Chapter – 1

NATURE AND SIGNIFICANCE OF MANAGEMENT

Meaning: Management is a process of getting things done through others with the aim of achieving organizational goals effectively and efficiently.

Definitions:

1. Management is an art of getting things done through other people – Marry Parker Follet.
2. Management is the creation and maintenance of an internal environment in an enterprise where individuals, working in groups can perform efficiently and effectively towards the attainment of group goals. It is the art of getting the work done through and with people in formally organized groups. – Koonts and O'Donnel.

Characteristics of Management:

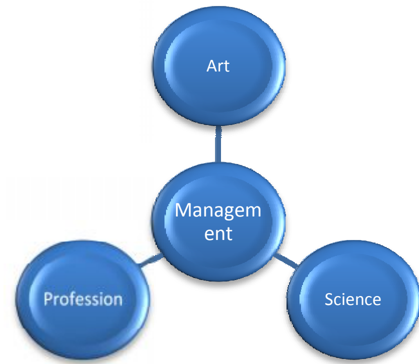
1. Management is goal oriented – Management aims at achieving certain specified objectives (goals) of the enterprise.
2. Management is Pervasive – Management activities are universally applicable in all types organizations anywhere in the world.
3. Management is multidimensional – Management has three dimensions:
   a. *Management of work* – All organizations are engaged in doing some work such as school for education, factory for production of goods, hospitals for treatment etc.
   b. *Management of people* – Managing human resource as individual and group.
   c. *Management of operations* – Management is also focusing in the production process by which the inputs are transformed into output with help of technology.
4. Management is a continuous process - which involves planning, organizing, staffing, directing and controlling.
5. Management is a group activity – Management cannot exist independent of the group or organization it manages. Goals and objectives of an organization can be effectively attained by a group rather than by an individual.
6. Management is a Dynamic Function – Management principles are not static in all situations. It must be adopted according to the changing needs of the organization.
7. Management is an intangible force – Its presence is felt by the result of the organization e.g. increase in profit.

Objectives of Management

1. **Organizational Objectives (Economic Objectives) –** Objectives set by management for the organization are called organizational objectives. The elements of economic objectives are **Survival, Profit and Growth.**
2. **Social Objectives –** A business should conduct the activities to fulfill the expectations of the society. Undesirable activities should not be undertaken for maximizing profit.
3. **Personal Objectives –** The management must reconcile personal goals with organizational objectives to have harmony in the organization.

Nature of Management:

1. **Management is an Art** – Art means the application of knowledge and personal skill to achieve desired results. Management is certainly considered as an art because a manager uses his skills and knowledge in his day to day activities for achieving the goals of the organization. As an art management has the following features:



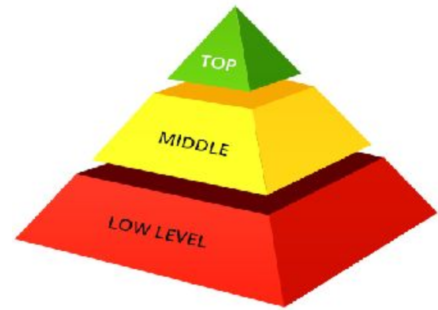
a. **Existence of theoretical knowledge:** Art presupposes the existence of certain theoretical knowledge. This knowledge is derived from the experiences of experts and is published in the form of books and literature in different fields like dance, music, public speaking, management etc.
b. **Personalised application:** The use of basic knowledge varies from person to person. Eg: Two dancers, two speakers, two actors etc. will differ in demonstrating their art.
c. **Based on practice and creativity:** Art involves creative practice of existing theoretical knowledge. Eg: All music is based on seven basic notes, however what makes the composition of a musician unique is his use of these notes in a creative manner.

2. **Management as a Science** – Science is a systematically organized body of knowledge. It is based on logically observed findings, facts and events. The essential features of science are as follows:
   a. Systematised body of knowledge
   b. Principles based on experimentation
   c. Universal validity

   Although management has a systematized body of knowledge, they cannot be compared with the principles of physical science, which are definite and exact. Therefore, management is an inexact or soft science.

3. **Management as a Profession** – A profession is an occupation backed by specialized knowledge and training and to which entry is regulated by a representative body. Because of satisfying the following features, management may said to be a profession.
   a. Well defined body of knowledge – developed by management experts.
   b. Restricted entry – Management requires formal education and training provided by formal institutions like Universities, Professional Organizations such as ICAI (Institute of Chartered Accountants of India), IIM (Indian Institute of Management) etc.
   c. Professional association – for the implementation of code of conduct – Eg. All India Management Association (AIMA).
   d. Ethical codes of conduct - All professions are bound by a code of conduct, which guides the behavior of its members. Eg: Doctors take an oath of ethical practice at the time they enter the profession.
   e. Service Motive – The primary objective of a profession is providing service to the society.

Levels of Management – Levels of management refers to the arrangement of managerial positions in an organization. There are generally three levels of management. They are Top Level, Middle Level and Lower Level (Supervisory or Operational) Management. The hierarchy of level is shown below:



Top Level Management: Top level management consists of managers at the highest level in the management hierarchy. Chairman, managing directors, board of directors, chief executive and general managers are regarded as top level management in a business organization. This level of management is responsible for framing business policies and taking major decisions. They perform administrative functions more than the managerial functions.

Functions of Top Level Management:

1. It lays down the objectives of the business organization.
2. It prepares strategic plans and policies.
3. It issues necessary instructions to departmental heads.
4. They appoint the executives for middle level.
5. It co-ordinates the activities.
6. It controls all the departments of the organization.
7. It builds and maintain relations with outside public.

Middle Level Management: This level of management consists of different departmental heads. These managers receive orders and instructions from top level managers and pass them to their subordinates. They are responsible for executing the plans formulated by top management. This level consists of production manager, finance manager etc. This level acts as an intermediary between the top management and the lower level management.

Functions:

1. Maintain closer watch on day to day results.
2. Participate in operating decisions.
3. Implement the policy decisions made by the top management.
4. Communicating policies of top level to the lower level.
5. Planning the activities to be carried out by their own department.
6. Directing the managers at the lower level.
7. Evaluating the performance of departmental employees.
8. Reporting to top level management.
9. Co-operating with other departments to achieve organizational goals.
10. Motivating and rewarding employees based on their performance.

Lower Level Management: This level is also known as *Supervisory Management or Operational Management.* It consists of foreman, supervisors, finance and accounts officers, sales officers etc. They assign specific jobs to the workers, evaluate their performance and report to the middle level management.

Functions:

1. Plan day to day activities.
2. Assign workers to different jobs and task.
3. Report feedback information daily.
4. Take corrective actions whenever necessary.
5. Maintain personal and immediate contact with production employees.
6. Act as a link between middle level management and workers.
7. Provide on the job training to workers.

Coordination – The essence of management

Coordination refers to the process of integrating the activities of different units of an organization to achieve the organizational goals. Coordination is needed in all the functions of management and in all the levels of management, therefore, **coordination is considered as the essence of management.**

Importance of Coordination:

1. **Growth in size –** As an organization grows in size, the number of people employed will also be increased. All individuals differ in their habits, approaches etc. So that it becomes necessary to coordinate their efforts to the common goal.
2. **Functional differentiation –** The functions of an organization is divided into departments and their objectives are also different. For example, marketing department may try to increase the sales volume by offering 10% discount, but the finance department may not approve it because of loss in revenue. In such a situation coordination has a vital role in the integration of efforts by the above two departments.
3. **Specialization –** Now a days many organizations appoint specialists in different jobs. These specialists may think that, they are qualified to evaluate, judge and decide in their professional area. They do not take advice from others. This often leads to conflict among different specialists. Here also coordination plays an important role to bring harmony among these personnel for the benefit of the orgnaisation.

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Chapter – 2

PRINCIPLES OF MANAGEMENT

Meaning: Principles refers to a statement which reflects the fundamental truth about some phenomenon. Management principles are derived on the basis of observation and analysis of events which managers have to face in actual practice.

Definition

"Principles of management are the guiding rules or laws for managerial action" – H.G. Hicks.

Fayol's Principles of Management

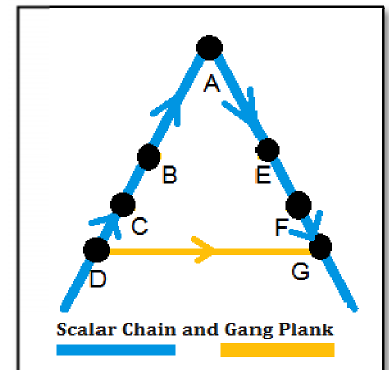
Henry Fayol (1841-1925) – French Engineer in a mining company – became the Managing Director of the company – author of "General and Industrial Management" – his management thoughts are acceptable even today – father of Modern Management. A brief description of Fayol's fourteen principles of management is given below:-

1. **Division of Work** – This principle states that a complex work should be divided into small tasks, and each task should be assigned to a particular employee. This makes each task simpler and easier to perform and results in efficiency because by doing a small part of work repeatedly, the employee acquires speed and perfection. This principle is applicable to both technical and managerial activities.
2. **Authority and Responsibility** – Authority is the right to give orders to the subordinates. Responsibility means obligation to perform the work in the manner desired and directed by authority. If authority is given to a person, he should also be made responsible.
3. **Discipline** – It means obedience, respect for authority and observation of established rules. It ensures the smooth running of the organization and applicable for workers and management.
4. **Unity of Command –** This principle states that each employee should receive orders from one superior only. More than one superior at a time leads to confusion.
5. **Unity of Direction** – This principle states that the activities, which have a common objective must be grouped together and under one head. In other words, all the operations and departments in the organization should be directed towards the common goal.

Differences between Unity of Command and Unity of Direction

Basis	Unity of Command	Unity of Direction
1. Meaning	One subordinate should receive orders from only one superior at a time	Each group of activities having the same objective must have one head and one plan
2. Aim	It prevents dual subordination	It prevents overlapping of activities
3. implication	It affect an individual employee	It affects the entire organization

6. **Subordination of Individual Interest to General Interest –** The business enterprise is superior to individuals. The interest of the business must prevail over personal interests of the individuals.
7. **Remuneration of Employees**- The remuneration for work done must be fair and reasonable. It must inspire the employees to work hard so that the organization earns more profit.
8. **Centralization and Decentralization** - Centralization refers to concentration of authority at one place or one level in the organization i.e., top management. Decentralization means dispersal of authority to lower levels. There should be a balance between centralization and decentralization based on the nature of the job. Anyhow utmost centralization or decentralization is not good.
9. **Scalar Chain –** Scalar chain refers to the line of authority or the chain of superiors starting from the highest and moving towards the lowest rank. It is a must that communication should pass through this chain of command. But in case of urgency the established chains can be violated and Gang Plank (direct contact) between two concerned authorities may be established.



