

Class-12

BUSINESS STUDIES

The background of the cover features a blue-toned image of a 3D bar chart with a prominent yellow arrow pointing upwards, symbolizing growth. A rolled-up document is visible in the lower-left foreground. Faintly visible in the background are a line graph and the text '+0.12%'.

**GENERAL EDUCATION DEPARTMENT
SAMAGRA SHIKSHA, KERALA**

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Chapter – 1**Nature and significance of Management****Focus Area**

- **Features of Management**
- **Nature of Management**
- **Levels of Management**
- **Co-ordination and its Elements**

Points to be noted➤ **Management-Concept**

Management is defined as the process of getting things done with the aim of achieving goals effectively and efficiently.

➤ **Features of Management**

- Goal oriented process
- All pervasive
- Multidimensional
- Continuous process
- A group activity
- Dynamic Function
- An intangible Force

➤ **Nature of Management**

- Management as an Art
- Management as a Science
- Management as a Profession

➤ **Levels of Management**

- Top Management
- Middle Management
- Supervisory or Operational Management

➤ **Functions of Management**

- Planning
- Organizing
- Staffing
- Directing
- Controlling

➤ **Co-ordination**

The process by which a manager synchronises the activities of different departments is known as co-ordination. It is the Essence of Management.

Questions

1. _____ function is known as the essence of Management. (Score - 1)

Answer : Co-ordination

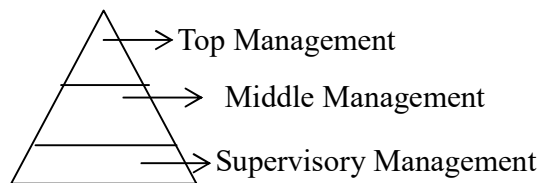
2. Match the Following (Score -5)

- | | |
|-----------------------------------|--|
| i) Co-ordination | a) Supervisors |
| ii) Management | b) Thinking before doing |
| iii) Operational level Management | c) Finance Manager |
| iv) Planning | d) getting things done through others. |
| v) Middle level Management | e) Synchronise Activities. |

Answer: i)- e ii)-d iii)-a iv)-b v)-c

3. Briefly explain different levels of Management. (Score-3)

Answer:



There are three levels in the hierarchy of an organization.

i) **Top Management: -**

They consist of Chairman, CEO, Board of Directors and other senior most executives of the organization. They are responsible for all activities of an organization.

ii) **Middle level Management:-**

It is a link between Top and Lower level Management. This level consists of Heads of the Functional Departments.

iii) **Supervisory Management:-**

Foremen and Supervisors comprises the lower level. This level plays a very important role because they directly interact with actual work force.

4. State any two features of Management as a Profession (Score-2)

Answer:

Management as a profession has the following characteristics.

i) **Well-defined body of knowledge:-**

Management is based on a systematic and well defined body of knowledge that can be acquired through instructions.

ii) **Professional Institution:-**

There are several Associations of practicing Managers in India like AIMA . However there is no compulsion for Managers to be members of such an association.

5. In a class room discussion, one student argued that Management is an Art. But, the other one argued that Management is a Science rather than Art. How will you moderate these two arguments?

(Score-2)

Answer:

Management has features of both Art and Science. The practice of Management is an art. However, Manager can work better if their practice is based on the principles of Management. These principles constitute the science of Management. Management as an art and Science are not mutually exclusive, but complement each other.

6. Gokul is working as a foreman in an organization. In which level of Management he belongs to? Write down any two functions of that level of management. (Score-3)

Answer:-

Gokul belongs to operational level of Management.

Functions

- i) Overseeing the efforts of workforce.
- ii) Pass on instructions of the middle management to workers.

7. State any three functions of Middle Management.

(Score-3)

Answer:-

- i) Act as a connecting link between Top Management and operational level management.
- ii) Implementing and controlling the plans and strategies developed by Top Management.
- iii) Co-operate with other departments for the smooth functioning of the organization

8. The activities involved in managing an enterprise are common to all organisations whether economic, social, or political. The feature of management stated here is _____

- (a) Goal oriented process
- (b) Multidimensional
- (c) Pervasive
- (d) continuous process.

(Score1)

Answer:

- (c) Pervasive

9. In business studies class, Arun, a student argues that Chairman of a company belongs to top management. Do you agree? Explain the functions of top management.

Answer: Yes. Chairman of a company belongs to top management.

Functions of top management.

- (i) Co-ordinate the activities of different departments of the organization.
- (ii) Formulate overall organizational goals and strategies for their achievement.
- (iii) Analyses the business environment and its implications for the survival of the firm.

10. Define management. Explain the features of management.

Answer: Management is defined as the process of getting things done with the aim of achieving goals effectively and efficiently.

Features:

- (a) Management is a goal oriented process:- Different organisations have different goals. These goals should be clearly stated. Management unites the efforts of different individuals in the organization towards achieving these goals.
- (b) Management is all pervasive:- The activities involved in managing an enterprise are common to all organisations whether economic, social or political.
- (c) Management is a continuous process:- The process of management is a series of continuous functions such as planning, organizing, staffing, directing, and controlling.
- (d) Management is multi-dimensional:- Management is a complex activity, that has three main dimensions. These are management of work, management of people, and management of operations.
- (e) Management is a group activity:- An organization is a collection of diverse individuals with different needs. This requires teamwork and coordination of individual effort into a common direction.
- (f) Management is a dynamic function:- Management is a dynamic function. An organization must change itself and its goals according to the needs of the environment.
- (g) Management is an intangible force:- Management is an intangible force that cannot be seen but its presence can be felt in the way the organization functions.

Chapter -2

Principles of Management

Focus Area

- Fayol's Management Principles
- Techniques of scientific Management

Points to be noted

Fayol's Principles of Management

- Division of work
- Authority and Responsibility
- Discipline
- Unity of command
- Unity of Direction
- Subordination of individual interest to group interest
- Remuneration of Employees
- Centralisation and Decentralisation
- Scalar Chain
- Order
- Equity
- Stability of personnel
- Initiative
- Espirit – de-corps

Techniques of Scientific Management

- Functional Foremanship
- Standardisation and Simplification of work
- Method Study
- Motion Study

- Fatigue Study
- Differential Piece Wage System
- Time Study

Questions

1. Briefly explain the concept of Management Principles. (Score-2)

Managerial principles are broad and general guidelines for decision making and behaviour. These have been developed on the basis of observation and experimentation as well as personal experiences of managers.

2. Division of work leads to _____ (Score-1)

Answer: Specialisation

3. According to Fayol, the scalar chain should not be violated in the normal course of communication. If there is emergency, shorter route of communication can be used and it is called _____.

Answer: Gang Plank

4. Match the following

- | | |
|------------------------|--------------------------|
| i) Unity of direction | a) Specialisation |
| ii) Division of work | b) only one boss |
| iii) Espirit- de-corps | c) One head and one plan |
| iv) Unity of command | d) Union is strength |

Answer: i)-c ii)-a iii)-d iv)-b

5. Differentiate the two terms Authority and Responsibility. (Score-2)

Authority is the right to give orders and to obtain obedience. There are two types of authority – official authority and the personal authority. Responsibility is the obligation of an employee to perform the assigned task. It is the corollary of authority.

6. There should be no discrimination against any employee on account of sex, religion, caste etc. Which principle of management is mentioned here? (Score-1)

Answer: Equity

7. Explain the principle of scalar chain. (Score-2)

An organization consists of superiors and subordinates. The formal line of authority and communication from highest to lowest ranks is known as scalar chain or chain of command.

8. Briefly explain the concept of scientific management. (Score-2)

Scientific management means knowing exactly what we want men to do and seeing that they do in the best and cheapest way. It is connected with replacement of old techniques with scientific methods of production.

9. Briefly explain the following techniques of scientific management.

- a) Time Study
- b) Method study
- c) Standardisation and simplification (Score -3)

- a) **Time study** is used to determine the standard time required to perform each and every task and for a whole job. It helps to determine the number of workers to be employed.
- b) **Method study:-** There are various methods for doing a job. The objective of method study is to find out the best way of doing a particular job. .
- c) **Standardisation** refers to the process of setting standards for every business activity. It can be standardization of raw material, time, product, machinery, methods etc. Simplification aims at eliminating unnecessary diversity of products.

10. Identify the principle of management underlying in the following statements.

- a) A place for everything and everything in its place
- b) Employee turnover should be minimized to maintain organizational efficiency
- c) The interest of an organization should take priority over the interest of any one individual employee (Score-3)

- Answer:**
- a) Order
 - b) Stability of tenure of personnel
 - c) Subordination of individual interest to group interest.

11. Make a comparison between motion study and fatigue study. (Score-2)

Motion study and the fatigue study are the techniques of scientific management. Motion study refers to the study of movements of individual which are undertaken while doing a job. The purpose of the study is to eliminate unnecessary movements.

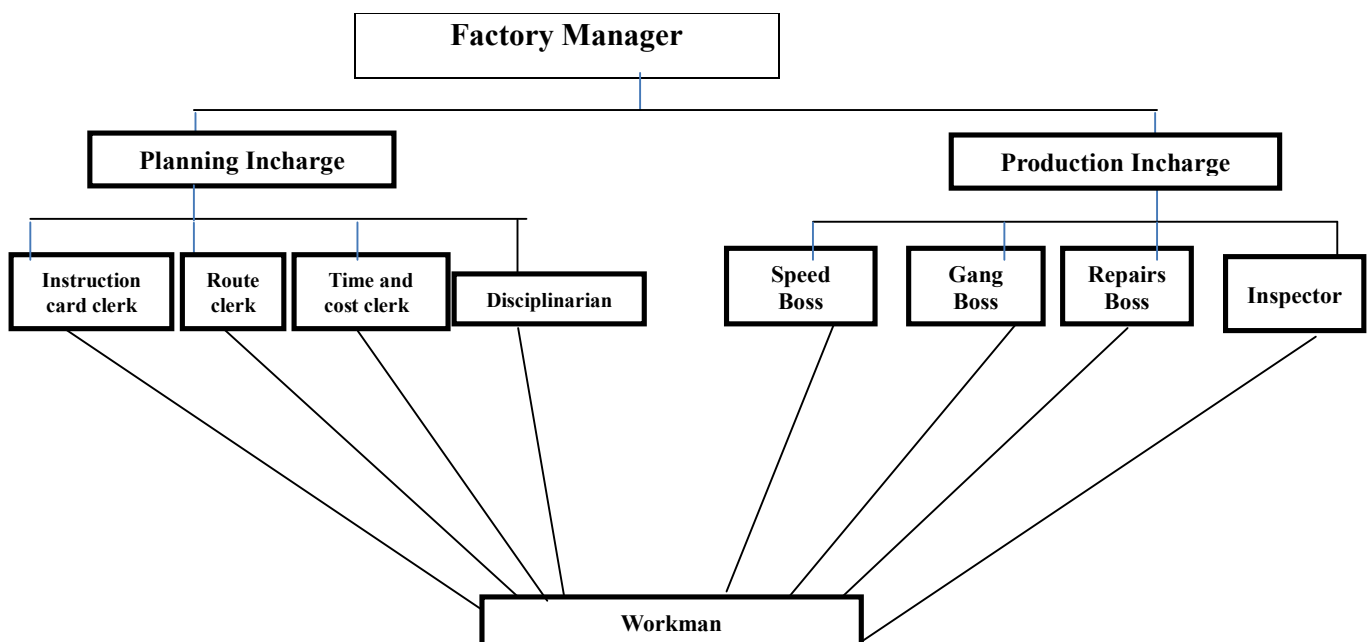
Fatigue study seeks to determine the amount and frequency of rest intervals in completing a task. The provision of rest intervals result in increased productivity.

