new factory or plant or equipment.

f. **Research and development budget**: Estimated spending for the development or refinement of products and processes.

Advantages of Budgetary control

a. Attainment of organizational goal

b. Motivation to the employees

c. Optimum utilization of resources

d. Achieving co ordination among different departments

e. Facilitates management by exception

Modern Techniques

1.Return On Investments [ROI]

ROI is the ratio between net income and total investment. It can be used to measure the overall profit performance of a company.

$$ROI = \frac{\text{Net Income}}{\text{Total Investment}} * 100$$

2.Ratio Analysis

Ratio analysis refers to analysis of financial statements through computation of ratio. The most commonly used ratios are;

a. Liquidity ratios - To determine short term solvency of business (current ratio, quick ratio)
b. Solvency ratio - To determine long term solvency of business (Debt –equity, Interest coverage)
c. Profitability ratio - To analyze the profitability position of business (G/P Ratio, N/p ratio)
d. Turnover ratio - to determine the efficiency of operations (Stock turnover, Debtors turnover)

3. Responsibility Accounting

Under responsibility accounting the whole organization is divided into different segments (department/divisions) which are called ‘responsibility centers’. Each segment is headed by a manager who is responsible for specified targets of performance.

a. Cost centre - production department - furniture
b. Revenue centre - Sale Department - furniture
c. Profit Centre - Furniture Division
d. Investment Centre - Furniture Division

4. Management Audit

Management audit refers to systematic appraisal of the overall performance of the management of an organization. Its purpose is to review the efficiency and effectiveness of management and to improve its performance in future periods.

5. PERT and CPM

PERT (Programme Evaluation and Review Technique) and CPM (Critical Path Method)are important network techniques useful in planning and controlling. These techniques deals with time scheduling and resource allocation to various activities and aims at effective execution of projects within given time schedule and cost structure.

Steps

- Divide the project into various activities.
- Prepare a network diagram showing the sequence of activities starting and completion time etc.
- Identity the critical path (longest path)

Activity	Immediate Predecessor	Time (Weeks)
A	-	4
B	A	2
C	A	8
D	B	7
E	C	4
F	D,E	5

Two Paths (i) A→B→D→F = 18 weeks

(ii) A→C→E→F = 21 weeks

Project completion time=21 weeks

Critical path is A→C→E→F

6. Management Information System(MIS)

Management information system is a systematic procedure followed in corporate bodies to provide relevant information at the right time in the right format to all levels of management for providing support to the decision making activities. MIS is computer based information system. It provides data and information to the managers at the right time, so that appropriate corrective action may be taken in time.

Chapter – IX

Financial Management

Business Finance -meaning

Money required for carrying out business activities is called business finance. Availability of adequate finance is very crucial for the survival and growth of a business.

Financial Management -meaning

Financial Management is concerned with **optimal** procurement as well as usage of finance. It aims at reducing the cost of funds procured, Keeping the risk under control and ensuring effective deployment of funds.

1. Investment Decision

The investment decision is concerned with how the firm's funds are to be invested in different assets. Investment decision may be long term or short term.

a)Long term investment Decision (Capital Budgeting Decision)

It involves commitment of funds for long period.(investments in fixed assets) E.g.: Acquiring new fixed asset(machinery**)** Opening a new branch etc.

Capital budgeting decisions are very important because these decisions affect the earning capacity over the long run. Moreover, these decisions cannot be reversed easily and it involve huge amount of investments.

b) Short term investment decision (Working Capital Decision)

These decisions are concerned with investment in current assets. It relate to the levels of cash, inventory and debtors. These will affect day to day working, liquidity and profitability of an enterprise.

2. Financing Decision

This decision is about the quantum of finance to be raised from various long term sources. Two main sources of funds are shareholders funds and borrowed funds. Shareholders' funds refer to equity capital and retained earnings. Borrowed funds refer to debentures, long term loan from banks etc. Thus financing decision is concerned with designing the capital structure. Financing decision determines the overall cost of capital and the financial risk of the enterprise.

3. Dividend Decision

This decision relates to the appropriation of profits earned, ie how much profit is to be distributed as dividend and how much of it is to be retained.

Financial Management					
Investment Decision		**Financing Decision**		**Dividend Decision**	
Capital Budgeting	Working Capital Decision	Equity	Debt	Dividend	Retained Earnings

Factors affecting financing decisions.

1. Cost (Cost of funds/ Cost of capital)

The cost of each type of finance is different. A financial manager would normally opt for a cheaper source of finance. (Debt is considered the cheapest source, because interest on debt is a tax – deductable expense)

2. Risk

The risk associated with each of the source is different. As far as possible the degree of risk should be low. The overall financial risk depends upon the proportion of debt in the total capital. (More debt – high risk)

3. Floatation Costs

It is the cost incurred for floating securities. It is generally less in the case of debt, when compared to equity.

4. Cash flow position of the company

If the cash flow position of a company is strong, it can employ more debt. It can service its debts more effectively.

5. Level of fixed operating costs

If a business has high level of fixed operating costs, lower debt financing is better.