Short-circuiting the chain of command where emergency decisions are to be taken is known as **Gang Plank.**

10. **Order** – This principle is based on the general saying, "Have a place for everything and keep everything in its place". All materials are to be kept in proper place (**Material Order**) and the right man is to be assigned the right job (**Social Order**).
11. **Equity** – (Equality) This principle says that superiors should be impartial while dealing with their subordinates.
12. **Stability of Personnel** – Fayol says that managers and workers should not be shifted from their positions frequently. A person needs time to adjust himself to new work environment.
13. **Initiative –** It implies the creativity in an individual which must be utilized for the development of the organization.
14. **Esprit de Corps** (Union is Strength) – The contribution of a team is more significant than that of an individual. Team spirit helps in developing an atmosphere of mutual trust and understanding.

Acronym: DADEE SURCOSISU

Taylor's Scientific Management

F.W. Taylor (1856 – 1915) – father of Scientific Management – American Mechanical Engineer in Midvale Steel Company – keen analyst and critical of management for poor performance of their organization – conducted a series of experiments for more than two decades and finally launched the movement in 1910 which is known as "**Scientific Management".**

WRITINGS: 'The Principles of Scientific Management' series of articles published in 'The American Magazine' during march-may 1911, later published in book form.

Meaning and Definition – Scientific Management refers to the application of science in management practices. He advocated a detailed scientific study of each job to determine the best way of doing it.

Definition – "Scientific Management means knowing exactly what you want men to do and seeing that they do it in the best and cheapest way" - F.W.Taylor.

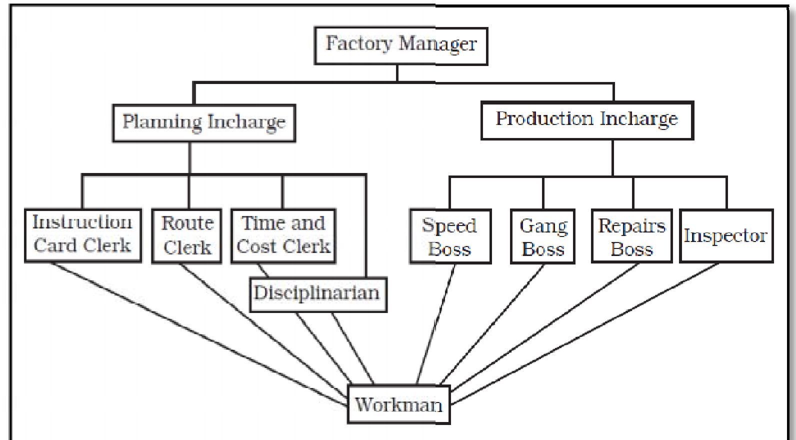
Principles of Scientific Management

1. **Science, not rule of thumb** – Rule of thumb means application of traditional methods or the methods decided by the managers based on their past experience. All these methods are often untested and unscientific; they do not guarantee success. In other words, the rule of thumb can be seen as 'the dictatorship of the manager' which should be avoided. Taylor suggested 'thinking before doing', i.e "Trial and Error Method' should be avoided and a scientific study must be done before solving any problem or doing a work.
2. **Harmony, not discord** (conflict) **–** This principle states that there should be complete harmony between management and the workers. This can be achieved through a change in the attitude of workers and the management. Taylor calls it as "Mental Revolution". Management should share the gains with workers and the workers should work hard and accept changes for achievement of goals.
3. **Co-operation, not individualism –** This principle is an extension of "Harmony, not discord". This principle states that there should be complete cooperation between management and workers instead of individualism. Management should take workers into confidence and give them participation in decision making. Workers should not indulge in unnecessary strikes and raise unreasonable demands. Taylor suggested that there should be equal division of work and responsibility between the workers and the management.
4. **Development of each and every person to their greatest efficiency and prosperity –** This principle states that the efficiency of all workers is a must for which they have to be provided with maximum prosperity. For this, Taylor advocated scientific methods for selection, training and development of workers. If workers put in their best effors, it ensures maximum prosperity not only to workers but also to the organization.

Techniques of Scientific Management

1. **Standardization and simplification of work –** It refers to the process of setting standards for every business activity.
2. **Method Study –** It is conducted to know the best method of doing a job.
3. **Motion Study –** It helps to eliminate unnecessary movements of men and material while doing a job.
4. **Time Study –** Through time study, the minimum time required for each element of work is determined. It helps in fixing a standard time for the job which will save cost, time and effort.
5. **Fatigue Study –** It seeks to determine the amount and frequency of rest intervals in doing a job. Intervals should be scientifically determined. This would help to recoup the energy lost in continuous work.

6. **Differential piece wage system –** It refers to a wage system in which dual wage rates are fixed to differentiate between efficient and inefficient workers. E.g., Standard output per day 30 units, two wage rates are Rs.10 and Rs.8 per unit. Worker Ajith produces 30 units a day and gets Rs.300. Worker Mohan produces only 28 units and he earns Rs. 224 only. Here Mr. Mohan loses Rs.76 just for a shortfall of 2 units. Taylor recommended that this system will be enough to motivate the inefficient worker to perform well or otherwise he will leave the organization.
7. **Functional Foremanship –** Taylor said that, specialization must be introduced in the organization. Functional foremanship is a form of organization which involves supervision of a worker by several specialist foremen.



a. **Instruction Card Clerk –** To lay down the exact method of doing a work, use of tools and equipments etc.
b. **Route Clerk -** To lay down the sequence of operation and direct the workers to follow the same.
c. **Time and Cost Clerk –** To lay down the time table for doing various jobs and maintain the records of the cost of work.
d. **Disciplinarian –** To enforce rules and regulations and maintain discipline among workers.
e. **Speed Boss –** Ensures that machines are run at their optimum speed.
f. **Gang Boss –** To assemble and set up various equipments and tools to enable the workers begin their work immediately after entering the shop.
g. **Repair Boss –** Ensures regular cleaning, servicing and repair of machines to keep them in efficient working order.
h. **Inspector –** To ensure that the workers do their work to the desired quality and that the jobs are executed as per specifications.

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BUSINESS ENVIRONMENT

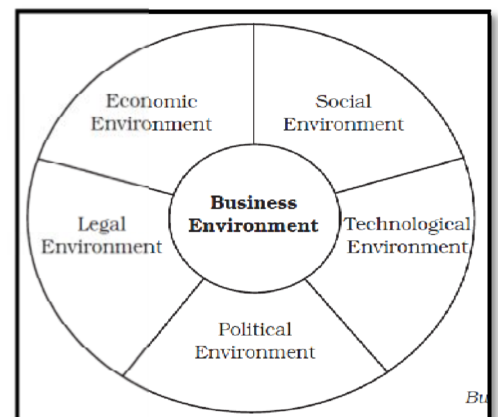
Meaning – Environment refers to the surroundings in which a person or organization operates. Business environment means the political, social, economic, technological and cultural forces outside a business firm with which the entity deals. The environment also includes institutions like suppliers, customers, competitors, financiers and the government with which the firm has to deal in order to achieve its goals.

Business environment is the aggregate of all conditions, events and influences that surround and affect it.

The importance of business environment (Importance of Business Environment Scanning)

1. **Identification of business opportunities and getting the first mover advantage –** Identification of opportunities at an early stage helps the firm to be able to exploit them without losing them to competitors. E.g., Maruthi Udyog Ltd. became the leader in the segment of small car market.
2. **Identifying threats and early warning signals –** Environmental awareness helps the managers to identify various threats; it provides the business early warning signals to plan its future course of action. E.g., Entry of multinational companies in Indian market gave a warning signals for the domestic industries to make some preparations like cost reduction, improving quality, reducing wastages etc.
3. **Tapping useful resources –** Environment provides various resources to the business like materials, machinery, water, finance, electricity, labour etc.
4. **Coping with rapid changes –** Business environment is highly dynamic such as change in market condition, technology, competition etc. To cope with these changes managers must be dynamic. This is possible through proper environment scanning.
5. **Assisting in planning and policy formulation –** Environment scanning gives vital information which can be taken as the basis for deciding future course of action (planning) or framing guidelines for decision making (policy formulation).
6. **Helps in improving performance –** Those enterprises which continuously monitor their environment and adopt suitable policies will improve their performance.

Dimensions / Factors of Business Environment



1. **Economic Environment -** Economic condition, economic system, economic policy, inflation rates, interest rates, tax rates etc. are the main components of economic environment. Some economic policies of Government may favorably affect the business whereas it may adversely affect some others. For example, import restriction on some goods may give advantage to home industries producing such goods, while, liberalization on import attracts foreign producers may create difficulties to home producers.

2. **Social Environment –** The social environment greatly influences the working of a business. A business gets its inputs from society and returns the output again to the society according to its needs. The social environment is made up of population trends, individual needs and cultural factors. The business should adopt a business strategy which should be suitable for social-cultural environment.
3. **Technological Environment –** It consists of new approaches to producing goods and services. Production methods and services are fast changing. New instruments and new procedures are developing rapidly. Computer aided production system made a drastic change in the business sector, DTP facility increased the speed and quality of printing which wiped out the old printing machines, CDs and DVDs adversely affected video cassettes and tape recorders, mobile phones with numerous interactive features have affected many business segments.
4. **Political Environment –** Political environment includes political parties and their ideology, type of government (single or coalition-union of different parties), stability of the government, policy towards business etc. All these factors have far reaching impact on the growth and profitability of business. For instance, Coco-Cola Multi National Company discontinued its operations in India in the late seventies due to government policy. Again in 1989 another government welcomed such multinational companies to India.
5. **Legal Environment –** It includes the Acts that have been passed by the Central and the State Governments. The laws related to business made by government are of utmost importance. All members of business community must follow these laws. In India, business is regulated with the help of following legislations: **a**. Trade Mark Act – 1969, **b**. Essential Commodities Act – 1955, **c**. Consumer Protection Act – 1986, **d**. The Contract Act, **e**. Companies Act – 1956, **f**. Factories Act, **g**. Industrial Disputes Act, **h**. Workers Compensation Act, **i**. Minimum Wages Act, **j**. Income Tax Act – 1961, **k**. Sales Tax Act etc.

Economic Environment in India

Till 1991 India followed an economic policy with a socialist bias. The policy was based on the primacy of public sector and control and regulations on private sector. From 1991 onwards the Government started implementing sweeping economic reforms. As part of economic reforms, the government of India announced a new industrial policy in 1991.

Liberalization, Privatization and Globalization **(LPG)** are the major programs of this new policy.

1. **Liberalization –** <u>Liberalization means liberating the economy from the regulations and restrictions on economic growth.</u> The old policy of licenses, permits, quotas and controls discouraged private enterprises. Import licensing, foreign exchange regulations, progressive taxes, price controls, etc. discouraged investments. Acts like MRTP Act prevented large business houses from fresh investment, expansion and modernization. All these policies adversely affected industrialization and economic growth.

