

PLUS TWO
 HSSLIVE.IN
BUSINESS
STUDIES
WITH FUNCTIONAL MANAGEMENT

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NATURE AND SIGNIFICANCE OF MANAGEMENT

MANAGEMENT- Meaning and Definition

Management is a process of getting things done with the aim of achieving goals effectively (*doing the right task*) and efficiently (*doing the task correctly with minimum cost*). **Management is a process which involves the effective and efficient utilisation of various resources for the accomplishment of organizational objectives. This process involves the various functions such as planning, organizing, staffing, directing and controlling.**

Definition: According to **George R. Terry**, “management is a distinct process consisting of planning, organizing, actuating and controlling performed to determine and accomplish stated objectives by the use of human beings and other resources”

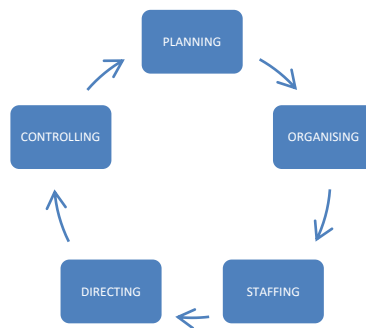
According to **James L. Lundy**, “management is principally the task of planning, coordinating, motivating and controlling the efforts of others towards a specific objective”.

Effectiveness versus Efficiency: Effectiveness in management is concerned with doing the right task, completing activities and achieving goals. It is concerned with the end result.

Efficiency means doing the task correctly and with minimum cost.

Characteristics or Features of Management:

1. **Management is a goal oriented process:** An organization has a set of basic goals which are the basic reason for its existence. Different organizations have different goals. Management unites the efforts of different individuals in the organization towards achieving these goals.
2. **Management is all pervasive:** The activities involved in managing an enterprise are common to all organisations whether economic, social or political. The basic function of management is same in every organisation. Thus it is called all pervasive.
3. **Management is multidimensional:** Management is a complex activity that has three main dimensions. These are a(a) management of work (b) management of people (c) management of operations.
4. **Management is a continuous process:** The process of management is a series of continuous, composite, but separate functions. It includes planning, organizing, staffing, directing and controlling. These functions are simultaneously performed by all managers at all the time.



5. **Management is a group activity:** An organization is a collection of diverse individuals with different needs. Every member of the group has a different purpose for joining the organization but as members of the organization they work towards fulfilling the common organizational goal.
6. **Management is a dynamic function:** Management is a dynamic function and has to adapt itself to the changing environment.
7. **Management is an intangible force:** Management is an intangible force that cannot be seen but its presence can be felt in the way of the organization functions.
8. **Management is a social process:** Management is a process involves effective utilization of resources such as men, money, machines, materials etc. Among these management of men is more complex. It is through management of human beings that management of all other resources takes place. This gives management as a social process.
9. **Management is needed at all levels:** Functions of management are needed at all levels of management, ie, top, middle and lower level.
10. **Influences behaviour:** A manager does not actually perform the work but we get things done by others. For getting best return, it is necessary to influence the behaviour of employees.

Objectives of Management:

The objectives of management may be classified as follows:

1. **Organizational Objectives:** The management is expected to work for the achievement of the objectives of the particular organization in which it exists. Organizational objectives include:
 - a. Reasonable profits so as to give a fair return on the capital invested in business.
 - b. Survival and solvency of the business, ie, continuity
 - c. Growth and expansion of the enterprise.
 - d. Improving the goodwill or reputation of the enterprise.
2. **Individual or Personal Objectives:** An organization consists of several persons who have their own objectives. These objectives are as follows:
 - a. Fair remuneration for work performed.
 - b. Reasonable working conditions
 - c. Opportunities for training, development and career growth.
 - d. Participation in management and prosperity of the enterprise
 - e. Reasonable security of service
3. **Social Objectives:** The management is not only a representative of the owners and workers, but is also responsible to various groups outside the organization. It is expected to fulfill the objectives of the society which are given below:
 - a. Quality goods and services at fair prices to consumers.
 - b. Honest and prompt payment of taxes to the government
 - c. Conservation of environment and natural resources
 - d. Fair dealings with suppliers, dealers and competitors.
 - e. Preservation of ethical values of the society.
 - f. Providing employment to disadvantaged sections of the society.

Needs and Importance of Management:

1. **Management helps in achieving group goals:** Management is required not for itself but for achieving the goals of the organization.
2. **Management increases efficiency:** The aim of a manager is to reduce costs and increase productivity through better planning, organizing, staffing, directing and controlling the activities of the organization.
3. **Management creates a dynamic organization:** Management helps people adapt to various changes so that the organization is able to maintain its competitive edge.
4. **Management helps in achieving personal objectives:** A manager motivates and leads his team in such a manner that individual members are able to achieve personal goals while contributing to the overall organizational objective.
5. **Management helps in the development of society:** Management helps in the development of the organization and through that it helps in the development of society. It helps in the development of society. It helps to provide quality products and services, created employment opportunities, adopts new technology etc.
6. **It helps to meet the challenges:** In a global environment, competition drives action and calls for inevitable organizational change. Appropriate changes can be introduced through management actions in the form of planning for the change and its smooth execution.

Management as an Art

Art is the skillful and personal application of existing knowledge to achieve desired results. It can be acquired through study, observation and experience. The basic features of an art are as follows:

- a. Existence of theoretical knowledge.
- b. Personalized application.
- c. Based on practice and creativity.

Management can be said to be an art since it satisfies the following criteria:

- a. A successful manager practices the art of management in the day-to-day job of managing an enterprise based on study, observation and experience. There is a lot of literature available in various areas of management. There is existence of theoretical knowledge.
- b. There are various theories of management, as propounded by many management thinkers, which prescribe certain universal principles. A manager applies these scientific methods and body of knowledge to a given situation, an issue or a problem, in his own unique manner.
- c. A manager applies this acquired knowledge in personalized and skillful manner in the light of the realities of a given situation.

The best managers are committed and dedicated individuals, highly trained and educated, with personal qualities such as ambition, self-motivation, creativity and imagination, a desire for development of the self and the organization they belong to.

Management as a Science:

Science is a systematized body of knowledge that explains certain general truths or the operation of general laws. The basic features of science are as follows:

- i. Systematized body of knowledge.
- ii. Principles based of experimentation.
- iii. Universal validity.

Based on the above feature, we can say that management has some characteristics of science.

- a. Management has a systematized body of knowledge. It has its own theory and principles that have developed over a period of time, but it also draws on other disciplines such as Economics, Sociology, Psychology etc.
- b. The principles of management have evolved over a period of time bases on repeated experimentation and observation in different types of organisations.
- c. Management principles have to be used all over the world according to given situation.

Management is not as exact a science. This is because management deals with people and it is very difficult to predict accurately the behavior of living human beings. Management principles are universal but they cannot be expected to give exactly the same results in every situation. Principles of management are flexible and can be applied in different situations with modifications. That is why management is known as a soft science/social science/inexact science.

Management as a Profession

A profession has the following characteristics:

- a. Well-defined body of knowledge.
- b. Restricted entry.
- c. Professional association.
- d. Ethical code of conduct.
- e. Service motive.

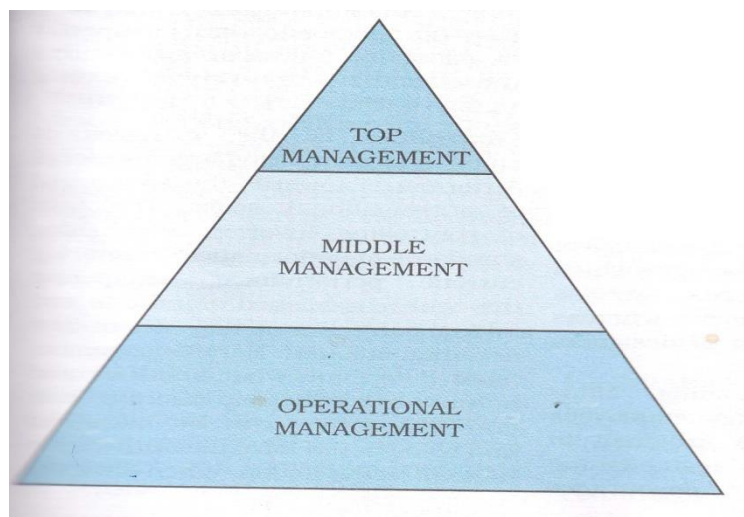
Management has some of the features of profession:

1. It is based on a systematic body of knowledge comprising well defined principles based on variety of business situation. The subject of management is taught at different institutions.
2. Professional knowledge and training is considered to be a desirable qualification.
3. There are several associations of practicing managers in India, like AIMA, that has laid down a code of conduct to regulate the activities of their members.
4. The basic purpose of management is to help the organization achieve its stated goal. This may be profit maximization for a business enterprise and service for a hospital.

Management does not meet the exact criteria of a profession. Management does not restrict the entry into managerial jobs to people with a special academic degree. No minimum qualifications have yet been prescribed for managerial personnel. No management association has the authority to grant certificates of practice or to regulate entry into management careers. The management associations have no legal right to enforce their code of conduct. There is no single client group to which managers owe complete loyalty. But managers are responsible to the owners as well as to other social groups.

Levels of Management

In every organization, there is a chain of superiors and subordinates from the highest level to the lowest. ***This chain is known as chain of command, or management hierarchy.*** The chain consists of a series of managerial positions from top to bottom which is called levels of management. Generally, there are three levels of management as shown below:



1. **Top Management**: Top management consists of managers at the highest level in the management hierarchy. This level includes the Board of Directors, the chairman and the chief executives. Chief executives are known by names, eg, managing director, president, general managers and so on. Top level management is held responsible for the overall success or failure of the organization. Top management generally performs the following functions:

- a. Establishing overall long-term objectives of the organization.
- b. Formulating broad policies for achieving the objectives.



- c. Organizing the business into various divisions.
- d. Coordinating the activities of different departments.
- e. Controlling and monitoring overall performance.
- f. To monitor business environment and analyses its impact on the organization.

2. **Middle Management**: This level consists of heads of departments and functional managers eg. Marketing manager, production manager, finance manager, personnel manager and so on. Middle level managers serve as the link between top management and lower level management. They are responsible for the proper functioning of their respective departments. They function with in the framework of goals and policies laid down by top management. The main functions performed by middle level managers are as under:

- a. To interpret and explain the policies formulated by top management.
- b. To prepare the organizational set up of their departments
- c. To select supervisory personnel and assign duties for executing the departmental plans.
- d. Cooperating with other departments so as to ensure smooth functioning of the organization.
- e. Collecting reports on performance of respective departments and forwarding the same with their comments to the top management.
- f. Recommending new or revised policies to the top management to improve performance.

3. **Lower level/ Supervisory level/ operational level**: It is mainly concerned with supervision and direction of operative employees. It consists of factory superintendents, foremen, office supervisors, section officers, branch managers, accounts officers etc. They are directly in touch with workers, salesmen, clerks etc. They are responsible for the quantity and quality of work and timely completion of jobs. Supervisory management performs the following functions:

- a. Planning day-to-day work and issuing orders and instructions to workers.
- b. Ensuring proper and safe working conditions and necessary facilities at the workplace.
- c. Supervising and motivating workers and maintaining discipline
- d. Assisting management in selection, training and placement of workers.
- e. Conveying grievances and suggestions of workers to management.
- f. Sending reports on work performance to management.

Functions of Management.

Management is described as the process of planning, organizing, staffing, directing and controlling the efforts of organizational members and of using organizational resources to achieve specific goals. The various functions of management are:

1. **Planning:** It is the functions of determining in advance what is to be done and who is to do it. This implies setting goals in advance and developing a way of achieving them efficiently and effectively.
2. **Organizing:** It is the management function of assigning duties, grouping tasks, establishing authority and allocating resources required to carry out a specific plan. Organizing involves the grouping of the required tasks into manageable departments or work units and the establishment of authority and reporting relationships with the organizational hierarchy. Different kinds of business require different structures according to the nature of work.
3. **Staffing:** Staffing simply stated, is finding the right people for the right job. A very important aspect of management is to make sure that the right people with the right places and times to accomplish the goals of the organization. This is also known as the human resource function and it involves activities such as recruitment, selection, placement and training of personal.
4. **Directing:** It involves leading, influencing and motivating employees to perform the tasks assigned to them. This requires establishing an atmosphere that encourages employees to do their best. Motivations and leadership are two key components of direction. Directing also involves communicating effectively as well as supervising employees at work.
5. **Controlling:** It is the management function of monitoring organizational performance towards the attainment of organizational goals. The task of controlling involves establishing standards of performance, comparing this with established standards and taking corrective action where any deviation is found.

Coordination: Coordination is the orderly arrangement of group efforts to provide unity of action in the pursuit of a common goal. It involves unifying, integrating and harmonizing the activities of different departments and individuals for the achievement of common objectives. The purpose of coordination is to ensure that the goals of various work units and sub units are pursued in harmony with each other and keeping in view the goals of the organization as a whole. According to Henri Fayol, to coordinate is to harmonise all the activities of an organization so as to facilitate its working and its success.

Characteristics of Coordination:

1. **Coordination integrates group efforts:** Coordination unifies unrelated or diverse interests into purposeful work activity.
2. **Coordination ensures unity of action:** the purpose of coordination is to secure unity of action in the realisation of a common purpose.

3. **Coordination is a continuous process:** coordination is not a onetime function but a continuous process. It begins at the planning stage and continued till controlling.
4. **Coordination is an all pervasive function:** coordination is required at all levels of management due to the interdependent nature of activities of various departments. It integrates the efforts of different departments and different level.
5. **Coordination is the responsibility of all managers:** coordination is the function of every manager in the organization.
6. **Coordination is a deliberate function:** A manager has to coordinate the efforts of different people in a conscious and deliberate manner.

Coordination, therefore, is not a separate function of management, but it is very essence.

Importance of Coordination:

Coordination is important as it integrates the efforts of individuals, departments and specialists. The primary reason for coordination is that departments and individuals in the organisations are interdependent.

1. **Growth in size:** As organisations growth in size, the number of people employed by the organization also increases. It becomes necessary to ensure that all individuals work, towards the common goals of the organization. But employees may have their own individual goals also. Therefore, for organizational efficiency, it is important to harmonise individual goals and organizational goals through coordination.

2. **Functional differentiation:** Functions of an organization are divided into departments, divisions and sections. In an organization there may be separate departments of finance production, marketing or human resources. The activity of each departments needs to be focused on attainment of common organizational goals. The process of linking the activities of various departments is accomplished by coordination.

3. **Specialization:** Modern organization are characterized by a high degree of specialization. Organisations, therefore, need to employ a number of specialists. Therefore, some coordination is required by an independent person to reconcile the differences in approach, interest or opinion of the specialists.

4. **Human Nature:** Human beings by nature are selfish. They prefer their personal interests and their own departments. Co-ordination is needed to avoid potential sources of conflict.

5. **Interdependence of activities:** The main reason for coordination is that departments and work groups are interdependence.

CHAPTER TWO

PRINCIPLES OF MANAGEMENT

Meaning: Management principles are statements of fundamental truth. These principles serve as guidelines for decisions and actions of managers. Management principles are derived through observation, experimentation as well as personal experience of managers.

Evolution of management Principles:

1. **Early perspective:** The first known management ideas were recorded in 3000-4000 B.C at Egypt.
2. **Classical management theory:** 1800's- F.W.Taylor, Henry Fayol....
3. **Neo classical theory-** Human Relation approach- between 1920s to 1950s
4. **Behavioural Science Approach-** Organisational Humanism- use the knowledge of psychology, sociology and anthropology- Abraham Maslow, Fredrick Herzberg...
5. **Management science / Operational Research:** use of quantitative techniques to take decision.
6. **Modern Management:** use of modern techniques to solve organisational and human problems.

Nature of principles of management:

Principles of management are guidelines to action. They denote a cause and effect relationship. The natures of principles of management are:

1. **Universal applicability:** The principles of management are intended to apply to all types of organizations, business as well as non-business, small as well as large, public sector as well as private sector, manufacturing as well as the service sectors. However, the extent of their applicability would vary with the nature of the organization, business activity, scale of operation and the like.
2. **Formed by practice and experimentation:** The principles of management are formed by experience and collective wisdom of managers as well as experimentation.
3. **General guidelines:** The principles are guidelines to action .
4. **Flexible:** They are flexible and can be modified by the manager when the situation so demands.
5. **Mainly behavioural:** Management principles aim at influencing behavior of human beings. Therefore, principles of management are mainly behavioural in nature.
6. **Cause and effect relationship:** The principles of management are intended to establish relationship between cause and effect so that they can be used in similar situations in a large number of cases.
7. **Contingent:** The application of principles of management is contingent or dependent upon the prevailing situation at particular point of time.

Significance Or Importance of Principles of Management:

1. **Providing managers with useful insights into reality:** These principles of management provide the managers with useful insights into real world situations.
2. **Optimum utilization of resources and effective administration:** Principles equip the managers to foresee the cause and effect relationship of their decisions and actions. As such the wastages associated with a trial-and error approach can be overcome.
3. **Scientific decisions:** Management principles help in thoughtful decision making. They emphasize logic rather than blind faith. Management decisions taken on the basis of principles are free from bias and prejudice.
4. **Meeting changing environment:** Although the principles are in the nature of general guidelines but they are modified and as such help managers to meet changing requirements of the environment.
5. **Fulfilling social responsibility:** Management theory and principles have also evolved in response to fulfill the social responsibility.
6. **Management training, education and research:** Principles of management are at the core of management theory. As such these are used as a basis for management training, education and research.

Fayol's Principles of Management:

Henry Fayol is popularly known as the father of management, made significant contribution to the theory of management.

Henry Fayol: 1841-1925... French Nationality.... Mining Engineer....General and Industrial Management (writing -English)

Henri Fayol suggested fourteen principles of management for running the business efficiently. They are:

1. **Division of work:** It means subdividing a work and allocating different tasks to different persons. It leads to specialization which increases the efficiency of work and to avoid wastage of time and effort.

Benefits: * specialisation *efficient and effective output

2. **Authority and Responsibility:** Authority means the right of a person to give order to the subordinates and to take decision. Responsibility means the obligation to perform the assigned task and to achieve the specific goals. If authority is given to a person, he should also be made responsible. Similarly, if a person is made responsible for a task, he should be given sufficient authority for doing the work.

Benefits: * No misuse of authority *clear definition of superior- subordinate relationship.

3. Discipline: It is highly essential for smooth running of the organization. It means obedience to rules and regulations of the organization.

Benefits: * smooth running of the enterprise * improved efficiency.

4. Unity of Command: This principle insists that a subordinate should receive orders from the superior only. It is necessary to avoid conflicting and confusion. It offers the following **benefits**:

- a. avoids confusion regarding what work is to be done and how
- b. avoids conflict among superiors.
- c. responsibility for mistakes can easily be fixed.
- d. loyalty of subordinates is not divided.
- e. discipline can be maintained.

5. Unity of Direction: This principle states that for a group activity having the same objective, there should be one head and one plan. It helps to produce loyalty and devotion amongst the subordinates.

Benefits: * Unity of action and co-ordination * No over lapping of activities.

