Focused Area Plus Two Business Studies-2021

BUSINESS STUDIES

No. Name of unit and Focused Areas

1 Nature and significance of Management
Features of management
Nature of management
Levels of management
Co-ordination and elements

2 Principles of management
Fayol's management principles
Techniques of scientific management

3 Business Environment
Importance of environment
Dimensions of environment
Industrial Policy 1991
Liberalisation, Privatisation, Globalisation

4 Planning
Features of planning
Steps in planning
Types of plans

5 Organising
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Formal and Informal organisation
Delegation and Decentralisation

6 Staffing
Steps in Staffing
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7 Directing
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Chapter-1

Nature and Significance of Management (Focused Area only)

Chapter-1 Focused Area

1. **Features of Management**
2. **Nature of Management**
3. **Levels of Management**
4. **Co-ordination and elements(Characteristics & Importance)**

Definition- Management

According to Mary Parker Follet "Management is the art of getting things done through others"

Management is the process of planning, organizing, directing and controlling activities of and using the resources of an organization for accomplishing the organizational goals efficiently and effectively in an ever-changing environment.

Features or Characteristics of Management

1. **Management is a goal-oriented process**

Management always aims at achieving the organizational objectives. Example, set a profit target of Rs, 20 Lakh this year. Management achieves these objectives through the process of planning, organizing, staffing, directing and controlling. All the activities of a manager lead to the achievement of these objectives.

2. **Management is pervasive**

Management is a universal phenomenon. Management is necessary for all the organizations irrespective of its size, nature and functions. It is applicable in business, family, politics etc.

3. **Management is a continuous process**

Management is a continuous or never-ending process. Management functions like planning, organizing, staffing, directing and controlling are performed by all managers on a continuous basis.

4. **Management is a group activity**

Management consists of number of persons who work as a group. The management functions cannot be performed in isolation. Each individual performs his role at his department and their efforts are directed towards a common goal.

5. **Management is a dynamic function**

Management has to make change in goal, objectives and other activities according to changes taking place in the environment.

6. Management is an intangible force

Management cannot be seen but its presence can be felt when targets are achieved according to plans. Efficiency of management of an organization can be felt in the form of high profit, disciplined staff etc.

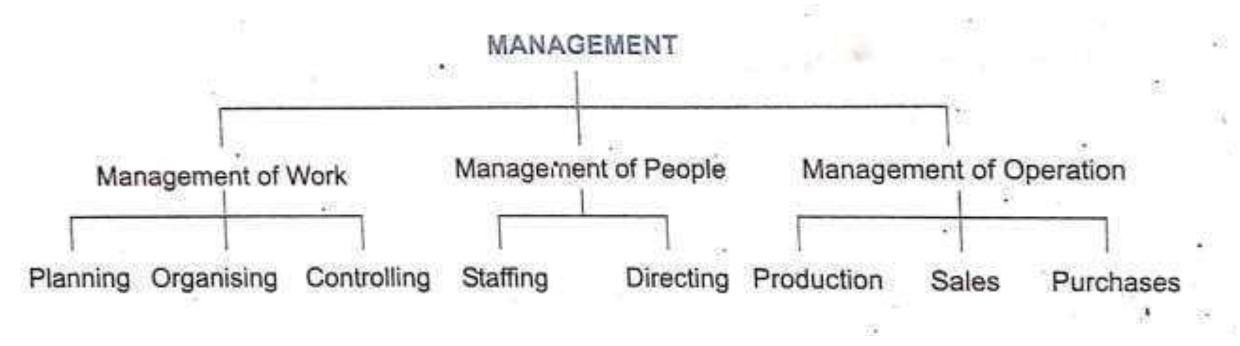
7. Management is multi dimensional

Management includes three main activities. They are:

***6 (a) Management of work*:** All organizations are engaged in doing some work in order to accomplish some task. The nature of work depends upon the nature of business, in a school work is providing education, in a hospital work is to treat patient, in an industry it is to produce some product. Management manages these works to accomplish desired result.

***6 (b) Management of people*:** Management involves getting work done through people. An organization can win over it competitor with efficient human resources only because two organistion can have same physical, technological and financial resources but not human resources.

***6 (c) Management of operations*:** Management of operations refers to management of production process (in case of an industry) and activities of buying and selling in case of a trading concern.



Nature of Management

(Management is an art, science or profession?)

The debate on whether **management is an art or science or profession** is very old. Some authors advocate that management is a science because there are well tested and experimented principles of management, some authors describe management as an art because more practice is required in management and some authors consider that management is going towards the path of profession.

I. Management as an Art:

Before we look at whether management is an art, let’s look at what are the special features of an art.Art can be defined as systematic body of knowledge which requires skill, creativity and practice to get perfection. Main features of art are:

***1. Systematic body of knowledge*-** In every art there is systematic and organized study materials available to acquire theoretical knowledge of the art like music, dance etc. Like in case of art, management also there is several books have been published giving knowledge about different aspects of management.

***2. Personalised application*-** Like in art personal skill is important in management also. For example, even though different dancers are trained by the same trainer, some of them excel by adding their natural talents. In management also all managers learn the same theories and principles, but their efficiency depends on how well they use these principles under different situations by applying their creativity and skill.

3. Perfection through constant practice- Just an artist gains perfection through constant practice, the managers become more perfect from their experience by applying their own personal creativity and skill.

Conclusion: On comparing the features of art with management we find all the features of art are present in management so we can call management as an art of getting the things done by others.

II. Management as Science

A group of management experts are of the view that management is a science. Science may be defined as a systematic body of knowledge based on logically observed findings facts and events. The basic features of science are as follows:

1. Systematised body of knowledge
2. Universal validity
3. Principles based on experimentation

Let us compare the features of science with features of management.

1. Systematised body of knowledge

Science is a systematic and organized body of knowledge. Its principles are based on a cause and effect relationship. These principles are universal truth and it can be tested anywhere in the world at any time.

Management also has some principles and it also establishes cause and effect relationship, example, division of work leads to specialization. In case of management these principles are applied in human beings. It is difficult to read human mind. We cannot expect same result from different persons. So management cannot be considered as pure science. It is best to consider management as social science.

2. Principles based on experimentation: Scientific principles are first developed through observation and then tested through repeated experimentation under controlled conditions. Like scientific principles, management principles are also developed after years of research and experimentations.

2. Universal validity-Scientific principles have universal application and validity. They can be applied in all situations and at all times. Management principles are not exact like scientific principles because they can't be blindly applied in all situations. They have to be modified according to persons and situations.

Conclusion: No doubt, management is science, but being a social science its results are not definite and exact as that of physics and Chemistry. In case of Physics or chemistry, scientific principles are applied in physical materials; they will respond identically and get the identical result in all situations. So, we can say management is a science, but not a pure science, it is a social science/. inexact science.

III. Management as a profession

Profession can be defined as an occupation backed by special knowledge and training, in which entry is restricted. A profession has the following characteristics:

1. Well defined body of knowledge
2. Restricted entry
3. Professional association
4. Code of conduct

Let us compare the features of profession with features of management.

1. Well defined body of knowledge-All professions are based on well defined body of knowledge that can be acquired through instruction. In management also there is a systematic body of knowledge involving formal methods of training. There are many institutions that provide education and training in the field of management. This feature of profession is present in management also.

2. Restricted Entry-To become a professional one must pass the prescribed examination such as CA, MBBS, LLB etc. But in management there is no such strict restriction till now. Anyone can be appointed as a manager. So the second criterion has not been strictly met in case management.

3. Professional Association-All professions are affiliated to a professional association which regulates entry, grants certificate of practice, and formulates and enforces a code of conduct. There are several associations of practicing managers in India, like the All India Management Association that has laid down a code of conduct to regulate the activities of their members. However, there is no compulsion for managers to be members of such an association.

4. Code of conduct- All professionals should follow the code of conduct laid down by the concerned professional body. In management All India Management Association (AIMA) has laid down code of conduct to regulate the activities of their members. But there is no compulsion for the managers to follow the same. Therefore, this feature is not present in management.

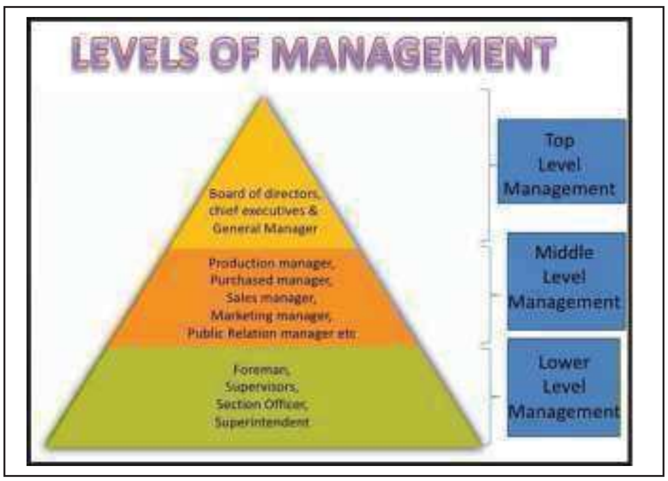
On comparing the features of profession with management we can conclude that presently all the features of profession are not present in management but very soon, may be the next decade, these will be included in the management with statutory backing. So we can say management is on the path of becoming a profession. Today it may not be recognized as a full- fledged profession like doctor or a Chartered Accountant.

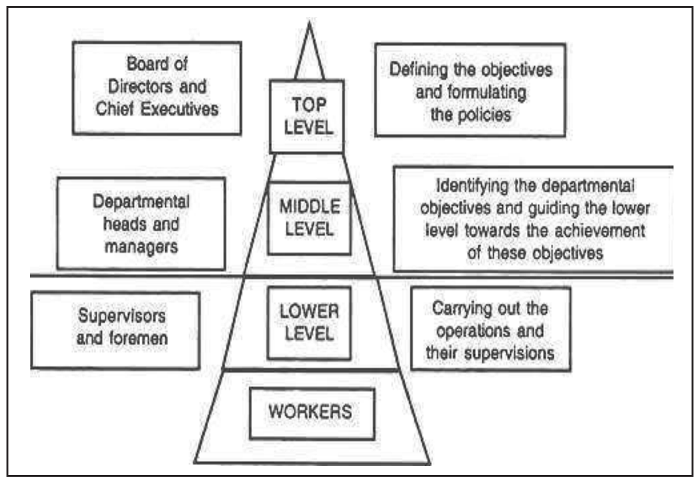
Levels of Management

Levels of management mean the hierarchy of organization representing the relationships among managers and subordinates on the basis of their relative authority status and responsibility. The number of levels in management increases when the size of the business and work force increases and vice versa. The level of management determines a chain of command, the amount of authority & status enjoyed by any managerial position. Instructions flow downward along the chain of command and accountability flows upward. The levels of management can be classified in three broad categories:

1. **Top level**
2. **Middle level**
3. **Low level**

Managers at all these levels perform different functions. There are **three levels** in the hierarchy of an organization. They are:





I. Top Level/ Administrative level Management

Top management consists of the highest officials/ senior-level executives of an organization. Job titles such as Chief Operating Officer **(COO)**, Chief Executive Officer **(CEO)**, Chief Financial Officer **(CFO)**, **President**, or **Vice President** are commonly used by top managers in organizations. These top managers formulate overall organizational goals and strategies for their achievement. They are very few in number.Top level management performs administrative functions more than the managerial functions.

Functions of Top Level Management

- Determining the objectives of business
- Framing the plans and policies to achieve the set objectives.
- Coordinating the activities of different departments according to the overall objectives of the organization.

- Assembling the required resources like fiancé, fixed assets etc to carry on the activities of an organization.
- Maintains liaison with outside parties like government,workers,competitors,media etc.
- Analysing the business environment and its implications for the survival of the firm.

II. Middle/ Executory Level Management

Middle level management consists of **departmental heads** like production manager, purchase manager, sales manager etc.They are responsible for implementing the plans and strategies developed by top level managers. They receive orders and instructions from top managers and get the work done through lower managers. They act as a link between top management and supervisory management.

Functions of Middle Level Management

- Implement the policy decision taken by the top management
- Organizing the activities of their concerned department.
- Middle level management selects and appoints employees of their department.
- Motivating employees based on their performance.
- Middle level managers keep a watch on the activities of lower level managers and they prepare their performance appraisal reports.

III. Lower level / Supervisory level / first line Management

This level consists of **supervisors, foreman, inspectors; clerk** etc. Lower level managers actually carry on the work according to the plans of top and middle level management. These managers are directly related to workers. They pass on the instructions to workers and they attend and solve the problems of workers. They act as a link between middle level managers and workers. They are also responsible for maintaining discipline among the workers.

Functions of Lower Level Management

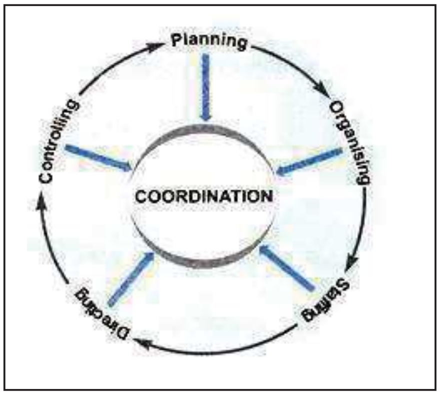
- Planning of day to day work
- Assigning duties to individual workers.
- Ensuring safety of workers, machines, tools, and equipments.
- Supervising the workers and assisting them by explaining work procedures.
- Evaluating the operating performance.
- Preventing wastage and misuse of raw material, machines, etc.
- Ensuring standard of quality and steady flow of output.
- Providing on-the-job training to workers.

Co ordination

Coordination is the base or primary function of every manager because various departments of an organization are working independently and there is need to coordinate their activities. Coordination is the process by which managers synchronize the activities of different departments to ensure unity of action.

For example, suppose in a water tank manufacturing company, its sales department has received an order of 500 units. It cannot execute the order unless production department produces 500 units. The production department cannot produce 500 units unless purchase department purchases raw materials and provides the same to production department.Thus, if production and sales plans are not properly co ordinate, objectives in respect of these activities of the enterprise cannot be efficiently accomplished.

It is rightly said that coordination is the orderly arrangement of group efforts to provide unity of action in the pursuit of common purpose. Coordination is needed at all levels of management and for all functions of management. Coordination is considered as the **essence of management** because it is the force that connects all other managerial functions. Like in a concrete mix cement is an essential part, for the proper functioning all managerial function requires co-ordination



Coordination: The Essence of Management

Coordination brings unity of action and integrates different activities of organization. Coordination is considered as the **essence of management because** of following reasons

1. **Coordination is needed to perform all the functions of management**: In planning coordination is required between main plan and supportive plans of different departments. Coordination gives more meaning to organizing function. In staffing coordination is required between skill of a person and job assigned to him. In directing coordination is required between superior and subordinates, between orders and instructions etc.Thus it is the key to all managerial functions.

2. **Coordination is required at all levels of management**: Top level requires coordination to integrate all the activities of an organization to achieve organizational goals. Middle level requires coordination to balance the activities of different departments. Lower level requires coordination to integrate the activities of workers towards achievement of organizational objectives.

3**. Coordination is the most important function of an organization**: Any company which fails to coordinates its activities cannot survive and run successfully for a long period of time. There should be coordination of activities of different departments which work independently.

Thus, we can say that coordination is not a simple function of management but it is the essence of management. Coordination ensures that planned objectives are achieved with a minimum of conflict.

Features of Coordination

Coordination Integrate Group Efforts: The concept of coordination always applies to group efforts. There is no need for coordination when only single individual is working.

Coordination ensures unity of action: Coordination always focus on unifying the efforts of different individuals working in various departments because conflicting efforts may cause damage to organization.

Coordination is a continuous process: Coordination is not a onetime function; it is a continuous process. It begins with planning and continues to controlling.

Coordination is a pervasive function: Coordination is a universal function; it is required at all levels, in all departments and to perform all the functions due to interdependence of various activities on each other.

Coordination is the responsibility of all managers: Coordination is a function which every manager performs in an organization. Top level managers coordinate the overall plans and policies of organization, middle level try to coordinates the departmental activities and lower level coordinates the activities of workers.

Coordination is a deliberate function: Even where people willingly cooperate and work, coordination gives a direction to that willing spirit. In the absence of coordination conflict may emerge, hence managers have to deliberately perform the function of coordination in order to integrate the various groups as well as individuals and their activities.

Importance of coordination

Coordination is important as it integrates the efforts of individuals and departments. The necessity of coordination arises due to the fact that individuals and departments in an organization are interdependent, i.e, they depend on each other for information and resources to perform their respective activities. The need for coordination arises because of the following reasons:

1. Growth in size: The need for coordination increases with the increase in size of organization because in large organization there are more number of persons working, each individual has his own needs and objectives, so there is more need to harmony individual goals and organizational goals through coordination.

2. Functional Differentiation: The functions of an organization are divided into various departments like production, finance, marketing, human resources etc.All these departments have their own objectives, policies, strategies etc.So, there may arise conflict between them. For example marketing department’s objective may be to increase sales by offering discount, but it is against the interest of finance department. Therefore, coordination is needed to ensure unity of action of various departments.

3. Optimum Utilization of Resources: Coordination helps to avoid duplication, overlapping and misuse of resources. Through coordination every department know the operations of various departments and its stage wise progress. For the smooth running, production department should coordinate with sales department.

4. Specialisation

Modern organisations are characterized by a high degree of specialization. All individuals/specialists have their own goals which are more important to them than the organization's goals. Coordination helps to reconcile the departments/specialists' goal with organizational goals.

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Chapter-2

Principles of Management
(Focused Area only)

Chapter-2 Focused Area

1. **Fayol's Management Principles**
2. **Techniques of Scientific Management**

Henri Fayol's 14 Principles of Management

Henri Fayol was a French mining engineer and management theorist who developed a general theory of business administration that is often called **Fayolism**. Based on his long experience in the field of management he developed 14 principles of management Henri Fayol is known as '**Father of General Management'**.

Fourteen principles of management developed by Fayol are:

1. Principle of Division of Work
2. Principle of Authority and Responsibility
3. Principle of Discipline
4. Principle of Unity of Command
5. Principle Unity of Direction
6. Principle of Subordination of Individual Interest to General Interest
7. Principle of Remuneration of Employees
8. Principle of Centralisation and Decentralisation
9. Principle of Scalar Chain
10. Principle of Order
11. Principle of Equity
12. Principle of Stability of Tenure of Personnel
13. Principle of initiative
14. Principle of Esprit De Corps (Union is Strength)

1. Principle of Division of Work

According to this principle the whole work in an organization must be divided into small tasks and one task or units of work should be assigned to one person according to his ability and qualification. When a person does a job regularly, he/she will become an expert in that job. Thus, division of work leads to "***specialization***".

Example: The manager of a furniture manufacturing company can divide the total work to be done in that company into smaller works. The manager can then delegate each of the smaller tasks, for example, the task of cutting, assembling, polishing etc. Division of work leads to specialization. It will improve his efficiency.

2. **Principle of Authority and Responsibility**

Authority means the power to take decision. Responsibility means the obligation to complete the job assigned on time. According to this principle there must be balance (parity) between the authority and responsibility. Excess of authority without matching responsibility may bring negative results and excess of responsibility without matching authority will not allow the worker to complete his job on time. There should be a balance between authority and responsibility.

Example: If a person is given the responsibility to produce 100 units of bag in a week but he is not given the authority to purchase the raw materials. In this case, he would never be able to achieve the target, if he does not have adequate raw materials.

3. **Principle of Discipline**

Discipline means obedience, respect of authority and observance of established rules. According to Fayol discipline is necessary for the efficient working of an organization. Discipline applies not only to workers but also to managers at all levels. To ensure discipline supervisors should be appointed at all levels, make clear and fair agreements and careful application of penalties.

4. **Principle of Unity of Command**

According to Fayol there should be one and only one boss for every individual employee. This principle states that each participant in a formal organization should receive orders from and be responsible to only one superior. If there is more than one superior, there can be contradictory orders. The employee is likely to have confusion as to whose order to obey. Besides, in the absence of unity of command, responsibility cannot be fixed, overlapping orders, duplication of work etc. may happen.

Example: Suppose a sales person is asked to settle a deal with a buyer and is allowed to give 10% discount by the marketing manager. But the finance manager tells the salesman not to offer more than 5%. Now there is no unity of command.

5. Principle Unity of Direction

According to Fayol there should be ***'one head (manager) and one plan'*** for each group of organizational activities that have the same objectives. For example Reliance Industries Ltd works in various fields including petrochemicals, communications, super markets etc. The activities and objectives of each of these areas will be different. Fayol advocate that each group of activities having the objectives must have one head and one plan. This ensures unity of action and coordination.

Example. If a company is manufacturing car as well as medicines, each product has its own market and its own business environment. Each division should have its own in charge(manager), plans and targets. Every employee of that division must put his efforts towards the achievement of plan of their division under the direction of one head only.

Difference between Unity of Command and Unity of Direction

Basis	Unity of Command	Unity of Direction
Meaning	This principle states that one subordinate should receive orders from and should be responsible to only one boss.	This principle states each group of activities having the same objectives must have one head and one plan.
Aim	To prevent dual subordination	To prevent overlapping of activities
Implications	It affects an individual employee	It affects the entire organization
Display Relationship	It represents relationship between superior and subordinate.	It represents relationship of activities as per organizational plans and goals.
Need	It is needed to fix the responsibility of each person in the organization.	It is needed for sound organization of activities.

6. Principle of Subordination of Individual Interest to General Interest

According to Fayol, the interest of the organisation should be the first priority over the interest of any individual in that organization. Workers working in an organization may have personal interest like get high salary, get promotion etc. The organization also has its own objectives (maximum profit with minimum cost). According to Fayol the focus should be on the organizational objectives and not on those of the individual.

Example-1 When making decision, managers should not consider personal gains but the organisation's general goals.

Example-2 When an organization needs to buy land for expansion purpose, some directors may have bought a particular place out of his personal interest, regardless the interest of the organization.

7. **Principle of Remuneration of Employees**

According to this principle remuneration to the employees should be fair for both employees and the organization. The remuneration should be sufficient to motivate employees. At the same time, it should be within the paying capacity of the organisation.

It is the duty of the manager to ensure that employees are being paid remuneration according to their work. If employees are not paid wages properly they may work with perfect dedication and capacity. Remuneration should be just and equitable. This will create good relations between workers and management.

8. **Principle of Centralisation and Decentralisation**

Centralisation means concentration of authority in few hands at the top level. Decentralization means delegation or distribution of authority throughout all the levels of the organization. Decentralisation is a situation in which an employee is given the authority to make decisions regarding work related matters. According to Fayol an organization should not be completely centralized or decentralized, there must be a proper balance between the two depending upon the, size and nature of the business.

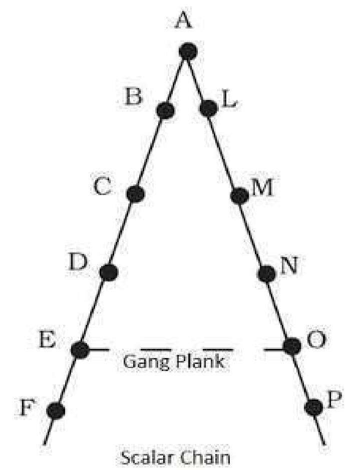
Decentralisation helps the top management to reduce their work load and at the same time it will motivate the lower-level managers.

Example-The major decisions like setting up of goals, plans, policies and strategies can be centralized, but there can be a policy of decentralization for the activities of routine work such as purchase of raw materials, assignment of targets to workers etc.

9. **Principle of Scalar Chain**

An organization consists of superiors and subordinates. Scalar chain is the formal line of authority (Chain of command) which moves from highest to lowest rank in a straight line. The chain specifies the route through which the information is to be communicated to the desired person. Fayol insists that this chain must be strictly followed by all managers and subordinates in an organisation.

Scalar chain or chain of command gives a clear idea about authority-responsibility relationship and systematic communication can be ensured in an organization.



For example, in an organization there is one head **A** who has two lines of authority under him. One line consists of **B-C-D-E-F**.Another line of authority under **A** is **L-M-N-O-P**.According to Scalar Chain if **E** wants to communicate with **O** he has to move through **E-D-C-B-A-L-M-N** and then **O**.But in case of emergency a Gang Plank between **E** and **O** may be created as shown by the dotted line in order to avoid delay.

Drawbacks of Scalar chain

- Time consuming-Huge time is required for the communication to reach the destination.
- There is possibility of distortion of message in the course of its transmission.