   The new policy of liberalization through de-licensing and decontrols frees the economy from restrictions. Licenses and permits have been replaced by broad guidelines.

2. **Privatization –** The word "Privatization" was implemented by the management expert Peter Drucker. It is just opposite to "Nationalization". Privatization is a trend all over the world now, in India the priority given to the public sector is gradually being reduced and the role of private sector is being encouraged. The main features of privatization are as follows:
   - **a. Disinvestment** of a part of the shares held by the government in Public Sector Undertakings (PSUs). This results in passing of ownership, control and management of PSUs to the private sector.
   - **b. De-reservation** of areas formerly reserved for the public sector. This allows the private sector to enter into new areas.

     The government is withdrawing from many economic activities like running business and is concentrating more on areas like primary and secondary education, provision of basic health care, development of infrastructure etc.

3. **Globalization –** Globalization means free movement of goods, capital and labour across the globe. This involves reduction of import duties and encouragement of foreign investment.

   It has to be remembered that while liberalization and privatization are policies, globalization is a fact. As Amartya Sen (Nobel Prize winner) said, "*Globalization is a not a policy, it is a phenomenon. There are gains and pains from globalization. Appropriate policies have to be formulated to maximize the gains and minimize the pains.*"

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Chapter – 4

PLANNING

Planning means deciding in advance **what** is to be done, **when** is to be done, **how** is to be done and by **whom** is to be done. So that it is a process of thinking before doing.

Definition: "Planning is deciding the best alternative among others to perform different managerial operations in order to achieve the predetermined goals" – Henry Fayol.

Importance of Planning

1. **Planning provides direction –** Planning provides direction for action. This ensures effective implementation of plans and direction of effort towards attainment of objectives. If you don't know where you are going, no road will take you there.
2. **Planning reduces uncertainty –** Planning enables an organization to cope up with uncertainty and change. With the help of planning, an enterprise can predict future events and make due provisions for them.
3. **Planning reduces overlapping and wasteful activities –** Planning co-ordinates the activities of individuals and departments in an orderly manner, which will help to avoid wasteful activities.
4. **Planning promotes innovation and creativity –** Planning is a process of thinking in advance; there is a scope for finding better methods for productivity. This makes the managers innovative and creative.
5. **Planning facilitates decision making –** Planning helps in decision making by selecting the best alternative among the various alternatives.
6. **Planning establishes standards for control –** Plans serve as standards for evaluation of performance. It will help to ensure proper control by comparing the actual performance with the standard performance.

Features of Planning

1. **Planning Focuses on objectives –** Every organization has its own objectives and every plan must contribute towards the accomplishment of these objectives.
2. **Planning is the primary function of management –** Planning is the first function of management. All other functions are performed to implement the plan.
3. **Planning is pervasive –** Planning is required at all levels of management, top management undertakes long range plans, middle management is concerned with departmental plans and the lower level management is related to short term plans.
4. **Planning is continuous –** Planning is an on-going process. Usually a plan is prepared for a specific period of time. At the end of the period a new plan is prepared in accordance with the requirement of future condition. E.g. Shortage in raw material in a month may lead to revise the plan for the next month.
5. **Planning is futuristic –** Planning is looking ahead and preparing for the future. Hence forecasting is the essence of planning. E.g. Keeping an umbrella in our bag with us foreseeing the chance of rain.

6. **Planning involves decision making –** If there are various alternatives to achieve an objective, then we have to select the best one (decision making) only after proper analysis. E.g. If a company has three suppliers for the same raw materials, they have to select only the best one by analyzing all the facts such as price, promptness, quality etc.
7. **Planning is a mental exercise –** Planning is an intellectual process which involves foresight, imagination and judgment.

Planning Process (Steps in Planning)

1. **Setting the objectives –** The first step in planning is the establishment of objectives. The objectives must be clear and specific. The objective of the entire organization is laid down first, and then it is broken down into departments and individuals. E.g. Rs.10000 profit is the objective for this month, then it is divided as how many units may be produced by production department, how many units may be sold by sales department etc.
2. **Develop Planning Premises –** Planning is done for the future which is uncertain, certain assumptions are made about the future environment. These assumptions are known as planning premises. E.g. A business is anticipating increase in the sales of computers assuming that sales tax on computers will be decreased by the government.
3. **Identifying alternatives –** There are alternative ways for achieving the same goal. For example, to increase sales, different ways are there, like advertisement, reducing prices, improve quality etc.
4. **Evaluating alternatives –** The positive and negative aspects of each alternative should be evaluated based on their feasibility and consequences.
5. **Selecting the best alternative –** After analyzing the merits and demerits of each alternative, the most appropriate one is to be selected by evaluating cost, risk, benefit to organization etc.
6. **Implementation of plans –** Implementation means putting plans into action to achieve the objective. For the successful implementation, the plans are to be communicated to the lower levels at every stage.
7. **Follow Up –** Plans are to be evaluated regularly to check whether they are proceeding in right way, shortfalls can be located and remedial actions can be taken well in advance.

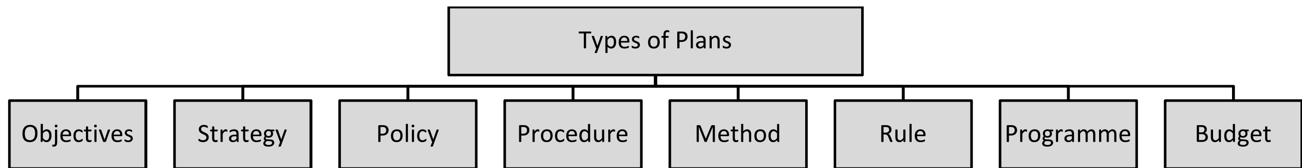
Types of Plans

An organization has to prepare a plan before making any decision related to business operations. These plans can be classified into single-use plans and standing plans.

Single use plan – It is developed for a one-time event or project. Such a course of action is not likely to be repeated in future. The duration of such plan may depend upon the type of project, may be for one day, a week or a month such as organizing an event, a seminar, a conference etc. Single use plans includes Budgets, Programmes and Projects.

Standing plan – It is used for activities that occur regularly over a period of time. It is usually developed once but is modified from time to time to meet business needs as required. Standing plans include Policies, Procedures, Methods and Rules.

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



1. **Objectives –** Objectives are the ends towards which an activity is aimed. They are the results to be achieved. In other words objectives are the goals, aims or purpose that the organization wishes to achieve. Examples of Objectives: Improvement in the sale of a product by 10%.
2. **Strategy –** It is a comprehensive plan for accomplishing an organization's objectives by considering the business environment, i.e., changes in economic, social, political, legal environment etc. E.g., discount sale, scratch coupon, gifts for customers etc. are some of the strategies that can be adopted for sales promotion. It has three dimensions:
    a) Determining long term objectives
    b) Adopting a particular course of action
    c) Allocating the resources required to achieve the objectives
3. **Policy –** It is a guideline in decision making to various managers. It defines the limit within which decisions can be made. E.g. "Promotion is based on merit only" states that while taking decision on promotion, merit will be the sole criterion.
4. **Procedure –** Procedure is a chronological order or steps to be undertaken to enforce a policy. E.g. To implement the policy of selecting employees, the selection procedure may be developed consisting of Inviting applications, tests, interviews, references and then prepare the list of selected candidates.
5. **Rules –** Rules are the guidelines for conducting an action. They specify what should be done or not to be done in a given situation. E.g. Office opens at 10am, smoking is prohibited inside the office.
6. **Methods –** Methods provide detailed and specific guidance for day to day action. Eg. Time rate system or Piece rate system in wage payment, most suitable method is to be adopted in the organization for better performance.
7. **Programs –** It includes all the activities necessary for achieving a given task. E.g. Opening 5 new branches in different parts of the country, deputing employees for training, installing a new machine etc.
8. **Budget –** It is a plan which states the expected results of a given period in numerical terms. E.g. Production Budget, sales budget, cash budget, expenditure budget etc.

ORGANIZING

Meaning

Organising is the process of identifying and grouping various activities and bringing together physical, financial and human resources and establishing productive relations among them for

Organization Structure

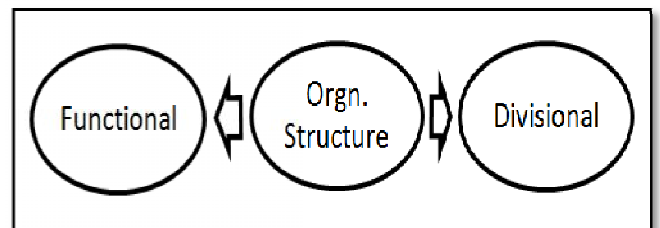
Organization structure is the established pattern of relationships among various parts of the enterprise. It states the relationship among various positions and activities. The structure provides a framework for managers and employees for performing their functions.

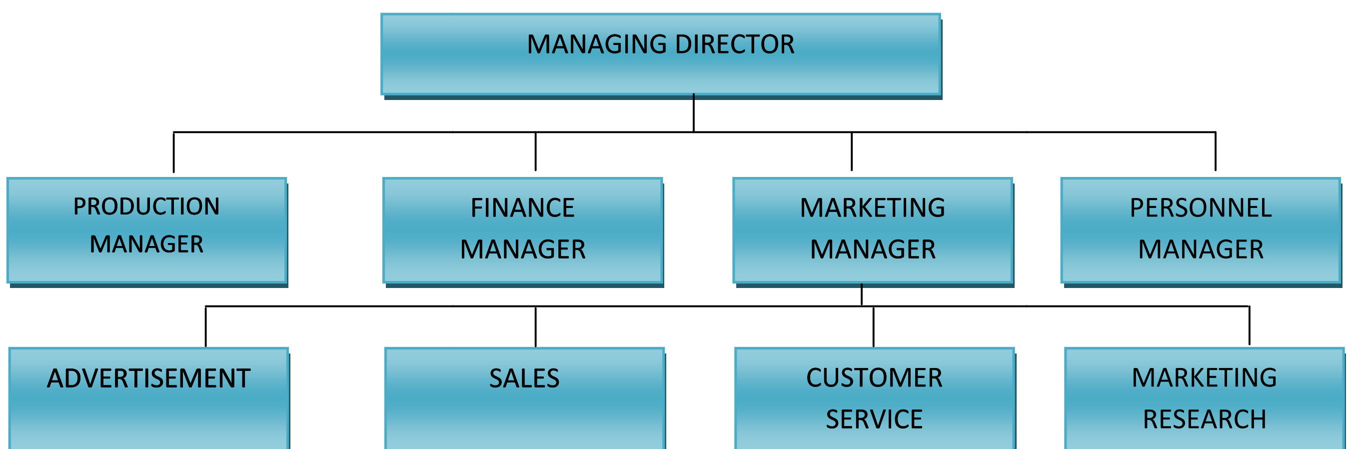
The span of management, to a large extent gives shape to the organizational structure. Span of management refers to the number of subordinates that can be effectively managed by a superior. This determines the levels of management in the structure.