6. Control Considerations

Issue of more equity may lead to dilution of management's control over the business. Companies afraid of a takeover bid may consequently prefer debt to equity.

7. State of Capital Market

During depression/recession people do not like to take risk and are not interested in buying equity shares. During boom, investors are ready to take risk and invest in equity shares.

Capital Structure

Capital structure refers to the mix or composition to long term sources of funds such as debentures long term debt, preference share capital, equity share capital and reserves and surplus. It refers to the mix between owners fund (equity) and borrowed fund (debt)

The financial manager should plan an optimum capital structure for his company. A capital structure is said to be optimum, when the proportion of debt and equity is such that it results in minimizing overall cost of capital and maximizing the value of the equity shares.

The proportion of debt in the overall capital is also called financial leverage. It is computed as debt/equity. As the financial leverage increases, the cost of funds declines because of increased use of cheaper debt, but the financial risk increases.

Trading on Equity [Capital Gearing]

Trading on equity is the use of long term fixed interest bearing debt and preference share capital along with equity share capital in the capital structure to enhance the return of equity shareholders

	I	II	II
Capital Equity	10,00,000	5,00,000	3,00,000
Debt (10%) ROI	----- 20%	500000 20%	7,00,000 20%
EBIT	2,00,000	2,00,000	200000
Interest	------	50,000	70000
EBT	2,00,000	150,000	130000
Tax (40%)	80,000	60000	52000
EAT	120,000	90000	78000
No. of shares(Rs.10)	1,00,000	50000	30000
EPS	1.2	1.80	2.6

It is clear from this example that, proposal III gives higher EPS (Earning Per share) due to the debt component in the total capital.

There are two conditions to use trading on equity

a)The rate of interest should be less than the rate of return on investment [ROI>Rate of interest]

b) The interest should be deductible from profit before tax.

Factors Affecting Capital Structure

1. Cash Flow Position

The capital mix is decided on the ability of the company to generate sufficient cash flows for

i) Normal business operations

ii).Investment in fixed assets

iii) Service its debts (payment of interest and repayment of principal) if it is ok, then the company can employ more debt in the capital structure.

2. Interest Coverage Ratio (ICR).

It refers to the number of times earning (EBITS) of a company covers the interest obligation.

$$ICR = \frac{EBIT}{Interest}$$

Higher the reaction, lower, the financial risk

3. Debt Service Coverage Ratio (DSCR)

$$DSCR = \frac{\text{Profit After Tax + Non cash expenses}}{\text{Preference Dividend + Interest +Repayment Obligation}}$$

A higher DSCR indicates better ability to meet cash commitments. So company can employ more debt.

4. Return on Investment (ROI)

If the ROI of the company is higher, it can choose to use trading on equity to increase its EPS ,its ability to use debt is greaten.

5. Cost of debt

Cost of debt is the rate of interest on debentures or loans. If it is low the company can employ more debt.

6. Tax Rate

If the tax rate is higher, the debt become more attractive because the interest on debt is a deductible expense.

7. Cost of Equity

Cost of equity means the expected rate of return on equity capital. When a company increases debt, the financial risk faced by the equity holders also increase consequently, their desired rate of return may increase.

8. Floatation Costs

Flotation costs are the costs involved in the issue of shares or debentures.

9. Risk consideration

Use of debt increase the financial risk of a business ,Similarly ,higher fixed operation costs results in higher business risk (operating risk).if a firms business risk is lower ,its capacity to use debt is higher.

10. Flexibility

The capital structure should be in such a way that the company should be able to effect changes as and when required. Redeemable preference shares and debentures may add flexibility to the capital structure.

11. Control [Desire for control of existing share holders]

If the existing shareholders do not want to loose their control over the company affairs, they would prefer to issue preference shares and debentures to raise more funds.

12. Regulatory frame work

Every company should operate within the regulatory frame work provided by the Law [SEBI guide lines ,RBI norms etc].

13. Stock Market Conditions

In depressions/recession, investors will prefer fixed interest bearing securities for safety and in booming situation, issue of shares will be more preferable.

14. Capital structure of others companies

Debt equity ratios of other companies in the same industry are a useful guideline for planning the capital structure.

Fixed Capital

Fixed capital refers to investment in long term assets.

Factors affecting the requirement of fixed capital

1. Nature of business

A manufacturing enterprise and a public utility concern require a large amount of fixed capital as compared to a trading concern.

2. Scale of operations (Size of business)

A large organization operation at a large scale requires higher investment in fixed assets.

3. Choice of techniques of production

A capital intensive organization requires higher investment in fixed assets as compared to labour intensive organizations.

4.Technology upgradation

Organization which use assets, which are speedily obsolete require higher fixed capital for their replacement.

5. Growth Prospects

Higher growth of an organization requires higher investment in fixed assets.

6. Diversification [Product diversification]

When a company chooses to diversity its operations, then it requires larger amount of fixed capital [Textile, steel, IT etc]

7. Financing Alternatives

Companies acquiring fixed assets on hire purchase or lease system require lesser amount of fixed capital as against cash purchase.