Basis	Unity of Command	Unity of Direction
1.Meaning	A subordinate should receive orders from only one superior.	Each group activities having same objective must have one head and one plan.
2.Aim	Prevent dual subordination	Prevent overlapping of activities
3.Effect	It affects an individual employee	It affects the entire organisations.

6. Subordination of individual interest to general interest: Fayol says that the business enterprise is superior to individuals. The interest of the business organization must prevail over personal interest of the individual.

Benefits: * Achievement of organisational goals. * co-ordination between individual and organisational goal.

7. Remuneration of personnel: The remuneration work done must be fair and reasonable. It should act as a source of satisfaction and means of motivation for the employees.

Benefits: * Smooth working. * Commitment on the part of workers.

8. Centralization and decentralization: Centralization means concentration of authority at one place (top level). On the other hand, decentralisation means dispersal of authority to the lower level in the organization. Fayol is of the opinion that an organization should try to achieve a balance between centralization and decentralization.

Benefits: *Reduction the burden of top executive. * quick decision making.

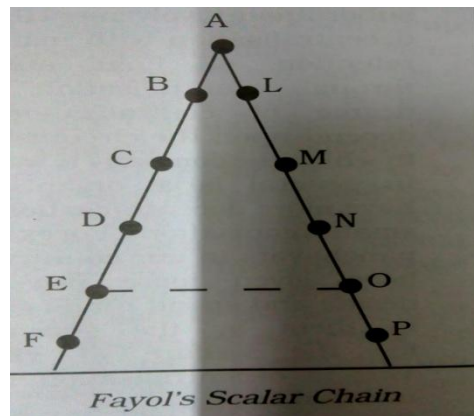
9. Scalar chain: It refers to the chain of superiors ranging from the ultimate authority to the lowest level in the organization without a broken line. This states the superior- subordinate relationship in the organization.

Benefits: * Smooth flow of communication. * Unity of command ensured.

Gang Plank: Scalar chain is essential to ensure unity of command and effective communication. But it has the following limitations:

- I. It is time consuming.
- II. There is a possibility of distortion of messages in the course of its transmission.

In order to avoid time limitation, Henry Fayol suggested shortcutting the chain of command where emergency decisions are to be taken. This process is called gang plank (direct contact). In this process a person of one department can directly contact with the person of another department who hold same position.



In the above example, the member of production (E) can directly contact with the member of marketing department (O) when emergency matter arises.

10. Order: This principle is based on the general saying that have a place for everything and keep everything in its place. According to Fayol order has two components (a) social order (for people) and (b) material order (for material things).

Benefits: * No hindrance in activities * increased productivity and efficiency

11. Equity: It means justice and kindness. The superior should be impartial while dealing with their subordinates. It ensures healthy industrial relation.

Benefits: * Endure loyalty and devotion. * increased morale of workers.

12. Stability of tenure of the personnel: Fayol states that employees should not be moved from their position frequently. Employee cannot work efficiently unless job security is assumed to them. Reducing the turnover of personnel will result in more efficiently and less expenses.

Benefits: * reduced labour turnover. * Stability /security feeling among workers.

13. Initiative: The power of think, develop and execute a plan is collectively referred to as initiative. People should be allowed the freedom to propose and execute ideas at all levels of an enterprise. It creates motivation among the employees.

Benefits: *commitment of employees. *creativity among employees.

14. Esprit de corps: It means union is strength. This refers to harmony and mutual understanding among the members of any organization. Management should try to maintain team spirit and co-operative among the employees.

Benefits: * ensure co-ordination and co-operation. * ensure mutual trust.

SCIENTIFIC MANAGEMENT

Scientific management implies the application of scientific method of study and analysis to the problems of management.

F.W.Taylor was the first person who recognized and emphasized the need for adopting a scientific approach in management. So Taylor is considered as the ***father of scientific management***.

Fredrick Winslow Taylor: 1856-1915... US nationality...Mechanical engineer...Writing-
“The Principles of Scientific management”

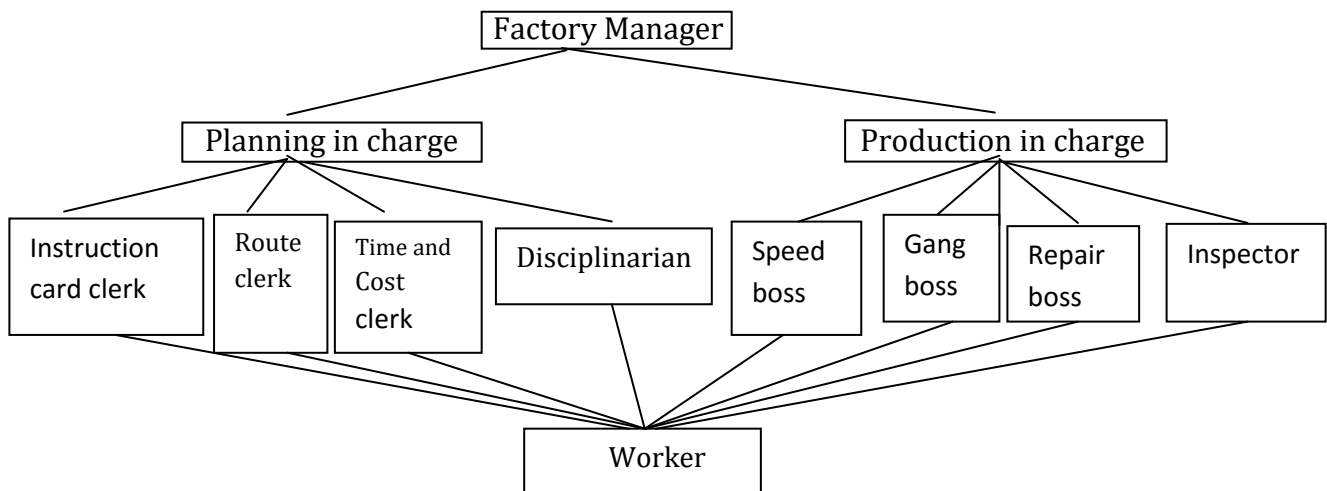
Principles of Scientific Management.

1. **Science not Rule of Thumb:** Taylor pioneered the introduction of the method of scientific inquiry into the domain of management practice. Taylor believed that there was only one best method to maximize efficiency. This method can be developed through study and analysis. The method so developed should substitute ‘Rule of thumb’ throughout the organization. Scientific method involved investigation of traditional methods through work study, unifying the best practices and developing a standard method, which would be followed throughout the organization.
2. **Harmony, Not Discord:** It emphasized that there should be complete harmony between the management and workers. Both should realize that each one is important. To achieve this state, Taylor called for complete ***mental revolution*** in the part of both management and workers should transform their thinking.
3. **Cooperation, Not Individualism:** There should be complete cooperation between the labour and the management instead of individualism. According to Taylor, there should be an almost equal division of work and responsibility between workers and management.
4. **Development of each and every person to his or her greatest efficiency:** Industrial efficiency depends to large extent on personnel competencies. Taylor was of the view that the concern for efficiency could be built in right from the process of employee selection. To increase efficiency, there should be given the required training.

Techniques of Scientific Management

1. Functional foremanship:

Taylor advocated that specialization must be introduced in an organization. He suggested functional foremanship for this purpose. It is a form of organization which involves supervision of a worker by several specialist foremen. Taylor advocated separation of planning and execution functions. This concept was extended for the lowest level of the shop floor. It was known as functional foremanship.



Under the factory manager there was a planning in charge and a production in charge. Under planning in charge four personnel namely, instruction card clerk, route clerk, time and cost clerk and a disciplinarian worked. These four persons would draft instructions for the workers, specify the route of production, prepare time and cost sheet and ensure discipline respectively.

Under production in charge, personnel who would work were speed boss(responsible for timely and accurate completion of job), gang boss(keeping machines and tools etc. ready for operation by workers), repair boss(ensure proper working condition of machines and tools) and inspector(check the quality of work).

2. **Standardisation and Simplification of work:** Standardisation refers to the process of setting standards for every business activity. The standards are the bench mark, which must be adhered to during the production.

Simplification aims at eliminating unnecessary diversity of products. It result in saving the cost of labour, machines, tools, inventory level etc..

3. **Method Study:** The objective to method study is to find out one best way of doing the job with considering several parameters.

4. **Motion study:** It refers to the study of men and machines. Through this unnecessary movement are to be eliminated so it take less time to complete the job efficiently.

5. Time study: It determine the standard time taken to perform a well defined job. Time measuring devices are used for each element of task. This study helps to determine the number of workers to be employed, labour cost....

6. Fatigue study: It seeks to determine the amount and frequency or rest intervals in completing a task.

7. Differential Piece Wage system: Taylor was a strong advocate of piece wage system. He wanted to differentiate between efficient and inefficient workers. He wanted to reward efficient workers. So he introduced different rate of wage payment for those who performed above standard and for those who performed below standard. For eg. It is determined that standard output per worker per day is 10 units and those who made standard or more than standard will get Rs.50 per unit and those below will get Rs.40 per unit. Now an efficient worker making 11 units will get $11 \times 50 = \text{Rs.}550$ per day whereas a worker who makes 9 units will get $9 \times 40 = \text{Rs.} 360$ per day.

Comparison between Taylor and Fayol

Taylor and Fayol have contributed immensely to the knowledge of management which has formed a basis for further practice by managers. It must be pointed out that their contributions are complementary to each other.

Basis of difference	Henry Fayol	F.W.Taylor
Perspective	Top level of management	Shop floor level of a factory.
Unity of command	So much proponent	Under functional foremanship a worker receives order from eight specialists.
Applicability	Applicable universally	Applicable to specialized situation.
Basis of formation	Personal experience	Observation and experimentation.
Focus	Improving overall administration	Increasing production.
Personality	Practitioner	Scientist.
Expression	General theory of administration	Scientific management.

**CHAPTER THREE****BUSINESS ENVIRONMENT**

Meaning of Business Environment: The term business environment means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but may affect its performance. For example, changes in governments, political uncertainty, changes in fashions and tastes of consumers and increased competition in the market etc.

Features:

1. **Totality of external forces:** Business environment is the sum total of all things external to business firms and as such is aggregative in nature.
2. **Specific and general forces:** Business environment include both specific and general forces. Specific forces include investors, customers, competitions and suppliers. General forces include social, political, legal and technological conditions.
3. **Inter-relatedness:** Different elements or parts of business environment are closely inter-related.
4. **Dynamic nature:** Business environment is dynamic in that it keeps on changing.
5. **Uncertainty:** Business environment is largely uncertain as it is very difficult to predict future happenings.
6. **Complexity:** Since business environment consists of numerous interrelated and dynamic conditions or forces which arise from different sources, it becomes difficult to comprehend at once what exactly constitutes a given environment.
7. **Relativity:** Business environment is a relative concept since it differs from country to country and even region to region.

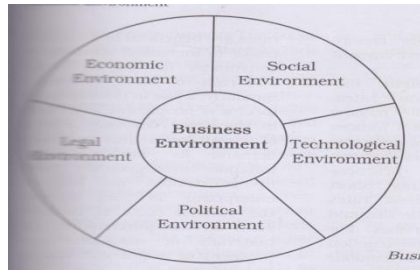
Importance of Business Environment:

1. **It enables the firm to identify opportunities and getting the first mover advantage:** Environment provides numerous opportunities for business success. Early identification of opportunities helps and enterprise to be the first to exploit them instead of losing them to competitors.
2. **It helps the firm to identify threats and early warning signals:** Threats refer to the external environment trends and changes that will hinder a firm's performance. Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.
3. **It helps in tapping useful resources:** Environment is a source of various resources for running a business. To engage in any type of activity, a business enterprise assembles various resources.
4. **It helps in coping with rapid changes:** All sizes and all types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, managers must understand and examine the environment and develop suitable courses of action.
5. **It helps in assisting in planning and policy formulation:** Since environment is a source of both opportunities and threats for a business enterprise, its understanding and analysis can be the basis for deciding the future course of action or training guidelines for decision making.

6. **It helps in improving performance:** The enterprises that continuously monitor their environment and adopt suitable business practices are ones which not only improve their present performance but also continue to succeed in the market for a longer period.

DIMENSIONS OF BUSINESS ENVIRONMENT

The main dimensions or elements of business environment are :



1. **Economic environment:** It includes all such forces of economic development which influence the product market scope of business. The main components of economic environment are:
 - a. The nature of economic system of the country
 - b. Structural anatomy of the economy
 - c. Organization and development of the capital market
 - d. Economic policies(industrial policy, monetary policy, fiscal policy)
 - e. Economic indices like gross national product, per capita income etc.
2. **Political environment:** The political environment consists of the forces concerning management of public affairs and their impact on business. The main components of political environment are as follows:
 - a. Constitutional framework
 - b. The political system
 - c. Political philosophy and stability of the government
 - d. The political structure
 - e. Foreign policy and defense policy of the country.
3. **Legal environment:** Business has to function within the framework of laws and regulations of the country. The main components of legal and regulatory environment are as follows:
 - a. Rights and duties of citizen as specified in constitution
 - b. Laws concerning business
 - c. Judicial system of the country.
4. **Social Environment:** The social environment consists of all the social and cultural forces within which business firms operate. The main components of social environment are as follows:
 - a. Demographic trends
 - b. Social attitudes, customs, traditions, culture etc.
 - c. Family structure and values.
 - d. Education levels etc.
5. **Technological environment:** It refers to the state of science and technology in the country and related aspects such as the rate of technological change, institutional arrangements for the development and applications of new technology etc.

ECONOMIC ENVIRONMENT IN INDIA

The ***economic environment in India*** consists of various ***macro-level factors*** such as:

- a. Stage of economic development
- b. The economic structure
- c. Economic policies
- d. Economic planning
- e. Economic indices
- f. Infrastructural factors.....

The economic environment of business in India has been steadily changing mainly due to the government policies. ***At the time of independence:***

- a. The Indian economy was mainly agriculture and rural in character.
- b. About 70% of the working population was employed in agriculture.
- c. About 85% of the population was living in the villages.
- d. Used low productivity technology.
- e. Communicable diseases were widespread.....

In order to solve economic problems of our country, the government took several steps.

The main objective of India's development plan was:

- a. Initiate rapid economic growth.
- b. Set up strong industrial base.
- c. Reduce inequalities of income and wealth
- d. Adopt socialist pattern of development.
- e. The government gave lead role to public sector for infrastructure industries.

Economic Reforms

Till 1991 India followed an economic policy with a socialist bias. As part of economic reforms, the Government of India announced a new industrial policy in July, 1991. The broad ***features of this policy*** were as follows:

- a. The Government reduced the number of industries under compulsory licensing to six.
- b. The role of the public sector was limited only to four industries of strategic industries.
- c. Disinvestment was carried out.
- d. Policy towards foreign capital was liberalised. 100 percent FDI was permitted.
- e. Automatic permission was now granted for technology agreement with foreign companies.
- f. Foreign Investment Promotion Board (FIPB) was set up to promote foreign investment.

The process of economic reforms, particularly liberalization, globalization and privatization began in 1991.

Liberalisation: Economic liberalization refers to deregulation and reduction of government controls, greater autonomy of private investment, less dependence on the public sector, more opening of the economy to international trade, less restrictions of the convertibility of the rupee and so on. The policy reforms carried out since 1991 have come to be known as economic liberalization. Economic liberalisation comprises both privatization and globalization. ***It consists*** of:

- a. abolishing the licensing requirements of most of the industries.
- b. freedom in deciding the scale of business.
- c. freedom in fixing the prices of goods/services
- d. reduction in tax rates
- e. simplifying the procedure for exports and imports.....

Globalisation: Globalisation means integrating the economy of a country with the world economy. Globalisation implies having the entire world as one market. It is a process of increasing economic integration and growing economic interdependence between countries in the world economy. Globalisation offers the following ***benefits:***

- a. Globalization exposes firm to international competition.
- b. It will help the developing countries to improve the allocate efficiency of the resources.
- c. It will help to restructure the production and trade pattern
- d. There will be increase in employment opportunities over a period of time.

Privatisation: It is the process of reducing the role of public sector in economic activities of a country. It involves induction of private ownership, private management and control in public sector enterprises. It ***consists*** of:

- a. ***Denationalisation***-transfer of the government ownership of productive assets to private sector.
- b. Entry of private sector and foreign firms into the areas exclusively reserved for public sector.
- c. Transfer of control and management of public sector undertakings to private sector.
- d. No fresh budgetary support to public sector.
- e. Disinvestment-sale of government equity in public enterprises.

Impact of Government policy changes on Business and Industry.

The policy of liberalization, privatization and globalization of the Government has made a significant impact on the working of enterprises in business and industry.

- I. **Increasing competition:** competition for Indian firms has increased especially in service industries like telecommunications, airlines, banking, insurance etc.
- II. **More demanding customers:** customers today have become more demanding because they are well informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.
- III. **Rapidly changing technological environment:** The rapidly changing technological environment creates tough challenges before smaller firms.
- IV. **Necessity for change:** After 1991 the market forces have become dynamic as a result of which the enterprises have to continuously modify their operations.
- V. **Need for developing human resource:** The new market conditions require people with higher competence and greater commitment. Hence the need for developing human resources.
- VI. **Market orientation:** In a fast changing world, there is a shift to market orientation in as much as the firms have to study and analyse the market first and produce goods accordingly.
- VII. **Loss of budgetary support to the public sector:** The central government's budgetary support for financing the public sector outlays has declined over the years.

CHAPTER FOUR

PLANNING

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Planning is deciding in advance what to do? And how to do?. It is one of the basic managerial functions. Planning seeks to bridge the gap between where we are and where we want to go. Planning is what manager's at all level do.

Planning means setting objectives and targets and formulating an action plan to achieve them. It is concerned with both ends and means, ie, what is to be done? and how it is to be done?

Importance of Planning:

Planning is certainly important as it tells us Where to go, it provides directions and reduces the risk of uncertainty by preparing forecasts. The major benefits of planning are given below:

- i. **Planning provides directions:** Planning ensures that the goals or objectives are clearly so that they act as a guide for deciding what action should be taken and in which direction.
- ii. **Planning reduces the risks of uncertainty:** Planning is an activity which enables a manager to go on ahead and anticipate changes. By deciding in advance the tasks to be performed, planning shows the way to deal with changes and uncertain events.
- iii. **Planning reduces overlapping and wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different divisions, department and individuals. It helps in avoiding confusion and misunderstanding.
- iv. **Planning promotes innovative ideas:** Since planning is the first function of management, new ideas can take the shape of concrete plans.
- v. **Planning facilitates decision making:** planning helps the manager to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternative and select the most viable proposal.
- vi. **Planning establishes standards for controlling:** Planning provides the goals or standards against which actual performance is measured. By comparing actual performance with some standard, managers can know whether they have actually been able to attain the goals.
- vii. **Makes activities meaningful:** When goals are clearly defined actions become meaningful. Everyone becomes conscious of his own contribution towards achievement of organizational goals. This acts as a motivating force and employees are encouraged to work harder.
- viii. **Improve economy of operation:** Planning involves selection of the best possible course of action. Plans indicate how various tasks are to be completed and how resources are to be utilized. It helps to eliminate all types of waste and to achieve optimum utilization of available resources.
- ix. **Helps in coordination:** planned targets and programs serve as the basis of harmonizing the efforts of different departments, sections and individuals. Through proper planning cooperation and coordination become easy because people at all level involved in planning.
- x. **Bridges the gap between present and future:** Planning bridges the gap between where we are and where we want to go.