12. Match the following (Score-4)

- | | |
|----------------------------|-------------------------------------|
| i) speed boss | a) keeping machines and tools ready |
| ii) Gang boss | b) Draft instructions for workers |
| iii) Inspector | c) Timely completion of job |
| iv) Instruction card clerk | d) Checking the quality of work |
| | e) ensure discipline |

Answer: i)- c ii)-a iii)-d iv)-b

13. Draw a chart showing the technique of functional foremanship (Score-3)



14. Explain any eight principles of management propounded by Henry Fayol. (Score-8)
- i) **Division of work:-** Work is divided into small task and each task is performed by specialist or trained employee. Thus division of work leads to specialisation.
 - ii) **Authority and Responsibility:-** Authority is the right to give orders and obtain obedience. Responsibility is the obligation of the employee to perform the assigned task. Fayol suggested that there should be a balance between authority and responsibility.
 - iii) **Discipline:-** Discipline is the obedience to organisational rules and employment agreement which are necessary for the smooth working of the organisation.
 - iv) **Unity of command:-** According to Fayol, there should be one and only one boss for every individual employee. This principle states that every employee should receive orders from and be responsible to only one superior.
 - v) **Unity of Direction:-** Each group of activity having the same objective must have one head and one plan. This ensures unity of action and co-ordination.
 - vi) **Subordination of individual interest to group interest:-** According to Fayol the interest of an organisation should take priority over the interest of any one individual employee.
 - vii) **Remuneration of employees:-** The remuneration system should be fair and equitable to both employees and the organisation. The employee should be paid fair wages and at the same time it should be within the paying capacity of the organisation.
 - viii) **Centralisation and Decentralisation:-** The concentration of decision making authority is called centralisation, whereas its dispersal among more than one person is known as decentralisation. Fayol states that there should be a balance between centralisation and decentralisation.

15. The change in the attitude of workers towards one another from competition to cooperation is called _____.

Answer:- Mental Revolution/ Co-operation not individualism.

16. Discuss the scientific management technique of differential piece wage system (Score-3)

F.W.Taylor, father of scientific management, wanted to differentiate efficient workers from inefficient workers. He advocated Differential piece wage system. The standard time and other parameters should be determined in advance. The workers can then be classified on the basis of work done. He introduced different rate of wage payment for those who performed above standard and for those who performed below standard.

CHAPTER -3

BUSINESS ENVIRONMENT

Focus Area

- Importance of Environment
- Dimensions of Environment
- Industrial Policy of 1991
- Liberalisation
- Privatisation
- Globalisation

Business Environment

The term Business Environment refers to all those factors that are outside the control of the business and continuously affect its performance.

Importance of Business Environment

- 1) **It enables the firm to identify the opportunities and getting the first mover advantage:-** Opportunities are positive changes that help a firm to improve its performance. Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors.
- 2) **It helps the firm to identify threats and early warning signals:-** Threats are the negative changes that hinder performance of a firm. Environmental awareness helps the managers to identify various threats in time and serve an early warning signal to adopt measures to meet the threat.
- 3) **It helps in tapping useful resources:-** Since the business enterprise depends on the environment as a source of input for resources and as an outlet for outputs, it designs policies that allow it to get the resources that it needs and convert these into outputs that environment desires.
- 4) **It helps in coping with rapid changes:-** Turbulent market conditions, divisions and sub-divisions of market, more demanding customers, rapid changes in technology, intense global competition etc., are some of the rapidly changing environment factors. To cope with these changes managers understand and examine the environment and develop suitable actions.

- 5) **It helps in assisting in planning and policy formulation:-** The understanding and analysis of business environment is the basis for deciding the future course of action (planning) or training guidelines for decision making (policy).
- 6) **It helps in improving performance:-** The more the enterprise continuously monitor the environment the more likely is to improve its performance and succeed in the market.

Dimensions of Business Environment



Economic Environment

Interest rates, inflation rates, Tax rates, balance of payments, money supply in the economy, public debt, foreign trade, inflation, GDP, changes in disposable income of people, stock market indices and rupee value are some of the economic factors that affect the business.

Social Environment

It includes the social factors like customs and traditions, values, social trends, society's expectation from business, life expectancy, birth and death rates, attitude of consumers, educational and literacy rates, family composition, presence of women workforce, population shift etc..

Technological Environment

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

Political Environment

Political stability builds up confidence among business people to invest in the long term projects for the growth of the economy whereas instability can shake their confidence. The attitude of government officials towards business may have either positive or negative impact on business.

Legal Environment

It includes various legislations passed by the Government , court judgement, various commission decisions etc.. Adequate knowledge of rules and regulations framed by the Government is a prerequisite for better business performance.

LIBERALISATION

Liberalising the Indian business and industry from all unnecessary controls and restrictions is called liberalisation. The end of license-permit-quota raj, removal of restrictions on the movement of goods and services, freedom in fixing prices, reduction in tax rates, simplifying procedures for foreign trade, making easier to attract foreign capital etc., is the effect of liberalisation in India.

PRIVATISATION

It aims at greater role for private sector in the nation than the public sector. It is a reversal of development strategy pursued so far by the Indian planners. As part of the New Industrial Policy 1991, disinvestment of public sectors was adopted and sick and loss making institutions were referred to the Board of Industrial and Financial Reconstruction (BIFR). Dilution of Government's stake, less than 51% resulted in the transfer of ownership to private sector.

GLOBALISATION

It means the integration of the various economies of the world leading towards the emergence of a cohesive global economy. The New Economic Reforms directed import liberalisation, export promotion structure and foreign exchange reforms so that the country does not remain isolated from the rest of the world. Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to operate in the geographical market.

SAMPLE QUESTIONS**1. What is meant by 'Business Environment'?****[score 2]**

The sum total of all individuals, institutions and other forces that are outside the control of a business and affect its performance is called Business Environment.

- Here the same question can be asked for objective type also.

2. ‘ A good understanding of the environment helps the managers not only to identify and evaluate changes but also to respond’.- evaluate the statement. [score 5]

- here answer is to be made with relevance to the importance of business environment.
 - The following any five points have to be answered with explanation.
 - If only points are answered then half score will only be awarded.
- i. It enables the firm to identify opportunities and getting the first mover advantage.
 - ii. It helps the firm to identify threats and early warning signals.
 - iii. It helps in tapping useful resources
 - iv. It helps in coping with rapid changes.
 - v. It helps in assisting in planning and policy formulation.
 - vi. It helps in improving performance.

3. State the different business environment dimensions using a diagram. [score 5]

- The dimensions of business environment have to be depicted using a diagram.
 - The same question can be asked to explain the different dimensions.
 - Each dimension can also be asked separately for score 2.
- (a) Economic environment
 - (b) Social environment
 - (c) Technological environment
 - (d) Political environment
 - (e) Legal environment

4. Explain the term ‘Privatisation’. [score 2]

The economic reforms aiming at giving greater role to the private sector than the public sector by introducing disinvestment, closure of loss making units etc...

5. Explain the term ‘Globalisation’. [score 2]

It means the integration of various economies in the world leading toward a global economy. As part of this goods and services flow across the nation, flow of capital every where without boundaries etc..

6. Explain the term 'Liberalisation'.**[score 2]**

Liberalising the Indian business and industry from all unnecessary controls and restrictions is called liberalisation. The end of license-permit-quota raj is the effect of liberalisation.

7. Match the following.**[score 5]**

ENVIRONMENT	COMPONENTS
1. Legal	a. Money supply
2. Technological	b. Birth and Death rates
3. Economic	c. Relation of our country with other countries
4. Political	d. Consumer Protection Act, 1986
5. Social	e. Online transactions.

Solved question:-

ENVIRONMENT	COMPONENTS
1 Legal	d. Consumer Protection Act, 1986
2. Technological	e. Online transactions
3. Economic	a. Money supply
4. Political	c. Relation of our country with other countries
5. Social	b. Birth and Death rates

8. What are the features of the New Industrial Policy, 1991.

[Score 5]

➤ Here explain any five points

- (1) Licensing
- (2) De-reservation
- (3) Dis-investment
- (4) Foreign capital
- (5) Permission
- (6) Foreign Investment Promotion Board (FIPB)

CHAPTER 4 PLANNING

Focus Area

- Features of planning
- Steps in planning
- Types of plans

Points to be noted

- Planning means deciding today what is to be done tomorrow.
- Planning is the process of setting objectives and developing appropriate course of action to achieve these objectives.
- Planning is for the attainment of business goals.
- Planning is the first among all other management functions, which sets the goal of the business.
- Planning is the basic function of every manager and is spread throughout the entire area of operation in an organization.
- Plans are prepared for a specific period of time.
- The purpose of planning is to handle the future events effectively.
- Planning is a decision-making process, i.e., thinking for alternatives (various ways to achieve the objectives) and select one among them which is best suitable.
- Planning is the application of mind involving foresight, imagination and sound judgment.
- Planning premises are the assumptions about the future upon which planning is formulated.
- Single use plans are prepared for one time use only.
- Standing plans are prepared for the use of activities that are repeated regularly over a period of time.

- Objectives are the desired future position that the management would like to reach.
- Strategies are comprehensive plans for bringing an organization from a position to a desired position in a long future.
- Policies are general statements that provide a base to managers to handle the management responsibilities and to follow while making decisions in important areas.
- Procedures are step-by-step instructions, which explain how to be carried out activities in an orderly way. They are routine steps, based on policies, in an orderly and systematic way of doing a particular job.
- Methods are the ways or manner of doing the tasks of a procedure for the achievement of objective. It is one step of a procedure and specifies how this step is to be performed.
- Rules are specific and recorded statements that inform what can be done. They are final, not allowed to change and must be compulsorily followed by all members in an organization
- Programmes are detailed statements for doing all activities for achieving a given objective. They are a combination of objectives, policies, procedures, rules, tasks, human and physical resources and budget to carry out a given work.
- A budget is a statement of expected results expressed in numerical terms. They denote expected expenses against anticipated incomes in a future period.

One score questions

1. Planning means setting _____ and formulating action plan to achieve them.
a). Premises b). Objectives c). Alternatives d). Methods
2. Planning lays down the base for other functions of management - identify
a). Primary function b).Pervasive
c).Decision making d). Mental exercise
3. Assumptions about the future upon which planning is formulated is _____.
a). Objectives b).Strategy
c). Planning premises d).Policies

4. Plan which are final and not allowed to change.
- | | |
|------------|--------------|
| a). Policy | b).Rule |
| c).Method | d).Procedure |

Answers of one score questions

- 1- Objectives
- 2- Primary function
- 3- Planning premises
- 4- Rule

Two score questions

1. Identify the following:
 - a).Comprehensive plan for accomplishing an organizational goal in long run.
 - b).Plan used for activities that occur regularly over a period of time.
2. Give a brief note about planning premises.
3. *'Planning is required at all levels of management as well as in all departments of an organization'*. Identify the feature of planning and give a brief note about it.
4. *'Planning involves decision making'*. Give a brief note about it.

Answers of two score questions

- 1- a).Strategy b).Standing plan
- 2- Planning premises are the assumptions about the future up on which planning is formulated. They are the anticipated environment based on forecasting in which plans are to be drawn and expected to operate.
- 3- a). Planning is pervasive
 - b).Planning is the basic function of every manager from top to bottom. It is essential and spread throughout the entire area of operation in an organization. No part of the organization should be excluded from the purview of planning.
- 4- Planning is a decision-making process. It involves thinking for alternatives (various ways to achieve the objectives) and select only one among them which is best suitable.

Three score questions

1. *"Planning involves looking ahead and preparing for future"* Justify this statement.
2. Give a brief note about procedure and programme.
3. *"Planning is basically an intellectual activity of thinking rather than doing"* comment.

Answers of three score questions

1. Planning means thinking and deciding today for tomorrow based on certain objectives. The purpose of planning is to handle the future events effectively. Thus planning is forward looking, i.e., looking ahead and preparing for the future.
2. **Procedures:** They are step-by-step instructions, which explain how activities are to be carried out in an orderly way. They are detailed guideline which provides a standardized way of doing a routine work. They are generally followed by insiders.