A proper organization structure is essential to ensure a smooth flow of communication and better control over the operations of a business enterprise.

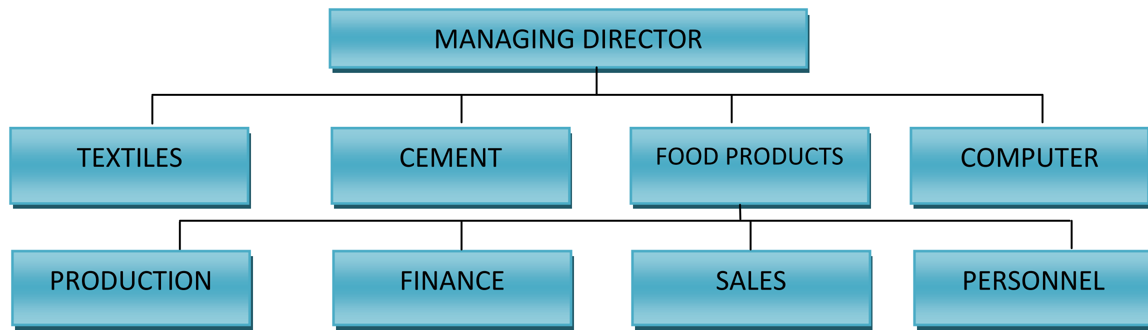
Types of Organization Structure

1. **Functional Structure** – This organization structure is **formed on the basis of different functions** or work to be done in the enterprise. For example, Production, Marketing, Finance, Human Resource etc.





2. **Divisional Structure –** It is suitable for large organizations having different products or having business in different areas.



Comparison – Functional and Divisional Structure

Basis	Functional	Divisional
1. Formation	Based on functions	Based on product lines
2. Specialization	Based on functions	Based on products
3. Responsibility	Difficult to fix on department	Easy to fix on a department
4. Managerial development	Difficult	Easy
5. Cost	Economical	Increase in cost
6. Coordination	Difficult for a multi product orgn.	Easy for a multi product orgn.

Formal and informal organization

1. **Formal Organization –** It refers to the structure of relationships deliberately designed by the top management to attain the objectives. Here the responsibility, authority etc. will be specified. Every subordinate is expected to obey his superior in the formal chain of command.

"An organization is formal when the activities of two or more persons are consciously coordinated towards a common objective." – Chester Bernard

2. **Informal Organization –** Informal organization structure is developed within the formal organization spontaneously. *The network of personal and social relationships on the basis of friendship and common interest is called informal organization.*

Differences between formal and informal organization

Basis	Formal Organization	Informal Organization
1. Formation	Relationship is well planned and created deliberately	Originates spontaneously as a result of social interaction
2. Purpose	Created to achieve predetermined objectives	To satisfy social and cultural needs of the employees
3. Structure	Well defined authority and responsibility	Based on human emotions and sentiments
4. Behavior of members	Prescribed pattern for behavior of members	Social norms are developed through mutual consent of members
5. Communication	Through official lines	Based on convenience

6. Leadership	Managers are the leaders by their position in the organization	Leaders are chosen by the group of members
7. Stability	Usually stable	Life of informal group is generally short. It may be dissolved if some members leave it.
8. Flexibility	It follows a rigid structure of relationship	Loosely structured and highly flexible in nature
9. Adherence to rules	Strict adherence to rules	No formal rules exist
10. Interdependence	It exists independently	Exists within the framework of formal organization

Delegation of Authority

Delegation means assigning work to others and giving them authority to do it. In other words, *it is the downward transfer of authority from a superior to the subordinate*. It enables the managers to distribute their workload to others.

Elements of Delegation

1. **Authority –** Authority means the right of an individual to command his subordinates and to take action within the limits of his position.
2. **Responsibility –** It means the obligation of a subordinate to perform the duties assigned. It always moves upwards and it cannot be delegated. The authority granted must be in parity with the responsibility otherwise delegation of authority will become ineffective.
3. **Accountability –** Accountability means answerability for the final outcome of the assigned task. It cannot be delegated and flows upwards. Here a subordinate is accountable to his superior for his performance and at the same time the superior would still be accountable for the outcome.

Authority is delegated – Responsibility is assumed or accepted – Accountability is imposed.

Responsibility is derived from authority while accountability is from responsibility.

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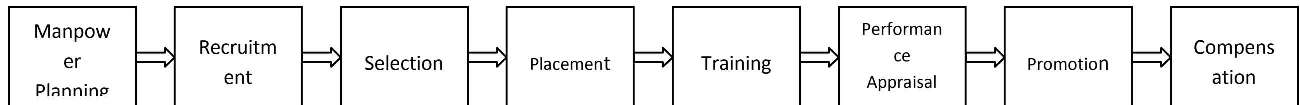
STAFFING

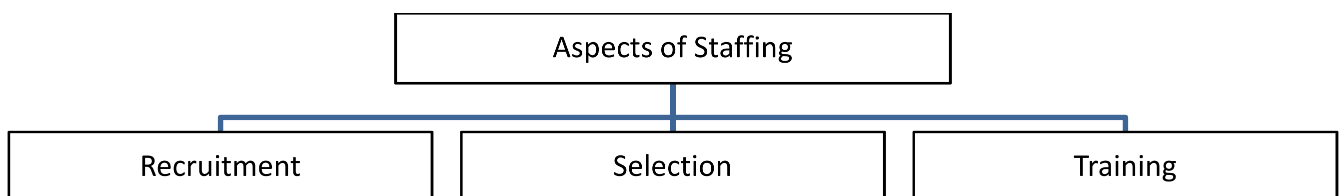
The term staffing is concerned with the recruitment, selection, placement, training, growth and development of all the members of the organization. Placing the right person on the right job at the right time is called staffing.

Staffing Process (Steps in staffing process)



1. **Estimating the Man Power Requirements –** It is concerned with forecasting the future man power needs of the organization for various categories of activities over a specified period. It involves both quantitative and qualitative analysis. Quantitative aspects concerned with the number of personnel in each department and qualitative aspects concerned with the qualifications and experience of each of them.
2. **Recruitment –** It is a process of searching for prospective employees and stimulating them to apply for jobs in the organisation
3. **Selection –** It is a process of choosing and appointing the right persons for various jobs.
4. **Placement and orientation –** These refer to the process of familiarizing the selected candidates with their work units, work groups, jobs and the organization and placing the right one on the right job.
5. **Training and Development –** Training intended to improve knowledge, skills and attitudes of the employees regularly so as to enable them to perform better.
6. **Performance appraisal –** It is the periodic assessment of the performance of the employees to ensure that whether they are in conformity with standards.
7. **Promotion –** It means movement of an employee to a higher position. It gives the employees an opportunity to make use of their enhanced skill and encourages them to grow within the organization.
8. **Compensation –** It involves the determination of wages or salary and other benefits to the employees on the basis of nature of job, risk factors, responsibility, qualification, experience etc.

Aspects of Staffing – There are three important elements of staffing:



RECRUITMENT

Meaning: Recruitment is the process of searching for perspective employees and stimulating them to apply for jobs in the organisation.

Sources of Recruitment

Internal Sources – Recruitment from within the organization is called internal sources of recruitment.

1. **Transfer –** It is concerned with shifting one employee from one job to another having similar status and responsibility. It involves the following features:-
   a. Slight change in duties and responsibilities but no change in salary.
   b. It is a good source of recruitment by filling job positions from other departments where there are excess.
   c. Horizontal movement of employees.
   d. Transfer can be applied for training of employees for learning different jobs (job rotation).
   e. Transfer does not increase the number of employees in the organisation.
2. **Promotion –** It refers to shifting one employee from a lower position to a higher position. It carries higher status, greater responsibility, better facilities and more pay. Its features are:-
   a. No increase in the number of employees.
   b. Vertical shifting of employees.
   c. Motivation for employees.

External Sources of Recruitment – It refers to the recruitment of candidates from outside the organization.

1. **Direct recruitment –** Under this method a notice is published on the notice board of the enterprise regarding job vacancies. The candidates are assembled on a particular date and the selection is done on the spot.
2. **Casual callers from waiting list –** Most of the employers are maintaining a database with details of applications received from casual applicants and it may be used as a source of recruitment.
3. **Advertisement –** It is the most effective means to search potential employees from outside the organization.
4. **Employment Exchanges –** This is a network of employment exchanges run by the government. Job seekers get themselves registered with these exchanges and their names will be supplied to the business organizations on the basis of their requisition.
5. **Placement Agencies and Personnel Consultants –** Some specialized agencies in the form of personnel consultancy services have been developed in recent times. These agencies also undertake total functions of recruiting and selecting personnel on behalf of the employer and they charge fees for these services.
6. **Campus interviews –** Many organizations conduct preliminary search of employees by conducting campus interviews in universities and colleges.
7. **Recommendations of Present Employees –** Some employers treat the recommendations of their present employees as a useful source of recruitment. This ensures reliability and suitability for the post and it helps in boosting the morale of existing employees.
8. **Labour Contractors –** This is a method of hiring skilled, semi-skilled and unskilled workers. The contractors keep in touch with a large number of workers and bring them at the places where they are required.

9. **Advertising on Television –** This method of recruitment is gaining importance these days. The detailed requirements of the job and the qualities required to do the job are published by the organisations through television.
10. **Web Publishing –** It is now a common source of external recruitment. There are certain sites like www.naukri.com, www.jobstreet.com etc. provide detailed information for both job seekers and job providers.

Differences between Internal and External Recruitment

Internal Source	External Sources
1. Quick Process	Lengthy Process
2. Less expensive	Costly
3. Motivating staff members	Existing workers dissatisfied
4. Limited choice	Wide choice of candidates

Important Tests Used for the Selection of Employees

Selection Test – Tests are conducted to know the level of ability, knowledge, interest, aptitude etc. of a particular candidate. These tests may be of different types:

a. **Intelligence test –** To measure the level of intelligence.
b. **Trade Test –** This test is conducted to check whether the candidate is suitable for that particular trade. For example, to select a driver, candidates' knowledge and technical skill in driving are tested.
c. **Aptitude test –** To measure the potential for learning new skills.
d. **Interest test –** To check the interest or involvement of a person on the job.
e. **Personality test –** To evaluate an individual's emotions, reactions, maturity, values etc.