Gang Plank (Direct Contact)

According to this concept, in case of emergency, two executives of the organization of different departments at the same level can communicate directly, so that speedy decisions and actions could be taken. Gang plank allows direct communication between the officials working at same level of authority without following every link of chain. This is the **shorter route of communication** and has been so that communication is not delayed.

In the above example, if there is an emergency, then employee ‘E’ can directly communicate with employee ‘O’ through ‘Gang plank’ as shown in the diagram. Some business opportunities may be lost due to lack of timely decisions; gang plank is a solution for this.

10. Principle of Order

According to Fayol, there must be a fixed place for everything (men and materials) and everything must be in its place. If this order is strictly followed in an organization, there will be no hindrance in the activities of the business/ factory. This increases the efficiency of company’s operations.

Example: All employees should have a fixed place in an office.

Example: Efficiency can be increased by keeping the required tools in a fixed place in an automobile workshop.

11. **Principle of Equity**

Equity refers to kindness and justice in the behavior of managers towards workers. According to Fayol the principle of equity should be followed by managers at all levels. There should be no discrimination against anyone on account of sex, religion, language,caste, belief or nationality. Employees will bring their maximum efforts only when they are treated with kindness and justice.

Example-1 There should be no discrimination in granting medical leave to workers irrespective of their caste and religion.

Example-2 Google, an American multinational Company, has appointed Sundar Pichai, an Indian, as its CEO. It is clear here that nationality should not be considered when giving a promotion to someone.

12. **Principle of Stability of Tenure of Personnel**

According to this principle, employees once selected, should be kept at their post for a minimum fixed term (tenure). Employees turnover should be minimized to maintain organizational efficiency. They should be given reasonable time to show results. Employees are more likely to leave the organization if there is no job insecurity.

13. **Principle of initiative**

Fayol suggested that employees in the organization must be given an opportunity to take some initiative in making and executing a plan. Initiative gives more freedom to its employees to suggest their new ideas and more convenient methods of work. Initiative will increase the satisfaction level of employees. Initiative does not mean disobedience; it will develop a feeling of oneness in employees.

Example- A manager should welcome the ideas and suggestions of his subordinates before fixing final plan.

14. **Principle of Esprit De Corps (Union is Strength)**

According to Fayol management should promote a team spirit of unity or harmony among employees. Employees should have a feeling that they are a member of that organization. A manager should replace ***'I'** with **'We'*** in all his conversations with workers. Fayol put emphasis on team work because team contribution is always better than individual contribution.

Techniques of Scientific Management

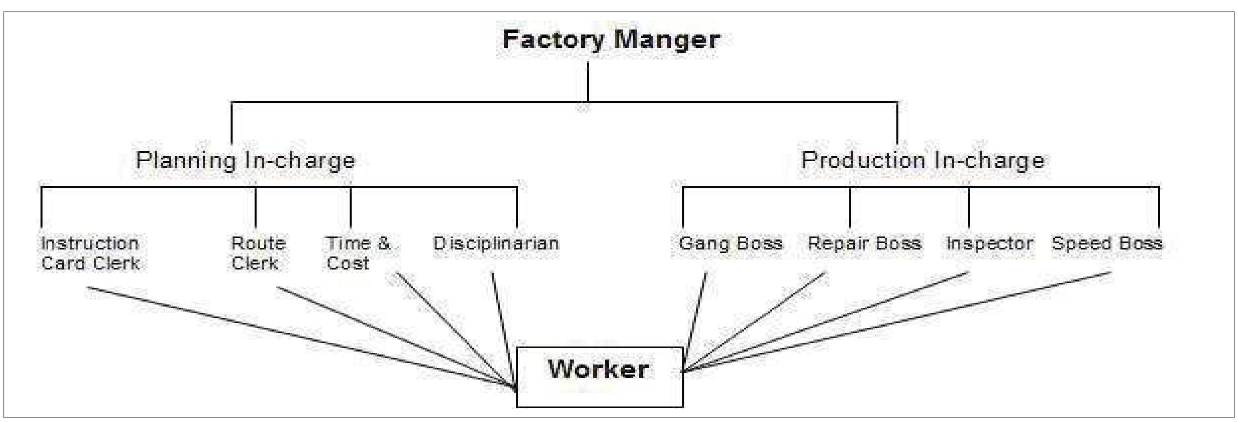
Principles of Scientific Management are applied in practice with the help of certain techniques. Management techniques are methods and procedures to be performed to accomplish goals. Various techniques of Scientific Management are discussed below:-

1. **Functional Foremanship**
2. **Standadisation and simplification of work**
3. **Work Study**
4. **Differential Piece Wage System**

1. Functional Foremanship

In this technique Taylor suggested the division of factory into two departments- **Planning Department** and **Production Department**. Through this planning is separated from execution. So that 'Planning in charge' can concentrate only on planning the job of worker's and 'production in charge' can concentration only on execution of the job. Taylor said foreman must be intelligent, educated, energetic, honest and profession expert. All these qualities can't be found in one person so Taylor proposed there must be at least eight specialist or foreman to supervise and give orders to workers .Out of the eight foreman , 4 of them in the planning department and 4 of them in the production department to guide workers.

Functional Foremanship



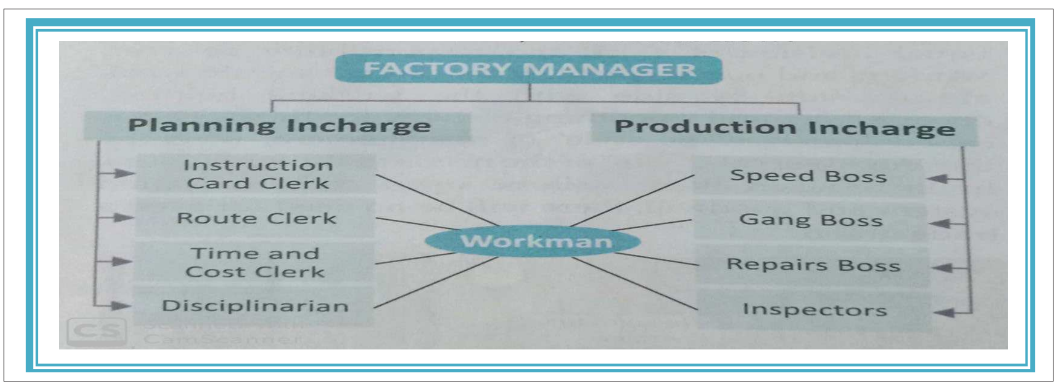
The eight functional experts suggested by Taylor are:

Under planning department:

1) **Route Clerk**-This foreman is responsible for determining the sequence of steps for completing a particular job or task.
2) **Instruction Card Clerk**-He draft and issues instruction to the workers.
3) **Time and Cost Clerk**-He records the time taken for completion of a job and also prepares cost sheet for every job.
4) **Disciplinarian**-He ensures that each job is being performed in a disciplined manner.

Under Production Department:

1) **Gang Boss**-He arranges all the machines, tools and other resources required for performance of the job so that there is no delay.
2) **Speed Boss**-This foreman assures timely completion of work.
3) **Repair Boss**-This foreman taken care of the maintenance of machines.
4) **Inspector**-This foreman keeps a check on quality control of the output.



2. **Standardization and Simplification of Work**

Standardisation refers to the process of setting standards for every business activity, i.e standardization of process, standardization of raw materials, standardization of time, standardization of product etc. Standardisation does not mean quality standards only but it refers to setting up standards for size, type, weights and quality of product. Simplification aims at eliminating unnecessary diversity of products.

The objectives of standardization are:

1) To establish standards of performance of men and machines.
2) To establish interchangeability of manufactured parts and equipments.
3) To specify a given line of products to fixed type, size, colour etc.
4) To maintain quality standards.

3. Work Study:

Work study is a systematic, objective oriented, analytical and critical assessment of the performance of workers in various operations in a workshop. Its various aspects are:

(a) Method study (b) Motion Study (c) Time Study (d) Fatigue Study

3(a) Method Study

Method study is a technique to know the one best way of doing a particular job. Taylor suggested that method of production should not be decided by the rule of thumb method but all the methods must be tried in the organization and the one which brings maximum benefits with minimum cost must be selected**.**

Example: In a car manufacturing, the sequence of operations, place for men, machines, and raw materials etc. will be systematically decided in advance.

3 (b) Motion Study

Motion study refers to the study of various movements, like sitting, standing, holding, turning, changing position etc., of workers, while performing a particular job. The main objective of this study is to identify the motions which are productive, incidental and unproductive. This study helps in eliminating the unnecessary movements as to complete a given task in less time and thereby increasing the efficiency.

Example: While observing an average worker, if it is observed that he has to bend frequently to pick up tools from the tool box placed under his table, then a stool can be placed near his seat to keep the tool box so that the worker does not waste his energy in bending again and again. Saved energy can be used for improving his production capacity.

3 (c) Time Study

Time study determines the standard time taken by a workman to perform a given task. The standard time is fixed by taking several readings of a specific task. Its purpose is to decide how much time is normally required by the workers to perform a certain job and thus to determine the number of workers to be employed for a fair day's work.

It also helps in calculating labour costs and framing suitable incentive schemes. The time taken in doing a task is assigned to a worker by using time measuring devices such as stop watch etc.

Example: In a standard situation, the time taken by the worker to make a lunch box is 30 minutes. So, in one hour he can make 2 boxes. Suppose, an employee works 8 hours a so he has to make 16 lunch boxes a day. Now the manager can fix the standard task as 16. Wages can be calculated accordingly.

Time study helps the manager:-

(i) To decide how much time is normally required to perform a certain job.

(ii) To determine a fair day's work for the workmen.

(iii) To determine the number of workers to be employed.

(iv) To frame suitable incentive schemes.

3 (d) Fatigue Study

It is human tendency that a person feels tired physically and mentally if she/ he does not rest while working. The rest period enables one to regain the stamina and to work again with same capacity. This will result in increased productivity. Fatigue study intends to find out the number and frequency of rest intervals that must be provided to a worker in completing a job efficiently.

Example: If workers are involved in heavy manual labour such as brick layering or poor working conditions then small pauses must be given to regain stamina and after each interval, they resume their work with greater enthusiasm.

4. **Differential Piece Wage System**

Differential piece rate system is a system of wage payment in which efficient and inefficient workers are paid at different rates. Taylor has suggested two types of wages for similar work. Differential piece rate system suggests two-piece rate-higher rate for efficient workers who produce the standard output or more and lower rate for inefficient workers who produce less than the standard output.

For example, Narmada Ltd. gives Rs. 2 per piece if daily production is 25 or more units and Rs.1.50 per unit ,if production is less than 25 units. Suppose worker 'A' who produced 24 units and he will get only Rs.36 (24×1.50) whereas worker 'B' who produced 25 units (just one unit more than worker 'A', but he achieved target) and he will get Rs. 50 (25×2). In this case worker 'A' could not achieve the target. Although, he lost the target for just one unit, he suffered a huge loss of Rs.14.So under this system; workers will be motivated to attain atleast minimum standard performance.

Worker	Standard Output	Actual output	Wage Rate (Rs)	Wage (Rs)
A	25	24	1.5	36
B	25	25	2	50

Advantages of Differential Piece Wage System

1. It discriminates between efficient and inefficient workers
2. It ensures reward for efficient workers.
3. It automatically penalise inefficient worker
4. This system motivate the workers towards higher productivity.

Mental revolution.

Mental Revolution is a change in thinking both on the part of management and workers. **Success of** implementation of scientific management **depends on the mental revolution** of management and workers. Mental revolution involves a change in the attitude of workers and management towards one another from competition to cooperation. Both should realise that each one is important. Both the management and workers should try to achieve maximum output in place of restricted output. This will be benefited to both the parties. Management should share a part of surplus with workers. Workers should also contribute their maximum effort so that the company makes profits. This attitude will be good for both of them and also for the company. If mental revolution not take place, all the measures suggested in scientific management system would be useless.

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Chapter-3

Business Environment

Chapter-3 Focused Area

1. **Importance of environment**
2. **Dimensions of environment**
3. **Industrial Policy 1991**
4. **Liberalisation, privatization,Globalisation**

Importance of Business Environment

In the present day of competitive market, it is essential for a business to remain alert and aware of its environment, because of the following points:

1) It helps the firm to identify opportunities and get the first mover advantage:

Early identification of opportunities helps an enterprise to exploit them, otherwise it will be exploited by our competitors.

2) It helps a firm to identify threats and early warning signals

Environmental awareness can help managers to identify various threats on time and serve as an early warning signal

3) It helps in assisting in planning and policy formulation

Since business environment provides both opportunities and threats for the firm, its understanding and analysis can be the basis for planning and policy formulation.

4) Coping with changes

The business must be aware of the ongoing changes in the business environment; it may be changes in the customer requirements, emerging trends, new government policies, technological changes etc. If the business is aware of these changes then it can take possible measures to exploit the situation or it can take remedial measures to survive.

5) It helps in improving performance

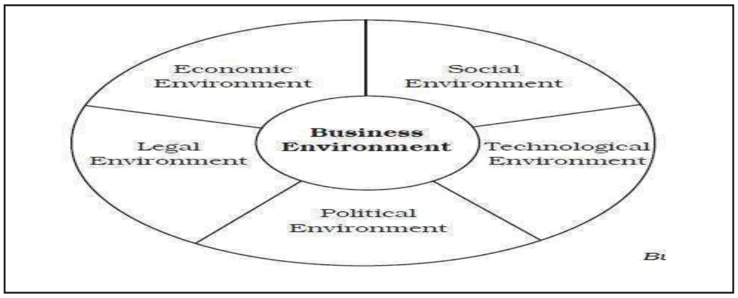
With continuous scan of business environment firms can easily improve their performance. By making changes in the internal environment matching to external environment, organization can prosper and improve their market share.

6) Helpful in tapping and assembling resources

A business needs to supply goods according to the demand in market. To produce goods, they need raw materials. They select raw materials keeping in mind the products demanded by the environment/consumers. For example, during the Covid period many companies collected raw materials for the production of mask and sanitiser in anticipation of their demand.

Dimensions/Elements of Business Environment

Dimensions of business environment means all the factors, forces and institutions which have direct or indirect influence over the business activities:



1. **Economic Environment**
2. **Social Environment**
3. **Political Environment**
4. **Technological environment**
5. **Legal environment**

1. Economic Environment

It consists of economic factors that influence the business of a country. It includes factors such as inflation, tax and interest rates, unemployment, competition, fiscal and monetary policies. For example, if the unemployment rate is too high, many people will not be able to afford to purchase things it will badly affect the sales of a business. If the interest rate in a country is high, it will increase the cost of finance of the business. An increase in tax rate will cut the divisible profit of a business.

Examples for changes of economic environment:

- Introduction of competitors
- Changes in demand and fashion
- Changes in price of raw material/labour costs
- Business cycles-Boom/depression
- Inflation rate
- Unemployment rate
- Interest rates
- GDP

2. **Social Environment**

It describes the characteristics of the society in which the business organization exists. Social environment consists of religious aspects, language, customs, traditions, beliefs, tastes, preference, consumption habit etc. Traditions define social practices that have lasted for decades or even centuries. For example, the celebration of Diwali, Eid, Christmas, and Guru Parv in India provides significant financial opportunities for greetings card companies, sweets or confectionery manufacturers, tailoring outlets and much other related business.

Social trends present various opportunities and threats to business enterprises. For example, the health-and fitness trend has become popular in these days. Social environment of different market differs vastly.

Major elements of social environment:

- Education system and literacy rate
- Consumption habits
- Expectation from the work force
- Health conscious of consumers

3. **Political Environment**

It is the outcome of a combination of various ideologies advocated by various political parties. It includes political conditions such as general stability and peace in the country and the political attitude of the elected government towards business etc.

For example, it is very difficult to start a new business in countries like Afganistan,Iraq,Syria etc due to uncertain political situation prevailing there.

Example for political environment changes:

- General election and changes in Government
- Political stability
- Ideology of political parties
- Attitude of the government towards business.
- The nature of relationship our country with foreign countries.
- The constitution of the country
- Industrial policy 1991

4. **Technological environment**

It includes forces relating to scientific improvements and innovations, which provide new products, new production method and new style of operation of a business etc. For instance, Companies introduced new models of cars time to time, introduction of online trading system, introduction of net banking etc.

Example for changes in technological environment:

- New inventions
- New distribution systems like online market
- New payment system like net banking
- New advertisement media like internet, social media etc.
- Online meeting, training etc.

5. **Legal environment**

Legal environment consists of the legal frame work within which the business has to function. It consists of legislation passed by the government, administration orders, court judgment etc. For example:- The Government has made it compulsory to display a health warning on outside of the cigarette package as “Cigarette smoking is injurious to health”.

Examples of legal environmental changes: -

Government of India passed various Act Like

- Consumer Protection Act-1986
- Competition Act 2002
- Trade Union Act 1926
- Factories Act-1948
- Workmen’s Compensation Act-1923
- Implementation of GST in 2017
- Companies Act 2013

Industrial Policy 1991

The Industrial Policy 1991 has brought comprehensive changes in economic regulation in the country. The Government adopted the policy of liberalization, privatization and globalization. As part of the policy, the role of public sector has been redefined. Private sector has given welcome in major industries that were previously reserved for the public sector. The policy has brought changes in the following aspects of industrial regulation:

1. **Abolition of Industrial Licensing --**

In a major move to liberalise the economy, the new industrial policy abolished all industrial licensing except for certain industries related to security and strategic concerns, and social reasons. Till 1991, 17 industries were reserved for the public sector. Now there are only 3 industries for which licensing is compulsory. They are atomic energy, arms and rail transport.

2. **Public Sector's Role Diluted**

Most of the industries reserved for public sector under earlier policy were de-reserved. Industrial policy 1991 seeks to restrict the role of public sector and opened the door to private sector. The government identified strategic and priority areas for the public sector to concentrate. Similarly, loss making PSUs were sold to the private sector. The government has adopted disinvestment policy for the restructuring of the public sector in the country.

3. **Free Entry to Foreign Investment and Technology**

Another major feature of the economic reform measure was it has given welcome to foreign investment and foreign technology. This measure has enhanced the industrial competition and improved business environment in the country. Foreign investment including FDI and FPI were allowed.

4. **Amendment of MRTP Act**

To take away restrictions on investment by business firms under Monopolistic and Restrictive Trade Practices (MRTP) Act

The major changes or impact of the Economic Policy 1991 are:

1. **Liberalisation**
2. **Privatisation**
3. **Globalisation**

1. **Liberalisation**

Liberalisation means **liberating economy from unnecessary controls and regulations** and making the economy more competitive. New industrial policy liberated private sector from severe controls and licensing. Liberalisation policy signaled the end of the license-permit-quota raj. The 1991 policy introduced the following measures of liberalization:

a) Abolishing licensing requirements in most of the industries except a short list.

b) Freedom in deciding the scale of business activities.

c) Removal of restriction on the movement of goods and services.

d) Freedom in fixing the prices of goods and services

e) Reduction in tax rate and lifting of unnecessary control over the economy.

f) Simplifying the procedure for import and export.

g) Making it easier to attract foreign capital and technology to India.

2. Privatisation

Privatisation refers to giving a greater role to the private sector and reducing the role of the public sector in the nation building process. Privatization is the opposite of nationalization. To achieve this Govt. adopted the policy of planned 'disinvestment' i.e., transfer of business ownership and control from public to private by selling Government's share in it.

Previously Public sector was given the importance with a view to help in industrialization and removal of poverty. But these PSU's could not able to achieve this objective and in 1991 policy government gave greater role to the private sector. Number of industries reserved for public sector was reduces from 17 to 3.

Disinvestment

Disinvestment means selling of Government's share in a public sector enterprise to private sector. Disinvestment may lead to privatization. When the Government sells only less than 50 per cent of its total stock, it is called merely disinvestment and in this case control and management of the business enterprise remains in the hands of Government. If government sells more than 50 % of its stake in a company to private sector it leads to **privatization** of that firm.

Objectives of Disinvestment

- To reduce the financial burden of the government
- To introduce competition and market discipline.
- To increase growth of the firm
- To increase efficiency of management

Difference between disinvestment and privatisation

Meaning	Privatisation	Disinvestment
Meaning	Privatization is the process of transfer of ownership of a public sector undertaking to the private sector.	Disinvestment means selling of Government's share in a public sector enterprise to private sector.
Change in ownership	Change in ownership	Dilution of ownership
Shareholding of Government	More than 50%	Less than 50%

Globalisation

Globalisation refers to integration of various economies of world. In globalization entire world is considered as a single market. It means the mixing of the domestic economy with the rest of the world with regard to foreign investment, trade, production and financial matters. Globalization leads to free movement of people, goods, and services across boundaries. Globalization paves the way to many MNC to Indian market. Example-Pepsi, Coca-Cola, McDonald's, and Kentucky Fried Chicken (KFC Chicken).

Steps taken for globalization:

Reduction in tariffs- Custom duties and tariffs imposed on imports and exports are reduced gradually just to make India economy attractive to the global investors.

Liberalisation on foreign capital policy- The Central Government has abolished FERA (Foreign Exchange Regulation Act) and enacted FEMA (Foreign Exchange Management Act). With this the exchange rate of the rupee today is determined by demand and supply conditions in the foreign exchange markets.

Liberal trade procedure-Import export procedures were simplified.

Features of a Truly Globalised Economy

- Free flow of goods and services across nations
- Free flow of capital across nations
- Free flow of people across borders
- A common acceptable mechanism for the settlement of disputes

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Chapter-4

PLANNING

(Focused Area only)

Focused area- Chapter-4

1. **Features of planning**
2. **Steps in planning**
3. **Types of plans**

Features of Planning

1. **Planning focus on achieving objectives**

Every organization has to fulfil certain objectives. Planning involves setting up of objectives and developing appropriate courses of action to achieve these objectives. Planning has no meaning unless it contributes to the achievement of predetermined organizational goals.

2. **Planning is a primary function of management**

Planning is the primary or basic function of management. All other managerial functions are performed within the frame work of plans drawn. Planning provides the basis of all other managerial functions.

3. **Planning is pervasive**

Planning is required at all levels of management. It is not an exclusive function of top management or of any particular department. But the scope of planning differs at different levels and among different departments. For example, the top management undertakes planning for the organisation as a whole. Middle management does the departmental planning. At the lowest level, day-to-day operational planning is done by supervisors.

4. **Planning is continuous**

Planning is a never ending or continuous process. Plans are prepared for a specific period of time, may be for a month, a quarter, or a year. At the end of that period there is need for a new plan to be drawn on the basis of new requirements and future conditions. Hence, planning is a continuous process.

Example-If the plan is made during boom period and during its execution there is depression period then planners have to make changes according to the conditions prevailing.

5. **Planning is futuristic (Forward-looking)**

Planning essentially involves looking ahead and preparing for the future. Planning is thinking in advance what is to be done, when it is to be done, where it is to be done, and who is to be done. In other words, planning relates to future.

6. **Planning is a mental exercise**

Planning is a mental exercise involving creative thinking and imagination. Planning is not guesswork but involves logical and systematic thinking. Thinking for planning must be orderly and based on the analysis of facts and forecasts.

7. **Planning involves decision making**

Planning essentially involves choice from among various alternatives. The need for planning arises only when alternatives are available. In actual practice, planning presupposes the existence of alternatives and choosing the most appropriate one.

Planning process/ Steps in Planning

Planning means deciding in advance what is to be done, when it is to be done, how it is to be done etc. It is a process of decision making. It involves certain logical steps. They are as follows.

1. **Setting Objectives**

The first and foremost step is setting objectives. Objectives are the end-results which manager's wish to achieve. Objective must be specific and clear. Objectives may be set for the entire organisation and each department or unit within the organisation. They give direction to all departments. If the end result (objective) is clear it becomes easier to work towards the goal.

2. **Developing premises**

Planning is concerned with the future which is uncertain and every planner is using assumptions about future. These **assumptions** are called **premises.** Premises are the base on which plans are made.Forcast is the technique of gathering information. Forecast can be made about the demand for a product, change in government policy, tax rate, competition etc. Accurate assumptions/ premises become essential for successful plans.

3. **Identifying various alternative courses of action**

Once objectives are set and assumptions are made, then the next step is to act upon them. There are alternative ways to achieve the stated objectives. All the alternative courses of action should be identified.

4. Evaluating alternative courses of action

In this stage, management will evaluate the merits and demerits of various alternatives in the light of various objectives of the business and planning premises. Alternatives are evaluated in the light of its risk, return, feasibility etc.

5. Selecting an alternative

After analyzing the merits and demerits, the most appropriate alternative is selected. This is the real point of decision making. The best plan is to be adopted and implemented. It would be the most feasible, profitable, and with least negative consequences.