Programmes: They are detailed statements for doing all the actions for achieving a given objective. They are a combination of objectives, policies, procedures, rules, tasks, human and physical resources and budget to carry out a given work.

3. Planning is the application of mind involving foresight, imagination and sound judgment. It is basically an intellectual activity of thinking rather than doing. It is a systematic thinking rather than guess work or wishful thinking.

Four score questions

1. Briefly explain the meaning of single use plan and standing plan.

Answers of four score questions

1. **Single-use Plan:** It is a plan developed for one time use for implementing an one-time project and not repeated in nature. These plans include budgets, programmes and projects. Example: advertising campaign for a new product, plan for acquiring land for new business.

Standing-use Plan: It is a plan developed for the use of activities that are repeated regularly over a period of time. Generally it is used for the internal operations of an organization and helps in routine decision making. It is developed once but is modified from time to time to meet the needs of the business. Standing plans include policies, procedures, methods and rules.

Five score questions

1. Match the following

No	A	B
1	Objectives	Base for interpreting strategy
2	Strategy	Prescribed ways or manner
3	Policy	Quantifies future facts and figures
4	Method	Desired future position
5	Budget	Comprehensive plan

2. Match the following

No	A	B
1	Single use plan	Simplest type of plan
2	Standing plan	Routine steps
3	Rules	Entire gamut of activities
4	Procedure	Budgets
5	Programme	Methods

Answers of five score questions

1. 1- Desired future position
2- Comprehensive plan
3- Base for interpreting strategy
4- Prescribed ways or manner
5- Quantifies future facts and figures
2. 1- Budgets
2- Methods
3- Simplest type of plan

- 4- Routine steps
- 5- Entire gamut of activities

Eight score questions

1. 'Plans can be classified on the basis of what the plans seek to achieve'. Discuss in brief various types of plan on the basis of the statement.
2. While planning every manager has to follow certain logical steps. Explain in short the various steps involved in the process of planning.
3. Planning function of management has certain special features, which throw light on its nature and scope. Briefly explain various features of planning.

Answers of eight score questions

1. Based on what the plans seek to achieve plans can be classified as follows:

a). Objectives: They are the desired future position that the management would like to reach. They are set by top management and serve as a guide for overall business planning.

b). Strategy: They are comprehensive plans for bringing an organization from a position to a desired position in a long future. They are the future decisions about the direction of an organization and its scope is in long run.

c). Policies: Policies are general statements that guide how a manager should handle the responsibilities and follow when dealing with important areas of decision making. They provide a framework and guide the managers for the implementation of strategy.

d). Procedures: They are derived from policies. They are step-by-step instructions, which explain how activities are to be carried out in an orderly way.

e). Methods: Methods state the ways or manner of doing the tasks of a procedure based on objective. The method may vary from task to task. They are designed for doing an activity, to prevent confusion and ensure economy and efficiency.

f). Rules: They are specific and recorded statements that inform what can and cannot be done. They must be compulsorily followed by the all members in an organization. They are the simplest type of plans which create an environment of discipline in the organization.

Example: Office opens at 8.00Am, No smoking, etc.

g. Programmes: They are detailed statements for doing all the activities for achieving a given objective. It is a combination of objectives, policies, procedures, rules, tasks, human and physical resources and budget to carry out a given work.

h. Budget: A budget is a statement of expected results expressed in numerical terms. It is a plan which quantifies future facts and figures. It is a major tool of control in the hands of management.

2. Following are the various steps involved in planning:

- a. Setting objectives
- b. Developing premises
- c. Identifying alternative course of action
- d. Evaluating alternative courses
- e. Selecting an alternative
- f. Implementation the plans
- g. Follow up

a. Setting objectives: First step in planning is defining clearly the objectives of an organization as a whole, each department, units and employees. The objectives provide guidelines for many vital decisions and help to solve the problems that arise in future.

b. Developing premises: They are the assumptions about the future upon which planning is formulated. These are the anticipated environment based on forecasting in which plans are to be drawn and expected to operate. They are important for the success of planning because they supply facts and information about the future. Example: Population trends, General economic conditions, Government control etc.

c. Identifying alternative course of action: The third step in the planning process is to determine the various courses of action. They are the different ways or method which can be used for the goal attainment. The course of action which may be taken could be either routine or innovative.

d. Evaluating alternative courses: The next step is to evaluate the pros and cons of each alternative in the light of the objective to be achieved and to be weighed against each other. Generally alternatives are evaluated in terms of expected cost and benefits. Also should consider the feasibility and consequences of each alternative.

e. Selecting an alternative: This is the real point of decision making. The alternative which is most feasible, profitable and least negatives will be the best and select for implementing for achieving the objectives.

f. Implementation the plans: The sixth step in the planning process is the implementation of plans. This means putting the plans into action (doing what is required) for achieving what we planned. Successful implementation of plans requires wholehearted cooperation and understanding of personnel.

g. Follow up: In order to fix that plans are working in correct way it is necessary to monitor the plan in each and every stages of implementation. This helps in detecting shortcomings and takes remedial measures, which ensures goal achievement.

3. Following are the various features of planning:

a. Planning focuses on achieving objectives: Every organization has certain goals. Planning is for the attainment of business goals. It makes objectives tangible and concrete and determines the way to achieve it.

b. Planning is a primary function of management: Planning is the first function of management which provides a base for other management functions. All other management functions are designed on the basis of goal set under planning. If any change is made in the goal will affect the structure of other functions.

c. Planning is pervasive: Planning is the basic function of every manager from top to bottom. It is essential and spread throughout the entire area of operation in an organization. No part of the organization should be excluded from the purview of planning, but its scope may differ at different levels.

d. Planning is continuous: Generally plans are prepared for a specific period of time. At the end of that period new plans are prepared for new period of time. Similarly as the environmental condition changes, existing plans have to be revised. So planning is a never ending process and hence it is a continuous one.

e. Planning is futuristic: Planning means thinking and deciding today for tomorrow based on certain objectives. The purpose of planning is to handle the future events effectively. Thus planning is forward looking, i.e., looking ahead and preparing for the future based on forecasting.

f. Planning involves decision making: Planning is a decision-making process. It involves thinking for alternatives (various ways to achieve the objectives) and select only one among them which is best suitable. The need for planning arises only when alternatives are available.

7. Planning is a mental exercise: Planning is the application of mind involving foresight, imagination and sound judgment. It is basically an intellectual activity of thinking rather than doing. It is a systematic thinking rather than guess work or wishful thinking.

CHAPTER 5

ORGANISING

Focus Area

- Importance of organising
- Organisation structure and its types
- Formal organisation and Informal organisation
- Delegation and decentralisation

Points to be noted

- **Organising** is the process of identifying and grouping the work, to be performed and establishing effective authority responsibility relationships and effectively deploying resources for attainment of desired goals.
- **Importance of organising**
 - (i) Benefits of specialisation
 - (ii) Clarity in working relationship
 - (iii) Optimum utilisation of resources
 - (iv) Adaptation to change
 - (v) Effective Administration
 - (vi) Development of personnel
 - (vii) Expansion and growth
- **Organisational Structure:** Organisational structure can be defined as the framework within which managerial and operating tasks are performed. It is the outcome of organising process.
- **Types of organisational structure**
 1. Functional structure – Groups activities on the basis of function.
 2. Divisional structure- Groups activities on the basis of products.
- **Formal organisation** refers to the organisational structure which is deliberately planned and designed by the management to accomplish organisational goals.

- **Informal Organisation** emerges from within the formal organisation. Interaction among people at work gives rise to a network of social relationship among employees called the informal organisation.
- **Delegation** refers to the downward transfer of authority from a superior to a subordinate.
- Authority, Responsibility and Accountability are the **elements of delegation**
- **Authority** refers to the right of an individual to command his subordinates and to take action.
- **Responsibility** is the obligation of a subordinate to properly perform the assigned duty.
- **Accountability** implies being answerable for the final outcome.
- **Decentralisation** refers to the systematic dispersal of authority to the lower levels of organisation.

QUESTIONS

1. _____ organisation is a network of social relationship of workers which arises due to interactions at work. (score-1)

Answer: Informal organisation

2. The number of subordinates that can be effectively managed by a superior is called _____. (score-1)

Answer: Span of management

3. Discuss the elements of Delegation (score-3)

Answer:

- (i) **Authority**:- Authority refers to the right of an individual to command his subordinates and to take action within the scope of his position.
- (ii) **Responsibility**:- Responsibility is the obligation of a subordinate to properly perform the assigned duty.
- (III) **Accountability**:- Accountability implies being answerable for the final outcome. Once authority has been delegated and responsibility accepted, one cannot deny accountability. It cannot be delegated.

4. A tall organisation structure has a _____

- (a) Wide span of management
- (b) Narrow span of management
- (c) No span of management.

(score-1)

Answer: Narrow span of management.

5. Decentralisation is an extension of delegation to lower levels. Can you differentiate these two.

(score-4)

Answer:-

Basis	Delegation	Decentralisation
Nature	Delegation is compulsory because no individual can perform all tasks on his own	Decentralisation is an optional decision.
Freedom of action	More control by superiors and hence less freedom to take own decisions	Less control over executives , hence greater freedom of action.
Scope	It has narrow scope as it is limited to superior and his immediate subordinate	It has wide scope a it is an extension of delegation
Purpose	Its purpose is to lessen the burden of the manager	It is to increase the role of the subordinates in the organisation.

6. Organising function plays a crucial role in every business enterprise. Briefly explain the importance of organising. (Score-5)

Answer:- The following points highlight the crucial role that organising plays in every business.

- (a) **Benefits of specialisation:-** Organising leads to a systematic allocation of jobs among the workforce. Repetitive performance of a task by a worker leads to specialisation.
- (b) **Clarity in working relationships:-** The establishment of working relationships clarifies the authority , responsibility and lines of communication. This removes ambiguity in transfer of instructions.
- (c) **Optimum utilisation of resources:** Organising leads to the proper usage of all material, financial and human resources. Avoidance of duplication of work helps in preventing confusion and minimising wastages.

- (d) **Effective administration:** Organising provides a clear description of jobs and related duties. This helps to avoid duplication and confusion. Management thereby becomes easy and brings effectiveness in administration.
- (e) **Expansion and growth:** Organising helps in the growth and expansion of an enterprise by enabling it to deviate from existing norms and taking up new challenges.

7. List out any two advantages of Functional structure of organisation. (Score-2)

Answer:

- (a) A functional structure leads to occupational specialisation since emphasis is placed on specific functions.
- (b) It promotes control and coordination within a department because of similarity in the task being performed.

8. Distinguish between functional structure and divisional structure of organising. (Score -5)

Answer:

Basis	Functional structure	Divisional structure
Formation	Formation is based on functions	Formation is based on product lines and is supported by functions.
Specialisation	Functional specialisation is followed	Product specialisation is followed
Cost	Functions are not duplicated, hence economical.	Duplication of resources in various departments, hence costly.
Co-ordination	Difficult for a multiproduct company	Easy, because all functions related to a particular product are integrated in one department
Responsibility	Difficult to fix responsibility on a particular department	Easy to fix responsibility for performance.

9. _____ organisation has no written rules, and does not have fixed lines of communication. (Score-1)

- (a) Formal organisation
- (b) Informal organisation
- (c) Both (a) and (b)
- (d) None of the above

Answer: Informal organisation

10. The informal organisation emerges from within the formal organisation. Do you agree? How formal organisation differ from informal organisation? (score -5)

Answer: Yes

Basis	Formal organisation	Informal organisation
Meaning	It is deliberately planned and designed by management	It is a network of social relationships arising out of interaction among employees.
Origin	Arises as a result of company rules and policies	Arises as a result of interaction.
Behaviour	It is directed by rules.	There is no set behaviour pattern
Communication	Communication takes place through the scalar chain	Flow of communication is not through a planned route
Leadership	Managers are leaders	Leaders may or may not be managers

11. Explain the Divisional structure of organisation. Discuss its advantages and disadvantages.

(Score-8)

Answer:

In a divisional structure, the organisation structure, comprises of separate business units or divisions. Each unit has a divisional manager responsible for performance. Each division is self-contained as it develops expertise in all functions. Divisional structure is suitable for those business enterprises where large varieties of products are manufactured using different productive resources.