Features of Planning:

1. **Planning focuses on achieving objectives:** Organizations are set up with a general purpose in view. Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals.
2. **Planning is a primary function of management:** Planning lays down the base for other function of management. All other managerial functions are performed with in the frame work of the plans drawn.
3. **Planning is pervasive:** Planning is required at all levels of management as well as in all departments of the organization. It is not an exclusive function of top management or of any particular department.
4. **Planning is continuous:** Plans are prepared for a specific period of time, may be for a month, a quarter, or a year. At the end of that period there is need for a new plan to be drawn on the basis of new requirements and future conditions. Hence, planning is a continuous process.
5. **Planning is futuristic:** Planning essentially involves looking ahead and preparing for the future. The purpose of planning is to meet future events effectively to the best advantage of an organization.
6. **Planning involves decision making:** Planning essentially involves choice from among various alternative and activities.
7. **Planning is a mental exercise:** Planning requires application of the mind involving foresight, intelligent imagination and sound judgments. It is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken.

Limitations of Planning:

1. **Costly process:** Planning is an expensive process. Money, time and effort have to be spent in forecasting, collection of information, evaluation of alternatives etc.
2. **Time consuming:** Considerable time is required for collection, analysis and interpretation of information for planning. Therefore, planning is not practicable during emergencies and crises when on the spot decisions are necessary.
3. **Rigidity:** Once plans are formulated, people tend to strictly adhere to them irrespective of changes in the environment.
4. **Planning reduces creativity:** Mainly planning is done by top management. Thus much of the creativity inherent in middle and lower level management get reduced.
5. **Planning does not guarantee success:** The success of an enterprise is possible only when plans are properly drawn up and implemented. It will create a false sense of security among employees.
6. **Planning may not work in a dynamic environment.**

Steps in Planning Process:

Planning, as well as known is deciding in advance what to do and how to do. It is a process of decision making. How do we go about making a plan? Since planning is an activity, there are certain logical steps for every manager to follow:

1. **Setting objectives:** The first and foremost step is setting objectives. Every organization must have certain objectives. Objectives may be set for the entire organization and each department or unit within the organization. Objectives or goals specify what the organizations want to achieve. Objectives should be stated clearly for all departments, units and employees.
2. **Developing planning premises:** Planning is concerned with the future which is uncertain and every planner is using assumptions about what might happen in future. ***These assumptions are called planning premises.*** Assumptions are the base material upon which plans are to be drawn.
3. **Identifying alternative courses of action:** There may be many ways to act and achieve objectives. All the alternative courses of action should be identifies. If the project is important, then more alternatives should be generated and thoroughly discussed amongst the members of the organization.
4. **Evaluating alternative courses:** The next step is to analyses the merits and demerits of each alternative. Each course will have many variables which have to be evaluated in the light of the objectives to be achieved.
5. **Selecting the best alternative:** This is the real point of decision making. The best plan has to be adopted and implemented. The ideal plan, of course, would be the most feasible, profitable and with least negative consequences.
6. **Formulating derivative plans:** After the basic plan is decided, the next logical step is to develop detailed plans for its implementation. These plans are called derivative plans or ***sub plans***. These plans refer to policies, procedures, rules, programs, schedules, budgets etc.
7. **Implementing the plan:** This step is concerned with putting the plan into action, i.e., doing, what is required. This step would also involve organizing for labour and purchase of machinery.
8. **Follow-up-action:** To see whether plans are being implemented and activities are performed according to schedule is also part of planning process. Monitoring the plans is equally important to ensure that objectives are achieved.

Types of Plans:

Plans can be classified into single-use plans and standing plans.

Single use plans: A single use plan is developed for a onetime event or project. They are used for non-recurring situations. These plans include budgets, programmes and projects.

Standing plans: A standing plan is used for activities that occur regularly over a period of time. It includes policies, procedures, methods and rules.

1. **Objectives:** The first step in planning is setting objectives. Therefore, it can be said to be the desired future position that the management would like to reach. Objectives are very basic to the organization and they are defined as ends which the management seeks to achieve by its operations. Therefore, an objective simply stated is what you would like to achieve.
2. **Strategy:** Strategy is a comprehensive plan for accomplishing organization objectives. This comprehensive plan will include three dimensions:
 - i. Determining long-term objectives
 - ii. Adopting a particular course of action
 - iii. Allocating resources necessary to achieve objectives.
3. **Policy:** Policies are general statement that guide thinking or channelize energies towards a particular direction. Policies provide a basis for interpreting strategy which is usually stated in general terms. They are guides to managerial action and decisions in the implementation of strategy.
4. **Procedure:** Procedures are routine steps on how to carry out activities. They detail the exact manner in which any work is to be performed. They are specified in a chronological order.
5. **Method:** Methods provide the prescribed ways of manner in which a task has to be performed considering the objective. It deals with a task comprising one step of a procedure and specifies how this step is to be performed. The method may vary from task to task.
6. **Rule:** Rules are specific statements that inform what is to be done. They do not allow for any flexibility or discretion. It reflects a managerial decision that a certain action must or must not be taken.
7. **Programme:** Programs are detailed statements about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action.
8. **Budget:** A budget is a statement of expected results expressed in numerical terms. It is a plan which quantifies future facts and figures.

CHAPTER FIVE ORGANISING



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Meaning: Organising essentially implies a process which coordinates human efforts, assembles resources and integrates both into a unified whole to be utilized for achieving specified objectives.

Organising can be defined as, *“a process that initiates implementation of plans by clarifying jobs and working relationships and effectively deploying resources for attainment of identified and desired results”.*

Steps in the process of Organising:

Organising involves a series of steps that need to be taken in order to achieve the desired goals:

1. **Identification and division of work:** The first step in the process of organizing involves identifying and dividing the work that has to be done in accordance with previously determined plans.
2. **Departmentalisation:** Once work has been divided into small and manageable activities then those activities which are similar in nature are grouped together. Such sets facilitate specialization. This grouping process is called **departmentalization**.
3. **Assigning of duties:** It is necessary to define the work of different job positions and accordingly allocate work to various employees. Once departments have been formed, each of them is placed under the charge of an individual.
4. **Delegation of authority:** After assignment of duties, appropriate authority is delegated to each individual. Without such authority a person cannot carry out the assigned job.
5. **Establishing reporting relationship:** Each individual should know who he has to take orders from and to whom he is accountable. It will help to establish coordination among various departments.

Importance of Organising:

Performance of the organizing function can pave the way for a smooth transition of the enterprise in accordance with the dynamic business environment. The following points highlight the crucial role that organizing plays in any business enterprise:

- a. **Benefits of specialization:** Organising leads to a systematic allocation of jobs amongst the work force. Repetitive performance of a particular task allows a worker to gain experience in that area and leads to specialisation..
- b. **Clarity in working relationships:** The establishment of working relationship clarifies lines of communication and specifies who is to report to whom.
- c. **Optimum utilization of resources:** Organising leads to the proper usage of all material, financial and human resources. The proper assignment of jobs avoids overlapping work and also makes possible the best use of resources.
- d. **Adapting to change:** The process of organising allows a business enterprise to accommodate changes in the business environment.

- e. **Effective administration:** Organising provides clear descriptions of jobs and related duties. This helps to avoid confusion and duplication. Clarity in working relationship enables proper execution of work.
- f. **Development of personnel:** Organising stimulates creativity amongst managers. Effective delegation allows the managers to reduce their workload by assigning routine jobs to their subordinates.
- g. **Expansion and growth:** Organising helps in the growth and diversification of an enterprise by enabling it to deviate from existing norms and taking up new challenges.

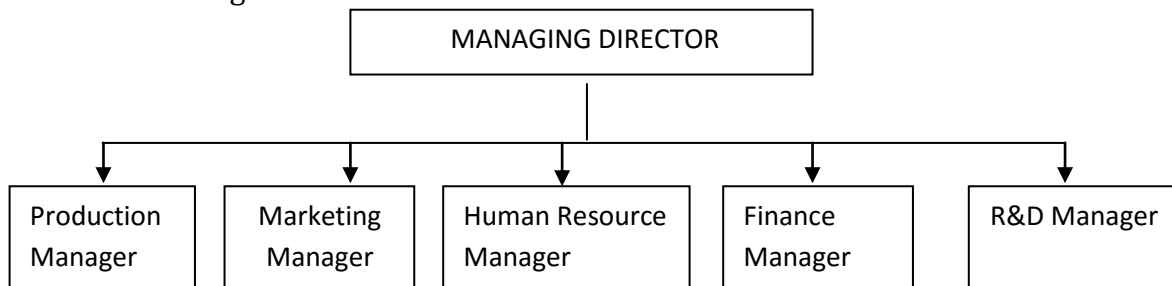
Organisation Structure:

Organization structure is the outcome of the organising process.

The organization structure can be defined as the framework within which managerial and operating tasks are performed. It specifies the relationships between people, work and resources. Span of management determines the level of management in the structure. **Span of management refers to the number of subordinates that can be effectively managed by a superior.**

Types of Organization Structure:

1. Functional Structure and 2. Divisional structure
1. **Functional Structure:** Grouping of jobs of similar nature under functions and organising these major functions as separate departments creates a functional structure. All departments report to a coordinating head.



Advantages:

- a. A functional structure leads to occupational specialisation since emphasis is placed on specific functions.
- b. It promotes control and coordination within a department because of similarity in the tasks being performed.
- c. It helps in increasing managerial and operational efficiency and this results in increased profit.
- d. It leads to minimal duplication of effort which results in economies of scale and this lower cost.
- e. It makes training for employees easier as the focus is only a limited range of skills.
- f. It ensures that different functions get due attention.

Disadvantages:

- a. A functional structure places less emphasis on overall enterprise objectives than the objectives pursued by a functional head.
- b. It may lead to problems in coordination as information has to be exchanged across functionally differentiated departments.
- c. A conflict of interests may arise when the interests of two or more departments are not compatible.

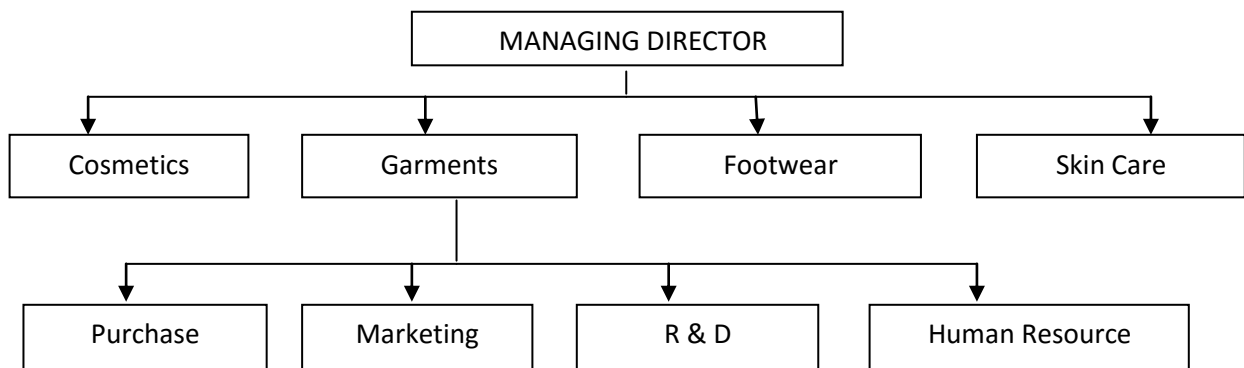
- d. It may lead to inflexibility as people with same skills and knowledge base may develop a narrow perspective and thus, have difficulty in appreciating any other point of view.
- e. Functional heads do not get training for top management positions because they are unable to gather experience in diverse areas.

Suitability: It is most suitable when the size of the organization is large, has a diversified activities and operations require a high degree of specialisation.

2. **Divisional Structure:** Many large organizations with diversified activities have been reorganized.

In a divisional structure, the organization structure comprises of separate business units or divisions. Each unit has a divisional manager responsible for performance and who has authority over the unit.

In other words, within each division, the functional structure tends to be adopted.



Advantages:

- a. Product specialisation helps in the development of varied skills in a divisional head and this prepares him for higher positions.
- b. Divisional heads are accountable for profits, as revenues and costs related to different departments can be easily identified and assigned to them. It also helps in fixation of responsibility in cases of poor performance.
- c. It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making.
- d. It facilitates expansion and growth as new divisions can be added without interrupting the existing operations by merely adding another divisional head and staff for the new product line.

Disadvantages:

- a. Conflict may arise among different divisions with reference.
- b. It may lead to increase in costs since there may be a duplication of activities across products.
- c. It may gain power and in bid to assert his independence may ignore organization interests.

Suitability: Divisional structure is suitable for those business enterprises where a large variety of products are manufacture using different productive resources.

Comparative view: Functional & Divisional Structure

Basis	Functional Structure	Divisional Structure
Formation	Based on function	Based on product lines and is supported by functions.
Specialisation	Functional specialisation	Product specialisation
Responsibility	Difficult to fix on a department	Easy to fix responsibility for performance
Managerial development	difficult	Easy
Cost	economical	Costly
coordination	Difficult for multi-product company	Easy.

Formal and Informal Organisation

Formal organisation refers to the organization structure which is designed by the management to accomplish a particular task. It specifies clearly the boundaries of authority and responsibility and there is a systematic coordination among the various activities to achieve organization goals.

The formal organization can be better understood by a study of its **features:**

- It specifies the relationships among various job positions.
- It is a means to achieve the objectives specified in the plans.
- Efforts of various departments are coordinated through formal organization.
- It is deliberately designed by the top management.
- It places more emphasis on work to be performed with interpersonal relationship among the employees.

Advantages:

- It is easier to fix responsibility.
- Helps in avoiding duplication of effort.
- Unity of command is maintained through an established chain of command.
- It leads to effective accomplishment of goals by providing a framework for the operation.
- It provides stability to the organization.

Limitations:

- The formal communication may lead to procedural delays.
- Poor organization practices may not provide adequate recognition to creative talent.
- It is difficult to understand all human relationships in an enterprise.



Informal Organisation.

Informal organization emerges from within the formal organization, when people interact beyond their officially defined roles. Informal organization has no written rules and does not have fixed lines of communication.

Features:

- An informal organization originates from within the formal organization.
- The standards of behavior evolve from group norms rather than officially laid down rules and regulations.
- Independent channels of communication without specified direction of flow of information are development by group members.
- It emerges spontaneously.
- It has no definite structure or form.

Advantages:

- Prescribed lines of communication are not followed.
- It helps to fulfill the social needs to the members.
- It pressurizes members to conform to group expectations.

Disadvantages:

- The norms used by informal organization may be contrary to the standards of behavior and performance in formal organization.
- An informal organization generally prefers resistance to new work method.
- A member of an informal organization may be expected to go slow in his work.
- An informal organisation forces its members to conform to its norms and values even if it is harmful to the interests of the formal organisation.

Difference between Formal organization and Informal organization

Basis	Formal organisation	Informal organization
1. Formation	Deliberately	Spontaneously
2. Purpose	To achieve organizational goals	To satisfy social and cultural needs.
3. Structure	Based on authority and responsibility	Based of emotions and sentiments.
4. Behaviour of members	Prescribed pattern of behaviour	No particular pattern of behaviour, it is developed through the mutual consent of members.
5. Communication	Through official channel	Based in convenience
6. Leadership	Managers are leaders based on their position	Leaders are chosen by the group members
7. Stability	Long term existence	Short term existence
8. Flexibility	Rigid structure	Highly flexible
9. Rules	Follow the rules strictly	No formal rules
10. Interdependence	It exist independently	It exists within the framework of formal organization.

Delegation

Delegation refers to the downward transfer of authority from a superior to a subordinate. It is a prerequisite to the effective functioning of an organisation because it enables a manager to use his time on high priority activities.

Elements of Delegation:

Essential elements of delegation are:

1. **Authority**: Authority refers to the right of an individual to command to his subordinates and to take action within the scope of his position.
2. **Responsibility**: Responsibility is the obligation of a subordinate to properly perform the assigned duty. It arises from a superior subordinate relationship is bound to perform the duty assigned to him by his superior.
3. **Accountability**: Accountability implies being answerable for the final outcome. Once authority has been delegated and responsibility accepted, one cannot deny accountability. It cannot be delegated and flows upward ie, a subordinate will be accountable to a superior for satisfactory performance of work.

Importance of Delegation:

1. **Effective management**: By empowering the employees, the managers are able to function more efficiently as they get more time to concentrate on important matters.
2. **Employee development**: As a result of delegation, employees get more opportunities to utilize get more opportunities to utilize their talent abilities in them.
3. **Motivation of employees**: delegation helps in developing the talents of the employees.
4. **Facilitation of growth**: delegation helps in the expansion of an organisation by providing a ready workforce to take up leading position in new ventures.
5. **Basis of management hierarchy**: delegation of authority establishes superior subordinate relationships which are the basis of hierarchy of management.
6. **Better coordination**: The elements of delegation namely authority, responsibility and accountability help to define the powers, duties and answerability related to the various positions in an organisation.

Decentralisation:

Decentralisation explains the manner in which decision making responsibilities are divided among hierarchical levels. Put simply, decentralization refers to delegation of authority throughout all the levels of the organisation. Decision making authority is shared with lower levels and is consequently placed nearest to the points of action.

Centralization and decentralization:

An organisation is centralized when decision making authority is retained by higher management levels whereas it is decentralized when such authority is delegated.

An organisation can never be completely centralized or decentralized. As it grows in size and complexity, there is a tendency to move towards decentralized decision making.

Importance of Decentralisation:

1. **Develops initiative among subordinates:** Decentralisation helps to promote self-reliance and confidence amongst the subordinates.
2. **Develop managerial talent for the future:** decentralization gives them a chance to prove their abilities and creates a reservoir of qualified manpower who can be considered to fill up more challenging positions through promotions.
3. **Quick decision making:** In a decentralized organisation, the decisions are taken at levels which are nearest to the points of action and there is no requirement for approval from many levels, the process is much faster.
4. **Relief to top management:** decentralization also leaves the top management with more time which they can devote to important policy decisions rather than occupying their time with both policy as well as operational decisions.
5. **Facilitate growth:** decentralization awards greater autonomy to the lower levels of management as well as divisional heads. This allows them to function in a manner best suited to their department and fosters a sense of competition amongst the departments.
6. **Better control:** decentralization makes it possible to evaluate performance at each level and the departments can be individually held accountable for their results.

Delegation and Decentralisation: A comparative View

<i>Basis</i>	<i>Delegation</i>	<i>Decentralisation</i>
Nature	It is compulsory	It is optional
Freedom of action	More control by superiors against subordinates.	Less control over executives
Status	It is a process followed to share tasks	It is the result of the policy decision of the top management.
Scope	It has narrow scope	It has wide scope
Purpose	To lessen the burden of the manager	To increase the role of the subordinates in the organisation by giving them more autonomy.

CHAPTER SIX

STAFFING

Meaning: Staffing is putting people to jobs. It begins with workforce planning and includes different other function like recruitment, promotion, compensation and performance appraisal of work force. In other words, staffing is that part of the process of management which is concerned with obtaining, utilizing and maintaining a satisfactory and satisfied work force.