Example: Selecting 'Purchasing new technology machine' as the best solution for increasing profits.

6. Implementing the plan

Implementing is the stage at which the best selected alternative is put into action. Implementing the plan means putting the plan into action so as to achieve the objective of the business.

For example: The business already decided to buy new machinery as part of its goal of maximizing profit. At this stage the company takes steps to acquire that machinery.

7. Follow-up

Planning is a continuous process so manager's job does not get over simply putting the plan into action. To see whether plans are being implemented and activities are performed according to schedule is also part of the planning process. During follow up many adjustments are made in the plan. Monitoring the plans is equally important to ensure that objectives are achieved.

Setting Objectives

Developing Premises

Identifying Alternative courses of Action

Evaluating Alternative Courses

Selecting an Alternative

Implementing the Plan

Follow-up Action

Fig: Planning Process

Types of plans

An organization has to prepare a plan before making any decision related to business operation, or undertaking any project. Plans help to achieve operational goals. Plans can be classified into several types based on the use and length of the planning period. Plans can be broadly classified into two:

1.Standing Plan

2. Single-use Plan

1.Standing Plan

A standing plan is a business plan that is intended to be used many times. It is designed to guide managerial decisions and actions that tend to be recurring. It is used over a **long period**, sometimes indefinitely, and is altered as circumstances change. Standing plans include **objectives, strategy, policy, procedure, method and rules.** Standing plans define actions to take in certain situations or actions that must be completed to accomplish a particular goal.

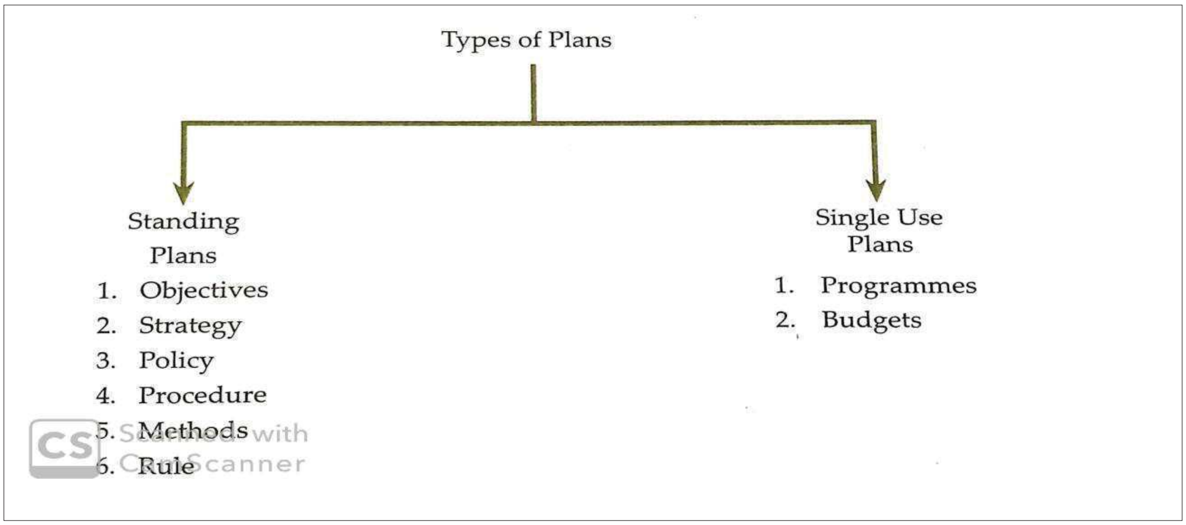
Examples of standing plans include **policies** for employee interaction, emergency operations **procedures** in the event of a companywide disaster, **instructions (rules)** for reporting internal issues in the company and regulations regarding what is allowable and what is prohibited in the business.

1. **Single-use Plan**

A single-use plan, otherwise known as a specific plan, is used for nonrecurring, one-time situations in business. A single-use plan is meant to solve one particular problem and then be discarded. The single-use plan becomes obsolete after its intended and specific use. The length of a single-use plan differs depending on the project as a single event plan may only last one day (organising an event or a seminar or conference) while a single project may last weeks or months (An advertising campaign for a new product launch).

Single-Use Plans	Standing Plans
A single use plan is developed for a one –time event (eg. Plan for Asianet Film Award Night, conference) or projects. ➢ They are for non-recurring situations ➢ Its duration may be a week, month and sometimes only a day,e.g a seminar ➢ It is useless when the project or	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 ➢ Such plan enhances efficiency in routine decision making. ➢ It is usually developed once but used over and over again with

event is over ➢ Single use plans include-Budgets,Programmes and projects ➢ Example-Budget for events like Asianet Film Award Night or Annual General Meeting of Shareholders.	necessary modifications from time to time to meet business needs as required. ➢ Standing plans include Policies,Procedures,Methods and Rules ➢ Example-Selection procedure for a particular post in a company



Types of Standing Plans

1. **Objectives**
   Objectives are the ends toward which activity is aimed. It is the desired **future position** that the management would like to reach. Objectives are prerequisite for planning. Objectives are expressed in quantitative or measurable terms. Objectives are result oriented not activity oriented.
   Examples:
   1. An organization may have an objective of increasing sales by 10%
   2. Reduction in quality rejects from existing 5% to 2%.
   3. Crossing 30,000 crore marks in sales 2020
   4. An organization may have an objective of increasing its profit by 10%
2. **Strategy**
   A business strategy can be defined as the combination of all the decisions taken and actions performed by the business to accomplish the business goals. It is a comprehensive (complete) plan for accomplishing organisation's objectives. A business objective without a strategy is just a dream.

Example: Objective is to increase company's profit by 10%.To achieve this objective, company can adopt strategies like create and launch new products or models, introduce new distribution channels like online sale, select new advertisement media like internet marketing, implement new sales promotion techniques etc.

3. **Policy**

Policies are the general guidelines for conducting an action. It ensures uniformity in decision making for achievement of predetermined objectives. Policies define boundaries within which decisions can be made. Policy is a standing plan.

Example:

The management of Union Bank of India decided to promote employees on the basis of merit only. (Example for policy)

Recruitment Policy (Hiring only university-trained engineers)

Sales Policy (Selling product only on cash basis or only wholesale)

Mobile phone policy (Allow in working hours or not)

Payment will be provided for overtime work only if it is allowed by the management.

4. **Procedure**

Procedure is a series of steps, taken together, to achieve a desired result. They are specified in a chronological order. It describes the exact manner in which the work is to be performed. Procedure is necessary to speed up the performance. Procedures are rigid; there is no possibility for deviation. Procedure is a standing plan.

Example-Methods of selecting employees, placement of order, Procedure for selection of employees, procedure to produce a product

5. **Method**

A method is the prescribed way in which a task has to be performed considering the objectives. It deals with the best way to perform a particular task. Selection of proper method saves time, money and effort and increases efficiency. Methods are helpful in the simplification, standardization and systematization of work. Method is a standing plan.

Example: For the valuation of stock, the organization must decide in advance what method has to be adopted (LIFO or FIFO), different payment options in online purchase etc.

6. **Rule**

Rules are specific statements that inform what is to be done and what is not to be done.They do not allow any deviations/ flexibility. Rules are made for the purpose of creating discipline in the organization. Rules is a standing plan.

Example: No smoking, no admission without permission, 0using mobile phone during office hours is prohibited

Types of single use plans

1. **Programmes**

   Programmes are detailed statements about a project. Programme may be taken as a combination of policies, procedures, rules, tasks, human and physical resources required, budgets etc. The same programme may not be used for achieving other goals.
   Example:Programmes for construction of shopping mall,programmes for opening a new department in our business.

2. **Budget**

   Budget is a projection designed to define the anticipated costs and results in numerical terms of single project. Budget is a recorded plan of action expressed in quantitative terms. It may be expressed in time, money or physical units.
   It is an instrument of both planning and controlling. Budget preparation involves forecasting; therefore, it comes under planning. Budget is a control device because budget helps to compare actual figures with budgeted figure and take corrective action if necessary.
   Example-Cash budget, sales budget

Types of plans in a nut shell

Standing Plan- to deal with situations that can occur again and again

1. **Objectives**- Objectives are the ends toward which activity is aimed.
2. **Strategy**- It is the combination of all the decisions taken and actions performed by the business to accomplish the business goals.
3. **Policy**- Policies are the general guidelines for conducting an action.
4. **Procedure**- Procedure is a series of steps, taken together, to achieve a desired result.
5. **Method**- A method is the prescribed way in which a task has to be performed considering the objectives.
6. **Rule**- Rules are specific statements that inform what is to be done and what is not to be done.

Single Use Plan- It is one-time plan specifically designed to achieve a particular goal.

1. **Programme**- Programmes are detailed statements about a project, includes combination of policies, procedures, rules, tasks, budgets etc.
2. **Budget**- Budget is a projection designed to define the anticipated costs and results in numerical terms of single project.

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Chapter-5

ORGANISING

(Focused Area only)

Focused Area- organising

1. **Importance of organising**
2. **Organisation Structure and Types**
3. **Formal and Informal organisation**
4. **Delegation and decentralisation**

Once the plans have been laid down and objectives specified therein, the next step is to organise resources in a manner which leads to the accomplishment of objectives. Organising refers to the process of identifying and grouping various activities and bringing together various resources for the achievement of specific goals.

Importance of organising

Effective organisation is the means to achieve the objectives of the enterprise. It is the basic function of management. Organisation makes the proper arrangements of the requisite resources and make its most useful and efficient application. It provides right direction to the efforts of individuals and groups. The following points highlight the crucial role that organising plays in any business enterprise:

1. **Benefits of specialisation**

   In organising the total work is divided into smaller units and each job is assigned to right person. Repetitive performance of a particular work allows a worker to gain experience in that area and leads to specialisation.

2. **Clarity in working relationships**

   A good organisation structure honours the principle of unity of command which specifying who is to report to whom. It helps in creating a hierarchical order and thereby enabling the fixation of responsibility and specification of the extent of authority to be exercised by an individual.

3. **Optimum utilization of resources**

   Organising leads to the proper usage of all material, financial and human resources. The proper assignment of jobs avoids overlapping of work and also makes possible the best use of resources. Avoidance of duplication of work helps in preventing confusion and minimising the wastage of resources and efforts.

4. Adaptation to change

Properly designed organisation structure is flexible. It can be modified according to the changes in the business environment.

5. Effective administration

Organising helps in effective administration by providing a clear description of jobs and related duties. This helps to avoid confusion and duplication. Management of an enterprise thereby becomes easy and this brings effectiveness in administration.

6. Development of personnel

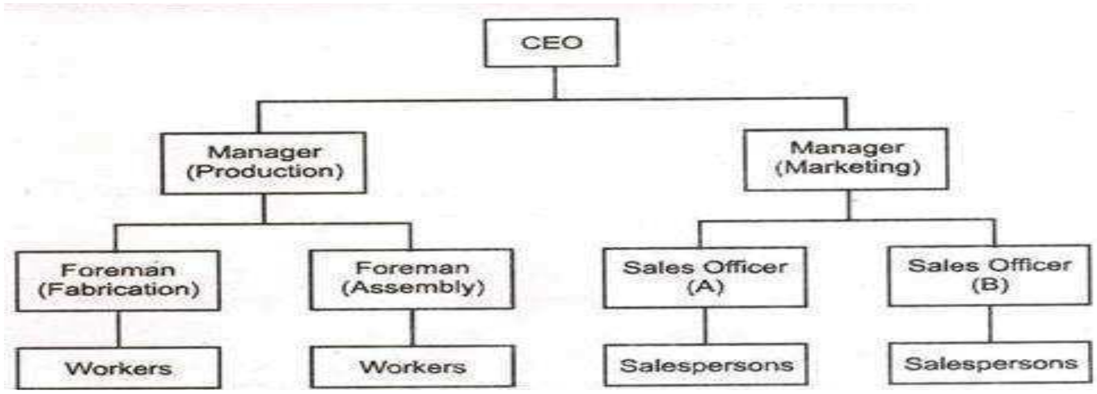
Organising helps in development of personnel by delegation of work to subordinates. Effective delegation allows the managers to reduce their workload by assigning routine jobs to their subordinates. It gives more time to managers to explore new areas for growth and the opportunity to strengthening the company's competitive position. It also provides opportunity to the subordinates to utilise their talent.

7. Expansion and growth

Organisation provides the frame work within which an enterprise can expand and grow. Through organisation, management can multiply its strength. It is through a sound organisation structure that many small firms have grown and become big.

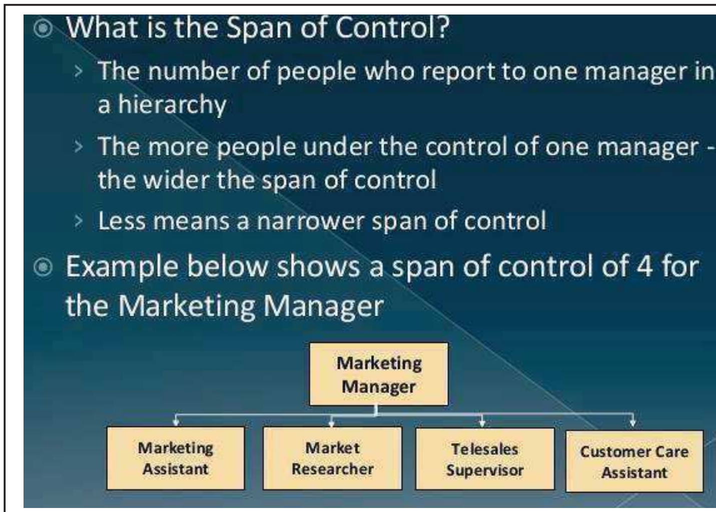
Organisation Structure

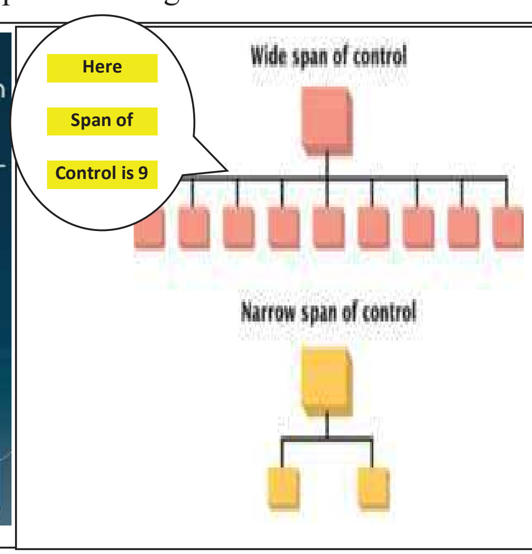
Proper coordination in a large organisation is difficult without a proper organisation structure. Organisation structure is the outcome of the organising process. The organisation structure can be defined as the **framework** within which managerial and operating tasks are performed. Organisation structure specifies the relationships between people, work and resources. **The need for an adequate organisation structure is felt by an enterprise whenever it grows in size or complexity**. This is so because as an organisation grows, coordination becomes difficult due to large number of functions, products, workers etc. The organisation structure of a firm can be shown in an organisation chart.



Span of Management (Span of control)

Span of management refers to the number of subordinates that can be effectively managed by a superior or how many subordinates are under one superior. Span of management determines the levels of management in the structure. The span of control depends upon the capacity and intelligence level of managers and employees. Nature of job also affected the span of control, i.e, if the routine job has to be performed then there can be wide span but for challenging jobs narrow span of control is preferred. A tall structure of organisation is the one that has multiple levels of hierarchy. A tall structure of organisation has narrow span of management.

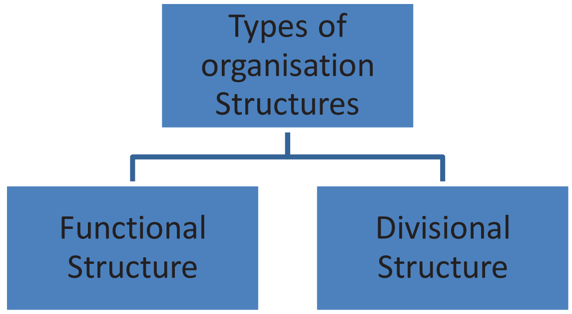




Types of organisation Structures

The type of structure adopted by an organisation will vary with the nature and types of activities performed by an organisation. The organisational structure can be classified under two categories which are as follows:

(i) Functional structure
(ii) Divisional structure



I. Functional Structure

It is an organisational structure wherein **jobs of similar nature** are grouped into major functions and these major functions are organised as separate departments. This kind of organisational structure classifies people according to the function they perform in the organisation. A person will be in charge of each department. In case of a manufacturing concern, we can have production, purchase, marketing, finance etc. Functional organisation is the developed form of Taylor's 'Functional Foremanship'. Within each department and sub-department, a chain of superior and subordinates is created to work systematically.

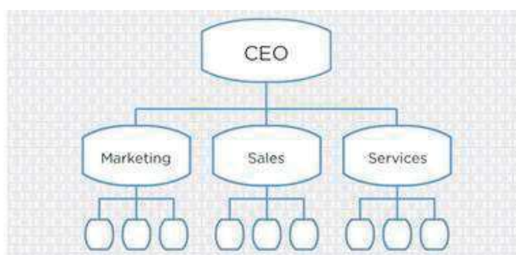


Fig: Functional structure

Example: *A truck manufacturing company has its registered office in Delhi, manufacturing unit at Gurgaon and marketing department located at Faridabad. The company manufactures different types of trucks. In this case the company should adopt 'Functional Structure' since it manufactures trucks only (a single product).The company has separate departments like manufacturing unit(Gurgaon)),marketing and sales departments(Faridabad),etc.Here ,the size of the organisation is large, it has diversified activities and operations (purchase ,production, sales, marketing etc.) require a high degree of specialisation. So, it should adopt functional structure.*

Advantages of Functional structure

1. Specialisation

In a functional structure jobs of similar nature are grouped together. It provides specialisation which makes optimum utilisation of manpower.

2. **Easy supervision**

The supervisor becomes familiar with the type of task to be performed because all tasks are related to one function only. As a result, he can easily supervise his department.

3. **Increasing managerial efficiency**

Managers of one department are performing same type of function again and again which help to increase their managerial and operational efficiency. It ensures increased profit also.

4. **Effective training**

This type of structure makes training of employees easier as the focus is only on a limited range of skills. For examples, employees of production department are given training of production techniques only.

5. **Lower cost**

It leads to minimum duplication of effort which results lower cost.

Disadvantages of Functional structure

1. **Emphasis on departmental objectives**

Due to separation, each department head emphasis on the performance of his function and lacks emphasis on the overall objectives of the company.

2. **Problem in coordination**

Co-ordination of the activities of different departments is not practically easy.

3. **Conflict between departments**

Since interest of different departments differs, there will be interdepartmental conflicts which are harmful to organisational interest.

4. **Obstacle to the all-round development of managers**

Specialisation is an obstacle to the all-round development of managers. Managers develop only in a specific area.

Suitability of Functional structure

- It is most suitable when the size of the organisation is large.
- Firms producing a single line of product.
- It is suitable where there is high degree of specialisation is required.

II. Divisional Structure

When the organisation is producing **more than one type of product** and serving a **number of distinctive markets**, the divisional structure is considered more suitable. Divisional structure is an organisational structure wherein grouping of activities or departmentalisation is on the basis of product line or areas. There are separate divisions for different products and each division having functions like production, marketing, finance etc. Each divisional head is required to look after all function related to the product or market territory.

Fig: Divisional structure on the basis of 'product'

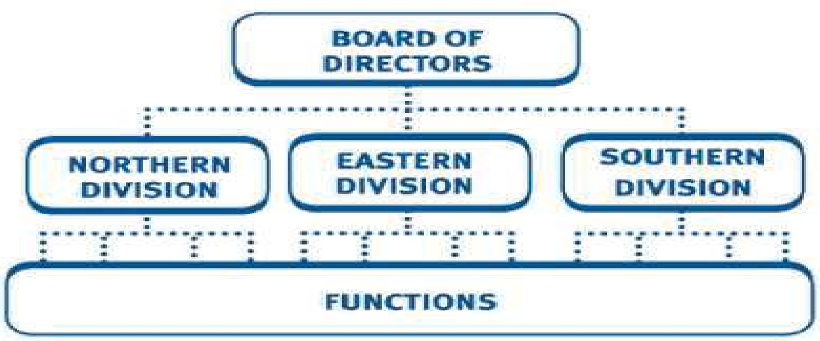


Fig: Divisional structure on the basis of 'territory'

Example:

V.Guard Ltd a leading company in Kerala is engaged in diversified business namely electrical, textiles, amusement parks etc. Each of this have different departments namely marketing, production, finance, research and development etc. In this case the company should adopt 'Divisional Structure' because product specialisation helps growth and facilitates diversification of enterprise. It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making.

Advantages of Divisional structure

1. **Product specialisation**

Here all activities related to one type of product are grouped under one department. Attention on individual product line permits its growth and facilitates diversification of enterprise.

2. **Coordination becomes easy**

Activities like purchase, production, marketing etc. related to a particular product line are integrated easily in this structure.

3. **Helps in fixation of responsibility**

Divisional heads are accountable for profits, as revenues and costs related to different departments can be easily identified and assigned to them. It helps in fixation of responsibility in cases of poor performance of the division and appropriate remedial action can be taken.

4. **It promotes flexibility and initiative**

It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making.

Disadvantages of divisional structure

1. **Conflict may arise among different divisions**

Managers in each division may focus on their own product ignoring the interest the interest of the organisation. There may be conflict with different divisions regarding allocation of resources, priorities etc.

2. **Chances of duplication**

There may be duplication of activities which leads to high operating cost.Example-advertisement expenses, transportation cost etc.

3. **Selfish attitude**

Every division tries to display better performance sometimes even at the cost of other divisions. This shows their selfish attitude. Consequently, it hits the interest of the concern as a whole.

Suitability (1) Divisional structure is suitable where large variety of products are manufactured.

(2) It is suitable for organisations needing product specialisation. (3) Growing companies which plan to add more line of products in future.

Difference between Functional and Divisional Structure

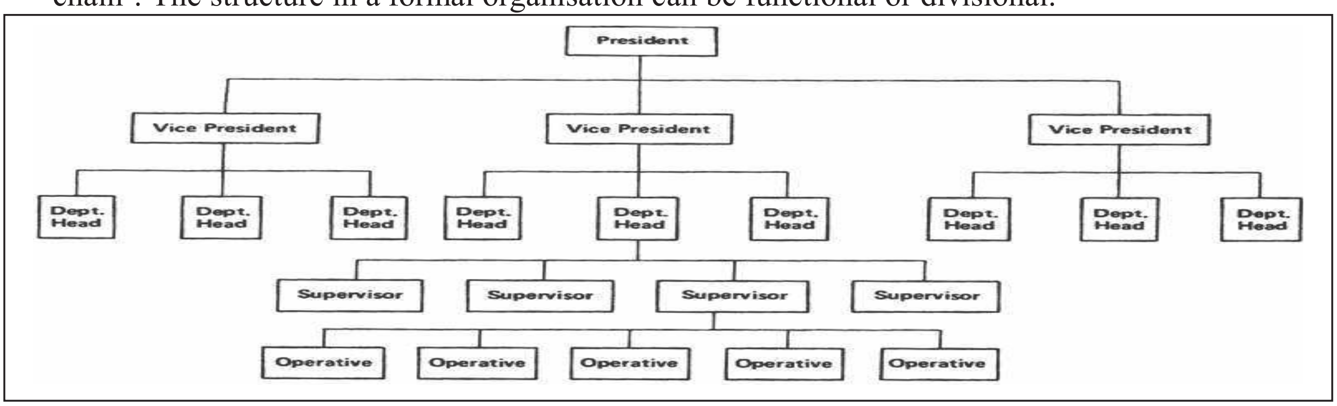
Points of Difference	Functional Structure	Divisional Structure
Basis of formation	Formed on the basis of **function**	Formed on the basis of **products**
Accountability	Difficult to make accountable as departments are interdependent	Easy to fix accountability, as departments work independently
Specialisation	This type of structure brings functional specialisation	This type of structure brings product specialisation
Coordination	Difficult for a multi-product company	Easy, because all functions related to a particular product are integrated in one division.
Cost	Functions are not duplicated, hence economical	Duplication of resources in various departments, hence costly
Managerial development	Less chance as manager becomes specialised in one function only	More chance as managers perform multi-functions
Autonomy of operations	Less autonomy	More autonomy

Formal and Informal Organisation

To manage employees and to enable the smooth functioning of the enterprise a formal organisation is essential. Informal organisation emerges from the formal organisation.