Advantages

- (a) Product specialisation helps in the development of varied skills in a divisional head and this prepares him for higher positions,
- (b) Divisional heads are responsible for profit, cost and revenue related to concerned department. This provides a proper basis for performance measurement.
- (c) It promotes flexibility and initiative because each division functions as an autonomous unit
- (d) It facilitates expansion and growth as new divisions can be added without interrupting the existing operations.

Disadvantages

- (a) Conflict may arise among different divisions with reference to allocation of funds.
- (b) It may lead to increase in costs, since there may be duplication of activities across products, providing each division with separate set of similar functions increase expenditure.
- (c) It provides managers with the authority to supervise all activities related to a particular division. Such a manager may gain power and he may ignore organisational interests.

CHAPTER 6 STAFFING

Focus Area

- Steps in staffing
- Sources of recruitment
- Selection test
- Method of training

Points to be noted

- Staffing means recruitment and selection of competent personnel to fill various positions in the organizational structure.
- Staffing process involves estimation of manpower requirements, recruitment, selection, placement and orientation, training and development, performance appraisal, promotion and career planning and compensation.
- Estimating the manpower requirements means based on workload analysis and workforce analysis identifying whether the organization is understaffed, overstaffed or optimally staffed.
- Workload analysis helps to assess the number and type of human resources required to do various jobs in an organization.
- Workforce analysis reveals the number and type of workforce (workers) already available in an organization.
- Recruitment is the process of searching maximum number of prospective employees and encouraging them to apply for the jobs in an organization.
- Selection is the process of choosing the best person with right qualification from applicants received through recruitment.
- Placement means post a candidate as employee and ask him to occupy the assigned position in an organization.

- Orientation means introducing a new employee to fellow workers, superiors and his subordinates and familiarizing with the working conditions, rules, regulations and policies of an organization.
- Training and development is an attempt to improve the current or future performance of employees by changing their attitude or increasing their skill and knowledge through learning.
- Performance appraisal is a systematic evaluation of an employee's current and/or past performance on the job based on some predetermined standards.
- Promotions are an integral part of people's career through which they are placed in positions of increased responsibility with more pay and job satisfaction.
- Compensation refers to all forms of pay or rewards to employee for their contribution towards the achievement of organizational objectives.
- The main sources of recruitment are internal sources and external sources.
- Recruitment within the organization is known as internal source of recruitment.
- Transfer and promotion are the two sources of internal recruitment.
- Transfer involves horizontal shift of an employee from one job to another, one department to another or one shift to another without much change in the responsibilities and status of the employee.
- Promotion is the practice of filling higher jobs by promoting employees from lower jobs with higher responsibilities, facilities, status and pay.
- Recruitment of employees from outside the organization is known as external sources of recruitment.
- Direct recruitment, casual callers, advertisement, employment exchange, placement agencies and management consultants, campus recruitment, recommendation of employees, labour contractors, advertisement on television and web publishing are the various sources of external recruitment.
- Selection test involves intelligence test, aptitude tests, personality test, trade test and interest test.
- Intelligence tests are used to measure the level of intelligence quotient (IQ) of an individual.

- Aptitude test are used to measure an individual's potential for learning new skill.
- Personality tests provide an overall personality of an individual and give an idea about his/her emotions, reactions, maturity and value system etc.
- Trade tests measure the existing skill of an individual and identify the level of knowledge and proficiency in the area of his profession.
- Interest tests are used to know the pattern of interests for doing a job.
- On the job training and off the job training are the most popular training methods used for training the employees.
- On the job training is a method of training the employees in the real workplace under the supervision of an experienced worker. It is the process of learning by doing.
- Apprenticeship programmes, coaching, internship training and job rotation are the various on the job training methods.
- Under apprenticeship programme the trainee is placed under the guidance of a master worker (experienced worker). The trainee learns the skill by observing and assisting the master worker by spending a prescribed work time with him/her.
- Under coaching, the superior guides and instructs the trainee as a coach and impart job knowledge and skill required to do a job.
- Under internship training method technical/educational institutions and business organization join together for providing training. So classroom teaching is better understood by practicing in the factory.
- Under job rotation, trainee gains a well understanding of all works of every department in an organization by systematic transfer from one department to another or from one job to another.
- Under Off the job training method a trainee is trained away from the actual work place and used the entire time for training purpose.
- Classroom lectures/conferences, films, case study, computer modeling, vestibule training and programmed instructions are various off the job training method.

- Under case study method trainees are asked to study a case and determine the problems, analyse causes, develop alternative solutions and select what they believe to be the best solution.
- Under vestibule training actual work environments are created in a classroom and the trainee learns the way of handling the jobs using the same materials, files and equipment as in the real workplace.
- Under programmed instructions the skill or knowledge to be acquired are broken into meaningful units and arranged in a logical and sequential order from simple to complex. For learning, the trainee goes through these units by answering questions or filling the blanks.

One score questions:

1. Assessment of the number and type of human resources required for the various jobs and accomplishment of organizational objectives.

a). Workload analysis	b). Workforce analysis
c). Job specification	c). Job description
2. Evaluating an employee's current and/or past performance as against certain predetermined standards.

a). Career planning	b). Performance appraisal
c). Job specification	c). Training
3. Shift to another job without a substantive change in the responsibilities and status of the employee.

a). Promotion	b). External source
c). Transfer	d). Vertical shift
4. A notice is placed on the notice board of the enterprise specifying the details of the jobs available.

a). Casual callers	b). Direct recruitment
c). Advertisement	c). Campus recruitment
5. Joint programme of training in which educational institution and business firms cooperate.

a). Apprenticeship programme	b). Coaching
c). Case study	d). Internship training

Answers of one score questions:

- | | | |
|-----------------------|--------------------------|-------------|
| 1- Workload analysis | 2- Performance appraisal | 3- Transfer |
| 4- Direct recruitment | 5- Internship training | |

Two score questions:

1. By conducting _____ and _____ we can understand whether the organization is understaffed, overstaffed or optimally staffed.
2. This helps new employee to familiarize with the rules and policies of an organization.
 - a. Identify the staffing function.
 - b. Give a very brief note about it.
3. Method used for training employees where actual work environment are created.
 - a. Identify the training method
 - b. Is it on the job or off the job training method?
4. The _____ test which measures the potential to acquire skills and the _____ test which measures the actual skills possessed.
5. Big houses conducted interviews in educational institutions, collect bio-data and make a list of suitable candidates.
 - a. Identify the source of recruitment
 - b. Is it external or internal source of recruitment?

**Answers of two score questions:**

- 1- Workload analysis, Work force analysis
- 2- a). Orientation
b). It is the process of introducing a new employee to his fellow workers, superior and his subordinates and familiarizing with the working conditions, rules, regulations and policies of an organization.
- 3- a). Vestibule training b). off the job training
- 4- Aptitude test, Trade test
- 5- a. Campus recruitment b. External source

Three score questions:

1. Give any three differences between training and development.
2. *'Compensation refers to all forms of pay or rewards to employee for their contribution towards the achievement of organizational objectives.'* Briefly explain the forms of compensation.

3. Write a short note on the following outside sources of recruitment.
- a. Direct recruitment, b. Casual callers and
c. Employment exchange.
4. Briefly explain the following off the job training method.
- a. Case study b. Vestibule training
c. Programmed instruction.

Answers of three score questions:

1. Following are the 3 differences between training and development.

No	Training	Development
1.	For increasing knowledge and skill.	For learning and growth.
2.	It enables the employee to do the job better.	It enables the overall growth of the employee.
3.	It is a job oriented process.	It is a career oriented process.

2. Compensation may be in the form of direct financial payments like wages, salaries, incentives, commissions and bonuses and indirect payments like employer paid insurance and vacations. Direct financial payments are of two types- time based and performance based. Time based plan means salary and wages paid either daily, weekly or monthly or annually. Performance based plans means salary/wages paid according to piece work.

3. **a. Direct Recruitment:**

Under direct recruitment, a notice is placed on the notice board of the enterprise specifying the details of the job vacancies. Jobseekers assemble outside the organization on the date specified in the notice-board and selection is done on the spot.

b. Casual Callers:

Many organizations maintain a database of applications received through personal visit, mails or enquiry over phone by the jobseekers about vacancies. Such records can be used as a source for conducting recruitment.

c. Employment Exchanges:

Employment exchanges run by the Government are a good source of recruitment for unskilled, skilled and semi-skilled operative jobs. The job seekers register their name with employment exchange and the

employers who need employees approach the exchange. The exchange refers the names of qualified candidates to the employer.

4. **a. Case Study:**

A case is an actual experience faced by a manager while discharging his duties in an organization. Trainees are asked to study the case and determine the problems, analyse causes, develop alternative solutions and select what they believe to be the best solution.

b. Vestibule Training:

It is used for training employees who work on sophisticated, modern equipment and machinery, which involves heavy investment. Under vestibule training actual work environments are created in a classroom and the trainee learns the way of handling the jobs using the same materials, files and equipment as in the real workplace.

c. Programmed Instruction:

Under programmed instructions the skill or knowledge to be acquired are broken into meaningful units and arranged in a logical and sequential order from simple to complex. The trainee learns by going through these units by answering questions or filling the blanks.

Four score questions:

1. *Source of recruitment which encourages and motivates the existing employees and creates a sense of loyalty among them.* Identify the recruitment source and explain briefly its various sources.
2. Write a brief note about apprenticeship programmes and coaching the popular on the job training method.
3. Staffing involves finding “right person for the right job”. Point out various steps involved in the process of staffing.
4. Give a brief note about the following staffing process
 - a. Placement and orientation
 - b. Performance appraisal.
5. Give a brief note about the following on the job training method
 - a. Job rotation
 - b. Internship training.

Answers of four score questions:**1. a. Internal sources**

b. **Transfer:** It involves horizontal shift of an employee from one job to another, one department to another or one shift to another without much change in the responsibilities, status and pay of the employee. It is a good source of recruitment where vacancies in understaffed department is filled by transferring employees from overstaffed department.

Promotion: It is practice of filling higher jobs by promoting employees from lower jobs. It is a vertical shifting of employees to higher position with higher responsibilities, facilities, status and pay. It encourages lower level employees to work hard with full skill.

2. **Apprenticeship Programmes:** This type of training is designed for skilled jobs like plumbers, electricians or iron workers etc. Trainee is placed under the guidance of a master worker (experienced worker). He learns the skill by observing and assisting the master worker by spending a prescribed work time with him/her.

Coaching: Under coaching, the superior guides and instructs the trainee as a coach and imparts job knowledge and skill required to do a job. Coach sets goal with the consent of trainee, suggests how to achieve these goals, periodically reviews the trainees progress and suggests changes required in behaviour and performance.

3. Following are the various steps involved in the process of staffing:

- a) Estimating the Manpower Requirements.
- b) Recruitment.
- c) Selection.
- d) Placement and orientation.
- e) Training and development.
- f) Performance appraisal.
- g) Promotion and career planning.
- h) Compensation.

4. **Placement:** It means posting a candidate as employee and asking him to occupy the assigned position in the organization. Proper placement of an employee reduces absenteeism, employee turnover and accident rate.

Orientation: It means introducing a new employee to the fellow workers, superiors and his subordinates. It helps him to familiarize with the working conditions, rules, regulations and policies of the organization.

Performance Appraisal: It is a systematic evaluation of an employee's current and/or past performance on the job, based on some predetermined standards and identify his potential for development. It provides a feedback to each employee about his performance in job.

5. **Job rotation:** Under job rotation, trainee gains a well understanding of all works of every department in an organization by systematic transfer from one department to another or from one job to another.