8. Level of collaboration

An enterprise can reduce the level of investment in fixed assets by sharing other firms facilities.

Eg: *A bank using another banks ATM, sharing mobile towers*

Working Capital

Working capital means the portion of capital investment in short term assets of a firm. Total amount of current assets is gross working capital. The excess of current assets over current liabilities is known as net working capital.

Factors affecting the working Capital requirement

1. **Nature of Business**

Business units which do not keep very high stock of goods and which sell goods on cash basis can manage with less working capital. [Trading/service industries require less working capital then manufacturing industries]

2. **Scale of operations**

Firms which operate on a large scale maintain more inventory and debtors and therefore require more working capital than small scale firms.

3. **Business Cycle**

During boom, higher amount of working capital is required. Sales and production are likely to be larger in boom.

4. **Production cycle**

The time interval between the receipt of raw material and their conversion into finished goods is called production cycle. Working capital requirement is higher in firms with longer production cycle.

5. **Seasonal Factors**

In the peak season, higher amount of working capital is required due to higher level of activity.

6. **Credit allowed**

A firm which offers liberal credit to its customers needs more working capital. (cash purchase and credit sale)

7. **Credit availed**

A firm which avails more credit from its suppliers requires less working capital.

8. **Operating Efficiency**

An enterprise that operates with high efficiency requires less working capital, because it can turnover its inventory and debtors more quickly.

9. **Availability of raw materials**

IF the raw materials are available freely and without interruption the firm has to invest less in the stock of materials.

10. **Growth prospects**

A firm with greater growth potential needs more working capital.

11. **Level of competition**

High level of competition may require higher stock of finished goods to meet urgent orders from customers.

12. **Inflation**

With rising prices, working capital requirement increases to maintain constant volume of production and sale.

Chapter –X

Financial Market

Financial System

The economy of India is characterized as a developing market economy. The **financial system** enables lenders and borrowers to exchange funds. It provides the intermediation between savers and investors and promotes faster economic development. The role of financial system is to mobilize the savings in the form of money and monetary assets and invest them in productive ventures.

The financial system consists of **Financial Institutions, Financial Market, Financial Instruments and Financial Services.**

Financial Market

A financial market is a market for the creation and exchange of financial assets. It helps in mobilization of savings and channelizing them into the most productive uses. A financial market helps to link the savers and investors.

1. Money Market

Money market is a market for short term funds, instruments with a maturity of less than one year are traded in the money market.

Features of money market

- Deals with shorter securities
- Meet short term financial requirements of participants
- Maintains, high liquidity, low risk etc.
- No physical location
- RBI occupies a leading role
- RBI ,commercial banks, NBFCs state Governments, large corporate houses etc. are the main participants

Money Market Instruments

1. **Treasury Bill (Zero Coupon Bond)**

A treasury bill is an instrument of short term borrowing by the Govt of India.

-Issued by RBI on behalf of central Govt.

-Issue period ranges from 14 to 364 days (52) weeks)

-Treasury bills are negotiable instruments

-Issued at a discount and are redeemed at par

-T-bills are available of Rs.25000 and in multiples thereof.

2. **Commercial Paper**

It is a short term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period (CP is an unsecured money market instrument issued in the form of promissory note).It is issued by corporate and Fls (Financial Institutions) to raise short term funds its maturity period is usually 15 days to one year. It is sold at a discount and redeemed at par. CP can be issued in denominations of Rs. 5 Lakhs or multiples thereof.

3. **Call money**

Call money is a short term finance repayable on demand ,with a maturity period of one day to fifteen (15) days. It is used for inter bank transactions. The intrest rate paid on call money loans is known as the 'call rate'

4. **Certificate of Deposit (CD)**

Certificate of deposit (CD) is a savings certificate with a fixed maturity date and specified fixed interests rate issued by commercial banks and development financial institutions. CDs are unsecured negotiable short term instrument in bearer from .it is a time deposit, that restricts holders from withdrawing funds on demand. Minimum amount of a CD should be Rs.1 lakh. The maturity period of a CD Ranges between 7 days to one year.

5. **Commercial Bill**

It is a bill of exchange used to finance the working capital requirements of business firms. The seller of goods draws the bill and buyer accepts it. On acceptance the bill becomes a marketable instrument and is called a trade bill. When a trade bill is accepted by a commercial bank, it is known as a commercial bill.

2. Capital Market

The term capital market refers to the institutional arrangements and facilities through which long term funds, both equity and debt are raised and invested. The capital market consists of development banks, commercial banks and stock exchanges.

The capital market can be divided into two parts : (i) primary market and (ii) secondary market

Primary Market (New Issue Market/NIM)

Primary market is the market where in new securities are issued for the first time. The primary function of a primary market is to facilitate the transfer of investible funds from savers to investors .A company can raise capital in the primary market in the form of equity shares, preference shares ,debentures loans and deposits .Funds may be raised for setting up new enterprises or to expand existing ones.