Importance of Staffing:

Proper staffing ensures the following benefits to the organisation:

1. Helps in discovering and obtaining competent personnel for various jobs.
2. Makes for higher performance, by putting right person on the right job.
3. Ensures the continuous survival and growth of the enterprise through the succession planning for managers.
4. Helps to ensure optimum utilization of the human resources.
5. Improves job satisfaction and morale of employees through objective assessment and fair reward for their contribution.

Human Resource Management:

Human resource management includes many specialized activities and duties which the human resource personnel must perform. These duties are:

- a. Recruitment i.e., searches for qualified people.
- b. Analyzing jobs, collecting information about jobs to prepare job descriptions.
- c. Developing compensation and incentive plan
- d. Training and development of employees for efficient performance and career growth.
- e. Maintaining labour relations and union management relations.
- f. Handling grievances and complaints.
- g. Providing for social security and welfare of employees.
- h. Defending the company in law suits and avoiding legal complications.

Staffing Process:

1. **Estimating the manpower requirements:** Understanding the manpower requirements would necessitate workload analysis. Work force analysis would enable an assessment of the number and types of human resources necessary for the performance of various jobs and accomplishment of organizational objectives.
2. **Recruitment:** Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. Both internal and external sources of recruitment may be explored.
3. **Selection:** Selection is the process of choosing from among the pool of the prospective job candidates developed at the stage of recruitment.
4. **Placement and orientation:** Orientation means introducing the selected employee to other employees and familiarizing him with the rules and policies of the organisation. Placement refers to the employee occupying the position or post for which the person has been selected.

5. **Training and Development:** To improve the competence of employees and to motivate them it is necessary to provide training and development opportunities for employees so they can reach to top and help improving their skills.
6. **Performance appraisal:** performance appraisal means evaluating an employee's current and past performance as against certain predetermined standards. The performance appraisal process, therefore, will include defining the job, appraising performance and providing feedbacks.
7. **Promotion and career planning:** Promotions are an integral part of people's career. They refer to being placed in positions of increased responsibility. They usually mean more pay, responsibility and job satisfaction.
8. **Compensation:** All organisations need to establish wage and salary plans for their employees. There are various ways to prepare different pay plans depending on the worth of the job. Compensation, therefore, refers to all forms of pay or rewards going to employees. It may be in the form of direct financial payments like wages, salaries, incentives, commissions and bonuses and indirect payments like employer paid insurance and vacations. Direct financial payment are of two types: time based and performance based.

Recruitment:

Sources of Recruitment:

There are two sources of recruitment; internal and external

(I) Internal Sources:

- i. **Transfers:** It involves shifting of an employee from one job to another, one department of another or from one shift to another, without a substantive change in the responsibilities and status of employees. It may lead to changes in duties and responsibilities, working condition etc. but not necessarily salary.
- ii. **Promotion:** Promotion leads to shifting an employee to a higher position, carrying higher responsibilities, facilities, status and pay. Promotion is a vertical shifting of employees.

Merits of internal sources:

1. Employees are motivated to improve their performance.
2. Internal recruitment also simplifies the process of selection and placement.
3. Transfer is a tool of training the employees to prepare them for higher jobs.
4. Filling of jobs internally is cheaper as compared to getting candidates from external sources.

Limitations of internal sources:

1. The scope for induction of fresh talent is reduced.
2. The employees may become lethargic if they are sure of time bound promotions.
3. A new enterprise cannot use internal sources of recruitment. No organisation can fill all its vacancies from internal sources.
4. The spirit of competition among the employees may be hampered.
5. Frequent transfer of employees may often reduce the productivity of the organisation.

(II) External sources:

External sources provide wide choice and bring new blood in the organisation. The commonly used external sources of recruitment are discussed below:

1. Direct recruitment
2. Casual callers
3. Advertisement
4. Employment exchange
5. Placement agencies and management consultants
6. Campus recruitment
7. Recommendations of employees
8. Labour contractors
9. Advertising on television
10. Web publishing.

Merits of External Sources:

1. **Qualified personnel:** by using external sources of recruitment, the management can attract qualified and trained people.
2. **Wider choice:** The management has a wider choice while selecting the people for employment
3. **Fresh talent:** External recruitment provides wider choice and brings new blood in the organisation. However, it is expensive and time consuming.
4. **Competitive spirit:** If a company taps external sources, the existing staff will have to compete with the outsiders.

Limitations of External Sources:

1. **Dissatisfaction among existing staff:** External recruitment may lead to dissatisfaction and frustrations among existing employees.
2. **Lengthy process:** recruitment from external sources takes a long time.
3. **Costly process:** It is very costly to recruit staff from external sources.

Selection

Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job. The process may start right from the screening of the applications.

Process of Selection:

The important steps in the process of selection are as follows:

1. **Preliminary screening:** Preliminary screening helps the manager eliminate unqualified or unfit job seekers based on the information supplied in the application forms.
2. **Selection tests:** An employment test is a mechanism that attempt to measure certain characteristics of individual.

Types of tests:

- a. **Intelligence tests:** *This is one of the important psychological tests used to measure the level of intelligence quotient of an individual.*
 - b. **Aptitude tests:** *It is a measure of individual's potential for learning new skills. It indicates the person's capacity to develop. Such tests are good indices of a person's future success score.*
 - c. **Personality tests:** *Personality tests provide clues to a person's emotions, her reactions, maturity and value system etc.*
 - d. **Trade tests:** *These tests measure the existing skills of the individual. They measure the level of knowledge and proficiency in the area of professions or technical training.*
 - e. **Interest tests:** *Every individual has fascination for some job than the other. Interest tests are used to know the pattern of interests or involvement of a person.*
3. **Interview:** interview is a formal, in-depth conversation conducted to evaluate the applicant's suitability for the job.
 4. **Reference and back ground check:** many employees request names, addresses and telephone numbers of references for the purpose of verifying information and gaining additional information in an applicant.
 5. **Selection decision:** The final decision has to be made from among the candidates who pass the tests, interviews and reference checks.
 6. **Medical examination:** After the selection decision and before the job offer is made, the candidate is required to undergo a medical fitness test. The job offer is given to candidate being declared fit after the medical examination.
 7. **Job offer:** The next step in the selection process is job offer to those applicants who have passed all the previous hurdles. Job offer is made through a letter of appointment/confirm his acceptance.
 8. **Contract of employment:** After job offer has been made and candidate accepts the offer, certain documents need to be executed by the employer and the candidate. One such document is the attestation form. This form contains certain vital details about the candidate which are authenticated and attested by him or her. Attestation form will be a valid record for future reference.

Training and Development

Training and development is an attempt to improve the current or future employee performance by increasing an employee's ability to perform through learning, usually by changing the employee's attitude for increasing his or her skills and knowledge.

Importance of Training and Development

Training and development help both the organization and the individual.

Benefits of the organization

- a. Training is a systematic learning
- b. It enhances employee productivity
- c. Training equips the future manager who can take over in case of emergency
- d. Training increases employee morale and reduces absenteeism and employee turnover
- e. It helps in obtaining effective response to fast changing environment- technological and economic.

Benefits of the Employee

- a. Improved skills and knowledge due to training lead to better career of the individual.
- b. Increased performance by the individual helps him to earn more.
- c. Training makes the employee more efficient to handle machines. Thus, less chance to accidents.
- d. Training increases the satisfaction and morale employees.

Training, Development and Education.

Training is any process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased. It is a process of learning new skills and application of knowledge. It attempts to improve their performance on the current job or prepare them for any intended job.

Development refers to the learning opportunities designed to help employees grow. It covers not only those activities which improve job performance but also those which bring about growth of the personality, help individualism the progress towards maturity and actualization of their potential capacities. So that they become not only good employees but better men and women.

Difference between Training and Development

Training	Development
It is a process of increasing knowledge and skills	It is a process of learning and growth
It is to enable the employees to do the job better	It is to enable the overall growth of the employee
It is a job oriented process	It is a career oriented process.

Training Methods

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On the job methods

1. **Apprenticeship programs:** Apprenticeship programs put the trainee under the guidance of a master worker.
2. **Internship training:** It is a joint program of training in which educational institutions and business firms cooperate. Selected candidates carry on regular studies for the prescribed period.
3. **Job rotation:** This kind of training involves shifting the trainee from one department to another or from one job to another. This enables the trainee to gain a broader understanding of all parts of the business and how the organization as a whole function.
4. **Coaching:** In this method superior guide and instruct the trainee as a coach. The coach sets mutually agreed goals, suggest how to achieve these goals, periodically review the trainees progress and give necessary suggestions.

Off the job Methods

1. **Class room lectures:** The lecture or conference approach is well adapted to conveying specific information, rules, procedures or methods. The use of audio-visuals or demonstrations can often make a formal classroom presentation more interesting while increasing retention and offering a vehicle for clarifying more difficult points.
2. **Films:** They can provide information and explicitly demonstrate skills that are not easily represented by the other techniques.
3. **Case study:** Taken from actual experiences of organisations, cases represent attempts to describe as accurately as possible real problems that managers have faced.
4. **Computer modeling:** It stimulates the work environment by programming a computer to imitate some of the realities of the job and allows learning to take place without the risk or high costs that would be incurred if a mistake were made in real life situation.
5. **Vestibule training:** Employees learn their jobs on the equipment they will be using, but the training is conducted away from the actual work floor. Actual work environment are created in a classroom and employees use the same materials, files and equipment.
6. **Programmed Instructions:** This method incorporated a prearranged and proposed acquisition of some specific skills or general knowledge. Information is broken into meaningful units and these units are arranged in a proper way to form a logical and sequential learning package.

CHAPTER SEVEN

DIRECTING

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

Directing is not a mere issue of communication but encompasses many elements like supervision, motivation and leadership. It is one of the key managerial functions performed by every manager.

Importance of Directing:

The importance of directing can be understood by the fact that every action in the organization is initiated through directing only. Directing guide towards achievement of common objectives. *The points which emphasis the importance of directing are presented as follows:*

1. Directing helps to initiate action by people in the organization towards achievement of desired objectives.
2. Directing integrated employees efforts in the organization in such a way that every individual effort contributes to the organizational performance.
3. Directing guides employees to fully realize their potential and capabilities by motivating and providing effective leadership.
4. Directing facilitates introduction of needed changes in the organization.
5. Effective directing helps to bring stability and balance in the organization since it fosters cooperation and commitment among the people.

Elements of Direction:

The process of directing involves guiding, coaching, instructing, motivating, leading the people in an organization to achieve organizational objectives. The elements of directing. These are:

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

Supervision:

Supervision is the process of guiding the efforts of employees and other resources to accomplish the desired objectives. It means overseeing what is being done by subordinates and giving instructions to ensure optimum utilization of resources and achievement of work targets.

Importance of supervision:

These are explained below:

1. Supervision maintains day to day contact and maintains friendly relations with workers.
2. Supervisor acts as a link between workers and management.
3. Supervisor plays a key role in maintaining group unity among workers placed under his control.
4. Supervisor ensures performance of work according to the targets set.
5. Supervisor provides good on the job training to the workers and employees
6. Supervisory leadership plays a key role in influencing the workers in the organization.
7. A good supervisor analyses the work performed and gives feedback to the workers.

Motivation:

It means that the process of making subordinates to act in a desired manner to achieve certain organizational goals. Motivation is the process of stimulating people to action to accomplish desired goals. Motivation depends upon satisfying needs of people.

Importance of motivation:

1. Motivation helps to improve performance levels of employees as well as the organization.
2. Motivation helps to change negative or indifferent attitudes of employee to positive attitudes so as to achieve organizational goals.
3. Motivation helps to reduce employee turnover and thereby saves the cost of new recruitment and training.
4. Motivation helps to reduce absenteeism in the organization.
5. Motivation helps managers to introduce changes smoothly without much resistance from people.

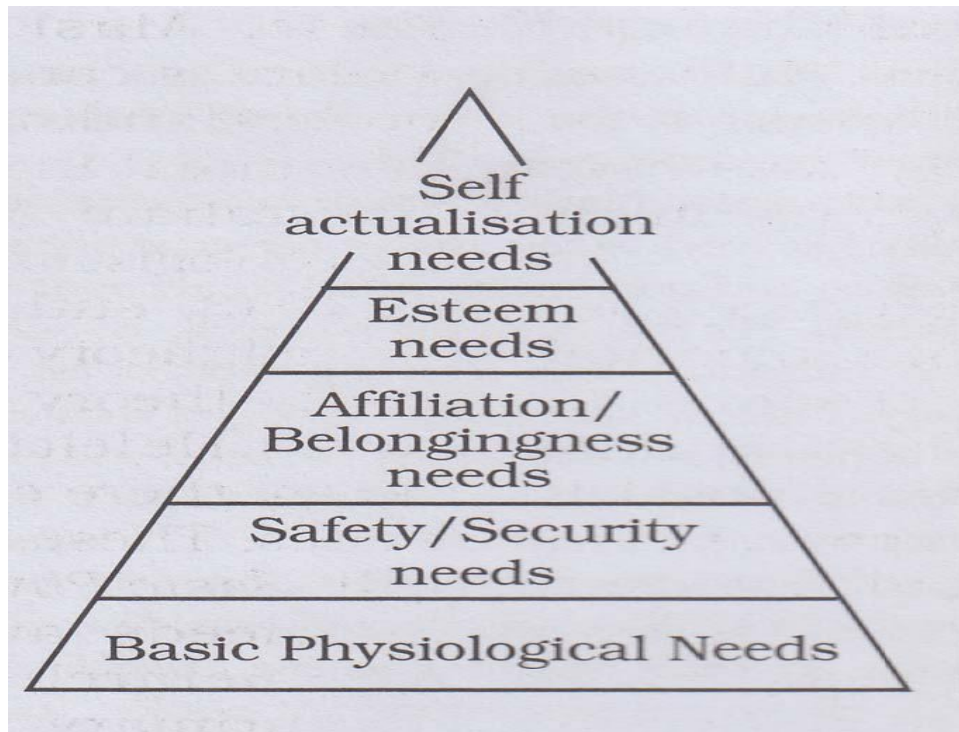
Maslow's Need Hierarchy Theory of Motivation

Abraham Maslow(1908-1970) was an eminent **U.S. psychologist** who developed a theory of motivation based on the hierarchy of needs. He is known as ***Father of management Psychology.***

Maslow's need hierarchy theory is considered fundamental to understanding of motivation. Abraham Maslow, a well-known psychologist in a classic paper published in 1943, outlined the elements of overall theory of motivation. He felt that within every human being, there exists a hierarchy of five needs.

1. **Basic Physiological Needs:** These needs are most basic in the hierarchy and corresponds to primary needs. Hunger, shelter...are some example of these needs. In the organizational context, basic salary helps to satisfy these needs.
2. **Safety/ security Needs:** These needs provide security and protection from physical and emotional harm. Job security, stability of income, pension plan etc... are some examples.

3. **Social/Belonging Needs:** These needs refers to affection, sense of belongingness, acceptance and friendship.
4. **Esteem Needs/Ego needs:** These include factors such as self-respect, autonomy status, recognition and attention.
5. **Self Actualisation Needs./Self-Realisation needs:** It is the highest level of need in the hierarchy. It refers to the drive to become what one is capable of becoming. These needs include growth, self-fulfillment and achievement of goals.



Maslow's theory is based on the following assumptions:

1. People's behavior is based on their needs. Satisfaction of such needs influences their behavior.
2. People's needs are in hierarchical order, starting from basic needs to other higher level needs.
3. A satisfied need can no longer motivate a person; only next higher level need can motivate him.
4. A person moves to the next higher level of the hierarchy only when the lower needs is satisfied.

Maslow's theory focuses on the needs as the basis for motivation. This theory widely recognized and appreciated. However, some of his propositions are questioned on his classification of needs and hierarchy of needs. But, despite such criticism, the theory is still relevant.

Financial and Non-financial incentives

Incentives mean all measures which are used to motivate people to improve performance. These incentives may be broadly classified as financial and non-financial.

Financial Incentives:

1. **Pay and allowances:** salary is the basic financial incentive for every employee. It includes basic pay, dearness allowance and other allowances.
2. **Perquisites:** Several fringe benefits like housing, medical aid, car allowances, leave travel concession and education of children are offered in addition to the salary. These benefits help to motivate employees.
3. **Retirement benefits:** Provident fund, pension, gratuity and other retirement benefits create a sense of security among employees. These benefits serve as an incentive when they are in service in the company.
4. **Bonus:** It is a one-time reward given for high performance.
5. **Profit sharing:** In this scheme, employees are given a share in the surplus profits of the firm on the assumption that they contribute to profit earning.
6. **Co-partnership:** In this system, employees are given company's shares at a price which is lower than market price.
7. **Suggestion system:** Employee suggestions that results in either increased profits or reduced costs are rewarded. The amount of reward depends on the value of the suggestion.

Non-Financial Incentives:

1. **Job Enrichment:** Job enrichment can be used to make the job more challenging and interesting.
2. **Positive organizational climate:** Supportive relationships, knowledge of work done, healthy competition for superior performance etc. are motivating factor.
3. **Employee recognition programme:** Recognition means appreciation for good work. It inspires employees to improve their performance. Some examples are:
 - a. Congratulating and employee for good performance.
 - b. Publishing the achievement of an employee in the company's newsletter or on the notice board.
 - c. Giving an award or certificate for best performance etc.
4. **Employee's empowerment:** It means giving more autonomy and powers to employees.
5. **Status:** It means formal position in the organization. Recognition and status motivate people by satisfying their ego needs.
6. **Job security:** Employees want economic security. Job security ensures regular income in future and relieves them of worry.
7. **Employee's participation:** It refers to the active involvement of workers or their representatives in the process of decision making.
8. **Opportunity for career advancement:** An organization can motivate its employees by providing them opportunities for in service training and promotion.



Leadership

It is the process of influencing the behavior of people by making them strive voluntarily towards achievement of organizational goals. Leadership indicates the ability of an individual to maintain good inter personal relations with followers and motivate them to contribute for achieving organizational objectives.

The term leader emerges from leadership. An individual possessing attributes of leadership is known as **leader**.

Importance of Leadership: It is a key factor in making any organization successful.

The following are some of the benefits:

1. Leadership influences the behavior of people and makes them to positively
2. A leader maintains personal relations and helps followers in fulfilling their needs
3. Leader plays a key role in introducing required changes in the organization
4. A leader handles conflicts effectively and does not allow adverse effects resulting from the conflicts.
5. Leader provides training to their subordinates.

Qualities of a Good Leader: one approach to leadership emphasizes that a person should possess certain qualities or traits to become a successful leader:

1. **Physical features:** Physical features like height, weight, health, appearance etc. determine the physical personality of an individual.
2. **Knowledge:** A good leader should have required knowledge and competence.
3. **Integrity:** A leader possesses high level of integrity and honesty.
4. **Initiative:** A leader should have courage and initiative.
5. **Communication skills:** A leader should be a good communicator.
6. **Motivation skills:** A leader should be an effective motivator. He should understand the needs of people and motivate them through satisfying their needs.
7. **Self-confidence:** A leader should have high level of self confidence.
8. **Decisiveness:** Leader should be decisive in managing the work.
9. **Social skills:** A leader should be sociable and friendly with his colleagues and followers.
10. **Vision and Foresight:** A leader should be able to anticipate or visualize the future course of events. He needs a sound judgment and the ability to take right decisions at the right time.