Internship training: Under this method technical/educational institutions and business organization join together for providing training to trainees. Here classroom teachings are better understood by practicing work in a factory or office.

Five score questions:

1. *"Selection test is a mechanism that attempts to measure certain characteristics of individuals"*. Write a brief note about the various tests used for selection of employee.
2. Match the following:

No	A	B
1.	Intelligence test	Measure the existing skill.
2.	Aptitude test	Provides a person's emotions, reactions, maturity etc.
3.	Personality test	Measure the level of intelligence quotient.
4.	Trade test	Pattern of involvement of a person.
5.	Interest test	Potential for learning new skills.

3. Match the following:

No	A	B
1.	Recruitment	Eliminated until the right person is found.
2.	Promotion	Horizontal movement of employee.
3.	Selection	Create a pool of prospective job candidates.
4.	Development	Vertical shift of an employee.
5.	Transfer	Help employees to grow.

4. Match the following:

No	A	B
1.	Internship training	Trainee learned by answering questions or filling the blanks.
2.	Vestibule training	Trainee gains a broader understanding of all parts of the business.
3.	Programmed instructions	Training employees on sophisticated machinery and equipment.
4.	Job rotation	Superior guides and instructs as a coach.
5.	Coaching	Classroom teachings are better understood by practicing in a factory.

Answers of five score questions:

1. Following are the various tests used for selection of employee:

a. Intelligence Tests:

It is a psychological test used to measure the level of intelligence quotient (IQ) of an individual. It helps to know a person's learning ability or the ability to make decisions and judgments.

b. Aptitude Test:

It helps to know an individual's potential for learning new skills. It indicates the person's capacity to develop. This test helps to indicate a person's future success score.

c. Personality Tests:

It helps to identify a person's personality. It gives an idea about a person's emotions, reactions, maturity and value system etc.

d. Trade Test:

It measures the existing skills of the individual. It helps to identify the level of knowledge and proficiency in the area of his profession.

e. Interest Tests:

Every individual has desire for some job than the other. Interest tests are used to know the pattern of interests or involvement of a person.

2.
 1. Measure the level of intelligence quotient.
 2. Potential for learning new skills.
 3. Provides a person's emotions, reactions, maturity etc.
 4. Measure the existing skill.
 5. Pattern of involvement of a person.
 3.
 1. Create a pool of prospective job candidates.
 2. Vertical shift of an employee.
 3. Eliminated until the right person is found.
 4. Help employees to grow.
 5. Horizontal movement of employee.
 4.
 1. Classroom teachings are better understood by practicing in a factory.
 2. Training employees on sophisticated machinery and equipment.
 3. Trainee learned by answering questions or filling the blanks.
 4. Trainee gains a broader understanding of all parts of the business.
 5. Superior guides and instructs as a coach.
-

Eight score questions:

1. *External recruitment provides wide choice and new blood in the organization.* Discuss briefly commonly used external sources of recruitment.
2. Explain briefly any 4 on the job training methods and any 4 off the job training methods.
3. Staffing is the process of finding '*right person for the right job*'. While finding the right person staffing function goes through series of process. Explain briefly what are the steps involved in staffing function.

Answers of eight score questions:

1. Following are the various external sources of recruitment:

a. Direct Recruitment: Under direct recruitment, a notice is placed on the notice board of the enterprise specifying the details of the job vacancies. Jobseekers assemble outside the organization on the date specified in the notice-board and selection is done on the spot.

b. Casual Callers: Many organizations maintain a database of applications received through personal visit, mails or enquiry over phone by the jobseekers about vacancies. Such records can be used as a source for conducting recruitment.

c. Advertisement: Advertising in newspapers or trade and professional journals is a common method used when a wider choice of candidates is required. This method is most suitable for the recruitment of experts and specialists at top or middle level, which are not available from other sources. Its main disadvantage is that it may bring in a flood of response and many times will get unsuitable candidates.

d. Employment Exchanges: Employment exchanges run by the Government are a good source of recruitment for unskilled, skilled and semi-skilled operative jobs. The job seekers register their name with employment exchange and the employers who need employees approach the exchange. The exchange refers the names of qualified candidates to the employer.

e. Placement Agencies and Management Consultants: Placement agencies are private agencies having bio-data of a large number of candidates. They recommend suitable names to the employers. Such agencies charge fee for their services. These agencies can be used for capturing expert top executives of other companies by making the right offers. Management consultancies are agencies specialize in middle and top level executive placements. They are also used for recruiting technical, professional and managerial personnel.

f. Campus Recruitment: Big business houses generally approach colleges, technical institutions and management schools to fill up job positions. They conducted interviews in these institutions, collect bio-data and make a list of suitable candidates.

g. Recommendations of employees: Candidates (generally friends and relatives) recommended by the existing employees may be a good source of recruitment. This method is suitable for recruiting employees at a lower level.

h. Labour Contractors: They are commission agents who provide required man power to the organization. They keep in touch with the unskilled workers in villages and bring them to the place where workers are needed at short notice.

2. *Following are the various on the job training methods:*

1. **a. Apprenticeship Programmes:** This type of training is designed for skilled jobs like plumbers, electricians or iron workers etc. Trainee is placed under the guidance of a master worker (experienced

worker). He learns the skill by observing and assisting the master worker by spending a prescribed work time with him/her.

b. Coaching: Under coaching, the superior guides and instructs the trainee as a coach and imparts job knowledge and skill required to do a job. Coach sets goal with the consent of trainee, suggests how to achieve these goals, periodically reviews the trainees progress and suggests changes required in behaviour and performance.

c. Internship training: Under this method technical/educational institutions and business organization join together for providing training to trainees. Here classroom teachings are better understood by practicing work in a factory or office.

d. Job rotation: Under job rotation, trainee gains a well understanding of all works of every department in an organization by systematic transfer from one department to another or from one job to another.

Following are the various on the job training methods:

e. Class Room Lectures/Conferences: The lecture or conference is well used method to impart specific information, rules, procedures or methods to trainees. It is a classroom study by using audio-visuals aids.

f. Case Study: A case is an actual experience faced by a manager while discharging his duties in an organization. Trainees are asked to study the case and determine the problems, analyse causes, develop alternative solutions and select what they believe to be the best solution.

g. Vestibule Training: It is used for training employees who work on sophisticated, modern equipment and machinery, which involves heavy investment. Under vestibule training actual work environments are created in a classroom and the trainee learns the way of handling the jobs using the same materials, files and equipment as in the real workplace.

c. Programmed Instruction:

Under programmed instructions the skill or knowledge to be acquired are broken into meaningful units and arranged in a logical and sequential order from simple to complex. The trainee learns by going through these units by answering questions or filling the blanks.

3. Following are the various steps involved in the process of staffing:
 - a. Estimating the Manpower Requirements.
 - b. Recruitment.

c. Selection.

d. Placement and orientation.

e. Training and development.

f. Performance appraisal.

g. Promotion and career planning.

h. Compensation.

- (Explain all the above points)

CHAPTER 7 DIRECTING

Focus Area

- Elements of directing-
Supervision, Motivation, Leadership, Communication
- Maslow's Need Hierarchy Theory
- Leadership – Qualities of a good leader
- Communication- process
- Barriers of communication

Points to be noted

- Directing is the process of instructing, guiding, counselling, motivating and leading the people in an organization to achieve its objectives
- Supervision, motivation, leadership and communication are the elements of directing
- Supervision is an overseeing process of instructing, guiding, controlling and ensure that they are doing as per plans and policies of the organization.
- Supervision can be understood in two ways - a. As an element of directing, b. As a function performed by supervisors.
- As an element of directing it means overseeing the subordinates and giving instructions to them for ensuring optimum utilization of resources and achievement of work targets.
- As a function performed by supervisor it is a managerial position in an organization hierarchy at the operative level.
- Motivation is the process of inspiring the subordinates to work in a desired manner for the attainment of certain organizational goals.

- Leadership is a process of influencing the behavior of people towards the achievement of organizational objectives.
- Communication means exchange of ideas, facts, opinions, emotions or information between two or more persons to create a common ground of understanding.
- Maslow's need hierarchy theory is based on the following assumption:
 - * People's behavior is based on their needs. Satisfaction of such needs influences their behavior.
 - * People's needs are in hierarchical order starts from basic needs to other higher level needs.
 - * A satisfied need can no longer motive a person; only next higher level of need can motive him.
 - * A person moves to next higher level of the hierarchy only when the lower level need is satisfied.
- Basic physiological needs, Safety and security needs, Affiliation/belonging needs, esteem needs and self-actualization needs are the 5 needs in the Maslow's need hierarchy theory.
- Physical features, knowledge, integrity, initiative, communication skills, motivation skills, self-confidence, decisiveness, and social skills are the qualities to be possessed by a good leader.
- Communication is a two way process, which starts with a message by a sender and ends with a feedback by the receiver of the message.
- Communication process involves elements like source (sender), message, encoding, media/channel, receiver, decoding, noise and feedback.
- Barriers of communication can be grouped as semantic barriers, psychological barriers, organizational barriers and personal barriers.
- Semantic barriers are hindrances in the process of encoding and decoding of messages into words and impressions.
- Badly expressed messages, symbols with different meanings, faulty translations, un-cleared assumptions, technical jargon body language and gesture decoding are the various semantic barriers.
- Psychological barriers are the state of mind of both sender and receiver of communication, i.e., emotional or psychological factors.

- Premature evaluation, lack of attention, loss of transmission and retention and distrust between communicator and communicate are the various Psychological barriers.
- Organizational barriers are the hindrances related with organization structure, authority relationships, rules and regulations.
- Organizational policies, rules and regulations, status, complexity in organization structure and some facilities not provided by organization are the various organizational barriers.
- Personal barriers are some personal factors of both sender and receiver.
- Fear of challenge to authority, Lack of confidence of superior on his subordinates, Unwillingness to communicate and lack of proper incentives are the various personal barriers.

One score questions:

6. Overseeing what is being done by subordinates.
a).Motivation b). Leadership
c). Supervision c). Activity
7. Technique used to motivate people in an organization.
a). Motivators b). Motivation
c). Motive c). Desire
8. Based on Maslow's theory 'Recognition and attention' is a factor
a). Safety/security needs b). Self- actualization need
c). Affiliation/Belonging needs d). Esteem Needs
9. 'Regarding the ethics and values leader should be a role model to others'. Identify the quality of a good leader.
a). Integrity b). Initiative
c). Decisiveness c). Social skill
10. Obstruction or hindrance to communication may be caused to sender, message or receiver.
a). Media b). Noise
c). Decoding d). Internet

Answers of one score questions:

- | | | |
|-----------------|---------------|-----------------|
| 1- Supervision, | 2- Motivators | 3- Esteem needs |
| 4- Integrity | 5- Noise | |

Two score questions:

- Semantic barriers are concerned with problems and obstructions in the process of _____ and _____ of message into words and impressions.
- Noise means some obstruction to communication. Point out any two examples.

Answers of two score questions:

- Encoding, Decoding
- a). Poor telephone connection b). In-attentive receiver

Three score questions:

- Write a short note of supervision
 - as an element of Directing.
 - as function performed by supervisors.
- Write a short note about leadership.
- Write a short note about the following three inter related terms of motivation
 - Motive
 - Motivation and
 - Motivators

Answers of three score questions:

- As an element of directing**, supervision means overseeing the working of subordinates and giving instructions to them for ensuring optimum utilization of resources and achievement of work targets.
 - As the function performed by supervisor**, supervision is a managerial position in the organization hierarchy at the operative level.
- Leadership is a process of influencing the behaviour of people towards the achievement of organisational objectives. It is a process of influencing, guiding, directing, and controlling the thoughts, feelings and behaviour of the followers for maintaining a good interpersonal

relation among them. Every manager is a leader as he has to coordinate the efforts of people to achieve the business goals.