I. Formal Organisation

Formal organisation refers to the organisation structure which is **designed by the management to achieve organisational goals**. Formal organisation structure clearly defines the job to be performed by each individual. It also **clearly specifies authority and responsibility assigned to individuals in the organisation**. It forms a chain of superior subordinate relationship that can be represented in a chart. In formal organisation, communication takes place only through 'Scalar chain'. The structure in a formal organisation can be functional or divisional.



Definition

According to Louis Allen "The formal organisation is a system of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability"

Example: A company is manufacturing TV. There is well defined system of jobs with a clear and definite authority, responsibility accountability in the company. But people are not allowed to interact beyond their officially defined roles.

Feature of Formal Organisation

1. **Deliberately created**

It is deliberately planned and created by top management to facilitate the smooth functioning of the organisation.

2. **Defines superior subordinate relationship**

It specifies the relationships among various job positions and the nature of their interrelationship. This clarifies who has to report to whom. The authority, responsibility and accountability of each level are clearly defined.

3. **Official lines of communication**

Formal organisational structure creates a scalar chain of communication in the organisation

4. **Emphasis of work**

It places more emphasis on work to be performed rather than on inter-personal relationships among the employees. It does not consider emotional aspect.

5. **Rules and procedures**

It lays down standard behaviours by rules.

Advantages of Formal Organisation

1. **Easy to fix responsibility**

It is easier to fix responsibility since mutual relationships are clearly defined.

2. **No overlapping of work**

In formal organisation structure work is systematically divided among various departments and employees. So, there is no chance of duplication or overlapping of work.

3. **Ensures unity of command**

Formal organisational structure ensures unity of command by clearly defines superior subordinates' relationship, i.e. who reports to whom.

4. **Systematic working**

Formal organisation structure results in systematic and smooth functioning of an organisation. It is helpful to achieve organisational objectives.

5. **Co-ordination**

Formal organisational structure ensures proper coordination of activities of various departments.

Limitations of Formal Organisation

1. **Delay in action**

While following scalar chain and chain of command actions get delayed in formal structure.

2. **No scope for creativity**

Rigid policies never allow deviation. So, in formal organisation, there is no scope for creativity.

3. **Emphasis on work only**

Formal organisational structure gives importance to work only, it ignores human relations. No consideration is given to sentiments or social values.

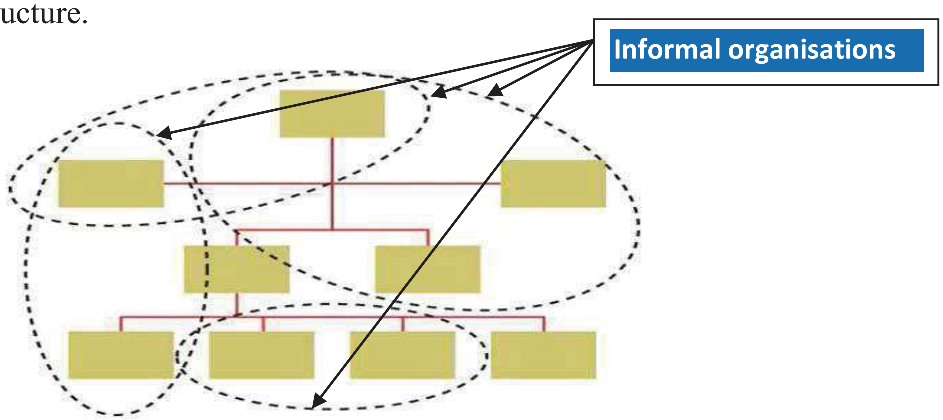
II. Informal Organisation

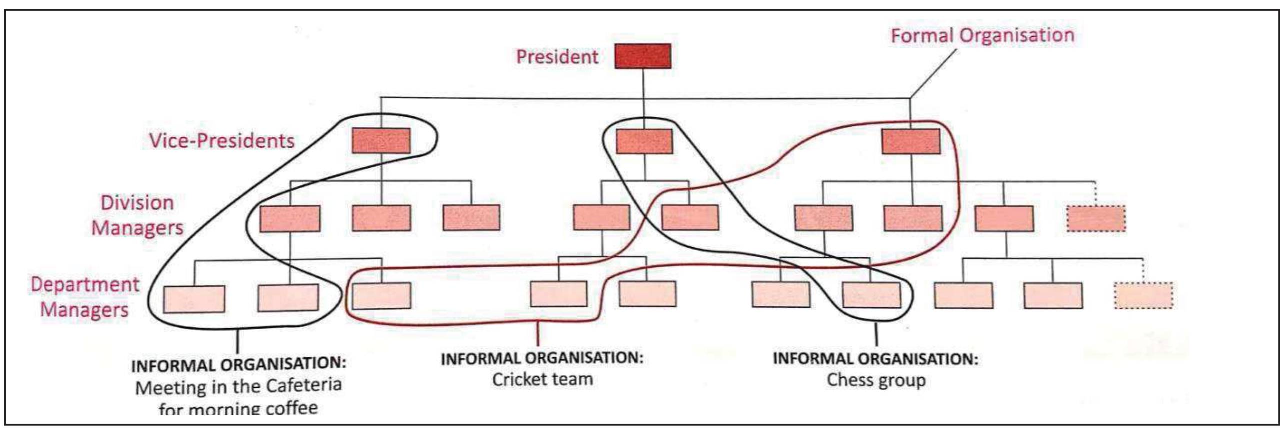
Informal organisation is voluntary and independent organisation, developed automatically between individuals of a formal organisation to satisfy their social and human needs. It is a **spontaneous relationship that is not created by management**. This organisation is formed informally between workers **on the basis of friendship and common interest, which may or may not be work related**. It is a network of social relationships among employees. It develops **within the formal organisation** as a result of the cultural and social needs of members. For example, managers and subordinates taking part in cricket matches on Sundays or meeting in cafeteria for morning coffee.

Example: Management and staff of Infosys Ltd have formed a Drama team for the recreation of them.

Features of informal organisation

1. Informal organisation structure gets created automatically and is not deliberately created by management.
2. It is formed by employees to get psychological satisfaction.
3. Informal organisation does not have fixed line of communication.
4. Source of information cannot be known under informal structure as any person can communicate with anyone in the organisation
5. The relationship is based upon friendship and common interest.
6. The existence of informal organisational structure depends on the formal organisation structure because people working at different job positions interact with each other to form informal structure.





Advantages of Informal Organisation

1. Fast Communication

Informal structure does not follow scalar chain so there can be faster spread of communication

2. Fulfils social needs

Informal organisation helps to fulfil social needs of the members. This enhances their job satisfaction.

3. **Correct Feedback**

Through informal structure the top-level managers can know the real feedback of employees on various policies and plans.

4. **Complementary to formal organisation**

It removes the weakness of formal organisation. It supports formal organisation in administration. Thus; it is complementary to formal organisation.

5. **Meet the personal need**

It is a social structure formed to meet personal needs of the members of the group. Such needs cannot be met by the formal structure.

Disadvantages of Informal organisation

1. **Spread Rumours**

Most of the information passed through informal structure is rumours or gossip which can mislead the employees.

2. **More emphasis to individual interest**

Informal organisation emphasises more on individual interests and satisfaction rather than organisational interests.

3. **May bring negative results**

If informal organisation opposes the policies and changes of management, then it becomes very difficult to implement them in organisation.

Informal organisation cannot be altogether eliminated from an organisation. The knowledge of such groups can be used to gather their support and consequently lead to improved organisational performance. Instead of opposing them, management should skilfully take advantage of both the formal and informal organisation so that work continues smoothly.

Formal Organisation Vs Informal Organisation

Basis	Formal Organisation	Informal Organisation
Formation	Deliberately planned and created top management	It arises as a result of social interaction among employees
Purpose	To achieve predetermined goals of organisation	To satisfy social and cultural needs and fulfil common interest.
Structure	It has a well-defined structure of jobs and relationships	Does not have a clear-cut structure

Flow of communication	Communication takes place through the 'Scalar chain'	Communication does not take place through a planned route, it can take place in any direction
Authority	Authority arises by virtue of position in management	Authority arises out of personal qualities
Nature	Rigid	Flexible
Leadership	Managers are leaders	Leaders may or may not be managers. They are chosen by group.
Behaviour	Standards of behaviour are laid down by rules	There is no set of behaviour pattern

Delegation of authority

In every organisation, managers are assigned lot of work and manager alone cannot perform all the work. So, he must share his duties with subordinate managers.

Delegation refers to the downward transfer of authority from a superior to a subordinate. It is a pre-requisite to the efficient functioning of an organisation because it enables a manager to use his time on high priority activities. Delegation is the result of human limitation to the span of management. It also satisfies the subordinate's need for recognition and provides them with opportunities to develop and exercise initiative. Management expands itself through delegation.

The delegation of authority works from a **higher level to lower level** and not vice versa. That means a boss can assign his work to his employees, but the employees can't give their work to their boss.

Delegation can be defined as "A process of entrusting responsibility and authority to the subordinates and creating accountability on those employees who are entrusted responsibility and authority".

Delegation does not mean abdication (handing over). The manager shall still be **accountable** for the performance of the assigned tasks. Moreover, the authority granted to a subordinate can be taken back and re delegated to another person. Thus, irrespective of the extent of delegated authority, the manager shall still be accountable to the same extent as before delegation.

Elements of Delegation

According to Louis Allen, delegation is the entrustment of responsibility and authority to another and the creation of accountability for performance. There are three elements of delegation: 1. Authority 2. Responsibility 3. Accountability

1. Authority

Authority means power to take decision. In formal organisation authority originates by virtue of an individual's position in an organisation. Authority is highest at the top level. Authority flows from **top to bottom**, i.e., the superior has authority over the subordinate. To carry on the responsibilities every employee needs to have some authority. Authority can be delegated. So, when managers passing some their responsibilities to the subordinates, they should also pass some of the authorities too. Authority determines the superior subordinate relationship.

Responsibility

Responsibility is the obligation of a subordinate to properly perform the assigned duty. It arises from a superior–subordinate relationship because the subordinate is bound to perform the duty assigned to him by his superior. Thus, **responsibility flows upwards**. Responsibility cannot be fully delegated.

There must be parity with authority and responsibility. If authority granted is more than responsibility, it may lead to misuse of authority, and if responsibility assigned is more than authority it may make a person ineffective.

2. Accountability

Accountability implies being answerable for the final outcome/result. The subordinate is held accountable to superiors. The subordinate has to give explanations before his superiors, if any failure happened in the delegated job. Accountability arises from responsibility. **Accountability flows upwards** i.e.; a subordinate will be accountable to a superior for satisfactory performance of work. It is generally enforced through regular feedback on the extent of work accomplished. The subordinate will be expected to explain the consequences of his actions or omissions. Accountability cannot be delegated.

Note: It may be stated that authority is delegated, responsibility is accepted and accountability is imposed. Responsibility is derived from authority while accountability is from responsibility.

Elements of Delegation –A Comparison

Basis	**Authority**	**Responsibility**	**Accountability**
Meaning	Right to command	Obligation to perform an assigned task	Answerability for outcome of assigned task
Flow	Flows downward from superior to subordinates	Flows upward from subordinate to superior	Flows upwards from subordinates to superior
Origin	Arises from formal position	Arises from delegated authority	Arises from responsibility
Delegation	Can be delegated	Cannot be entirely delegated	Cannot be delegated at all

Importance of Delegation

1. **Effective management**

With the process of delegation, the managers can pass all their routine work to the subordinates and concentrate on important work. This would increase his effectiveness.

2. **Motivation of employees**

Delegation implies grant of authority to subordinates. So, they have a sense of recognition. They are motivated to work for higher performance.

3. **Employee development**

As a result of delegation, employees get opportunities to utilise their talent. It allows them to develop skills necessary to perform complex tasks. It makes them better leaders and decision makers.

4. **Helping the expansion of business**

If the enterprise expands well trained, experienced and competent persons readily available to take up the positions. It will give advantages to the business.

5. **Better co-ordination**

Delegation enables managers and subordinates to establish relationship with each other. Clarity in reporting helps to develop and maintain effective coordination.

6. **Basis of management hierarchy**

Delegation of authority establishes superior subordinate relationships, which are the basis of hierarchy of management. This hierarchy determines who has to report to whom.

Centralisation and Decentralisation

In some organisations top management plays an active role in taking all decisions while there are others in which this power is given to middle and lower level management. Those organisation in which decision-making authority lies with top management are called centralised organisations whereas those in which such authority is shared with lower level management is called decentralised organisations.

I. Centralisation

Centralisation refers to concentration of authority at top level. An organisation is centralised when the decision the making authority is in the hands of top-level management only.

II. Decentralisation

Decentralisation refers to systematic **delegation of authority throughout all the levels** of management and in all the departments. An organisation is said to be decentralised when managers at middle and lower levels are given the authority to take decision and actions on matters relating their respective areas of work. Top management retains only the authority for taking major decisions and also retain the authority for overall coordination and control of the organisation.

Importance of Decentralisation

1. Develop initiative among subordinates

Decentralisation helps to promote self-reliance and confidence amongst the subordinates. Decentralisation gives an opportunity to lower-level managers to take decisions.

2. Quick decision making

Decentralisation promotes quick decision making, as subordinates have enough authority to take decision without consulting with their superiors.

3. Relief to top management

Decentralisation permits the top executives to share his excessive workload with his subordinates. This helps the top management to utilise his valuable time on more important matters.

4. Facilitates growth

Decentralisation enables the managers at the lower level as well as the departmental heads to perform to their full potential and sense of healthy competition among the departments. It will contribute a lot to the development of the organisation.

5. Democratic system

Decentralisation shares authority and responsibility between managers. It avoids concentration of power, which is a democratic approach towards management.

6. Better control

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

Delegation Vs Decentralisation

Basis	**Delegation**	**Decentralisation**
Nature	Delegation is a compulsory because no individual can perform all tasks on his own	Decentralisation is an optional Policy decision. It is done at discretion of the top management
Scope	It has narrow scope as it is limited to superior and immediate subordinate	It has wider scope as it implies extension of delegation to lowest level of management
Purpose	To reduce the workload of manager	To increase the role of subordinates in the organisation giving them autonomy
Grant of authority	The authority is granted by one individual to another	It is a systematic act which takes place at all levels and at all functions in an organisation
What is?	Technique of management	Philosophy of management
Requirement	Yes, it is very necessary	No, it is an optional philosophy
Freedom of action	Very little freedom to subordinates	Considerable freedom to subordinates

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Chapter-6

Staffing

(Focused Area Only)

Chapter-6 Focused Area

1. **Steps in Staffing**
2. **Sources of recruitments**
3. **Selection Tests**
4. **Methods of training**

Staffing is concerned with work force planning. It facilitates obtaining, utilising and maintaining a satisfactory and satisfied work force. Staffing function includes manpower planning, job analysis, recruitment, selection, placement and training of personnel. An organisation can achieve its objectives only when it has the right persons in the right positions. Staffing function fills the position as shown in the organisation structure. Staffing is an important function because the success of an organisation depends upon the quality of its workforce.

Staffing Process/ Steps in Staffing

The prime concern of the staffing function is the timely fulfilment of manpower requirements of an organistion. Manpower requirements may arise at the time of starting a new business or expanding an existing business or to replace those who quit, retire or promoted.The objective of staffing function is to obtain the most competent and the best available staffs (Human resource) for the enterprise. Staffing is an important function, staffing process starts from understanding the manpower requirements of an organisation and identifying the potential sources from where it can be met, either from within the organisation or from outside.

The process of staffing consists of the following steps:

1. **Estimating the manpower requirements**
2. **Recruitment**
3. **Selection**
4. **Placement and orientation**
5. **Training and development**
6. **Performance appraisal**
7. **Promotion and career planning**
8. **Compensation**

1. Estimating the Manpower Requirements

Estimating the manpower requirements of an organisation is called manpower planning. It is process of determining the number and types of staff required by an organisation. Manpower planning helps to avoid over-staffed or under-staffed situations.

2. Recruitment

Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. In other words, recruitment means discovering the source of employees. Recruitment is called a positive process because it encourages maximum number of people to apply for jobs. Recruitment may be from internal sources like promotion, transfer etc. and external sources like employment exchange, placement consultants, contractors etc. For fresh talent and wider choice external sources are used.

3. Selection

Selection is the process of choosing the best person for a particular job. Selection starts where recruitment ends. Selection is a negative process as it involves rejection of unsuitable candidates. The selection is done through a process, which involves test, interviews etc. In selection, both internal and external sources of recruitment may be explored.

4. Placement and orientation

Placement refers to the posting of the selected employees in the post for which he is selected. After selection, the employee is given appointment letter and is asked to occupy the vacant job position. This is called posting.

Orientation refers to introducing the selected employee to his superiors, subordinates and colleagues and familiarising him with the rules and policies of the organisation. The employee is given a brief presentation about the organisation and introduced to his colleagues.

5. **Training and Development**

Today people want is not simply a job but a career. A job is work you perform to earn money to support your basic needs. A career is a long-term professional journey based on your passions. To build up a career a certain level of training is required.

Training means giving expertise. Training refers to the process by which the aptitude, skills and abilities of employees to perform specific jobs are improved. It is the art of increasing the knowledge and technical skills of an employee for doing a particular job efficiently. Both newly appointed and existing staff needs training. Organisations may have in house training centres or arrange with some institutions to provide training for their employees.

Development is a much wider concept compared to training. Where training aims increasing one's skills and abilities to do a particular job, developments aims at the overall development of a person and equips him to handle higher jobs of the organisation in future. Training and development not only motivate employees but these improve efficiency of work also.

6. Performance Appraisal

Performance appraisal means evaluating an employee's current/past performance as against certain pre-determined standards. It is examining whether an employee's performance is according to the predetermined standards. The employee is informed in advance what the standards are expected from him and is examined whether he has attained the standards. An employee's wages, promotion and training depend on performance appraisal.

For example, if a sales manager was given a sales target of 2,000 TV during the month, his performance will be evaluated on the basis at the end of the month.

7. Promotion and career planning

Promotion refers to the shifting of an employee from a lower position to a higher position with higher status, greater responsibilities, better facilities and better pay. Promotions are an integral part of people's career. Generally on the basis of feedback report of employees' performance, they are given promotion and opportunities for career development.

8. Compensation

Compensation refers to all forms of pay or reward given to the employees. It is the reward for the efforts of employees. It may be direct financial payments like wages, salaries, incentives, commissions, bonus etc. And indirect payments like employer paid insurance, medical facilities, travelling facilities etc.

Recruitment

Recruitment refers to the process of finding possible candidates for a job. Recruitment may be defined as "the process of searching for prospective employees and stimulating them to apply for jobs in an organisation. Advertisement is commonly part of recruitment. Information about job vacancies of an organisation can be informed to the job seekers through news paper advertisement, online advertisement etc.

Sources of recruitment

There are two sources of recruitments-(1) **Internal sources and (2) External sources.**

1. Internal sources

Internal sources refer to inviting candidates from within the organisation. There are two important sources of internal recruitment, namely

(a) Transfers

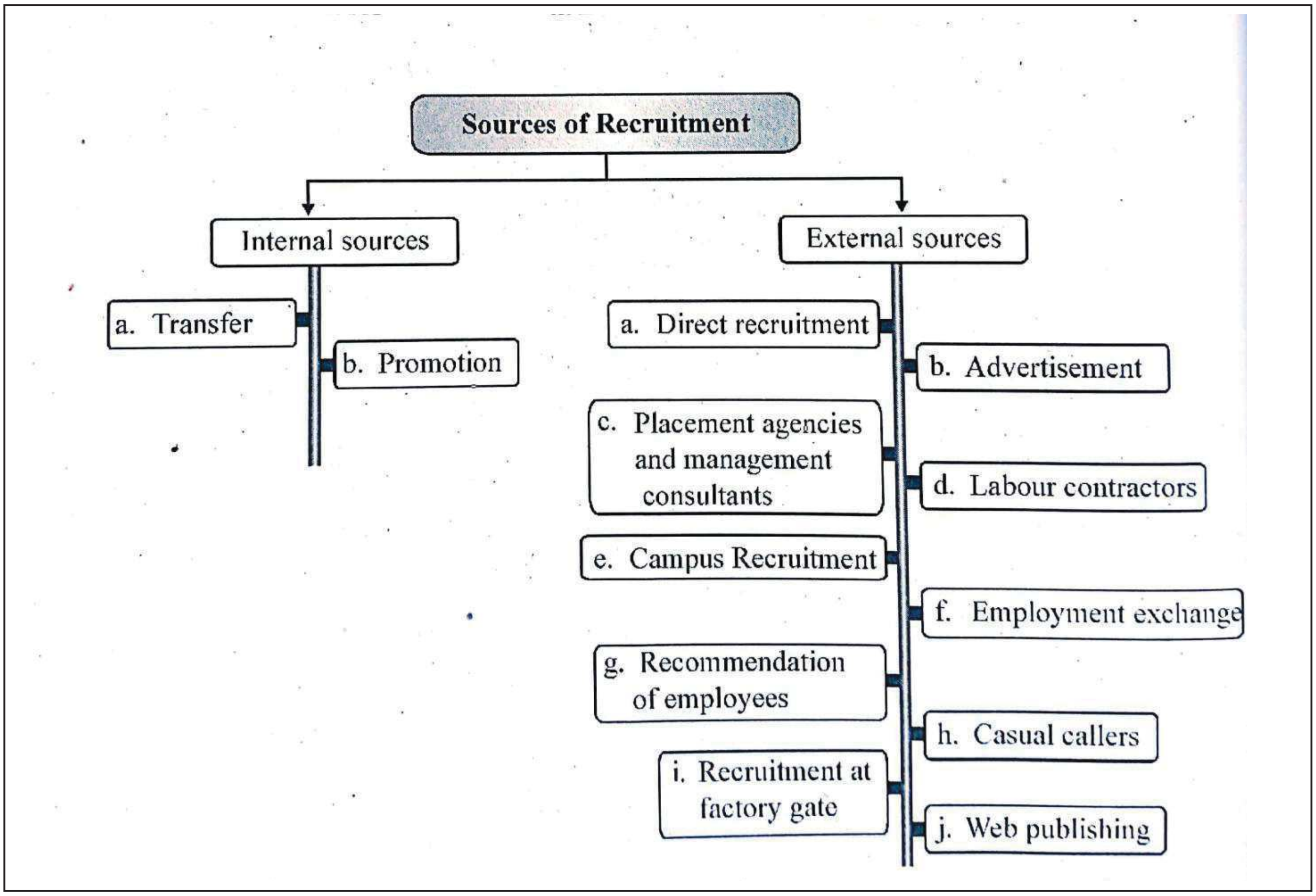
(b) Promotions

(a) Transfers: Transfers involve shifting an employee from job to another, one department to another or one shift to another. Transfer will not have any change in position, responsibility or remuneration of an employee. Transfer does not affect the total number of employees in the organisation. Transfers can be used for training of employees for learning different jobs.

For Example, transfer of clerk from Union Bank Kumaramangalam branch to Union Bank, Kottayam branch.

(b) Promotion: Promotion is the shifting of an employee from a lower job position to a higher job position. Promotion gives an employee a higher position and remuneration as well as greater responsibilities. It helps to improve motivation, loyalty and satisfaction level of employees.

For example, promotion of clerk to accountant position, LD clerk to UD clerk



Advantages of internal sources of recruitment

1. It is an economical source-It is an economical source of recruitment as no time and money has to be spent on advertising vacancies or on conducting tests and interviews.

2. It motivates employees-It motivates employees to improve their performance as promotion at a higher level may lead to a chain of promotions at lower levels in the organisation. Employees work with commitment and loyalty and remain satisfied with their jobs.

3. It simplifies the process of selection and placement-Selection is very easy as candidates are already known to the organisation.

4. Better performance of employees-To get promotion employees show better performance.

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

6. No need for induction training-In case of internal source of recruitment, there is no need for induction training , as the employees are already familiar with the organisation.

7. Automatic training-Through transfer employees get training also in the form of job rotation

Disadvantages of internal sources of recruitment

1. In complete source of recruitment-It is an incomplete source of recruitment because the existing staff may be insufficient or they may not fulfil the eligibility criteria of the jobs to be filled.

2. Reduced productivity-Frequent transfers of employees may often reduce the productivity of the organisation.

3. Hindrance for induction of fresh talents-Internal source of recruitment reduces the scope for induction of fresh talents into the firm.