Leadership Style: There are several basis for classifying leadership styles. The most popular classification of leadership styles is based on the use of authority. They are:

1. **Autocratic or Authoritarian leader:** An autocratic leader gives orders and expects his subordinates to obey those orders.
2. **Democratic or participative leader:** A democratic leader will develop action plans and makes decisions in consultation with his subordinates.
3. **Laissez faire or Free-rein leader:** In this style the group members work on their own tasks resolving issues themselves. The manager is there only to support them and supply them the required information to complete the task assigned.

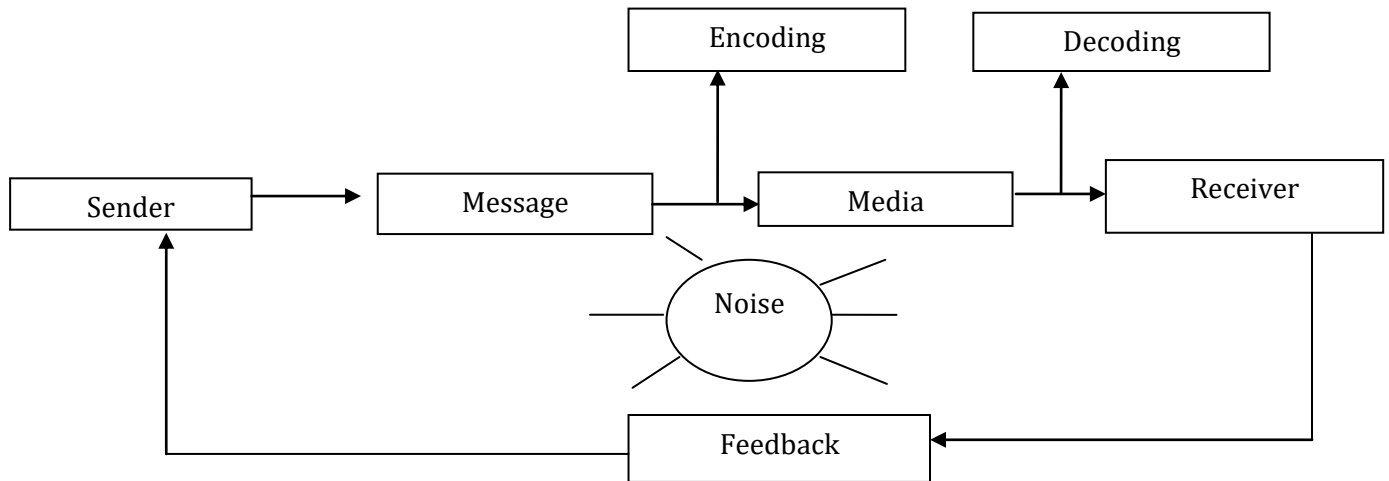
Communication

The word communication has been derived from the Latin word '*communis*' which means 'common', which consequently implies common understanding. Communication is defined in different ways. Generally it is understood as a process of exchange of ideas, news, facts, feeling etc. between two or more people to create common understanding.

Elements of communication process: Communication has been defined as a process. This process involves elements like sender, message encoding, decoding, channel etc. The elements involved in communication process are explained below:

1. **Sender:** The person who conveys the message is known as the sender or communicator. He may be a speaker, a writer or an actor. He initiates the process of communication. He is the source of communication.
2. **Message:** It is the subject matter of communication. It may consist of facts, information, ideas, opinions etc. It exists in the mind of the sender.
3. **Encoding:** The sender translates the message into words, symbols, gestures or other symbols which he feels will make the receiver understand the message. This is known as encoding of message.
4. **Channel or Medium:** The encoded message is transmitted through some medium which is known as the communication channel. Eg. Speaking, writing, movement of body parts etc.
5. **Decoding:** It means interpretation of the message by the receiver.
6. **Receiver:** The person who receives the message is called the receiver. The receiver may be listener, reader or viewer.
7. **Feedback:** The receiver sends his response to the sender of the message. Such response is known as feedback. When the feedback is received by the sender, the process of communication is complete.
8. **Noise:** It means some hindrance to communication. It may be caused to sender, message or receiver. Poor telephone connection, faulty decoding, inattentive receiver..... are some examples.

Communication Process



Importance of Communication:

- a. Act as basis of coordination
- b. Help in smooth working of an enterprise
- c. Act as basis of decision making
- d. Increase managerial efficiency
- e. Promotes cooperation and industrial peace
- f. Establishes effective leadership
- g. Boosts morale and provides motivation.

Formal and Informal communication:

Formal Communication: Formal communication flows through official channels designed in the organization chart. This communication take place between a superior and subordinate, a subordinate and superior or among same cadre employees or managers. The communications may be oral or written but generally recorded and filed in the office.

Formal communication may be further classified as vertical and horizontal.

Vertical communication flows vertically i.e., ***upward or downward*** through formal channels. Upward communications refer to flow of communication from subordinate to superior whereas down ward communication indicates communication from a superior to subordinate. Examples of upward communication: application for grant leave, request for grant....

Examples of downward communication: sending notice to employees, giving orders, passing guidelines.....

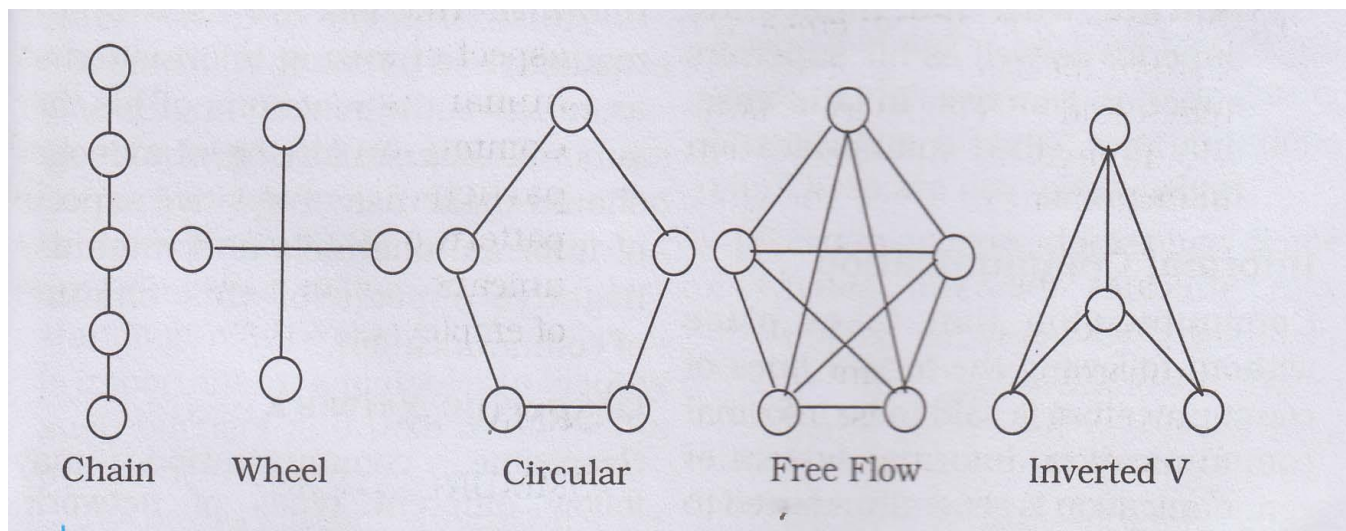
Horizontal or lateral communication takes place between one division and another. For example, production manager may contact marketing manager to discuss about schedule of product delivery, product design, quality etc.



Diagonal communication: Diagonal communication refers to flow of communication between the persons of two departments one holding a higher position than the other. For example, a sales manager may request the foreman to modify the product design to suit the requirements of a particular customer. This type of communication prevents delays but violates the principle of unity of command. The superior may have the feeling of being ignored. If this problem is taken care of, diagonal communication can be useful due to its fast speed.

Communication Network:

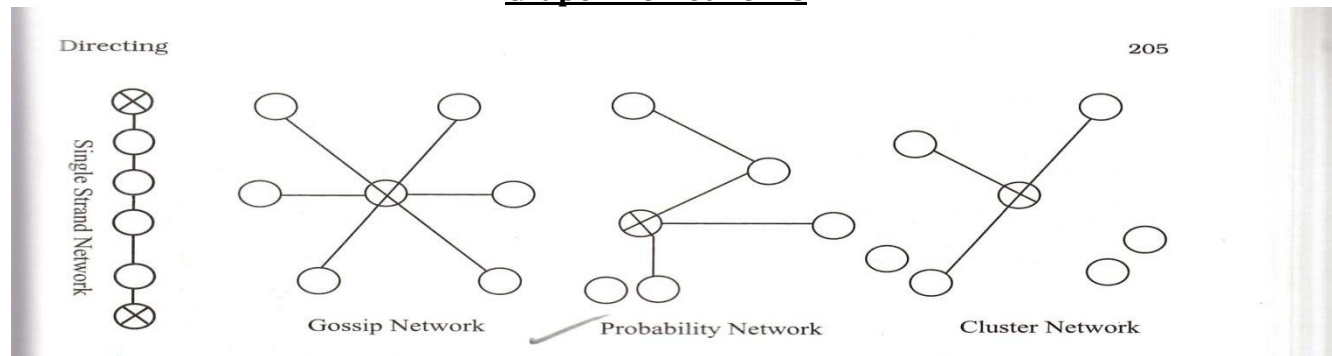
1. **Single chain**: Communication between superiors and subordinated flows through this network.
2. **Wheel Pattern**: In this network, the superior acts as the hub. All his subordinates communicate through him only.
3. **Circular pattern**: Here the communication flows in a circle and tends to be slow. Each person can communicate with two persons adjoining him.
4. **Inverted V**: In this network, a subordinate is allowed to communicate with his immediate superior as well as with the boss of his superior.
5. **Free flow**: In this network, the flow of communication is fast because each person can communicate with others freely.



Informal Communication: It refers to communication which takes place outside the official channels of communication. It involves exchange of information and ideas through social interaction among the members of an organization. Social interaction may take place among people working in different departments and holding different positions.

The network of informal communication is called '**grapevine**'. This is because it spreads throughout organization with its branches going out in all directions.

Grapevine Networks



1. In single strand network, each person communicates to the other in sequence.
2. In gossip network, each person *communicates* with all on a non-selective basis.
3. In probability network, the individual communicate randomly with other individual.
4. In cluster, the individual communicates with only those people whom he trusts.

Of these four types of networks, cluster is the most popular in organizations.

Distinction between Formal and Informal Communication.

Basis	Formal Communication	Informal Communication
Channel	It is generally written	It is generally oral
Relationship among members	Based on superior subordinate relationship	Based on inter personal contacts
Nature	Systematic and orderly	Unsystematic
Speed	Slow-time consuming	Fast-time saving
Message	Official and well planned messages	Unofficial and unplanned messages
Reliability	Very reliable	Unreliable
Objectives	To achieve organizational objectives	To meet personal needs and interests

Barriers to effective communication:

Despite the development of high speed of electronic devices, communications are not successful in many cases. Some of the barriers to effective communication are given below:

- A. **Semantic Barriers:** Semantic is concerned with the meaning of words and symbols. Semantic barriers arise in the process of encoding and decoding of message. These barriers are as follows:
- a. Badly expressed message
 - b. Technical jargon(specialists language)
 - c. Unclear assumptions.
 - d. Faulty translations
 - e. Symbols with different meanings.
 - f. Wrongly interpreted body language.
- B. **Psychological Barriers:** The state of mind of both sender and receiver affect the process of communication. Some of the psychological barriers are :
- a. Lack of attention.
 - b. Premature evaluation.
 - c. Poor retention
 - d. Distrust
- C. **Organisational Barriers:** some of them are:
- a. Organisational policy
 - b. Complex organization structure
 - c. Rules and regulations
 - d. Status
 - e. Organizational facilities.
- D. **Personal Barriers:**
- a. Fear of challenge of authority
 - b. Lack of willingness to communication
 - c. Lack of confidence in subordinates
 - d. Lack of adequate incentives.



Measures to Overcome the Barriers:

1. Clarify the ideas before communicating: The message to be conveyed should be clear in all aspects. It should be analysed in depth and stated in precise and simple words.
2. Know and understand the receiver: The communicator should know the level of understanding of the receiver.
3. Consult others before communication: It is better to involve others in developing the message to be transmitted.
4. Convey helpful and valuable things: design the message according to the needs and interests of people with whom you are communicating.
5. Be a good listener: Attentive and patient listening on the part of the management will encourage employees to communicate freely.
6. Ensure proper feedback: The communicator can ensure the success of communication by asking questions about the message conveyed.
7. Attentions: Careful listening is essential for effective communication. The communicator should try to secure the undivided attention of the communicate.

CHAPTER EIGHT

CONTROLLING

Controlling means ensuring activities in an organization are performed as per the plans. Controlling also ensures that an organization resources are being effectively and efficiently used for the achievement of pre-determined goals. Controlling is thus a goal oriented function.

Controlling function of a manager is a pervasive. It is a primary function of every manager. Manager at all levels of the management need to perform controlling function over activities of their areas.

Importance of Controlling:

1. **Accomplishing organizational goals:** The controlling function measures progress towards the organizational goals and brings to light the deviations, if any and indicates corrective action.
2. **Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate and objective.
3. **Making efficient use of resources:** By exercising control a manager seeks to reduce wastage and spoilage of resources.
4. **Improving employee motivation:** A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised.
5. **Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline in the organization. It helps to minimize dishonest behavior on the part of the employees by keeping a close check on their activities.
6. **Facilitating coordination in action:** Controlling provides direction to all activities and efforts for achieving organizational goals.

Steps in the Controlling Process:

1. **Setting performance standards:** The first step in the controlling process is setting up performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as bench marks towards which an organization strives to work.
Standards can be set in both quantitative as well as qualitative terms. It is important that standards should be flexible enough to be modified whenever required.
2. **Measurement of actual performance:** Once, performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include

personal observation, sample checking, performance reports etc. As far as possible, performance should be measured in the same units in which standards are set as this would make their comparison easier.

3. **Comparing actual performance with standards**: This steps involves comparison of actual performance with the standards. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms.
4. **Analyzing deviations**: Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also, need to be attended more urgently as compared to deviations in certain insignificant areas. *Critical point control and management by exception should be used by a manager in this regard.*
 - a. **Critical point control**: It is neither economical nor easy to keep a check in each and every activity in an organization. Control should, therefore, focus on key result areas which are critical to the success of an organization.
 - b. **Management by Exception**: It is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing. Thus, only significant deviations which go beyond the permissible limit should be brought to the notice of management.
5. **Taking corrective action**: The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

Relationship between Planning and Controlling:

Planning and controlling are mutually interrelated and interdependent activities. They are inseparable twins of management:

1. Without planning, there is no basis for controlling as we have to compare actual performance with certain standards. Controlling is blind without planning. If the standards are not set in advance, managers have nothing to control. When there is no plan, there is no basis of controlling. When there is no plan, there is no basis of controlling.
2. Similarly, planning without controlling is meaningless because once a plan becomes operational, controlling is necessary to monitor the progress, measure it discover deviations and initiate corrective measures to ensure that events conform to plans.

Planning is looking ahead while controlling is looking back. Comment

*It is often said that **planning is looking ahead while controlling is looking back**. However the statement is only partially correct. Plans are prepared for future and are based on forecast about future conditions. Therefore, planning involves looking ahead and is called a forward looking function. On the contrary, controlling is like a postmortem of past activities to find out deviations from the standards. In that sense, controlling is a backward looking function.*

*However, it should be understood that planning is guided by past experience and the corrective action initiated by control function aims to improve future performance. Thus, **both planning and controlling are both backward looking as well as a forward looking function**.*

Limitations of Controlling:

1. Difficulty in setting quantitative standards.
2. No control on external factors.
3. Resistance from employees
4. Costly affair.

Techniques of Managerial Control:

The various techniques of managerial control may be classified into two broad categories: traditional techniques and modern techniques.

I. Traditional techniques

- a. **Personal observation**: It enables the manager to collect first hand information. It also creates a psychological pressure on the employees to perform well as they are aware that they are being observed personally on their job.
- b. **Statistical reports**: It is in the form of averages, percentages, ratios et. Preset useful information to the managers regarding performance of the organisation in various areas.
- c. **Breakeven Analysis**: It is a technique used by managers to study the relationship between costs, volume and profits. It determines the probable profit and losses at different levels of activity.

$$BEP \text{ (Break Even Point)} = \frac{\text{Fixed Costs}}{\text{Selling price per unit} - \text{Variable cost per unit}}$$

Selling price per unit - Variable cost per unit.

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



II.Modern Techniques:

- a. **Return on Investment (RoI):** It can be used to measure overall performance of an organisation or of its individual departments or divisions. It can be calculated as under:-

$$\text{RoI} = \frac{\text{Net Income}}{\text{Sales}}$$

- b. **Ratio analysis:** It refers to analysis of financial statements through computation of ratios. The most commonly used ratios are: liquidity ratios, solvency ratios, profitability ratios, turnover ratios.....
- c. **Responsibility Accounting:** It is a system of accounting in which different sections, divisions and departments of an organization are set up as Responsibility Centres. The head of the centre is responsible for achieving the target set for his centre. It may be in the following types: cost centre, revenue centre, profit centre, investment centre....
- d. **Management Audit:** It refers to systematic appraisal of the overall performance of the management of an organisation.
- e. **PERT and CPM:** Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) are important network techniques useful in planning and controlling time bound projects.
- f. **MIS (Management Information System):** MIS is a computer based information system that provides information and support for effective managerial decision making.

Advantages:

- It facilitates collection and management of information at different levels .
- It support planning, controlling and decision making.
- It improves the quality of information.
- It ensures cost effectiveness.
- It reduces information overload on the managers.

CHAPTER NINE

FINANCIAL MANAGEMENT

Business Finance: Money required for carrying out business activities is called business finance.

Financial Management: Financial management is concerned with optimal procurement as well as usage of finance.

Objectives of Financial Management: The main objective of financial management is to maximize the wealth of the owners of the company. In order to maximize the shareholders wealth, financial management must achieve the following specific objectives:

- a. To procure sufficient funds for the business
- b. To ensure effective utilization of funds
- c. To ensure safety of funds
- d. To plan optimum capital structure
- e. To ensure profit maximization

Financial Decisions:

The finance function relates to three major decisions which the finance manager has to take:

1. **Investment Decision:** This decision relates to the careful selection of assets in which funds will be invested by the firm. Investment decision may be long-term or short-term (working capital decision). A long-term investment decision is also called a capital budgeting decision.
2. **Financing Decisions:** This decision is about the quantum of finance to be raised from various long-term sources, which may be debt or equity. Debt means borrowed funds and equity means shareholders fund. Thus financing decision is concerned with the decisions about how much to be raised and from which source.
3. **Dividend Decision:** This decision relates to appropriation of profits earned. A company's net earnings are divided into two parts –retained earnings and dividends. A major decision of a finance manager is how much of the profit earned by company is to be distributed to the shareholders and how much of it should be retained in the business for meeting the investment requirements.