Training Methods

1. **On the job Training –** Under this method training is imparted among the employees while they are engaged in their work. Here the employees learn by doing. It includes job rotation, apprenticeship, coaching, committee assignments etc.
   a. **Apprenticeship Programmes –** Under this, both knowledge and skills in doing a job are imparted. Here the trainee is put under the supervision of an experienced person in this field. This method is more suitable in electrical work, mining etc.
   b. **Coaching –** In this method, a senior manager guides and instructs the trainee as a coach. The coach periodically reviews the progress made by the trainees and suggests change if required.
   c. **Internship Training –** According to this, a vocational institute enters into an arrangement with a business enterprise to provide practical knowledge to its students. It is intended for providing practical experience to the students in their fields. For example, MBA students are directed to undertake project work in business enterprises, engineering students are sent to big industrial enterprises to gain practical work experience, Medical students to hospitals etc.
   d. **Job Rotation –** The trainee is systematically shifted to various jobs so that he can gain the experience on each of them.

2. **Off the Job Training –** This is concerned with imparting training to employees outside the actual work place. The methods adopted include class room lectures, conferences, case study methods, films, TV shows, etc. The employees can concentrate on training alone since they are away from the work place.

   a. **Classroom lectures / conferences –** It is suitable to convey information, rules, procedures and methods.
   b. **Film shows –** It can be used to provide information through demonstration.
   c. **Case study –** Cases are actual experiences which managers confronted while discharging their duties. Trainees are asked to study the case and to determine the problems and their solutions.
   d. **Computer modelling –** With the help of computer programming the realities of jobs are imitated and the trainees get an opportunity to familiarise the situation, so that they will be able to minimise the mistakes in real job situations. E.g., a computer model can be used to test how safe the design of the car is in a crash, building demolition etc.
   e. **Vestibule Training –** In this case an actual work situation is created in a classroom. Employees use the same materials and equipment for training.
   f. **Programmed instructions –** This is a method of presenting a new subject to the trainees in a graded sequence (simple to complex). Trainees work through the programmed material (text books or computer programs) by themselves at their own speed and after each step test their comprehension by answering some questions.

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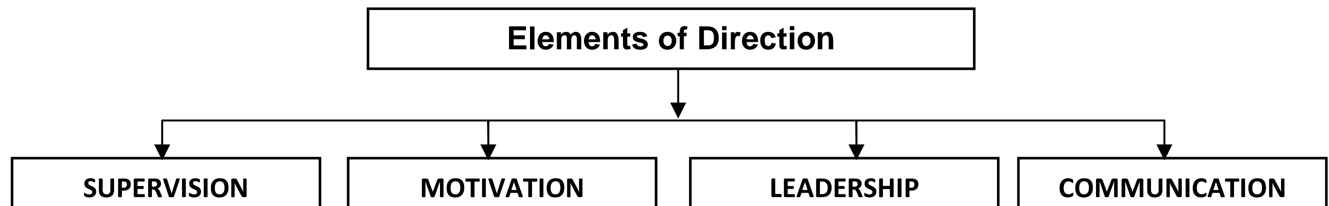
DIRECTING

Meaning: Directing is the process of activating human resources to achieve the objectives of the business. The word directing literally means moving into action.

According to **Earnest Dale**, "Directing is telling people what to do and seeing that they do it to the best of their ability."



A. Supervision – The term "supervision" is derived from two Latin words – "Super" and "Vision". Super means over and above and vision means to see. Thus supervision means "Overseeing the activity". In management, supervision means overseeing the subordinates at work. It refers to direct and immediate guidance and control of subordinates in performing their tasks in accordance with the plans and policies of the enterprise.

The person who supervises the subordinates is called "Supervisor". He is also known as Foreman, Overseer, Superintendent, Section officer etc.

B. Motivation – "Motivation means a process of stimulating people to action to accomplished goals."

Features of Motivation

1. **Internal feeling –** Desire to have a car, recognition in the society etc. are the internal feeling of an individual which lead him to be motivated.
2. **Produces goal – directed behavior –** If an employee is interested in promotion he will try to improve his performance, hence motivation produces goal-directed behavior.
3. **Motivation can be either positive or negative –** Better pay, promotion, recognition, assigning important jobs with more responsibilities etc. are positive motivations, whereas punishment, cutting increments, scolding etc. are negative means of motivation.
4. **Motivation is a complex process –** Because of individual differences among the employees, a uniform type of motivation may not satisfy all people in the organization.

Maslow's Need Hierarchy Theory of Motivation

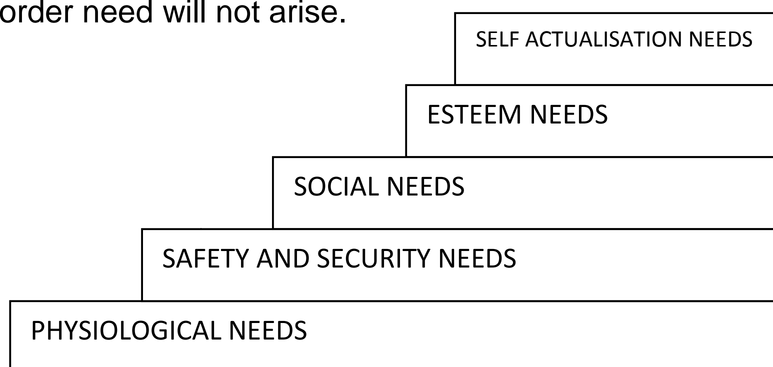
Abraham Maslow – U. S. Psychologist – Father of Management Psychology - Developed the theory of motivation based on the hierarchy of needs.

Motivation is based on human needs. To motivate means to satisfy human needs. However, needs take a hierarchy as given by Maslow's theory on need hierarchy.

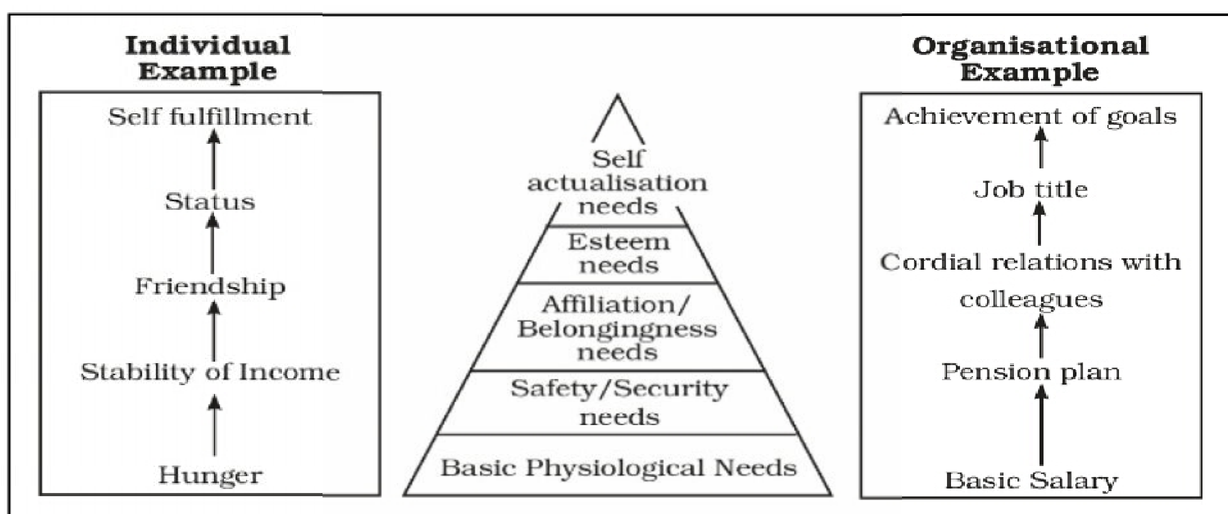
To motivate the employees, the manager has to understand the needs and wants of the employees. The behavior of an individual at a particular moment is usually determined by his strongest need. Famous Psychologist Abraham H Maslow developed a conceptual framework for understanding the nature and strength of human needs.

Maslow suggests two major things about human needs:

a. Each person's need depends on what he already has. Only those needs not yet satisfied can influence behavior. A fully satisfied need cannot influence behavior.
b. Needs can be arranged in a hierarchy of importance. Unless a lower order need is met, a higher order need will not arise.



Maslow's Need Hierarchy



1. **Basic Physiological Needs –** These are the basic needs of an individual like food, clothing and shelter. Unless these needs are met, a higher level need will not arise, the majority of a person's activities will probably be directed towards satisfying them.
2. **Safety and Security Needs –** These are the needs for safety and protection against hazards and dangers. People in the organization want job security, personal bodily security, security of source of income, provision for old age, insurance against risks etc.
3. **Social Needs (Affiliation/ Belonging needs) –** These are the needs for love and affection, friendship, a sense of belonging etc. On meeting safety and security needs, social needs come in. Since man is a social being, he has a need to belong and to be accepted by various groups.
4. **Esteem Needs –** These needs are the desire for status, prestige, dignity, self-respect, independence, respect from others etc. The organizations can satisfy these needs by recognizing and appreciating good performance, promotions etc.

5. **Self Actualization Needs –** Self actualization is the need to maximize one's potential, whatever it may be. In other words it an urge to use one's potentialities for the achievement of life ambition.

As a means of motivation, this theory must be seen as a measure to identify where an individual is in terms of his needs. This will help in deciding what must be provided as a motivator and what is its need satisfying capacity is.

Maslow's theory gives emphasis on three important points:

1. Human wants are unlimited and varied.
2. These needs are arranged in a series of preferences. After the lower level needs are satisfied, needs at the higher level emerge and demand satisfaction.
3. A satisfied need can never work as a motivator. Needs which are not satisfied act as motivator for influencing human behavior.

C. Leadership

"Leadership is the ability of a manager to induce subordinates to work with confidence and zeal" – Koontz and O'Donnell. (Zeal means passion or enthusiasm).

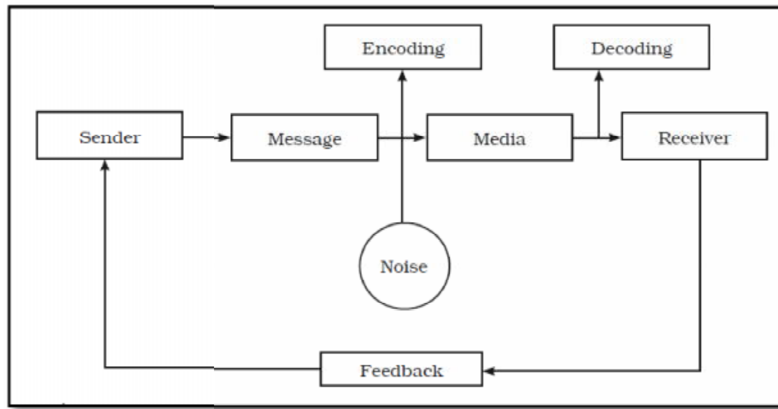
In a business organization, leadership may be defined as the process influencing the behavior of employees at work towards the accomplishment of organizational objectives.