Methods of Floatation

The methods of floating new issues in the primary market are as follows

1. **Offer through prospectus**

This involves inviting subscriptions from the public by issuing prospectus .The prospectus makes a direct appeal to investors to subscribe to the shares or debentures of the company.

2. **Offer for sale**

   Under this method, securities are not issued directly to the public but are offered for sale through intermediaries like issuing houses or stock brokers. The company sells securities enblock at an agreed price to intermediaries who in turn resell them to the investing public.

3. **private Placement**

It means the allotment of securities to institutional investors and some selected individuals companies which cannot afford a public issue prefer to use private placement.

4. **Right Issue**

This is a privilege given to the existing shareholders to subscribe to new issue of shares.

5. **e- IPOs**

This is issue of securities to the public through the on-line system of the stock exchange.

Differences between capital market and money market

	Basis	Capital market	Money market
1	Participants	Banks, companies, general public	RBI, Banks, financial institutions, Finance companies
2	Instruments	Equity shares, debentures, preference shares, bonds	Treasury bills, trade bills, certificate of deposits, commercial paper
3	Value	Value of one unit is low	Value of one unit is high
4	Duration	Deals with medium and long term securities	Deals with short term instruments
5	Liquidity	Liquid instruments, if	High degree of liquidity

		actively traded	(with DFHI)
6	Safety	Risky instruments	Safer and minimum risk
7	Return	Chance of high return	Less return

Securities and Exchange Board of India [SEBI)

SEBI was established by the Govt. of India on April 1988.It is a regulatory and developmental agency of Indian Capital Market. Investors' protection is the major responsibility of SEBI. It was given statutory status through on Act in 1992.

Objectives of SEBI

1. To regulate stock exchange and securities industry to promote their orderly functioning.

2. To protect the rights and interest of investors.

3. To prevent trading malpractices and achieve a balance between self –regulation and statutory regulation.

4. To regulate and develop a code of conduct and fair practice by intermediaries like brokers, merchant bankers etc.

Functions of SEBI

A. Regulatory Functions

1. Registration and regulation of stock exchange.

2. Registration and regulation of stock brokers, sub brokers, merchant bankers and other players in the market.

3. Registration of collective investment schemes and Mutual Funds.

4. Regulation of takeover bids by companies.

5. Inspection and audits of stock exchanges and intermediaries.

6. Levying fee or other charges.

7. Performing and exercising powers delegated by Government of India.

B. Development Functions

1. Training of intermediaries of the securities market.

2. Conducting research and publishing information useful to all market participants.

3. Undertaking measures to develop the capital market.

C. Protective Functions

1. Prohibition of fraudulent and unfair trade practices.

2. Controlling insider trading and imposing penalties for such practices.

3. Undertaking steps for investor protection.

4. Promotion of fair practices and code of conduct in securities market.

Chapter –XI

MARKETING

Market

In the traditional meaning, market is a place where buyers and sellers gather to enter into transactions involving the exchange of goods and services. In modern sense, the term market has a boarder meaning. It refers to a set of actual and potential buyers of a product or service.

Marketing

Some people believe that marketing is same as shopping. Some other people believe that marketing is same as selling. But Marketing starts before production takes place and continues even after the goods have been sold. According to Philip kotler, Marketing is a social process by which individuals and groups obtain what they need and want through waiting offering and freely exchanging products and services of value with others.

What can be marketed

Products, services, ideas, persons, place, experience, events, information, organizations

Marketer

Any person who takes active part in the process of exchange of goods or service. Normally seller is the marketer.

Marketing management

It is concerned with planning organizing directing and controlling the activities relating to the marketing of goods and services to satisfy the consumers wants.

According to Philip kotler it is the art and science of choosing target markets and getting, keeping and growing customers through creating delivering and communicating superior customer values of management.

Selling and Marketing

	Selling	Marketing
	Transfer of title of product from seller to buyer	Marketing is a social process by which individuals and groups obtain what they need and want through waiting offering and freely exchanging products and services of value with others.
	It is a part of marketing, it has limited scope	It consists of number of activities, it has wider scope
	Transferring of title and procession of goods	Achieving maximum satisfaction of the customer's needs and wants.
	Profit maximization through increasing sales	Profit maximization through customer satisfaction
	Activities start after the product is developed	Activities start before the product is produced and continue even after the product has been sold.
	Emphasis is on bending the customer according to the product	Emphasis is to develop the product and other strategies as per the customer's needs
	It involves efforts like promotion and persuasion	It uses strategies in respect of products, promotion, pricing and physical distribution.

Functions of marketing

1. **Gathering and analyzing market information**

   It will help to identify the needs of customers and can take valuable decisions for efficient marketing of the products and services

2. **Marketing planning -** It is the development of marketing plans to achieve marketing objections eg: increase in market share
3. **Product designing and development**

   It means making the products attractive to the target customers. A great design improves performance of a product and gives a competitive advantage in the market.

4. **Standardization and grading**

   Producing goods with pre determined specifications, which ensures uniformity and consistency, is called standardization. Grading is the process of classifying products in to different classes on the basis of quality size, weight, etc…..