3. **a. Motive:**

It is an inner stage that activates and directs behavior of people towards goals. Needs makes motives.

b. Motivation:

It is the process of stimulating people to action for getting the desired goals. Motivation is based on the satisfying needs of people.

c. Motivators:

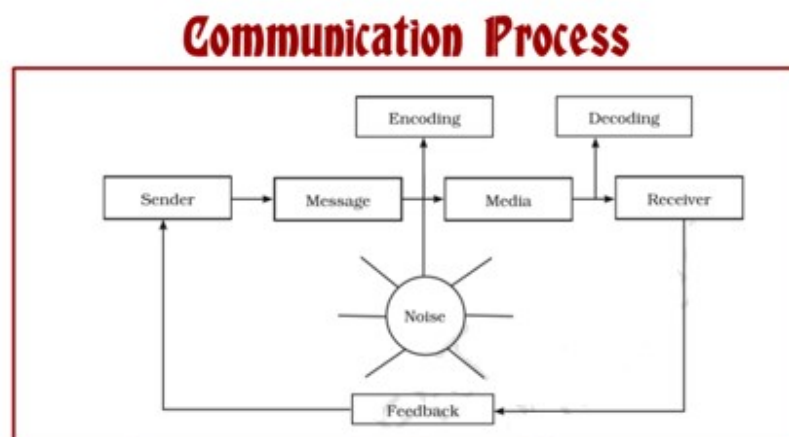
It is the technique used to motivate people in an organization. Better pay, bonus, promotion, recognition etc. are the various motivators used to influence the workers to contribute their best.

Four score questions:

1. Draw the chart of communication process.
2. Write a brief note about the elements of directing.
3. Write a brief note about any four semantic barriers of communication.

Answers of four score questions:

1. Chart of communication process:



2. Following are the elements of directing:

- a). **Supervision**: It is an overseeing process of instructs, guides, control and keep in track the employee's efforts and ensure that they are doing as per plans and policies of the organization.
- b). **Motivation**: It is the process of inspiring the subordinates to work in a desired manner for the attainment of certain organizational goals. It is essential at every level of management and at every stage of the organizational process.
- c). **Leadership**: It is a process of influencing the behavior of people towards the achievement of organizational objectives. Every manager is a leader as he has to coordinate the efforts of people to achieve the business goals.
- d). **Communication**: It means exchange of ideas, facts, opinions, emotions or information between two or more persons to create a common ground of understanding. Directing abilities of a manager mainly depend upon his communication skills.

3. Following are the four semantic barriers:

- a). **Badly expressed message**: Sometimes what a manager mean in a message may not be conveyed to his subordinates due to badly expression. This happened due to inadequate vocabulary, usage of wrong words, omission of needed words etc.
- b). **Symbols with different meanings**: A word may have several meanings. Hence, the same word or expression may give different meaning to different people. Receiver has to understand meaning for the word in the same manner used by communicator. Wrong understanding leads to communication problems.
- c). **Faulty translations**: Sometimes the message for communication is originally drafted in one language and need to be translated in other language. If the translator is not proficient with both the languages, mistakes may happen and result to different meanings to the communication.
- d). **Technical jargon**: It is usually found that specialists use technical words while communicating to other people who are not specialists in that field. Therefore, the actual meaning of such words cannot be understood by them.

Five score questions:

1. “Communication is defined as a process”. Write a brief note about the various elements in communication process.
2. Match the following:

No	A	B
1.	Basic Physiological Needs	Stability of income.
2.	Safety and Security Needs	Self-respect.
3.	Affiliation /Belonging Needs	Self-fulfillment.
4.	Esteem Needs	Survival and maintenance.
5.	Self-Actualization Needs	Acceptance and friendship.

3. Abraham H. Maslow outlined the elements of an overall theory of motivation. Explain briefly his need hierarchy theory of motivation.

Answers of five score questions:

1. Communication process involves elements like source (sender), message, encoding, media/channel, decoding, receiver, noise and feedback.

a. Sender:

The sender is the source of communication. A person who conveys the message is known as sender. He is the person who starts the process of communication by transmit information to someone else.

b. Message:

Message is the subject matter of communication. It is what the sender likes to convey to receiver. It may involve any of ideas, feelings, suggestions, order or information that exists in the mind of the sender.

c. Encoding:

This process of converting the message in to communication symbols like words, pictures, diagrams, gestures, etc. is known as encoding.

d. Media:

It is the path or route through which the encoded message is passed from the sender to receiver. It may be face to face talk, phone call, letter, radio, television, internet etc.

e. Decoding:

The process of converting the encoded message in to understandable language is known as Decoding. Then only the receiver understands meaning of message.

f. Receiver:

Receiver is the person who is receives the message. He may be a listener, a reader or an observer. He tries to understand the message.

g. Feedback:

Feedback is the response or reply to the message by the receiver to the sender. It indicates in which way the receiver understand the message.

h. Noise:

Noise means some hindrance to communication. This hindrance may be caused to sender, message or receiver. Some examples of noise are: Poor telephone connection, inattentive receiver, unclear symbols, etc.

2.
 1. Survival and maintenance.
 2. Stability of income.
 3. Acceptance and friendship.
 4. Self-respect.
 5. Self-fulfillment.
3. Maslow theory was based on the human needs. He stated within every human being, there exists a hierarchy of five needs as follows:
 - A. Basic Physiological Needs:** They are the primary or basic needs of human beings for the survival and maintenance of human life. Such needs are food, clothing, shelter, air, water, sex etc. If the basic needs are not met human beings will not expect higher order needs. In the organizational context, basic salary helps to satisfy these needs.

B. Safety/ Security Needs: Once physiological needs are satisfied people want to ensure that they continue to satisfy these needs even in future without any interruption. This makes human beings a feeling of security. People want physical, economic and social securities. In the organizational context, security, stability of income, Pension plans etc.

C. Affiliation /Belonging Needs: It is also known as Social Needs. In this stage a person will like to make good relationship with others. These needs include affection, sense of belongingness, acceptance and friendship.

D. Esteem Needs: This needs include self-respect, feeling of being unique, autonomy, respect from others, appreciation from others, status, prestige in society, recognition and attention, power and control etc.

E. Self-Actualization Needs: It is the highest level of need in this hierarchy. It is the need to become more and more what one can become. It involves growth, self-fulfillment and maximum possible degree of achievement.

Eight score questions:

1. *It is assumed that leaders can be distinguished from non leaders by certain unique traits possessed by them.* Discuss briefly certain qualities of a good leader.
2. *'It is generally assumed that managers face several problems due to communication breakdowns'.* Explain briefly any four semantic barriers and any four psychological barriers
3. Explain briefly any four organizational barriers and any four personal barriers.

Answers of eight score questions:

1. Following are the various qualities of good leader:

a. Physical features: It means height, weight, health, appearance etc. Good physical features attract people. Good health helps a leader to work hard which inspires the followers to work with same tempo.

b. Knowledge: A good leader should have needed knowledge and competence. Only such person can instruct subordinates correctly and influence them.

c. Integrity: A leader should possess strong moral principles (integrity) and be honest. He should be a role model to others regarding the ethics and values.

d. Initiative: A good leader should have courage and initiative. He should not wait for opportunities but capture the opportunity and use it to the advantage of organization.

e. Communication skills: A leader should be a good communicator. He should have the capacity to express clearly his ideas and make the people to understand.

f. Motivation skills: A good leader is a motivator. He understands the need of people and motivates them for satisfying their needs.

g. Self Confidence: A leader should have high level of self-confidence and needed at every time especially even in the most difficult times. If the leader lacks self-confidence he cannot provide confidence to his followers.

h. Decisiveness: Leader must need the quality of deciding for managing the work. Once he understands the fact, he should take a strong decision and should not change his opinions frequently.

2. A. Following are the four semantic barriers:

a. Badly expressed message: Sometimes what a manager intended in a message may not be conveyed to his subordinates due to badly expression. This happened due to inadequate vocabulary, usage of wrong words, omission of needed words etc.

b. Symbols with different meanings: A word may have several meanings. Hence, the same word or expression may give different meaning to different people. Receiver has to understand meaning for the word in the same manner used by communicator.

c. Faulty translations: Sometimes the message for communication is originally drafted in one language and need to be translated in other language. If the translator is not proficient with both the languages, mistakes may happen and result to different meanings to the communication.

d. Technical jargon: It is usually found that specialists use technical words while communicating to other people who are not specialists in that field. Therefore, the actual meaning of such words cannot be understood by them.

B. Following are the four psychological barriers:

a. Premature evaluation: Sometimes people evaluate the meaning of message before the sender completes his message. Such premature evaluation may be act as a barrier of effective communication.

b. Lack of attention: The pre-occupied and non-listening mind of receiver to message acts as a major psychological barrier.

c. Loss by transmission and poor retention: When communication passes through various levels, original meaning of message may loss and not transmits original information to the last level. This is more in oral communication.

d. Poor retention : Poor retention is another problem. If people are not interested they can't retain the information for a long time.

e. 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.

3. A. Following are the four organizational barriers:

- a. **Organizational policy:** If the organizational policy is not supportive to free flow of communication, it may lead ineffective communication.
- b. **Rules and regulations:** Rigid rules, regulation and lengthy procedures may be a barrier to communication. Similarly, communications through prescribed channel may result in delays.
- c. **Status:** Status differences of people also act as a barrier of effective communication. If a manager has status ego, he may not freely communicate with his subordinates. Similarly he may not allow his subordinates to express their feelings freely.
- d. **Complexity in organization structure:** Organization having long chain of command acts as a barrier to effective communication. When a message passes through several hands (levels), it causes delay in transmission and loss the original content in the message.

B. Following are the four personal barriers:

- a. **Fear of challenge to authority:** If a superior feels that a particular communication may adversely affect his authority, he or she may withhold or suppress such communication.
- b. **Lack of confidence of superior on his subordinates:** Advice or opinion of a subordinate is considered as communication. If superiors do not have confidence on the competency of their subordinates, their advice or opinion may not be considered.
- c. **Unwillingness to communicate:** Some subordinates may be unwilling to communicate with their superiors on the fear that it will not like by their superior.
- d. **Lack of proper incentives:** If there is no motivation 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.

CHAPTER – 8

CONTROLLING

Focus Area

- Steps in controlling
- Control by exception
- Span of control
- Techniques of controlling

Meaning

Controlling means ensuring that activities of an organization are performed as per plans. Controlling also ensures that an organizations resource are being used effectively and efficiently for the achievement of organizational goals.

Steps in controlling (Controlling process)

1. Setting performance standard
2. Measurement of actual performance
3. Comparison of actual performance with standards
4. Analysis of deviations
5. Taking Corrective action

1. Setting performance standards

Standards are the criteria against which actual performances is measured. Standards can be set in both quantitative (eg: units produced and sold, cost to be incurred, revenue to be earned etc.) as well as qualitative terms (eg: improving goodwill and motivation level of employees)

2. Measurement of actual performance

Here the actual performance is measured. The measurement should be in an objective and reliable manner. The techniques like personal observation, sample checking, performance reports etc. can be used for measurement of performance.

3. Comparison of actual performance with standards

This step involves comparison of actual performance with the standards. Such comparison reveals the deviation between actual and desired results.

4. Analysis of deviations

Some deviation in actual performance can be expected in all activities. But deviation must be within the expected range. Deviations in key areas require urgent attention as compared to deviations in certain insignificant areas. Critical control and management by exception can be used in this regard.

5. Taking corrective action

If the deviations go beyond the acceptable range, it requires immediate managerial attention.

Control By Exception (Management by Exception)

According to this principle, only significant deviations which go beyond the permissible limit should be brought to the notice of management. It is based on the belief that an attempt to control everything results in controlling nothing.

Techniques of Controlling

Techniques of controlling may be broadly classified into

- I. Traditional Techniques
- II. Modern Techniques

I. Traditional Techniques

These Include

a) Personal Observation

It enables the manager to collect first hand information. It creates a psychological pressure on the employees to perform well.

b) Statistical Reports

Statistical analysis in the form of average, percentages, ratios, correlation etc. present useful information to the managers regarding the performance of the organisation in various areas.

c) Break-Even Analysis

Break Even Analysis helps to study the relationship between costs, volume and profit. It determines the probable profit and losses at different levels of activity.

d) Budgetary Control

Here controlling is exercised with the help of budgets. A budget is a quantitative plan for a definite future period.