Financial Planning:

The process of estimating the funds requirement of a business and determining the sources of funds is called 'financial planning'.

Importance of financial planning:

- a. It helps in coordinating various business functions.
- b. It tries to forecast what may happen in future under different business situations.
- c. Financial planning ensures acquisition of required funds from various sources.
- d. Financial planning reduces waste, duplication of efforts and gaps in planning.
- e. Financial planning serves as the basis for financial control.
- f. It helps in avoiding business shocks and surprises and helps the company in preparing for the future.
- g. It tries to link the present with the future.
- h. It provides a link between investment and financing decisions on a continuous basis.

Objectives of Financial Planning:

- a. To ensure availability of funds, whenever these are required.
- b. To see that the firm does not raise resources unnecessarily.

Capital Budgeting:

A long term investment decision is also called a Capital Budgeting Decision. It involves committing the finance on a long term basis.

Factors affecting capital budgeting decision:

- a. **Cash flow of the projects:** When company invests huge amount of funds in some project, it expects regular amount of cash inflow from that project.
- b. **Rate of return:** The Company compares the return from different investment proposals.
- c. **Risk involved:** Company must select the proposal with the moderate risk which company can afford. Heavy risk may lead to insolvency.
- d. **Investment criteria involved:** The decision to invest in a particular project involves a number of calculations regarding the amount of investment, interest rate, cash flows and rate of return.

Factors affecting Financing Decision:

1. **Cost:** A prudent financial manager would normally opt for a source which is the cheapest.
2. **Risk:** Associated risk is also different for each source. The overall financial risk depends upon the proportion of debt in the total capital.
3. **Floatation costs:** The fund raising exercise also costs something. This cost is called floatation cost. Higher the floatation cost, less attractive is the source.

4. **Cash flow position of the business:** If the cash flow position of a company is strong, the debt financing is more viable than funding through equity.
5. **Level of fixed operating costs:** If a business has high level of fixed operation costs, lower debt financing is better. If fixed operating cost is less, more of debt financing may be preferred.
6. **Control consideration:** Issue of more equity may lead to dilution of management's control over the business. Debt financing has no such implication.
7. **State of capital markets:** During depression, people do not like to take risk and are not interested in buying equity shares. But during boom, investors are ready to take risk and invest in equity shares.

Factors affecting Dividend decision:

1. **Growth opportunities:** If a company has a number of projects to invest in, the company would prefer to pay low dividends to shareholders and invest the remaining profits in the business. But if the company has no investment opportunities open, then it would be better to distribute earnings as dividends to shareholders.
2. **Contractual constraints:** The companies are required to ensure that the dividend does not violate the terms of the loan agreement in this regard.
3. **Earnings:** Dividend is paid out of current and past earnings. Therefore, earning is a major determinant of the decision about dividend.
4. **Stability of earnings:** A company having stable earning is in a position to declare higher dividend. A company having unstable earning is likely to pay smaller dividend.
5. **Access to capital market:** If the funds can be raised from the capital market easily, then the company can afford to follow a liberal dividend policy. However, if the funds cannot be raised from the capital market easily, then it will pay low dividend to shareholders.
6. **Preference of shareholders:** Shareholders preferences should be given due consideration by the management or the directors of the company.
7. **Cash flow position:** Dividends involve an outflow of cash. Availability of enough cash in the company is necessary for declaration of dividend by it.
8. **Taxation policy:** If tax on dividend is higher, it would be better to pay less by way of dividend.
9. **Stock market reaction:** An increase in dividend increases the stock prices and a decrease in dividend may have a negative impact on the share prices in the stock market.
10. **Legal constraints:** Certain provisions of the Companies Act place restrictions on payment of dividend out of profits. Such provisions must also be considered while declaring the dividend.



Capital Structure

A business has to decide how to raise funds. There are mainly two major sources of funds- shareholders' funds and borrowed funds. Owners fund consists of equity share capital, preference share capital and reserves and surpluses or retained earnings. Borrowed funds can be in the form of loans, debentures, public deposits etc. Capital structure refers to the mix between owner's funds (equity) and borrowed funds (debt). ***A capital structure will be said to be optimal when the proportion of debt and equity is such that it results in an increase in the value of the equity share.***

Trading on equity

The use of more debt along with equity shares in the capital structure with a view to increase Earnings Per Share (EPS) is called trading on equity or financial leverage. As the financial leverage increases, the cost of funds declines because of increased use of cheaper debt but the financial risk increases.

Example: Suppose, a company X requires an investment of Rs. 30,00,000 to earn EBIT of Rs. 4,00,000. In order to raise Rs.30 lakh, there are 2 proposals:

Proposal A: 3, 00,000 equity shares of Rs.10 each

Proposal B: 2, 00,000 equity shares of Rs.10 each and 10% debentures Rs.10,00,000

Assume that rate of tax = 30%

Effect of Trading on Equity

	Proposal A	Proposal B
Earnings before Interest and Tax(EBIT)	4,00,000	4,00,000
Less: Interest on Debentures	-----	1,00,000
Earnings before Tax(EBT)	4,00,000	3,00,000
Less: Tax @30%	1,20,000	90,000
Earnings after Tax(EAT)	2,80,000	2,10,000
Earnings Per Share (EPS) = EAT/ No. Equity shares	2,80,000/3,00,000 =Rs. .93	2,10,000/2,00,000 =Rs.1.1

Thus, we see that the EPS is Rs..93, if the company is unlevered. With debt of Rs,10 lakh, its EPS is Rs. 1.10

Factors affecting Capital Structure:

1. **Cash flow position**: A company usually would employ more debt in the capital structure if it is sure of its ability to generate cash inflows to meet its interest obligations.
2. **Control**: Debt normally does not cause a dilution too much debt if its issue of equity may reduce the management's holding in the company as there is threat of takeover also.
3. **Flexibility**: If a firm uses its debt potential to the full, it loses flexibility to issue further debt. To maintain flexibility, it must maintain some borrowing power to take care of unforeseen circumstances.
4. **Floataion costs**: Floataion costs are the costs involved in the issue of shares or debentures.
5. **Stock market conditions**: During depression people do not like to take risk and are not interested in buying equity shares. But during boom, investors are ready to take and invest in equity shares.
6. **Regulatory frame work**: A company has to operate in the framework provided by law. The Companies Act and the Securities and Exchange Board of India provide guidelines from time to time regarding raising of funds from the public.
7. **Nature of Industry**: If an industry's sales are subject to wide fluctuations over a business cycle, the firm should have a low degree of financial leverage, ie, less debt.
8. **Tax rate**: Tax planning, is likely to have a significant bearing on capital structure decisions. Interest on debt is allowed as a deduction.
9. **Return on investment**: If the ROI of the company is higher, it can choose to use trading on equity to increase its EPS.
10. **Cost of debt**: More debt can be used if debt can be raised at a lower rate.
11. **Risk consideration**: Use of debt increases the financial risk of a business..
12. **Cost of equity**: when a company increases debt, the financial risk faced by the equity holders also increases. Consequently, their desired rate of return may increase.

Fixed Capital

Investment in fixed assets is for longer duration and is called fixed capital. Fixed assets are those which remain in the business for more than one year. It must be financed through long-term sources of capital.

Importance of management of fixed capital or capital budgeting decision:

- a. **Long term growth**: These decisions have bearing on the long-term growth. It will affect the future prospects of the business.
- b. **Large amount of fund involved**: These decisions result in a substantial portion of capital funds being blocked in long-term projects.
- c. **Risk involved**: It involves investment of huge amount. Therefore fixed capital influences the overall business risk.
- d. **Irreversible decisions**: These decisions once taken, are not reversible without incurring heavy losses.

Factors affecting Fixed Capital:

1. **Nature of business:** A trading concern needs lower investment in fixed assets compared with a manufacturing organization..
2. **Scale of operations:** A large-scale enterprise generally requires greater fixed capital; than a small scale enterprise.
3. **Level of collaboration:** At times certain business organisations share each other's facilities. Such collaboration reduces the level of investment in fixed assets for each one of the participating organisations.
4. **Choice of technique of production:** Some organisations are capital intensive whereas others are labour-intensive. A capital intensive organization requires higher investment , therefore it requires higher fixed capital.
5. **Technology up gradation:** In certain industries, assets become obsolete sooner. Consequently, their replacements become due faster. Higher investment in fixed assets may, therefore, be required in such cases.
6. **Growth prospects:** Higher growth of an organization generally requires higher investment in fixed assets. This requires higher fixed capital.
7. **Diversification:** A firm may choose to diversify its operations. Therefore, its fixed capital requirements increase.
8. **Financing alternatives:** When an asset is taken on lease, the firm pays lease rentals and uses it. By doing so, it avoids huge sums required to purchase it.

Working Capital

There are two kinds of working capital (i) ***Gross working capital-*** this refers to the investment in all the current assets such as cash, bills receivables, inventories etc. These current assets get converted into cash with in an accounting year.

(ii) ***Net working capital:*** This refers to excess of current assets over current liabilities.

Net working capital= current assets – current liabilities.

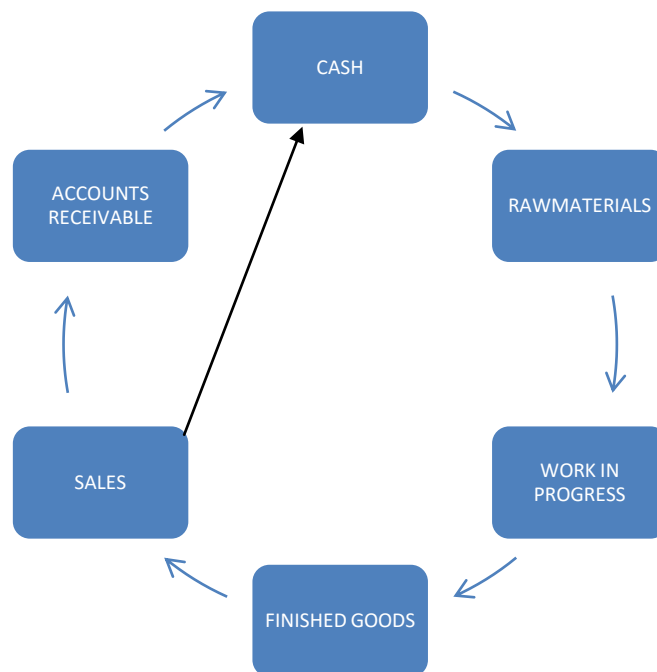
List of current assets in the order of liquidity:

Cash in hand, cash at bank, marketable securities, bills receivable, debtors, finished goods inventory, work in progress, raw materials, prepaid expenses.

Factors determining Working Capital

1. **Nature of business:** The business units which do not keep very high stock of finished goods and which sell goods on cash basis can manage with less working capital and vice versa.
2. **Operating or production cycle:** It is the time period between acquisition of raw materials and the collection of cash from raw materials. Longer the operating cycle, larger will be the working capital requirement because in operating cycle cash flow keeps going out and cash comes only at the end of the operating cycle.

The phases of operating cycle of a manufacturing company



1. Investment of cash for day to day expenses
 2. Procurement of raw materials
 3. Placing raw material into work in progress and converting them into finished goods.
 4. Sale of finished goods for cash or for credit.
3. **Business cycle:** In case of boom conditions, business activities expand. As a result, the working capital requirement will be large.

4. **Seasonal factor**: If a firm is operating in goods and services having seasonal fluctuations in demand, then the working capital requirement will also fluctuate.
 5. **Credit allowed**: Different firms allow different credit terms to their customers. These depend upon the level of competition that a firm faces as well as the credit worthiness of their client. A liberal credit policy results in increasing the working capital requirements.
 6. **Credit availed**: Just as a firm allows credit to its customers, it may also get credit from its suppliers. To the extent it avails the credit on its purchases, the working capital requirement is reduced.
 7. **Level of competition**: If the market is highly competitive, then liberal credit terms may have to be granted to customers resulting in higher level of debtors. That means huge working capital is needed.
 8. **Inflation**: If there is a price rise and costs of raw materials and labour also rise, it will result in an increase in the working capital requirements.
 9. **Cost of raw materials**: When the cost of raw materials is large in the total cost of production, the working capital requirement will be comparatively large.
 10. **Scale of operation**: For organisations which operate on higher scale of operations, the quantum of inventory, debtors and receivables required is generally high. Such organization, therefore, require large amount of working capital as compared to the organisations which operate on a lower scale.
 11. **Operating Efficiency**: It may reduce the level of raw materials, finished goods and debtors resulting in lower requirement of working capital.
 12. **Growth prospects**: If the growth potential of a concern is perceived to be higher, it will require larger amount of working capital so that it is able to meet higher production and sales target whenever required.
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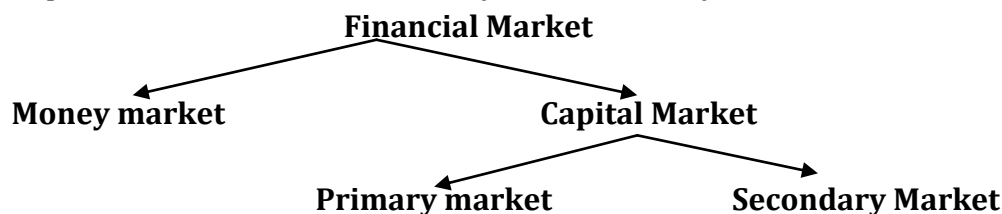
CHAPTER TEN

FINANCIAL MARKETS

Financial market is a market for the creation and exchange of financial assets. It helps in mobilization of savings and channelizing them into the most productive uses. A financial market acts as a link between the savers and the investors by mobilizing funds between them. *Indian financial markets classified into capital market and money market.*

Functions of Financial Markets:

1. Mobilisation of savings and channelizing them into the most productive uses.
2. It facilitates price discovery for the financial assets.
3. It facilitates liquidity to financial assets.
4. It helps to save time, effort and money of both the buyers and sellers of financial assets.



Money Market

The money market is a market for short term funds which deals in monetary assets whose period of maturity is up to one year. These assets are close substitutes for money. It has no physical location. The major participants in the market are the RBI, commercial banks, non-banking finance companies, state governments, large corporate houses and mutual funds.

Important money market instruments

1. **Call money:** Call money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio. The call money funds are for very short period of 1 day to 15 days. The interest rate paid on call money loans is known as the call rate.
2. **Treasury bills:** Treasury bills are also known as Zero Coupon Bond, issued by the RBI on behalf of Central Government to meet its short term requirement of funds. These are sold to banks and to the public. They are issued at a price which is lower than their face value and repaid at par. Treasury bills are available for a minimum amount of Rs.25,000 and in multiples thereof. The issue period ranges from 14 to 364 days.
3. **Commercial bills:** A commercial bill is a bill of exchange used to finance the working capital requirements of business firms. It is a short term, negotiable, self-liquidating instrument which is used to finance the credit sales of firms.

4. **Commercial paper:** It is a short term unsecured promissory note issued by large and credit worthy companies to raise short term funds at lower rates of interest than market rates. It usually has a maturity period of 15 days to one year. It is sold at discount and redeemed at par.
5. **Certificate of deposit:** CDs are unsecured, negotiable, short term instruments in bearer form, issued by commercial banks and development financial institutions. These help to mobilise a large amount of money for short periods (91days to 1 year).

Bridge Financing: In order to raise the long term funds in the capital market the company will have to incur floatation costs(costs associated with floating of an issue are brokerage, commission, advertising etc....). Funds used to meet these costs are known as bridge finance. Eg.: raised through Commercial Paper....

DFHI: It is established for the specific objective of providing a ready market for money market instruments.

Capital Market

Capital market refers to facilities and institutional arrangements through which long term funds; both debt and equity are raised and invested. It is a market which deals long term financial instruments. It consists of development banks, commercial banks and stock exchanges.

Capital Market VS Money Market

Basis	Capital Market	Money Market
Maturity period	Provide medium term and long term funds	Arrange short term funds
Major participants	Financial institutions, insurance companies, mutual funds, stock exchanges etc.	RBI, commercial banks, NBFCs, State govt. etc.
Main instruments	Equity shares, debentures, bonds, preference shares.	Treasury bills, commercial bills, commercial paper, call money etc.
Investment outlay	Does not require huge investment	Huge amount of investment needed.
Safety	Riskier.	Much safer.
Expected return	Higher return	Comparatively low return
Liquidity	Comparatively low liquidity	High liquidity.

Capital market can be divided into two parts: 1. Primary market and 2. Secondary market.



Primary Market:

It is also known as **NIM (New Issue Market)**. It deals with new securities being issued for the first time. A company can raise capital through the primary market in the form of issue of shares, debentures, bonds etc.

Methods of Floatation: The securities in the primary market can be issued in any of the following methods:

- a. **Offer through prospectus:** Under this method, the company wanting to raise capital issues a prospectus to inform and attract the investing public. It invites prospective investors to apply for the securities.
- b. **Offer for sale:** Under this method securities are not issued directly to the public but are offered for sale through intermediaries like issuing houses or stock brokers. In this case, a company sells the entire lot of securities at an agreed price to brokers who, in turn resell them to the investing public.
- c. **Private placement:** It is the allotment of securities by a company to institutional investors and some selected individuals. It helps to raise capital more quickly than public issue.
- d. **Right issue:** This is the offer of new shares by a company to the existing shareholders. When an existing company needs fresh capital and issues new shares, each existing shareholder has the right to subscribe to the new shares in the proportion of shares he already holds. Such right is called pre-emptive right. The shareholder may either accept the offer for himself or sell a part or all of these rights to another.
- e. **E-IPOs:** A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called e-IPOs.

Secondary Market

The stock exchange or the stock market represents the secondary market for securities. The secondary market is the market for the sale and purchase of previously issued securities, i.e., existing securities are traded.

Distinction between Primary and Secondary Market:

Basis	Primary Market	Secondary Market
Securities traded	There is sale of securities by new companies or further new issue of securities by existing companies	There is trading of existing securities only.
Flow funds	From savers to investors.	Promote liquidity and marketability, ie, indirectly promotes capital formation.
Buying and Selling	Only buying of securities.	Both buying and selling of securities.
Prices	Prices are determined and decided by the management of the company.	Prices are determined by demand and supply of the securities.
Location	No specific location	Located at specific places.

Secondary Market: The secondary market is also known as the stock market or stock exchange. It is a market for the purchase and sale of existing securities. It helps existing investors to disinvest and fresh investors to enter the market. It also provides liquidity and marketability to existing securities.

Stock Exchange: A stock exchange is an institution which provides a platform for buying and selling of existing securities. According to Securities Contracts (Regulation) Act, 1956, "stock exchange means anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities".

Functions of Stock Exchange:

1. **Provides liquidity and marketability of existing securities:** The main function of stock markets is to provide a ready and continuous market for the sale and purchase of securities.
2. **Pricing of securities:** Share prices on a stock exchange are determined by the forces of demand and supply.

3. **Contributes to economic growth:** A stock exchange is a market in which existing securities are bought and sold. Through this process of reinvestment and disinvestment, savings get channelized into their most productive investment avenues. This leads to capital formation and economic growth.
4. **Promotes the habit of saving and investment:** Stock exchanges promote the habit of saving and investment among the general public.
5. **Safety of transactions:** Stock exchange dealings are well defined according to the existing legal frame work. This ensures that the investing public gets a safe and fair dealing in securities.
6. **Providing scope for speculation:** The stock exchange provides sufficient scope within the provisions of law for speculation in a restricted and controlled manner.
7. **Helps companies in raising finance:** When companies need funds and enter the capital market, their previous stock market record helps in raising the additional capital.