4. Not suitable for new enterprises-A new enterprise can't use internal sources of recruitment.

5. Lack of competition among employees-The spirit of competition among the employees may be hampered because employees are likely to expect automatic promotion by seniority; performance is not a matter at all.

External Sources of Recruitment

External sources of recruitment refer to recruiting employees from outside the organisation.External sources of recruitment requires when the existing staff may be insufficient or they may not fulfil the eligibility criteria of the jobs to be filled. Whenever large number of job positions are vacant then external recruitment is preferred. External recruitment provides wide choice and brings new blood in the organisation. The external sources of recruitment are: -

1. Direct Recruitment

2. Casual Callers

3. Media advertising

4. Employment Exchanges

5. Placement Agencies

6. Management Consultants

7. Campus Recruitment

8. Recommendations by the Existing Employees

9. Web Publishing

1. Direct Recruitment-Sometimes, the organizations paste notice at the gate of their office or factories stating the vacant job positions. The people who are interested in those jobs walk in for the interview. This method of recruitment is very inexpensive and is most suitable for unskilled job positions like sweeper, peon etc.

2. Casual Callers-Qualified candidates send their bio-data to the institutions even when applications are not called for. Institutions keep a database of such unsolicited applicants and consider them for appointment when vacancies arise.

3. Media advertising-The most common and popular method of external recruitment is advertising about the vacant job position. Advertisement in TV, newspapers and journals etc.will attract a large number of applicants.

4. Employment Exchange-Employment exchanges run by government helps to match personnel demand and supply by serving as link between job seekers and employers. It is suitable for unskilled and skilled jobs.

5. Placement Agencies-Placement agencies provide nation-wide service of matching demand and supply of work force. These agencies invite the bio data and record from various job seekers and send them to suitable clients. These agencies charge fee for providing such service.

6. Management Consultants-Management consultants help the organizations to recruit technical, professional and managerial personnel. They specialize in middle level and top-level executive placements.

7. Campus Recruitment-Sometimes the senior managers of the organizations visit various professional collages, technical institutions to get fresh graduates or the people with the latest technological know-how. The organizations prefer fresh graduates because they can be mould according to the requirement of the organization.

8. Recommendations by the Existing Employees-Many firm encourage their employees to recommend the names of their relatives and friends to fill the vacant job position. Such appointments are usually done at lower levels.

9. Web publishing-In internet there are certain websites specifically designed to provide information regarding job seekers and companies which have vacant job position. These websites can be visited by job seekers as well as companies. Example: Naukri.com, Monster.com etc.

Advantages of External sources of recruitment

1. Wider choice-Through external recruitment the organisation gets wider choice.

2. Fresh Talent-With external recruitment fresh and new talent come to the organisation.

3. Latest technological knowledge-Through campus selection organisation can get employees with latest technological knowledge.

4. Competitive Spirit-Through external recruitment when out-sliders join the organisation, this develops a completive spirit in existing employees of organisation.

Disadvantages of External sources of recruitment

1. Dissatisfaction among existing employees-It may lead to dissatisfaction among the existing staff as it reduces their chances of promotion.

2. Costly Process-It is costly process as a lot of money has to be spent on advertisement and processing of applications.

3. Lengthy Process-Recruitment from external sources takes a long time. The business has to notify the vacancies and wait for applications to initiate the selection process.

Difference between internal sources and external sources

Basis	Internal sources	External sources
Meaning	Internal sources refer to inviting candidates from within the organisation.	External sources of recruitment refer to recruiting employees from outside the organisation
Time	It is less time-consuming	It is more time consuming
Economy	It is more economical	It is costly
Choice	There is limited choice	There is wider choice
Morale of the existing employees	This method boosts up the morale of existing employees	This method brings down the morale of existing employees
Basis	It is generally based on seniority cum merit	It is strictly based on merit and qualifications
Quality of recruitment	Quality of recruitment is not as-superior as in case of external source of recruitment because of the limited choice	There is wider choice, so quality of recruitment is superior.

Selection

Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job. Towards this purpose, the candidates are required to take a series of employment tests and interviews. At every stage many are eliminated and a few moves on to the next stage until the right person is found. Selection is a negative process as it involves rejection of unsuitable candidates.

Selection Tests

Selection test have been developed as an objective means of measuring the qualities, abilities and the skills of the candidates in terms of job specifications. The important testsused for selection of employees are are:

i. **Intelligence tests**-To measure the level of intelligence. It is an indicator of a person's learning ability or the ability to make decisions and judgments.
ii. **Aptitude test-**To measure individual's potential for learning new skills. It indicates the person's capacity to develop.
iii. **Personality test-**Personality test is conducted to find out the human behaviour of the candidate. It gives clues of a person's emotions, reactions, maturity, value, system, etc.
iv. **Trade test-**These tests measure the existing skills of the individual. The difference between aptitude test and trade test is that the former measures the potential to acquire skills and the later the actual skills possessed.
v. **Interest test**-This test is conducted to find out the type of job in which candidate has more interest as every individual has fascination for some job than the others.

Training

Training-Training means to impart information and skills through instructions. It is a method of increasing the knowledge, skills and aptitudes of an employee for performing a particular job. Its purpose is to enable them to do their job better.

Methods of Training

Training methods are broadly categorised into two groups:

1.On-the-Job Training 2. Off the- Job Training

On the job methods are applied at the work place where the employee is actually working, while off the job methods are carried out away from work place. On the job training means learning while doing. Off the job training means learning before doing.

1. On -the -job training

This is a very old and effective method of training. In this method a worker learns by doing the work under the guidance of a supervisor. ‘Learning while doing’ is the principle followed by this system. The worker learns his work in the actual work environment. Different methods of on the job training are:

1. **Apprenticeship programmes-**Here trainees are placed under the guidance of a senior worker in the organisation. This type of training is designed to acquire higher level of skill. It is a common practice to refer candidates from technical institutions to reputed organisations to have an apprentice training for about 6 months. People who want to enter skilled works, e.g, plumbers, electricians, mechanic etc. are required to undergo such training.
2. **Coaching-**In this method, the senior manager guides and instructs the trainee as a coach. The coach sets mutually agreed goals and suggests how to achieve these goals. The coach periodically reviews the progress made by the trainees and suggests changes required, if any.Here, teaching about the job is emphasized rather than doing the job.
3. **Internship training**-Internship is an agreement between the professional institutions and the corporate sector where professional institutions send their students to various companies so that they can practice the theoretical knowledge acquired by them through professional institutions. Under this training programme the organisation gets people with fresh ideas and latest knowledge and the organisations have to pay very less amount of salary which is called stipend. On the other hand, the students get chance to practice under the real work situation.
   E.g,CA students gain practical knowledge from a Chartered Accountant, Medical students gain practical knowledge from medical college.
4. **Job Rotation:-**This kind of training involves shifting the trainee from one department to another or from one job to another. This enables the trainee to gain a broader understanding of all jobs of the business. When employees are trained by this method, the organisation finds it it easier at the time of promotions, replacements or transfers.

2. Off-the-job training

Off-the-job training means training the employees by taking them away from their work position which means employees are given a break from the job and sent for training. It is a process of ‘learning before doing’. Different methods of off-the -job training are:

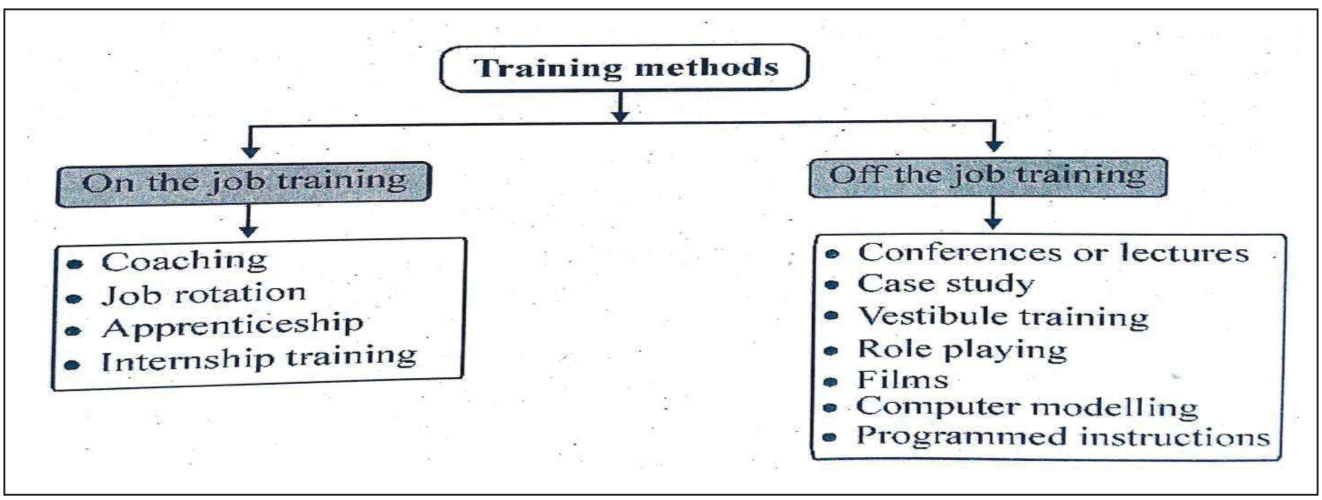
1. **Class Room Lectures/Conferences:** Top level manager holds conference and shares his views with employees. He tells employees about the latest development in the field and new ideas. This is a very easy method and is adopted at all levels of training. With the help of audio-visual aids training can be made more interesting.
2. **Films**-Showing films are also a very effective method in certain cases. Films can give important information on various techniques through demonstrative skill.
3. **Case Study**-In case study, trainees are given an imaginary/real problem or situation. They are asked to find out the solutions to the problems given to them. Trainees study the cases to

determine problems, analyse causes, develop alternative solutions, select what they believe to be the best solution and implement it.

4. **Computer modelling**-Under this method a computer is programmed to show real problems of job and how to overcome such problems. In this method the employees can learn a lot without incurring much cost.
5. **Vestibule training**-In this method, actual work environments is created in a class room. Employees use the same materials and equipments here. It is a costlier method and it is usually carried out when employees are required to handle sophisticated machinery and equipment. Here the learner gets both theoretical and practical knowledge.
6. **Programmed instructions**-Here, the information to be obtained by a trainee is broken into meaning full units. The training goes through these units in the sequential order i.e., simple to complex. It will help the trainees to acquire the knowledge very easily.

Distinguish between on-the-job training and off-the-job training

On-the-job training	Off-the-job training
On the job training is given to workers while they are engaged in the work	Off-the-job training given to workers outside the actual place of work
In on the job training, at the time of learning, workers also contribute towards production.	At the time of training, workers do not contribute towards organisational goals
It does not require any extra costs in the form of tools, equipments, etc for training purpose.	It requires extra cost in the form of tools, equipments, place etc., for training purpose.
In on the job training, trainee gets practical training more but lacks in theoretical training	Here, theoretical knowledge is imparted more than practical skill



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Chapter-7

DIRECTING

(Focused Area Only)

Chapter-7 Focused Area

1. Elements of Directing (Supervision, Motivation, Leadership, Communication)
2. Maslow's Need Hierarchy Theory
3. Leadership- qualities of a good leader
4. Communication – Process
5. Barriers of Communication

Efficient planning, sound organization and staffing may serve no purpose unless accompanied by effective direction of activities. In simple sense directing means giving instructions to others. In the context of managing an organization, directing means instructing, guiding, supervising, motivating and leading the subordinates to contribute to the best of their capabilities for the achievement of organizational goals. If the subordinates are not properly guided, supervised and motivated, they will become inactive, inefficient and gloomy. It is the heart of management in action.

Elements of Direction

The process of directing involves guiding, coaching, instructing, motivating, leading the people in an organization to achieve organizational activities. Consider the following situations:

- A supervisor explains a worker about operations to be carried by him on a particular machine and supervise his work. (Supervision)
- Managing Director declares share in the profits to the managers for their contribution to enhance profit of the company (Motivation)
- A mining engineer explains about safety precautions to be followed while working in a coal mine (Communication).
- A manager inspires his employees by playing a lead role in performing a work (Leadership)

Thus, directing involves **four components/elements**. They are:

1. **Supervision**
2. **Motivation**
3. **Leadership**
4. **Communication**

Supervision + Motivation + Leadership + Communication = Directing

I. Supervision

Supervision means overseeing the subordinates at work. Supervision is instructing, guiding and controlling the work force with a view to see that they are working according to plans, policies and instructions. Supervision actually takes place continuously at all levels of the organization. Top level management supervises the performance of the middle level management who in turn supervises the performances of the lower-level management. The person who supervises the performance of the subordinates is called supervisor.

2. Motivation

The term motivation is derived from the word 'motive'. Motive means needs or wants within an individual. Motivation stimulates people to work voluntarily. Motivation can be defined as stimulating, inspiring and inducing the employees to perform to their best capacity. Motivation is a psychological term which means it can't be forced on employees. It comes automatically from inside the employees as it is the willingness to do the work. Motivation depends upon satisfying the needs of people.

While discussing about motivation, we need to understand three interrelated terms-motive, motivation and motivators.

A. **Motive:** - A motive is an inner state or **desire** which activates and directs the behavior of an individual to achieve certain goal. Some such motives are hunger, security; recognition etc. Motives arises out of needs of an individual. It causes restlessness as he wants to fulfill his motive. Example: Individual search for food to fulfill the motive of hunger.

B. **Motivation: -** It is the **process** inducing people to perform to their best ability to accomplish the organizational goals. Motivation depends upon satisfying needs of people.

C. **Motivators: -**Motivators are the **incentives or techniques** used to motivate the people in an organization. Common motivators used by the managers are increment, bonus, promotion, respect etc.

3.Leadership

Leadership is another important element of direction. It is the process of influence the behaviour of people at work towards the achievement specific goal. When a manager influences his subordinates to achieve the organizational goal, it is leadership. The leaders always play a key role for the success and excellence of any organisation. Can you imagine

Mircrosoft without Bill Gates, Infosys without Narayana Murthy, Tata without J.R.D. Tata, Wipro without Azim Premji or V-Guard without Kochouseph Chittilappilly.

4.Communication

Communication plays key role in the success of a manager. How much professional knowledge and intelligence a manager possesses becomes immaterial if he is not able to communicate effectively with his subordinates and create understanding in them. Communication is a process of exchange of ideas, views, facts, feelings etc. between or among people to create common understanding. Directing abilities of a manager mainly depend upon his communication skills.

Maslow's Need Hierarchy Theory of Motivation

Motivation is highly complex. Researchers have studied about motivation from different angles and developed theories accordingly. Maslow's Need Hierarchy Theory is prominent among them.

Need:

Individual Example

Need:

Organizational Example

Achievement of Goals

Job Titles

Cordal Relation with collegues

Pension Plan

Basic Salary

Abraham Maslow, an eminent U. S psychologist developed a theory of motivation based on the hierarchy of needs. According to him, there are five kinds of needs. They care: -

1. **Basic physiological needs:** These needs are most basic in the hierarchy and are termed primary needs. Hunger, thirst, shelter, sleep and sex are some examples of these needs. In the organizational context, basic salary helps to satisfy these needs.

2. **Safety/Security Needs:** These needs provide security and protection from physical and emotional harm. Examples: job security, stability of income, Pension plans etc.

3. **Affiliation/Belonging Needs:** These needs refer to affection, sense of belongingness, acceptance and friendship.

4. **Esteem Needs:** These include factors such as self-respect, autonomy status, recognition and attention.

5. **Self Actualisation Needs:** It is the highest level of need in the hierarchy. It refers to the drive to become what one is capable of becoming. These needs include growth, self-fulfillment and achievement of goals.

Maslow's theory is based on the following **assumptions**:

(i) People's behaviour is based on their needs. Satisfaction of such needs influences their behaviour.

(ii) People's needs are in hierarchical order, starting from basic needs to other higher level needs.

(iii) A satisfied need can no longer motivate a person; only next higher level need can motivate him.

(iv) A person moves to the next higher level of the hierarchy only when the lower need is satisfied. Maslow's Theory focuses on the needs as the basis for motivation. This theory is widely recognised and appreciated.

Maslow's theory helps managers to realise that need level of employee should be identified to provide motivation to them.

Qualities of a Good Leader

It assumes that leaders can be distinguished from non-leaders by certain unique traits possessed by them. Following are the essential qualities of a good leader:

(i) Physical features:

Physical features like height, weight, health, appearance determine the physical personality of an individual. It is believed that good physical features attract people. Good health helps a leader to work hard which inspires others to work with same tempo.

(ii) Knowledge:

A good leader should have required knowledge and competence. Only such person can instruct subordinates correctly and influence them.

(iii) Integrity:

A leader should possess high level of integrity and honesty. He should be a role model to others regarding the ethics and values.

(iv) Initiative:

A leader should have courage and initiative. He should not wait for opportunities come to his way, rather he should grab the opportunity and use it to the advantage of organisation.

(v) Communication skills:

A leader should be a good communicator. He should have the capacity to clearly explain his ideas and make the people to understand his ideas. He should be a good listener, teacher, counsellor and persuader.

(vi) Motivation skills:

A leader should be an effective motivator. He should understand the needs of people and motivate them through satisfying their needs.

(vii) Self Confidence:

A leader should have high level of self-confidence. He should not loose his confidence even in most difficult times. In fact, if the leader lacks self-confidence, he cannot provide confidence to his followers.

(viii) Social skills:

A leader should be sociable and friendly with his colleagues and followers. He should understand people and maintain good human relations with them.

In fact, it is not possible for any individual to have all the qualities. But an understanding about these qualities help the managers to acquire them through training and conscious efforts..

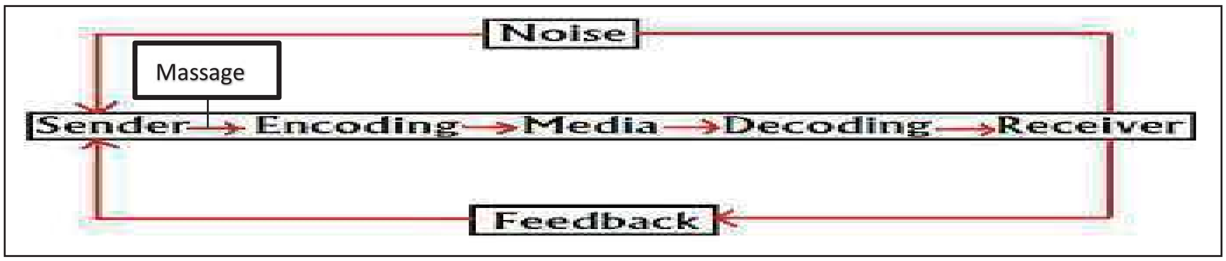
Communication Process

Communication is a process of exchange of ideas, views, facts, feelings etc. between or among people to create common understanding. Communication plays key role in the success of a manager. How much professional knowledge and intelligence a manager possesses becomes immaterial if he is not able to communicate effectively with his subordinates and create understanding in them.

The communication process refers to a series of actions or steps taken in order to successfully communicate. It involves several components such as the sender of the communication, the actual message being sent, the encoding of the message, the receiver and the decoding of the message.

In order to successfully communicate, it's important to understand how the communication process works. Here are the seven steps in the communication process:

1. The sender develops an idea(message) to be sent.
2. The sender encodes the message.
3. The sender selects the channel of communication(media) that will be used.
4. The message travels over the channel of communication.
5. The message is received by the receiver.
6. The receiver decodes the message.
7. The receiver provides feedback, if applicable.



The **elements** involved in communication process are:

(i) Sender:

Sender means person who conveys his thoughts or ideas to the receiver. The sender represents source of communication.

(ii) Message:

It is the content of ideas, feelings, suggestions, order etc., intended to be communicated. It is the subject matter of communication.

(iii) Encoding:

It is the process of converting the message into communication symbols such as words, pictures, gestures etc.,

(iv) Media:

It is the path through which encoded message is transmitted to receiver. The channel may be in written form, face to face, phone call, Internet etc.

(v) Decoding

It is the process of converting encoded message into readable language to understand the message to the receiver.

(vi) Receiver:

The person who receives communication of the sender and understands the message.

(vii) Feedback:

It includes all those actions of receiver indicating that he has received and understood message of sender.

(viii) Noise:

Noise means some obstruction or hindrance to communication. This hindrance may be caused to sender, message or receiver.

Barriers to Communication

Communication barriers are the factors that obstruct the effectiveness of communication. Sometimes message sent by the sender does not match the receiver in the same manner as expected by the sender. These barriers may prevent a communication or filter part of it or carry incorrect meaning due to which misunderstandings may be created. The barriers to communication in the organisations can be broadly grouped as:

A. Semantic barriers

B. Psychological barriers

C. Organisational barriers

D. Personal barriers.

A. Semantic barriers

These are concerned with the meaning of words and symbols. Sometimes the same words and symbols can be understood differently by different people in the organization. These are discussed below:

1. Badly expressed message

Sometimes intended meaning may not be conveyed by a manager to his subordinates. This is due to inadequate vocabulary, usage of wrong words, omission of needed words etc.

2. Symbols with different meanings

A word may have several meanings. Receiver has to perceive one such meaning for the word used by communicator. Example-Prize, price, right, write etc.

3. Faulty translations

Sometimes the communications originally drafted in one language (e.g., English) need to be translated to the language understandable to workers (e.g., Hindi). If the translator is not an expert, he may make mistake in translation.

4. Unclarified assumptions

Some communications may have certain assumptions which are subject to different interpretations.

For example, a boss may instruct his subordinate, "Take care of our guest". There is no clarity in this instruction. [Boss may mean that subordinate should take care of transport, food, accommodation of the guest until he leaves the place. The subordinate may interpret that guest should be taken to hotel with care. Actually, the guest suffers due to these unclarified assumptions.]

5. Technical jargon

It is usually found that specialists use technical words while explaining to persons who are not specialists in the concerned field. Therefore, they may not understand the actual meaning of many such words.

6. Body language and gesture decoding

Every movement of body communicates some meaning. The body movement and gestures of communicator matters so much in conveying the message. If there is no match between what is said and what is expressed in body movements, communications may be wrongly conveyed.

B. <u>**Psychological barriers**</u>

Emotional or psychological factors acts as barriers to communicators. For example, a worried person cannot communicate properly and an angry receiver cannot understand the real meaning of message. The state of mind of both sender and receiver of communication reflects in the effective communication. Some of the psychological barriers are:

(i) Premature evaluation

Sometimes people evaluate the meaning of message before the sender completes his message. Such premature evaluation may be due to pre-conceived notions or prejudices against the communication.

(ii) Lack of attention

The pre-occupied mind of receiver and the resultant non-listening of message acts as a major psychological barrier. For instance, an employee explains about his problems to the boss who is pre-occupied with an important file before him. The boss does not grasp the message and the employee is disappointed.

(iii) Loss by transmission and poor retention

When communication passes through various levels, successive transmissions of the message results in loss of, or transmission of inaccurate information. This is more so in case of oral communication. Usually people cannot retain the information for a long time if they are inattentive or not interested.

(iv) Distrust

Distrust between communicator and communicate acts as a barrier. If the parties do not believe each other, they cannot understand each other's message in its original sense.

C. Organisational barriers

The factors related to organisation structure, authority relationships, rules and regulations may, sometimes, act as barriers to effective communication. Some of these barriers are:

(i) Organisational policy

If the organisational policy is not supportive to free flow of communication, it may hamper effectiveness of communications.

For example, in an organisation with highly centralised pattern, people may not be encouraged to have free communication.

(ii) Rules and regulations

Rigid rules and huge procedures may be a hurdle to communication. Similarly, communications through prescribed channel may result in delays.

(iii) Status

Status of superior may create psychological distance between him and his subordinates. A status conscious manager also may not allow his subordinates to express their feelings freely.

(iv) Complexity in organisation structure

In an organisation where there are number of managerial levels, communication gets delayed and distorted as number of filtering points are more.

(v) Organisational facilities

If facilities for smooth, clear and timely communications are not provided communications may be hampered. Facilities like frequent meetings, suggestion box, complaint box, social and cultural gathering, transparency in operations etc., will encourage free flow of communication. Lack of these facilities may create communication problems.

D. Personal barriers:

The personal factors of both sender and receiver may exert influence on effective communication. Some of the personal barriers of superiors and subordinates are mentioned below:

(i) **Fear of challenge to authority**

If a superior perceives that a particular communication may adversely affect his authority, he or she may withhold or suppress such communication.

(ii) Lack of confidence of superior on his subordinates

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

(iii) Unwillingness to communicate

Sometimes, subordinates may not be prepared to communicate with their superiors, if they perceive that it may adversely affect their interests.