5. **Packaging and labelling**

Packaging means designing and developing the package before for a product. Labelling means putting identification marks on the package.

6. **Customer support service**

   These are after sale services, handling customer complaints, maintenance service, technical service, customer information etc……

7. **Branding**

   It is the process of giving a symbol or name to a product for identifying and differentiating it from the products of competitors.

8. **Pricing of products**

   Analyze the factors that affect the price of a product and take crucial decisions in this regard.

9. **Promotion**

   It refers to informing the customer about the firms products, their features and motivating them to buy these products.

10. **Physical distribution**

    It involves planning implementing and controlling the physical flow of materials and finished goods from the point of origin to the point of use to meet customer requirements at a profit.

11. **Transportation**

    Physical movements of goods from one place to another

12. **Storage or warehousing**

    There is a time gap between production of goods and sale goods. Warehousing gives time utility.

Marketing mix

The concept of marketing mix was developed by Prof. N.H Borden. The combination of marketing tools used to deliver value to the customers. According to Philip Kotler, marketing mix is a set of marketing tools that the firm uses to pursue its marketing objectives in the target market.

Elements of marketing mix

Marketing mix consists of various elements known as four Ps. These are product, Price, place, promotion

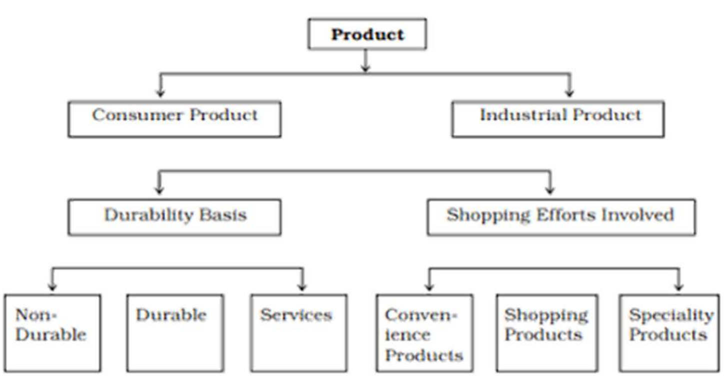
1. **Product –** It means goods or services or anything of value which is offered for sale in the market.
2. **Price –** It is the amount of money that consumers should pay to obtain the product. It is the exchange value of a product in terms of money.
3. **Place –** It consist of activities that make a firms products available to target customers (Physical distribution and channel of distribution)
4. **Promotion –** communication of product details to the people and persuading them to buy the products.

Product

Normally a product is used to refer only to the physical or tangle attributes of a product. But product is a mixture of both tangible and intangible attributes. Product is a bundle of utilities. There are three types of benefits a customer may seek to satisfy from the purchase of a product.

- ❖ Functional benefits
- ❖ Psychological benefits
- ❖ Social benefits

Classification of products



Classification of Product

I. **<u>Consumer products</u>**

Products purchased by ultimate consumers for personal or family use. Such products are purchased for final consumption and not for sale. Consumer products are classified on the basis of the extent of shopping efforts involved and durability of the product.

A. Extent of shopping efforts involved

(Time and efforts buyers willing to spend in the purchase of a product)

a) <u>convenience product</u>

Consumer products that people usually purchase frequently immediately and with least purchasing efforts are called convenience products eg: soap, bread

<u>Features</u>

- ❖ Purchased with least effort and time
- ❖ Generally essential products
- ❖ Purchase unit is small and low price
- ❖ Most of them are standardized and branded
- ❖ Competition is heavy and advertisement is needed
- ❖ Sales promotion techniques and incentive scheme are needed in marketing

b) <u>Shopping products</u>

Products purchased by the consumers after spending considerable time in comparison of features like price, quality size style etc….. eg: clothes, jewelry, home appliances

<u>Features</u>

- ❖ These are durable
- ❖ Price per unit is high
- ❖ Consumers take much marketing effort before the purchase decision
- ❖ Buying of these products is pre planned
- ❖ It requires a lot of persuasive effort to convince the buyers

c) <u>Specialty products</u>

Products with unique characteristics and brand loyalty and consumers are willing to make special purchasing efforts. eg: paintings, art work, antiques.

Features

- Demand for this product is inelastic, even if price increase, demand does not decrease
- only small number of buyers.
- Products are costly and unit price is high
- These are available at specific places only
- Aggressive sales promotion techniques are needed
- After sale service is needed for some specialty items.

B. Durability basis

on the basis of durability products are classified in to durable , non durable and services.

a) **Durable goods** – tangible consumer products which leave a long period of life eg: TV, Car

.Featuers

- Remain in use for a longer period
- Higher per unit price and margin
- Greater personal selling efforts
- Guarantees and after sale service.

b) Non durable goods

Consumer products which are normally consumed in one or few uses are called non durable products.

eg: Soap, tooth paste, detergent

Features

- Low per unit cost and margin
- Easy availability
- Heavy advertisement required

c) Services

Activities benefits or satisfactions which are offered for scale and one intangible in nature eg: Repairs, hair cutting, dry cleaning

Features

- intangible in nature
- Cannot be separated from the service providers
- cannot be stored
- Variable type and quality depends on the person providing them.