Qualities of a Good Leader

1. **Physical features –** Good personality – height, weight, appearance etc.
2. **Knowledge –** Knowledge and competence in work is essential to guide his followers.
3. **Integrity –** A good leader should possess honesty and integrity (ethics) and he must be a role model to others.
4. **Initiative –** A leader must be initiative and creative, so that he can grab the opportunities for the benefit of the organization.
5. **Communication Skill –** Goals and procedures of the organization should be communicated clearly, precisely and effectively and he must be a good listener too.
6. **Motivation skills –** A leader should understand the needs of the subordinates, so that he can motivate his team.
7. **Self confidence –** A leader should have a high level of self confidence and will power and he should not lose his confidence in difficult situations.
8. **Decisiveness –** A leader should have sound judgment and decisiveness (strong decision), he should not change his opinions frequently.
9. **Social skills –** Proper understanding of people and maintaining good human relations are the ingredients of social skills.

D. Communication

The term communication has been derived from the Latin word "Communis", which means "Common". **Communication may be defined as an exchange of ideas, facts, opinions and emotions from one person to another to create mutual understanding.**



Communication process

Elements of Communication Process

1. **Sender –** is the person who sends a message. He initiates the process of communication.
2. **Message –** is the subject matter of communication consists of words, facts, ideas etc.
3. **Encoding –** In order to transmit an idea, the sender translates the idea into meaningful languages like words, actions, pictures, diagrams, gestures etc.
4. **Media/Channel –** It is the medium through which the message is passed. Eg: face to face talk, telephone, letter, radio, television etc.
5. **Decoding –** Receiver converts the symbols received from the sender to give him the meaning of the message.
6. **Receiver –** is the person or a group who is supposed to receive the message. Eg: Listener, reader, observer etc.
7. **Feedback –** It means the reaction, replay, response which the receiver sends to acknowledge his understanding.

Formal Communication – Communication through the official chain of command is called formal communication. Thus, formal communication flows through the scalar chain of authority. Generally it may takes place in the form of written communication such as notes, memos, letters, reports etc.

Informal Communication – It is based on informal relationship among the members of an organization at same or different level. This is free from all formalities of formal communication. It is usually oral and is conveyed by gestures, a glance, smile etc. It may involve work related or other matters of mutual interest. Informal communication often supplements formal communication.

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CONTROLLING

Meaning

Controlling is the process through which management ensures that the actual performance conforms to the planned performance. It discovers deviation from the results expected. It also identifies the reasons for deviations and suggests suitable action to avoid their recurrence in future.

Controlling Process (Steps in Controlling)

1. Setting Standards
2. Measurement of Actual Performance
3. Comparison of Actual Performance
4. Analyzing Deviations
5. Taking Corrective Actions

1. **Setting performance Standards –** In order to achieve the goals, standards of performance have to be determined in planning itself.

   Quantitative Standards - As far as possible, standards must be in concrete and tangible forms which will make evaluation process easy. For example, the profit expected from a particular product, time required for completing a task, cost of production for one unit is Rs.100 etc.

   Qualitative Standards - Standards can also be in intangible forms. The results expected from a training programme, loyalties of workers, Improving motivation level of employees, etc. are the examples for qualitative standards.

2. **Measurement of actual performance –** The second step is to measure actual performance of employees or departments. It should measure actual performance of each activity in terms of quality and quantity.
3. **Comparison of actual performance with standards –** Comparison of actual performance with the standards reveals the deviations between actual and desired results.
4. **Analyzing deviations –** At this stage, the extent of deviations and causes of such deviations are to be found out. It is important to ascertain whether deviations are within the expected range. Deviations in key areas of business require urgent attention. Managers can rely on the following in this regard.
   a. **Critical Point Control –** The control measures should be focused on key result areas (KRAs) which are critical in the success of an organization. These KRAs are the Critical Points, if anything goes wrong at this critical point, the entire organization will suffer. Example: 5% increase in labour cost is a serious matter than 20% increase in postal charges.

b. **Management by Exception (MBE) / Control by Exception -** All deviations need not be brought to the attention of top management. Only those deviations which seem exceptionally high and which cannot be easily solved by lower level management alone should be reported to top management. Example: 2% increase in the material cost (if it is within the permissible limit) need not be reported, whereas, if it is far beyond the limit, say 10% increase, it requires immediate attention of management on a priority basis. In other words, the top level management is concerned with highly exceptional matters only and the routine matters will be handled by the lower levels.

5. **Taking corrective actions –** As soon as deviations are reported, it is the duty of the executives to take steps to correct the past action so that deviations may not occur again and the plans are properly executed. If there is no deviation or if the deviation is within the permissible limit, let the situation remains as it is.

   At times, the deviations may be such that which cannot be rectified and beyond the control of management, they may take necessary decisions by modifying the goals and standards.

   Some examples for corrective action:

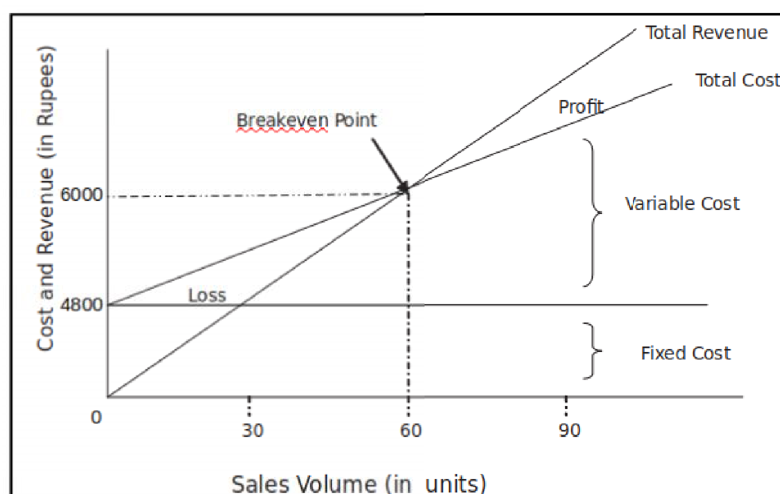
Cause of deviation	Corrective action to be taken
Defective material	Change the supplier or quality
Defective machinery	Repair or replace
Obsolete machinery	Undertake technological up gradation
Increase in lobour turnover	Improve working conditions and provide better incentives
Defective process	Modify the existing process

Traditional Techniques of managerial control

1. **Personal observation –** Personal observation on the employee may create a psychological pressure to perform well.

2. **Statistical reports –** Statistical information regarding performance of employees in the form of charts, graphs, tables etc. enable the managers to interpret them and to make comparison.

3. **Break-even analysis -** The level of operation where total revenue or sales are equal to total cost is called the break-even point. At this point (sales volume) the firm makes no profit or no loss.



4. **Budgetary control –** It is a technique of controlling the activities of an organization with the help of budgets. It involves the comparison of actual performance with the budgetary standards. In case of deviations the firm can take necessary corrective actions. E.g. Sales budget, production budget, Materials budget (raw material utilization), Purchase budget, cash budget (estimated receipts and payments), capital budget, research and development budget etc.

   Advantages of budgetary control

   1. Budget is a guidance for management in planning and policy formulation.
   2. Gives a direction to the organisation by fixing the goals and targets.
   3. Minimises wastages and losses.
   4. Actual performance can be compared with budgetary standards.
   5. It motivates the executives to attain targets.

FINANCIAL MANAGEMENT

Introduction – Finance refers to money, cash or fund available to carry out business operations. It is the life blood of business. A business enterprise requires funds at different stages - to start a business, to operate and expand it.

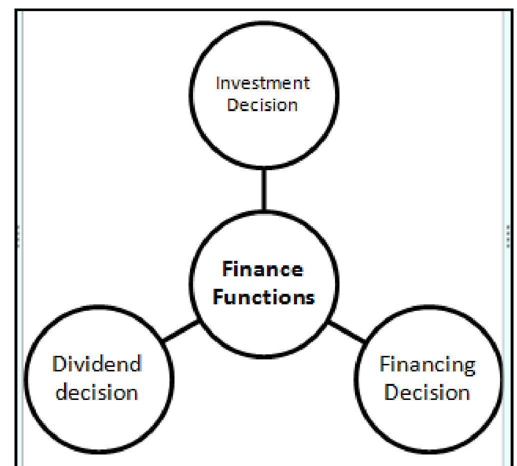
Financial Management

"Financial management is considered to be the management of the finance function". It deals with planning, organizing, directing and controlling financial activities like procurement and utilization of funds and distribution of earnings to owners.

"Financial management deals with procurement of funds and their effective utilization in the business" – S.C. Kuchhal.

The financial management focuses on three major financial decision areas namely **investment, financing and dividend decisions**. They are collectively known as the finance functions of business.

Finance Functions (Financial Decisions)



1. **Investment Decision –** It is concerned with how firm's valuable funds are to be invested in various assets. It will include the following:
   - **a.** Long term investment decisions (capital budgeting decision) E.g., Purchasing a new machine, opening a new branch etc.
   - **b.** Short term investment decision (working capital decision) – related to the day to day working of a business. E.g., Level of cash in hand, inventory etc.

2. **Financing Decision –** it is concerned with the quantum of finance to be raised from various long term sources. They are shareholders' fund and borrowed fund such as shares, debentures, loans etc. But a proper mix of the above securities is very much essential for maintaining a good capital structure of the company.

3. **Dividend Decision –** It is concerned with the disposal of profits. Profits are required for different purposes. A portion of the profit is to be retained in the business for growth and expansion. That part of profit is called retained earnings and the rest of the profit is to be distributed to the shareholders in the form of dividends. Here is the role of financial management that, <u>how much is to be retained and what would be distributed.</u>

Capital Structure

Capital structure refers to the mix or composition of long term sources of funds such as equity share capital, preference share capital, debentures, long term loans and reserves and surplus. In other words, it refers to the proportion of borrowed funds to owner's funds. *(It is a mix between owners' funds and borrowed funds).* Owners' funds are called **equity** and borrowed funds as **debt.**

The capital structure of a company consists any of the following forms:

1. Equity shares only.
2. Equity shares and preference shares.
3. Equity shares and debentures.
4. Equity shares, preference shares and debentures.
5. Equity, Preference, debentures and long term loans.

Factors Affecting the Choice of Capital Structure

1. **Cash flow ability for servicing the debt –** Servicing debts means paying interest and principal amount of loans as and when it is due for payment. If a debt is to be included in the capital structure, the company should estimate the future cash flow to ensure the coverage.
2. **Interest coverage ratio –** ICR refers to the number of times, earnings before interest and taxes (EBIT) covers the interest obligation. Higher the ratio means lower the risk for the company to pay off interest in time.