(iv) Lack of proper incentives

If there is no motivation or incentive for communication, subordinates may not take initiative to communicate. For example, if there is no reward or appreciation for a good suggestion, the subordinates may not be willing to offer useful suggestions.

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Chapter-8

Controlling

(Focused area only)

Chaper-8 Focused Area

1. **Steps in controlling**
2. **Controlled by exception**
3. **Techniques of controlling**

Controlling is one of the important functions of management. Managerial functions start with planning and ends with controlling. Controlling means ensuring that activities in an organization are performed as per plans. The controlling function finds out how far actual performance deviates from standards, analyses the causes of such deviations and attempts to take corrective actions based on the same. Without proper control even the best plan will not give the desired result. This process helps in formulation of future plans in the light of the problems that were identified and, thus, helps in better planning in the future periods.

- Controlling is a goal-oriented process
- It is a pervasive function
- It is a backward-looking function. Controlling evaluates the past performance on the basis of pre-determined goals.
- Controlling is futuristic also. Controlling process helps in formulation of future plans in the light of the problems that were identified and, thus, helps in better planning in the future periods.

Controlling Process/steps in controlling

Controlling is a systematic process involving the following steps.

1. Setting performance standards

2. Measurement of actual performance

3. Comparison of actual performance with standards

4. Analysing deviations

5. Taking corrective action

Step 1: Setting Performance Standards:

The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Standards can be set in both quantitative as well as qualitative terms. For instance, standards set in terms of cost to be incurred, revenue to be earned, product units to be produced and sold, time to be spent in performing a task, all represents quantitative standards. Sometimes standards may also be set in qualitative terms. Improving goodwill and motivation level of employees are examples of qualitative standards.

Step 2: Measurement of Actual Performance:

Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc.

Measurement of performance of an employee may require preparation of performance report by his superior. Measurement of a company's performance may involve calculation of certain ratios like gross profit ratio, net profit ratio, return on investment, etc., at periodic intervals.

Step 3: Comparing Actual Performance with Standards:

This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms. For instance, performance of a worker in terms of units produced in a week can be easily measured against the standard output for the week.

Step 4: Analysing Deviations:

Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. All deviations need not be brought to the notice of top management. In this regards, manager should use Critical Point Control(CPC) and Management by Exception (MBE).

(a) Critical Point control (CPC)

It is neither economical nor easy to keep a check on each and every activity in an organization. Control should therefore focus on Key Result Areas (KRS's). Key areas are those which have impact on whole organisation. For example, in a manufacturing organization, an increase in of 10% in the labour cost may be more worrying than a 20% increase in postal charges.

(b) Management by Exception (MBE)/ Control by Exception

It is one of the important principles of control. This principle implies that only major exceptions (deviations) from the established standard should be reported to the top management. This idea is based on the concept "an attempt to control everything results controlling nothing". Manager should not waste his time and energy in finding solutions for minor deviations rather he should concentrate on removing deviations of high degree. Deviations within the acceptable range (i.e,minor deviations) are ignored.

For Example, if a garment factory establishes that defects in 100 garments, i.e, 5% defects permissible. If the defect is between 1 to 5%, it need not be reported to the management. If the defects are 6% or more than that it must be reported.

Step 5: Taking Corrective Action:

The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

Corrective action might involve:

1) Training of employees if the production target could not be met.
2) If an important project is running behind schedule, corrective action might involve assigning of additional workers and equipment to the project and permission for overtime work.
3) In case the deviation cannot be corrected through managerial action, the standards may have to be revised.

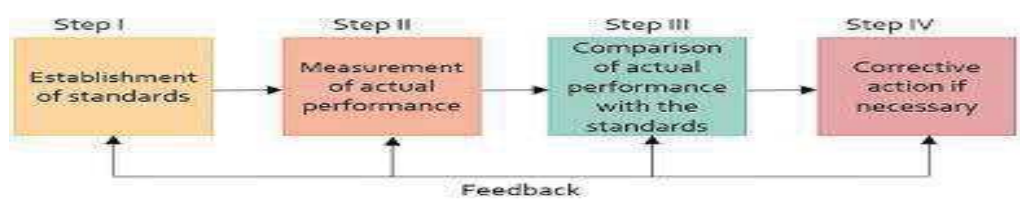

Fig: Controlling process

Management by Exception (MBE)/ Control by Exception

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Advantages of Management by Exception:

I. It saves time and energy of senior managers and enables them to concentrate more on important issues.
II. This principle saves and time and effort of the managers.
III. In this case, routine problems are normally entrusted to the subordinates. This will increase the morale of subordinates.

Techniques of Managerial control

The various techniques of managerial control may be classified as into two broad categories:

1. **Traditional Techniques**
2. **Modern Techniques**

1. Traditional Techniques

Traditional techniques are those techniques which have been used by the companies for a long time now. However, these techniques have not become obsolete and re still being used by companies. These include:

(a) Personal observation

(b) Statistical reports

(c) Breakeven analysis

(d) Budgetary control

2. Modern Techniques

Modern techniques of controlling are those which are of recent origin and are comparatively new in management literature. These techniques provide a refreshingly new thinking on the ways in which various aspects of an organisation can be controlled. These include:

(a) Return on investment

(b) Ratio analysis

(c) Responsibility accounting

(d) Management audit

(e) PERT and CPM

(f) Management information system

Traditional Techniques

A. Personal Observation

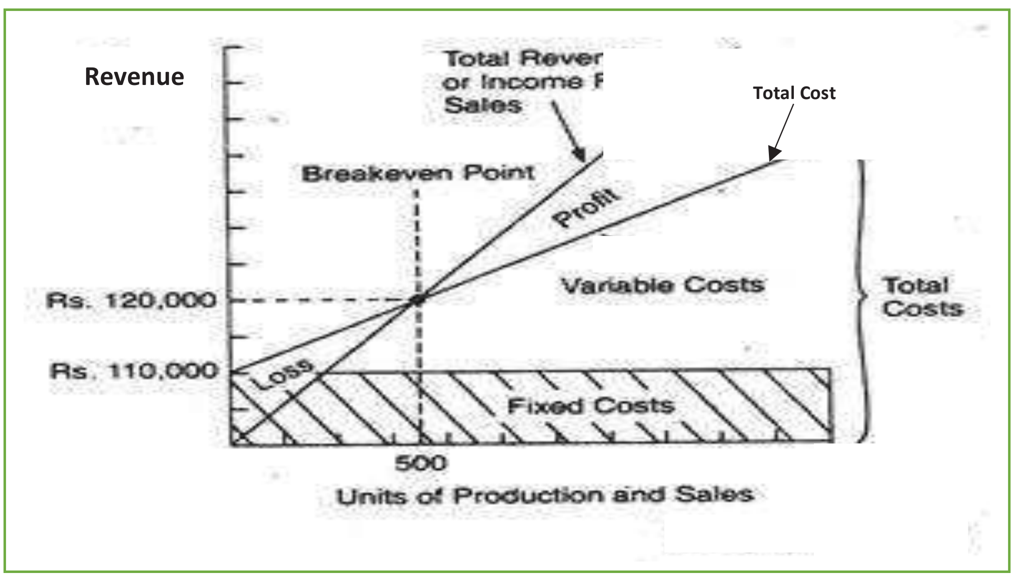
This is the most traditional method of control. Personal observation enables the manager to collect firsthand information. It also creates a psychological pressure on the employees to perform well as they are aware that they are being observed personally on their job. However, it is a very time-consuming exercise and cannot effectively be used in all kinds of jobs.

B. Statistical Reports

Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation in various areas. Such information when presented in the form of charts, graphs, tables, etc., enables the managers to read them more easily and allow a comparison to be made with performance in previous periods and also with the benchmarks.

C. Breakeven Analysis

Breakeven analysis is a technique used by managers to study the relationship between costs, volume and profits. Breakeven point is a point where there is no profit no loss. **The sales volume at which there is no profit, no loss is known as breakeven point.** With the help of breakeven analysis technique manager can estimate profits at different levels of cost and revenue. **Breakeven point is determined by the intersection of Total Revenue and Total Cost curves.**



The figure shows that the firm will break even at 500 units of output. At this point, there is no profit no loss. It is beyond this point that the firm will start earning profits.

Breakeven point can be calculated with the help of the following formula:

$$\text{Breakeven point} = \frac{\textbf{Fixed Cost}}{\textbf{Selling price per unit} - \textbf{Variable cost per unit}}$$

Advantages of breakeven analysis:

(i) Breakeven analysis helps a firm to ascertain profits at different levels of sales.

(ii) By separating fixed cost and variable cost it enables the management to exercise control over variable cost.

(iii) It helps to determine the minimum sales volume at which costa are fully recovered beyond which profit can be earned.

D. Budgetary Control

Budget is a statement of expected results and expected cost expressed in numerical terms. It helps to know the future results and to achieve these results how much we will have to spend. In budgetary control technique the estimated results are compared with the actual results. The variation between the two indicates inefficiency.

Advantages of budgetary control:

1. Budgeting focuses on specific and time-bound targets and thus, helps in attainment of organisational objectives.

2. Budgeting is a source of motivation to the employees who know the standards against which their performance will be appraised and thus, enables them to perform better.

3. Budgeting helps in optimum utilisation of resources by allocating them according to the requirements of different departments.

4. It is used for achieving co-ordination among the different departments.For instance, sales budget cannot be prepared without knowing production programmes and schedules.

5. It facilitates management by exception by stressing on those operations which deviate from budgeted standards in a significant way.

However, the effectiveness of budgeting depends on how accurately estimates have been made about future.

2. Modern Techniques

A. Return on Investment

Return on Investment (RoI) is a useful technique which provides the basic yardstick for measuring whether or not invested capital has been used effectively for generating reasonable amount of return. RoI can be used to measure overall performance of an organisation or of its individual departments or divisions. It can be calculated as under.

$$\text{ROI} = \frac{\textbf{Net Income}}{\textbf{Sales}} \textbf{ X } \frac{\textbf{Sales}}{\textbf{Total Investment}}$$

Net Income before or after tax may be used for making comparisons. Total investment includes both working as well as fixed capital invested in business.

According to this technique, **RoI can be increased** either **by increasing sales volume or by reducing total investment** without having any reductions in sales volume.

Advantages of ROI to an organization:

(i) It indicates how effectively resources are being used.
(ii) It focuses attention on profits and relates them to capital invested.

B. Ratio Analysis

Ratio Analysis refers to analysis of financial statements through computation of ratios. The most commonly used ratios used by organisations can be classified into the following categories:

1. Liquidity Ratios: Liquidity ratios are calculated to determine short-term solvency of business. Analysis of current position of liquid funds determines the ability of the business to pay the amount due to its stakeholders.

2. Solvency Ratios: Ratios which are calculated to determine the long-term solvency of business are known as solvency ratios. Thus, these ratios determine the ability of a business to service its obligation.

3. **Profitability Ratios:**

These ratios are calculated to analyse the profitability position of a business. Such ratios involve analysis of profits in relation to sales or funds or capital employed.

4.Turnover Ratios: Turnover ratios are calculated to determine the efficiency of operations based on effective utilisation of resources. Higher turnover means better utilisation of resources.

C. Responsibility Accounting

Responsibility accounting is a system of accounting in which different sections, divisions and departments of an organisation are set up as 'Responsibility Centres'. The head of the centre is responsible for achieving the target set for his centre. Responsibility centres may be of the following types:

1. Cost Centre

A cost center is a location or department within a company. The manager in charge of a cost cente is responsible for its costs but not directly responsible for revenues.For example, in a manufacturing organisation, production department is classified as cost centre.

2. **Revenue Centre:**

A revenue centre is a segment of an organisation which is primarily responsible for generating revenue.For example, marketing department of an organisation may be classified as a revenue center.

3. Profit Centre:

A profit centre is a segment of an organisation whose manager is responsible for both revenues and costs.

For example, repair and maintenance department of an organisation may be treated as a profit center if it is allowed to bill other production departments for the services provided to them.

4. **Investment Centre:**

An investment centre is responsible not only for profits but also for investments made in the centre in the form of assets. The investment made in each centre is separately ascertained and return on investment is used as a basis for judging the performance of the centre.

D. **Management audit**

This control technique helps to measure the efficiency levels of managers. Management audit refers to systematic appraisal of the overall performance of the management of an organisation. The purpose is to review the efficiency and effectiveness of management and to improve its performance in future periods.

The main advantages of management audit are as follows.

I. It helps to locate present and potential deficiencies in the performance of management functions.
II. It helps to improve the control system of an organisation by continuously monitoring the performance of management.
III. It improves coordination in the functioning of various departments so that they work together effectively towards the achievement of organisational objectives.
IV. It ensures updating of existing managerial policies and strategies in the light of environmental changes.

Limitations of Management Audit

- There is no standard techniques of management audit.
- Management audit is not compulsory under any law

E. **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 are especially useful for planning, scheduling and implementing time bound projects involving performance of a variety of complex, diverse and interrelated activities. The main aim of PERT and CPM is to control the time spent on the completion of a project and the optimum allocation of resources within the cost limit. These techniques deal with time scheduling and resource allocation for these activities and aims at effective execution of projects within given time schedule and structure of costs.

The steps involved in using PERT/ CPM are as follows:

1. The total project is divided into a number of clearly identifiable activities which are then arranged in a logical sequence.

2. A network diagram is prepared to show the sequence of activities, the starting point and the termination point of the project.

3. Time estimates are prepared for each activity.

4. The longest path in the network is identified as the critical path. It represents the sequence of those activities which are important for timely completion of the project and where no delays can be allowed without delaying the entire project.

5. Modification of the plan, if necessary.

PERT and CPM are used extensively in areas like ship-building, construction projects, aircraft manu facture, etc.

F. Management Information System

Management Information System (MIS) is a computer-based information system that provides information and support for effective managerial decision-making. MIS also serves as an important control technique. It provides data and information to the managers at the right time so that appropriate corrective action may be taken in case of deviations from standards.

MIS offers the following advantages to the managers:

1. It facilitates collection, management and dissemination of information at different levels of management and across different departments of the organisation.

2. It supports planning, decision making and controlling at all levels.

3. It improves the quality of information with which a manager works.

4. It ensures cost effectiveness in managing information.

5. It reduces information overload on the managers as only relevant information is provided to them.

Chapter-9

Financial Management

(Focused Area Only)

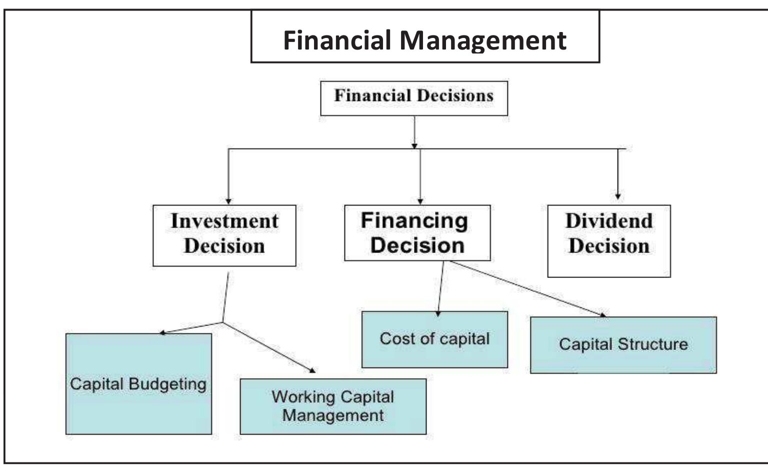
Chapter-9 Focused Area

1. **Financial Decisions**
2. **Capital structure- Factors**
3. **Factors determining – Fixed capital**
4. **Factors determining – Working capital**

Money required for carrying out business activities is called business finance. Almost all business activities require some finance. Finance is needed to establish a business, to run it, to modernise it, to expand, or diversify it. Finance is required to buy various assets, to meet the day-to-day expenses of the business etc. Availability of adequate finance is essential for the smooth functioning of the business. Without finance neither any business can be started nor successfully run. That is why finance is called the life blood of the business.

Financial Management

Financial management may be defined as planning,organizing,directing and controlling the financial activities of an organization. It is concerned management of flow of funds and involves decisions related to procurement of funds, investment of funds in long term and short term assets and distribution of earnings to owners. It is a science of money management. The primary aim of financial management is to **maximise shareholders' wealth**.



Financial Decisions

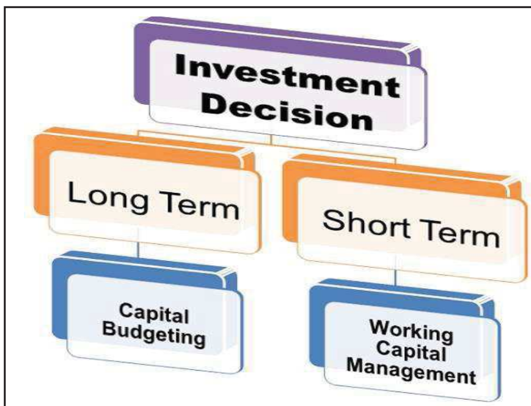
The Financing Decision is a crucial decision made by the financial manager. Financial decisions are concerned with decisions concerning financial matters to a business concern. Decisions regarding size of funds to be invested to enable a firm to accomplish its ultimate goal, kind of assets to be acquired, pattern of capitalization, pattern of distribution of firm's income etc. Financial management is concerned with taking three important financial decisions namely, investment decision, financing decision and dividend decision.

1. **Investment decision**
2. **Financing decision**
3. **Dividend decision**

FINANCIAL DECISIONS		
Investment Decisions	Financing Decisions	Dividend decisions
➢ Capital Budgeting Decisions ➢ Working Capital decisions	➢ Decision about amount of owners fund to be raised ➢ Decision about amount of borrowed fund to be raised	➢ Decision about the amount of profit to be retained in the business ➢ Decision about the amount of profit to be distributed as dividend.

I. Investment Decisions

This decision relates to careful selection of assets in which funds will be invested by the firm. The investment decision, therefore, relates to how the firm's funds are invested in different assets. The decision may relate to investment in assets which are **long term** or **short term**.



Capital Budgeting Examples-

1. **Purchase of fixed asset**
2. **Opening new branch**
3. **Launching a new product line**
4. **Major expenditure on advertising**

Working Capital Management

1. **Decisions about the level of cash,stock,debtors,bills receivables etc**

The decision of investing funds in the long-term assets or fixed assets like plant and machinery, land and building etc. is known as **Capital Budgeting.** These decisions involve huge amount of investment, affect the earning capacity and are irreversible except at a high cost.

The decision of investing fund in current assets or short-term assets is termed as **Working Capital Management**. It represents the funds available to the enterprise to finance regular operations, i.e. day to day business activities, effectively. In case a firm has an inadequate working capital i.e. less funds invested in the short term assets, then the firm may not be able to pay off its current liabilities and may result in bankruptcy.

Investment decisions are considered very important because:

1. They are long term decision and irreversible except at a high cost.

2. It involve huge amount of funds.

3. It affects the future earning capacity of the company.

Capital Budgeting

A **long-term investment decision is known as Capital Budgeting**. It involves long term investment decision such as purchase of new machinery, replacement of machinery, new plants, introduction of new products, and research development projects. These decisions involve huge amount of investment, affect the earning capacity and are irreversible except at a high cost. These decisions are very crucial for any business since they affect its earning capacity in the long run.

Features of capital budgeting:

- Huge Funds
- High Degree of Risk
- Difficult Decision
- Long Term Effect
- Irreversible Decision

Factors affecting capital budgeting / long term investment decisions

1. **Cash flow of the project**

Investment in fixed assets generates cash inflows (receipts) over a period. These cash flows should be carefully analysed and evaluated before making a capital budgeting decision.

2. **The rate of return**

The most important criterion is the rate of return of the project. These calculations are based on the expected returns from each proposal and the assessment of the risk involved. Suppose, there are two projects, A and B (with the same risk involved), with a rate of return of 10 per cent and 12 per cent, respectively, then under normal circumstance, project B should be selected.

3. **Risk Involved**

The degree of risk involved in each project should be assessed before making a long-term investment.

4. **Investment criteria involved**

There are different capital budgeting decisions techniques to evaluate investment proposals. These techniques are Net Present Value, Discounted Cash Flow, Payback Period Method etc.

5. **Competitive Strategy**

If a competitor is going for new machinery of high capacity and cost effective, we may have to follow that.

6. **Demand Forecast**

Analysis of demand for a long period must be undertaken before capital budgeting decision.

II. Financing Decision

Financing decision relates to the quantum of finance to be raised from long-term sources. In financing decision, finance manager must decide when, where from and how to procure funds to meet the requirement of the organization. Mainly there are two sources of funds-Owners Fund and Borrowed Funds. Owners′ funds consists of equity capital and retained earnings. Borrowed funds are in the form of debentures and other forms of debts like loans, bonds etc. The financial manager has to decide the proportion of funds to be raised from either sources, based on their basic characteristics.

Factors Affecting Financing Decisions

1. **Cost**

The costs of raising funds through different sources are different. The finance manager always prefers the source with minimum cost.

2. Risk

The risk associated with each of the sources is different. More risk is associated with borrowed fund as compared to owner's fund. Finance manager compares the risk with the cost involved and will take wise decision.

3. **Floatation Cost**

Higher the floatation cost, less attractive the source. Floatation cost involves brokers commission, underwriters commission, expenses on prospectus etc.

4. Cash Flow Position of the Company

A stronger cash flow position may make debt financing more viable than funding through equity.

5. Fixed Operating Costs

If a business has high fixed operating costs (e.g., building rent, Insurance premium, Salaries, etc.), It must reduce fixed financing costs. Hence, lower debt financing is better. Similarly, if fixed operating cost is less, more of debt financing may be preferred.

6. Control Considerations

Issues of more equity may lead to dilution of management's control over the business. Debt financing has no such implication. Companies afraid of a takeover bid would prefer debt to equity.

III. Dividend Decision

Dividend decision is related with the distribution of dividend. Dividend is that portion of profit which is distributed to shareholders. The decision involved here is how much of the profit earned by company (after paying tax) is to be distributed to the shareholders as dividend and how much of it should be retained in the business. While the dividend constitutes the current income re-investment as retained earnings increases the firm's future earning capacity. The decision regarding dividend should be taken keeping in view the overall objective of maximising shareholder's wealth.

Factors Affecting Dividend Decision

How much of the profits earned by a company will be distributed as profit and how much will be retained in the business is affected by many factors. Some of the important factors are discussed as follows:

1. **Amount of Earnings**

Dividend is paid out of current and past earning. Therefore, earnings are a major determinant of the decision about dividend.

2. **Stability Earnings**
   If a company has stable earnings, it will provide high dividends to its shareholders.
3. **Growth Opportunities**

Companies having good **growth opportunities retain more money** out of their earnings so as to finance the required investment. The dividend in growth companies is, therefore**, smaller**, than that in the non– growth companies.

4. **Cash Flow Position**

The payment of dividend involves an outflow of cash. Companies declare high rate of dividend only when they have surplus cash. In situation of shortage of cash companies declare no or very low dividend

5. **Shareholders' Preference**

While declaring dividends, managements must keep in mind the preferences of the shareholders in this regard. If the shareholders in general desire that at least a certain amount is paid as dividend, the companies are likely to declare the same. There are always some shareholders who depend upon a regular income from their investments.

6. **Taxation Policy**

If tax on dividend is higher, it is better to pay less dividend. So, taxation policy of government also influences dividend decision.

7. **Stock Market Reaction**

Rate of dividend and stock market reaction are directly related. A higher rate of dividend has a positive impact on stock price and vice versa. Therefore, management should take into account the impact of dividend policy on the equity share price, while taking a decision about it

8. Access to Capital Market

Large and reputed companies generally have easy access to the capital market and, therefore, may depend less on retained earnings to finance their growth. These companies tend to pay higher dividends than the smaller companies which have relatively low access to the market.

9. Legal Constraints

Certain provisions of the Companies Act place restrictions on payouts as dividend. Such provisions must be adhere to while declaring the dividend.

10. Contractual Constraints

While granting loans to a company, sometimes the lender may impose certain restrictions on the payment of dividends in future. The companies are required to ensure that the dividend does not violate the terms of the loan agreement in this regard.

CAPITAL STRUCTURE

One of the important decisions under financial management relates to design the capital structure. Financial management of a company decides the proportion of the use of different sources in raising required funds. **Capital Structure** is the combination of long-term sources of funds in a firm's capital. It represents the proportion of debt capital and equity capital in the total capital of a firm.

On the basis of ownership, the sources of business finance can be broadly classified into two categories viz., 'owners' funds' and 'borrowed funds'. Owners' funds consist of equity share capital, preference share capital and reserves and surpluses or retained earnings. Borrowed funds can be in the form of loans, debentures, public deposits etc.