Electronic Trading System:

Trading in securities through on-line, screen-based electronic platform is known as electronic trading system.

Advantages of Electronic trading system:

1. It ensures transparency.
2. It provides information easily, which helps in fixing prices efficiently.
3. It increases the efficiency of operation
4. Trade can be done from anywhere.
5. A single trading platform has been provided, ie, stock exchange on the computer.

Open outcry System: This is an auction system. Here securities were bought and sold on the floor of the stock exchange, prices were shouted out and the shares sold to the highest bidder.

Trading procedure on a Stock Exchange

1. **Selection of broker:** The first step is to select the broker who will buy and sell the securities on behalf of the investors. Brokers are members of a stock exchange through whom trading of securities is done. Brokers may be individuals, partnership firms or corporate bodies. The investor give certain details to broker such as PAN number(mandatory), address, date of birth, educational qualification, bank account details, residential status, depository account details....
2. **Open a Demat account/Beneficial owner(BO) account:** The investor has to open a demat account with a depository participant(DP) for holding and transferring securities in the demat form.
3. **Placing the order:** The investor specifies the number and type of securities that he wants purchase or sell.

4. **Executing the order:** According to the instructions of the investor, the broker buys or sells the securities. After that the broker will issue a trade confirmation slip to the investor. Within 24 hours after the trade has been executed, the broker will issue a Contract Note. This note contains details of the number of share bought or sold, the price, the date and time and the brokerage charge. A Unique Order Code number is assigned to each transaction by the stock exchange and is printed on the contract note.
5. **Settlement:** The investor has to deliver the shares sold or pay cash for the shares bought. This should be done immediately after receiving the contract note. This is called the pay-in-day. Cash is paid or securities are delivered on pay-in-day, which is before the T+2 day. On the T+2 day, the exchange will deliver the share or make payment to the other broker. This is called the pay-out-day. The broker can make delivery of shares in demat form directly to the investor's demat account. (The process of holding securities in an electronic form is called dematerialisation.)

Dematerialisation: The process of holding securities in an electronic form is called dematerialisation. This is the process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry/number. Holding shares in demat form is very convenient as it is just like a bank account. These demat securities can even be pledged or hypothecated to get loans. There is no danger of loss, theft or forgery of share certificates.

DEPOSITORY SERVICES

A **depository** is an organization where securities of share holder are held in electronic form at the request of the holder through Depository Participant (DP). In India two Depositories are operating viz, National Securities Depository Limited (**NSDL**) & Central Depository Services Limited (**CDSL**).

Depository Participant is an intermediary or the agent of the investor in the depository system providing link between company and the client through depository. In depository system securities are held in electronic form in depository account and transfer of ownership of securities is done through simple account transfer. According to SEBI guidelines, financial institutions like banks, stock brokers, etc can become depository participant.

National Stock Exchange of India (NSEI): NSE has set up a nationwide fully automated screen based trading system. It was set up in 1992 by leading financial institutions, banks, insurance companies and other financial intermediaries.

Objectives of NSE:

- a. Establishing a nation-wide trading facility for all types of securities.
- b. Ensuring equal access to investors all over the country through an appropriate communication network.
- c. Providing a fair, efficient and transparent securities market using electronic trading system.
- d. Meeting international benchmark and standards.

Market Segment of NSE: The NSE provides trading in the following two segments:

1. Whole Sale Debt Market Segment: This segment provides a trading platform for a wide range of fixed income securities like central govt. securities, bonds issued by PSUs, CPs, CDs, mutual funds....
2. Capital Market Segments: It deals equity shares, debentures,

Over the Counter Exchange of India (OTCEI):

The OTCEI is a company incorporated under the Companies Act of 1956. It was set-up to provide small and medium companies an access to the capital market for raising finance in a cost effective manner. It is fully computerized, transparent, single window exchange which commenced trading in 1992. It has been promoted by UTI, ICCCI, IDBI, IFCI, LIC, GIC, SBI Capital markets and Can Bank Financial Services. It was established on the lines of NASDAQ (National Association of Securities Dealers Automated Quotations), the OTC exchange in USA.

Advantages of OTCE Market:

1. It provide a trading platform to smaller companies , they are not eligible for listing on a regular exchange.
2. It is a cost effective method.
3. It gives greater freedom of choice to investors to choose stocks
4. It is a transparent system of trading.
5. Information flows are free and more direct.

BSE (Bombay Stock Exchange)

BSE Ltd. Formally known as BSE was established in 1875 and was Asia's first Stock Exchange. It was set up as a corporate entity with a broad shareholder base. Besides having a nation-wide presence, BSE has a global reach with customers around the world.

Objectives:

- To provide a transparent and efficient market for trading equity, debt instruments ...
- To provide a trading platform for equities of small and medium enterprises.
- To ensure active trading
- To provide various services like risk management, clearing, settlement market data and education.
- To conform to international standards

<u>Some common stock market terms:</u>
• Bourses:- another name of stock market. • Bull:- an optimistic trader, expects rise in prices. • Bears: a pessimistic trader, expects a decrease in prices. • Badla: It is a carry forward system of settlement, ie, allowing postponement of delivery or payment of a transactions.

- **Penny stocks:** Securities with no value, but whose trading results in speculation.
- **Listing:** Inclusion of the name of the company in the official list of the stock exchange.
- **Price rigging:** it refers to the manipulation of prices of securities.
- **Odd lot trading:** trading in multiples of 100 stocks or less.

Stock market index: It is the barometer of market behaviour. It measures and reflects the true market sentiment. The **BSE- SENSEX AND NSE-NIFTY** are important indices in Indian stock market.

SENSEX: It is the bench mark of BSE. It is an index of 30 stocks representing 12 major sector.

NIFTY: It is the index of NSE, include 50 stock index including 23 sectors of the economy.

Securities and Exchange Board of India(SEBI)

SEBI was established by the Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. It was to function under the overall administrative control of the Ministry of Finance of the GOI. SEBI Act was enacted on 1992.

Objectives of SEBI:

- To regulate stock exchanges and the securities market to promote their orderly functioning.
- To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
- To prevent trading malpractices.
- To regulate and develop a code of conduct and fair practices by the intermediaries.

Functions of SEBI

SEBI is considered as the watch dog of the securities market. It performs the following regulatory, development and protective functions to protect the interests of investors and to promote the development of the securities market.

1. Regulatory Functions:

- Registration of brokers and sub-brokers in the market.
- Registration of collective investment schemes and mutual funds
- Regulation of stock brokers and portfolio exchange.
- Controlling takeover bids and imposing penalties for such practices.
- Conducting enquiries and audits of stock exchanges and intermediaries.
- Levying fee or other charges for carrying out the purposes of the Act.



2. **Development functions:**

- a. Training of intermediaries of securities market
- b. Conducting research and publishing information useful to all market participants
- c. Undertaking measures to develop the capital markets by adapting a flexible approach.
- d. SEBI has permitted internet trading through registered stock brokers
- e. Investor education.

3. **Protective functions:**

- a. SEBI prohibits fraudulent and unfair trade practices in the securities market.
- b. SEBI prohibits ***insider trading*** and imposes penalties for such practices. *(An insider is any person connected with the company who is having price sensitive information, which is not available to the general public. Directors, promoters etc are the insiders. When such persons use inside information to make individual profits, it is referred to as insider trading.)*
- c. Undertaking steps for investor protection.
- d. Promotion of fair practices and code of conduct in securities market.

CHAPTER ELEVEN



HSSLiVE.IN

MARKETING MANAGEMENT

Market: The word market has its origin in the Latin word 'marcatus'. It means merchandise or trade. The term market is used in a variety of contexts. But in modern marketing sense, the term market has a broader meaning. It refers to a set of actual and potential buyers of a product or service.

Customer: Customer refers to the people or organisations that seek satisfaction of their needs and wants. It is for the satisfaction of their needs and wants that they move to markets to buy products and services.

Marketer: If customer is the seeker of satisfaction, the marketer is the deliverer or provider of satisfaction.

Marketing: Marketing is a social process whereby people exchange goods and services for money or for something of value to them.

Functions of Marketing:

1. **Gathering and analysing market information:** This is necessary to identify the needs of the customers and take various decisions for the successful marketing of the products and services.
2. **Market planning:** Another important function of a marketer is to planning the various marketing activities that organization can be achieved.
3. **Product designing and development:** For the success of any firm it is necessary that it offers a product that customers like and find satisfying.
4. **Buying and assembling:** Buying is one of the important functions that marketer needs to perform. Different types of raw materials are bought which are later transformed into finished product for sale in the market.
5. **Standardisation and grading:** Standardisation refers to producing goods of predetermined standards, which helps in achieving uniformity and consistency in the output. Grading is the process of classification of products into different groups, on the basis of some of its important characteristics such as **quality, size etc.**
6. **Packaging and labeling:** Packaging refers to designing the package for the products. Labelling refers to designing the label to be put on the package.
7. **Branding:** It can be defined as the process of using a name, sign, symbol or design to a product.

8. **Storage or warehousing:** marketers often maintain their own warehouses to store their produce or they take services of warehousing companies who perform warehousing function for the marketer for some fees.
9. **Transportation:** It implies physical movement of goods from one place to another.
10. **Promotion:** It includes all those activities which are undertaken to inform the prospective buyers about the product, its qualities, price etc.
11. **Consumer support services:** A very important function of the marketing management relates to developing customer support services such as after sales services, handling customer complaints etc.
12. **Pricing of products:** Price of product refers to the amount of money customers have to pay to obtain a product.
13. **Physical distribution:** The two major decision areas under this function include decision regarding channels of distribution and the physical movement of the product from the producer to the customers.

Concepts of Marketing:

1. **Production concept:** It was believed that profits could be maximized by producing products at a large scale, thereby reducing the average cost of production.
2. **Product concept:** This concept proposes that the way to realizing business goals lies in making products that are of high quality because customers favour high quality products.
3. **Sales concept:** Under this firms must undertake aggressive selling and promotion efforts to make customers buy their products.
4. **Marketing concept:** The marketing concept implies that a firm can achieve its goals by identifying the needs of the customers and satisfying them better than the competitors.
5. **Societal marketing concept:** Performance of marketing activities should also enhance social well-being. Thus, the business firms need to be concerned about the ethical aspects of marketing.

Difference between Marketing and Selling

Marketing: It refers to a large set of activities of which selling is just one part.

Selling: The entire focus in selling is to convert the product into cash.

Basis	Selling	Marketing
Scope	Selling is only a part of the process of marketing.	Marketing is a wider term consisting of a number of activities.
Focus	Transfer of title and possession of goods from sellers to consumers	Maximum satisfaction of customer's needs and wants.
Start and end of the activities	Selling starts with the product and ends when it is sold.	Marketing begins before actual production takes place and continues even after the product has been sold.
Strategies	Selling involves efforts like promotion and persuasion.	Marketing integrated marketing efforts.
Predominance	Product is given supreme importance	Customer is given supreme importance
Aim	Profits through sales volume	Profits through customer satisfaction.
Emphasis	Bending the customer according to the product	To develop the product as per the customer needs.

Marketing Management: Marketing management means management of the marketing function. In other words, marketing management refers to planning, organizing, directing and control of the activities which facilitate exchange of goods and services between producers and consumers.

Role of Marketing:

Role in a Firm: The modern concept of marketing plays a significant role in achieving the objectives of a firm. Marketing as a business philosophy helps in serving the customers by satisfying their needs. Thus , marketing plays a crucial role in the survival and growth of the firm.

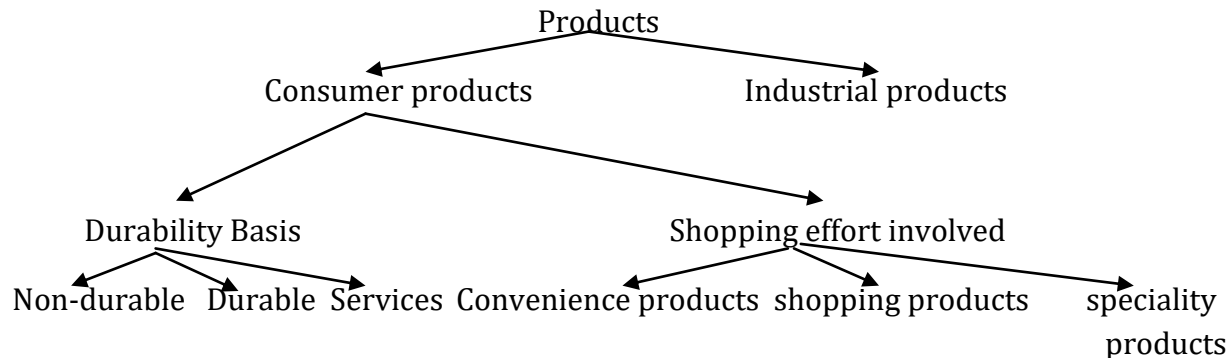
Role in the Economy: It act as a catalyst in the economic development of a country and helps in raising the standards of living of the people.

Marketing Mix**HSSLive.IN**

Marketing mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market. The variables or elements of marketing mix have been classified into four categories, popularly called the **four P's** of Marketing mix-Product, Price, Place and Promotion.

Products: Product is anything that can be offered to a market to satisfy a want or need. When a firm becomes a multi-product company, the total number of products and items it offers to the market is called product mix. The important product decisions include deciding about the features, quality, packaging, labeling and branding of the product.

Products may broadly be classified into two categories: Consumer products and industrial products (products which are used as inputs in producing other products).



- I. **Consumer Products:** Products which are purchased by the ultimate consumers or users for satisfying their personal needs and desires. They have been classified on the basis of two important factors: (a) Shopping Efforts Involved (b) Durability of the products.
- A. **Shopping Efforts Involved:** On the basis of the time and effort buyers are willing to spend in the purchase of a product, we can classify the consumer product into the following three categories :
 1. **Convenience Products:** They are purchased frequently, immediately and with least time and efforts. Eg. stationaries, newspaper, medicines...

Characteristics:

 - ✓ Purchased at convenient location
 - ✓ They have a regular and continuous demand
 - ✓ They have small unit of purchase and low prices.
 - ✓ They have standardised price
 - ✓ Competition is high
 - ✓ Sales promotion schemes play an important role in marketing.

2. **Shopping products**: They are those consumer goods, on the purchase of which buyer devote considerable time. Eg. Clothes, shoes, jewellery, television etc.

Characteristics:

- ✓ They are durable in nature
- ✓ Their unit price as well as profit margin are high
- ✓ Comparison is made before purchase
- ✓ They are generally pre-planned purchase
- ✓ Retailers play an important role in marketing

3. **Speciality products**: They are those consumer goods which have certain special features because of which people make special efforts in their purchase. Eg. Rare art works/antiques...

Characteristics:

- ✓ The demand is relatively inelastic.
- ✓ They are costly and unit price is very high
- ✓ Available only at limited places
- ✓ An aggressive promotion is required for marketing
- ✓ After sales service is very important.

- B. **Durability of Products**: On the basis of durability, the consumer products have been classified into three categories:

1. **Non-durable products**: The consumer products which are normally consumed in one or few uses are called non-durable products. Eg. Stationary products, toothpaste, soap...
2. **Durable products**: The consumer products which normally survive many uses. Eg.: radio, tv, fridge, bicycle....
3. **Services**: It means those activities, benefits or satisfaction, which are offered for sale. Eg. watch repair, postal service, services offered by a doctor/lawyer/engineer...

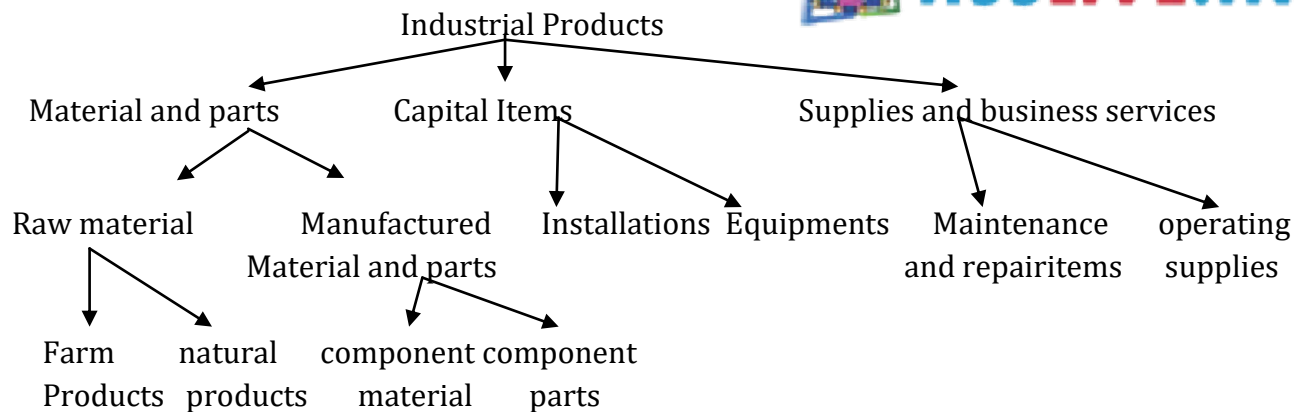
Characteristics:

- ✓ They are intangible
- ✓ No separation from the service provider
- ✓ They cannot be stored
- ✓ They are highly variable

- II. **Industrial products**: Industrial products are those products, which are used as inputs in production of other products. Eg. Machines, tools, lubricants, engines...

Characteristics:

- ✓ Number of buyers are limited
- ✓ Shorter channel of distribution is used
- ✓ Geographically concentrated
- ✓ Demand is derived from the demand for consumer products.
- ✓ Technical consideration is important



Components of Product Mix:

1. **Branding:** It can be defined as the process of giving a name or a sign or a symbol etc. to a product. It include brand name (such as onida, LIC, LG, pepsi..) and brand mark (such as devil of onida, symbol of yokshma of LIC..)

Characteristics of a good brand name:

- a. Brand name should be short, easy to pronounce, recognize and remember eg. Lux, VIP, Ponds etc.
- b. It should be suggestive. Eg. Hair and Care, Ujala etc.
- c. It should be unique and distinctive. Eg. Liril, Safari etc.
- d. It should have staying power. Eg. Amul,, Godrej etc.
- e. It should be capable of being registered and protected legally.

Advantages to the Marketers:

- ✓ Enables marking product differentiation
- ✓ Helps in advertising and display programmes
- ✓ Enable a firm to charge a high price
- ✓ Ease in introduction of new product.

Advantages to customers:

- ✓ Helps in product identification
- ✓ Ensure quality
- ✓ Act as a status symbol

Trade mark: A brand or part of a brand that is given legal protection is called trade mark

2. **Packaging:** It refers to the act of designing and producing the container or wrapper of a product.

Level of packaging: 1.Primary package 2. Secondary package 3. Transportation packaging.

**Importance of packaging:**

- a. Rising standards of health and sanitation
- b. self service outlets
- c. Innovative opportunity
- d. Product differentiation

Functions of Packaging:

- a. Product identification
- b. Product protection
- c. Facilitating use of the product
- d. Product promotion

3. **Labelling:** A label is carrier of information which is to be provided to the customers, which describes the product, its contents, the manufacturer, date and time of manufacture etc.