II. Industrial products

Products which are used as inputs in producing other products.

eg: Raw material, tools, lubricants

Features

- ❖ Number of buyers will be limited
- ❖ Marketed through shorter channels of distribution
- ❖ Industrial markets are highly concentrated geographically industries are located at certain regions
- ❖ Demand for industrial products is derived from the demand for consumer products
- ❖ Technical aspects assume greater significance in the purchase of industrial products.
- ❖ Some companies may resort to reciprocal buying (car –Tyre- car)
- ❖ Sometimes industrial products are purchased on lease basis.

Classification of industrial goods

a) **Material and parts** – goods that enter the manufactures products completely. Such goods are raw materials including farm products like cotton, oil, seeds, sugarcane and manufactured material like glass, iron, plastic etc…

b) **Capital items** : These are used to produce finished goods. eg : components of lift, elevators computers etc…..

c) **Supplies and business services** – Short lasting goods and services that facilitate developing the finished goods eg: cotton waste, lubricants, stationery etc…..

Pricing

Price is the amount of money paid by a buyer in consideration of the purchase of a product or a service. Pricing means determining the product value in terms of money before it is offered to consumers for sale.

Factors affecting price determination

1. **Product cost –** Cost includes cost of production, cost of selling and cost of distribution. There are three types of cost that are fixed cost, variable cost, and semi – variable cost.
2. **The utility and demand** – utility and intensity of demand sets the upper limit of price, which a buyer would be prepared to pay.
3. **Extent of competition** – when the firm does not face any competition it can enjoy complete freedom in price fixation.
4. **Government and legal regulations** – prices of certain products are regulated by govt. eg: drugs, cement, sugar
5. **Pricing objectives** - Maximization of profit by skimming the cream price strategy or fixing low price by penetrating price
6. **Marketing methods** - Various other elements like distribution system, advertising, sales promotion techniques, type of packaging credit facilities etc…….

Promotion

Promotion refers to the use of communication with the objective of informing potential buyer about a product and motivating them to buy the product.

Promotion Mix

All activities connected with informing and persuading the customers are known as promotion mix. Such as activities include advertising, personal selling, sales promotion, publicity etc.

Advertising

Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

Features of Advertising

1) It is a paid form of communication.
2) It is impersonal. There is no face to face contact between the advertiser and prospective customer.
3) It is undertaken by some identified sponsor.

Merits of Advertising

1) It can reach a large number of people covering a vast geographical area.
2) It creates confidence among prospective customers.
3) With the special effect that can be created even simple products and message can look very attractive.
4) It is highly economical in the sense that it can reach millions of people.

Limitation of Advertising

1. It is an impersonal form of communication. There is no compulsion on the prospective customers to pay attention to the message
2. Evaluation of the effectiveness of the message is very difficult.
3. It is not flexible and not customized according to the requirements of different customer group.
4. It is becoming difficult to make advertising messages heard by the target customers.

Objections to advertising

1. **Adds to cost:-** Advertising adds to the cost of product, which the buyer has to bear in the form of high prices.
2. **Undermines social values: -** It undermines social values and promotes materialism. It leads to unnecessary spending.
3. **Confuses the buyer: -** Similar advertisements of different firms are coming in mass media claiming superiority of their products over others.
4. **Encourage the sale of inferior products:-**

   Advertising does not make a distinction between superior and an inferior products .It is also persuades people to buy even inferior products.

5. Some advertisements are in bad taste – Some advertisement use indecent language and even convey bad message to attract prospective customer.

Personal Selling

It is defined as oral persuasion in a conversation with one or more prospective customers for the purpose of making sales.

Features of Personal Selling

1. Direct face to face relationship between seller and buyer.
2. Personal selling allows a sales person to develop personal relationship with the prospective customers.

Merits of Personal Selling

1. It is flexible because sales presentation can be adjusted to suit the specific requirement of individual customers.
2. Direct face to face communication makes possible direct feedback from the customers.
3. It can minimize the wastage of efforts because the company can decide the target customers.

Role of Personal Selling/ Importance

1) It is an effective promotional tool.
2) It is a flexible method of promotion.
3) Personal selling has minimum wastage of efforts.
4) There are chances to detect the loss of customer attention and interest in personal selling.
5) It leads to lasting relationship between sales person and the customers.
6) Personal relationship with customers increases the competitive strength of a business.
7) Personal selling of a new product.

Advertising and Personal selling

	Advertising	Personal Selling
1	Impersonal form of communication	Personal form of communication
2	Transmission of standardized messages	Sales talk according to the situation
3	Not flexible	Highly flexible
4	Reaches masses	Reaches limited number of people
5	Cost per person is low	Cost per person is high
6	Can cover the market in short time	Lot of time to cover the entire market
7	Lacks direct feedback	Direct and immediate feedback
8	Use mass media such as radio, news paper, TV	Make use of sales persons
9	Useful to address a large number of consumers.	Useful in selling industrial products to dealers or consumers who are few in numbers.