Debt and equity differ in cost and risk. As debt involves less cost but it is very risky securities whereas equity is expensive securities but these are safe securities from company's point of view.

The **cost of debt is lower than the cost of equity** for a firm because the **lender's risk is lower** than the equity shareholder's risk, since the lender earns an assured return and repayment of capital and, therefore, they should require a lower rate of return.

Capital structure affects both the profitability and the financial risk. That proportion of debt and equity, which results in an increase in the value of equity share may be called the **optimal capital structure**. In other words, capital structure decisions should emphasis on increasing shareholders wealth. It is the duty of a financial manager to design an optimum capital structure.

Financial Leverage

The **proportion of debt in the overall capital** of a firm is called Financial Leverage or Capital Gearing. When the proportion of **debt** in the total capital is **high** then the firm is called **highly levered** firm but when the proportion of debts in the total capital is less, then the firm will be called **low levered** firm.

When financial leverage increase (highly geared) the cost of fund will decline due to increased use of low-cost debts. But at the same time financial risk increases. Normally, in highly geared situation earning per share will increase (If company's rate of return on investment (RoI) is higher than the cost of debts due to the use of low-cost securities in the capital structure. The technique of using fixed cost securities like preference shares and debentures etc in capital structure so as to increase the return on equity share capital is called Trading on equity.

Trading on Equity

In favorable financial leverage situation *(Return On Investment (ROI) is higher than the cost of debt)*company's often employ fixed cost securities such as debentures and preference shares in the capital structure so as to increase the return on equity capital. Such practice is called Trading on Equity. If the cost of borrowed fund is lower than company's rate of earnings, the equity shareholders get additional profits. However, leverage or trading on equity can operate adversely if the rate of interest on fixed interest bearing securities is higher than the Return on Investment.

Factors Determining/Affecting Capital Structure

Capital structure of an organization is affected by several factors. Some of the factors affecting capital structure are:

1. **Cash Flow Position**

Cash flow position of a company is a very important factor that determines the capital structure of a business. The expected cash flow must match with the obligation of making payment like interest, principal amount etc. because if a company fails to make fixed payment, it may face insolvency. A company uses more debt if it can generate enough cash inflows to interest on debts.

2. Cost of capital

Cost of capital means the minimum return expected by the suppliers of capital. Generally, debt is a cheaper source of finance as compared to shares because interest is a deductible expense. Also, **lender's risk is lower** than the equity shareholder's risk. More debt can be used if rate of interest is low.

3. Control

The power of existing management in the company will not be diminished by the accumulation of capital by way of debt .Further issue of equity share may dilute the control of existing equity shareholders.

4. Floatation Cost

Floatation cost is an important factor that determines the capital structure. Floatation cost is the cost incurred by the company to issue different securities. These costs include the cost of advertisement, underwriting commission, statutory fees, broker's commission etc. Cost of the Public issue is more than the floatation cost of taking a loan.

5. Flexibility

Issuing debenture and preference shares introduce flexibility. A good financial structure is flexible and sound enough to have scope for expansion or contraction of capitalization whenever the need arises.

6. Stock Market Conditions

Conditions of the stock market also influence design of the capital structure. During the depression, people do not like to take a risk and do not take interest in the equity shares. During the boom, investors are ready to take a risk and invest in equity shares.

7. Interest Coverage Ratio

Interest Coverage Ratio is the number of times earnings before interest and taxes of a company cover the interest obligation. High-Interest coverage ratio indicates that company can have more of borrowed funds.

Interest Coverage Ratio (ICR) = Earnings Before Interest and Tax (EBIT) **/** Interest.

8. Return on Investment

It will be beneficial for a firm to raise finance through borrowed funds if the return on investment is higher than the rate of interest on the debt. This situation is known as favorable financial leverage situation. But if the return is uncertain and the company is not sure about its return on investment to meet its fixed obligations, they should opt for equity.

9. **Tax Rate**

Since interest is a deductible expense, cost of debt is affected by the tax rate. A higher tax rate, thus, makes debt relatively cheaper and increases its attraction than equity. Suppose, rate of borrowing is 10% and the tax rate is 30%, the after tax cost of debt is only 7%.

10. **Risk consideration**

Financial risk refers to a position when a company is unable to meet its fixed financial charges namely interest payment, preference dividend and repayment obligations. Apart from the financial risk, every business has some operating risk (also called business risk). The total risk depends upon both the business risk and the financial risk. If a firm's business risk is lower, its capacity to use debt is higher and vice-versa.

11. **Regulatory framework**

Provisions of the Companies Act, SEBI guidelines etc are to be followed while designing capital structure. Therefore, choice of sources of finance is depends on various regulations framed by authorities from time to time.

Fixed Capital and Working Capital

Fixed Capital

The capital invested in fixed assets like land and building, plant and machinery, furniture and fixtures etc. is known as fixed capital or block capital. Fixed assets are those assets which are required for permanent use and are not meant for resale. Managing fixed capital is related to investment decision and it is also called ***capital budgeting***.

Capital budgeting decisions will affect the growth, profitability and risk of the business in the long run. These long term assets last for more than one year. It must be financed through long-term sources of capital such as equity or preference shares, debentures, long-term loans and retained earnings of the business. Fixed Assets should never be financed through short-term sources. Investment in these assets would also include expenditure on acquisition, expansion, modernization and their replacement.

Factors affecting the Requirement of Fixed Capital

Some of the factors affecting the requirement of fixed capital are as follows:

1. **Nature of business**

The nature of business determine how much fixed capital is required.eg,a manufacturing concern needs more fixed capital as compared to a trading concer,as trading company does not need plant, machinery etc.

2. **Scale of operations**

A larger organization operating at a higher scale needs bigger plant, more space etc.and therefore requires more fixed capital as compared to small organization.

3. **Technique of production**

Companies using capital intensive techniques require more fixed capital whereas companies using labour intensive techniques require less capital. In capital intensive organization they require more fixed capital to purchase machinery, construct building etc.

4. **Growth prospects**

Higher growth of an organization at present as well as anticipated future requires higher investment in fixed assets and they require larger fixed capital.

5. **Diversification**

When a firm diversifies its activities, requirements of fixed capital will increase. It requires more investment in fixed assets for the new project.

6. **Technology up gradation**

In certain industries, assets become obsolete very soon, eg, computers.So their replacement also becomes due faster. So they require more fixed capital to replace old fixed assets like machinery, computers etc.

7. **Financing alternatives**

An enterprise which procures fixed assets on lease requires lesser fixed capital than on outright purchase.

8. **Level of collaboration**

By collaborating with others, a firm uses another’s facility or jointly establishes a facility for common use. Such collaboration reduces the investment in fixed assets for each one of the participants.

Eg.Banks share ATM facility, Telecom companies mobile tower sharing etc.

Working Capital

The capital invested in current assets like stock, debtors, bills receivables, short term securities, cash and bank balance for meeting day to day expenses is known as working capital. It represents investment for a short period and changes its form from time to time. These assets are expected to get converted into cash or cash equivalents within a period of one year. These provide liquidity to the business. Insufficient investment in current assets may make it more difficult for an organisation to meet its payment obligations.

The term 'working capital' is used in two senses, namely gross working capital and net working capital**. Gross working capital is the total value of current assets**. On the other hand **net working capital** is the **excess of current assets over current liabilities**

Net working Capital=Current Asset – Current Liability

Current liabilities are those payment obligations which are due for payment within one year; such as bills payable, creditors, outstanding expenses and advances received from customers, etc.

Factors affecting the requirement of working capital

Main factors affecting the requirements of working capital are as follows:

1. **Nature of business**

The basic nature of a business influences the amount of working capital required. The trading concern usually needs a small amount of working capital as compared to a manufacturing concern. This is because there is no production process in trading concern.Similarly, service industries which have no inventory requires less amount of working capital.

2. **Scale of operations**

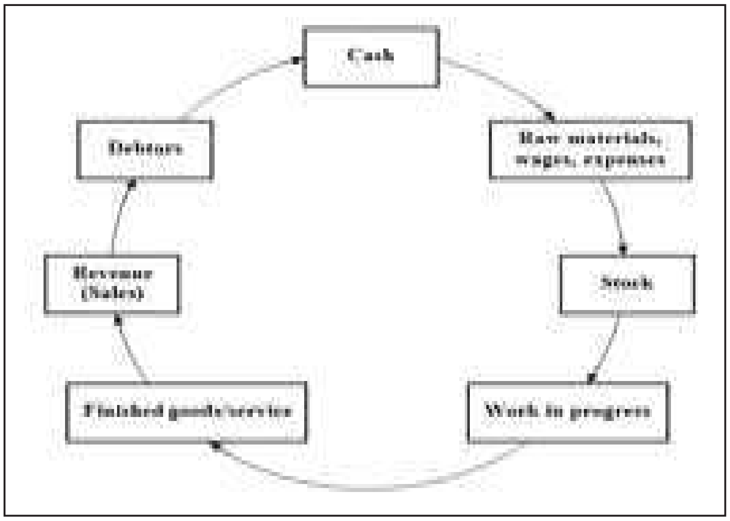
There is direct link between the working capital and scale of operations. In other words more working capital is required in case of big organizations while less working capital is needed in case of small organizations.

3. **Business cycle**

Different phases of business cycle influence the requirement of working capital. In boom period, sales as well as production shoot up which call for larger amount of working capital. But during depression the demand declines and it affects both production and sales. Therefore in depression less working capital is required.

4. **Operating Cycle/Production Cycle**

The amount of working capital directly depends upon the length of operating cycle. Operating cycle in a manufacturing concern refers to the time period involved in production. If operating cycle is long then more working capital is required whereas for companies having short operating cycle, the working capital requirement is less.



Operating Cycle: Operating cycle is the time period between acquisition of raw materials and the collection of cash from receivables. is realized by the company.

5. **Seasonal factors**

Some business is seasonal in their operations. In peak season, due to higher level of activity more amount of working capital will be required. But during off season, they require only less amount of working capital.

6. **Credit allowed**

Those enterprises which sell goods on cash basis need little working capital but those who provide credit facilities to the customers need more working capital.

7. **Credit availed**

A business may get credit facility from suppliers of goods. More the credit facility, lesser would be the requirement of working capital.

8. **Availability of raw materials**

If raw materials required for the business are available freely and regularly, a firm needs to maintain only lesser amount of working capital.

9. **Reorder period**

Time gap between placement of order and receipt of raw materials is relevant. Longer the reorder period, larger shall be the amount of working capital requirements.

10. Level of competition

High level of competition increases the need for more working capital. In order to face competition, more stock is required for quick delivery. Credit sales also required at this situation.

11. Inflation

Inflation leads to rise in price. In such a situation more capital is required than before in order to maintain the previous scale of production and sales

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Chapter-10

Financial Markets

(Focused Area only)

Chapter-10 Financial Market

1. **Money Market- Instruments**
2. **Capital Market- (Instruments)**
3. **SEBI- Functions**

Business needs finance for both fixed and working capital requirements. Business can raise these funds from various sources and in different ways though financial markets. Financial markets make possible the transfer of money from the severs to the entrepreneurial borrowers.

A financial market is a market for the creation and exchange of financial assets. Financial market offers opportunities for business firms to issue initial shares, debentures etc. and thus create financial assets. They also facilitate their exchange or the purchase and sale of existing financial assets like equity shares, debentures, bonds etc. Thus they create financial assets and also ensure their liquidity. Financial markets exist wherever a financial transaction occurs. Financial markets consists of two major segments**-(1) Capital Market** (the market for medium and long term funds) and **(2) Money market** (the market for short term funds).

Types of financial markets

Financial markets are classified on the basis of maturity of financial instruments traded in them. They are:

1. **Money market 2. Capital market**

1. Money Market

Money market is a market for short term funds. It deals in monetary assets whose maturity period is up to one year. Treasury bills, commercial paper, call money, certificate of deposits etc.are important financial instruments in money market. RBI, commercial banks, Non-Banking Finance Companies (NBFC), State Goverments, large corporate houses, Mutual Funds etc are the main participants in the Money market. It enables the raising of short-term funds for meeting the temporary shortages of cash and the temporary deployment of excess funds for earning returns. It is a market where low risks, unsecured and short term debt instruments that are highly liquid are issued. Money market instruments yield only a less return.

Money Market Instruments

Important money market instruments are:

A. Call Money

Call money is short term finance repayable on demand; with a maturity of one day to 15 days. It is a market for extremely short period loans. The day-to-day surplus funds, mostly of banks are usually trades as call money. Banks may borrow money from each other to maintain the minimum cash balance, called Cash reserve ratio (CRR), as required by RBI. The interest rate paid for call money loans is known as the call rate. This market is also known as “over the telephone market”

B. Treasury Bills (T- Bills):-

These Bills are issued by Reserve Bank of India (RBI) on behalf of the Government of India to meet its short-term requirements of funds. These are short term credit instruments for a period of less than one year. It is presently issued in three tenors, namely, 91 day, 182 day and 364 day. Treasury bills are negotiable instruments and freely transferable. These are sold to banks and public. Treasury bills are available for a minimum amount of Rs. 25000 and in multiple thereof. It does not carry interest. Treasury bills are also known as ‘Zero Couppon Bonds’ since they do not pay any interest but the issue price is less than their face value and repaid at par. This difference is the interest receivable on them.

For example, a 91 day Treasury bill of ₹100/- (face value) may be issued at say ₹ 98.20, that is, at a discount of say, ₹1.80 and would be redeemed at the face value of ₹100/-. The return to the investors is the difference between the maturity value or the face value (that is ₹100) and the issue price (that is Rs.98.20)

C. Commercial Paper

Commercial Paper or CP is defined as a short-term, unsecured money market instrument, issued as a promissory note by big business firms having excellent credit ratings. As the instrument is not backed by collateral, only large firms with considerable financial strength are authorized to issue the instrument. It has a maturity period of 15 days to one year (SCERT Text book) 7 days to one year (As per RBI sources). It is sold at a discount and redeemed at par. Interest rate on commercial paper usually be lower than the market rate.

The original purpose of commercial paper was to provide short term funds for seasonal and working capital funds. Some company uses this instrument for the purposes such as **bridge financing**. CP is available for a minimum amount of Rs. 5,00,000 lakh or multiples thereof.

D. Certificate of Deposit (CD)

A certificate of deposit (CD) is an unsecured, negotiable and short term money market instrument issued by commercial banks or selected financial institutions against the money that is deposited. The period of these deposits ranges between 91 days to one year .It is suitable when the deposit growth of banks is slow but the demand for credit is high .CP is available for a minimum amount of Rs. 1, 00,000 lakh or multiples thereof. The major difference between CD's and Fixed deposits is that CD's are transferable and tradable and FD's are not.

E. Commercial bill/Trade bill/Bill of Exchange

A commercial bill is a bill of exchange used to finance the working capital requirements of business firms. It is a short term negotiable instrument, which is used to finance the credit sales of the firm. Trade bill is issued by the seller (drawer) on the buyer (drawee) for the value of goods delivered by him. These bills are of 30 days, 60 days or 90 days maturity. The trader who has received a bill can discount it with his bankers. When a trade bill is accepted by a commercial bank it is known as a commercial bill.

2. Capital Market

Capital market refers to facilities and institutional arrangements through which long term funds; both equity and debt are raised and invested. It is the market for buyers and sellers of money for long period. The maturity period of these securities are more than one year. It consists of a series of channels like stock exchanges, commercial banks, development banks etc. through which savings of the community are made available for industrial and commercial enterprises.

Joint stock companies, stock exchanges, development banks, commercial banks, foreign investors and retail investors are the participants of capital market. Capital market securities are riskier both with respect to returns and principal payment.

A strong capital market is essential for the economic and industrial development of a nation. The capital market can be divided into parts:

1) Primary Market

2.) Secondary Market

1. Primary market/ New issue market

It is the market, wherein long term funds are raised by companies through issue of shares, debentures and bonds etc to long term investors. This is the market which deals in new securities. Here the buyers obtain newly issued shares debentures, bonds etc. Therefore; it is also referred to as New Issue Market. Here company issue securities directly to the investors. Company obtains money and in turn issues shares. Issue mode of this type is called primary issue. Funds raised from primary market are used by companies for setting up new business or for expanding or modernizing existing business.

2. **Secondary Market/Stock market**

Secondary market is the market for purchase and sale of existing securities. Secondary market merely transfers existing securities between buyers and sellers. The company is not involved in it. Secondary market provides liquidity to existing securities and thereby indirectly promotes capital formation. Here prices are determined by demand and supply of the securities.

Difference between Capital Market and Money Market

Basis	Money Market	Capital Market
Meaning	Money Market is the market for short term funds	Capital Market is the market for long and medium term funds.
Participants	RBI,commercial banks, NBFC,State Goverments,Large Corporate Houses, Mutual Funds,etc	Joint stock companies, stock exchanges, development banks, commercial banks, foreign investors and retail investors
Instruments traded	Treasury bills, Commercial paper, Call money, Certificate of deposits, Commercial bill	Equity shares, preference shares,debentures,bonds,etc.
Duration of securities traded	Deals in short term securities having a maximum maturity period of one year	Deals in medium and long term securities which are for more than one year
Return	Low risk involved leads to less return	High risk involved leads to high return
Risk	Low	High

Securities Exchange Board of India (SEBI)

Securities Exchange Board of India (SEBI) was set up in 1988 to regulate the functions of securities market. SEBI promotes orderly and healthy development in the stock market. The main objective of SEBI is to facilitate the growth and development of the apital markets and to ensure that the interests of investors are protected.SEBI is actually the watch dog to observe the activities in the securities market and controlling them. SEBI is a body corporate having a separate legal existence and perpetual succession.

Functions of SEBI

The SEBI **performs** some important functions to meet its objectives. They are:

1. **Protective Function**
2. **Development Function**
3. **Regulatory function**

I. Protective Function

These functions are performed by SEBI to protect the interest of investor and provide safety to investment. As protective functions SEBI performs the following functions:

a) It checks price rigging

Price rigging refers to manipulating prices of securities with the main objective of inflating or depressing the market price of securities.SEBI prohibits this practice because this can cheat the investors.

b) Prohibits insider trading

Controlling insider trading and imposing penalties for such practices.

c) SEBI prohibits fraudulent and Unfair Trade Practices:

SEBI always restricts the companies which make misleading statements which are likely to induce the sale or purchase of securities by any other person.

d) Educate Investors

SEBI educates investors by conducting online and offline seminars that help investors to get insights on the financial market and money management.

e) Issues Guidelines

SEBI issues guidelines to protect the interest of investors.SEBI should enforce the laws for stock exchanges to follow.

II. Development Functions:

Under development categories following functions are performed by SEBI:

1. **Training to intermediaries**

   SEBI promotes training of intermediaries of the securities market.

2. **Conducting Research**

   It conducts research and publishes information useful to all market participants.

3. **Stock market Reforms**

   It undertakes measures to develop the capital markets by adapting flexible approach like **internet trading** through **registered stock brokers**, made under writing as optional etc.

   Allow private Mutual Funds for the benefit of small investors to provide investment avenues managed by experts.

III. Regulatory Functions:

These functions are performed by SEBI to regulate the business in stock exchange. To regulate the activities of stock exchange following functions are performed:

1. **Registration of brokers and agents**

   It register brokers, sub-brokers, transfer agents, merchant banks etc.and control their activities

2. **Notification of Rules and Regulations**

   It notifies rules and regulations for the smooth functioning of all intermediaries in the securities market.

3. **Levying of Fees**

   It levies fees, penalties and other charges for violating its directions and orders.

4. **Regulator of Investment Schemes**

   It registers and regulates collective investment schemes, portfolio managers and mutual funds.

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Chapter-11

Marketing

Chapter-11 Focused Area

1. **Marketing and Selling**
2. **Functions of marketing**
3. **Marketing Mix**
4. **Pricing- Factors**
5. **Promotion and Advertising**
6. **Sales Promotion**

Traditionally market refers to a place where goods are purchased and sold, such as Lulu Hyper Market, Thodupuzha Fish Market, Broadway Ernakulum etc .But today the term 'market' should not be restricted to specific place, it includes the entire area where buyers and sellers contact each other to purchase and sell commodities at certain price. Today business is conducted on telephone, through mail; through internet etc. We know that certain commodities have national and even international market.

Marketing

Marketing is a process through which goods and services exchange from producers to consumers in such a way that maximizes the satisfaction of consumer needs. It involves efforts to discover the needs and wants of customers and tries to develop products and services which would satisfy them. Marketing also involves selection of a distribution channel to reach the product to customer's place and finally develop and implement promotional strategy.

Example - marketing process: A marketer of cell phones, before making the sale, does a lot of other activities such as analyzing the needs and wants of customers, planning the type and model of cell phone to be produced, fix the price at which it would be sold and selecting the distribution outlets at which it would be available. Marketing is not merely sales.

Difference between Selling and marketing

Generally people consider selling and marketing as synonymous of each other. But actually two are different concepts. Selling is just a part of marketing activities. Marketing is a wider term, it includes wide range of activities such as analyzing the needs of customers, designing the products accordingly, pricing the product, selling the product ,after sales service etc.Selling refers to sale of goods or services through advertisement, promotion and salesmanship.

Distinction between selling and marketing

Point of Differences	Selling	Marketing
Process	Selling process starts after production and it is concerned with activities for promotion of sales and thereby facilitates transfer of goods from sellers to consumers.	Marketing in its first stage identifies the wants of customer's .Secondly, it decides how the goods or services can be profitably produced/served and finally delivered to consumers for satisfying their needs.
Objective	Maximize profit through sales volume	Maximize profit through customer satisfaction
Start and end	Selling starts after production and ends with the sale of product	Marketing starts much before production and continuous even after sale
Strategies	Selling involves efforts like promotion and influence	Marketing involves efforts involving strategies in respect of product ,promotion ,pricing and physical distribution.
Focus	Focuses on seller's needs	Focuses on customer's needs
Supremacy	In selling process producer is the king	In marketing process consumer is the king
Demand creation	It creates demand for the product through advertisement and sales promotion measures.	Demand is created by producing product according to the needs of consumers.

Point of Differences	Selling	Marketing
Emphasis	Emphasis is placed on sales of products already produced	Emphasis is placed on product planning and development to match products with the customers' needs (market)
Scope	Scope of selling is limited; it is only a part of marketing.	Scope of marketing is wider; it consists of number of activities. It includes sales also.

Functions of Marketing

Marketing is the process that comprises of all the activities involved from the concept of the product all the way till it reaches the final consumer. So there are a lot of activities in this process, which we call the functions of marketing.

1. Identify Consumer Needs/analysing Market information

Most important function of marketer is to gather and analyse market information. This will help to identify the needs of customers and take valuable decisions for efficient marketing of the products and services. Once you understand your customer thoroughly you can base your product design on this information.

2. Marketing Planning

Another important activity or area of work of a marketer is to develop appropriate marketing plans so that the marketing objectives of the organization can be achieved. Marketing planning includes the plan for increasing the level of production, promotion of the products, etc. and specifies the action programmes to achieve these objectives. For example, a marketer of cell phone, having 20% market share in India aims to achieve 40% market share in the next 3 years.

3. Product designing and Development

The next target is to develop products according to the needs of the consumer. The design of the product is also an important factor. For example when buying a car, a customer not only considers its features like cost, mileage etc. but also its shape, colour , style etc.

4. Standardisation and Grading

Standardisation refers to producing goods of predetermined specifications such as quality, price, packaging etc., which ensures uniformity in products. This will facilitate purchasing by description. Buyers need not inspect, test and evaluate goods every time.

Grading is the process of classifying products into different classes on the basis of some characteristics such as quality, size, weight etc. Grading is particularly necessary for products which are not produced according to predetermined specifications (example agriculture products like wheat, orange etc). Grading ensures that goods belong to a particular quality and helps in realising higher prices for high quality output.

5. Packing and Labeling

A package is a container or a wrapper in which a product is enclosed. Labeling refers to putting identification marks on the package. Packaging and labeling are considered as the **pillars of marketing**. They are not only to protect and identify the goods but are great marketing tools.

6. Branding

Branding is the process of giving a name, sign, symbol or design used to identify the products of one firm and to differentiate them from those of the competitors. Examples Sony, KFC Chicken, Pepsi etc.The brand name must be selected very carefully as the customer's loyalty depends upon the brand name. Certain brands enjoy incredible goodwill in the market and it can benefit the product.