Functions of Labelling:

- a. Describe the product and specify its contents
- b. Identification of the product or brand
- c. Grading of products
- d. Helps in promotion of products
- e. Providing information required by law

Price: Price may be defined as the amount of money paid by a buyer in consideration of the purchase of a product or a service.

Pricing Strategies:

- 1. **Price skimming:** Under this strategy, higher prices are charged during the initial stage of the introduction of a new product to recover fixed costs quickly.
- 2. **Penetration pricing:** It means using lower initial price to capture a large market share and to develop popularity of the brand and the firm.

Factors affecting pricing decision:

- 1. **Pricing objectives:** If the firm decides to maximize profits in the short run, it would tend to charge maximum price for its products and likewise. Apart from profit maximization, the pricing objectives of a firm may include: a. obtaining market share leadership b. surviving in a competitive market and c. attaining product quality leadership
- 2. **Production cost:** It is important that the price should recover total costs in the long run including a fair return for undertaking the marketing efforts and risk.

3. **Extent of competition in the market:** Competition is another important consideration while pricing a product. When a firm does not face any competition, it can enjoy complete freedom in fixing its price.
4. **The utility and demand:** The utility provided by the product and consumer's demand set the upper limits of price, which he is willing to pay. According to the law of demand, consumers buy more units of a product at a lower price than at a higher price.
5. **Government and legal regulation:** In order to protect the interest of public against unfair practices in the field of price fixing, government can intervene and regulate the price of essential commodities.
6. **Marketing methods used:** Price fixation process is also affected by other elements of marketing such as distribution system, quality of sales men employed, amount of advertising, sales promotion efforts etc.

Place/Physical distribution

Once goods are manufactured, packaged, branded, priced and promoted these must be made available to customers at the right place, in the right time and in right quantity. Place mix consist of Physical distribution and channels of distribution.

Physical distribution: It covers all the activities required to physically move goods from manufacturers to the customers.

Components of physical distribution:

- a. **Order processing:** A good physical distribution system should provide for an accurate and speedy processing of orders, in the absence of which goods would reach the customers late or in wrong quantity.
- b. **Transportation:** It is concerned with the movement of goods. It adds value to the goods by moving them to the place where they are required.
- c. **Inventory Control:** How much inventory should be maintained in the stock, is important for meeting distribution objectives.
- d. **Warehousing:** It refers to the act of placement of goods and provides facilities to store them. The need for warehousing arises because there may be difference between the time a product is produced and the time it is required for consumption.

Channels of distribution

Channels of distribution mean a set of firms and individuals that assist in transferring a particular product or service from the producer to the consumers.

Types of channels of distribution:

1. **Direct channel:** Here direct relationship is established between the manufacturer and the customer.
Manufacturer----- Customer
2. **Indirect channels:** When a manufacturer employs one or more intermediaries to move goods from the point of production to the point of consumption, the distribution channel is called indirect.
 - a. **One level channel:** Manufacturer-----Retailer----Customer
 - b. **Two level channel:** Manufacturer-----Wholesaler---Retailer----Customer
 - c. **Three level channel:** Manufacturer-----Agent---Wholesaler----Retailer---Customer

Functions of Distribution Channel:

1. **Sorting:** Middlemen procure supplies of goods from variety of sources and sort into homogenous groups on the basis of size or quality.
2. **Accumulation:** It involves accumulation of goods into larger homogenous stocks, which help in maintaining continuous flow of supply.
3. **Allocation:** It involves breaking of homogenous stocks into smaller, marketable lots.
4. **Assorting:** Middlemen build combination of products for resale. There is usually a difference between the product lines made by manufacturers and the combination desired by the users.
5. **Product promotion:** They also participate in promotion activities such as demonstrations, special displays, contests.....to increase sales.
6. **Negotiation:** Middlemen negotiate price, quality, guarantee and other related matters with customers.
7. **Risk taking:** Middlemen take title of the goods and thereby assume risks on account of price and demand fluctuations, spoilage.....

Factors determining Choice of channel:

1. **Product related factors:** The important product related consideration in deciding the channels include whether the product is an industrial(shorter channel) or a consumer product(longer channel), whether it is a perishable(shorter channel) or non-perishable product(longer channel), what is the unit value of the product and the degree of complexity of the product....
2. **Company characteristics:** The important company characteristics affecting the choice of channels of distribution include the financial strength of the company and the degree of control it wants to hold on other channel members.
3. **Competitive factors:** The choice of channel is also affected by the channel selected by competitors in the same industry.
4. **Market factors:** It include size of market(short channel in case the number of buyers is small and vice versa), geographical concentration of buyers(buyers are concentrated, small channel and vice versa) and quantity purchased(size of order is small, small channel is required and vice versa).
5. **Environmental factors:** It include environmental factors such as economic condition and legal constraints.

Promotion: Promotion refers to informing potential customers about a product or service and persuading them to buy it. Promotion mix refers to combination of promotional tools used by an organization to achieve its communication objectives.

Components of Promotion Mix:

It include advertising, sales promotion, personal selling and publicity.

Advertising: Advertising is the most commonly used tool of promotion. It is an impersonal form of communication, which is paid for by the marketers to promote some goods or service. The most common modes of advertising are newspapers, magazines, television and radio.

“Advertising implies any paid form of non-personal presentation or promotion of ideas, goods and services by an identified sponsor” –American Marketing Association.

Features of advertising: 1. Paid form 2. Impersonality 3. Identified sponsor.

Merits of advertising:

1. **Mass reach:** Advertising is a medium through which a large number of people can be reached over a vast geographical area.
2. **Enhancing customer satisfaction and confidence:** Advertising creates confidence amongst prospective buyers as they feel more comfortable and assured about the product quality and hence feel more satisfied.
3. **Expressiveness:** With the special effects that can be created, even simple products and messages can look very attractive.
4. **Economy:** It is very economical (low per unit cost) if large number of people are to be reached.

Limitations of advertising:

1. **Less forceful:** It is less forceful than the personal selling .
2. **Lack of feed back:** The evaluation of the effectiveness of advertising message is very difficult.
3. **Inflexibility:** It is less flexible because the message is standardised and is not tailor made to the requirements of the different customer groups.
4. **Low effectiveness:** Sometimes it become difficult to make advertising messages heard by the target prospects.

Sales Promotion: Sales promotion refers to short-term incentives, which are designed to encourage the buyers to make immediate purchase of a product or service.

Sales Promotion Tools:

1. **Rebates:** Offering products at special prices to clear off excess inventory.
2. **Discounts:** Certain percentage of price is reduced as discount from the list price. Its main purpose is to induce buyers to buy more.
3. **Refunds:** A part of price paid by customer on product is repaid on the basis of certain conditions.

4. Product combination: Offering another product as gift along with the purchase of a product.
5. Quantity gift: Offering extra quantity of the product.
6. Sampling: It means giving free sample of product to the customer.
7. Contests: Consumers are required to participate in some competitive events involving application of skills or luck and winners are given some reward.
8. Lucky draw: It means taking lucky draw coupon on purchase of goods.
9. Packaged premium: In this type of sales promotion, marketers pack some gifts inside the product package.
10. Container premium: This category of sales promotions is also very popular with the marketers of products like jams, tea powder, detergent etc.
11. Usable benefits: Eg. Purchase goods worth Rs.50,000 and get a holiday package worth Rs.10,000 free.
12. Full finance @0%.



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Personal Selling/Salesmanship:

Personal selling involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales. It is a personal form of communication.

Features of Personal Selling:

1. Personal form: Both seller and buyer interact personally.
2. Development of relationship: It allows a salesperson to develop personal relationships with the prospective customers.
3. Two-way communication: The seller does the talking and at the same time the prospective buyer can also talk with the seller.
4. Better response: When seller does the talking, the buyer has to listen and pay attention.

Merits of personal selling: 1. Flexibility 2. Direct feed back 3. Minimum wastage.

Role / Importance of personal selling:

1. Importance to businessmen:

- a. Effective promotion tool
- b. Flexible tool
- c. Minimise wastage of efforts
- d. Consumer attention
- e. Lasting relationship
- f. Personal rapport

2. Importance to customers:

- a. Help in identifying needs.
- b. Provide latest market information
- c. Provide expert advice
- d. Induces customers

**3. Importance to society:**

- Convert latest demand into effective demand
- Provide employment opportunities
- Provide career opportunities
- Increases product standardisation.

Difference between advertising and personal selling:

<i>Basis</i>	<i>Advertising</i>	<i>Personal Selling</i>
Form	It is an impersonal form	It is a personal form
Type of messages	Involves transmission of standardized messages	The sales talk is adjusted in accordance with customers backgrounds and needs
Reach	It reaches masses	Only to a limited number of people
Cost	Cost per person is very low	Cost per person is high
Medium	Uses of mass media	Use of sales staff
Feedback	Lacks direct feedback.	Provides direct and immediate feedback
Flexibility	It is inflexible	Highly flexible
Role	Is more useful in creating and building interest of the consumers in the firm's products	Plays an important role at the awareness stage of decision making
Time	It cover the market in a short time	It takes lot of time to cover the entire market.
Type of customers	It is more useful in marketing to the ultimate consumers who are large in numbers.	It is more helpful in selling products to the industrial buyers or to intermediaries such as dealers and retailers who are relatively few in numbers.

Publicity: It is an unpaid, non –personal form of communication. There is no identified sponsor for the communication as the message goes as a news items.

Features:

- 1.It is an unpaid form of communication.
2. It does not involve any cost.
3. There is no identified sponsor for the communication.

CHAPTER TWELVE

CONSUMER PROTECTION

Importance of Consumer Protection:

A. **Consumer's point of view:**

- a. To educate the consumers.
- b. To provide adequate protection to consumers.
- c. To ensure organization among the consumers.

B. **From the point of view of Business:**

- a. Business firms should aim at long-term profit maximization through customers satisfaction.
- b. Business has a responsibility to supply such goods and services which are in public interest.
- c. To meet the social responsibilities of business.
- d. To avoid government intervention.
- e. To ensure public support.

Legal Protection to Consumers:

1. **The Consumer Protection Act, 1986:** It seeks to protect and promote the consumers interest through speedy and inexpensive redressal of their grievances.
2. **The Sale of Goods Act, 1930:** The Act provides some safeguards and reliefs to the buyers of the goods in case the goods purchased do not match with express or implied conditions or warranties.
3. **The Essential Commodities Act, 1955:** The Act aims at controlling production, supply and distribution of essential commodities.
4. **The Prevention of Food Adulteration Act, 1954:** The Act aims to check adulteration of food articles and ensures their purity so as to maintain public health.
5. **The Standards of Weights and Measures Act, 1976:** This Act provides protection to consumers against the malpractice of under-weight.
6. **The Trade Marks Act, 1999:** This Act prevents the use of fraudulent marks on products and thus, provides protection to the consumers against spurious products.
7. **The Bureau of Indian Standards Act, 1986:** To formulation of quality standards for goods and their certification through the BIS certification scheme. Etc.

Rights of a Consumer:

The consumer protection Act, 1986 provides for six rights of consumers. They are:

1. **Right to Safety:** The right to safety means the right to be protected against products, production processes and services, which are hazardous to health or life.

2. **Right to be Informed:** Consumers should have the right to have complete information about the product he/she intends to buy including its ingredients, date of manufacture, price, quantity, directions for use etc. It is because of this reason that the legal framework in India requires the manufacturers to provide such information on the package and label of the product.
3. **Right to Choose:** The consumer has the right to choose from a variety of products at competitive prices. Therefore, the marketers should offer a wide variety of products in terms of quality, brand, prices, size etc. and allow the consumer to make a choice from amongst these.
4. **Right to be heard:** The consumer has a right to file a complaint and to be heard in case of dissatisfaction with goods or services. Therefore, many reputed business firms have set up their own consumer service and grievance cells. Many consumer organisations are also working towards this direction.
5. **Right to Seek Redressal:** The consumer has a right to get relief in case the product or service falls short of his expectations. The consumer protection Act provides a number of reliefs to the consumers including replacement of the product, removal of defect in the product, compensation paid for any loss or injury suffered by the consumer etc.
6. **Right to Consumer Education:** The right to consumer education means the right to acquire knowledge and to be a well-informed consumer throughout life. He should be made aware of the rights and reliefs available.

Responsibilities/Duties of a Consumer:

1. **Consumer must exercise his rights:** These rights include right to safety, right to be informed, right to seek redressal, right to consumer education etc. Consumers must be aware of their own rights with regard to the products or services they buy from the markets.
2. **Consumers must be a cautious consumer:** While buying a product or service, a consumer should read labels carefully to learn about the manufacturer's name, date of manufacture, net weight, maximum retail price etc.
3. **Consumer must file a complaint:** Consumer must file a complaint in an appropriate forum in case of any grievances.
4. **Consumer must be quality conscious:** A consumer must buy only standardized goods as they provide quality assurance.
5. Consumer must bring the discrepancy in the advertisement.
6. Consumer must insist on cash memo, i.e., the proof of purchase.
7. Consumer must be honest in his dealings.
8. Consumers must form consumer societies which would play an active part in educating consumers and safeguarding their interests.

Who can file a complaint?

- a. Any consumer
- b. Any registered consumers association
- c. The central govt., or any state govt.
- d. One or more consumers, on behalf of numerous consumers having the same interest
- e. A legal heir or representative of a deceased consumer.

Relief available:

- a. To remove the defect in goods or deficiency in service
- b. To replace the defective product with a new one, free from any defect
- c. To refund the price paid for the product, or charges paid for the service
- d. To pay reasonable amount of compensation
- e. To withdraw the hazardous goods from sale
- f. To issue corrective advertisement to neutralize the effect of a misleading advertisement
- g. To pay adequate costs to the appropriate party.....

Ways and means of Consumer Protection:

1. **Self regulation by business:** Many of the firms have set up their customer service and grievance cells to redress the problems and grievances of their customers.
2. **Business associations:** The association of commerce, trade and business like Federation of Indian Chambers of Commerce of India(**FICCI**) and Confederation of Indian Industries (**CII**) have laid down their code of conduct for dealing with the customers.
3. **Consumer awareness:** A consumer who is well informed about his rights and the reliefs available to him, would be in a position to raise his voice against unfair trade practices or exploitation.
4. **Consumer organisations:** Consumer organisations play an important role in educating consumers about their rights and providing protection to them.
5. **Government:** The government can protect the interests of consumers by enacting various legislations. The most important of these regulations is the Consumer Protection Act, 1986.

Redressal agencies under the Consumer Protection Act, 1986.

For the redressal of consumer grievances, the Consumer Protection Act provides for setting up of a **three-tier** enforcement machinery at the district, state and the national levels known as the ***District Forum, State Commission and the National Commission.***

District Forum: The district forums are set up in each district by the State Government concerned. A complaint can be made to the appropriate District Forum when the value of the goods or services in question, along with the compensation claimed, does not exceed Rs.20 lakh. In case the aggrieved party is not satisfied with the order of the District Forum, he can appeal before the State Commission within 30 days of the passing of the order.

State Commission: The state commissions are set up in each State by the State Government concerned. A complaint can be made to the appropriate State Commission when the value of the goods or service in question, along with the compensation claimed, exceeds Rs.20 lakh but does not exceed Rs.1 crore. The appeals against the orders of a District Forum can also be filed before the State Commission. In case the aggrieved party is not satisfied with the order of the State Commission, he can appeal before the National Commission within 30 days of the passing of the order.

National Commission: The National Commission is set up by the Central Government. A complaint can be made to the National Commission when the value of the goods or services in question, along with the compensation claimed, exceeds Rs.1 crore. The appeals against the orders of a State Commission can also be filed before the National Commission.

Only those appeals where the value of goods and services in question, along with the compensation claimed, exceeded Rs.1 crore and where the aggrieved party was not satisfied with the order of the National Commission, can be taken to the Supreme Court of India.

Role and Functions of Consumer Organisations and NGOs

1. Educating the general public about consumer rights.
2. Publishing periodicals and other publications.
3. Providing legal assistance to consumers.
4. Filing complaints in appropriate consumer courts on behalf of the consumers.
5. Producing films/cassettes on food adulteration, misuse of drugs etc.
6. Organizing exhibitions concerning spurious, adulterated products etc.

Important Consumer Organisations and NGO's:

- Consumer Coordination Council, Delhi
- Common Cause, Delhi
- Consumer Education and Research Centre(CERC), Ahmedabad
- Consumer Protection Council, Ahmedabad
- Consumer Guidance Society of India, Mumbai

CHAPTER THIRTEEN

ENTREPRENEURSHIP DEVELOPMENT.

Entrepreneurship is the process of setting up ones own business. The person who set-up his business is called an entrepreneur.

Characteristics of Entrepreneurship

1. **Systematic activity**: It is a systematic, step-by-step and purposeful activity.
2. **Lawful and purposeful activity**: The object of entrepreneurship is lawful business.
3. **Innovation**: Entrepreneurship is creative in the sense that it involves creation of value.
4. **Organisation of Production**: Entrepreneur mobilises the resources into a productive enterprise or firm.
5. **Risk taking**: Individuals opting for a career in entrepreneurship take a bigger risk as there is no assured return.

Functions of Entrepreneurs in relation to economic development:

1. **Contribution to GDP**: Increase in GDP is the most common definition of economic development. Entrepreneurs generate income via organisation of production be it agriculture, manufacturing or services.
2. **Capital formation**: Entrepreneurs, by investing their own savings and informally mobilising the savings of their friends and relatives contribute to the process of capital formation.
3. **Generation of employment**: Every new business is a source of employment to people, as such entrepreneurs touch the lives of many, directly as well as indirectly.
4. **Generation of business opportunities for others**: Every new business creates opportunities for the suppliers of inputs (backward linkages) and the marketers of the output(forward linkages).
5. **Improvement in Economic Efficiency**: Entrepreneurs improve economic efficiency by improving processes, reducing wastes, through technical progress.....
6. **Increasing the scope of economic activities**: Entrepreneurs lead the process of economic development across the geographic, sectoral and technological scope.
7. **Impact on local communities**: Entrepreneurship is an even more attractive career option for marginal groups such as SC,ST,OBC,OEC
8. **Fostering the spirit of exploration, experimentation and daring.**

Difference between Entrepreneurship and Management

Sl.No.	Basis	Entrepreneurship	Management
1	Focus	Business start up	On going operations of an existing business
2	Resource orientation	The entrepreneur does not feel constrained by resource.	A manager is constrained by the resources.
3	Approach to task	Informal	Formal
4	Motivation	Achievement	Power
5	Status	Owner	Employee
6	reward	profit	Salary
7	Risk	Risk taker	Risk averse
8	Scale of operation	Small business	Large business

Competencies for Entrepreneurship:

1. Initiate 2. Sees and Acts on Opportunities 3. Persistence 4. Information seeking 5. Concern for High quality of work 6. Commitment to work contract 7. Efficiency orientation 8. Systematic planning 9. Problem solving capacity 10.self confidence 11. Assertiveness. 12.Persuasion 13. Use of influence strategies 14. Monitoring 15. Concern for employee welfare.

KASH: Knowledge-Attitude-Skills-Habits.

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