Sales Promotion

It is an organized effort applied to the selling job to secure the greatest effectiveness for advertising and for dealers help. Sales promotion tools are designed to promote the customers, middlemen and salespersons.

Eg. Free samples, discounts, contests, dealer discount, bonus, special offers etc…

Merits of Sales Promotion

1. It can catch the attention of the prospective buyer because of incentives.
2. It can be effectively used at the time of introduction of a new product.
3. Sales promotion activities supplement the personal selling and advertising efforts.

Limitations of Sales Promotion

1. Frequent sales promotional activities may give an impression that the firm's product has no demand.
2. Consumers may feel that incentives are offered to sell sub- standard products or is not appropriately priced.

Commonly used Sales Promotion Activities

1. **Rebate** – Method of offering products at special prices to clear off excess inventory or at festival seasons.
2. **Discount** – It is a practice of offering products at a price less than the list price.
3. **Refunds** – Full or part of purchase price paid is refunded.
4. **Premium Offer** – Offer of an article of relatively low cost as free when the customer purchases a product.
5. **Quantity Gift** – Offering Extra quantity of the product at the same price is known as quantity gift.
6. **Instant Draws and Assigned Gift –** A card is given to the buyer and on scratching it, what is written on it is given as prize instantly
7. **Lucky draw –** While buying a product, a coupon is given which is to be deposited in a box. After a particular period, the winner is selected by lucky draw.
8. **Usable benefit –** Under this method a discount voucher is given to the customer for a special benefit.
9. **Full finance @0%** - Marketers of consumer goods, automobiles. etc….. offer easy financing scheme with zero interest.
10. **Sampling –** Offer of free samples
11. **Contests –** some firms hold contests for consumers.
    winners are given attractive prizes.

Publicity

Publicity is public information about a company goods or service appearing in the mass media as a news item.

Features of publicity

1. Publicity is an unpaid form of communication
2. Public message is not sponsored by anybody

Advantages of publicity

1. Message is conveyed by an independent source.
2. It can reach even those who would not have otherwise attended to paid communication.

Limitations of publicity

1. Publicity is not within the control of the marketing firm
2. Media covers only those pieces of information which have news value

Public relations

Public relation is an attempt by the information, persuasion and adjustment to engineer public support for an activity, cause, movement or institution.

Role of public relations

1. **Press relations** – Information about an organization should be presented in a positive manner in the press. So the organization should always get in touch with the media.
2. **Product publicity** – The company can catch people attention to new products by conducting sports and cultural events.
3. **Corporate communication** – The image of the company should be promoted by communicating with the public and also with the employees. This can be done with the help of issue of reports, news letter, interview in media etc…..
4. **Lobbying** – A company has to often deal with government officials and ministers in various departments with respect to matters relating to trade and commerce.
5. **Counseling** – Company may be asked to contribute money for causes like environment, children's rights, education etc….. such cause – related activities help in building public image

CHAPTER 12

CONSUMER PROTECTION

A Consumer said to be a king in a free market economy. The earlier concept of 'coveat emptor' which means 'let the buyer beware' has been changed to 'coveat vendor' which means 'let the seller beware'. But with increased competition and in an attempt to maximize profits, some businessmen indulge in unfair trade practices. Thus there is a need for providing adequate protection to consumers against these practices.

Indian Legal Framework – Legal Protection of Consumer

1) **Consumer Protection Act 1986** - It seeks to protect and promote the interest of consumers.
2) **The Indian Contract Act 1872** – The Act lays down the conditions in which the promises made by parties to a contract will be binding on each other. The Act also specifies the remedies available to parties in case of breach of contract.
3) **Sale of Goods Act 1930** – It provides, safeguards and reliefs to the buyers of the goods in case the goods purchased do not comply with express or implied conditions or warranties.
4) **Essential Commodities Act 1955** – It aims at controlling production, supply and distribution of essential commodities, checking inflationary trend in their prices and ensuring equal distribution of essential commodities.
5) **Agricultural Produce Grading and Marking Act 1937** – The Act prescribes grade standards for agricultural commodities and livestock products. The quality mark provided under the Act is known as AGMARK.
6) **The prevention of Food Adulteration Act 1954** – This Act aims to check adulteration of food articles and ensure their purity so as to maintain public health.
7) **Standards of Weights and Measures Act 1976** – It provides protection to consumer against the malpractices of under – weight or under – measure.
8) **The Trade Marks Act 1999** – The Act prevents the use of fraudulent marks on products and provides protection to the consumer against such products.
9) **The Competition Act 2002** – The Act provides protection to the consumers in case of practices adopted by business firms which hamper competition in the market.
10) **The bureau of Indian Standards Act 1986** – The BIS has two major activities – formulation of quality standards for goods and their certification through the BIS certification scheme.