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

3. **Debt Service Coverage Ratio (DSCR) –** The cash profits generated from the operations must be enough to service the debts and preference share capital.
4. **Return on Investment (ROI) –** If ROI is higher than rate of interest for debt, borrowed fund can be increased in capital structure, otherwise, increase in equity portion is good.
5. **Cost of debt –** If the firm is able to borrow at a lower rate, it may prefer more debt than equity in capital structure.
6. **Tax rate –** Income tax liability can be reduced by employing borrowed funds in capital structure, as the interest on debt is a deductible expense.
7. **Cost of Equity –** When a company increases debt in their capital structure, the financial risk faced by the equity shareholders may increase, so that the company cannot use debt beyond a point.
8. **Floatation cost –** It is the cost incurred for floating (issue) securities such as brokerage, underwriting commission etc. It is generally less in case of debts.
9. **Risk Consideration –** A business has two types of risks; they are financial risk (to pay interest, preference dividend, repayment of debt etc.) and business risk (operating risk). It must be considered while choosing a suitable capital structure.
10. **Flexibility –** The capital structure should be capable of being adjusted according to the needs of changing conditions. To maintain flexibility, the company should maintain some borrowing power to take care of unforeseen circumstances.
11. **Control –** If the control of the management is to be retained, debt financing is recommended for raising additional fund.

12. **Regulatory Framework –** Rules and regulations framed by SEBI etc. must be considered while choosing a capital structure.
13. **Stock Market Conditions –** During depression in capital market, investors will prefer fixed interest bearing securities for safety and hence it is not advisable to issue shares that time. In a booming situation, issue of share will be more preferable.
14. **Capital Structure of other Companies –** Capital structure followed by other companies in the same industry may be adopted by considering whether they are in conformity with the industry norms or not.

Fixed Capital

Fixed capital represents a long term investment which needed to acquire fixed assets like land and building, plant and machinery, vehicles etc., benefits of which are expected to be received over a number of years in future.

It refers to the allocation of firm's capital to different projects or assets which will have a long term implications in the business.

Working Capital

Working capital is that part of capital required for investing in short term or current assets like inventory (raw materials, work in progress and finished goods), bills receivables, sundry debtors, cash required for day to day affairs like salaries, wages, rent, etc. There are two concepts of defining working capital as follows:-

i. Gross working capital = Total investment in current assets

ii. Net working capital = Current assets – Current Liabilities

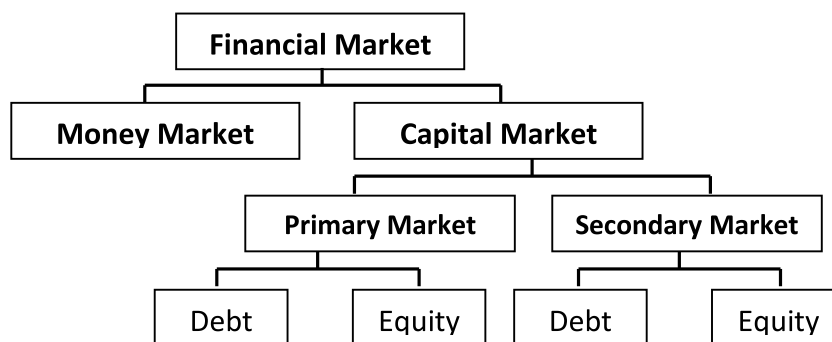
FINANCIAL MARKET

Meaning – Financial market is a market for the creation and exchange of financial assets such as shares, debentures, bonds and government securities. It is a network of institutions which provide short, medium and long term funds.

Financial markets make possible the transfer of money from the investors to the entrepreneurial borrowers. Actually they bring together the lenders of funds and borrowers of funds.

Classification of financial markets

Financial markets are mainly of two types, Money market (Market for short term funds) and Capital market (Market for medium and long term funds)



Money Market – Meaning

Money market is the market for short term funds. Short term funds are meant for a period of up to one year. Money market is not usually located at a particular place. It is a term used to describe all organizations and institutions that deal in short term debt instruments.

It makes possible the raising of short term funds for meeting the working capital needs and temporary deployment of excess funds to get returns.

Features of Money Market

1. **Participants –** RBI, Commercial banks, non-banking finance companies, State governments, large corporate houses and mutual funds.
2. **Instruments –** Short term debt instruments are traded.
3. **Investment outlay –** Huge sums of money is being transacted.
4. **Duration –** One day to one year.
5. **Liquidity –** It enjoys high degree of liquidity.
6. **Safety –** Short term duration ensures grater safety.
7. **Location –** No physical location, activities conducted over telephone or internet.
8. **Returns –** Comparatively less returns.
9. **Unsecured –** Instruments traded are unsecured.

Money market instruments

1. **Treasury Bills (T-Bills / Zero Coupon Bonds) –** These are issued by RBI on behalf of Central Government. Maturity less than one year. It is an instrument for short term borrowings by Government of India.

   They are issued in the form of promissory notes and freely transferable as it comes under Negotiable Instrument Act

   They are issued at a price which is lower than their face value and repaid at par, the difference between issue price and redemption value is called **discount.** It is available for a minimum amount of Rs. 25,000 and in the multiples thereof.

2. **Commercial Paper (CP) –** Issuing commercial paper in India as a money market instrument took place in 1989-90. It is an unsecured promissory note issued to the public with a fixed maturity period ranging from 15 days to 1 year. Since being unsecured, this is issued by highly reputed corporate entities.

   This serves as an important source of working capital and for bridge financing for raising long term funds from capital market in order to meet flotation cost, brokerage, advertising, printing share applications etc. Commercial banks and mutual funds contribute towards this kind of instruments.

3. **Call Money –** This is an important part of money market where day-to-day surplus funds of banks and other financial institutions are dealt with. The banks with surplus funds lend other banks that are facing deficiency. The duration of call money caries from one day to 15 days and is repayable on demand, either by the lender or by the buyer. Interest paid on call money is called <u>Call rate.</u>

   Call money is a method by which banks borrow mutually to maintain CRR (Cash Reserve Ratio), CRR is the minimum balance a commercial bank should maintain with RBI.

4. **Certificate of Deposit (CD) –** It is an unsecured, negotiable, short term instrument in bearer form, issued by commercial banks and financial institutions to individuals, corporations and companies. Maturity period 3 months to 12 months. These are issued at a discount and redeemed at par.
5. **Commercial Bill (Trade Bill) –** This is a bill of exchange used to finance working capital requirements of a business. It is a short period, negotiable and self-liquidating instrument used to finance credit sales.

Stamp		Kalpetta 01-01-2014
Rs.10,000/-		
Two months after date pay to me or my order the sum of Rupees Ten thousand only, for value received.		
To Mr. K. Krishnan General Merchants, Kalpetta	Accepted Sd/- K. Krishnan General Merchants, Kalpetta	 Sd/- S. David

On credit sales, the seller (drawer) draws the bill and the buyer (drawee) accepts it, by putting his signature on it. On acceptance, the bill becomes a marketable instrument and is called a trade bill. This bill can be discounted with a bank if the seller requires funds before maturity. When a trade bill is accepted (discounting of bills) by a commercial bank, it is known as commercial bill.

Capital Market – Meaning

Capital market is an institutional arrangement by which savings are channelized into investment avenues. It enables the borrowers to raise funds for their purpose. Similarly, it gives opportunities to the lenders to wisely invest their funds. The borrowers raise required funds through issue of securities like shares, debentures, bonds etc. A security means a certificate of title evidencing investment made in the capital or debt of any entity.

Features of Capital Market

1. **Participants –** Financial institutions, banks, corporate entities, foreign investors and individual investors.
2. **Instruments –** Equity shares, preference shares, debentures, bonds etc.
3. **Small Investment outlay –** The value of one unit is Rs.10, Rs. 100 etc. and they are traded in lot of 1, 5, 50, 100 etc.
4. **Duration –** Medium and long term.
5. **Liquidity –** High liquidity as they are marketable in stock exchanges.
6. **High risk –** there no much safety of investment and returns.
7. **Expected Return –** Normally the return on investment is high than money market.

Distinction between Money market and Capital market

Money Market	Capital Market
1. It is a market for short term instruments having a maturity period of less than one year	1. It is for medium and long term instruments having maturity period of more than one year.
2. It helps to meet the working capital needs.	2. It helps in meeting fixed capital needs.
3. The instruments in money market are Bill of exchange, treasury bills, certificate of deposits, commercial papers etc.	3. The instruments are equity shares, preference shares, debentures, bonds etc.
4. It is a wholesale market. The instruments have large face value.	4. It is a retail market where the instruments have small face value.
5. The central bank, commercial banks and other financial institutions take part in the market.	5. Stock exchanges, Merchant banks, Issue houses and many financial intermediaries take part in the market.
6. Money market instruments do not have an active secondary market.	6. Capital market instruments have both primary and secondary markets.
7. Money market transactions normally take place over telephone and other ways.	7. Capital market transactions normally take place at stock exchanges.
8. The market regulator is the central bank of the country. In India it is RBI.	8. There is a separate regulator in the capital market. In India it is SEBI.

Stock Exchange

Stock exchange is an organized market where second hand securities are bought and sold. The Securities Contracts (Regulation) Act 1956 defines a stock exchange as "**an association organization or body of individuals whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities".**
Stock exchanges are located at definite places. Trading in securities takes place inside the stock exchange at a place known as the trading ring. Only the members (brokers) are authorized to trade here. In the traditional method of trading on the ring, trading actually resembles an auction. Brokers of intending sellers and buyers will shout quoting their prices. When the prices coincide, a deal will be struck.

Online trading in securities is facilitated through a computer network wherein one can buy or sell securities just by sitting in front of the broker's computer. Computer will match the buyer's quotation and a deal is struck.

Functions of stock exchanges

1. **Liquidity and marketability to investment –** Secondary market provides a continuous market to the listed securities, so that investors enjoy liquidity to their investment. They could sell securities with them and buy another.
2. **Pricing of securities –** A security is issued in the market at a price known as the issue price. Over a period of time, it reaches its true level through the interaction of the forces of demand and supply in stock exchange.
3. **Safety of transactions –** The rules and regulations ensures safety and fair dealings to investors.
4. **Contributes to economic growth –** through capital formation.
5. **Spreading of equity cult (trend) –** Stock exchanges can take effective measures in educating public about investments.
6. **Providing scope for speculation –** A reasonable degree of healthy speculation is needed to ensure liquidity and price continuity in securities.
7. **Economic barometer –** Business conditions like booms and depressions, important events; both national and international will affect the stock prices. In this sense we can say that the stock exchange is an economic barometer (indicator).

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MARKETING

Marketing – Marketing can be defined as an exchange transaction in between buyer and seller. All activities connected with transfer of goods and services from the producer to the consumer come within the purview of marketing. They include production, transportation, storage, advertising etc. Though selling and sales promotion are integral part of marketing, they are not everything, therefore marketing is a broader term and is concerned with the identification of needs and wants of consumers and finding out ways and means for satisfying them.