7. Setting up Customer Support Services

In present day marketing, customer is the king. So customer satisfaction is the main motto of every businessman. So a very important function of marketing management relates to developing customer support services such as handling customer complaints, after sale services, maintenance services, technical support etc.

8. Pricing

The price of a product will largely determine its success or failure. Factors like demand, market conditions, prices of competitor etc. will be considered while fixing a price for the product.

9. Promotion

Promotion refers to informing the customers about the firm's products, their features, etc, and persuading them to buy these products. There are four major promotion methods - advertising, personal selling, sales promotion and publicity. The company must decide on its best promotion mix, a combination involving all or some of these four methods.

10. Physical Distribution

Another important function of marketing manager is making plans regarding distribution of goods or services. Physical distribution includes decisions like choice of channel of distribution, maintaining inventory, storage, ware house etc.

11. Transportation

Transportation involves physical movement of the goods from its place of production to its place of consumption. The company must analyse its transportation needs after taking into account various factors such as nature of the product, cost and the geographical boundaries of its market. This will help them choose the correct modes of transportation.

12. Warehousing

As we have seen there is always a time lag between the production and the consumption of goods. Sometimes the products are seasonal or the supply is irregular or there are production difficulties. But companies like to maintain a smooth flow of goods. So storage and warehousing of goods are necessary.

Marketing Mix

Elements of Marketing Mix / 4 Ps of Marketing

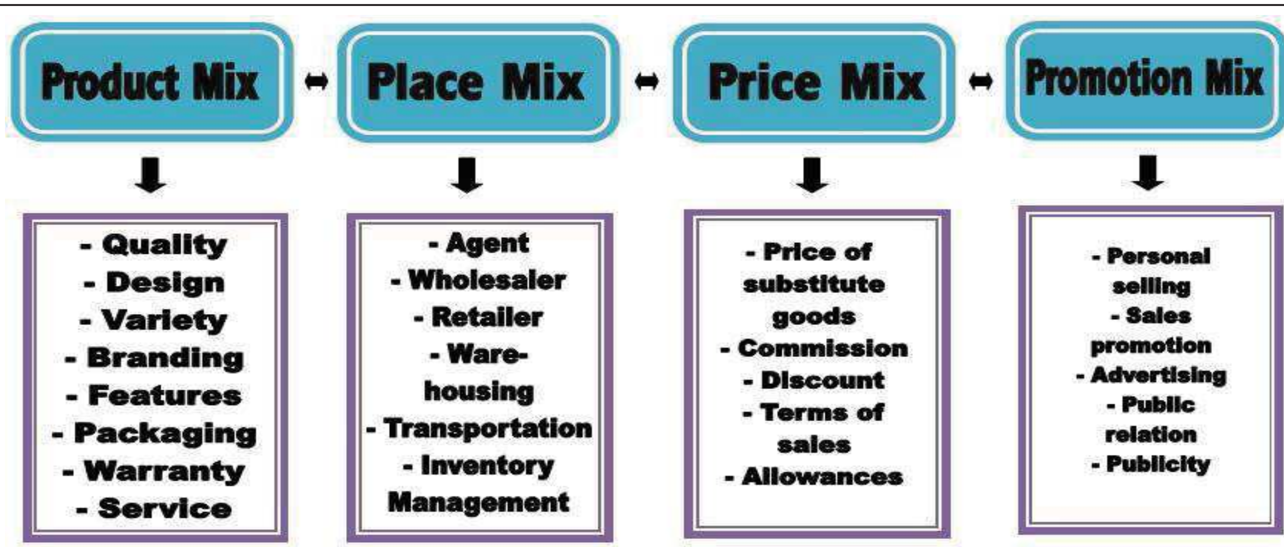
Marketing mix is a set of four decisions which needs to be taken before launching any product. It refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The **4Ps** make up a typical marketing mix **- Price, Product, Promotion** and **Place.** The four basic elements of marketing mix are inter-related and inter-dependent. However, nowadays, the marketing mix increasingly includes several other Ps like Packaging, Positioning, People and even Politics as vital mix elements. According to Williom J Stanton "marketing mix is the term used to describe the combination of the four inputs which constitute the core of a company's marketing system, the product, the price structure, the promotional activities and the distribution system"

Elements of Marketing Mix (Four Ps of marketing)

The four main elements of marketing mix are:

- **Product mix**
- **Price mix**
- **Place mix**
- **Promotion mix**

Marketing Mix



A. Product Mix:

Product means goods or services which is offered to the market for sale. Example: Samsung offers mobile phones, televisions, refrigerators, monitors etc. Product mix is the total number of product lines that a company offers to its customers. The product lines may range from one to many and the company may have many products under the same product line as well. All of these product lines when grouped together form the product mix of the company. Product mix consists of important decisions related to product such as quality of product, size, colour etc. The product mix has the following dimensions

a. Product mix Width

The width of the mix refers to the number of product line the company has to offer.

For example – Bajaj Electricals produce a wide variety of electrical appliances such as fans, mixers, lamps, iron box etc.Here product mix width is 4.

Width means number of product line offered by a company.

b. Product mix Depth

The depth of the product mix refers to the total number of products within a product line. There can be variations in the products of the same product line. Depth refers to the variety of size, colours and models offered within each product line. For example –Bajaj Electricals offers different types of fans like ceiling fans,wall fan exhost fan etc. They also fans in different colours,range etc.

			Depth refers to the variety of size, colours and models offered within each product line.

c. Product mix Length

Length of the product mix refers to the total number of products in the mix. Suppose, if a company has 5 product lines and 10 products each under each product lines, then the length of the mix will be 50 [5 x 10].

Manufacturers try to add more and more utilities to the product to provide greater satisfaction to customers and winning edge over competitor. The manufacturer can follow the following product mix strategies:

a. At first stage of the product mix the manufacturer ensures fundamental features that the customer seeks in the product or service which he buys.
   For example, the fundamental benefit offered by a car is transportation facility.
b. At the second stage of product mix the manufacturer design the product according to the expectation of the customer. For example, a customer expects the car to be comfortable in driving; good pick up, good mileage, good shape, style etc.
c. At the last stage of the product mix the producer design strategies to overcome the risk of competition. For this he adds some additional features to the product or service which is more than the basic expectation of the customer. For example, in case of a car marketer can offer free insurance, free seat covers or after sale services.

B. Price Mix:

Price refers to the value that is put for a product. It depends on costs of production, segment targeted, ability of the market to pay, competition and other direct and indirect factors. Price mix refers to important decisions related to fixing of price of a commodity These decisions can be relate to pricing strategies, fixing prices by considering competrition,fixing prices according to the demand exist in the market etc. Price is an important factor affecting the success or failure of a product in the market. Price is the crucial element of marketing mix because customer is very sensitive to this element. Little variation in the price may shift your customer to competitor's product, for example if the price of 'MIRINDA' is changed from Rs. 30 to Rs.33 then the customer will start demanding 'FANTA' which is still available Rs.30.Price must match with the utility offered by the product or services. *If the demand is **elastic**, a small change in the price changes the demand by big magnitude (extent).*

C. Place Mix:

Place mix constitutes taking decisions regarding how the product will be available for the customers for the actual sale. There are two important decisions relating to this aspect.

a. Decision regarding channel of distribution- It decides whether goods are to be marketed through wholesalers, retailers, own branches or any other way. It determines the place, where the product should be made available. Types of channels -it may be direct or indirect. In direct channel manufacturer directly sells goods to consumers. In indirect channel manufacturer sells his goods to consumers through middlemen like wholesalers, retailers etc.

b. Decision regarding physical movement of goods-

Physical movement involves handling the movement of goods from place of production to the place of consumption. It is also known as **logistic management**. It involves four major activities-order processing, transportation, and warehousing and inventory control. A good order processing involves timely receipt of order and timely delivery of goods. Transportation decisions involves proper evaluation and comparison of different modes of transport on the basis of speed, cost, availability etc and select the best suited one. Warehousing is necessary to maintain smooth flow of products in the market and to stabilize price .Management should wisely utilize warehouses to increase sales. Inventory control means maintaining stock of goods at a lower cost level and at the same time avoiding the risk of stock-outs.

D. Promotion Mix:

It involves all activities concerned with informing the consumers about a product and persuading them to buy the product. Such activities include (**1) Advertising (2) Personal selling (3) Sales promotion (4) Publicity.**

Advertising-Advertising is a paid form of impersonal communication. It is the most commonly used tool of promotion. Adverting provides information regarding benefits, price, availability etc. of goods and services. Common modes of advertising are news papers,magazines,television and radio.

Sales Promotion: Sales promotion refers to short term use of incentives or other sales promotional activities that stimulate the customer to buy the product. Sales promotion activities include offering free samples, cash discounts, sales contests, free gifts etc.

Personal Selling: Personal selling means selling personally. This involves face to face interaction between seller and buyer for the purpose of sale.Companiers appoint sales person to contact prospective buyers and make them aware about the product and develop product performances to end up with sale.In personal selling two way communication is possible.

Publicity: Publicity is a non-paid form of impersonal communication. It is just like advertisement except that advertisement is a paid form whereas publicity in non-paid form. Publicity refers to favourable news about a company and its product appearing news papers and social media. Here communication with free of cost.

Pricing

Price refers to the value that is put for a product. It depends on costs of production, segment targeted, ability of the market to pay, competition and other direct and indirect factors. Price mix refers to important decisions related to fixing of price of a commodity. Price is the crucial element of marketing mix because customer is very sensitive to this element. Little variation in the price may shift your customer to competitor’s product.

Factors affecting price determination

The following factors must be taken into consideration while determining the price of the product:-

1. **Cost of the product** – The price of the product is affected by its cost. The price must cover all production cost and fair return of profit.
2. **Extent of competition in the market** – When a firm does not face any competition then it can enjoy complete freedom in fixing the price. If there is competition in the market, the price must be fixed by keeping in mind the price of competitors product.
3. **Customer demand** – If the demand of the product is inelastic the marketer can charge higher price without much loss of the market demand. If the demand is elastic, a small change in the price changes the demand by big magnitude (extent).

4. **Government and legal regulation** – In India the government controls the prices of certain products, such as edible oil, sugar, medicine etc, in the public interest. In such situation, the firm will have to follow the price policy of the government.
5. **Objective of the firm** – What is the objective of firm is a very important factor which helps in deciding the price. For example, if the objective of company is profit maximization, then generally high price is fixed whereas the companies having the objective sales maximization prefer low price to increase the sales and capture a big share in the market.
6. **Marketing methods used** – Price determination is also affected by the distribution system, quality of salesmen employed, the type of packaging etc.For example, if a company provides free home delivery of goods, it can fix a relatively higher price for its product.

Pricing strategies

Broadly there are two pricing strategies. They are:-

- **Price skimming**
- **Penetration pricing**

1. **Price skimming** – Under this strategy a high introductory price is charged for an innovative product and later on the price is reduced when more companies enter the market with same type of product. For example Apple,Samsung etc when they introduce a new technology then a high price is charged for the product. When the same technology is used by other companies in their products also then the price is reduced. Generally innovators use price skimming strategy to get reward for their research and development.
2. **Penetrating pricing** – This strategy means using lower initial price to capture a large market. These forces the customers to buy the product and company can capture a very big share in the market. Penetration pricing is attractive when price elasticity of demand is high and easy substitutes of that product are available.Reliace company followed penetration pricing strategy when it introduced mobile phone. Reliance offered mobile phone at so low price and it helps to capture big share of mobile phone market.

Advertising

Advertising is the most commonly used tool of promotion. Adverting is the paid form of non-personal presentation and promotion of idea, goods or services by an identified sponsor. Advertising provides information regarding benefits, price, availability etc. of goods and services. Common modes of advertising are news papers, magazines, television and radio.

Features of adverting

1. Paid Form: Advertising is a paid form of communication. That is, the sponsor has to bear a cost to communicate with customers.

2. Impersonality: There is no direct face to face contact between customers and the advertiser. It is therefore, referred to as impersonal method of promotion.

3. Identified Sponsor: Advertising is undertaken by some identified individual or company like Malayalamanorama, Asianet, Times of India etc.

Advantages of advertising

1. **Creates demand** – Advertising helps to create demand by making people aware of new products and new uses of existing products.

2. **Provides economies of scale** – Advertising creates demand for the company's products, which facilitates large scale production. Large scale production leads to low cost of production per unit.
3. **Educates consumers and makes shopping easier** – Advertising educates consumers by providing useful information about the product. Advertising makes shopping easier for them.
4. **Facilitates introduction of new products**
   Advertising helps in introduction of new products by communicating the positive features of newly introduced products.
5. **Enhance customer satisfaction and confidence**

   Advertising media informs the consumers about the utility and uses of the product. Consumers feel more comforts and it increases their confidence level.

6. **Improvement in the quality of the product** – The manufacturers of advertised goods go on improving their product, so that their reputation may be maintained in the market.
7. **Availability of the product at fair price** – Advertising helps to increase sales and thereby reduced cost of production. Due to decreased cost of production these commodities are available at comparatively cheaper price.
8. **Encouragement to press work** – Regular advertisement helps the press in reducing cost of publication.

Limitations of Advertising

Despite many benefits drawn from advertising, it suffers from a severe criticism advanced by different segments of society.

1. **Increased price of the product**

   Advertising increases the cost of the product as the expenses on it form the part of the total cost of the product. The increased prices are borne by the consumers.

2. **Multiplication of needs**

   Advertising creates artificial demand for the product and induces people to buy those products which are not needed by them.

3. **Harmful for the society**

   Sometimes advertisements are un-ethical. Most often, these carry indecent language and virtually nude photographs in order to attract the customers. This adversely affects the social values.

4. **It leads to monopoly**

   Advertising sometimes leads to monopoly in a particular brand of a product. By investing large sums in advertising of his brand, a big producer eliminates small producers of the same product from the market and creates brand monopoly. This leads to exploitation of consumers.

5. **Advertising may act against the freedom of press**

   Mass media earn huge income from advertisements. If the media are dependent on income from advertisements sponsored by a few large business firms, it may be difficult to broadcast information in public interest when it is unfavourable to those big business firms.

6. **Small Businesses Have Restricted Access**
   Small businesses cannot properly advertise their products due to limited resources. The entire market for many goods and services is dictated by the large companies through advertisement. This makes it virtually impossible for small businesses to compete, so they eventually disappear from the market.

7. **Advertising encourages unnecessary competition**

   There is a distinction between informative advertising and competitive advertising. Informative advertising is that which passes on the useful information about a product or service to the customers. Such advertising is desirable. On the other hand, the competitive advertising is primarily meant to shift demand from one brand to another brand. In this case the advertisement has not created any additional demand. Therefore, such advertising is undesirable

Objections to Advertising

Though advertising is one of the most frequently used medium of promotion of goods and services, it attracts lot of criticism. The opponents of advertising say that the expenditure on advertising is a social waste as it adds to the cost, multiplies the needs of people and undermines social values. The proponents, however, argue that advertising is very useful as it increases the reach, brings the per unit cost of production down and adds to the growth of the economy. It is therefore, important to examine the major criticisms against advertising and see the extent to which these are true.

1. Advertising increases cost

Advertising unnecessarily adds to the cost of product, which is ultimately passed on to the buyers in the form of high prices. But opponents argue that advertisement helps to increase the demand for the product as large number of potential buyers come to know about the availability of the products, its features etc. and are persuaded to buy it. The increased demand leads to higher production, which brings with it the economies of scale. As a result, the per unit cost of production comes down as the total cost is divided by larger number of units.

2. Confuses the Buyers

Another criticism against advertisement is that so many products are being advertised which makes similar claims that the buyer gets confused as to which one is true and which one should be relied upon. The supporters of advertisement, however, argue that we are all rational human beings who make our decisions for purchase of products on factors such as price, style, size, etc. Thus the buyers can clear their confusion by analysing the information provided on the advertisements and other sources before taking a decision to purchase a product.

3. Encourages Sale of Inferior Products

Advertising does not distinguish between superior and inferior products and persuade people to purchase even the inferior products. In fact superiority and inferiority depends on the quality, which is a relative concept. The desired level of quality will depend on the economic status and preferences of the target customers. Advertisements sell products of a given quality and the buyers will buy if it suits their requirements. No advertisement should however, make false claim about the quality of a product. If a firm makes a false claims it can be prosecuted for the same.

Sales promotion

Sales promotion refers to short term use of incentives or other sales promotional activities that stimulate the customer to buy the product. Sales promotion activities include offering free samples, cash discounts, sales contests, free gifts, dealer discount etc.

Sales promotion techniques / Methods / Tools

The business enterprise adopts different measures to promote sales .These measures are mentioned as under.

1. **Sampling** - It means offering free sample of product to potential customers at the time of launch of a new product. This done to make customers try the product and learn about it .HUL's Surf Excel samples.

2. **Rebate** - It means offering product at special prices, **to clear off excess inventory**. Example an offer to sell Maruti Alto car at a discount of Rs.10,000, for a limited period.Rs.30,000 rebate to Electric vehicles. The rebate is the amount of the purchase price refunded by the seller to the buyer. It is available to **specific customers and only for a limited period**.

3. **Discount** - It is a practice of offering products at a price less than the list price. Example Woodland's offer of discount upto 30 % for shirts. It is provided at the time payment is made. It is **available to all types of customers**.

4. **Refund** – It means refunding a part of price paid by customer on presenting some proof of purchase, eg, on return of empty foils or wrappers get a refund of Rs.5.

5. **Contests** – some firms hold contests for consumers .Consumers who buy the firm's product are given an opportunity to participate in the contest .Example Bournvitta Quiz contest, drawing competition etc.

6. **Lucky draw** – When buying product a coupon is given which is to be deposited in a box after filling the name. After a particular period the winner is selected by lucky draw method.

7. **Quantity gift** – It means offering **extra quantity of the same product as gift** along with the purchase of a product.Exaple "Buy two, get one free". Gillette shaving cream's offer 33% extra etc. In this case the same product will get the extra volume.

8. **Product combinations** – It means offering **another product as gift** along with the purchase of a product .Example Buy a 32" LED TV and get a DVD player free or buy a TV of 25+ and Get a Vacuum Cleaner Free'

9. **Financing** – It is technique of sales promotion in which easy finance schemes are offered. For example sellers of electronics goods commonly offer "Full finance @ 0%, 12 easy installments".

10. **Usable benefits** – Under this method, a discount voucher is given to the customer on purchase of a product entitling him a special benefit or discount. Example purchase goods worth Rs.50,000 and get a holiday package worth Rs10,000 free.

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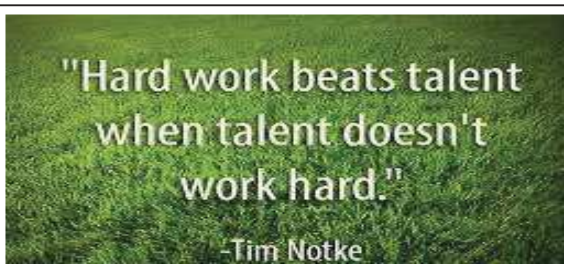
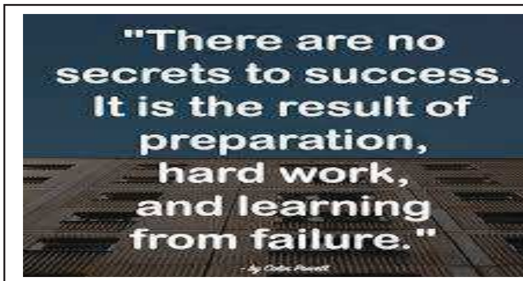
Wish You all Success and Bright Future…………………





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Chapter-12

Consumer Protection

Chapter-12 Focused Area

1.Rights of Consumers

2. Name of Acts for Consumers

Redressal Forums under Consumer Protection Act (CPA)

Rights of Consumers

The Consumer Protection Act (CPA) provides for six rights of consumers: -

1. Right to safety
2. Right to be informed
3. Right to choose
4. Right to be heard
5. Right to seek Redressal
6. Right to Consumer Education

1. **Right to safety**

The consumer has a right to be protected against goods and services which are dangerous to his life and health.

For instance, goods which are manufactured with substandard products. Manufacturing defects of vehicles pressure cooker etc. may endanger the life of consumers.

2. **Right to be informed**

The consumer has a right to have complete information about the product he intends to buy including its ingredients, date of manufacture, price, quantity, directions for use, etc. It implies that the producer should disclose all the material facts regarding his products.

3. **Right to Choose:**

The consumer has the freedom to choose from a variety of products at competitive prices.

4. **Right to be Heard:**

The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a good or a service. It is because of this reason that many enlightened business firms have set up their own consumer service and grievance cells.

5. **Right to seek Redressal:**

The consumer has a right to get compensation when consumers are cheated or exploited. The Consumer Protection Act provides a number of reliefs to the consumers including replacement of the product, removal of defect in the product, compensation paid for any loss or injury suffered by the consumer, etc.

6. **Right to Consumer Education**:

The consumer has a right to acquire knowledge and to be a well-informed consumer throughout life. He should be aware about his rights and the reliefs available to him in case of a product or service falling short of his expectations. Many consumer organisations and some enlightened businesses are taking an active part in educating consumers in this respect.

Name of the Acts for Consumers/Legal Protection to Consumers

Indian legal framework consists of a number of regulations which provide protection to consumers. Some of these regulations are as under:

1. **The Consumer Protection Act(CPA), 1986:**

The Consumer Protection Act, 1986 provides safeguards to consumers against defective goods, unfair trade practices and other exploitation. The Act provides for the setting up of a three-tier machinery, consisting of District Forums, State Commissions and the National Commission. It also provides for the formation of consumer protection councils in every District and State and at the apex level.

2. **The Indian Contract Act, 1872:**

The Act is formed to bind/fix people on their promises made in a contract. The Act also specifies the remedies available to parties in case of breach of contract.

3. **The Sale of Goods Act, 1930:**

The Act provides some safeguards and reliefs to the buyers of the goods in case the goods purchased do not comply with implied conditions or warranties.

4. **The Essential Commodities Act, 1955:**

The Act aims at controlling production, supply and distribution of essential commodities. The Act also provides for action against anti-social activities like hoarding, black marketing, adulteration etc.

5. **The Standards of Weights and Measures Act, 1976:**

It provides protection to consumers against the malpractice of under-weight or under-measure of products.

6. **The Trade Marks Act, 1999:**

The Act prevents the use of fraudulent marks on products and thus, provides protection to the consumers against such products.

7. **The Competition Act, 2002:**

This Act has repealed and replaced the Monopolies and Restrictive Trade Practices Act, 1969. The Act provides protection to the consumers against the evils of competition.

8. **The Bureau of Indian Standards Act, 1986:**

According to this Act IS marks and BIS certifications are ensured for the quality products.

9. **The Agricultural Produce (Grading and Marking) Act, 1937:**

The Act prescribes grade standards for agricultural commodities and live-stock products.

10. **The Prevention of Food Adulteration Act, 1954:**

The Act aims to check adulteration of food articles and ensure their purity so as to maintain public health.

Redressal agencies under the Consumer protection Act

In India under the Consumer Protection Act, consumer grievances are redressed by the three-tire machinery at the district level, state level and national level.

I. **District Forum**
II. **State commission**
III. **National Commission**

1. District Forum:

The District Forum consists of a President and two other members, one of whom should be a woman. They all are appointed by the State Government concerned. A complaint can to be made to the appropriate District Forum when the value of the goods or services in question, along with the compensation claimed, **does not exceed Rs. 20 lakhs.**The District Forum shall pass an order after considering the test report from the laboratory and hearing to the party against whom the complaint is filed. In case the aggrieved party is not satisfied with the order of the District Forum, he can appeal before the State Commission within 30 days of the passing of the order.

2. State commission:

Each State Commission consists of a President and not less than two other members, one of whom should be a woman. They are appointed by the State Government concerned. A complaint can to be made to the appropriate State Commission when the value of the goods or services in question, along with the compensation claimed, exceeds Rs. 20 lakhs but does not exceed Rs. 1 crore. The appeals against the orders of a District Forum can also be filed before the State Commission. The State Commission shall pass an order after considering the test report from the laboratory and hearing to the party against whom the complaint is filed. In case the aggrieved party is not satisfied with the order of the State Commission, he can appeal before the National Commission within 30 days of the passing of the order.

3. National Commission

The National Commission consists of a President and at least four other members, one of whom should be a woman. They are appointed by the Central Government. A complaint can to be made to the National Commission when the value of the goods or services in question, along with the compensation claimed, exceeds Rs. 1 crore. The appeals against the orders of a State Commission can also be filed before the National Commission. The National Commission shall pass an order after considering the test report from the laboratory and hearing to the party against whom the complaint is filed.

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