II. Modern Techniques**a) Return on Investment**

ROI is a useful technique which provides the basic yardstick for measuring whether or not invested capital has been effectively used for generating reasonable amount of return.

b) Ratio Analysis

Ratio Analysis refers to analysis of financial statements through computation of ratios.

Most common ratios are

- (i) Liquidity ratios
- (ii) Solvency ratios
- (iii) Profitability ratios
- (iv) Turn over ratios

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 centre may be

- (i) Cost Centre
- (ii) Revenue Centre
- (iii) Profit Centre
- (iv) Investment Centre

d) Management Audit

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.

e) PERT and CPM

Programme Evaluation and Review Techniques and Critical Path Method are important network techniques useful for planning and controlling. These techniques are especially useful for planning, scheduling and implementing time bound projects.

f) Management Information System

MIS is a computer based information system that provides information and support for effective managerial decision making and controlling.

Review Questions

1. Explain the meaning of controlling
2. An effort to control everything result in controlling nothing. Explain the concept.
3. Explain budgetary control.
4. What do you mean by responsibility accounting?
5. Explain any two modern techniques of controlling.
6. Write any two ratios used in ratio analysis.
7. Explain steps in the process of controlling.
8. Explain various techniques of controlling.
9. What is meant by control by exceptions?
10. What is meant by MIS?
11. Expand and explain PERT and CPM.

CHAPTER – 9**FINANCIAL MANAGEMENT****Focus Area**

- Financial Decision
- Capital Structure-Factors
- Factors determining Fixed Capital
- Factors determining Working capital

FINANCIAL DECISIONS

- Primary aim of financial management is to maximise the wealth of shareholders
- Money required for carrying out business activities is called business finance
- Finance is required to start, to run, to modernise and to expand a business
- Financial management is concerned with optimal procurement as well as usage of finance
- Financial Decision refers to the decision concerning financial matters of a business
- Major decision to be taken by the financial manager are
 - ✓ Investment decision
 - ✓ Finance decision and
 - ✓ Dividend decision
- The investment decision is concerned with how the firms funds are to be invested in different assets. It can be long term or short term. A long term investment decision which involves commitment of fund for long period is called **Capital budgeting decision** and short term investment decision are called **working capital decision**
- Financing decision is concerned with how much finance is to be raised and identifying the various sources available for it. The main source of fund for a firm are owners fund and borrowed fund
- Dividend decision relates to how much of the profit earned by the company can be distributed to the shareholders and how much of it should be retained in the business.

CAPITAL STRUCTURE

- Capital structure refers to the proportion or mix of owners fund or equity and borrowed funds or debts in the total capitalisation.
- Debt and equity differ in cost and risk. As debt securities involves less cost but it is very risky whereas equity is expensive securities but these are safe securities from company's point of view.

Factors Determining Capital Structure

- cash flow position
- Cost of debt
- Interest coverage Ratio
- Debt Service coverage Ratio
- Return on investment.
- Tax rate
- Cost of Equity
- Flootation cost
- Risk Consideration
- Flexibility
- Regulatory Frame work
- Stock market conditions
- Control
- Capital structure of other companies

FIXED CAPITAL AND WORKING CAPITAL

Fixed capital refers to investment in long term asset or fixed assets. 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 also called *capital budgeting*.

Factors affecting the requirement of Fixed capital

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

1. Nature of business
2. Scale of operations
3. Choice of technique
4. Growth prospects
5. Diversification
6. Technology up gradation
7. Financing alternatives
8. Level of collaboration

WORKING CAPITAL

- The capital invested in current assets like stock, debtors, bills receivable, short term investments etc for meeting their day today operations are called working capital.
- 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 the current liabilities.
- Net working Capital=Current Asset – Current Liability

Factors affecting the requirement of working capital

1. Nature of business
2. Scale of operations
3. Business Cycle
4. Seasonal Factors
5. Credit allowed and credit availed
6. Availability of raw materials
7. Level of competition
8. Inflation
9. Growth prospects
10. Operating Efficiency

Question & Answers

1. “Management of fixed capital involves allocation of firms capital to different long term assets or projects.” By highlighting this statement, you are required to:

Identify and explain the various factors influencing the fixed capital requirements of a company

OR

2. It is the capital required for meeting the permanent or long term needs of the business.
- Identify it.
 - Explain factors determining it. (Score 8)

Ans: (a) Fixed Capital

Factors affecting the requirement of Fixed capital

- 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 concern, as trading company does not need plant, machinery etc.
- 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.
- Choice of technique:** 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.
- Growth prospects:** A fast growing organisation needs more investment in fixed assets than a slow growing concern.
- Diversification:** When a firm diversifies its activities, requirements of fixed capital will increase. It requires more investment in fixed assets for the new project.
- Technology upgradation:** In certain industries, assets become obsolete very soon, eg, computers. their replacement also becomes due faster. So they require more fixed capital.
- Financing alternatives:** An enterprise which procures fixed assets on lease requires lesser fixed capital.
- 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. Example: Use of ATM facility.

3. Zero working capital means

- a) Current Asset $>$ Current Liability;
- b) Current Asset $<$ Current Liability
- c) Current Asset = Current Liability
- d) Current Asset \neq Current Liability (Score 1)

Ans: **c) Current Asset = Current Liability**

4. Long term investment decision are also called _____

- a) working capital decisions
- b) Dividend decisions
- c) financing decisions
- d) Capital Budgeting decisions (Score 1)

Ans: **d) Capital Budgeting decisions**

5. Briefly explain the factors affecting the requirement of working capital (Score -8)

Answer

The capital invested in current assets like stock, debtors, bills receivable, short term investments etc for meeting their day today operations are called working capital.

Factors affecting the requirement of working capital

- 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 organisation.
- 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. **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.
5. **Credit allowed:** A Liberal credit policy results in higher amount of debtors increasing the requirement of working capital and vice-versa
6. **Credit Availed:** A business may get credit facility from suppliers of goods. More the credit facility, lesser would be the requirement of working capital.
7. **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.
8. **Operating Efficiency:** A firm which maintains higher operating efficiency levels require only less amount of working capital.
9. **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.
10. **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.
11. **Growth prospects :** A fast growing organization needs more amount of working capital than a slow growing concern.
12. **Production cycle :** It is the time span between the receipt of raw materials and its conversion into finished goods. Higher the time span larger will be the requirement of working capital and vice-versa.

6. Briefly explain the term working capital (Score -4)

Ans: The capital invested in current assets like stock, debtors, bills receivable, short term investments etc for meeting their day today operations are called working capital. These assets are expected to get converted into cash or cash equivalents within a period of one year. These provide liquidity to the business. 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 the current liabilities.

7. Briefly explain the term Fixed Capital (Score -3)

Ans: Fixed capital refers to investment in long term asset or fixed assets. 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 also called *capital budgeting*.

8. List out the factors affecting capital Structure of a business.

(Score -5)

Ans:

- a. cash flow position
- b) Cost of debt
- c) Interest coverage Ratio
- d) Debt Service coverage Ratio
- e) Return on investment.
- f) Tax rate
- g) Cost of Equity
- h) Floatation cost
- i) Risk Consideration
- j) Flexibility
- k) Regulatory Frame work
- l) Stock market conditions
- m) Control
- n) Capital structure of other companies

9. What are the factors affecting Dividend decision of a business?

(Score -4)

Ans:

- a) Amount of earnings
- b) Stability of earnings
- c) Stability of dividend Growth opportunities
- d) Cash flow position
- e) Share holders preference
- f) Taxation policy
- g) Legal constraints

CHAPTER-10

FINANCIAL MARKET

Focus Areas

- Money Market-Instrument
- Capital Market- Instrument
- SEBI-Functions

- A financial market is a market for the creation and exchange of financial assets.
- Financial markets are classified on the basis of maturity of financial instruments traded in the markets.

They are:

1. Capital Market (the market for medium and long term funds) and
2. Money market (the market for short term funds)

MONEY MARKET

- Money market is the market for short term funds for a period 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 Governments, Mutual Funds etc are the main participants in the Money market.
- It makes possible for the raising of short term funds for meeting the working capital needs and temporary deployment of excess funds to get returns.

MONEY MARKET INSTRUMENTS

1. Treasury bills

Treasury bills are issued by Reserve Bank of India on behalf of government. These are short term credit instruments for a period ranging from 14 to 364 days. Such instruments are sold to bank and to the public. Treasury bills are also known as 'Zero Coupon Bonds'

2. Commercial Paper

It is a short term unsecured promissory note with a fixed maturity period of 15 days to one year. This instrument is issued by large and creditworthy companies

3. Call Money

It is a short term finance with a maturity period of one day to 15 days. It is a market for extremely short period loans. It is used for interbank transactions.

4. Certificate of deposits

This is a time deposit issued by bank against the deposits kept by companies and institutions. The time period ranges from 91 days to 1 year. Only banks can issue such a certificate.

5. Commercial bill

It is a bill of exchange used by the business firms to meet their working capital requirement. It is a short term negotiable instrument, which is used to finance credit sales of the firm.

CAPITAL MARKET

- Capital market refers to facilities and institutional arrangements through which long term fund both debt and equity are raised and invested.
- The main instrument traded in the capital market are equity shares, debentures, bonds, preference shares, etc.
- The maturity period of this securities are more than one year.
- The Capital market consist of

1. Primary Market / New issue market

Primary market is the market wherein new securities are issued for the first time. Here the company issue securities directly to the investors. It is also known as new issue market.

2. Secondary market / Stock Market

Secondary market is the market for second hand securities. It refers to market for purchase and sale of previously issued securities. It is also known as stock market or stock exchange. It provide liquidity and marketability to the existing securities.

SECURITIES EXCHANGE BOARD OF INDIA(SEBI)

Securities Exchange Board of India (SEBI) was set up in 1988 to regulate the functions of securities market. The overall objective of SEBI is to protect the interest of investors and to promote the interest of securities market.

FUNCTIONS OF SEBI

The important functions of SEBI are as follows

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

Regulatory functions

- Registration of brokers and sub brokers and other players in the market.
- Notification of Rules and Regulations and Regulation of stock brokers
- Levying of Fees and other charges
- Registration of collective Investment Schemes and mutual funds
- Regulation of takeover bids by companies.

Development Function

- Training to intermediaries of securities market
- Conducting Research Publishing Information
- Undertaking measures to Stock market Reforms

Protective Function

- SEBI prohibits fraudulent and Unfair Trade Practices like price rigging, manipulation etc...
- Undertaking steps for investor protection
- Promotion of fair practices and code of conduct in the market.

IMPORTANT QUESTION & ANSWERS

1. Complete as per the hint given:

- a) Money Market - RBI
- b) Capital Market - ___? ___

ANSWERS: SEBI

2. Differentiate between money market and capital market

Ans:

	MONEY MARKET	CAPITAL MARKET
1. Participants	banks & other financial Institutions	Stock exchange, Merchant Banks, Corporate entities etc
2. Instruments traded	Treasury bills, Commercial Paper, Certificate of deposits	Equity shares, Preference shares, Bonds etc
3. Purpose	It helps to meet working capital needs	It helps to meet fixed capital needs
4. Nature of market	It is a Wholesale market	It is a Retail market
5. Maturity period of securities	Less than One Year	More than One year
6. Rate of return	Low	High
7. Market regulator	RBI	SBI

3. “These are markets for short term funds.” Identify the type of financial market and list out its various instruments.

OR

4. Travancore Ltd , decides to use short term fund market for meeting its working capital

Requirements. List out important money market instruments for raising such funds.