Definition – *"Marketing is the performance of business activities that direct the flow of goods and services through producers to consumers or users."* – American Marketing Association

Marketing and Selling

Marketing is a continuous process of identifying consumer needs and fulfilling such needs through product development and promotion and pricing. It begins before production and continues even after the sales. Contrary to this selling is the mere transfer of ownership of goods from the seller to the buyer.

Differences between marketing and selling

Marketing	Selling
1. Marketing focuses on customer's needs of want satisfying goods.	1. Selling focuses on seller's needs converting his goods into cash.
2. Marketing begins before production	2. Selling takes place after production.
3. Emphasis given on product planning and development.	3. Emphasis on sale of goods already produced.
4. Customer oriented – he is the king.	4. Product oriented.
5. Aims at profits through consumer satisfaction.	5. Aims at profits through sales volume.
6. The principle of caveat vendor (let the seller beware) is followed.	6. The principle of caveat emptor (let the buyer beware) is followed.
7. Integrated approach (Macro)– marketing research, product planning, advertisement etc.	7. Fragmented approach (Micro) – attempt is made to sell whatever is produced.
8. Long term perspective as it lays emphasis on growth and stability of business.	8. Short-term perspective as it emphasizes profit maximization.

Functions of marketing

1. **Gathering and analyzing market information –** This will help to identify the needs of customers and can take vital decisions. It is highly useful for analyzing opportunities, threats, strength and weakness of the firm.
2. **Marketing plan –** A proper marketing plan should be developed to achieve the marketing objectives of the firm. E.g., to increase the market share of a product in next one year by 20%.
3. **Product designing and development –** The product should be developed and designed to meet the customer needs. Marketing department should always be on the look out to make necessary changes in the product such as packing, price, size, colour, shape and design.

4. **Standardization and grading –** Standardization refers to producing goods in predetermined standards such as quality, price, packaging etc. which ensures uniformity and consistency. So that buyers need not inspect, test and evaluate such goods in their future purchases.
   Grading is the process of classifying products into different classes on the basis of quality, size, weight etc. It is needed in agricultural products. This helps in realizing higher price for better quality.
5. **Packaging and Labelling –** Package is a container or a wrapper or a box in which a product is enclosed. It is done for protecting the goods from damage in transit and storage, now a days it is also used to establish the brand. Labelling refers to designing and developing the label to be put on the package to give the specifications of the product in the package.
6. **Branding –** It is the process of giving a name or symbol to a product for identifying and differentiating it from the products of competitors. E.g., BMW, TATA, JIO, Pears, Coco-cola etc.
7. **Customer support service –** These are after sales services, handling customer complaints, maintenance services, technical services and customer information. All these will provide maximum satisfaction to the customers.
8. **Pricing –** Price of a product means the amount of money that have to pay to obtain a product. A sound pricing policy is an important factor for selling the products to customers. The pricing policy of a firm should attract all types of customers.
9. **Promotion –** It means informing the customers about the firm's products and persuading them to buy these products. Promotion techniques include advertising, personal selling, sales promotion and publicity.
10. **Physical distribution –** It involves planning, implementing and controlling the flow of materials and finished goods from the origin to the point of use to meet the customer requirement at a profit. A suitable distribution channel must be selected by the marketing management in this regard.
11. **Transportation -** It is an integral part of marketing as it helps in making available the product at the terminal point of consumption.
12. **Storage or warehousing –** Goods are produced in anticipation of future demand. They have to be stored properly in warehouses to protect them from damages.

Marketing mix

It is the term used to describe the combination of four inputs which constitute the core of the company's marketing system, the product, the price structure, the promotional activities and the place of distribution. It is also known as four '**P**s' of marketing mix, namely Product, Price, Place (distribution) and Promotion.

Elements of marketing mix

1. **Product –** *Product means goods or services or anything of value which is offered for sale in the market*. It is the most important component of marketing mix, which involves planning, developing and producing the right type of goods and services needed by the consumer.
2. **Price –** The price of a product should be fixed that the firm is able to sell it profitably. It may consider credit policies, discount system, terms of delivery, payment, retail price, cost of production, competition, government regulations etc.

3. **Place –** It refers to marketing efforts undertaken to make the product available at the right time in the right place. There are products which are produced at one part of the country and it is consumed in different places during different seasons.

   In Kerala textile items are largely sold during Onam season, so that most of the producers will come to this place and ensure the supply of their product here and in Deepavali season they will move towards some other States. It involves two major functions, 1) Physical distribution and 2) Channels of distribution.
4. **Promotion –** Promotion means all those activities undertaken by a sales manager to inform the consumers about the product(s) of the company and persuade them to buy. He has to make the consumers know where, when and how the products are available. There are four elements which constitute promotion mix. They are advertising, personal selling, publicity and sales promotion.

Factors affecting price determination

1. **Product cost –** It includes cost of production, selling and distribution expenses. While fixing prices for the products or service, a margin of profit over the cost should be considered. The cost of a product consists the following:
   a. **Fixed cost –** do not vary with the volume of production. E.g., Rent, salary, insurance etc.
   b. **Variable cost –** Cost which vary based on the volume of production. E.g., raw material cost, labour cost, power etc.
   c. **Semi-variable cost –** Cost which vary with the level of production, but not in direct proportion. E.g., Commission to a salesman beyond a particular level.
2. **Utility and demand –** Pricing is affected by the elasticity of demand. In case of inelastic demand a firm can fix a higher price and vice versa.
3. **Extent of competition –** If there is no competition in the market, a firm can fix the price for its product by its own, and they are the price makers. If the competition is very high in the market, the price should be fixed by considering the price of competitors, and they became the price takers.
4. **Government and legal regulations –** The prices of certain products are regulated by government. E.g., cement, sugar, etc.
5. **Pricing objectives –** If the firm wants to maximize profit in short run, it would charge high price and if it wants to capture maximum market share for its products, it would charge only a low price. Some pricing objectives are:
   a. To Obtaining market share leadership
   b. To Survive in a competitive market
   c. To Attaining product *quality* leadership (high prices may be charged for maintaining high quality)
6. **Marketing methods used –** Price fixation is also affected by various elements like distribution system, advertising, sales promotion, type of packaging, credit facilities, after sales services, guarantee etc.

Commonly used sales promotion techniques

1. **Rebates –** It is a deduction on the price to make it attractive to the buyers to buy on special occasions.

2. **Discount –** Certain percentage of price is reduced as discount from the price of the product to attract the customers.
3. **Refunds –** Seller offers to refund a part of price on next purchase on production of packets or wrappers etc.
4. **Product combinations –** It is a free offer of an article along with a product to make buyers attractive to buy more or for repeated buying (Free Pen drive with a digital camera).
5. **Quantity gift –** It may be an extra quantity of the same product at the same price either inside or outside the packet.
6. **Instant draws and gifts –** Scratch card and gifts to the customers on purchase.
7. **Lucky draw –** A coupon is given to the customers, which is to be deposited in a box at the business premises by filling the name and phone number. The winner is selected by lucky draw later.
8. **Usable benefit –** E.g., Purchase goods worth Rs. 5000 and get a holiday package of Rs. 2000 free.
9. **Full finance @ 0% -** No need to pay any amount or full amount at the time of purchase but in easy installment without interest.
10. **Sampling –** It refers to offering a free sample of a product to the customers on the purchase of some other products or journals.
11. **Contests –** Customers can participate in some competitive event and winners are given awards.

Advertising

Advertising is any paid form of non-personal presentation and promotion of ideas, goods or service of an identified sponsor. The message which is presented or disseminated is known as advertisement.

Merits of advertising

a. **Mass reach –** It reaches a large number of population with the help of news papers, television etc.
b. **Enhancing customer satisfaction –** They feel more comfortable and assured about quality.
c. **Expressiveness –** Messages can be expressed in a very attractive manner with the help of modern technology.
d. **Economy –** It is in the sense that, it can reach millions of people. As a result the per unit cost becomes low.

Limitations of advertising

a. **Less forceful –** Since it is impersonal, the prospects (public) may not give attention to the message.
b. **No feedback –** There is no immediate and accurate feedback.
c. **Inflexibility –** The message is always standardized and not customized according the needs of different customer groups or occasions.
d. **Low effectiveness –** A large number of advertisement is shown by the media, hence it may not be seen or heard by the target group.

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CONSUMER PROTECTION

Consumer is said to be the king in a free market economy. The earlier approach of "Caveat emptor" (let the buyer beware) has been changed to "Caveat venditor" (let the seller beware).

With the growing competition and to push up the sales, businessmen indulge in exploitative and unfair trade practices which include supply of defective and unsafe products, adulteration, false and misleading advertising, hoarding, black marketing etc., so there arises the need for providing protection to consumers.

Consumer - Definition

Consumer Protection Act, 1986 defines a consumer is an individual or organization who buys goods and services for a consideration.

Some other definitions for consumer are as follows:

1. The person who buys any goods for a consideration.
2. A person who hires or avails of any services for a consideration.

Consumer Rights

1. **Right to safety –** Consumers have the right to be protected against the goods which are hazardous to health and safety. Manufacturing defects in electrical goods, pressure cookers etc. may endanger the life of consumers.

2. **Right to be informed –** It implies that the producer should disclose all the facts regarding his products. Information as to the quantity, quality, price, date of manufacture, ingredients, precautions of use etc. should be given.

3. **Right to choose –** It implies that consumer has the chance to choose from the alternatives, the producer should not take away the right through aggressive selling techniques.

4. **Right to be heard –** Every consumer would like to be assured that complaints or grievances regarding a product or service will be considered.

5. **Right to seek redressal –** When the consumers are cheated or exploited they have the right to get compensation.

6. **Right to consumer education –** A consumer can get protected against fraud and malpractices only with the help of knowledge and proper education, he should know the rights and remedies available to him. It is possible only with proper consumer education.

Redressal Agencies under the CPA 1986

There is a three-tier grievance redressal system for enforcement of the rights of the consumers, they are:-

1. District Forum	2. State Commission	3. National Commission
a. Established by State Govt. b. In all the Districts c. Entertain the complaints where value of goods or service and compensation claimed up to 20 lakhs. d. Appeal to State Commission within 30 days of order from District Forum	a. Established by State Govt. b. In all the States c. Above 20 lakhs but less than 1 crore. d. Appeal to National Commission within 30 days of order from State Commission.	a. Established by Central Govt. b. Only at national level. c. 1 crore or more. d. Appeal to Supreme Court within 30 days of order from National Commission.

Relief available through redressal agencies

- **a.** Removal of defects.
- **b.** Replacement of goods or service.
- **c.** Return of price by seller.
- **d.** Payment of compensation by seller for the loss suffered.
- **e.** Discontinuance of unfair trade practices.
- **f.** Withdrawal of hazardous goods.
- **g.** To issue corrective advertisement to neutralize the effect of a misleading advertisement.

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