<u>The Consumer Protection Act 1986</u>

The CPA seeks to protect and promote the consumer interest through speedy and inexpensive redressal of their grievances. The Act provides certain rights to consumers with a view to empowering them and to protect their interest.

a) **<u>Right to safety</u>** – The consumer has a right to be protected against goods and services which are hazardous to life and health.
b) **<u>Right to be informed</u>** – The consumer has a right to have complete information about the product including its ingredients, date of manufacture, price, quantity, directions for use etc.
c) **<u>Right to Choose</u>** – The consumer has the freedom to choose from a variety of products at competitive prices.
d) **<u>Right to be Heard</u>** – The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a product or service.
e) **<u>Right to seek redressal</u>** – The consumer has a right to get relief in case the product or service falls short of his expectations.
f) **<u>Right to Consumer Education</u>** – The consumer has a right to acquire knowledge and to be a well-informed consumer throughout life.

<u>Redressal Agencies under Consumer Protection Act 1986</u>

The Consumer Protection Act has set up three tier grievance redressal system at the district, state and national level.

1) **<u>District Forum</u> -** Established by the state government in each district. This forum can entertain complaints where value of goods or services and compensation claimed up to Rs. 20 lakhs. It consists of President and two other members. An appeal against the order of district forum can be filed with state commission within 30 days.
2) **<u>State Commission</u> –** It is established by the state government. The forum can entertain complaints where value of goods or services and compensation claimed is over 20 lakhs but less than one crore. It shall consist of President and two members. An appeal against the order of state commission can be filed with national commission within 30 days.

3) **National Commission** – It is established by the central government. The commission will consider complaints only if the value of goods or services and compensation claimed is Rs 1 crore or more and it shall consist of President and four other members. An appeal can be filed against the decision of national commission with the Supreme Court within 30 days.

Who is a Consumer

Any person who buys any goods for a consideration, which has been paid or promised, or partly paid or partly promised or under any scheme of deferred payment. Any person who hires or avails of any service for a consideration which has been paid or promised or partly paid and partly promised or under any system of deferred payment.

Who can file a complaint

1. Any consumer
2. Any registered consumer association.
3. Central Government or State Government.
4. Group of consumers having the same interest.
5. Legal heirs or representatives of a deceased consumer.

Consumer Protection Act, 2019

The Consumer Protection Act, 2019 replaced the old Consumer Protection Act, 1986.

The Consumer Protection Bill, 2019 was introduced in the Lok Sabha on 8 July 2019 by the Minister of Consumer Affairs, Food and Public Distribution, Ram Vilas Paswan. It was passed by Lok Sabha on 30 July 2019 and later passed in Rajya Sabha on 6 August 2019.

The Act came into effect by 20 July 2020, while certain other provisions of the Act like establishing the Central Consumer Protection Authority came into effect from 24 July 2020. The Consumer Protection Act has made it mandatory for every e-commerce entity to display the country of origin.

Aim of the Consumer Protection Act 2019

The basic aim of the Consumer Protection Act, 2019 to save the rights of the consumers by establishing authorities for timely and effective administration and settlement of consumers' disputes.

Definition of the consumer

As per the act; a person is called a consumer who avails the services and buys any good for self-use. Worth to mention that if a person buys any good and avail any service for resale or commercial purpose, is not considered a consumer. This definition covers all types of transactions i.e. online and offline.

The Act provides the following rights to the consumers

i. To have information about the quantity, quality, purity, potency, price, and standard of goods or services.
ii. To be protected from hazardous goods and services.
iii. To be protected from unfair or restrictive trade practices.
iv. To have a variety of goods or services at competitive prices

Consumer Disputes Redressal Commission

The Act has the provision of the establishment of the Consumer Disputes Redressal Commissions (CDRCs) at the national, state and district levels.

The Consumer Disputes Redressal Commissions will entertain complaints related to;

i. Overcharging or deceptive charging
ii. Unfair or restrictive trade practices
iii. Sale of hazardous goods and services which may be hazardous to life.
iv. Sale of defective goods or services

Jurisdiction under the Consumer Protection Act, 2019

The act has defined the criteria of Consumer Disputes Redressal Commission (CDRCs).

The National Consumer Disputes Redressal Commission will hear complaints worth more than Rs. 10 crores.

The State Consumer Disputes Redressal Commission will hear complaints when the value is more than Rs 1 crore but less than Rs 10 crores.

The District Consumer Disputes Redressal Commission will entertain complaints when the value of goods or service is up to Rs 1 crore.

Prohibition and penalty for a misleading advertisement

The Central Consumer Protection Authority (CCPA) will have the power to impose fines on the endorser or manufacturer up to 2-year imprisonment for misleading or false advertisement. Worth to mention that repeated offense, may attract a fine of Rs 50 lakh and imprisonment of up to 5 years. Under this act every e-commerce entity is required to provide information relating to -

- return of goods
- refund
- exchange
- warranty and guarantee
- delivery and shipment
- modes of payment
- grievance redressal mechanism
- payment methods
- security of payment methods

Importantly, the rules stipulate that e-commerce entities must also include country of origin.