Ans: Money market

The instruments used in money market are

- 1. Treasury bills 2. Commercial Paper 3. Certificate of Deposits
- 4. call money 5. Commercial Bill

5. SEBI is the regulating agency in Indian stock exchange. Discuss their major functions

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- SEBI prohibits fraudulent and Unfair Trade Practices like price rigging, manipulation etc...
- Undertaking steps for investor protection
- Promotion of fair practices and code of conduct in the market.

6. **Distinguish between Primary Market & Secondary Market**
7. **What is Capital Market?**
8. **Name the participants in the Indian Money Market**
9. **Name the Financial Instruments in the Indian Money Market**

CHAPTER 11**MARKETING MANAGEMENT****Focus Area**

- Marketing & Selling
- Functions of Marketing
- Marketing mix
- Pricing – factors
- Promotion and Advertising
- Sales promotion

MARKETING : Marketing is a social process, where people interact with each other, in order to persuade them to buy a product or service rather than forcing them to do so. Traditionally, marketing refers to the performance of business activities that direct the flow of goods and services from producer to consumer.

SELLING : Selling is only a part of the marketing activities. Through the act of selling products are converted into cash. It is restricted only to the promotion of goods/services for enabling exchange of goods/services.

FUNCTIONS OF MARKETING

1. Gathering and Analysing market information.
2. Marketing Planning
3. Product design and development.
4. Standardisation and Grading.
5. Packaging and Labelling.
6. Branding.
7. Consumer support services.
8. Pricing of product.
9. Promotion.
10. Physical Distribution.
11. Transportation
12. Storage or Warehousing.

MARKETING MIX

It consists of four elements called as Product, Price, Place and Promotion. They are popularly called as 4 P's of marketing.

PRODUCT

Product means goods/services or anything of value which is offered for sale. The product concept not only relates to the physical product but also to the benefits got from it, from customer's point of view.

PRICE

Price is the amount of money that the customers have to pay to get the product. Price of products affects its demand. Proper pricing decisions have to be taken so that products attracts customers.

PLACE

Place or Physical Distribution activities include those that make firm's products available to the customers at their place. The important decision areas include inventory management, storage, warehousing, transportation, intermediaries etc..

PROMOTION

Promotion activities are those that communicate to the target customers about the product's features, merits etc., and persuade them to buy. Various promotional techniques include advertising, personal selling and sales promotion and publicity.

FACTORS AFFECTING PRICE DETERMINATION

1. Product cost
2. The Utility and Demand.
3. Extent of competition in the market.
4. Government and legal restrictions.
5. Pricing objectives.
6. Marketing methods used.

ADVERTISEMENT

It is an impersonal form of communication , paid by the marketers to promote goods or services.

FEATURES OF ADVERTISING.

- (i) Paid form
- (ii) Impersonality
- (iii) Identified sponsor.

MERITS OF ADVERTISING

1. Mass reach
2. Enhancing customer satisfaction and confidence
3. Expressiveness.
4. Economy.

OBJECTIONS TO ADVERTISING

1. Adds to cost
2. Undermines social values
3. Confuses the buyers
4. Encourages the sale of inferior products.

SALES PROMOTION

It refers to the short term incentives which are designed to encourage the buyers to make immediate purchase of product or service. It helps in boosting the sales of the products. It is usually undertaken to supplement other promotional efforts such as advertising and personal selling.

MERITS OF SALES PROMOTION

1. Attention Value
2. Useful in new product launch
3. Synergy in total promotional efforts.

LIMITATIONS OF SALES PROMOTION

1. Reflects crisis
2. Spoils product image

SALES PROMOTIONAL ACTIVITIES

- 1.Rebate
2. Discount
3. Refunds
4. Product combinations
5. Quantity gift
- 6 Instant draws and assigned gift

7. Lucky draw
8. Usable benefits
9. Full finance @ 0%
10. Sampling
11. Contests

SAMPLE QUESTIONS

1. What is meant by marketing **[score 2]**

Marketing is a social process, where people interact with each other, in order to persuade them to buy a product or service rather than forcing them to do so. Also marketing involves lot of activities relating to products that satisfy customers needs.

2. What is meant by Marketing mix **[score 2]**

It consists of four elements called as Product, Price, Place and Promotion. They are popularly called as 4 P's of marketing. It is a set of marketing tools that a firm uses to attain its marketing objectives.

3. What is Branding? **[score 2]**

The process of giving a name or a sign or a symbol etc., to product is called Branding. Brand name helps in creating product differentiation, which helps in building customer's loyalty and promote sales.

4. Explain the terms Packaging and Labelling. **[score 2]**

Packaging refers to designing and developing the package for the products. It is important not only for protection of products but also acts as promotional tool. Labelling refers to designing and developing the label to be put on package. A label may be simple tag to complex graphics.

5. Explain the term 'Sales promotion'. **[score 2]**

It refers to the short term incentives which are designed to encourage the buyers to make immediate purchase of product or service. It helps in boosting the sales of the products. It is usually undertaken to supplement other promotional efforts such as advertising and personal selling.

6. Differentiate between Rebate and discount **[score 2]**

Rebate:- Offering products at special prices to clear off excess stock is called rebate.

Discount:- Offering products at a price less than the list price is called discount.

7. What are the elements of Promotion Mix. [score 2]

- (1) Advertising (2) Personal Selling
 (3) Sales Promotion (4) Publicity [4*1/2=2]

8. Explain the pricing objectives of firm apart from profit maximisation. [score 3]

- (1) **Obtaining market share leadership:-** If prices of products are fixed at lower levels, it will attract customers and thereby increase the market share.
- (2) **Surviving in a competitive market:-** If a firm finds it difficult to survive in the market then it can lower prices or use promotional tools to sell of the goods.
- (3) **Attain product quality leadership:-** Here higher prices are charged for products to covers its high quality and higher cost of research and development.

9. Explain the features of advertising? [score 3]

- (a) **Paid form :-** It is a paid form of communication, the sponsor has to bear the cost of advertising.
- (b) **Impersonality :-** It is an impersonal form of communication, i.e there is direct contact between customer and advertiser.
- (c) **Identified sponsor:-** It is done by some identified individual or company, who makes the efforts and bears cost of advertising.

10. Differentiate Standardisation and Grading [score 4]

Standardisation refers to producing goods of pre-determined specifications, for uniformity and consistency in the output. It ensures the buyers about its quality, price and packaging. It also reduces the need for inspection, testing and evaluation of products.

Grading is the process of classification of products into different groups on the basis of quality, size etc.. It is done to products where pre-determined standards cannot be set for production. It is done mainly in the case of agricultural products.

11. Explain the factors that affect the fixation of price of a product. [score 5]

- 1) Product Cost
 2) The utility and demand

- 3) Extent of competition in the market
- 4) Government and legal regulations
- 5) Pricing objectives
- 6) Marketing methods used.

(explain any 5 points – 5 * 1 = 5)

12. Explain the Merits and de-merits of Sales promotion.

[score 5]

Merits of Sales promotional

- (1) Attention value
- (2) Useful in new product launch
- (3) Synergy in total promotional efforts

De-merits of Sales promotional

- (1) Reflects crisis
 - (2) Spoils product image
- (explain all 5 points 5*1=5)

13. Explain the Merits and De-merits of Advertising

[score 8]

Merits of Advertising

1. Mass reach
2. Enhancing customer satisfaction and confidence
3. Expressiveness.
4. Economy.

De-merits of advertising

1. Adds to cost
2. Undermines social values
3. Confuses the buyers
4. Encourages the sale of inferior products.

(explain the above all points 8*1=8)

14. Explain the functions of Marketing.

[score 8]

1. Gathering and Analysing market information.
2. Marketing Planning
3. Product design and development.

- 4. Standardisation and Grading.
- 5. Packaging and Labelling.
- 6. Branding.
- 7. Consumer support services.
- 8. Pricing of product.
- 9. Promotion.
- 10. Physical Distribution.
- 11. Transportation
- 12. Storage or Warehousing.

(explain any 8 points 8*1=8)

15. Explain different Sales Promotional tools.

[score 8]

- 1. Rebate
- 2. Discount
- 3. Refunds
- 4. Product combinations
- 5. Quantity gift
- 6. Instant draws and assigned gift
- 7. Lucky draw
- 8. Usable benefits
- 9. Full finance @ 0%
- 10. Sampling
- 11. Contests

(explain any 8 points 8*1=8)

CHAPTER -12**CONSUMER PROTECTION****Focus Area**

- Rights of consumers
- Name of Acts for consumers
- Redressal forums under CPA

Consumer protection aims at educating consumers about their rights and responsibilities and also helps in getting their grievances redressed.

Rights of Consumers

The Consumer Protection Act provides six rights of consumers. These rights include the following.

1. Right to safety

The consumer has a right to be protected against goods and services which are hazardous to life and health. Eg. consumers are to be educated to use electrical appliances which are ISI marked as this would be an assurance of safety and quality.

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.

3. Right to Choose

The consumer has the freedom to choose from a variety of products at competitive prices. This implies that the marketers should offer a wide variety of products in terms of quality, brand, prices etc. and allow the consumer to make choice from amongst these.

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. Many consumer organizations are there to help consumers in redressal of their grievances.

5. Right to Seek Redressal

The consumer has a right to get a relief in case the product or service falls short of his expectations. The Consumer Protection Act provides a number of reliefs to consumers including replacement of the product, removal of defects in the product, providing compensation 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 reliefs available to him in case of a product of service falling short of his expectations.

Name of Acts for Consumers**1) The Consumer Protection Act 1986**

The Consumer Protection Act 1986 seeks to protect and promote the interests of consumers. The act provides safeguards to consumers against defective goods, deficient services, unfair trade practices and other forms of exploitations.

2) The Indian Contract Act 1872

The Act lays down the conditions in which the promises made by parties to a contract will be binding on each other

3) The Sale of Goods Act 1930

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

4) The Essential Commodities Act 1955

The Act aims at controlling production, supply and distribution of essential commodities, checking inflationary trend in their prices and ensuring equal distribution of essential commodities.

5) The Agriculture Produce (Grading and Marking) Act 1937

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

6) The Prevention Of Food Adulteration Act 1954

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

7) The Standards of Weights and Measures Act 1976

It provides protection to consumers against the malpractices of underweight or under measures.

8) The Trade Mark Act 1999

The Act prevents the use of fraudulent marks on products.

9) The Competition Act 2002

The Act provides protection to the consumers in case of practices adopted by business firms which hamper competition in the market.

Redressal agencies under the Consumer Protection Act

For the redressal of consumer grievances, the Consumer Protection Act provides for setting up of a three tier enforcement machinery at district, state and the national levels. They are,

- a) District Forum
- b) State Commission
- c) National Commission

District Forum	State Commission	National Commission
Consist of a President and two other members, one of whom should be a women	Consist of a President & not less than two other members, one of whom should be a women	Consist of a President and at least four members, one of whom should be a woman.
Members are appointed by State Government.	Members are appointed by State Government.	Members are appointed by Central Government

A Complaint can be made when the value of goods or services in question, along with the compensation doesn't exceed 20 lakhs	A Complaint can be made when the value of goods or services in question, along with the compensation claimed exceeds 20 lakhs but doesn't exceed 1 crore	Complaints can be made when the value of goods or services in question, along with the compensation claimed exceeds 1 crore.
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Review Questions

1. Which consumer protects a consumer against a product that is hazardous to life and health? Explain it.

Ans: Right to Safety

2. Match the following

a. The Consumer Protection Act	-	A.1955
b. The Essential Commodities Act	-	B.1930
c. The Prevention of Food Adulteration Act	-	C.1986
d. The Sale of Goods Act	-	D.1954

Ans: a- C b-A c-D d-B

3. Which consumer right has access to a variety of goods and services?

Ans : Right to choose

4. Where can a consumer appeal, if he is not satisfied with the order of District Forum?

Ans: State Commission

5. Explain right to consumer education?
 6. What is meant by right to be heard?
 7. Explain the rights of a consumer.
 8. Explain the redressal agencies under The Consumer Protection Act 1986

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